Report of the VELOBANK S.A. Capital Group for the period of 6 months ended 31 March 2023

Table of contents

I INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Interim consolidated income statement

	Note	3.10.2022 - 31.03.2023 PLN '000
CONTINUING OPERATIONS		
Interest income, of which:	III.1	1,691,932
on financial assets measured at amortised cost		1,443,824
on financial assets measured at fair value through other comprehensive income		235,711
on financial assets measured at fair value through profit or loss		12,391
on liabilities		6
Interest expenses	III.1	(825,459)
Net interest income		**866,473**
Fee and commission income	III.2	64,599
Fee and commission expenses	III.2	(48,740)
Net fee and commission income		**15,859**
Dividend income	III.3	60
Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	III.4	(459)
Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss	III.5	35
Other operating income	III.6	34,542
Other operating expenses	III.6	(36,430)
Net other operating income and expenses		**(1,888)**
Administrative expenses	III.7	(367,696)
Gain (loss) on non-substantial modification	III.8	(3,300)
Net impairment losses on financial assets and off-balance sheet provisions	III.9	(124,535)
Operating profit/(loss)		**384,549**
Tax on financial institutions		(29,043)
Profit before tax		**355,506**
Income tax	III.10	(76,432)
Net profit		**279,074**
Weighted average number of shares		*100,000*
Earnings per share in PLN:		
basic, for profit for the period attributable to equity holders of the parent	III.11	2,790.74
diluted, for profit for the period attributable to equity holders of the parent	III.11	2,790.74

2. Interim consolidated statement of comprehensive income

	3.10.2022 - 31.03.2023 PLN '000
Net profit for the period	279,074
Items that may not be reclassified to profit or loss, of which:	**179**
Actuarial gains	141
Measurement of equity financial assets measured at fair value through other comprehensive income	38
Items that may be reclassified to profit or loss, of which:	**(1,853)**
Measurement of debt financial instruments measured at fair value through other comprehensive income	(1,853)
Net other comprehensive losses	**(1,674)**
Comprehensive income for the period	**277,400**

3. Interim consolidated statement of financial position

	Note	31.03.2023 PLN '000
ASSETS		
Cash and balances with the Central Bank	III.12	533,281
Amounts due from banks and financial institutions	III.13	560,610
Financial assets measured at fair value through profit or loss	III.14	17,375
Derivative financial instruments	III.15	635
Loans and advances to customers, of which:	III.16	20,631,514
measured at amortised cost	III.16.1	20,507,170
measured at fair value through profit or loss	III.16.2	124,344
Other financial instruments, of which:	III.17	19,116,555
measured at fair value through other comprehensive income		9,888,590
measured at amortised cost		9,227,965
Intangible assets	III.18	233,370
Property, plant and equipment	III.19	167,327
Property obtained from foreclosures	III.20	95,059
Non-current assets held for sale	III.21	1,198
Deferred tax assets		231
Other assets	III.22	136,483
TOTAL ASSETS		**41,493,638**
LIABILITIES AND EQUITY		
Liabilities		
Amounts due to banks and financial institutions	III.23	595,979
Derivative financial instruments	III.15	6,347
Amounts due to customers	III.24	39,281,441
Corporate income tax liabilities		2,592
Other liabilities	III.25	485,199
Deferred tax liabilities		38,855
Provisions	III.26	27,454
Total liabilities		**40,437,867**
Equity attributable to equity holders of the parent		**1,055,771**
Share capital		25,000
Supplementary capital		674,862
Revaluation reserve		(1,674)
Undistributed profit		10,142
Retained earnings		68,367
Net profit		279,074
Total equity	III.27	**1,055,771**
TOTAL LIABILITIES AND EQUITY		**41,493,638**

4. Interim consolidated statement of changes in equity

3.10.2022 – 31.03.2023	Note	Equity attributable to equity holders of the parent							Total equity
		Share capital	Undistributed profit	Net profit/ (loss)	Other components of equity			Total	
					Supplementary capital	Revaluation reserve	Retained earnings		
		PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 3.10.2022		**25,000**	**10,142**	**-**	**674,862**	**-**	**68,367**	**778,371**	**778,371**
Comprehensive income/ (loss) for the period		-	-	279,074	-	(1,674)	-	277,400	**277,400**
As at 31.03.2023	**III.27**	**25,000**	**10,142**	**279,074**	**674,862**	**(1,674)**	**68,367**	**1,055,771**	**1,055,771**

