Financial Statements of VELOBANK S.A.

for the period of 12 months ended December 31, 2024

MARCH 2025

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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I FINANCIAL STATEMENTS

1. Income statement

	Note	01-Jan-2024 – 31-Dec-2024	05-Sep-2022 – 31-Dec-2023	01-Jan-2023 – 31-Dec-2023
		PLN '000	PLN '000	PLN '000
CONTINUING OPERATIONS				
Interest income, including:	III.1	4,106,258	4,453,947	3,666,095
on financial assets measured at amortized cost	III.1	3,138,644	3,731,516	3,046,620
on financial assets measured at fair value through other comprehensive income	III.1	372,669	664,724	567,624
on financial assets measured at fair value through profit or loss	III.1	594,945	57,707	51,851
Interest expense	III.1	(2,556,596)	(2,455,374)	(2,083,627)
Net interest income		**1,549,662**	**1,998,573**	**1,582,468**
Fee and commission income	III.2	126,363	148,970	119,009
Fee and commission expense	III.2	(147,607)	(104,658)	(85,431)
Net fee and commission income		**(21,244)**	**44,312**	**33,578**
Dividend income	III.3	15,115	136	106
Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	III.4	4,867	5,748	7,930
Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss	III.5	(357)	(124,943)	(124,973)
Net other operating income and expense	III.6	(9,690)	(75,727)	(81,465)
Operating expenses	III.7	(843,660)	(946,481)	(771,007)
Net impairment losses on financial assets, provisions for off-balance sheet liabilities and impairment of investments	III.8	(163,691)	(417,722)	(314,687)
Operating profit/(loss)		**531,002**	**483,896**	**331,950**
Tax on financial institutions	III.39	(30,447)	(29,043)	-
Profit before tax		**500,555**	**454,853**	**331,950**
Income tax	III.9	(104,547)	(82,514)	(55,704)
Net profit		**396,008**	**372,339**	**276,246**

2. Statement of comprehensive income

	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000	01-Jan-2023 – 31-Dec-2023 PLN '000
Net profit for the period	396,008	372,339	276,246
Items that will not be reclassified subsequently to profit or loss, including:	**(13)**	**(164)**	**(344)**
Actuarial gains/(losses)	(159)	(222)	(363)
Measurement of equity financial assets measured at fair value through other comprehensive income	105	58	19
Income tax on items that will not be reclassified subsequently to profit or loss	41	-	-
Items that will be reclassified subsequently to profit or loss, including:	**130,723**	**(30,780)**	**(28,089)**
Measurement of debt financial instruments measured at fair value through other comprehensive income	896	(1,423)	1,268
Effect of cash flow hedges	153,270	(29,357)	(29,357)
Income tax on items that will be reclassified subsequently to profit or loss	(23,443)	-	-
Net other comprehensive income/(loss)	**130,710**	**(30,944)**	**(28,433)**
Comprehensive income/(loss) for the period	**526,718**	**341,395**	**247,813**

In the period from September 5, 2022 to December 31, 2023, the Bank did not recognize a deferred tax asset on the measurement of financial instruments and actuarial gains/losses.

3. Statement of financial position

	Note	31-Dec-2024	31-Dec-2023
		PLN ‘000	PLN ‘000
ASSETS			
Cash and balances with the Central Bank	III.10	2,089,504	607,620
Amounts due from banks and financial institutions	III.11	775,014	593,931
Financial assets measured at fair value through profit or loss	III.12	23,640	18,519
Derivative financial instruments	III.13	108,003	6,218
Loans and advances to clients	III.14	14,000,150	13,215,740
Other financial instruments, including:	III.15	36,897,150	33,591,796
measured at fair value through other comprehensive income	III.15	3,300,114	8,914,577
measured at amortized cost	III.15	33,597,036	24,677,219
Investments in subsidiaries	III.17	25,019	28
Intangible assets	III.18	406,736	290,897
Property, plant and equipment	III.19	135,801	149,695
Foreclosure assets	III.20	46,418	62,101
Non-current assets held for sale	III.22	129	318
Current tax asset		24,885	3,498
Other assets	III.23	94,028	118,303
TOTAL ASSETS		**54,626,477**	**48,658,664**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to banks and financial institutions	III.24	104,017	123,403
Derivative financial instruments	III.13	148,361	38,392
Amounts due to clients	III.25	51,436,375	46,736,391
Other liabilities	III.26	478,176	609,483
Deferred tax liability	III.9	132,153	58,006
Provisions	III.27	89,194	64,327
Total liabilities		**52,388,276**	**47,630,002**
Equity			
Share capital		711,734	25,000
Supplementary capital		671,415	674,862
Revaluation reserve		99,766	(30,944)
Other components of equity		359,278	(12,595)
Net profit		396,008	372,339
Total equity	III.28	**2,238,201**	**1,028,662**
TOTAL LIABILITIES AND EQUITY		**54,626,477**	**48,658,664**

4. Statement of changes in equity

01-Jan-2024 – 31-Dec-2024	Note	Equity							Total equity
		Share capital	Supplementary capital	Undistributed prior year profit	Net profit	Revaluation reserve	Other components of equity		
							Retained earnings/(losses)	Other reserves	
		PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 01-Jan-2024		**25,000**	**674,862**	**372,339**	**-**	**(30,944)**	**(12,595)**	**-**	**1,028,662**
Share capital increase		686,734	(3,447)	-	-	-	-	-	683,287
Comprehensive income/(loss) for the period		-	-	-	396,008	130,710	-	-	526,718
Distribution of prior year profit		-	-	(372,339)	-	-	-	372,339	-
Other changes		-	-	-	-	-	(466)	-	(466)
As at 31-Dec-2024	**III.28**	**711,734**	**671,415**	**-**	**396,008**	**99,766**	**(13,061)**	**372,339**	**2,238,201**

On August 27, 2024, the District Court for the City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register registered an increase in the Bank's share capital by a total amount of PLN 686,734,000.00 through the issue of 2,746,936 new ordinary registered B series shares with a nominal value of PLN 250.00 each, fully covered by a cash contribution

05-Sep-2022 – 31-Dec-2023	Equity							Total equity
	Share capital	Supplementary capital	Undistributed prior year profit	Net profit	Revaluation reserve	Other components of equity		
						Retained earnings/(losses)	Other reserves	
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 05-Sep-2022	**25,000**	**674,862**	**-**	**-**	**-**	**(12,595)**	**-**	**687,267**
Comprehensive income/(loss) for the period	-	-	-	372,339	(30,944)	-	-	341,395
As at 31-Dec-2023	**25,000**	**674,862**	**-**	**372,339**	**(30,944)**	**(12,595)**	**-**	**1,028,662**

5. Statement of cash flows

	Note	01-Jan-2024 – 31-Dec-2024	05-Sep-2022 – 31-Dec-2023
		PLN '000	PLN '000
Cash flows from operating activities			
Net profit		396,008	372,339
Total adjustments:		662,229	(13,563,868)
Amortization and depreciation	III.7	116,296	135,057
(Profit)/loss on investing activities		598	3,707
Interest and dividends		(11,735)	10,469
Change in amounts due from banks and financial institutions		(186,002)	(221,212)
Change in financial assets measured at fair value through profit or loss		(5,121)	(2,805)
Change in derivative financial instruments (asset)		4,459	(192)
Change in loans and advances to clients		(784,410)	8,468,089
Change in financial instruments measured at fair value through other comprehensive income		5,615,533	(8,914,411)
Change in financial instruments measured at amortized cost		(8,919,817)	(20,940,976)
Change in other assets		54,902	41,165
Change in amounts due to banks and financial institutions		(2,143)	(39,600)
Change in derivative financial instruments (liability)		133,452	2,428
Change in amounts due to clients		4,699,984	8,299,738
Change in other liabilities		(131,307)	(426,361)
Change in provisions		24,780	48,009
Income tax		52,760	(26,973)
Net cash from operating activities		**1,058,237**	**(13,191,529)**
Cash flows from investing activities			
Disposal of intangible assets and property, plant and equipment		25,576	66,968
Dividends received	III.3	15,115	136
Acquisition of interests in a subsidiary		(25,006)	(15)
Acquisition of intangible assets and property, plant and equipment		(223,693)	(114,707)
Net cash used in investing activities		**(208,008)**	**(47,618)**
Cash flows from financing activities			
Proceeds from the issue of shares		683,287	-
Other payments		(466)	-
Repayment of loans received		(17,243)	(14,369)
Interest paid on loans, leases and securities issued		(3,380)	(10,605)
Lease payments		(35,462)	(53,035)
Net cash from financing activities		**626,736**	**(78,009)**
Net increase/(decrease) in cash and cash equivalents		1,476,965	(13,317,156)
including due to exchange differences on cash and cash equivalents		*287*	*(12,689)*
Cash and cash equivalents at the beginning of the period	III.32	628,524	13,945,680
Cash and cash equivalents at the end of the period	**III.32**	**2,105,489**	**628,524**

II. GENERAL INFORMATION TO THE FINANCIAL STATEMENTS

The general information and explanatory notes form an integral part of the financial statements of VeloBank S.A. as at December 31, 2024 and for the period of 12 months ended December 31, 2024.
The comparative information was prepared as at December 31, 2023 and for the period from September 5, 2022 to December 31, 2023, i.e. for the period of operation of Bank BFG from September 5, 2022 to October 3, 2022, and for the period from October 3, 2022 (i.e. from the date of transfer of the business of Getin Noble Bank to the bridge institution) to December 31, 2023. Guided by the principles of materiality and fair presentation, in order to ensure the provision of information relevant to the understanding the financial position of the financial institution, for the purpose of presentation of data in the statement of cash flows, in the statement of changes in equity and in the notes to the financial statements presenting changes in individual items, October 3, 2022 was assumed to be the beginning of the reporting period, while the data for the period from September 5, 2022 to October 3, 2022 were included in the balances at the beginning of the reporting period. Such an approach to presentation ensures the provision of more comprehensible information on the changes which occurred during the period. If a presentation showing changes starting from September 5, 2022 was adopted, the key change item would be "acquisition as part of business transfer", which – in the Management Board's view – would be much less transparent, relevant, useful and understandable from the point of view of the assessment of the analysis of the individual item value changes.

1. Information about 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.

Until July 2024, VeloBank operated as a "bridge bank".

On August 1, 2024, Promontoria Holding 418 B.V. acquired 100% of VeloBank's shares from the Bank Guarantee Fund after all necessary approvals had been obtained from the competent supervisory authorities. The transaction closed an open, transparent, non-discriminatory and competitive sale process conducted by the Bank Guarantee Fund since 2023.
The conclusion of the agreement opens up new development opportunities for VeloBank across all business lines, owing to a capital injection received from the new shareholders in the amount of PLN 687 million and cancellation of the status of a bridge bank along with the related obligations imposed by the European Commission due to the forced restructuring of Getin Noble Bank S.A.

2. Shareholding structure

As at December 31, 2024, the Bank's share capital totaled PLN 711,734,000.00 and was divided into 100,000 registered A series shares with a nominal value of PLN 250.00 each as well as 2,746,936 ordinary registered B series shares with a nominal value of PLN 250,00 each. All the shares were taken up by Promontoria Holding 418 B.V. and fully covered by a cash contribution.

(figures in PLN '000)

Promontoria Holding 418 B.V., a private limited company with its registered office in Baarn, the Kingdom of the Netherlands, holds 100% of the Bank's shares.

Promontoria Holding 418 B.V. is controlled by funds managed by Cerberus Capital Management, L.P.

The Bank's share ownership structure as at the date of these financial statements is as follows:

	share [%]	votes [%]
Promontoria Holding 418 B.V.	**100%**	**100%**
Total	**100%**	**100%**

3. Composition of the Bank's Management Board and Supervisory Board

As at the date of the signing of these financial statements, the composition of the management and supervisory bodies of VeloBank S.A. was as follows:

Management Board of VeloBank S.A.	
President of the Management Board	Adam Marciniak
Members of the Management Board	Adrian Adamowicz
	Przemysław Koch
	Tomasz Kubiak
	Paweł Pach
	Paulina Strugała

Supervisory Board of VeloBank S.A.	
Chairperson of the Supervisory Board	Jakub Papierski
Vice Chairperson of the Supervisory Board	Roberto Nicastro
Members of the Supervisory Board	Paweł Borys
	Sarah Clark
	Lidia Jabłonowska-Luba
	William Newton

Changes in the composition of the Management Board between January 1, 2024 and the date of the signing of these financial statements

On August 1, 2024, Mr. Mirosław Boda resigned from the position of Member of the Management Board as of the date of his resignation.

On August 1, 2024, the Bank's Supervisory Board appointed Mr. Tomasz Kubiak as Member of the Management Board effective from the resolution date.

On December 11, 2024, the Supervisory Board of VeloBank S.A. adopted a resolution to appoint Mr. Paweł Pach as Member of the Management Board of VeloBank S.A. The resolution was adopted with effect as of the date of registration of amendments to Section 24.1 of the Bank's Articles of Association (regarding an increase in the maximum number of members of the Bank's Management Board) in the National Court Register, which took place on December 19, 2024.

(figures in PLN '000)

Changes in the composition of the Supervisory Board between January 1, 2024 and the date of the signing of these financial statements

On May 23, 2024, Mr. Piotr Tomaszewski, Ms. Dagmara Wieczorek-Bartczak and Mr. Sławomir Stawczyk resigned from the position of Member of the Supervisory Board of the Bank with effect as of May 23, 2024.
On May 28, 2024, the General Shareholders' Meeting appointed Mr. Maciej Szczęsny and Mr. Tomasz Obal to the Bank's Supervisory Board.
Between May 28, 2024 and August 1, 2024, the composition of the Supervisory Board was as follows:

Supervisory Board of VeloBank S.A.	
Chairperson of the Supervisory Board	Maciej Szczęsny
Vice Chairperson of the Supervisory Board	Tomasz Obal
Members of the Supervisory Board	Krzysztof Juzala
	Krzysztof Lebiediew
	Mariusz Wojtacha

On August 1, 2024, the composition of the Supervisory Board changed due to the fulfilment of all the conditions of the preliminary agreement on the sale of 100% of shares in the Bank's share capital.
All the then members of the Supervisory Board, i.e. Mr. Maciej Szczęsny, Mr. Tomasz Obal, Mr. Krzysztof Lebiediew, Mr. Krzysztof Juzala and Mr. Mariusz Wojtacha submitted statements of resignation from the Supervisory Board.
The Extraordinary General Meeting adopted a resolution to appoint the following new members of the Supervisory Board for a new joint 3-year term of office: Mr. Jakub Papierski, Mr. Roberto Nicastro, Mr. Roeland Brokking, Ms. Sarah Clark, Ms. Lidia Jabłonowska-Luba and Mr. William Newton.
Mr. Roeland Brokking resigned from the position of Member of the Bank's Supervisory Board with effect as of January 29, 2025.
On January 29, 2025, the General Shareholders' Meeting appointed Mr. Paweł Borys to the Bank's Supervisory Board for a joint 3-year term of office.

4. Accounting policies

4.1 Basis of preparation of the financial statements

These financial statements of VeloBank S.A. cover the period of 12 months ended December 31, 2024. The financial statements were prepared on the historical cost basis of accounting, except for financial instruments measured at fair value.
The financial statements were prepared on the assumption that the Bank will continue as a going concern in the foreseeable future, i.e. for a period of at least 12 months of the end of the reporting period. As at the date of authorization of the financial statements, there are no circumstances indicating a threat to the Bank's ability to continue as a going concern.

4.2 Statement of compliance

The financial statements were prepared in accordance with the International Financial Reporting Standards, the International Accounting Standards and related interpretations, as endorsed by the EU and, to the extent not regulated by the above-referenced standards and interpretations, in conformity with the provisions of the Accounting Act and secondary legislation issued thereunder.

4.3 Entity authorized to audit the financial statements

PKF Consult Spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw is the entity authorized to audit the financial statements of the Bank.

4.4 Identification of the consolidated financial statements

The Bank also prepared the consolidated financial statements of the VeloBank S.A. Group for the period of 12 months ended December 31, 2024, covering VeloBank S.A. and its subsidiaries – in conformity with the International Financial Reporting Standards endorsed by the EU, which were signed by the Bank's Management Board on March 25, 2025.

4.5 Functional and reporting currency

The reporting currency of these financial statements is the Polish złoty (PLN), and – unless stated otherwise – all figures are presented in thousands of Polish złotys (PLN '000). The Polish złoty is the functional currency of the Bank and the reporting currency of these financial statements.

4.6 Amendments to standards and interpretations

Amendments to existing standards that were endorsed and published by the European Union and entered into force on or after January 1, 2024:

IAS/IFRS		Effective date
Amendments to IAS 1	Presentation of Financial Statements – the amendment concerns the presentation of liabilities	January 1, 2024
Amendments to IFRS 16	Leases – the amendment concerns the calculation of the lease liability in sale and leaseback transactions	January 1, 2024
Amendments to IAS 7/IFRS 7	Supplier Finance Arrangements – disclosure of information on supplier finance arrangements	January 1, 2024

(figures in PLN '000)

Standards and interpretations published and endorsed by the EU, but not yet effective:

IAS/IFRS		Effective date
Amendments to IAS 21	The Effects of Changes in Foreign Exchange Rates	January 1, 2025
IFRS 18	Presentation and Disclosure in Financial Statements – replacing IAS 1	January 1, 2027
IFRS 19	Subsidiaries without Public Accountability: Disclosures	January 1, 2027
Amendments to IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments	January 1, 2026
Annual Improvements to IFRS Accounting Standards	The amendments concern IFRS 1, IFRS 7 (including implementation guidance), IFRS 9, IFRS 10, IAS 7 and are aimed to improve accessibility, clarity and consistency	January 1, 2026

The effective dates are stated in the relevant standards issued by the International Accounting Standards Board. The application dates in the EU may differ from the effective dates stated in those standards, and are announced upon the endorsement of the relevant standards by the EU.

The Bank estimates that the above-mentioned new standards or amendments to existing standards would not have had a material impact on the financial statements had they been applied by the Bank as at the end of the reporting period.

4.7 Foreign currency translation

Transactions in currencies other than the Polish złoty are translated into PLN at the exchange rate effective at the transaction date.

At the end of the reporting period, monetary assets and liabilities in currencies other than the Polish złoty are translated at the average exchange rate determined by the National Bank of Poland for the relevant currency, effective at the end of the reporting period. Exchange differences from translation are recognized in the relevant items of the income statement. Non-monetary assets and liabilities measured at historical cost expressed in a foreign currency are recognized at the historical exchange rate effective at the transaction date. Non-monetary assets and liabilities recognized at fair value expressed in a foreign currency are translated at the exchange rate effective at the fair value measurement date.

4.8 Presentation change

The comparative information for the periods from September 5, 2022 to December 31, 2023 and from January 1, 2023 to December 31, 2023, as presented in these financial statements, were restated to reflect the presentation changes made in the current reporting period.

The presentation change concerns reclassification of costs associated with card management IT systems, costs associated with the lease of devices for handling card operations (ADMs) and operating expenses associated with card services and unrelated to transactions – from *Fee and commission expense* to *Operating expenses*.

The restatement of comparative information in the income statement due to the above-mentioned presentation change did not have any effect on the Bank's profit for the periods from September 5, 2022 to December 31, 2023 or from January 1, 2023 to December 31, 2023.

The presentation change concerns reclassification of commission expense to operating expenses.

Income statement line item 05-Sep-2022 – 31-Dec-2023	Figures for the period 05-Sep-2022 – 31-Dec-2023 before restatement PLN '000	Presentation adjustment PLN '000	Restated PLN '000
Fee and commission expense	(117,213)	12,555	(104,658)
Operating expenses	(933,926)	(12,555)	(946,481)

Income statement line item 01-Jan-2023 – 31-Dec-2023	Figures for the period 01-Jan-2023 – 31-Dec-2023 before restatement PLN '000	Presentation adjustment PLN '000	Restated PLN '000
Fee and commission expense	(95,632)	10,201	(85,431)
Operating expenses	(760,806)	(10,201)	(771,007)

4.9 Financial assets and liabilities

Initial recognition

The acquisition and sale of financial assets in a regular way purchase or sale of financial assets (within the meaning of IFRS 9) are recognized as at the transaction settlement date, i.e. the date when a financial asset is delivered to or by the Bank.

At initial recognition, a financial asset or a financial liability is measured at fair value increased or reduced – in the case of a financial asset or a financial liability not classified as measured at fair value through profit or loss – by transaction costs that can be attributed directly to the acquisition or issue of the financial asset or financial liability.

Classification and measurement (financial assets)

The classification of financial assets is determined at initial recognition of an asset on the balance sheet and depends on:

- the business model for managing financial assets, which is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective;
- the characteristics of contractual cash flows, i.e. whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the "SPPI" criterion).

Depending on the business model as well as the characteristics of the contractual cash flows, financial assets may be classified as:

- measured at amortized cost;
- measured at fair value through other comprehensive income;
- measured at fair value through profit or loss.

The business model does not depend on management's intentions for an individual instrument. The Bank may have more than one business model for managing its financial instruments. The Bank evaluates its business model considering all the information that is available at the evaluation date. Such information includes, but is not limited to:

- adopted policies and objectives of portfolio management and their implementation in practice;
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;
- how managers of the financial assets are compensated;
- the frequency, value of portfolio assets sold in earlier periods, reasons for those sales and expectations about future sales.

Debt financial assets can be purchased within the following business models:

- a business model whose objective is to hold assets in order to collect contractual cash flows ("hold to collect" model);
- a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold to collect and sell" model);
- a business model whose objective is achieved by selling financial assets ("sell" model).

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realize cash flows by collecting contractual payments over the life of the instrument. However, the Bank need not hold all instruments within this business model to maturity. This model assumes that the sales of financial assets (in particular, the loan portfolio and the securities portfolio) out of a portfolio:

- are made infrequently (even if those sales are significant in value);
- are insignificant in value (either individually or in aggregate), even if a frequent number of such sales are made.

In the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Bank's key management personnel have made a decision that both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. Compared to the "hold to collect" model, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it. However, there is no threshold for the frequency or value of sales that must occur in this business model. The Bank holds financial instruments within this business model, among others, to manage its day-to-day liquidity needs, to maintain a particular interest income profile or to match the life of the financial assets to the maturity of the liabilities financed with the use of those assets.

If a financial asset is not held within the "hold to collect" business model or within the "hold to collect and sell" business model, the Bank classifies it to the "sell" business model, whose objective is to realize cash flows by selling the assets. The Bank makes decisions based on the assets' fair values and manages the assets to realize those fair values. In this case, the Bank's objective will typically result in active buying and selling of financial assets, and the collection of contractual cash flows is only incidental to achieving the business model's objective.

If a financial asset is held within the "hold to collect" or "hold to collect and sell" model, the Bank determines, by conducting a qualitative SPPI test, whether the financial asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding, and thus whether they are consistent with a basic lending arrangement. In a basic lending arrangement, interest comprises:

- consideration for the time value of money;
- consideration for credit risk;
- consideration for other basic lending risks (for example, liquidity risk);
- consideration for costs (for example, administrative costs) associated with holding the financial asset for a particular period of time;
- a profit margin.

If, based on the qualitative SPPI test, it is impossible to determine whether the contractual cash flows from the financial asset are solely payments of principal and interest on the principal amount outstanding, the Bank performs a quantitative SPPI test (benchmark test). It involves the assessment of how different the contractual (undiscounted) cash flows from the assessed financial asset could be from the benchmark (undiscounted) cash flows.

Financial assets measured at amortized cost

Financial assets are measured at amortized cost if both of the following conditions are met and the Bank did not designate them as measured at fair value through profit or loss:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if both of the following conditions are met and the Bank did not designate them as measured at fair value through profit or loss:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Financial assets measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

Financial assets are also measured at fair value through profit or loss if they are held within the "sell" business model.

This category includes two sub-categories:

- financial assets held for trading, including derivatives and securities acquired for resale in the near term; and
- financial assets designated at initial recognition as financial assets measured at fair value through profit or loss.

Purchased or originated financial assets that are credit-impaired on initial recognition (POCI)

POCI comprise financial instruments classified as financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income. In order for a financial asset to qualify as POCI, two conditions must be met, i.e.: a new financial asset has emerged (e.g. as a result of a substantial modification or purchase) and the new asset is impaired. POCI are measured using the effective interest method with the effective interest rate adjusted for credit risk. The Bank allows the effective interest rate to be applied if the value of the financial instruments identified as POCI is immaterial.

Classification and measurement (financial liabilities)

A financial liability is any liability that is:

a) a contractual obligation:
   - to deliver cash or another financial asset to another entity;
   - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity;

b) a contract that will or may be settled in the entity's own equity instruments and is:
   - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments;
   - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

After initial recognition, the Bank measures all financial liabilities at amortized cost using the effective interest method, except for:

a) financial liabilities measured at fair value through profit or loss;
b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
c) financial guarantees issued – after initial recognition, the issuer of such a contract subsequently measures it at the higher of:
   - the amount of the loss allowance;
   - the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15;
d) commitments to provide a loan bearing a below-market interest rate – after initial recognition, the issuer of such a commitment measures it subsequently at the higher of:
   - the amount of the loss allowance;
   - the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15;
e) contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies – the contingent consideration is subsequently measured at fair value with changes recognized in profit or loss.

Modification of financial assets

Modification of a financial instrument is a change in cash flows of a financial asset that does not lead to the derecognition of the existing asset (non-substantial modification) as a result of renegotiations (including settlements signed with clients as a result of forbearance), resulting in an annex to the loan agreement with the client. A change in contractual cash flows resulting from the implementation of the contract terms is not a non-substantial modification. In the case of a non-substantial modification, the Bank remeasures the gross carrying amount of a financial asset to the present value of the renegotiated or modified contractual cash flows, discounted using the asset's original or most recent effective interest rate or the effective interest rate adjusted for credit losses in the case of assets classified as POCI. Any modification gain or loss identified as a result of remeasurement of the gross carrying amount is recognized in profit or loss. The adjustment to the gross carrying amount of a financial asset due to modification is recognized in the net interest income using the effective interest method. Any costs or fees related to the modification (e.g. a fee charged for signing an annex) adjust the carrying amount of the modified financial asset and are amortized over the remaining life of the modified financial asset.

A substantial modification is a change in cash flows of a financial asset which leads to the derecognition of an existing financial asset as a result of renegotiations (including settlements signed with clients as a result of forbearance), resulting in an annex to the loan agreement with the client. Any gain or loss on a substantial modification is recognized within "*Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss*". The modified financial instrument is treated as a new asset, initially recognized on the balance sheet at fair value. If there are indications that the carrying amount of an asset upon a substantial modification does not reflect its fair value, it is necessary to adjust the exposure to its fair value.

The Bank applies quantitative and qualitative criteria for the identification of a substantial modification. The qualitative criteria for the identification of a substantial modification include:

- currency conversion (with the exception of that resulting from the applicable laws and the loan agreement);
- change of the obligor (main borrower, except in the case of the obligor's death);
- change of the product – the legal form/type of a financial instrument (e.g. a loan to a bond);
- introduction of a contractual feature that breaches the criteria the SPPI Test or removal of such a feature.

The identification of at least one of the above-mentioned qualitative criteria leads to the recognition of a substantial modification of the financial asset. If no qualitative indications are identified, verification of the quantitative criterion is required.

The quantitative criteria for the identification of a substantial modification include:

- an increase in the exposure amount by at least 10%;

- a significant extension of the financing period – as a significant extension of the financing period, the Bank considers an extension that meets all of the following conditions:

a) an extension of the current financing period by more than 36 months as compared to the period set out in the agreement (and subsequent amendments thereto);

b) an extension of the current financing period more than twice as compared to the period set out in the agreement (and subsequent amendments thereto).

Derecognition of financial assets and financial liabilities

A financial asset is derecognized when the Bank loses control of the contractual rights comprising the financial instrument. This usually takes place when the instrument is sold or when all cash flows, risks and rewards attributable to the instrument are transferred onto an independent third party.

In particular, the Bank derecognizes loan receivables in correspondence with impairment losses when the receivables are deemed to be uncollectible (there is no reasonable expectation of recovery of all or part of the cash flows arising from the loan agreement), i.e:

- the loan receivable became due and payable in its entirety;
- all legal and factual possibilities to enforce the loan receivable have been exhausted.

The gross carrying amount of financial assets measured at amortized cost is written off by the Bank (in whole or in part) if there is no reasonable expectation of recovery of the financial asset in whole or in part. A write-off constitutes a derecognition event. The Bank performs periodic analyses of the recoverability of a financial asset, in particular penalty and statutory interest.

The Bank removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires or when a substantial modification of contractual terms have occurred.

4.10 Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. If such evidence is identified, the Bank determines the amounts of impairment losses.
IFRS 9 uses an impairment model based on the concept of the “expected credit loss” (ECL). This means that the Bank calculates impairment losses based on ECL, focusing on a forward-looking approach, i.e. one oriented on estimating future losses based on forecasts and expected future economic conditions in the context of credit risk assessment of exposures.

The impairment model based on the ECL concept applies to financial assets classified as financial assets measured at amortized cost or at fair value through other comprehensive income, except for equity instruments.

In accordance with IFRS 9, the Bank estimates the expected credit loss by classifying its exposures to the following stages:

1. Stage 1: 12-month expected credit loss – expected loss related to forecast expected impairment occurring within 12 months of the balance sheet date, for exposures for which neither a significant increase in credit risk nor impairment was identified from the date of initial recognition to the balance sheet date;
2. Stage 2: lifetime expected credit loss – expected loss related to impairment occurring over the expected life of a financial asset, for exposures for which a significant increase in credit risk, but no impairment, was identified from the date of initial recognition to the balance sheet date;
3. Stage 3: lifetime expected credit loss – expected loss over the expected life of a financial asset, for exposures for which impairment was identified to the balance sheet date.

At each reporting date, the Bank determines for each exposure being measured whether the credit risk related to the exposure has significantly increased since initial recognition as well as whether any evidence of impairment has been reported.
The Bank has adopted a definition of “default” in accordance with the EBA recommendations and the provisions of IFRS 9.
The Bank applies the indication of failure to pay or delay in payment by more than 90 DPD (days-past-due), with the use of a definition of past due in accordance with the EBA recommendations and the Regulation of the Minister of Finance, Investment and Development dated October 3, 2019 on the level of materiality of past due credit obligations.
Other indications that a given exposure should be classified by the Bank to Stage 3 include, but are not limited to:

- significant financial difficulty of an obligor manifested in the classification to the worst class (for corporate clients);
- the loan has become due and payable in its entirety as a result of termination of the agreement (the exposure was forwarded to debt collection);
- credit fraud;
- the loan is contested by the obligor in court;
- death of the client;
- the obligor’s failure to repay debt owed to other institutions;
- loan forbearance classified as non-performing – including: forbearance resulting in a loss of cash flows from the agreement, forbearance granted during the period of previous forbearance becoming probable or granted for exposures with significant DPD;
- obtaining information that a bankruptcy petition has been filed for the obligor or an application for the institution of recovery proceedings;

- obtaining information that enforcement proceedings are pending against the obligor the value of which proceedings, in the Bank's opinion, may result in a loss of the obligor's creditworthiness;
- problems of a retail counterparty resulting from job loss or income reduction;
- specific indications of default for individually significant exposures;
- impairment spreading to other exposures of the client in the case of corporate clients and taking into account a materiality threshold of 20% for retail clients.

The Bank applies quarantine periods in order to make it probable that the indications for classifying the exposure as default will cease to exist. During the first 3 months of the quarantine, the exposure continues to be classified as default and for the next 3 months of the quarantine, if the timely repayment indication exists, the exposure is classified to Stage 2.

For the purpose of estimating whether the credit risk of an exposure has increased significantly since initial recognition, the Bank has defined a list of indications for Stage 2 classification, including, but not limited to:

- failure to pay or delay in payments by more than 30 DPD (in accordance with the DPD calculation algorithm in place at the Bank);
- inclusion of a corporate client in the watch list as part of the Early Warning System;
- a significant deterioration of the DTI (Debt to Income) ratio;
- the client's use of BGK support (for housing loans);
- forbearance which does not result in the classification of the exposure to Stage 3;
- SICR – a significant increase in the probability of default over the life of the exposure – estimated depending on the type of exposure by comparing the PD curves during the life of the exposure according to the current exposure status and at the time of initial recognition or by comparing the qualitative assessments of the exposure (for corporate clients for whom the PD curves are not used).

The Bank has defined Low Credit Risk (LCR) portfolios with exposures to local government entities/State Treasury entities and banks. For the purpose of classifying exposures to the appropriate Stage, in the case of the LCR portfolios the Bank applies all of the above-described classification criteria, except for the SICR one.

The Bank performs an individual measurement of individually significant exposures classified to Stage 3 and for selected exposure groups irrespective of stage classification and exposure values – hereinafter referred to as exposures obligatorily measured on an individual basis (e.g. NOSTRO exposures or other transactions concluded on the interbank market or developer exposures). For individually significant exposures and for exposures obligatorily measured on an individual basis, the Bank reviews indications of impairment at least once a quarter, and then estimates the level of impairment losses for individually significant exposures classified to Stage 3 and for exposures obligatorily measured on an individual basis as the difference between the carrying amount of the loan and the present value of estimated future cash flows discounted using the effective interest rate of the loan. The Bank applies a scenario-based approach for the purpose of estimating the level of cash flows, and for collateralized loans, the present value of estimated future cash flows includes cash flows that can be generated through realization of the collateral in enforcement proceedings, less potential costs of enforcement and sale of the collateral, if the enforcement is probable. Other exposures which are not measured on an individual basis are included in portfolios with similar credit risk level characteristics depending on, among others, the type of the product and client or the method of measurement upon activation, and measured on a monthly basis on a collective basis – in the first place, the exposures are classified to the appropriate Stage, and then the level of 12-month expected credit losses (Stage 1) or lifetime expected credit losses (for other Stages) is estimated.

The Bank has developed portfolio parameter models used to estimate expected credit losses on a collective basis, using the adopted definition of default, the forward-looking approach and macroeconomic forecasts. The PD (Probability of Default) model involves the estimation of the PD curves depending on the horizon of the estimated loss (12-month or lifetime), taking into account the Bank's expectations regarding the future macroeconomic situation and considering behavioral exposure data. As far as the estimation of LGD (Loss Given Default) parameters is concerned, the Bank applies an approach to estimating the cure rate and the level of recovery rates broken down into the mortgage-secured and unsecured parts, taking into account the future macroeconomic situation with respect to the level of real property prices; in addition, a forward-looking element has been introduced based on estimates of exposure characteristics affecting the observed level of recoveries and cures during the lifetime of the exposure.

For purposes of modeling the expected value of exposures upon default for revolving exposures without defined schedules, the Bank has implemented on-balance sheet and off-balance sheet value models based on historical behavioral patterns of repayments and drawdowns until default.

At each reporting date, the Bank determines for each exposure being measured whether the credit risk related to the exposure has significantly increased since initial recognition as well as whether any evidence of impairment has been reported. If the loss allowance in the preceding reporting period was measured by the Bank at an amount equal to lifetime expected credit losses, but at the current reporting date the Bank determines that for a given exposure there are no indications of a significant increase in credit risk since the initial recognition date and no impairment indications have been reported, the Bank measures the loss allowance at an amount equal to 12-month expected credit losses as at the current reporting date, subject to the applicable grace period. For a wide range of indications that exposures should be classified both to Stage 2 and Stage 3, the Bank applies a grace period, i.e. a specified number of calendar months since the last date of observation of the indication, provided that appropriate conditions for timely repayment have been met.

Subject to paragraphs 5.5.13–5.5.16 of IFRS 9, at each reporting date, the Bank measures the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses if the credit risk associated with that financial instrument has increased significantly since initial recognition.

The method of calculation of impairment of financial assets also affects the method of recognition of interest income. Specifically, interest income on assets classified to Stages 1 and 2 is determined by applying the effective interest rate to the gross value of the exposure, and in Stage 3 – by applying the effective interest rate to the amortized cost of the asset, taking into account impairment losses.

4.11 Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount is presented in the statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

4.12 Impairment of non-financial non-current assets

The carrying amounts of individual assets are periodically tested for impairment. If the Bank identifies any indications of impairment, it subsequently determines whether the current carrying amount of the asset is higher than the value that could be realized from its continued use or sale, which means that the recoverable amount of the asset is estimated. If the recoverable amount is lower than the current carrying amount of the asset, an impairment loss is recognized in profit or loss.

The recoverable amount of an asset is determined as the higher of its realizable value less cost to sell and the value in use of the asset. The value in use is determined as the estimated future cash flows generated by the asset, discounted using a market rate of interest plus a risk margin specific to that asset class.

An impairment loss may be reversed if there has been a change in the estimates used to determine the recoverable amount, only up to the asset's carrying amount that, net of accumulated amortization/depreciation, would have been determined had no impairment loss been recognized. An impairment loss on goodwill is not reversed.

4.13 Prepayments, accruals and deferred income

Prepayments comprise expenses which will be recognized in profit or loss on a time proportion basis in future reporting periods. Prepayments are recognized within "*Other assets*". Accruals comprise accrued expenses arising from performances made for the Bank that will be settled in subsequent periods. These balances are recognized within "*Other liabilities*".

Deferred income includes, but is not limited to, received amounts of future performances and certain types of income received in advance to be recognized in profit or loss in future reporting periods. In the statement of financial position, deferred income is presented within "*Other liabilities*".

4.14 Employee benefits

Employee benefits comprise the costs of salaries, bonuses and social security contributions. The Bank recognizes the anticipated value of short-term employee benefits as an expense in the period when an employee has rendered service.

In accordance with the provisions of the Remuneration Policy, the Remuneration Regulations for the Bank's Staff and the Bonus Rules, a bonus may be awarded to the Bank's staff. In 2024, all of the Bank's staff were covered by bonus plans under which they could be awarded bonuses. The bonus rules for individual organizational units and positions differ due to the specific nature of their business tasks, but meet a uniform standard arising from the remuneration policy. The personal scope of each bonus regulation is determined each time in the regulation itself. The bonus rules for managers are laid down in the Variable Remuneration Policy or in the Bonus Rules of the organizational function concerned.

In accordance with the Labor Code and the Remuneration Regulations for the Bank's Staff, the Bank's staff are entitled to retirement severance pay. Such severance pay takes the form of a lump-sum payment made to an employee upon retirement and its amount depends on the employee's length of service and individual salary level. Provisions for retirement severance pay constitute defined post-employment benefit plans in accordance with IAS 19 and are estimated based on an actuarial valuation. A provision estimated as a result of the actuarial valuation is recognized within "*Provisions*" and remeasured on an annual basis.

The Bank's staff are entitled to join the Employee Capital Plans (ECPs). New hires are enrolled in the plans by the Bank but may resign from making contributions at any time. Any person who is not automatically enrolled due to their age or a person who has previously resigned can join the plans without any time limit. Contributions made to the ECPs are financed by the employing entity and the ECP participant using their own funds. The employer ensures the handling and payment of all contributions. The costs of the ECPs are recognized within "*Operating expenses – Costs of employee benefits*" and "*Other liabilities*".

4.15 Revenue

The Bank recognizes revenue from contracts with customers to depict the transfer of goods or services to customers in an amount that reflects the consideration (i.e. payment) to which the Bank expects to be entitled in exchange for those goods or services.

The key criterion for revenue recognition is the time when the Bank satisfies the performance obligation, that is the time when control is transferred. It determines the recognition of revenue.

Any goods or services which are sold in bundles and which are separately identifiable as part of a contract concluded with a customer are recognized by the Bank separately. Additionally, any discounts and rebates on the transaction price are, in general, allocated to the specific bundle items. If the revenue is variable, any variable amounts are recognized as revenue if it is highly probable that the revenue so recognized will not be reversed in the future due to revaluation. When recognizing revenue from contracts with customers in accordance with IFRS 15, the Bank applies a five-step model:

1. identification of a contract with customer;
2. identification of performance obligations under the contract;
3. determination of the transaction price;
4. allocation of the transaction price to the performance obligations;
5. recognition of revenue when (or as) the Bank satisfies the performance obligation.

5. Uncertainty of estimates

The preparation of financial statements in accordance with IFRS requires the Bank to make some estimates and to adopt some assumptions which affect the amounts presented in the financial statements. The estimates and assumptions are subject to ongoing review by the Bank's management and are based on past experience and other factors, including expectations as to future events, which seem justified in a given situation. Although such estimates are based on the best knowledge of the current conditions and activities of the Bank, the actual results may differ from those estimates. Estimates made at the end of each reporting period reflect the conditions existing at such dates (e.g. foreign exchange rates, interest rates and market prices).

The key areas for which the Bank made estimates include those indicated below. Quantitative disclosures regarding these estimates are presented in the relevant notes concerning these assets and liabilities.

Impairment of financial instruments

At each reporting date, the Bank assesses whether credit risk associated with a given financial instrument has increased significantly since initial recognition. In making such assessments, the Bank uses the change in the risk of default over the expected life of the financial instrument instead of the change in the expected loss amounts. To make the assessment, the Bank compares the risk of default for the financial instrument concerned at the reporting date with the risk of default for the financial instrument at the date of its initial recognition, considering reasonable and supportable information that is available without undue cost or effort and that is indicative of a significant increase in credit risk since initial recognition. A list of indications of a significant increase in credit risk since initial recognition and other estimates are described in Note II.5.10.

Derivatives and financial assets and financial liabilities measured at fair value through profit or loss

The fair value of derivatives, financial assets and financial liabilities which are not quoted on active markets is determined using generally accepted valuation techniques. All models are approved prior to their application and calibrated to ensure that the results reflect true data and comparable market prices. Only observable inputs from the active market are used in the models as far as possible, but in certain circumstances, the Bank estimates the relevant uncertainties (such as the counterparty risk, volatility and market correlations). A change in assumptions made for these factors may affect the measurement of some financial instruments.

Net realizable value of foreclosure assets

The net realizable value of foreclosure assets is estimated by the Bank. The estimate reflects market conditions and the legal status at the valuation date.

Impairment of other non-current assets, including investments in subsidiaries

At the end of each reporting period, the Bank assesses whether there is any evidence that its non-current assets are impaired. If any such evidence is identified, the Bank estimates the recoverable amount. Estimating the value in use of a non-current asset involves, among others, the adoption of assumptions as to the amounts and timing of future cash flows which could be generated by the Bank from the non-current asset, as well as other factors. When estimating the fair value less costs to sell, the Bank relies on the available relevant market data or independent appraisals, which in principle are also based on estimates.

Measurement of provisions for retirement severance pay

The provision for retirement severance pay was estimated by means of actuarial methods by an independent actuary; the assumptions made for this purpose are updated at the end of each financial year.

Measurement of provisions for litigation

The chances of winning a case, and consequently the assessment of the need to recognize a provision for losing, in respect of all court proceedings are determined on a case-by-case basis, considering the circumstances of the case. In the case of claims filed by clients, which were served on the Bank and are heard before the courts of the first and second instance, an individual assessment of the probability of the Bank winning a given case was made based on the estimates of the attorney representing the Bank in the case. As a rule, a provision is recognized for such cases if the Bank's chance of winning is determined to be lower than 50%.

Deferred tax asset

The Bank recognizes a deferred tax asset based on the assumption that taxable profit will be generated in the future to realize the asset. If the Bank's taxable profits were to deteriorate in the future, this assumption could prove to be unfounded.

Leases – the Bank as a lessee

Judgments concerning leases where the Bank is a lessee, in areas such as the determination of whether the contract contains a lease, contracts for an indefinite period, exercising the option to extend or shorten the lease term, are presented in Notes III.21 to these financial statements.

Useful lives of property, plant and equipment and intangible assets

Factors taken into account when estimating the useful life of particular types of property, plant and equipment and intangible assets include, among others:

- the average useful lives applied so far, reflecting the actual wear and tear, intensity of use, etc.;
- technological obsolescence;
- the period of control of the asset and any legal or other limitations on the useful life;
- interdependencies between the useful life of the asset and the useful lives of other assets;

- other circumstances that affect the useful life of the asset type concerned.

If the period of use of an asset is based on contractual rights, the useful life corresponds to the period determined based on such contractual rights, or, if the estimated useful life is shorter, the estimated useful life is used. On an annual basis, the Bank reviews the useful lives by reference to current estimates.

Estimates of fees to be reimbursed in connection with early repayment of consumer loans

The Bank remeasured the portfolio provision for potential client claims for partial reimbursement of fees in connection with early repayment of consumer loans (for loans prepaid before the CJEU judgment, i.e. before September 11, 2019). The provision was estimated based on the time series of the fee amounts reimbursed for loans prepaid before the CJEU judgment in individual periods after the judgment was issued.

The estimate involves some uncertainty related to the possible volatility of the observed trend of requests for partial reimbursement of fees and may change in the future.

For loans prepaid after September 11, 2019, the Bank recognizes a liability for fee reimbursement, respectively.

In addition, the Bank remeasures its loan receivables measured at amortized cost in respect of deferred intermediation costs for the expected prepayments in the Bank's loan portfolio for which there is an obligation to reimburse fees in the case of early repayment by the client and for the difference between the effective settlement of fees charged for granting the loan using the effective interest rate and a hypothetical linear settlement of these fees as at the expected loan prepayment date.

Although the estimates made by the Bank are based on its best knowledge, the actual results may differ from the estimates. The consistency of the actual results and the estimates made is reviewed in the reporting periods.

6. Correction of errors

In the period of 12 months ended December 31, 2024, there were no corrections of fundamental errors or changes in the areas for which the Bank made estimates and exercised professional judgement.

III. EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF VELOBANK S.A.

1. Net interest income

Accounting principles

Interest income and expense include all interest income and expense on financial instruments measured at amortized cost using the effective interest method, financial instruments measured at fair value through other comprehensive income and financial instruments measured at fair value through profit or loss. Interest income also includes integral costs directly associated with loans and advances granted, including integral and direct internal costs, deferred using the effective interest method.

The following financial assets and financial liabilities are measured at amortized cost:

- financial assets classified as measured at amortized cost;
- financial liabilities which were not classified at initial recognition as liabilities measured at fair value through profit or loss and which are not derivatives.

The effective interest rate is the rate that discounts the expected stream of future cash payments to the current gross carrying amount until maturity or until the next market-based repricing date of the financial asset or financial liability. Its determination includes all due or receivable fees and cash flows paid or received by the Bank under the contract for the instrument, excluding potential future credit losses.

The method of accounting for coupons, fees and commissions and certain external costs related to financial instruments (using the effective interest method or on a straight-line basis) depends on the nature of the instrument. In the case of financial instruments with fixed cash flow schedules, the effective interest method is applied.

The method of recognition of the individual types of deferred fees and commissions in profit or loss as interest or commission income, and the need to defer such fees and commissions instead of recognizing them in profit or loss on a one-off basis, depends on the economic nature of the fee or commission.

Deferred fees and commissions include, for example, loan approval fees, loan arrangement fees, loan activation fees, etc. Commissions include also consideration for insurance when there is a direct link between a credit product and an insurance product. Payment of such fees is an integral part of the return generated by a given financial instrument. This category also includes fees and costs incurred for amending the contractual terms, which results in the modification of the originally calculated effective interest rate in a situation where such modification does not lead to the derecognition of a financial asset.

Furthermore, if it is probable that certain lending arrangements will be made, any fees relating to the Bank's commitment to made such arrangements are regarded as consideration for continuing involvement in the acquisition of a financial instrument, deferred and recognized as an adjustment to the effective return upon contract conclusion (using the effective interest method or the straight-line method, depending on the nature of the product). In the case of assets for which impairment has been identified, interest income is recognized in profit or loss based on the net exposure determined as the difference between the gross value of the exposure and the impairment loss.

The net interest income includes also net income on interest accrued and paid in relation to derivatives.