5. Interim consolidated statement of cash flows

	Note	3.10.2022 - 31.03.2023 PLN '000
Cash flows from operating activities		
Net profit		279,074
Total adjustments:		(13,312,746)
Amortisation and depreciation	III.7	58,582
(Gains)/ losses on investing activities		(22,420)
Interest and dividends		2,579
Change in amounts due from banks and financial institutions		186,240
Change in financial assets measured at fair value through profit or loss		(1,661)
Change in derivative financial instruments (assets)		1,524
Change in loans and advances to customers		1,052,314
Change in financial instruments measured at fair value through other comprehensive income		(9,888,873)
Change in financial instruments measured at amortised cost		(5,491,722)
Change in other assets		16,903
Change in amounts due to banks and financial institutions		424,355
Change in derivative financial instruments (liabilities)		3,607
Change in amounts due to customers		845,556
Change in other liabilities		(551,832)
Change in provisions		11,493
Income tax		40,609
Net cash from operating activities		**(13,033,672)**
Cash flows from investing activities		
Disposal of intangible assets and property, plant and equipment		39,843
Dividends received		30
Purchase of intangible assets and property, plant and equipment		(13,836)
Net cash used in investing activities		**26,037**
Cash flows from financing activities		
Repayment of credit facilities		(5,748)
Interest paid on credit facilities, leases and securities issued		(2,609)
Lease payments		(10,397)
Net cash from financing activities		**(18,754)**
Net increase / (decrease) in cash and cash equivalents		(13,026,389)
including from exchange differences on cash and cash equivalents		*(9,149)*
Cash and cash equivalents at the beginning of the period	III.32	13,954,705
Cash and cash equivalents at the end of the period	**III.32**	**928,316**

II. GENERAL INFORMATION TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The general information and explanatory notes constitute an integral part of the Interim Consolidated Financial Statements of the VeloBank S.A. Capital Group for the period of 6 months ended 31 March 2023.

The interim consolidated financial statements of the VeloBank S.A. Capital Group have been prepared as at 31 March 2023 and for the period from 5 September 2022. The period covered by the interim consolidated financial statements includes the period of operation of Bank BFG, i.e. from 5 September 2022 to 3 October 2022, and the period from 3 October 2022 (i.e. from the date of transfer of the Getin Noble Bank enterprise to the bridge institution) to 31 March 2023. The transfer of the enterprise was effected as at the end of the resolution initiation date, i.e. 30 September 2022, and therefore the interim consolidated income statement includes income and expenses recognised as of 1 October 2022.

1. Introduction

On 29 September 2022, the Bank Guarantee Fund (hereinafter: "BFG", "Fund") issued a decision to initiate a forced restructuring against Getin Noble Bank S.A. ("Getin Noble"), to cancel Getin Noble's equity instruments, to apply a resolution instrument in the form of a bridge institution and to appoint an Administrator of Getin Noble. The resolution was initiated against Getin Noble on the date of delivery of the Decision, i.e. 30 September 2022.

The resolution of Getin Noble was carried out using the resolution instrument in the form of a bridge institution, pursuant to Article 188(1)(2) and (3) of the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and resolution (hereinafter the "BFG Act").

As of 3 October 2022, the bridge institution Bank, BFG S.A., now VeloBank S.A. (hereinafter the "Bridge Bank", "VeloBank"), established by the BFG in accordance with Articles 181(1) and 185(1), (3) and (5) of the BFG Act, acquired the business of Getin Noble with the effect specified in Article 191(1) of the BFG Act, comprising all the property rights of Getin Noble as at the end of the date of initiation of the resolution, i.e. 30 September 2022, recognised in its records, including accounting records or IT accounting systems, excluding the property rights indicated in the Decision, and Getin Noble's liabilities as at the end of the date of initiation of the resolution, i.e. 30 September 2022, recognised in its records, including accounting records or IT accounting systems, excluding the liabilities indicated in the Decision.