Financial information

Net interest income	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000	01-Jan-2023 – 31-Dec-2023 PLN '000
Interest income on:			
Financial assets measured at amortized cost:	**3,138,644**	**3,731,516**	**3,046,620**
loans and advances	1,229,059	2,476,419	1,941,916
amounts due from banks and financial institutions	37,383	48,634	29,964
other financial instruments	1,789,741	1,150,294	1,040,276
reserve requirement	82,461	56,169	34,464
Financial assets measured at fair value through other comprehensive income	**372,669**	**664,724**	**567,624**
Financial assets measured at fair value through profit or loss:	**594,945**	**57,707**	**51,851**
loans and advances	4,802	15,580	11,843
derivative financial instruments	590,143	42,127	40,008
Total interest income	**4,106,258**	**4,453,947**	**3,666,095**
including:			
interest income related to impaired financial assets	108,567	*164,948*	*135,167*
Interest expense on:			
amounts due to clients	2,024,993	2,367,887	2,001,972
amounts due to banks and financial institutions	9,698	33,346	30,050
derivative financial instruments	518,858	45,341	44,815
lease liabilities	3,047	8,798	6,788
financial assets	-	2	2
Total interest expense	**2,556,596**	**2,455,374**	**2,083,627**
including:			
interest expense calculated using the effective interest method, related to financial liabilities which are not measured at fair value through profit or loss	*2,037,738*	*2,410,033*	*2,038,812*
Net interest income	**1,549,662**	**1,998,573**	**1,582,468**

2. Net fee and commission income

Accounting principles

Fees and commissions accounted for using the effective interest method are recognized by the Bank in the net interest income. Fees and commissions which are deferred using the straight-line method or recognized on a one-off basis are presented within the net fee and commission income. Fee and commission income includes income on fees and commissions arising from transaction services for the execution of important activities. Such income includes any fees for activities where the Bank acts as an agent or provides services such as distribution of investment fund units, investment and structured products, income and expense on bank commissions and fees which are not an integral part of the effective interest rate of the loan receivables, recognized on a one-off basis.

When offering insurance products to its clients, the Bank recognizes the remuneration received for insurance services based on its professional judgment as to whether the sale of the insurance is limited only to the provision of the service involving the offering of insurance products or whether the insurance sale service is linked to the sale of a financial instrument.

As a result of the assessment of a direct link between an insurance product and a financial instrument, the Bank may establish:

- the existence of a direct link which results in the recognition of the remuneration for the offering of insurance products using the amortized cost method, settled using the effective interest method and recognized in interest income;
- the absence of a direct link which results in the recognition of the remuneration for the offering of insurance products in commission income in accordance with the requirements of IFRS 15 *Revenue from Contracts with Customers*;
- the existence of a compound product composed of a financial instrument and an insurance product, resulting in the division of the remuneration for the offering of the insurance product based on the separation of the fair value of the financial instrument offered and the fair value of the insurance product sold together with that instrument.

If a compound product is identified, the remuneration for the sale of the insurance product is divided into the part that constitutes the amortized cost element of the financial instrument and the part that constitutes the remuneration for the agency services performed. The remuneration is divided as the proportion of the fair value of the financial instrument and the fair value of the agency service relative to the total of both these amounts. The fair value of the agency service and the financial instrument is measured based on market data. If after-sales activities or services are performed resulting from the insurance product offered, the relevant part of the remuneration allocated to the agency service is settled over the term of the insurance contract using the stage of completion method, in line with the matching principle. Such remuneration is recognized within the commission income.

The Bank estimates the part of the remuneration to be reimbursed (e.g. due to insurance contract termination by the client, prepayments or on any other basis) in the periods following the sale of the insurance product. The part of the remuneration so estimated is deferred up to the amount of the expected reimbursements. In the part relating to revenue which is accounted for at amortized cost, the expected reimbursements are included in the remuneration recognized in the amortized cost of the financial instrument. In a situation where the remuneration is divided for a compound product, the expected reimbursements relating to the part which is accounted for using the effective interest method and recognized as the remuneration for the agency service are allocated to those items in the same way as the remuneration was divided.

The Bank divides the costs associated with the sale of an insurance product into directly related and other, not directly related costs, including fixed costs (recognized when incurred).

Financial information

Net fee and commission income	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000	01-Jan-2023 – 31-Dec-2023 PLN '000
Income on			
loans and advances	8,471	10,495	8,036
maintenance of bank accounts	28,674	36,686	28,791
payment and credit cards	41,189	60,248	49,129
investment products	11,223	9,979	7,945
insurance	25,083	13,973	12,705
transaction margin on foreign exchange operations	11,046	15,873	11,749
other fee and commission income	677	1,716	654
Total fee and commission income	**126,363**	**148,970**	**119,009**
Expense on:			
loans and advances	1,194	945	822
payment and credit cards	46,346	57,448	45,093
investment and banking products	34,254	18,987	15,360
insurance	4,233	2,859	2,292
promotions and rewards for clients	57,430	20,153	18,393
other fee and commission expense	4,150	4,266	3,471
Total fee and commission expense	**147,607**	**104,658**	**85,431**
Net fee and commission income	**(21,244)**	**44,312**	**33,578**

An increase in commission expense relating to promotions and rewards for clients is due to a change in the estimates of the parameters of the model for the settlement of acquisition costs relating to savings and checking accounts, savings accounts and current accounts for businesses following their annual review.

3. Dividend income

Accounting principles

Dividend income is recognized in profit or loss when the shareholders' right to receive the payment is established if the dividend is paid out from profit generated after the date of acquisition.

Financial information

Dividend income	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000	01-Jan-2023 – 31-Dec-2023 PLN '000
Dividends received:			
from shares and interests in subsidiaries	15,000	-	-
from securities classified as financial assets measured at fair value through other comprehensive income	4	1	1
from securities classified as financial assets measured at fair value through profit or loss	111	135	105
Total dividend income	**15,115**	**136**	**106**

4. Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income

Accounting principles

Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income comprises gains and losses from fair value measurement of held-for-trading financial assets and financial liabilities, financial assets and financial liabilities measured at fair value through profit or loss and derivatives, as well as gains and losses arising from the translation of foreign currency assets and liabilities at the average exchange rate published for a given currency by the National Bank of Poland as at the balance sheet date.

Financial information

Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	01-Jan-2024 – 31-Dec-2024	05-Sep-2022 – 31-Dec-2023	01-Jan-2023 – 31-Dec-2023
	PLN '000	PLN '000	PLN '000
Gain (loss) on financial instruments measured at fair value through profit or loss, including:	5,295	2,720	3,231
on instruments which were designated at initial recognition as measured at fair value through profit or loss	4,301	4,617	3,972
on financial instruments measured at fair value through profit or loss	(2,039)	3,806	4,341
on derivatives	3,033	(5,703)	(5,082)
Net foreign exchange income	(428)	3,028	4,699
Total gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	**4,867**	**5,748**	**7,930**

5. Gain (loss) on derecognition of financial assets

Accounting principles

Gain (loss) on other financial instruments includes in particular realized gains and losses on disposal of financial assets measured at amortized cost and debt financial instruments measured at fair value through other comprehensive income, as well as gain (loss) on substantial modification leading to the derecognition of a financial instrument.

Financial information

Gain (loss) on derecognition of financial assets	01-Jan-2024 – 31-Dec-2024	05-Sep-2022 – 31-Dec-2023	01-Jan-2023 – 31-Dec-2023
	PLN '000	PLN '000	PLN '000
Gain (loss) on derecognition of financial instruments measured at amortized cost	(823)	57,701	57,701
Gain (loss) on transfer of separated rights and liabilities to PZA	-	(184,250)	(184,250)
Gain (loss) on modification leading to derecognition	466	1,606	1,576
Total gain (loss) on derecognition of financial assets	**(357)**	**(124,943)**	**(124,973)**

By decision of the Bank Guarantee Fund adopted on October 27, 2023, a resolution instrument in the form of separation of the property rights of VeloBank S.A. was applied by transferring to Podmiot Zarządzający Aktywami

S.A. (hereinafter referred to as "PZA"), which is an asset manager within the meaning of the Act on the Bank Guarantee Fund, the property rights and obligations relating to the agreement on the buy-out of lease payments and loan instalments concluded by Getin Noble Bank S.A. (entity subject to resolution) with the leasing companies VB Leasing Spółka Akcyjna w restrukturyzacji and VB Leasing Spółka Akcyjna Automotive Spółka Komandytowo-Akcyjna w restrukturyzacji (current names), as at October 31, 2023.

The transfer was effected against consideration determined in accordance with Article 226.1 of the Act on the Bank Guarantee Fund. The consideration was paid by PZA by way of the Bank taking up bonds issued by PZA. The bonds will be redeemed within 5 years. As a result of the transfer of the separated property rights and obligations to PZA, a loss before tax of PLN 184 million was recognized in the Bank's income statement.

6. Net other operating income and expense

Accounting principles

Other operating income and expense includes income and expense which is not directly related to the Bank's banking activities. It includes, in particular: gains (losses) on disposal of fixed assets, income and expenses from provisions and impairment losses on non-financial assets, rental income and expense, revenue from sales of other services, damages, penalties and fines received and paid, as well as costs of debt collection and court fees and provisions for litigation.

Financial information

Net other operating income and expense	01-Jan-2024 – 31-Dec-2024	05-Sep-2022 – 31-Dec-2023	01-Jan-2023 – 31-Dec-2023
	PLN '000	PLN '000	PLN '000
Other operating income:			
outsourcing services	29,105	47,948	37,281
income related to the sale and valuation of real property	3,799	8,993	3,599
recovered court fees and debt collection costs	12,444	12,940	10,634
reversal of provisions and impairment losses on other assets	3,928	3,483	3,186
income from the recovery of bad debts	1,158	1,622	1,407
revenue from sales of products and services	1,727	1,563	1,367
damages, penalties and fines received	338	882	648
rental income	75	2,913	2,913
reversal of unused portion of provision for costs	8,014	3,735	3,735
other income	6,435	7,594	6,533
Total operating income	**67,023**	**91,673**	**71,303**
Other operating expense			
debt collection and monitoring of receivables, including court fees	35,322	54,538	42,593
recognition of provisions and impairment losses on other assets	21,871	49,244	49,044
securitization costs	3,696	5,517	4,315
costs of litigation, judgements, appeals, last resort appeals and experts	1,726	2,027	1,580
provisions for reimbursement of loan fees on early repayment of loans	3,820	5,480	5,480
rental expense	130	1,079	1,073
costs related to own real property and movable property and to real property and movable property pledged as collateral for loans	5,213	30,182	28,426
other expenses	4,935	19,333	20,257
Total operating expense	**76,713**	**167,400**	**152,768**
Net other operating income and expense	**(9,690)**	**(75,727)**	**(81,465)**

7. Operating expenses

Operating expenses	01-Jan-2024 – 31-Dec-2024 PLN ‘000	05-Sep-2022 – 31-Dec-2023 PLN ‘000	01-Jan-2023 – 31-Dec-2023 PLN ‘000
Employee benefits	443,549	448,952	373,424
Consumption of materials and energy	15,022	16,986	13,616
Third-party services	248,036	323,410	258,685
Taxes and charges	8,245	7,943	6,471
Amortization and depreciation	116,793	135,057	105,457
Other expenses	4,918	4,646	3,867
Payments to the Bank Guarantee Fund	7,097	9,487	9,487
Total operating expenses	**843,660**	**946,481**	**771,007**

Headcount

As at December 31, 2024 and December 31, 2023, the Bank’s headcount was as follows:

	31-Dec-2024	31-Dec-2023
Number of employees	3,365	3,111
Number of FTEs	3,344.0	3,085.8

8. Net impairment losses on financial assets and provisions for off-balance sheet liabilities

Accounting principles

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. If such evidence is identified, the Bank determines the amounts of impairment losses. IFRS 9 uses an impairment model based on the concept of the “expected credit loss” (ECL). This means that the Bank calculates impairment losses based on ECL, focusing on a forward-looking approach, i.e. one oriented on estimating future losses based on forecasts and expected future economic conditions in the context of credit risk assessment of exposures.

Financial information

Net impairment losses on financial assets and provisions for off-balance sheet liabilities	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000	01-Jan-2023 – 31-Dec-2023 PLN '000
Loans and advances to clients	(148,398)	(384,216)	(288,841)
Amounts due from banks and financial institutions	(315)	(416)	(401)
Other financial instruments	(539)	123	145
Off-balance sheet liabilities	(14,424)	(8,240)	(2,037)
Investments in subsidiaries and associates	(15)	-	-
Other financial assets	-	(24,973)	(23,553)
Total net impairment losses on financial assets and provisions for off-balance sheet liabilities	**(163,691)**	**(417,722)**	**(314,687)**

01-Jan-2024 – 31-Dec-2024	Loans and advances to clients PLN '000	Amounts due from banks and financial institutions PLN '000	Other financial instruments PLN '000	Off-balance sheet liabilities PLN '000	Investments in subsidiaries and associates PLN '000	Total PLN '000
Impairment losses/provisions at the beginning of the period	**1,533,611**	**793**	**20,551**	**13,186**	**-**	**1,568,141**
Net change in provisions recognized in profit or loss	148,398	315	539	14,424	15	163,691
Use – write-off	(31,225)	-	-	-	-	(31,225)
Use – sale	(158,772)	-	-	-	-	(158,772)
Other net increases/(decreases)	36,138	-	1	-	-	36,139
Impairment losses/provisions at the end of the period	**1,528,150**	**1,108**	**21,091**	**27,610**	**15**	**1,577,974**

05-Sep-2022 – 31-Dec-2023	Loans and advances to clients PLN '000	Amounts due from banks and financial institutions PLN '000	Other financial instruments PLN '000	Off-balance sheet liabilities PLN '000	Other financial assets	Total PLN '000
Impairment losses/provisions at the beginning of the period	**2,323,225**	**444**	**20,674**	**4,947**	**1,144**	**2,350,434**
Net change in provisions recognized in profit or loss	384,216	416	(123)	8,240	24,973	**417,722**
Use – write-off	(43,170)	-	-	-	-	**(43,170)**
Use – sale	(882,733)	-	-	-	-	**(882,733)**
Other net increases/(decreases)	(247,927)	(67)	-	(1)	(26,117)	**(274,112)**
Impairment losses/provisions at the end of the period	**1,533,611**	**793**	**20,551**	**13,186**	**-**	**1,568,141**

"*Other net increases/(decreases)*" includes an adjustment to interest income on impaired loans. This item also reflects changes due to measurement of impairment losses in foreign currencies and due to a transfer of receivables.

Change in impairment losses on loans and advances to clients 01-Jan-2024 – 31-Dec-2024	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	POCI PLN '000	Total PLN '000
Impairment losses at the beginning of the period	**103,955**	**234,204**	**1,194,327**	**1,125**	**1,533,611**
Changes in the period, including:	44,025	(18,644)	(34,784)	3,942	**(5,461)**
transfer to Stage 1	31,488	(25,581)	(5,907)	-	**-**
transfer to Stage 2	(17,541)	76,986	(59,445)	-	**-**
transfer to Stage 3	(13,950)	(51,348)	57,413	7,885	**-**
changes in measurement of loss allowance	43,896	(18,625)	127,070	(3,943)	**148,398**
derecognition (cancellation, sale)	-	-	(189,997)	-	**(189,997)**
Other	132	(76)	36,082	-	**36,138**
Impairment losses at the end of the period	**147,980**	**215,560**	**1,159,543**	**5,067**	**1,528,150**

Change in impairment losses on loans and advances to clients 05-Sep-2022 – 31-Dec-2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	POCI PLN '000	Total PLN '000
Impairment losses at the beginning of the period	**215,133**	**288,428**	**1,819,596**	**68**	**2,323,225**
Changes in the period, including:	(111,178)	(54,224)	(625,269)	1,057	**(789,614)**
transfer to Stage 1	63,119	(58,769)	(4,350)	-	**-**
transfer to Stage 2	(39,480)	125,421	(85,941)	-	**-**
transfer to Stage 3	(23,709)	(73,152)	95,851	1,010	**-**
changes in measurement of loss allowance	(49,374)	60,090	373,453	47	**384,216**
derecognition (cancellation, sale)	-	-	(925,903)	-	**(925,903)**
Other	(61,734)	(107,814)	(78,379)	-	**(247,927)**
Impairment losses at the end of the period	**103,955**	**234,204**	**1,194,327**	**1,125**	**1,533,611**

"*Other*" includes an adjustment to interest income on impaired loans and changes due to measurement of impairment losses in foreign currencies and due to a transfer of receivables.

9. Income tax

Accounting principles

Current tax

Current tax liabilities and assets for the current period and for prior periods are measured at the amount expected to be paid to (or recovered from) taxation authorities, based on tax rates and tax regulations enacted or substantively enacted at the balance sheet date.

Current corporate income tax is calculated in accordance with Polish tax regulations. The basis for calculation is the pre-tax accounting profit adjusted for non-deductible expenses, non-taxable income as well as other income and expenses changing the tax base, as defined in the Corporate Income Tax Act dated February 15, 1992, as amended.

At present, the Bank carries out its tax settlements holding the view that there was no tax succession at the time of the resolution in accordance with Article 93 § 4 of the Tax Code.

The aforementioned provision on universal tax succession applies in the case of a business combination where a bank acquires another bank. This understanding is supported by the explanatory memorandum to the act introducing this provision, which indicates that it relates to the acquisition of a bank by another bank carried out under the provisions of the banking law, as a result of which the bank being acquired ceases to exist.

Considering the foregoing conclusions regarding the existence of tax succession in connection with the application of the resolution instrument, the Bank treats the transferred receivables as acquired receivables for the purposes of CIT. This means, among other things, that:

- neither loss allowances, nor receivables written off as bad debts may constitute a tax-deductible expense for CIT purposes for the Bank;
- the taxable profit relating to such receivables should be determined in accordance with Article 15ba of the CIT Act;
- a loss on the sale of the receivables may not be regarded as a tax-deductible expense under Article 16.1(39a) of the CIT Act.

In the absence of the tax succession, as stipulated in Article 93 of the Tax Code, the assets and liabilities transferred as of October 3, 2022 to the bridge institution as a result of the Bank Guarantee Fund's decision to initiate resolution against Getin Noble Bank S.A. were measured at market value. The effect of the measurement was reflected in deferred tax.

Deferred tax

For purposes of financial reporting, deferred tax is calculated using the balance-sheet liability method in relation to all temporary differences existing at the end of the reporting period between the tax values of the assets and liabilities and their carrying amounts presented in the financial statements.

A deferred tax liability is recognized for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor the taxable profit or loss; and
- in the case of taxable temporary differences arising from investments in subsidiaries or associates, and interests in joint ventures, unless the investor is able to control the timing of the reversal of the temporary differences or when it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognized for all deductible temporary differences, as well as unused tax credits and unused tax losses carried forward to subsequent years, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, assets and losses can be utilized:

- except to the extent that the deferred tax assets related to deductible temporary differences arise from the initial recognition of an asset or a liability in a transaction which is not a business combination, and, at the time of the transaction, affect neither the accounting profit or loss nor the taxable profit or loss; and
- in the case of deductible temporary differences related to investments in subsidiaries or associates and interests in joint ventures, the deferred tax asset is recognized in the statement of financial position only to the extent that it is probable that in the foreseeable future the temporary differences will be reversed and taxable profit will be generated to deduct the deductible temporary differences.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is subject to appropriate reduction to the extent that it is no longer probable that taxable profit sufficient for a partial or full realization of the deferred tax asset will be generated. An unrecognized deferred tax asset is reassessed at the end of each reporting period and is recognized to the extent that it is probable that future taxable profit will be available against which the asset can be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is reversed, using tax rates and tax regulations that are in force at the balance sheet date or those whose application in the future is certain at the balance sheet date.

Income tax on items which are not recognized in profit or loss is recognized in other comprehensive income (if it relates to items that are recognized in other comprehensive income) or directly in equity (if it relates to items that are recognized directly in equity).

The Bank offsets deferred tax assets against deferred tax liabilities if and only if it has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred tax is attributable to the same taxable entity and the same taxation authority.

IFRIC 23 explains how to disclose and measure deferred and current tax assets and liabilities when there is uncertainty over tax treatment. In such a circumstance, an entity shall recognize and measure its current or deferred tax assets and liabilities applying the requirements of IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. According to the interpretation, the effects of uncertainty should be measured based on the approach which best predicts how the uncertainty will be resolved: either the most likely amount method or the expected value method. The Bank takes into account the effects of uncertain tax treatment where it would be likely that the taxation authorities would not accept the Bank's approach.

Financial information

Tax expense

Income tax	01-Jan-2024 – 31-Dec-2024	05-Sep-2022 – 31-Dec-2023	01-Jan-2023 – 31-Dec-2023
	PLN '000	PLN '000	PLN '000
Income statement			
Current tax	***53,802***	***105,470***	***86,150***
Current tax expense	44,297	105,470	86,150
Adjustments to current tax from prior years	9,505	-	-
Deferred tax	***50,745***	***(22,956)***	***(30,446)***
Related to recognition and reversal of temporary differences	59,699	(22,956)	(30,446)
Adjustments to deferred tax from prior years	(8,954)	-	-
Tax expense in the income statement	**104,547**	**82,514**	**55,704**
Deferred tax, including	**23,402**	**-**	**-**
related to financial instruments measured at fair value	(69)	-	-
related to the effect of cash flow hedges	23,543	-	-
related to actuarial gains/(losses)	(72)	-	-
Tax (benefit)/expense in the statement of comprehensive income	**23,402**	**-**	**-**
Total basic components of tax expense	**127,949**	**82,514**	**55,704**

Reconciliation of effective tax rate

Reconciliation of tax expense in profit before tax	01-Jan-2024 – 31-Dec-2024	05-Sep-2022 – 31-Dec-2023	01-Jan-2023 – 31-Dec-2023
	PLN '000	PLN '000	PLN '000
Gross profit before tax	**500,555**	**454,853**	**331,950**
Income tax at the applicable rate (19%)	95,105	86,422	63,071
Effect of permanent differences between gross profit before tax and taxable profit, including:	**9,442**	**(3,908)**	**(7,367)**
effect of non-deductible expenses	1,348	1,802	1,802
tax on financial institutions	5,785	5,518	-
effect of non-taxable income	(2,872)	(18)	(17)
interest payments received on acquired loans	(1,622)	(21,605)	(21,605)
loans written-off	-	7,223	7,223
effect of other permanent differences	6,803	3,172	5,230
Tax expense in the income statement	**104,547**	**82,514**	**55,704**

Deferred tax

	As at 01-Jan-2024	Changes in the period		As at 31-Dec-2024
		recognized in profit or loss	recognized in other comprehensive income	
	PLN '000	PLN '000	PLN '000	PLN '000
Interest receivable on financial instruments and derivatives	80,524	120,150	-	**200,674**
Commissions settled using the effective interest method	-	9,629	-	**9,629**
Impairment losses on loans, securities, receivables and off-balance sheet liabilities	91,661	8,701	-	**100,362**
Difference between tax and accounting amortization and depreciation	2,895	13,235	-	**16,130**
Measurement related to the value of cash flow hedges	-	-	23,543	**23,543**
Measurement of financial instruments measured at fair value	-	-	40	**40**
Other	58	6,697	-	**6,755**
Deferred tax liability	**175,138**	**158,412**	**23,583**	**357,133**
Interest on amounts due to clients, debt securities and derivatives	66,948	93,491	-	**160,439**
Impairment losses on equity investments	7,842	-	-	**7,842**
Deferred commissions	1,424	(1,424)	-	**-**
Revaluation of real property	4,499	5,166	-	**9,665**
Provisions for operating expenses	22,667	7,462	-	**30,129**
Measurement of bonds covered by Bank Guarantee Fund guarantees	10,025	237	-	**10,262**
Measurement of instruments due to actuarial gains and losses	-	-	72	**72**
Measurement of financial instruments measured at fair value	-	-	109	**109**
Credit holidays	2,743	(2,010)	-	**733**
Other	984	4,745	-	**5,729**
Deferred tax assets	**117,132**	**107,667**	**181**	**224,980**
Net liability	**58,006**	**50,745**	**23,402**	**132,153**

	As at 05-Sep-2022 PLN '000	Changes in the period recognized in profit or loss PLN '000	As at 31-Dec-2023 PLN '000
Interest receivable on financial instruments and derivatives	740	79,784	**80,524**
Impairment losses on loans, advances, securities, receivables and off-balance sheet liabilities	194,286	(102,625)	**91,661**
Difference between tax and accounting amortization and depreciation	(2,870)	5,765	**2,895**
Other	26	32	**58**
Deferred tax liability	**192,182**	**(17,044)**	**175,138**
Interest on amounts due to clients, debt securities and derivatives	38,854	28,094	**66,948**
Impairment losses on equity investments	7,842	-	**7,842**
Deferred commissions received	6,068	(4,644)	**1,424**
Revaluation of real property	-	4,499	**4,499**
Provisions for operating expenses	10,751	11,916	**22,667**
Measurement of bonds covered by Bank Guarantee Fund guarantees	-	10,025	**10,025**
Credit holidays	46,704	(43,961)	**2,743**
Other	1,001	(17)	**984**
Deferred tax assets	**111,220**	**5,912**	**117,132**
Net liability	**80,962**	**(22,956)**	**58,006**

10. Cash and balances with the Central Bank

Cash and balances with the Central Bank	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Cash	96,093	107,821
Current and O/N account with the Central Bank	1,993,411	499,799
Total cash and balances with the Central Bank	**2,089,504**	**607,620**

The Bank may use its balances with the Central Bank during the day for current cash settlements, but it must ensure that the average monthly account balance is maintained in the appropriate amount resulting from the declared reserve requirement.

As at December 31, 2024 and December 31, 2023, cash held in the reserve requirement account bore interest at the rate of 5.75%.

On December 28, 2022, the Management Board of the National Bank of Poland adopted a resolution to exempt VeloBank S.A. from the obligation to maintain 60% of the reserve requirement. The exemption was in force from January 1, 2023 to December 31, 2023. By a resolution of December 15, 2023, the Management Board of the National Bank of Poland extended that period until March 31, 2024.

11. Amounts due from banks and financial institutions

Amounts due from banks and financial institutions	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Current accounts	15,985	20,904
Deposits	301,616	289,624
Other receivables	458,521	284,196
Total gross amounts due from banks and financial institutions	**776,122**	**594,724**
Impairment losses on receivables	(1,108)	(793)
Total net amounts due from banks and financial institutions	**775,014**	**593,931**

	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Current receivables and O/N deposits	474,506	305,100
Term receivables maturing:	301,616	289,624
within 1 month	301,616	289,624
Total amounts due from banks and financial institutions	**776,122**	**594,724**
Impairment losses on receivables	(1,108)	(793)
Total net amounts due from banks and financial institutions	**775,014**	**593,931**

	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Floating-rate receivables	472,423	304,535
Fixed-rate receivables	302,591	289,396
Total net amounts due from banks and financial institutions	**775,014**	**593,931**

12. Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Debt instruments	2,902	4,586
Equity instruments	20,738	13,933
Total financial assets measured at fair value through profit or loss	**23,640**	**18,519**

The note presents shares in VISA Inc. C series shares are recognized in the financial statements as debt instruments. A series preference shares (upon conversion) are recognized as equity instruments. The valuation of A series preferred shares in VISA is performed on the basis of the quoted prices of ordinary shares in VISA Inc on the US Stock Exchange.

13. Derivative financial instruments

Accounting principles

A derivative is a financial instrument that meets all of the following three conditions:

a. its value changes along with a change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or another variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the underlying instrument);

b. it does not require any initial net investment or it requires an initial net investment that is smaller than for other types of contracts that would be expected to have a similar response to changes in market factors; and
c. it will be settled at a future date.

Derivative financial instruments which are not subject to hedge accounting are recognized at the date of the transaction and measured at fair value at the end of the reporting period. Fair value changes are recognized by the Bank within *Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income*, in correspondence with, respectively, assets/liabilities arising from derivative financial instruments.

The effect of the final settlement of derivative transactions is recognized within *Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income*.

The notional amounts of derivative transactions are recognized as off-balance sheet items at the date of the transaction and throughout their duration. Foreign currency off-balance sheet items are remeasured at day-end at the average exchange rate of the National Bank of Poland (fixing as at the measurement date).

The fair value of derivative financial instruments that are on a market is their market price. In other cases, it is the fair value determined based on a valuation model, inputs to which have been obtained from an active market (particularly in the case of IRS and CIRS using the discounted cash flow method).

Financial information

31-Dec-2024	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total	Fair value assets	Fair value liabilities
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Foreign currency transactions								
Currency swap	**1,143,812**	**25,867**	**112,982**	**70,091**	**-**	**1,352,752**	**3,135**	**544**
Purchase	572,565	13,048	57,433	35,907	-	678,953	-	-
Sale	571,247	12,819	55,549	34,184	-	673,799	-	-
Forward	**35,004**	**8,684**	**130,558**	**61,490**	**-**	**235,736**	**401**	**1,754**
Purchase	17,502	4,273	64,095	29,911	-	115,781	-	-
Sale	17,502	4,411	66,463	31,579	-	119,955	-	-
Interest rate swap (IRS)	**-**	**-**	**1,000,000**	**12,936,810**	**12,237,742**	**26,174,552**	**104,467**	**146,063**
Purchase	-	-	500,000	6,468,405	6,118,871	13,087,276	-	-
Sale	-	-	500,000	6,468,405	6,118,871	13,087,276	-	-
Total derivative financial instruments	**1,178,816**	**34,551**	**1,243,540**	**13,068,391**	**12,237,742**	**27,763,040**	**108,003**	**148,361**

31-Dec-2023	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total	Fair value assets	Fair value liabilities
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Foreign currency transactions								
Currency swap	**1,005,857**	**-**	**124,624**	**-**	**-**	**1,130,481**	**2,934**	**945**
Purchase	503,070	-	63,752	-	-	566,822	-	-
Sale	502,787	-	60,872	-	-	563,659	-	-
Forward	**9,238**	**-**	**107,689**	**-**	**-**	**116,927**	**288**	**2,875**
Purchase	4,619	-	52,176	-	-	56,795	-	-
Sale	4,619	-	55,513	-	-	60,132	-	-
Interest rate swap (IRS)	**-**	**11,464**	**8,700**	**3,710,000**	**3,272,192**	**7,002,356**	**2,996**	**34,572**
Purchase	-	5,732	4,350	1,855,000	1,636,096	3,501,178	-	-
Sale	-	5,732	4,350	1,855,000	1,636,096	3,501,178	-	-
Total derivative financial instruments	**1,015,095**	**11,464**	**241,013**	**3,710,000**	**3,272,192**	**8,249,764**	**6,218**	**38,392**

14. Loans to clients

14.1. Loans measured at amortized cost

Loans measured at amortized cost	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Corporate loans	2,612,357	2,440,980
Car loans	745,669	765,499
Mortgage loans	7,802,461	7,882,022
Retail loans	3,970,764	3,416,773
Purchased receivables	304,919	198,369
Total gross	**15,436,170**	**14,703,643**
Impairment losses on receivables	(1,528,150)	(1,533,611)
Total net	**13,908,020**	**13,170,032**

The structure of the credit balance is presented in the table below:

31-Dec-2024	Gross value Stage 1	Gross value Stage 2	Gross value Stage 3	Gross value – POCI	Impairment losses Stage 1	Impairment losses Stage 2	Impairment losses Stage 3	Impairment losses – POCI	Total net value
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
corporate loans	1,665,773	607,537	329,265	9,782	(16,742)	(36,421)	(260,064)	(5,001)	**2,294,129**
car loans	644,493	73,416	27,544	216	(1,148)	(2,733)	(13,141)	-	**728,647**
mortgage loans	6,241,517	1,000,556	559,973	415	(18,014)	(58,704)	(391,366)	-	**7,334,377**
retail loans	2,687,698	600,842	681,385	839	(88,361)	(115,946)	(493,893)	(67)	**3,272,497**
purchased receivables	255,159	45,658	4,048	54	(23,716)	(1,757)	(1,076)	-	**278,370**
Total	**11,494,640**	**2,328,009**	**1,602,215**	**11,306**	**(147,981)**	**(215,561)**	**(1,159,540)**	**(5,068)**	**13,908,020**

31-Dec-2023	Gross value Stage 1 PLN '000	Gross value Stage 2 PLN '000	Gross value Stage 3 PLN '000	Gross value – POCI PLN '000	Impairment losses Stage 1 PLN '000	Impairment losses Stage 2 PLN '000	Impairment losses Stage 3 PLN '000	Impairment losses – POCI PLN '000	Total net value PLN '000
corporate loans	1,348,615	663,834	425,130	3,401	(7,485)	(31,614)	(244,078)	(998)	**2,156,805**
car loans	633,265	77,043	54,926	265	(1,388)	(3,252)	(30,156)	-	**730,703**
mortgage loans	6,003,079	1,141,077	737,397	469	(22,270)	(71,849)	(436,858)	-	**7,351,045**
retail loans	2,118,602	594,886	702,351	934	(70,659)	(125,670)	(481,922)	(127)	**2,738,395**
purchased receivables	158,197	36,244	3,928	-	(2,154)	(1,819)	(1,312)	-	**193,084**
Total	**10,261,758**	**2,513,084**	**1,923,732**	**5,069**	**(103,956)**	**(234,204)**	**(1,194,326)**	**(1,125)**	**13,170,032**

In the reporting period, the Bank sold receivables which comprised impaired loans with a total principal amount of PLN 1.2 billion.

31-Dec-2024	Impaired loans (Stage 3 and POCI) by measurement model – Individual measurement: Gross value PLN '000	Impairment loss PLN '000	Net value PLN '000	Collective measurement: Gross value PLN '000	Impairment loss PLN '000	Net value PLN '000
corporate loans	285,134	(221,978)	63,156	53,913	(43,087)	**10,826**
car loans	-	-	-	27,760	(13,141)	**14,619**
mortgage loans	96,267	(85,103)	11,164	464,121	(306,263)	**157,858**
retail loans	4,957	(4,957)	-	677,267	(489,003)	**188,264**
purchased receivables	-	-	-	4,102	(1,076)	**3,026**
Total	**386,358**	**(312,038)**	**74,320**	**1,227,163**	**(852,570)**	**374,593**

31-Dec-2023	Impaired loans (Stage 3 and POCI) by measurement model – Individual measurement: Gross value PLN '000	Impairment loss PLN '000	Net value PLN '000	Collective measurement: Gross value PLN '000	Impairment loss PLN '000	Net value PLN '000
corporate loans	357,644	(193,009)	164,635	70,887	(52,067)	18,820
car loans	-	-	-	55,191	(30,156)	25,035
mortgage loans	135,026	(109,796)	25,230	602,840	(327,062)	275,778
retail loans	5,982	(3,926)	2,056	697,303	(478,123)	219,180
purchased receivables	-	-	-	3,928	(1,312)	2,616
Total	**498,652**	**(306,731)**	**191,921**	**1,430,149**	**(888,720)**	**541,429**

	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Loans to clients, including:		
to state budget entities	283,653	309,316
to financial entities other than banks	116,327	210,472
to non-financial entities other than individuals	2,306,021	1,994,141
to individuals	11,202,019	10,656,103
Total	**13,908,020**	**13,170,032**

	31-Dec-2024	31-Dec-2023
Fixed-rate loans and advances (in PLN million)	2,273	709
% of total portfolio of loans and advances	16.22%	5%

Change in gross carrying amount 01-Jan-2024 – 31-Dec-2024	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	POCI PLN '000	Total PLN '000
Gross carrying amount at the beginning of the period	**10,261,758**	**2,513,084**	**1,923,732**	**5,069**	**14,703,643**
Reclassifications	(576,485)	236,091	340,394	-	**-**
to Stage 1	650,561	(624,033)	(26,528)	-	**-**
to Stage 2	(1,048,303)	1,182,526	(134,223)	-	**-**
to Stage 3	(178,743)	(322,402)	501,145	-	**-**
Acquisition	3,557,186	9,576	5,407	8,666	**3,580,835**
Repayment	(2,729,287)	(472,997)	(496,020)	(33,914)	**(3,732,218)**
Write-off/sale	**-**	-	(189,997)	-	**(189,997)**
Other	981,468	42,255	18,699	31,485	**1,073,907**
Gross carrying amount at the end of the period	**11,494,640**	**2,328,009**	**1,602,215**	**11,306**	**15,436,170**

Change in gross carrying amount 05-Sep-2022 – 31-Dec-2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	POCI PLN '000	Total PLN '000
Gross carrying amount at the beginning of the period	**17,186,023**	**3,830,889**	**2,857,683**	**2,940**	**23,877,535**
Reclassifications	(3,525,593)	2,496,385	1,029,208	-	**-**
to Stage 1	1,673,369	(1,627,217)	(46,152)	-	**-**
to Stage 2	(5,040,693)	5,253,367	(212,674)	-	**-**
to Stage 3	(158,269)	(1,129,765)	1,288,034	-	**-**
Acquisition	4,329,701	262,467	139	3,630	**4,595,937**
Repayment	(5,006,210)	(1,762,132)	(635,719)	(1,554)	**(7,405,615)**
Write-off/sale	**-**	-	(925,903)	-	**(925,903)**
Other	(2,722,163)	(2,314,525)	(401,676)	53	**(5,438,311)**
Gross carrying amount at the end of the period	**10,261,758**	**2,513,084**	**1,923,732**	**5,069**	**14,703,643**

Other presents mainly changes due to a transfer of receivables.

31-Dec-2024	NPL gross value – Stage 3 and POCI	Coverage ratio – Stage 1	Coverage ratio – Stage 2	NPL coverage ratio – Stage 3 and POCI	Total coverage ratio
corporate loans	12.98%	1.01%	5.99%	78.18%	12.18%
car loans	3.72%	0.18%	3.72%	47.34%	2.28%
mortgage loans	7.18%	0.29%	5.87%	69.84%	6.00%
retail loans	17.18%	3.29%	19.30%	72.40%	17.59%
purchased receivables	1.35%	9.29%	3.85%	26.23%	8.71%
Total	**10.45%**	**1.29%**	**9.26%**	**72.18%**	**9.90%**

31-Dec-2023	NPL gross value – Stage 3 and POCI	Coverage ratio – Stage 1	Coverage ratio – Stage 2	NPL coverage ratio – Stage 3 and POCI	Total coverage ratio
corporate loans	17.56%	0.56%	4.76%	57.19%	11.64%
car loans	7.21%	0.22%	4.22%	54.64%	4.55%
mortgage loans	9.36%	0.37%	6.30%	59.21%	6.74%
retail loans	20.58%	3.34%	21.13%	68.54%	19.85%
purchased receivables	1.98%	1.36%	5.02%	33.40%	2.66%
Total	**13.12%**	**1.01%**	**9.32%**	**61.98%**	**10.43%**

14.2. Loans and advances measured at fair value through profit or loss

Loans and advances measured at fair value through profit or loss	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Corporate loans	15	207
Credit card related loans	35,645	41,486
Mortgage loans	1,883	2,330
Retail loans	54,587	1,685
Total loans and advances measured at fair value through profit or loss	**92,130**	**45,708**

14.3. Loans and advances to clients – by maturity

	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Loans and advances to clients, maturing:		
within 1 month	1,576,637	1,495,780
from 1 to 3 months	364,536	261,684
from 3 months to 1 year	1,549,666	1,390,597
from 1 to 5 years	4,896,476	4,446,436
over 5 years	7,140,985	7,154,854
Total loans and advances to clients	**15,528,300**	**14,749,351**
Impairment losses	(1,528,150)	(1,533,611)
Total loans and advances to clients, net	**14,000,150**	**13,215,740**

15. Other financial instruments

Accounting principles

Other financial instruments measured at fair value through other comprehensive income

Financial instruments are measured at fair value through other comprehensive income if both of the following conditions are met and the Bank did not designate them as measured at fair value through profit or loss:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- The Bank may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value through other comprehensive income.

Financial information

Other financial instruments measured at fair value through other comprehensive income	31-Dec-2024 PLN ‘000	31-Dec-2023 PLN ‘000
Other financial instruments measured at fair value through other comprehensive income		
NBP bills	3,298,419	8,912,987
equity instruments	4,751	4,646
Total other financial instruments measured at fair value through other comprehensive income, gross	**3,303,170**	**8,917,633**
Impairment losses	**(3,056)**	**(3,056)**
Total other financial instruments measured at fair value through other comprehensive income, net	**3,300,114**	**8,914,577**

	01-Jan-2024 – 31-Dec-2024 PLN ‘000	05-Sep-2022 – 31-Dec-2023 PLN ‘000
Other financial instruments measured at fair value through other comprehensive income at the beginning of the period	**8,914,577**	**1,531**
Increases	338,211,997	536,934,783
Decreases (sale and redemption)	(343,825,825)	(528,024,641)
Change in fair value	1,001	(1,365)
Other changes (interest, exchange differences)	(1,636)	4,269
Other financial instruments measured at fair value through other comprehensive income at the end of the period	**3,300,114**	**8,914,577**

	31-Dec-2024 PLN ‘000	31-Dec-2023 PLN ‘000
Other financial instruments measured at fair value through other comprehensive income by maturity:		
within 1 month	3,298,419	8,912,987
Equity instruments with unspecified maturity	4,751	4,646
Total other financial instruments measured at fair value through other comprehensive income, gross	**3,303,170**	**8,917,633**
Impairment losses	**(3,056)**	**(3,056)**
Total other financial instruments measured at fair value through other comprehensive income, net	**3,300,114**	**8,914,577**

At initial recognition, the Bank made an irrevocable election for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value through other comprehensive income.

Other financial instruments measured at amortized cost	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Other financial instruments measured at amortized cost		
treasury bonds	19,959,603	11,517,336
bonds issued by local government entities	25,922	40,526
bonds from banks	-	73,772
corporate bonds	28,951	32,443
bonds covered by Bank Guarantee Fund guarantees	3,272,208	5,712,277
bonds covered by State Treasury guarantees	10,328,387	7,318,360
Total other financial instruments measured at amortized cost, gross	**33,615,071**	**24,694,714**
Impairment losses	**(18,035)**	**(17,495)**
Total other financial instruments measured at amortized cost, net	**33,597,036**	**24,677,219**

	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000
Other financial instruments measured at amortized cost at the beginning of the period	**24,677,219**	**3,736,243**
Increases	11,323,747	22,474,359
Decreases	(2,972,562)	(1,845,697)
Recognized impairment losses	(539)	123
Accrued interest and adjustments due to settlement at amortized cost	569,171	312,191
Other financial instruments measured at amortized cost at the end of the period	**33,597,036**	**24,677,219**

	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Other financial instruments measured at amortized cost by maturity:		
within 1 month	36,432	37,943
from 1 to 3 months	639,858	78,158
from 3 months to 1 year	2,936,436	2,144,239
from 1 to 5 years	17,463,601	14,303,726
over 5 years	12,538,744	8,130,648
Total other financial instruments measured at amortized cost, gross	**33,615,071**	**24,694,714**
Impairment losses	**(18,035)**	**(17,495)**
Total other financial instruments measured at amortized cost, net	**33,597,036**	**24,677,219**

16. Assets pledged as security for liabilities

Carrying amount of assets pledged as security	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Treasury bonds pledged as security for the guaranteed deposit protection fund of the Bank Guarantee Fund	111,543	120,363
Treasury bonds pledged as security for the obligation to pay contributions to the Bank Guarantee Fund	2,531	-
Treasury bonds pledged as security for loans received	-	27,387
Treasury bonds pledged as security for repayment of debt	4,991,567	6,675,254
Total assets pledged as security for liabilities	**5,105,641**	**6,823,004**

17. Investments in subsidiaries

Accounting principles

Investments in subsidiaries which are not classified as held for sale (or not included in a disposal group classified as held for sale in accordance with IFRS 5) are recognized at cost less impairment losses.

Financial information

31-Dec-2024	Percentage of shares/ voting rights held by the Bank	Gross value PLN '000	Impairment loss PLN '000	Carrying amount PLN '000
Berticoneby Investments Sp. z o.o.	100%	15	(15)	-
ProEkspert sp. z o. o.	100%	13	-	13
VeloLeasing S.A.	100%	25,006	-	25,006
Total investments in subsidiaries		**25,034**	**(15)**	**25,019**

On October 28, 2024, an entry was made in the register of shareholders of Noble Finance S.A. regarding the acquisition of 19,150,000 ordinary registered shares, representing 100% of the share capital, by VeloBank. Thus, the Bank recognized control over that company. The company operates under the name of VeloLeasing. The company's share capital was increased through the issue of 100,000 I series shares with the issue price of PLN 250 each.

On October 23, 2024, an agreement was signed regarding the acquisition of majority holding (86.83%) in Towarzystwo Funduszy Inwestycyjnych Noble Funds S.A. The transaction will be closed after conditions precedent have been met, including approval granted by the Polish Financial Supervision Authority.

18. Intangible assets

Accounting principles

An intangible asset is an identifiable non-monetary asset without physical substance, which is controlled by the Bank and which will generate future economic benefits for the Bank.
Intangible assets may be purchased in a separate transaction, generated internally or acquired in a business combination.

At initial recognition, intangible assets are measured at cost. The cost of intangible assets acquired in a business combination is equal to their fair value as at the business combination date. After initial recognition, intangible assets with a limited useful life are recognized at cost less accumulated amortization and impairment losses.
The following development expenditure is capitalized in the value of intangible assets:

- costs of services used in generating the intangible asset;
- costs of employee benefits arising directly from the generation of the intangible asset.

Expenditure incurred on internally generated intangible assets, except for development expenditure, are expensed in the period when they were incurred.

The Bank determines whether intangible assets have limited or unlimited useful lives. Intangible assets with a limited useful life are amortized throughout their useful life and tested for impairment each time there is an indication of impairment. The amortization period and method for an intangible asset with a limited useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or in the expected pattern of consumption of economic benefits embodied in the asset are recognized by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The estimated useful lives are presented in the table below:

Type of intangible assets	Estimated useful life
Software	from 13 to 240 months
Other intangible assets	from 13 to 240 months

Intangible assets with an unlimited useful life and those that are not in use are tested for impairment annually, either individually or at the level of cash-generating units.

Any gains or losses arising on derecognition of intangible assets from the statement of financial position are measured as the difference between net proceeds from the sale of a given asset and its carrying amount, and are recognized in profit or loss when the promised asset is transferred to the counterparty.

Amortization of intangible assets is presented within "*Operating expenses*" in the income statement.