By a decision of 2 September 2022, the Polish Financial Supervision Authority authorised the establishment of a Bridge Institution by the BFG under the name Bank BFG S.A., approved the draft Articles of Association and the composition of the Bank's first Management Board.

The Bank's Founder (BFG) took up 100,000 (in words: one hundred thousand) ordinary shares making up 100% of the share capital and entitling to 100% of votes at the General Meeting of Shareholders. The issue price of one share with a nominal value of PLN 250 was PLN 7,000 (in words: seven thousand Polish zloty).

The Bank's initial capital amounts to PLN 700 million (in words: seven hundred million Polish zloty), including PLN 25 million as share capital, with the remaining amount (share premium) allocated to supplementary capital. The entire amount was contributed in cash before the Bank was entered into the register.

BFG Bank was entered into the register of the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register on 9 September 2022 under entry number KRS 0000991173.

On 21 September 2022, BFG submitted to System Ochrony Banków Komercyjnych S.A. ("SOBK") an addendum to the Application for Support pursuant to which, among other things, BFG requested support in the form of a grant of PLN 3.127 billion and the acquisition from the BFG of 49,000 shares in the bridge institution, at a price of PLN 0.343 billion.

On 23 September 2022, the Supervisory Board of SOBK: established an additional support instrument in the form of the acquisition of shares in the bridge institution and expressed a favourable opinion on the possibility of providing support under the conditions set out in the Application for Support.

On 24 September 2022, the General Meeting of SOBK approved the provision of support under the terms of the Application for Support.

The grant from SOBK was received by Getin Noble Bank after the initiation of resolution.

SOBK was established in accordance with the provisions of Chapter 10a of the Banking Law, on the basis of a protection scheme agreement. SOBK is a joint-stock company whose purpose is to support the BFG in the takeover of banks, in accordance with the Banking Law.

The establishment of SOBK was approved by the Polish Financial Supervision Authority and SOBK is subject to the PFSA's supervision.

System Ochrony Banków Komercyjnych S.A. was set up by eight commercial banks operating in Poland: ING Bank Śląski S.A., Alior Bank S.A., Bank Millennium S.A., Bank Polska Kasa Opieki S.A., BNP Paribas Bank Polska S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Santander Bank Polska S.A.

2. Information about the Bank

VeloBank S. A. (the "Bank", "Company", "VeloBank") with its registered office in Warsaw at Rondo Ignacego Daszyńskiego 2C was entered into the register of the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register on 9 September 2022 under entry number KRS 0000991173. The Company was assigned a statistical ID No (REGON) 523075467. The legal basis for the Bank's activity is its Articles of Association drawn up in the form of a notarial deed of 5 September 2022 (as amended). As of 13 October 2022, the company's name, which had been changed to VeloBank S.A., was entered in the National Court Register. The duration of the Bank is indefinite.

On 3 October 2022, Getin Noble Bank's enterprise was transferred to the bridge institution – Bank BFG S.A. (with the exceptions indicated in the decision), whereas Getin Noble Bank retained its legal personality, subject to statutory regulations concerning the effects of the initiation of resolution.

Amongst other items, all deposits of Getin Noble Bank's customers, as well as loans in PLN and a grant of PLN 6.516 billion from the BFG were transferred to the bridge institution.

Some assets and liabilities remained with Getin Noble Bank in accordance with the BFG's decision – the exclusions include property rights and liabilities relating to mortgage loan agreements denominated in or indexed to a foreign currency, together with claims arising therefrom. For detailed information on other assets and liabilities retained by Getin Noble, see section II.2.1.

VeloBank is a "bridge bank" that should be sold in whole or in parts within a maximum of 24 months with the option of a 12-month extension - according to the published decision of the European Commission No C(2022)7131 of 1 October 2022, the sale is expected to take place within 18 months.