Financial information

Intangible assets	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Software	331,784	221,671
Expenditure on intangible assets	74,952	69,226
Total intangible assets	**406,736**	**290,897**

The following tables present changes in property, plant and equipment in the reporting period:

	Software	Expenditure on intangible assets	Total
	PLN '000	PLN '000	PLN '000
Gross value as at 01-Jan-2024	**727,250**	**69,226**	**796,476**
Increases, including:	169,281	153,936	323,217
purchased	21,608	153,936	175,544
reclassified from investments	147,673	-	147,673
Decreases, including:	(33,181)	(148,210)	(181,391)
retired and sold	(33,181)	(537)	(33,718)
reclassified from investments	-	(147,673)	(147,673)
Gross value as at 31-Dec-2024	**863,350**	**74,952**	**938,302**
Accumulated amortization as at 01-Jan-2024	372,473	-	372,473
Increases, including:	59,165	-	59,165
amortization for the period	59,165	-	59,165
Decreases, including:	(33,178)	-	(33,178)
retired and sold	(33,178)	-	(33,178)
Accumulated amortization as at 31-Dec-2024	**398,460**	**-**	**398,460**
Impairment losses as at 01-Jan-2024	133,106	-	133,106
Impairment losses as at 31-Dec-2024	**133,106**	**-**	**133,106**
Net value as at 01-Jan-2024	221,671	69,226	290,897
Net value as at 31-Dec-2024	**331,784**	**74,952**	**406,736**

	Software PLN ‘000	Expenditure on intangible assets PLN ‘000	Total PLN ‘000
Gross value as at 05-Sep-2022	**635,086**	**53,182**	**688,268**
Increases, including:	96,808	95,048	**191,856**
purchased	18,278	95,048	**113,326**
reclassified from investments	78,530	-	**78,530**
Decreases, including:	(4,644)	(79,004)	**(83,648)**
retired and sold	(4,644)	-	**(4,644)**
reclassified from investments	-	(78,530)	**(78,530)**
Other decreases	-	(474)	**(474)**
Gross value as at 31-Dec-2023	**727,250**	**69,226**	**796,476**
Accumulated amortization as at 05-Sep-2022	**324,723**	**-**	**324,723**
Increases, including:	52,394	-	**52,394**
amortization for the period	52,394	-	**52,394**
Decreases, including:	(4,644)	-	**(4,644)**
retired and sold	(4,644)	-	**(4,644)**
Accumulated amortization as at 31-Dec-2023	**372,473**	**-**	**372,473**
Impairment losses as at 05-Sep-2022	**133,106**	**-**	**133,106**
Impairment losses as at 31-Dec-2023	**133,106**	**-**	**133,106**
Net value as at 05-Sep-2022	**177,257**	**53,182**	**230,439**
Net value as at 31-Dec-2023	**221,671**	**69,226**	**290,897**

19. Property, plant and equipment

Accounting principles

Items of property, plant and equipment are recognized at cost less accumulated depreciation and impairment losses. The gross value of a fixed asset comprises its cost plus any costs directly attributable to its purchase and bringing it to a working condition. The carrying amount of property, plant and equipment also includes expenses related to the improvement/increase in the value of a fixed asset. Any costs incurred after a fixed asset has been made available for use, such as costs of repairs and maintenance, are recognized in profit or loss when incurred.

Upon their purchase, fixed assets are divided into components of material value to which separate economic useful lives can be assigned.

Depreciation is calculated using the straight-line method over the estimated useful life of an asset. Residual values, useful lives and methods of depreciation of assets are reviewed and, if necessary, adjusted at the end of each financial year.

The table below presents the estimated useful lives of fixed assets:

Type of fixed assets	Estimated useful life
Leasehold improvements	from 13 to 120 months (or the lease term, if shorter)
Buildings	from 300 to 800 months
Technical equipment and machinery	from 13 to 180 months
Computer sets	from 13 to 120 months
Vehicles	from 13 to 96 months
Office equipment, furniture	from 13 to 120 months

An item of property, plant and equipment may be derecognized from the statement of financial position upon disposal or when no economic benefits from the continued use of the asset are anticipated. Any gains or losses arising from derecognition of an asset from the statement of financial position (calculated as the difference between net proceeds from sale, if any, and the carrying amount of the item) are recognized in profit or loss when the promised asset is transferred to the counterparty.

Fixed assets under construction include fixed assets in the course of construction or assembly, and they are measured at cost. Fixed assets under construction are not depreciated until their construction is complete and until they are made available for use.

In the period of 12 months ended December 31, 2024 and in the period of 15 months ended December 31, 2023, there were no material purchases or sales of property, plant and equipment. As at December 31, 2024, there were no material liabilities arising from purchases of property, plant and equipment.

Financial information

Property, plant and equipment	31-Dec-2024 PLN ‘000	31-Dec-2023 PLN ‘000
Land and buildings, leasehold improvements	11,756	13,513
Machinery and equipment	50,333	50,949
Vehicles	1,035	1,939
Other fixed assets, including equipment	4,012	5,201
Right-of-use assets – land	178	180
Right-of-use assets – vehicles	5,479	2,892
Right-of-use assets – lease of space	63,003	75,021
Fixed assets under construction	5	-
Total property, plant and equipment	**135,801**	**149,695**

The following tables present changes in property, plant and equipment in the reporting periods:

	Land and buildings	Machinery and equipment	Vehicles	Other fixed assets	Right-of-use assets			Fixed assets under construction	Total
					Lease of space	Land	Vehicles		
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Gross value as at 01-Jan-2024	**68,688**	**233,232**	**2,910**	**28,500**	**168,052**	**192**	**4,224**	**-**	**505,798**
Increases, including:	184	17,472	66	781	20,596	-	4,678	5	**43,782**
purchased	184	17,472	66	781	5,745	-	4,628	5	**28,881**
other increases	-	-	-	-	14,851	-	50	-	**14,901**
Decreases, including:	(741)	(20,211)	(29)	(1,330)	(17,832)	-	(198)	-	**(40,341)**
retired and sold	(741)	(20,211)	(29)	(1,330)	(17,832)	-	(198)	-	**(40,341)**
Gross value as at 31-Dec-2024	**68,131**	**230,493**	**2,947**	**27,951**	**170,816**	**192**	**8,704**	**5**	**509,239**
Accumulated depreciation as at 01-Jan-2024	53,780	182,245	971	23,299	90,214	12	1,332	-	**351,853**
Increases, including:	1,941	18,064	957	1,971	32,610	2	2,083	-	**57,628**
depreciation for the period	1,941	18,064	957	1,971	32,610	2	2,083	-	**57,628**
Decreases, including:	(666)	(20,178)	(16)	(1,331)	(16,544)	-	(190)	-	**(38,925)**
retired and sold	(666)	(20,178)	(16)	(1,331)	(16,544)	-	(190)	-	**(38,925)**
Accumulated depreciation as at 31-Dec-2024	**55,055**	**180,131**	**1,912**	**23,939**	**106,280**	**14**	**3,225**	**-**	**370,556**
Impairment losses as at 01-Jan-2024	1,395	38	-	-	2,817	-	-	-	**4,250**
Increases	-	-	-	-	76	-	-	-	**76**
Decreases	(75)	(9)	-	-	(1,360)	-	-	-	**(1,444)**
Impairment losses as at 31-Dec-2024	**1,320**	**29**	**-**	**-**	**1,533**	**-**	**-**	**-**	**2,882**
Net value as at 01-Jan-2024	13,513	50,949	1,939	5,201	75,021	180	2,892	-	**149,695**
Net value as at 31-Dec-2024	**11,756**	**50,333**	**1,035**	**4,012**	**63,003**	**178**	**5,479**	**5**	**135,801**

	Land and buildings	Machinery and equipment	Vehicles	Other fixed assets	Right-of-use assets			Fixed assets under construction	Total
					Lease of space	Land	Vehicles		
	PLN ‘000	PLN ‘000	PLN ‘000	PLN ‘000	PLN ‘000	PLN ‘000	PLN ‘000	PLN ‘000	PLN ‘000
Gross value as at 05-Sep-2022	**77,208**	**238,981**	**4,394**	**29,145**	**254,559**	**192**	**3,045**	**4**	**607,528**
Increases, including:	224	28,076	1,436	1,282	31,278	-	3,989	211	**66,496**
purchased	57	28,076	-	1,238	10,916	-	3,904	211	**44,402**
reclassified from fixed assets under construction	167	-	-	44	-	-	-	-	**211**
other increases	-	-	1,436	-	20,362	-	85	-	**21,883**
Decreases, including:	(8,744)	(33,825)	(2,920)	(1,927)	(117,785)	-	(2,810)	(215)	**(168,226)**
retired and sold	(8,744)	(33,825)	(2,399)	(1,927)	(59,358)	-	(2,601)	(4)	**(108,858)**
reclassified from fixed assets under construction	-	-	-	-	-	-	-	(211)	**(211)**
other decreases	-	-	(521)	-	(58,427)	-	(209)	-	**(59,157)**
Gross value as at 31-Dec-2023	**68,688**	**233,232**	**2,910**	**28,500**	**168,052**	**192**	**4,224**	**-**	**505,798**
Accumulated depreciation as at 05-Sep-2022	**57,443**	**190,707**	**1,161**	**22,182**	**120,459**	**9**	**1,928**	**-**	**393,889**
Increases, including:	4,564	25,143	1,424	2,987	46,736	3	1,805	**-**	**82,662**
depreciation for the period	4,564	25,143	1,424	2,987	46,736	3	1,805	-	**82,662**
Decreases, including:	(8,227)	(33,605)	(1,614)	(1,870)	(76,981)	-	(2,401)	-	**(124,698)**
retired and sold	(8,227)	(33,605)	(1,314)	(1,870)	(56,026)	-	(2,401)	-	**(103,443)**
other decreases	-	-	(300)	-	(20,955)	-	-	-	**(21,255)**
Accumulated depreciation as at 31-Dec-2023	**53,780**	**182,245**	**971**	**23,299**	**90,214**	**12**	**1,332**	-	**351,853**
Impairment losses as at 05-Sep-2022	**1,784**	**74**	**-**	**-**	**5,167**	**-**	**-**	**-**	**7,025**
Increases	**-**	**-**	-	-	112	-	-	-	**112**
Decreases	(389)	(36)	**-**	**-**	(2,462)	**-**	**-**	**-**	**(2,887)**
Impairment losses as at 31-Dec-2023	**1,395**	**38**	-	**-**	**2,817**			-	**4,250**
Net value as at 05-Sep-2022	**17,981**	**48,200**	**3,233**	**6,963**	**128,933**	**183**	**1,117**	**4**	**206,614**
Net value as at 31-Dec-2023	**13,513**	**50,949**	**1,939**	**5,201**	**75,021**	**180**	**2,892**	**-**	**149,695**

20. Foreclosure assets

Accounting principles

Foreclosure assets comprise undeveloped and developed land as well as premises constituting separate ownership, acquired or taken over by the Bank in exchange for partial or total reduction of loan receivables and held by the Bank to earn rentals or for capital appreciation. There are no limitations on the realizability of the related benefits or the transfer of income and gains on that basis.

Foreclosure assets are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price less the costs necessary to make the sale.

Financial information

Foreclosure assets	31-Dec-2024 PLN ‘000	31-Dec-2023 PLN ‘000
Real property, including:		
residential buildings and premises	18,340	24,930
other buildings and premises	6,548	10,373
agricultural plots	17,263	20,341
plots	4,267	6,457
Total foreclosure assets	**46,418**	**62,101**

Change in foreclosure assets in the reporting period	01-Jan-2024 – 31-Dec-2024 PLN ‘000	05-Sep-2022 – 31-Dec-2023 PLN ‘000
Foreclosure assets at the beginning of the period	**62,101**	**105,057**
Increases, including:	587	822
real property from foreclosures	584	822
other increases	3	-
Decreases, including:	(12,507)	(15,970)
sale of real property	(7,390)	(12,184)
reclassification to assets held for sale	(5,117)	(3,786)
Net gains/(losses) on adjustments to fair value measurement	(3,763)	(27,808)
Foreclosure assets at the end of the period	**46,418**	**62,101**

21. Leases

Accounting principles

The Bank recognizes a right-of-use asset together with a corresponding lease liability at the amount of discounted future payments over the lease term – as an item of “*Property, plant and equipment*” and “*Other liabilities*”, respectively. In the income statement, the Bank recognizes the costs of depreciation of the right-of-use asset under the lease (within “*Operating expenses*”) and interest expense on the lease liability (within “*Interest expense*”). The measurement of the lease liability is periodically offset against the lease payments. Right-of-use assets are depreciated on a straight-line basis, while liabilities under lease contracts are accounted for using the effective interest rate.

Lease liabilities arising from leases of real property denominated in foreign currencies are measured at each balance sheet date, and revaluation gains or losses are recognized in profit or loss.

The Bank has applied the practical expedient envisaged by the standard for short-term leases and leases of low-value assets. For such contracts, the Bank recognizes the lease payments as an expense on a straight-line basis over the lease term.

As an intermediate lessor, the Bank subleases part of its leased space to other parties (sublease).

Accordingly, the Bank recognized lease receivables with a corresponding entry in the lease liabilities for the portion corresponding to the concluded sublease contracts. Lease receivables are measured by the Bank at the amount of future payments over the lease term, discounted using the discount rate used for the head lease. The measurement of lease receivables is periodically offset against lease payments from sub-lessees. Interest income on sublease receivables is presented in the income statement as "*Interest income*".

Financial information

Leases – recognition on the balance sheet	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Property, plant and equipment	68,660	78,093
Other liabilities	78,463	92,786
Other receivables	447	1,807

Leases – recognition in the income statement	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000
Depreciation of leased assets	(34,695)	(48,550)
Interest expense on lease liabilities	(3,047)	(8,798)
Cost of short-term leases	(92)	(242)
Cost of leases of low-value assets	(40)	(49)
Foreign exchange gain or loss	993	10,091
Total amount recognized in the income statement	**(36,881)**	**(47,548)**

Operating leases – the Bank as a lessor

The Bank earns income from lease of buildings as well as commercial and residential premises in the real properties it holds. These contracts are treated as operating leases. These contracts do not provide for any contingent payments to be made by the lessee and there are no limitations imposed by the leases. The contracts are concluded mainly for a definite period of 2–5 years, with the extension option.

Foreclosure assets leased under operating leases – income and costs	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000
Income from rentals/ recharged costs associated with foreclosure assets	12	24
Direct costs not to be recharged to the lessee	49	19

Foreclosure assets leased under operating leases	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Foreclosure assets leased under operating leases	1,470	1,470
Fair value where the cost model is selected	-	1,181

Lease and sublease income and costs	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000
Income from rentals/ recharged costs associated with leased and subleased space	27	29
Direct costs to be recharged to the lessee	6	7

22. Non-current assets held for sale

Accounting principles

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. The above condition may be met if and only if an asset is available for immediate sale in its present condition, and its sale is highly probable. Classification of an asset as held for sale means that the Bank's management intends to complete the sale within one year of the classification date.

Non-current assets held for sale are recognized at the lower of their carrying amount as at the classification date and fair value less costs to sell. Assets included in this category are not depreciated.

If the criteria for classification to the group of non-current assets held for sale are not met, the Bank ceases to recognize the assets as held for sale and reclassifies them to the appropriate category of assets. In this case, the asset is measured at the lower of:

- its carrying amount as at the date immediately preceding its classification as held for sale, adjusted for depreciation or revaluation which would have been recognized had the asset not been classified as held for sale;
- its recoverable amount as at the date of the decision not to sell the asset.

Financial information

Non-current assets held for sale	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Real property, including:		
residential buildings and premises	129	311
vehicles	-	7
Total non-current assets held for sale	**129**	**318**

	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000
Non-current assets held for sale at the beginning of the period	**318**	-
Increases, including:	5,132	3,793
acquired	15	-
reclassified from property, plant and equipment	-	7
reclassified from foreclosure assets	5,117	3,786
Decreases, including:	(5,321)	(3,475)
sold and retired	(5,253)	(3,475)
fair value measurement adjustment	(68)	-
Non-current assets held for sale at the end of the period	**129**	**318**

23. Other assets

Accounting principles

Other receivables are recognized at the amount due less impairment losses. Where the effect of changes in the time value of money is material, the value of receivables is determined by discounting expected future cash flows to their present value, with the use of a gross discount rate reflecting the current market assessments of the time value of money. If the discounting method is applied, an increase in receivables over time is recognized in profit or loss.

Financial information

Other assets	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Sundry debtors	71,499	91,227
Deferred expenses	27,429	29,272
Payment card settlements	45,308	35,341
Other assets	3,103	4,671
Total other assets, gross	**147,339**	**160,511**
Impairment of other assets	(53,311)	(42,208)
Total other assets, net	**94,028**	**118,303**

	01-Jan-2024 – 31-Dec-2024	05-Sep-2022 – 31-Dec-2023
	PLN '000	PLN '000
Impairment losses on other assets at the beginning of the period	**42,208**	**37,815**
Increases recognized in profit or loss	13,980	35,813
Decreases recognized in profit or loss	(3,237)	(5,217)
Other decreases	360	(26,203)
Impairment losses on other assets at the end of the period	**53,311**	**42,208**

24. Amounts due to banks and other financial institutions

Amounts due to banks and financial institutions	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Current accounts	99,092	103,568
Cash collateral	1,973	1,016
Loans received	-	17,257
Other liabilities	2,952	1,562
Total amounts due to banks and financial institutions	**104,017**	**123,403**

	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Floating-rate liabilities	104,017	123,403

	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Current liabilities	104,017	106,146
Term liabilities, maturing:	-	17,257
from 1 to 5 years	-	17,257
Total amounts due to banks and financial institutions	**104,017**	**123,403**

25. Amounts due to clients

Amounts due to clients	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Amounts due to business clients	**2,248,324**	**2,141,227**
current accounts and O/N deposits	1,288,044	1,156,735
term deposits	960,280	984,492
Amounts due to state budget entities	**2,044,387**	**2,031,130**
current accounts and O/N deposits	1,986,738	1,560,288
term deposits	57,649	470,842
Amounts due to individuals	**47,143,664**	**42,564,034**
current accounts and O/N deposits	28,912,623	25,061,030
term deposits	18,231,041	17,503,004
Total amounts due to clients	**51,436,375**	**46,736,391**

	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Floating-rate liabilities	15,924,456	13,670,141
Fixed-rate liabilities	35,511,919	33,066,250
Total amounts due to clients	**51,436,375**	**46,736,391**

Liabilities by term to maturity as of the balance sheet date	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Current accounts and O/N deposits	32,187,405	22,778,053
Term liabilities, maturing:	**19,248,970**	**18,958,338**
within 1 month	4,072,437	5,680,188
from 1 to 3 months	7,149,235	8,778,027
from 3 to 6 months	5,390,148	2,504,427
from over 6 months to 1 year	2,050,026	1,335,141
from 1 to 5 years	586,370	632,083
over 5 years	754	28,472
Total	**51,436,375**	**46,736,391**

26. Other liabilities

Accounting principles

Other liabilities are recognized at the amount due. Where the effect of changes in the time value of money is material, the value of liabilities is determined by discounting expected future cash flows to their present value, with the use of a gross discount rate reflecting the current market assessments of the time value of money. If the discounting method is applied, an increase in liabilities over time is recognized in profit or loss. In the case of lease liabilities, they are measured at the amount of discounted future payments over the lease term and periodically offset against lease payments.

Financial information

Other liabilities	31-Dec-2024	31-Dec-2023
	PLN ‘000	PLN ‘000
Interbank settlements	33,194	145,352
Lease liabilities	78,463	92,786
Accounts payable to a financial institution	79,195	84,191
Amounts due to the state budget	47,902	45,194
Accruals	91,606	89,048
Settlements with counterparties	54,133	68,621
Deferred income	46,981	34,725
Liabilities on account of fees to be reimbursed	13,204	12,360
Payments under loan collateral	10,788	10,203
Provision for untaken holiday entitlement	10,067	8,961
Liabilities to the Bank Guarantee Fund	2,129	-
Foreign order settlements	2,613	5,516
Payment card settlements	3,354	7,492
Other liabilities	4,547	5,034
Total other liabilities	**478,176**	**609,483**

27. Provisions

Accounting principles

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the liability amount can be made.

Financial information

Provisions	31-Dec-2024	31-Dec-2023
	PLN ‘000	PLN ‘000
Commitments and guarantees given	27,610	13,186
Litigation	20,950	12,173
Reimbursement of credit costs	5,158	4,740
Retirement and disability severance pay	1,820	1,372
Provision for other claims	800	-
Risk of joint and several liability for VAT	32,856	32,856
Total provisions	**89,194**	**64,327**

Provision for commitments and guarantees given

Provisions for commitments and guarantees given which involve the risk that the client will default on the terms of the agreement are recognized in accordance with IFRS 9.

Provision for commitments and guarantees given	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000
Provisions at the beginning of the period	**13,186**	**4,947**
Recognition/remeasurement	33,184	33,746
Reversal	(18,761)	(25,505)
Other increases/(decreases)	1	(2)
Provisions at the end of the period	**27,610**	**13,186**

Change in provisions for commitments and guarantees given	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total
As at 01-Jan-2024	**10,625**	**2,284**	**277**	**13,186**
Change in the period, including:	9,601	4,649	174	**14,424**
transfer to Stage 1	70	(71)	1	**-**
transfer to Stage 2	5,002	(5,010)	8	**-**
transfer to Stage 3	(5)	(74)	79	**-**
changes in measurement of loss allowance	4,534	9,804	86	**14,424**
Provision for commitments and guarantees given as at 31-Dec-2024	**20,226**	**6,933**	**451**	**27,610**

Change in provisions for commitments and guarantees given	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total
As at 05-Sep-2022	**2,781**	**2,166**	**-**	**4,947**
Change in the period, including:	7,844	118	277	**8,239**
transfer to Stage 1	115	(115)	-	**-**
transfer to Stage 2	896	(896)	-	**-**
transfer to Stage 3	(7)	(245)	252	**-**
changes in measurement of loss allowance	6,835	1,380	25	**8,240**
other	5	(6)	-	**(1)**
Provision for commitments and guarantees given as at 31-Dec-2023	**10,625**	**2,284**	**277**	**13,186**

The provision for commitments and guarantees given – by stages – is presented below:

31-Dec-2024	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Provisions for financial commitments and guarantees given	20,226	6,933	451	**27,610**

31-Dec-2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Provisions for financial commitments and guarantees given	10,625	2,284	277	**13,186**

Provision for litigation

Free credit sanction

As at December 31, 2024, 563 proceedings were pending with the total amount of claim of PLN 22.3 regarding the free credit sanction within the meaning of Article 45 of the Consumer Credit Act dated May 12, 2011, where the claimants seek reimbursement of interest and other costs incurred in connection with the conclusion of the loan agreement.

By December 31, 2024, 58 cases had been closed with final rulings, 42 of which were favorable and 4 unfavorable to the Bank. In addition, 12 proceedings were discontinued.

The Bank consistently questions the legitimacy of the above-mentioned claims and engages in court disputes. For the most part, the case law to date has been favorable to the Bank.

On February 13, 2025, the Court of Justice of the European Union (“CJEU”) issued a judgment in case C-472/23 regarding the application of the free credit sanction. The CJEU has left a wide margin of discretion to national courts hearing individual cases. The Bank analyzes the impact of the above ruling on the proceedings it is a party to thoroughly and adapts the legal argumentation on an ongoing basis as appropriate

Provision for litigation	01-Jan-2024 – 31-Dec-2024 PLN ‘000	05-Sep-2022 – 31-Dec-2023 PLN ‘000
Provisions at the beginning of the period	**12,173**	**3,232**
Recognition/remeasurement	16,801	11,983
Use	(5,250)	(1,371)
Reversal	(2,774)	(1,671)
Provisions at the end of the period	**20,950**	**12,173**

Provision for expected reimbursement of a portion of fees charged on early repayment of consumer loans

On September 11, 2019, the CJEU, in response to a question referred by a Polish court for a preliminary ruling as regards interpretation of Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of April 23, 2008 on credit agreements for consumers, issued a ruling in case C 383/18, noting that the right of the consumer to a reduction in the total cost of the credit in the event of early repayment of the credit includes all the costs imposed on the consumer. This applies to consumer loans granted as of December 18, 2011 in the amount of no more than PLN 255 thousand and mortgage loans granted as of July 22, 2017 without a limitation on the loan amount, which are repaid before the contractual maturity.

When assessing the legal risk resulting from court actions, the Bank recognizes provisions for litigation in accordance with the requirements of IAS 37 “*Provisions, Contingent Liabilities and Contingent Assets*”. As at December 31, 2024, the Bank was a respondent in 135 cases concerning reimbursement of a portion of fees for granting consumer loans, for which provisions were recognized in the total amount of PLN 1,233.8 thousand within “*Provision for litigation”*. In addition, the Bank estimated the provision based on a time series of the amounts of fees reimbursed for loans prepaid before the issue of the CJEU judgment in the respective periods after the judgment was issued. As at December 31, 2024, the balance of such provisions was PLN 5.2 million.

Provision for reimbursement of credit costs	01-Jan-2024 – 31-Dec-2024 PLN ‘000	05-Sep-2022 – 31-Dec-2023 PLN ‘000
Provisions at the beginning of the period	**4,740**	**5,741**
Recognition/remeasurement	3,820	5,480

Use	(3,402)	(4,609)
Other increases/(decreases)	-	(1,872)
Provisions at the end of the period	**5,158**	**4,740**

Provision for retirement and disability severance pay

The provision for employee benefits includes retirement and disability severance pay and is recognized individually for each employee on the basis of an actuarial valuation performed by an independent actuary. The calculation basis is the expected amount of the retirement and disability severance pay that the Bank is obliged to make pursuant to the remuneration regulations. The value of the provisions so determined is equal to the amount of discounted future payments, taking into account employee turnover, and relates to the period until the reporting date. Changes in liabilities due to future employee benefits are presented below:

Provision for retirement and disability severance pay	01-Jan-2023 – 31-Dec-2023	05-Sep-2022 – 31-Dec-2023
	PLN '000	PLN '000
Provisions at the beginning of the period	**1,372**	**1,055**
Recognition/remeasurement	372	287
Use	(83)	(192)
Other increases/(decreases)	159	222
Provisions at the end of the period	**1,820**	**1,372**

	01-Jan-2024 – 31-Dec-2024	05-Sep-2022 – 31-Dec-2023
	PLN '000	PLN '000
Present value of the liability at the beginning of the period	**1,372**	**1,055**
Costs recognized in profit or loss, including:	372	186
current service cost	303	128
interest expense	69	58
(Gains)/losses recognized in other comprehensive income, including:	159	222
Actuarial (gains)/losses arising from ex-post adjustments to assumptions	(53)	60
Actuarial (gains)/losses arising from changes in demographic assumptions	195	107
Actuarial (gains)/losses arising from changes in financial assumptions	17	55
Benefits paid	(83)	(91)
Present value of the liability at the end of the period	**1,820**	**1,372**
Carrying amount of current liabilities	323	234
Carrying amount of non-current liabilities	1,497	1,138

A discount rate of 5.79% was used in the calculation. It corresponds to market rates of return on long-term Treasury bonds as at the valuation date. The effect of an increase/decrease in the discount rate on the change in the provision for retirement and disability severance pay is presented in the table below:

	31-Dec-2024		31-Dec-2023	
	+0.25 p.p.	-0.25 p.p.	+0.25 p.p.	-0.25 p.p.
Provision for retirement and disability severance pay	1,786	1,854	1,350	1,397

Provision for the risk of joint and several liability for VAT

The provision for the risk of joint and several liability for VAT to the taxation authorities relates to receivables purchased from leasing companies without the application of the split payment mechanism, transferred in November 2023 by decision of the Bank Guarantee Fund to Podmiot Zarządzający Aktywami S.A.

Until the transfer of these receivables, the Bank included the risk associated with partial financing of VAT in the calculation of expected credit losses.

Provision for the risk of joint and several liability for VAT	01-Jan-2024 – 31-Dec-2024	05-Sep-2022 – 31-Dec-2023
	PLN '000	PLN '000
Provisions at the beginning of the period	**32,856**	**-**
Recognition	-	32,856
Provisions at the end of the period	**32,856**	**32,856**

28. Equity

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 court register.

Other components of equity

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.

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.

Reserve capital

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

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.

	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
Share capital	711,734	25,000
Supplementary capital	671,415	674,862
Revaluation reserve, including:	99,766	(30,944)
measurement of financial instruments at fair value through other comprehensive income	(295)	(1,365)
measurement of cash flow hedges	100,370	(29,537)
actuarial gains/(losses)	(309)	(222)

Other components of equity, including	359,278	(12,595)
retained earnings/(losses)	(13,061)	(12,595)
other reserves	372,339	-
Net profit	396,008	372,339
Total equity	**2,238,201**	**1,028,662**

As at December 31, 2024, the Bank's share capital totaled PLN 711,734,000.00 and was divided into 100,000 ordinary registered A series shares with a nominal value of PLN 250.00 each as well as 2,746,936 ordinary registered B series shares with a nominal value of PLN 250,00 each. All the shares were taken up by Promontoria Holding 418 B.V. and fully covered by a cash contribution.

Changes in revaluation reserve relating to financial instruments measured at fair value through other comprehensive income	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000
Balance at the beginning of the period	**(1,365)**	**-**
Increase/(decrease) due to revaluation	(58,953)	(103,054)
Accumulated (gain)/loss reclassified to profit or loss on sale/redemption	60,023	101,689
Balance at the end of the period	**(295)**	**(1,365)**

29. Dividends paid and declared

The Bank neither paid nor declared any dividend in the reporting period.

30. Issue, redemption and repurchase of securities

In the period of 15 months ended December 31, 2023, the Bank did not issue any bonds.

31. Contingent lending and guarantee commitments

Accounting principles

The Bank has lending commitments. These commitments comprise approved but not fully activated loans, undrawn credit card limits and overdraft facilities. The Bank issues guarantees and letters of credit that secure its clients' fulfilment of their obligations to third parties. The Bank charges fees for the contingent commitments given, settled depending on the nature of a given instrument.

Provisions are recognized in accordance with IFRS 9 for off-balance sheet commitments that involve the risk that the client will default on the terms of the agreement.

Financial information

Financial commitments and guarantees given	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Financial commitments given	**2,095,212**	**1,290,795**
to financial entities	117,294	120,371
to non-financial entities	1,926,746	1,134,713
to the state budget	51,172	35,711
Guarantee commitments given	**66,674**	**41,228**
to financial entities	8,238	-
to non-financial entities	56,763	38,162
to the state budget	1,673	3,066
Total contingent commitments given	**2,161,886**	**1,332,023**

31-Dec-2024	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Financial commitments and guarantees given	1,992,699	137,023	32,164	**2,161,886**

31-Dec-2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Financial commitments and guarantees given	1,179,371	136,116	16,536	**1,332,023**

Contingent commitments received	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Guarantee commitments	20,349,625	16,768,940

32. Additional information to the statement of cash flows

Cash and cash equivalents

The Bank recognizes the following as cash and cash equivalents: cash and current account balances with the Central Bank as well as current accounts and overnight deposits with other banks.

Financial information

Cash and cash equivalents	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Cash and balances with the Central Bank	2,089,504	607,620
Current receivables from banks, including O/N deposits	15,985	20,904
Total cash and cash equivalents	**2,105,489**	**628,524**

Explanation of differences between changes in assets and liabilities on the balance sheet and those presented in the statement of cash flows

2024	Balance sheet change PLN '000	Statement of cash flows PLN '000	Difference PLN '000	
Change in amounts due from banks and financial institutions	(181,083)	(186,002)	4,919	1)
Change in derivative financial instruments (asset)	(101,785)	4,459	(106,244)	2)
Change in financial instruments measured at fair value through other comprehensive income	5,614,463	5,615,533	(1,070)	3)
Change in other assets	24,275	54,902	(30,627)	4)
Change in amounts due to banks and financial institutions	(19,386)	(2,143)	(17,243)	5)
Change in derivative financial instruments (liability)	109,969	133,452	(23,483)	6)
Change in provisions	24,867	24,780	87	7)

1) "*Change in amounts due from banks and financial institutions*" – the change in the balance of some amounts due that constitute cash equivalents (current accounts and O/N deposits in other banks) has been excluded and presented within the "*Net increase/(decrease) in cash*" line item;
2) "*Change in derivative financial instruments (asset)*" does not include the measurement of cash flow hedges recognized in revaluation reserve;
3) "*Change in financial instruments measured at fair value through other comprehensive income*" – the change in fair value measurement recognized in revaluation reserve has been excluded;
4) "*Change in other assets*" – changes presented within investing and financing activities have been excluded;
5) "*Change in amounts due to banks and financial institutions"* – the change due to repaid loans presented within financing activities has been excluded;
6) "*Change in derivative financial instruments (liability)*" – does not include the valuation of collateral;
7) "*Change in provisions*" does not include actuarial gains/losses recognized in revaluation reserve.

33. Fair value of assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For many financial instruments, the market values are unavailable, hence the fair values are estimated with the use of a range of valuation techniques. The fair value of financial assets and financial liabilities was measured using a model based on the estimates of the present value of future cash flows by discounting them using market rates of interest.
For some groups of financial assets and financial liabilities, it was assumed that their carrying amounts approximate their fair values, which is due to a lack of expected material differences between their carrying amounts and fair values resulting from the characteristics of these groups.

33.1. Financial assets and financial liabilities which are not presented at fair value in the statement of financial position

The key methods and assumptions used in estimating the fair values of financial assets and financial liabilities that are not presented at fair value in the statement of financial position are as follows:

Cash and balances with the Central Bank

The carrying amounts are assumed to approximate the fair values due to the short-term nature of these assets.

Amounts due from banks and financial institutions

Amounts due from banks include mainly deposits made on the interbank market and derivative hedges. Fixed-rate deposits made on the interbank market are short-term deposits. For this reason, it is assumed that the fair values of amounts due from banks approximate their carrying amounts.

Loans and advances to clients measured at amortized cost

The fair value was calculated for loans with a fixed repayment schedule. For agreements where such payments have not been defined (e.g. overdraft facilities), the fair value is assumed to be equal to the carrying amount. A similar assumption was made for past due payments and impaired agreements.

In order to calculate the fair value, on the basis of information recorded in transaction systems, the timing of principal and interest flows is identified for each agreement, grouped by the interest rate type, activation date, product type and currency of the agreement. The cash flows so determined were discounted using rates reflecting current margins for a particular product type.

Other financial instruments measured at amortized cost

The measurement of debt securities (excluding Treasury bonds and bonds guaranteed by the State Treasury) in the portfolio of instruments measured at amortized cost is based on the discounted cash flow model, with the discount rate for unrealized cash flows based on the market discount rate determined by the zero-coupon curve plus the risk margin specific to the particular security.

Depending on the security type and issuer, the margin is calculated as:

- the average margin on loans granted to local government entities recently in the case of municipal bonds;
- the margin of the issue, for securities issued over the past six months, if the issuer is not related to the Bank;
- the adjusted margin on a different security of the issuer;
- the adjusted margin on the security or securities for an issuer (group of issuers) of similar characteristics as the issuer whose security is being measured.

The fair value of securities measured in accordance with the model described above (using margins ranging from 0.5% to 2.8%) is PLN 37,963 thousand. In the case of one-sided shift in the risk margins on securities by 25 basis points, the fair value increases by PLN 183 thousand for a decrease in margins, and decreases by PLN 182 thousand for an increase in margins.

Amounts due to banks and financial institutions

It is assumed that the fair value of deposits from other banks and floating-rate loans obtained on the interbank market approximates their carrying amount.

Amounts due to clients

The fair value was calculated for fixed-rate deposits with specified maturity. The fair value of current deposits is assumed to be equal to their carrying amount. In order to calculate the fair value on the basis of data from transaction systems, future principal and interest flows are determined, grouped by currency, original deposit term, product type and cash flow date. The cash flows so determined are discounted using an interest rate constructed as the sum of the market rate from the yield curve for a given currency and the deposit maturity date as well as the margin earned on deposits placed in the last month of the settlement period. The margin is calculated by comparing the interest rate on deposits placed during the past month with a market rate of interest. The discounting period is defined as the difference between the deposit maturity date (with the accuracy of one calendar month) and the presentation date of the financial statements. The discounted value so determined is compared with the carrying amount, resulting in a difference between the carrying amount and the fair value for the contract portfolio used in the calculation.

Due to the fact that for most financial assets and financial liabilities measured at amortized cost (other than those described in detail above) using the effective interest rate, the period of the next revaluation does not exceed 3 months, the carrying amount of these items does not differ significantly from their fair value.

A summary of the carrying amounts and fair values of financial assets and financial liabilities is presented below:

	31-Dec-2024		31-Dec-2023	
	Carrying amount PLN ‘000	Fair value PLN ‘000	Carrying amount PLN ‘000	Fair value PLN ‘000
ASSETS:				
Cash and balances with the Central Bank	2,089,504	2,089,504	607,620	607,620
Amounts due from banks and financial institutions	775,014	775,014	593,931	593,931
Loans and advances to clients measured at amortized cost	13,908,020	13,908,064	13,170,032	13,050,716
Financial assets measured at amortized cost	33,597,036	33,556,268	24,677,219	24,985,609
LIABILITIES:				
Amounts due to banks and financial institutions	104,017	104,017	123,403	123,403
Amounts due to clients	51,436,375	51,792,539	46,736,391	46,872,960

The fair values of financial assets and financial liabilities meet the conditions for classification to Level 3.

33.2. Financial assets and financial liabilities measured at fair value in the statement of financial position

The Bank classifies individual financial assets and financial liabilities measured and presented in the financial statements at fair value using the following hierarchy:

Level 1

Financial assets and financial liabilities measured on the basis of quoted prices from active markets for identical instruments. This category includes debt and equity instruments held to collect contractual cash flows or held to be sold, measured at fair value through other comprehensive income or through profit or loss, for which an active market exists.

Level 2

Financial assets and financial liabilities measured using valuation techniques based on quoted market prices that are directly observable or other information based on quoted market prices. This category includes NBP money bills measured based on the reference curve and derivatives.

Level 3

Financial assets and financial liabilities measured using valuation techniques based on quoted market prices which are not directly observable. This category includes shares and interests which are not traded on a regulated market and financial assets whose fair value is determined using internal valuation models.

The table below shows the carrying amounts of financial instruments measured at fair value, broken down into the 3 hierarchy levels:

31-Dec-2024	Level 1 PLN '000	Level 2 PLN '000	Level 3 PLN '000	Total PLN '000
ASSETS				
Financial assets measured at fair value through profit or loss	20,737	-	2,903	**23,640**
Derivative financial instruments	-	108,003	-	**108,003**
Loans and advances measured at fair value through profit or loss	-	-	92,130	**92,130**
Financial instruments measured at fair value through other comprehensive income	-	3,298,419	1,695	**3,300,114**
LIABILITIES				
Derivative financial instruments	-	148,361	-	**148,361**

31-Dec-2023	Level 1 PLN '000	Level 2 PLN '000	Level 3 PLN '000	Total PLN '000
ASSETS				
Financial assets measured at fair value through profit or loss	13,933	-	4,586	**18,519**
Derivative financial instruments	-	6,218	-	**6,218**
Loans and advances measured at fair value through profit or loss	-	-	45,708	**45,708**
Financial instruments measured at fair value through other comprehensive income	-	8,912,987	1,590	**8,914,577**
LIABILITIES				
Derivative financial instruments	-	38,392	-	**38,392**

In the period of 12 months ended December 31, 2024, there were no transfers between Level 1 and Level 2 of the fair value hierarchy, and no instruments were transferred from Level 1 or from Level 2 to Level 3 of the fair value hierarchy.

Financial instruments measured at fair value on a recurring basis are transferred between the different levels of the fair value hierarchy in the following situations:

- transfer from Level 1 to Level 2 – if no quoted prices from active markets are available for identical instruments at the balance sheet date;
- transfer from Level 2 to Level 3 – if the non-market element taken into account in the valuation techniques used has become material at the balance sheet date.

The valuation techniques and inputs for fair value measurements of financial assets and financial liabilities classified to Levels 2 and 3 of the fair value hierarchy are as follows:

Derivatives

Derivatives of a linear nature are measured based on the discounted cash flow model, using discount and projection curves generated on the basis of market quotes for financial instruments. Discount curves are constructed according to the discounting concept based on the cost of the hedge, using OIS rates, quotes for SWAP points, FRA, IRS, tenor basis swap and CCBS points. Additionally, for purposes of instruments based on a floating interest rate, a projection curve is constructed, based on FRA and IRS quotes as well as relevant benchmark indices.

NBP money bills

They are measured on the basis of a benchmark curve constructed on the basis of short-term interbank deposits.

Shares and interests in unlisted companies

Shares and interests in companies for which no quotes are available on the capital market are measured at fair value using various valuation techniques, selected depending on, among others, the specific nature of a particular market segment or the availability of observable inputs. The key methods used by the Bank include: methods of valuation based on net assets, income-based methods and comparative methods. An exposure may be measured using a combination of two or more techniques. Valuations of selected equity exposures may be prepared by third parties specializing in this type of services.

Loans measured at fair value through profit or loss

The fair value of performing exposures represents the difference between discounted income and discounted costs until the maturity of the exposure. Costs include, among others, the cost to hold capital, the cost to finance liabilities and the expected credit loss on the exposure. For exposures in default, the market value corresponds to the net carrying amount of the exposure (i.e. the gross exposure value less the allowance determined in accordance with IFRS 9) multiplied by a scaling factor that adjusts the net exposure value to the expected selling price of the portfolio.

Change in financial assets/financial liabilities classified as Level 3:

01-Jan-2024 – 31-Dec-2024	Loans and advances to clients measured at fair value through profit or loss PLN '000	Financial assets measured at fair value through profit or loss PLN '000	Other financial instruments PLN '000
Balance at the beginning of the period	**45,708**	**4,586**	**1,590**
Gains or losses, including:	(2,039)	718	105
recognized in profit or loss	(2,039)	718	-
recognized in other comprehensive income	-	-	105
Change: sale/redemption/acquisition/origination/settlement	48,461	(2,401)	-
Balance at the end of the period	**92,130**	**2,903**	**1,695**

05-Sep-2022 – 31-Dec-2023	Loans and advances to clients measured at fair value through profit or loss PLN '000	Financial assets measured at fair value through profit or loss PLN '000	Other financial instruments PLN '000
Balance at the beginning of the period	**129,518**	**3,746**	**1,531**
Gains or losses, including:	3,806	840	59
recognized in profit or loss	3,806	840	-
recognized in other comprehensive income	-	-	59
Change: sale/redemption/acquisition/origination/settlement	(87,616)	-	-
Balance at the end of the period	**45,708**	**4,586**	**1,590**

34. Information on operating segments

The Bank's business is focused on the following main products/services:

- mortgage – real estate market financing;
- car – car purchase financing;
- retail – services relating to deposit and investment products for retail clients as well as financing clients' consumption needs through retail loans (mainly cash loans and credit cards);
- corporate – services to businesses and state budget entities.

Management reporting includes the presentation of selected elements of the income statement and balance sheet items broken down by the main product groups. The classification of individual types of income, costs and balance sheet items to a specific group is based on the following criteria:

- for credit products – the purpose of loans and advances granted and the borrower type;
- for deposit products – the borrower type, taking into account the classification of funds obtained from individuals through financial entities under framework agreements, for management reporting purposes.

Selected items of the income statement for the period 01-Jan-2024 – 31-Dec-2024	Retail banking *in PLN '000*	Business banking *in PLN '000*	Treasury *in PLN '000*	01-Jan-2024 – 31-Dec-2024 *in PLN '000*
Net interest income – external	(856,512)	65,479	2,340,695	1,549,662
Internal transfer prices (FTP)	1,888,203	121,915	(2,010,118)	-
Net interest income	**1,031,691**	**187,394**	**330,577**	**1,549,662**
Net fee and commission income	**(41,693)**	**22,509**	**(2,060)**	**(21,244)**
Net other operating income and expense	**-**	**-**	**-**	**(9,690)**
Dividends, Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income, Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss	-	-	-	19,625
Operating expenses	(660,752)	(170,247)	(12,661)	(843,660)
Net impairment losses on financial assets and provisions for off-balance sheet liabilities	(84,726)	(78,095)	(855)	(163,676)
Operating profit/(loss)	**-**	**-**	**-**	**531,002**
Tax on financial institutions	-	-	-	(30,447)
Profit/(loss) before tax	**-**	**-**	**-**	**500,555**
Income tax	-	-	-	(104,547)
Net profit/(loss)	**-**	**-**	**-**	**396,008**
Assets	11,427,636	2,572,514	39,893,311	54,626,477
Liabilities	47,143,664	4,292,711	252,378	52,388,276

Selected items of the income statement for the period 01-Jan-2023 – 31-Dec-2023 (in PLN '000)	Retail banking	Business banking	Treasury	01-Jan-2023 – 31-Dec-2023
Net interest income – external	(639,569)	588,194	1,633,843	1,582,468
Internal transfer prices (FTP)	1,662,699	(281,119)	(1,381,580)	-
Net interest income	**1,023,130**	**307,075**	**252,263**	**1,582,468**
Net fee and commission income	**12,100**	**22,949**	**(1,471)**	**33,578**
Net other operating income and expense	**-**	**-**	**-**	**(81,465)**
Dividends, Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income, Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss	-	-	-	(116,937)
Operating expenses	(538,054)	(220,319)	(12,634)	(771,007)
Net impairment losses on financial assets and provisions for off-balance sheet liabilities	(56,449)	(257,978)	(260)	(314,687)
Operating profit/(loss)	**-**	**-**	**-**	**331,950**
Tax on financial institutions	-	-	-	-
Profit/(loss) before tax	**-**	**-**	**-**	**331,950**
Income tax	-	-	-	(55,704)
Net profit/(loss)	**-**	**-**	**-**	**276,246**
Assets	10,865,644	2350096	34,818,084	48,658,664
Liabilities	42,564,034	4,172,357	161,795	47,630,002

35. The Social Benefits Fund

The Act on the Social Benefits Fund dated March 4, 1994, as amended, provides that each employer with 50 or more full-time employees as at January 1 of a given year is obliged to create a social benefits fund. The fund's assets are used to finance welfare activities, employee loans and other social expenses. In 2023, pursuant to Article 4 of the Act on the Social Benefits Fund dated March 4, 1994 (Journal of Laws *Dz.U.* of 1996, No. 70, item 335, as amended), the Bank created the Social Benefits Fund and made appropriate contributions to it, in accordance with the rules laid down in the Remuneration Regulations.

Contributions to the fund in 2024 amounted to PLN 3,903 thousand.

Contributions to the fund in 2023 amounted to PLN 2,556 thousand.

36. Related-party transactions

Related-party transactions concluded by VeloBank S.A.

01-Jan-2024 – 31-Dec-2024	Income statement			
	Interest and commission income PLN '000	Interest and commission expense PLN '000	Other purchases PLN '000	Other sales PLN '000
Subsidiaries	4,026	1,465	5,375	-
Members of the Management Board and the Supervisory Board of VeloBank S.A.	-	35	-	-

05-Sep-2022 – 31-Dec-2023	Income statement		
	Interest and commission income PLN '000	Interest and commission expense PLN '000	Other sales PLN '000
Subsidiaries	9	599	87
Members of the Management Board and the Supervisory Board of VeloBank S.A.	-	52	-

31-Dec-2024	Statement of financial position					Off-balance sheet items
	Assets – loans and purchased receivables PLN '000	Assets – financial instruments PLN '000	Assets – other receivables PLN '000	Liabilities and equity – deposits PLN '000	Created losses PLN '000	Financial commitments and guarantees given PLN '000
Subsidiaries	304,927	25,019	-	23,866	6,066	1,043
Members of the Management Board and the Supervisory Board of VeloBank S.A.	28	-	-	1,180	-	103

31-Dec-2023	Statement of financial position				Off-balance sheet items
	Assets – loans and purchased receivables PLN '000	Assets – financial instruments PLN '000	Assets – other receivables PLN '000	Liabilities and equity – deposits PLN '000	Financial commitments and guarantees given PLN '000
Subsidiaries	2	28	9	18,840	5
Members of the Management Board and the Supervisory Board of VeloBank S.A.	-	-	-	1,206	119

Remuneration of the key management personnel

	01-Jan-2024 – 31-Dec-2024 PLN '000	05-Sep-2022 – 31-Dec-2023 PLN '000
Key management personnel of VeloBank S.A. – number of persons*	71	62
Short-term employee benefits	31,621	32,554
Termination benefits	912	1,126
Total remuneration	**32,533**	**33,680**

**total number of all persons holding positions considered to be the key management personnel for all or part of the period covered by the financial statements*

Short-term employee benefits consist of fixed remuneration and other benefits representing the costs of salaries in the period from October 3, 2022 to December 31, 2023. No variable remuneration was awarded or paid in the reporting period. The amounts presented above do not include any social security charges on remuneration. The key management personnel include members of the Supervisory Board, members of the Management Board of the Bank and other staff holding positions which have a material impact on the Bank's risks.

Benefits to the Bank's management under the remuneration policy in respect of the variable remuneration component

Variable remuneration of the key management personnel is settled in a transparent manner ensuring effective implementation of the Remuneration Policy of VeloBank S.A. Members of the Bank's governing bodies are not paid any variable remuneration components. The rules for awarding and payment of variable remuneration to this group of staff, i.e. to persons holding positions with a material impact on the Bank's risk, are defined in detail in the Variable Remuneration Policy, which forms a part of the Remuneration Policy. In accordance with the policy, the amount of variable remuneration is determined on the basis of an assessment of a staff member's performance for a period of at least 3 years so that the amount of variable remuneration takes into account the business cycle of the Bank and the risk associated with its business operations. The Bank's performance used in determining variable remuneration components should include the Bank's cost of risk, cost of capital and liquidity risk in the long-term perspective. Staff performance is assessed by reference to financial and non-financial criteria, determined in the form of annual goals.

The amount of variable remuneration awarded and paid must reflect the financial condition of the Bank and an appropriate level of the Bank's cost of risk, cost of capital and liquidity risk in the long term, and may be subject to adjustments in this respect. Moreover, variable remuneration of the key management personnel is of a conditional nature. It is conditioned, among other things, by the absence of a significant deterioration of the Bank's situation as a result of activities falling within the scope of responsibilities of a given manager, exceeding the cost of risk, cost of capital and liquidity ratios exposing the Bank to significant losses.

Variable remuneration may not exceed 100% of the total annual fixed remuneration received at the Bank. The award and payment of 60% (or 40% where the amount of variable remuneration exceeds PLN 2,000,000) take place after the end of the settlement period and the announcement of the financial results, and the payment of the remainder, i.e. 40% or 60% of variable remuneration, respectively, is deferred for five years and divided into equal portions. Variable remuneration, both that awarded and paid in the year following the settlement period and that deferred, is divided in equal parts into cash and financial instruments.

37. Fees of the entity authorized to audit the financial statements

The following table presents the fees paid or due to PKF Consult Spółka z ograniczoną odpowiedzialnością Spółka komandytowa for the period ended December 31, 2024 and for the period ended December 31, 2023, by type of service in gross values:

	01-Jan-2024 – 31-Dec-2024 Bank PLN '000	05-Sep-2022 – 31-Dec-2023 Bank PLN '000
Statutory audit of the annual financial statements	776	831
Other assurance services, including a review of the financial statements	1 014	859
Total statutory auditor's fees	**1 790**	**1 690**

The presented fees for the audit of the financial statements may be increased by additional direct costs associated with the performance of the agreement up to 3% of its value and indexed for inflation.

38. Capital and liquidity ratios

Stand-alone capital ratio of VeloBank S.A.	31-Dec-2024 PLN '000	31-Dec-2023* PLN '000
TIER 1 CAPITAL		
Equity instruments eligible as Tier 1	711,734	25,000
Supplementary capital	671,415	674,862
Other reserves	372,339	-
Retained earnings	(13,061)	(12,595)
Current profit	262,566	372,339
Accumulated other comprehensive income/(losses)	(604)	(1,587)
Intangible assets	(171,481)	(112,059)
Prudent valuation adjustments and insufficient coverage for non-performing exposures	(10,307)	(14,496)
TOTAL OWN FUNDS	**1,822,601**	**931,464**
Own funds requirements		
Credit risk	784,140	703,700
Operational risk	218,818	215,450
Other risks	461	408
TOTAL CAPITAL REQUIREMENT	**1,003,419**	**919,558**
CAPITAL RATIOS		
Common Equity Tier 1 capital ratio	14.53%	8.10%
Tier 1 capital ratio	14.53%	8.10%
Total capital ratio	14.53%	8.10%

(*) 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.

Pursuant to Article 26(2) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council, VeloBank S.A. applied for and the Polish Financial Supervision Authority, by its decision dated December 18, 2024, approved the inclusion of the audited net profit for the period ended September 30, 2024 in the full amount of PLN 262,566 thousand in Common Equity Tier 1 capital.

The table below presents changes in the supervisory measures for VeloBank S.A. as at December 31, 2024 and December 31, 2023:

	Supervisory liquidity measures	Minimum value	31-Dec-2024	31-Dec-2023
LCR	Short-term liquidity measure	100%	751.44%	695.78%
NSFR	Stable funding measure	100%	281.85%	236.58%

As at December 31, 2024 and December 31, 2023, the leverage of VeloBank S.A. was as follows:

	31-Dec-2024	31-Dec-2023
Leverage	3.27%	1.89%
Total exposure measure (in PLN '000)	55.753.921	49,155,416

39. Tax on financial institutions

The Bank was not obliged to pay the tax on certain financial institutions (banking tax) for the period from January 2023 to July 2024.

The waiver of the obligation to pay the tax on certain financial institutions was introduced by the Regulation of the Minister of Finance dated January 27, 2023 with respect to the assets of domestic banks that are bridge institutions within the meaning of Article 2.26 of the Act on the Bank Guarantee Fund, Deposit Guarantee System and Special Resolution Regime, with the exception of bridge institutions established in accordance with Article 181.2 thereof.

The Bank made payments of the banking tax:

- for the period until December 2022 – due to the fact that the waiver of the obligation to pay the tax for bridge institutions was introduced effective from 2023;
- for the period from August 2024 – due to the fact that the Bank ceased to operate as a bridge institution effective from August 1, 2024.

40. Events subsequent to the end of the reporting period

After December 31, 2024, no events occurred which were not disclosed in these financial statements and which could have a material impact on the future financial performance of VeloBank S.A.

IV. RISK MANAGEMENT AT THE BANK

In its activities, the Bank is exposed 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 requirements, 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". 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.

As part of their activities, 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 define 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.

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, 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.

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 strategy and credit 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.

The typical forms of collateral required by the Bank are as follows:

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.

Reform of interest rate indices

Since 2022, work has been carried out in Poland by the National Taskforce on Benchmark Reform (Narodowa Grupa Robocza – NGR). NGR's task is to prepare the process of effective implementation of a new RFR on the Polish financial market.

In March 2024, the NGR Steering Committee, at the request of the Ministry of Finance, decided to conduct a review and analysis of alternative RFR rates that could replace WIBOR. The work took into account WIRON and other interest rate benchmarks that could be developed. Following the review and analysis and as a result of public consultations, a benchmark considered to be the most adequate to meet market expectations was selected.

On December 10, 2024, the NGR Steering Committee announced the selection of a benchmark with the technical name of "WIRF-" as the ultimate replacement for WIBOR. Thus, the NGR Steering Committee verified and modified its earlier decision to choose WIRON. On January 24, 2025, the NGR Steering Committee decided to choose the target name: POLSTR (Polish Short Term Rate) for the proposed benchmark.

Ultimately, POLSTR is to become the critical interest rate benchmark within the meaning of the BMR Regulation, which can be used in financial contracts and financial instruments.

VeloBank S.A. monitors the situation, market developments, administrator communications as well as consultations and decisions of the NGR Steering Committee on an ongoing basis and makes appropriate decisions in this regard, depending on the changes. Revision of the Roadmap for the benchmark reform in Poland as well as a review and update of the NGR recommendations issued to date will have a major impact on the next steps to be taken by the financial market. However, as communicated by NGR, the final date for the completion of the benchmark reform in Poland will not change and the publication of WIBOR is planned to be discontinued at the end of 2027.

Forbearance

The Bank’s forbearance activities are intended to maximize the effectiveness of distressed debt management, i.e. to ensure the highest recovery with reduced costs incurred to recover the debts, which are ultimately imposed on the obligor. Forbearance consists in changing the terms of debt repayment, which are agreed individually for each agreement. Forbearance of a credit exposure involves renegotiation or modification of the terms of the loan agreement, receivables or held-to-maturity investment, resulting from the financial difficulties of the obligor or issuer.

The list of (forbearance) concessions offered to the client in connection with their difficult financial situation includes, in particular, such measures as:

- extension of the repayment period;
- deferral of the repayment date (grace period) of the principal and/or interest;
- periodic reduction of the amount of installments as compared to the adopted schedule;
- transfer of due and payable amounts to future installments;
- interest rate change, decision not to accrue interest over a specified period of time;
- agreement on the conditions for collateral release or sale;
- change of the order in which the repayments will be recognized, as set out in the agreement (payments to be recognized first as repayment of the principal amount);
- cancellation of the unpaid debt in whole or in part;
- conversion of the debt in whole or in part into shares or interests in the obligor’s assets, takeover of the obligor’s assets in exchange for discharge of debt in whole or in part;
- provision of new banking products to support the forbearance program;
- debt refinancing (use of debt agreements).

The Bank renegotiates agreements with obligors who found themselves in a difficult financial situation and are unable to comply with the original terms and conditions of the loan agreement. The forbearance process involves an assessment of the obligor’s ability to perform the obligations set out in the forbearance annex (i.e. to repay the debt at the agreed dates). When granting a (forbearance) concession to a client, the Bank makes appropriate entries in its systems to enable identification of the portfolio of forborne exposures. Forborne exposures are subject to monitoring.

If a quarantine period of at least one year, during which the exposure was performed on a regular basis, passed and, additionally, if a repayment in excess of the past due amount identified at a business date preceding the forbearance date was made in the grace period, the exposure loses its status of a forborne exposure and is classified as a cured/performing one. Discontinuation of timely performance during the 12-month grace period interrupts the grace period. This period restarts as soon as the timely performance is resumed. The period from the identification of the condition until its complete cessation is defined as the period of the forbearance becoming probable.

For purposes of calculating impairment losses, a definition of a forborne exposure was additionally introduced meaning an exposure for which forbearance was granted and which is in the period of the forbearance becoming probable. The exposure is treated as forborne until the forbearance becomes probable. If the exposure is not performed on a timely basis, the period of the forbearance becoming probable is extended. Each time the Bank carries out a forbearance process, it conducts an impairment test to assess whether there is a significant difference between cash flows generated by the forbearance and those arising from the original loan agreement.

Exposures for which the forbearance condition was reported and which are in the period of the forbearance becoming probable are classified to Stage 3, including, but not limited to, in the case of a loss of the cash flows, DPD of more than 90, changes in the repayment schedule or the so-called multiple forbearance. Other agreements in the period of the forbearance becoming probable are classified to Stage 2.

The figures for forborne exposures included in the calculation of impairment losses are presented below:

Forborne exposures 31-Dec-2024	Gross value – Stages 1 and 2 PLN '000	Gross value – Stage 3 PLN '000	Impairment losses on loans and advances – Stages 1 and 2 PLN '000	Impairment losses on loans and advances – Stage 3 PLN '000	Total net value PLN '000
Loans and advances:					
assessed individually	128,035	197,405	(24,518)	(138,407)	**162,515**
assessed collectively	87,052	277,030	(8,066)	(161,837)	**194,179**
Total	**215,087**	**474,435**	**(32,584)**	**(300,244)**	**356,694**

Forborne exposures 31-Dec-2023	Gross value – Stages 1 and 2 PLN '000	Gross value – Stage 3 PLN '000	Impairment losses on loans and advances – Stages 1 and 2 PLN '000	Impairment losses on loans and advances – Stage 3 PLN '000	Total net value PLN '000
Loans and advances:					
assessed individually	135,977	220,460	(22,536)	(109,440)	**224,461**
assessed collectively	90,740	652,692	(9,254)	(393,010)	**341,168**
Total	**226,717**	**873,152**	**(31,790)**	**(502,450)**	**565,629**

Forborne exposures – by geography	31-Dec-2024		
	Gross value PLN '000	Impairment losses PLN '000	Total net value PLN '000
Poland	686,830	(332,361)	**354,469**
Austria	1,768	(129)	**1,639**
Other countries	924	(338)	**586**
Total	**689,522**	**(332,828)**	**356,694**

Forborne exposures – by geography	31-Dec-2023		
	Gross value PLN '000	Impairment losses PLN '000	Total net value PLN '000
Poland	1,090,532	(527,672)	**562,860**
Spain	2,426	(1,115)	**1,311**
Switzerland	1,391	(649)	**742**
Other countries	5,520	(4,804)	**716**
Total	**1,099,869**	**(534,240)**	**565,629**

Forborne exposures – by obligor	31-Dec-2024		
	Gross value PLN '000	Impairment losses PLN '000	Total net value PLN '000
Loans and advances to:			
financial entities other than banks	4	(2)	**2**
non-financial entities other than individuals	325,218	(160,751)	**164,467**
individuals	364,300	(172,075)	**192,225**
Total	**689,522**	**(332,828)**	**356,694**

Forborne exposures – by obligor	31-Dec-2023		
	Gross value PLN '000	Impairment losses PLN '000	Total net value PLN '000
Loans and advances to:			
financial entities other than banks	592	(318)	**274**
non-financial entities other than individuals	313,018	(98,656)	**214,362**
individuals	785,914	(435,266)	**350,648**
state budget entities	345	-	**345**
Total	**1,099,869**	**(534,240)**	**565,629**

Forborne exposures – by type	31-Dec-2024 Gross value PLN '000	Impairment losses PLN '000	Total net value PLN '000
corporate loans	321,340	(159,650)	**161,690**
car loans	5,349	(2,357)	**2,992**
mortgage loans	147,760	(52,377)	**95,383**
retail loans	215,073	(118,444)	**96,629**
Total	**689,522**	**(332,828)**	**356,694**

Forborne exposures – by type	31-Dec-2023 Gross value PLN '000	Impairment losses PLN '000	Total net value PLN '000
corporate loans	270,631	(74,911)	**195,720**
car loans	11,088	(6,031)	**5,057**
mortgage loans	558,935	(297,834)	**261,101**
retail loans	259,215	(155,464)	**103,751**
Total	**1,099,869**	**(534,240)**	**565,629**

Forborne exposures – by DPD	31-Dec-2024 Gross value PLN '000	Impairment losses PLN '000	Total net value PLN '000
non-past due and past due up to 30 days	563,785	(228,347)	**335,438**
past due by more than 30 days to 90 days	26,169	(14,039)	**12,130**
past due by more than 90 days	99,568	(90,442)	**9,126**
Total	**689,522**	**(332,828)**	**356,694**

Forborne exposures – by DPD	31-Dec-2023 Gross value PLN '000	Impairment losses PLN '000	Total net value PLN '000
non-past due and past due up to 30 days	490,959	(157,341)	**333,618**
past due by more than 30 days to 90 days	81,038	(28,107)	**52,931**
past due by more than 90 days	527,872	(348,792)	**179,080**
Total	**1,099,869**	**(534,240)**	**565,629**

Forborne exposures	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Collateral value	119,325	271,578

(figures in PLN '000)

Loan portfolio structure

The structure of the Bank's loan portfolio by the geographical market segment and industry sector as at December 31, 2024 and December 31, 2023 is shown in the tables below:

Concentration amount by industry sector	Percentage share of the portfolio	
	31-Dec-2024	31-Dec-2023
Agriculture and hunting	0.06	0.06
Manufacturing	0.41	0.46
Construction	4.95	4.68
Wholesale and retail trade	1.51	1.46
Transport, storage and communications	0.5	0.46
Financial intermediation	0.89	1.8
Real estate services	7.01	6.6
Public administration	0.83	1.32
Other sections	3.81	2.53
Individuals	80.03	80.63
Total	**100,00**	**100,00**

Concentration amount by geographical segment	Percentage share of the portfolio	
	31-Dec-2024	31-Dec-2023
According to the administrative division of Poland:		
Dolnośląskie	11.81	11.64
Kujawsko-Pomorskie	4.00	4.16
Lubelskie	2.93	2.99
Lubuskie	2.81	2.98
Łódzkie	5.91	5.99
Małopolskie	6.93	6.32
Mazowieckie	24.05	23.02
Opolskie	1.73	1.76
Podkarpackie	1.92	1.98
Podlaskie	1.59	1.56
Pomorskie	8.55	9.14
Śląskie	10.40	10.35
Świętokrzyskie	1.27	1.27
Warmińsko-Mazurskie	3.31	3.51
Wielkopolskie	8.17	8.40
Zachodniopomorskie	4.41	4.64
Seated outside Poland	0.21	0.29
Total	**100.00**	**100.00**

The maximum exposure to credit risk as at December 31, 2024 and December 31, 2023 without taking into account accepted collateral or other elements improving the lending terms is presented below:

Maximum exposure to credit risk	31-Dec-2024 PLN '000	31-Dec-2023 PLN '000
Financial assets:		
Cash and balances with the Central Bank (excluding cash)	1,993,411	499,799
Amounts due from banks and financial institutions	775,014	593,931
Financial assets measured at fair value through profit or loss	23,640	18,519
Derivative financial instruments	108,003	6,218
Loans and advances to clients	14,000,150	13,215,740
measured at amortized cost	13,908,020	13,170,032
measured at fair value through profit or loss	92,130	45,708
Other financial instruments	36,897,150	33,591,796
measured at fair value through other comprehensive income	3,300,114	8,914,577
measured at amortized cost	33,597,036	24,677,219
Other assets	21,271	51,883
Total financial assets	**53,818,639**	**47,977,886**
Guarantee commitments	66,674	41,228
Contingent financial commitments	2,095,212	1,290,795
Total off-balance sheet liabilities	**2,161,886**	**1,332,023**
Total exposure to credit risk	**55,980,525**	**49,309,909**

The Bank uses funded and unfunded credit protection with respect to the banking book. No CRM techniques are used for transactions comprising the trading book.

As regards funded protection, the Bank applies the standard method of credit risk mitigation techniques in the form of the financial collateral comprehensive method for the most liquid financial collateral (deposits and NBP and Treasury securities).

With respect to unfunded protection, the Bank applies guarantees provided by recognized credit protection providers, i.e. selected institutions such as Bank Gospodarstwa Krajowego, the Bank Guarantee Fund and the State Treasury.

In connection with the use of unfunded credit protection, the Bank analyzes the risk of excessive concentration to a single credit protection provider or on account of the use of this protection instrument.

The amount of collateral used in the calculation of impairment losses on individually significant loans was:

- PLN 179 million as at December 31, 2024;
- PLN 257 million as at December 31, 2023.

The value of foreclosure assets was PLN 584 thousand in 2024 versus PLN 822 thousand in the period of 15 months ended December 31, 2023.

Information on the credit quality of financial assets as at December 31, 2024 and December 31, 2023 is presented below:

Credit quality of financial assets as at 31-Dec-2024	Non-past due non-impaired	Past due – Stages 1 and 2: up to 1 month	Past due – Stages 1 and 2: over 1 month to 2 months	Past due – Stages 1 and 2: over 2 months	Past due – Stage 3 and POCI	Impairment losses	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Amounts due from banks and financial institutions	**776,122**	**-**	**-**	**-**	**-**	**(1,108)**	**775,014**
Financial assets measured at fair value through profit or loss, including:	**23,640**	**-**	**-**	**-**	**-**	**-**	**23,640**
commercial bonds	23,640	-	-	-	-	-	23,640
Loans and advances to clients measured at amortized cost, including:	**13,512,623**	**253,348**	**35,709**	**20,969**	**1,613,521**	**(1,528,150)**	**13,908,020**
corporate loans	2,270,019	3,116	53	122	339,047	(318,228)	2,294,129
car loans	696,513	17,516	3,247	633	27,760	(17,022)	728,647
mortgage loans	7,128,937	98,435	8,869	5,832	560,388	(468,084)	7,334,377
retail loans	3,159,690	98,744	18,431	11,675	682,224	(698,267)	3,272,497
purchased receivables	257,464	35,537	5,109	2,707	4,102	(26,549)	278,370
Other financial instruments measured at fair value through other comprehensive income, including:	**3,300,114**	**-**	**-**	**-**	**3,056**	**(3,056)**	**3,300,114**
NBP bills	3,298,419	-	-	-	-	-	3,298,419
equity instruments	1,695	-	-	-	3,056	(3,056)	1,695
Other financial instruments measured at amortized cost, including:	**33,597,850**	**-**	**-**	**-**	**17,221**	**(18,035)**	**33,597,036**
treasury bonds	19,959,603	-	-	-	-	-	19,959,603
bonds issued by local government entities	25,922	-	-	-	-	(2)	25,920
corporate bonds	11,730	-	-	-	17,221	(17,258)	11,693
bonds covered by guarantees of the Bank Guarantee Fund	3,272,208	-	-	-	-	(516)	3,271,692
bonds covered by State Treasury guarantees	10,328,387	-	-	-	-	(259)	10,328,128
Total financial assets	**51,210,349**	**253,348**	**35,709**	**20,969**	**1,633,798**	**(1,550,349)**	**51,603,824**

Credit quality of financial assets as at 31-Dec-2023	Non-past due non-impaired	Past due – Stages 1 and 2			Past due – Stage 3 and POCI	Impairment losses	Total
		up to 1 month	over 1 month to 2 months	over 2 months			
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Amounts due from banks and financial institutions	**594,728**	**-**	**-**	**-**	**-**	**(793)**	**593,931**
Financial assets measured at fair value through profit or loss, including:	**18,519**	**-**	**-**	**-**	**-**	**-**	**18,519**
other instruments	18,519	-	-	-	-	-	**18,519**
Loans and advances to clients measured at amortized cost, including:	**12,346,707**	**356,650**	**46,045**	**25,440**	**1,928,801**	**(1,533,611)**	**13,170,032**
corporate loans	1,979,305	32,384	519	241	428,531	(284,175)	**2,156,805**
car loans	682,093	24,713	2,440	1,062	55,191	(34,796)	**730,703**
mortgage loans	6,954,479	163,369	17,052	9,256	737,866	(530,977)	**7,351,045**
retail loans	2,567,012	112,926	21,618	11,932	703,285	(678,378)	**2,738,395**
purchased receivables	163,818	23,258	4,416	2,949	3,928	(5,285)	**193,084**
Other financial instruments measured at fair value through other comprehensive income, including:	**8,914,577**	**-**	**-**	**-**	**3,056**	**(3,056)**	**8,914,577**
NBP bills	8,912,987	-	-	-	-	-	**8,912,987**
equity instruments	1,590	-	-	-	3,056	(3,056)	**1,590**
Other financial instruments measured at amortized cost, including:	**24,671,820**	**5,516**	**-**	**-**	**17,378**	**(17,495)**	**24,677,219**
treasury bonds	11,517,336	-	-	-	-	-	**11,517,336**
bonds issued by local government entities	35,010	5,516	-	-	-	(7)	**40,519**
bonds issued by banks	73,772	-	-	-	-	(56)	**73,716**
corporate bonds	15,065	-	-	-	17,378	(17,432)	**15,011**
bonds covered by guarantees of the Bank Guarantee Fund	5,712,277	-	-	-	-	-	**5,712,277**
bonds covered by State Treasury guarantees	7,318,360	-	-	-	-	-	**7,318,360**
Total financial assets	**46,546,347**	**362,166**	**46,045**	**25,440**	**1,949,235**	**(1,554,955)**	**47,374,278**

2. Operational risk

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 risks 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

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.

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.

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 that may not 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;

Financial statements for the period of 12 months ended December 31, 2024 (figures in PLN '000)

- 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 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 above-mentioned procedure sets out, among others, indications of deterioration of the Bank's liquidity situation, the so-called warning and crisis state, which are intended to identify any potential threats in advance. They are monitored 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.

In 2024, the Bank met the supervisory liquidity security requirements, including the supervisory liquidity standards such as LCR or NSFR.

The table below presents the supervisory measures of the VeloBank S.A. as at the end of 2024 and 2023:

	Supervisory liquidity measures	Minimum value	31-Dec-2024	31-Dec-2023
LCR	Short-term liquidity measure	100%	751.44%	695.78%
NSFR	Stable funding measure	100%	281.85%	236.58%

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

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.

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The table below presents the Bank's assets and liabilities by maturity as at December 31, 2024 and December 31, 2023:

Assets, liabilities and equity by maturity as at 31-Dec-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	1,576,637	364,536	1,549,666	4,896,476	7,140,985	(1,528,150)	**14,000,150**
Other financial instruments measured at fair value through other comprehensive income	3,298,419	-	-	-	-	1,695	**3,300,114**
Other 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 assets	-	-	-	-	-	733,016	**733,016**
Total assets	**7,778,893**	**1,004,756**	**4,488,701**	**22,429,201**	**19,713,868**	**(788,942)**	**54,626,477**
LIABILITIES AND EQUITY							
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	36,259,842	7,149,235	7,440,174	586,370	754	-	**51,436,375**
Other liabilities	-	-	-	-	-	610,329	**610,329**
Provisions	-	-	-	-	-	89,194	**89,194**
Total liabilities	**36,364,980**	**7,149,344**	**7,442,410**	**660,965**	**71,054**	**699,523**	**52,388,276**
Equity	**-**	**-**	**-**	**-**	**-**	**2,238,201**	**2,238,201**
Total liabilities and equity	**36,364,980**	**7,149,344**	**7,442,410**	**660,965**	**71,054**	**2,937,724**	**54,626,477**
LIQUIDITY GAP	**(28,586,087)**	**(6,144,588)**	**(2,953,709)**	**21,768,236**	**19,642,814**	**(3,726,666)**	**-**

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

Assets, liabilities and equity by maturity as at 31-Dec-2023	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	607,620	-	-	-	-	-	**607,620**
Amounts due from banks and financial institutions	594,724	-	-	-	-	(793)	**593,931**
Financial assets measured at fair value through profit or loss	-	-	-	-	-	18,519	**18,519**
Derivative financial instruments	1,133	344	2,154	2,293	294	-	**6,218**
Loans and advances to clients	1,495,780	261,684	1,390,597	4,446,436	7,154,854	(1,533,611)	**13,215,740**
Other financial instruments measured at fair value through other comprehensive income	8,912,987	-	-	-	-	1,590	**8,914,577**
Other financial instruments measured at amortized cost	37,943	78,158	2,144,239	14,303,726	8,130,648	(17,495)	**24,677,219**
Other assets	-	-	-	-	-	624,840	**624,840**
Total assets	**11,650,187**	**340,186**	**3,536,990**	**18,752,455**	**15,285,796**	**(906,950)**	**48,658,664**
LIABILITIES AND EQUITY							
Amounts due to banks and financial institutions	106,146	-	-	17,257	-	-	**123,403**
Derivative financial instruments	1,129	-	2,692	5,141	29,430	-	**38,392**
Amounts due to clients	33,458,241	8,778,027	3,839,568	632,083	28,472	-	**46,736,391**
Other liabilities	-	-	-	-	-	667,489	**667,489**
Provisions	-	-	-	-	-	64,327	**64,327**
Total liabilities	**33,565,516**	**8,778,027**	**3,842,260**	**654,481**	**57,902**	**731,816**	**47,630,002**
Equity	**-**	**-**	**-**	**-**	**-**	**1,028,662**	**1,028,662**
Total liabilities and equity	**33,565,516**	**8,778,027**	**3,842,260**	**654,481**	**57,902**	**1,760,478**	**48,658,664**
LIQUIDITY GAP	**(21,915,329)**	**(8,437,841)**	**(305,270)**	**18,097,974**	**15,227,894**	**(2,667,428)**	**-**

The analysis of the Bank's liabilities by contractual maturity before discounting is presented below:

31-Dec-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	Total PLN '000
Amounts due to banks and financial institutions	104,496	-	-	-	-	**104,496**
Derivative financial instruments	1,121	109	2,236	74,595	70,300	**148,361**
Amounts due to clients	36,302,877	7,200,744	7,582,750	645,688	912	**51,732,971**
Lease liabilities	3,375	6,546	26,471	44,401	578	**81,371**
Total financial liabilities	**36,411,869**	**7,207,399**	**7,611,457**	**764,684**	**71,790**	**52,067,199**

31-Dec-2023	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	Total PLN '000
Amounts due to banks and financial institutions	106,634	148	445	17,554	-	**124,781**
Derivative financial instruments	1,129	-	2,692	5,141	29,430	**38,392**
Amounts due to clients	33,507,310	8,846,482	3,897,610	722,632	34,380	**47,008,414**
Lease liabilities	3,388	6,555	27,507	61,478	586	**99,514**
Total financial liabilities	**33,618,461**	**8,853,185**	**3,928,254**	**806,805**	**64,396**	**47,271,101**

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 by 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.

4.1. Currency risk

The Bank's currency risk arises from the adverse impact of exchange rates 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).

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	31-Dec-2023
	PLN '000	PLN '000
Currency risk	31	58

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.

The tables below present the currency exposure by the type of assets, liabilities and off-balance sheet liabilities:

Currency exposure by the type of assets, liabilities and equity and off-balance sheet items as at 31-Dec-2024	CURRENCY							Total
	PLN	EUR	CHF	USD	GBP	JPY	Other	
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Cash and balances with the Central Bank	2,049,252	20,128	2,943	14,132	3,049	-	-	**2,089,504**
Amounts due from banks and financial institutions	340,953	59,247	3,090	366,099	3,083	89	2,453	**775,014**
Loans and advances to clients	13,703,503	296,612	4	20	9	-	2	**14,000,150**
Other assets	37,131,842	606,174	-	23,793	-	-	-	**37,761,809**
Total assets	**53,225,550**	**982,161**	**6,037**	**404,044**	**6,141**	**89**	**2,455**	**54,626,477**
Amounts due to banks and financial institutions	104,017	-	-	-	-	-	-	**104,017**
Amounts due to clients	49,555,891	1,222,380	34,081	586,659	35,424	13	1,927	**51,436,375**
Other liabilities	791,002	55,301	390	790	362	-	39	**847,884**
Total liabilities	**50,450,910**	**1,277,681**	**34,471**	**587,449**	**35,786**	**13**	**1,966**	**52,388,276**
Equity	**2,238,201**	**-**	**-**	**-**	**-**	**-**	**-**	**2,238,201**
Total liabilities and equity	**52,689,111**	**1,277,681**	**34,471**	**587,449**	**35,786**	**13**	**1,966**	**54,626,477**
NET EXPOSURE	**536,439**	**(295,520)**	**(28,434)**	**(183,405)**	**(29,645)**	**76**	**489**	**-**
Financial and guarantee commitments given	2,142,818	19,068	-	-	-	-	-	2,161,886

Currency exposure of the notional amounts of derivatives and FOREX transactions as at 31-Dec-2024	CURRENCY						Total
	PLN	EUR	CHF	USD	GBP	Other	
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Purchase	13,118,726	545,406	28,584	185,800	29,863	284	**13,908,663**
Sale	13,653,373	252,705	-	1,641	-	-	**13,907,719**

Currency exposure by the type of assets, liabilities and equity and off-balance sheet items as at 31-Dec-2023	CURRENCY							Total
	PLN	EUR	CHF	USD	GBP	JPY	Other	
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Cash and balances with the Central Bank	544,601	34,545	4,884	19,716	3,874	-	-	**607,620**
Amounts due from banks and financial institutions	155,113	58,459	5,489	368,350	5,017	128	1,375	**593,931**
Loans and advances to clients	12,968,965	246,775	-	-	-	-	-	**13,215,740**
Other assets	33,227,318	995,435	-	18,620	-	-	-	**34,241,373**
Total assets	**46,895,997**	**1,335,214**	**10,373**	**406,686**	**8,891**	**128**	**1,375**	**48,658,664**
Amounts due to banks and financial institutions	123,403	-	-	-	-	-	-	**123,403**
Amounts due to clients	44,548,967	1,533,410	35,356	582,579	35,718	7	354	**46,736,391**
Other liabilities	695,486	70,078	684	3,482	465	4	9	**770,208**
Total liabilities	**45,367,856**	**1,603,488**	**36,040**	**586,061**	**36,183**	**11**	**363**	**47,630,002**
Equity	**1,028,662**	**-**	**-**	**-**	**-**	**-**	**-**	**1,028,662**
Total liabilities and equity	**46,396,518**	**1,603,488**	**36,040**	**586,061**	**36,183**	**11**	**363**	**48,658,664**
NET EXPOSURE	**499,479**	**(268,274)**	**(25,667)**	**(179,375)**	**(27,292)**	**117**	**1,012**	**-**
Financial and guarantee commitments given	1,330,756	1,267	-	-	-	-	-	**1,332,023**

Currency exposure of the notional amounts of derivatives and FOREX transactions as at 31-Dec-2023	CURRENCY						Total
	PLN	EUR	CHF	USD	GBP	Other	
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Purchase	3,573,272	341,318	25,755	180,617	27,498	-	**4,148,460**
Sale	4,079,660	68,264	-	394	-	292	**4,148,610**

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 profit or loss, 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 Audit and 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	4,755	17,917	8,444	1,189

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).

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 accounts and savings accounts, by estimating the stable portion held in these accounts. The maturity/repricing date for such items is modeled on the basis of models and methodologies specific to these balance sheet items.

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 table below presents a breakdown of the Bank’s assets, liabilities and off-balance sheet items classified as at December 31, 2024 and December 31, 2023 according to the interest rate risk criterion. The carrying amounts of fixed-rate financial instruments are broken down by the group of held-to-maturity instruments. The carrying amounts of floating-rate financial instruments are broken down by the group of instruments according to contractual interest rate repricing dates.

Assets, liabilities and equity as well as off-balance sheet items according to the interest rate risk criterion as at 31-Dec-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	non-interest bearing assets/liabilities PLN '000	Total PLN '000
ON-BALANCE SHEET ITEMS							
Cash and balances with the Central Bank	1,993,411	-	-	-	-	96,093	2,089,504
Amounts due from banks and financial institutions	775,014	-	-	-	-	-	775,014
Financial assets measured at fair value through profit or loss	4,419,628	7,154,801	613,608	1,647,132	164,981	-	14,000,150
Loans and advances to clients	-	-	-	-	-	23,640	23,640
Other financial instruments	3,911,428	3,852,487	13,478,012	5,597,815	10,057,408	-	36,897,150
Other assets	-	-	-	-	-	841,019	841,019
Total assets	**11,099,481**	**11,007,288**	**14,091,620**	**7,244,947**	**10,222,389**	**960,752**	**54,626,477**
Amounts due to banks and financial institutions	104,017	-	-	-	-	-	104,017
Amounts due to clients	17,457,133	17,401,089	8,268,249	4,144,430	4,165,474	-	51,436,375
Other liabilities	-	-	-	-	-	847,884	847,884
Total liabilities	**17,561,150**	**17,401,089**	**8,268,249**	**4,144,430**	**4,165,474**	**847,884**	**52,388,276**
Equity	**-**	**-**	**-**	**-**	**-**	**2,238,201**	**2,238,201**
Total liabilities and equity	**17,561,150**	**17,401,089**	**8,268,249**	**4,144,430**	**4,165,474**	**3,086,085**	**54,626,477**
BALANCE SHEET GAP	**(6,461,669)**	**(6,393,801)**	**5,823,371**	**3,100,517**	**6,056,915**	**(2,125,333)**	**-**
OFF-BALANCE-SHEET ITEMS							
Interest rate transactions							
Receivables	2,207,132	7,356,727	935,000	2,561,446	17,144	857,903	13,935,352
Liabilities	58,934	9,828	3,000,000	3,906,960	6,101,727	856,925	13,934,374
OFF-BALANCE SHEET GAP	**2,148,198**	**7,346,899**	**(2,065,000)**	**(1,345,514)**	**(6,084,583)**	**978**	**978**
TOTAL GAP	**(4,313,471)**	**953,098**	**3,758,371**	**1,755,003**	**(27,668)**	**(2,124,355)**	**978**

Assets, liabilities and equity as well as off-balance sheet items according to the interest rate risk criterion as at 31-Dec-2023	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	non-interest bearing assets/liabilities PLN '000	Total PLN '000
ON-BALANCE SHEET ITEMS							
Cash and balances with the Central Bank	499,799	-	-	-	-	107,821	**607,620**
Amounts due from banks and financial institutions	593,931	-	-	-	-	-	**593,931**
Financial assets measured at fair value through profit or loss	-	-	-	-	-	18,519	**18,519**
Loans and advances to clients	4,435,470	7,824,447	475,508	390,856	89,459	-	**13,215,740**
Other financial instruments	9,530,198	5,776,209	12,630,916	3,361,285	2,293,188	-	**33,591,796**
Other assets	-	-	-	-	-	631,058	**631,058**
Total assets	**15,059,398**	**13,600,656**	**13,106,424**	**3,752,141**	**2,382,647**	**757,398**	**48,658,664**
Amounts due to banks and financial institutions	106,146	17,257	-	-	-	-	**123,403**
Amounts due to clients	19,282,050	18,033,109	4,544,923	4,167,494	708,815	-	**46,736,391**
Other liabilities	-	-	-	-	-	770,208	**770,208**
Total liabilities	**19,388,196**	**18,050,366**	**4,544,923**	**4,167,494**	**708,815**	**770,208**	**47,630,002**
Equity	**-**	**-**	**-**	**-**	**-**	**1,028,662**	**1,028,662**
Total liabilities and equity	**19,388,196**	**18,050,366**	**4,544,923**	**4,167,494**	**708,815**	**1,798,870**	**48,658,664**
BALANCE SHEET GAP	**(4,328,798)**	**(4,449,710)**	**8,561,501**	**(415,353)**	**1,673,832**	**(1,041,472)**	**-**
OFF-BALANCE-SHEET ITEMS							
Interest rate transactions							
Receivables	4,350	2,043,659	685,000	750,000	18,169	671,694	4,172,872
Liabilities	23,901	-	754,350	1,105,000	1,617,927	671,885	4,173,063
OFF-BALANCE SHEET GAP	**(19,551)**	**2,043,659**	**(69,350)**	**(355,000)**	**(1,599,758)**	**(191)**	**(191)**
TOTAL GAP	**(4,348,349)**	**(2,406,051)**	**8,492,151**	**(770,353)**	**74,074**	**(1,041,663)**	**(191)**

5. Derivatives risk

The basic types of risk associated with derivatives are market risk and credit risk.

At initial recognition, derivative financial instruments usually are of zero or very low market value. This is due to the fact that for derivatives an initial net investment is not required at all or it is required at a low level in comparison with other types of contracts with similar reactions to changes in market conditions.

Derivatives take a positive or negative value along with changes in a particular interest rate, security price, commodity price, foreign exchange rate, price index, credit classification, credit index or another market parameter. As a result of such changes, derivatives held become more or less profitable in comparison with instruments with the same residual maturity, which are available on the market at a given point in time.

Credit risk associated with derivative contracts is a potential cost of concluding a new contract on the original terms if the other party to the original contract does not fulfil its obligation. In order to estimate the potential replacement cost, the Bank uses the same methods as for the assessment of the market risk taken.

In controlling the level of the credit risk taken, the Bank assesses other parties to contracts, using the same methods as those applied when making credit decisions.

The Bank enters into transactions in derivatives with domestic and foreign banks. Such transactions are concluded within the credit limits granted to particular institutions.

On the basis of the adopted procedure for assessing the financial standing of banks, the Bank sets maximum exposure limits for banks. Percentage exposure limits for particular types of transactions are determined within these limits.

6. Hedge accounting

The Bank has adopted an accounting policy with respect to cash flow hedges for interest rate risk in accordance with IAS 39, as endorsed by the European Commission Regulation. The "carve out" in IAS 39, as endorsed by the European Commission Regulation, allows the Bank to designate a group of derivatives as a hedging instrument, and cancels certain restrictions resulting from the provisions of IAS 39 with respect to deposits and the adoption of a strategy hedging less than 100% of cash flows. In accordance with IAS 39, as endorsed by the European Commission Regulation, hedge ineffectiveness occurs if and only if a re-measured value of cash flows over a specified period of time is lower than the value hedged over that period of time.

In hedge accounting, hedges are classified as:

- fair value hedges against the risk of changes in the fair value of a recognized asset or liability; or
- cash flow hedges against changes in cash flows attributable to a particular type of risk associated with a recognized asset, liability or a forecast transaction; or
- hedges of net investments in foreign operations.

A hedge against the currency risk associated with a firm commitment is accounted for as a cash flow hedge.

The Bank uses the following types of hedging relationships as part of its cash flow hedges:

- cash flow hedges for term deposits;
- cash flow hedges for assets.

Cash flow hedges for term deposits

The purpose of the hedges used by the Bank is to mitigate the risk of volatility of cash flows from term deposits in PLN; the hedged risk is interest rate risk arising from changes in market interest rates for the PLN currency.

The hedging instrument is a fixed-to-float IRS (Interest Rate Swap) contract, where the Bank pays interest at a fixed rate and receives interest at a floating rate. The nature of the cash flows from this transaction is opposite to that of the cash flows from the hedged item, where the Bank effectively pays a floating rate to depositors.

In order to reflect the cash flows from the hedged transactions, hypothetical IRS hedged transactions are created. The floating leg of the hypothetical transaction reflects the cash flows from the term deposit portfolio. The reference rate for the floating leg is selected by analyzing the coincidence of the interest rate of a given portfolio of term deposits and the market reference rate.

The main sources of ineffectiveness identified by the Bank concerning the above-described relationship are:

- different interest rate levels for the hypothetical derivative and the hedging instrument;
- different interest payment dates for the hypothetical derivative and the hedging instrument.

The above potential sources of ineffectiveness are addressed by the Bank through:

- the creation of hedging relationships at or near the date of the conclusion of the hedging instrument, which minimizes the risk of a difference in the fixed interest rate for the hedging instrument and the hypothetical derivative;
- the reduction of timing differences by selecting interest periods consistent with the hedged item repricing periods.

Cash flow hedges for assets

The purpose of the hedges used by the Bank is to mitigate the risk of volatility of cash flows from treasury bonds with a variable coupon in PLN; the hedged risk is the interest rate risk arising from changes in market interest rates for the PLN currency.

The hedging instrument is a float-to fixed IRS (Interest Rate Swap) contract, where the Bank receives interest at a fixed rate and pays interest at a floating rate. The nature of the cash flows from this transaction is opposite to that of the cash flows from the hedged item, where the Bank effectively receives a floating rate.

In order to reflect the cash flows from the hedged transactions, hypothetical IRS hedged transactions are created. The floating leg of the hypothetical transaction reflects the cash flows from the bond portfolio. The reference rate for the floating leg corresponds to the reference rate on which the portfolio of bonds designated as the hedged item is based.

The main sources of ineffectiveness identified by the Bank concerning the above-described relationship are:

- different levels of interest rates (fixed and floating) for the hypothetical derivative and the hedging instrument;
- different interest payment dates for the hypothetical derivative and the hedging instrument;
- different repricing dates for the floating rate for the hypothetical derivative and the hedging instrument.

The above potential sources of ineffectiveness are addressed by the Bank through:

- the creation of hedging relationships at or near the date of the conclusion of the hedging instrument, which minimizes the risk of a material difference in the fixed interest rate between the hedging instrument and the hypothetical derivative;
- entering into and incorporating into the hedging relationship IRS transactions with parameters as close as possible to those of the hedged item.

The value of the effective change in the fair value of hedging instruments recognized in the revaluation reserve was PLN 123,913 thousand gross as at December 31, 2024. Cash flows from the hedged item will be realized in the period from January 1, 2025 to March 15, 2034, i.e. until the maturity of the longest IRS transaction.

The maturity of hedging IRS transactions (notional amounts) is presented below:

	31-Dec-2024		31-Dec-2023	
	Fixed to float	Float to fixed	Fixed to float	Float to fixed
	PLN '000	PLN '000	PLN '000	PLN '000
Maturity of hedging IRS transactions:				
from 3 months to 1 year	250,000	250,000	100	-
from 1 to 5 years	5,325,000	2,500,000	1,105,000	750,000
over 5 years	4,615,000	-	1,600,000	-
Total hedging IRS transactions	**10,190,000**	**2,750,000**	**2,705,100**	**750,000**

The table below presents the fair values of the hedging instruments with respect to cash flow hedges as at December 31, 2024 and December 31, 2023. The fair value of the hedging instrument is its carrying amount.

	31-Dec-2024	31-Dec-2023
	PLN '000	PLN '000
IRS – positive valuation	103,915	2,518
IRS – negative valuation	(145,240)	(33,795)

Changes in the fair value of cash flow hedges recognized in equity have been presented below:

	01-Jan-2024 – 31-Dec-2024	05-Sep-2022 – 31-Dec-2023
	PLN '000	PLN '000
Accumulated comprehensive income at the beginning of the period (before tax)	**(29,357)**	**-**
Gains/(losses) on the hedging instrument	(12,332)	(28,008)
Amount reclassified from comprehensive income to profit or loss in the period, including:	165,602	(1,349)
interest income	165,602	(1,349)
Accumulated comprehensive income at the end of the period (before tax)	**123,913**	**(29,357)**
Tax effect	**(23,543)**	**-**
Accumulated comprehensive income at the end of the period (net of tax)	**100,370**	**(29,357)**
Ineffective portion of the hedge and amortization of cash flows recognized in profit or loss	**1,066**	**(46)**
Effect on comprehensive income (before tax) in the period	**153,270**	**(29,357)**
Deferred tax on cash flow hedges	**(23,543)**	**-**
Effect on comprehensive income (net of tax) in the period	**129,727**	**(29,357)**

The effect of the measurements of the effectiveness of the hedging relationship on profit or loss and on other comprehensive income by the type of the hedged item is presented below:

Gross amount	01-Jan-2024 – 31-Dec-2024		05-Sep-2022 – 31-Dec-2023	
	Relationship – deposits PLN '000	Relationship – bonds PLN '000	Relationship – deposits PLN '000	Relationship – bonds PLN '000
Accumulated comprehensive income at the beginning of the period (open hedging relationships)	(32,803)	3,446	-	-
Accumulated comprehensive income at the end of the period (open hedging relationships)	123,364	549	(32,803)	3,446
Effect on comprehensive income in the period	**156,167**	**(2,897)**	**(32,803)**	**3,446**
Ineffective portion of the cash flow hedge recognized in profit or loss	816	250	(76)	30
Effect on profit or loss in the period	**816**	**250**	**(76)**	**30**

7. Capital management

The primary objective of the capital management strategy is for the Bank to hold an appropriate level of capital against the risk it takes.

The capital adequacy ratio is a measure of capital adequacy, reflecting the ratio of own funds (after mandatory reductions) to the sum of risk-weighted assets and off-balance sheet items. The capital adequacy ratio assigns percentage weights to assets and off-balance sheet items according to, among others, the degree of credit risk, market risk, currency risk or interest rate risk.

8. Compliance risk

The Bank ensures compliance through the control function and compliance risk management.

Compliance risk is a risk of bearing the consequences of failure to comply with the provisions of law (including legal acts, regulations and resolutions) together with prudential regulations, internal regulations or internally adopted market standards, rules or codes of conduct, in the Bank's activities.

The compliance risk management process includes risk identification, risk assessment, risk control, monitoring the level and profile of risk after the application of compliance risk controls, as well as risk reporting.

In the process of compliance risk identification, the Bank carries out ongoing analyses of the applicable laws, prudential regulations, internal regulations and standards of conduct adopted by the Bank, and collects information on the existing cases of non-compliance together with the reasons for their occurrence. When assessing the risk, the Bank determines the nature and potential scale of financial losses or legal sanctions and the probability of their occurrence. Compliance risk monitoring involves the systematic observation and tracking of changes in the compliance risk level, as well as the effectiveness of the compliance risk mitigation measures applied. The process of compliance risk control and mitigation at the Bank includes measures aimed to prevent the occurrence of non-compliance and breaches, eliminate identified instances of non-compliance and minimize the impact of their occurrence, and covers the following aspects: prevention (i.e. risk mitigation through the implementation of solutions and elements ensuring compliance) and mitigation (i.e. risk management following identification of non-compliance in order to mitigate any potential adverse effects of the risk). Compliance risk reporting includes the results of identification, including any identified issues, the assessment of compliance risk and the results of monitoring and control, along with the results of the tests of key controls aimed at ensuring compliance. The reports are submitted in particular to the President of the Management Board, the Management Board, the Audit Committee and the Supervisory Board of the Bank.

In the process of compliance risk management, the Bank considers the risk arising from the activities of the Group companies.

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

Signature of the person responsible for keeping the accounting records:

Michał Sasim	*Accounting Department Director*	Signed with a qualified electronic signature

Warsaw, March 25, 2025