2.1. Opening balance sheet of VeloBank S.A.

As of 3 October 2022, the following was transferred to the bridge institution, VeloBank S.A., established by the Bank Guarantee Fund pursuant to Article 181(1) and Article 185(1), (3) and (5) of the Act on the Bank Guarantee Fund, the deposit guarantee scheme and resolution (hereinafter the "BFG Act"), with the effect set out in Article 191(1) of the BFG Act:

1. the enterprise of Getin Noble Bank (the "Entity under Resolution"), comprising all the property rights of Getin Noble Bank as at the end of the date of initiation of resolution, i.e. 30 September 2022, recognised in its records, such as accounting records or IT accounting systems, including the amount due to the Entity under Resolution from System Ochrony Banków Komercyjnych S.A. (hereinafter: “SOBK”) in relation to the support provided to the Entity under Resolution based on the Updated Declaration of SOBK of 24 September 2022, in accordance to which SOBK undertook to provide irrevocable and unconditional support of PLN 3,127,000,000.00 (in words: three billion one hundred twenty seven million Polish zloty) to Getin Noble Bank, exclusively on the condition of instituting resolution against Getin Noble Bank based on the BFG’s Decision (hereinafter: “SOBK Declaration”), except for:

   1.1 property rights arising from actual, legal or prohibited acts related to credit and loan agreements denominated in the Swiss franc (CHF) or indexed to the Swiss franc (CHF) exchange rate, and claims arising from these property rights, including those subject to civil and administrative proceedings, regardless of the date of raising them;

   property rights arising from actual, legal or prohibited acts related to mortgage loan agreements denominated in a foreign currency or indexed to a foreign currency, and claims arising from these property rights, including those subject to civil and administrative proceedings, regardless of the date of raising them;

   1.2 property rights arising from actual, legal or prohibited acts related to agreements, framework agreements or orders concerning FX risk hedging transactions (FX Swap) or FX and interest rate risk hedging transactions (CIRS) related to property rights, concluded by Getin Noble Bank with:

   I. the National Bank of Poland;

   II. Intesa Sanpaolo S.p.A. (former: Banca IMI S.p.A.);

   the maturity date of which falls after the day of the initiation of resolution, and claims arising from these property rights or liabilities, including those subject to civil and administrative proceedings, regardless of the date of raising them;

   1.3 property rights arising from actual, legal or prohibited acts, recognized by the Entity under Resolution – as at the end of the day of the initiation of resolution – as meeting the definition of credit-impaired financial assets in accordance with Annex A to Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9 (OJ L of 2016, 323, p. 1; hereinafter: “IFRS 9”), related to:

   I. loan and advance agreements originally denominated in Swiss franc (CHF) or originally indexed to Swiss franc (CHF) exchange rates;

   II. mortgage loan agreements originally denominated in a foreign currency or originally indexed to a foreign exchange rate;

   and claims arising from these property rights, including those subject to civil and administrative proceedings, regardless of the date of raising them;

   1.4 property rights arising from actual, legal or prohibited acts related to:

I. accepting and forwarding orders to buy or sell financial instruments;

II. executing orders to buy or sell financial instruments on behalf of the ordering party;

III. buying and selling financial instruments on own account;

IV. offering financial instruments;

V. managing portfolios consisting of one or more financial instruments;

VI. investment consulting;

VII. drafting investment analyses, financial analyses and other recommendations of a general nature pertaining to transactions regarding financial instruments;

VIII. activities entrusted or accepted for execution by Getin Noble; and

IX. other activities (including related to trading, brokerage, offering, management, consulting, advertising and marketing activities);

related to financial instruments issued by:

- GetBack S.A., currently Capitea S.A., with its registered office in Warsaw, ul. rtm. Witolda Pileckiego 63, 02-781 Warszawa, entered into the register of entrepreneurs in the National Court Register kept by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, with the number KRS 0000413997 (“GetBack”); and
- related parties of GetBack within the meaning of International Accounting Standard (IAS) 24 (Related Party Disclosures) as defined in Commission Regulation (EU) No 632/2010 of 19 July 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 24 and International Financial Reporting Standard (IFRS) 8 (OJ L 186, 20.7.2010, pp. 1-9, as amended);

and claims arising from these property rights, including those subject to civil and administrative proceedings, regardless of the date of raising them;

1.5 property rights arising from actual, legal or prohibited acts related to:

I. provision of financial services associated with insurance and pension funds (except for portfolio insurance contracts and group insurance contracts subject to point II);

II. provision of insurance coverage, performance of insurance brokerage activities based on the Act of 22 May 2003 on insurance brokerage (Journal of Laws of 2016, item 2077, as amended) or distribution of insurance based on the Act of 15 December 2017 on insurance distribution (Journal of Laws of 2022, item 905), referred to in group 3, section I of the appendix to the Act of 22 May 2003 on insurance activity or in group 3, section I of the appendix to the Act of 11 September 2015 on insurance and reinsurance activity (Journal of Laws of 2021, item 1130, as amended);

and claims arising from these property rights, including those subject to civil and administrative proceedings, regardless of the date of raising them;

1.6 property rights arising from actual, legal or prohibited acts related to the provision of services involving management of securitized receivables of securitization funds within the meaning of the Act of 27 May 2004 on investment funds and management of alternative investment funds (Journal of Laws of 2022, item 1523, as amended), and claims arising from these property rights, including those subject to civil and administrative proceedings, regardless of the date of raising them;

1.7 property rights arising from actual, legal or prohibited acts related to:

I. performance of commissioned activities related to the issue of debt securities, including bond issue services based on the Act of 29 June 1995 on bonds (Journal of Laws of 2014, item 730) and the Act of 15 January 2015 on bonds (Journal of Laws of 2022, item 454);

II. keeping records of bonds;

III. performing the function of:

i. bank–representative;

ii. mortgage administrator;

iii. pledge administrator;

iv. security administrator;

and claims arising from these property rights, including those subject to civil and administrative proceedings, regardless of the date of raising them;

1.8 shares in the following commercial law companies:

I. Noble Securities S.A., with its registered office in Warsaw, Rondo Daszyńskiego 2C, 00-843 Warszawa, entered into the register of entrepreneurs in the National Court Register with the number KRS 000001865;

II. Open Finance S.A. in bankruptcy, with its registered office in Warsaw, Aleje Jerozolimskie 92, 00-807 Warszawa, entered into the register of entrepreneurs in the National Court Register with the number KRS 0000196186;

III. Sax Development sp. z o.o., with its registered office in Wrocław, ul. Gwiaździsta 66, 53-413 Wrocław, entered into the register of entrepreneurs in the National Court Register with the number KRS 0000392833;

IV. Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A., with its registered office in Warsaw, Rondo Daszyńskiego 2C, 00-843 Warszawa, entered into the register of entrepreneurs in the National Court Register with the number KRS 0000256540;

V. Getin Holding, with its registered office in Wrocław, ul. Gwiaździsta 66, 53-413 Wrocław, entered into the register of entrepreneurs in the National Court Register with the number KRS 000004335;

(vi) Open Life TUZ, with its registered office in Warsaw, Aleja Solidarności 171, 00-871 Warszawa, entered into the register of entrepreneurs in the National Court Register with the number KRS 0000292551;

1.9 investment certificates in:

I. Property Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych;

II. Debtor Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty;

III. Open Finance Wierzytelności Detalicznych Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty;

1.10property rights arising from actual, legal or prohibited acts related to:

I. contracts for the provision of legal representation services only in matters relating to the agreements referred to in points a, b and d;

II. contracts for the provision of advisory services only in matters relating to the agreements referred to in points a, b and d;

III. agreement no 8204/10 of 22 June 2020, concluded by and between Getin Noble S.A. and Grant Thornton sp. z o.o. sp. k.;

IV. agreement no 9373/10 of 14 July 2022, concluded by and between Getin Noble S.A. and Grant Thornton sp. z o.o. sp. k.;

V. loan agreement no 131212/KO/2018 on non-revolving working capital loan of 31 December 2018, concluded by and between Getin Noble S.A. and Open Finance S.A.;

VI. loan agreement no 131980/KO/2019 on non-revolving working capital loan of 18 April 2019, concluded by and between Getin Noble S.A. and Open Finance S.A.;

VII. loan agreement no 134194/KO/2020 on non-revolving working capital loan of 18 June 2020, concluded by and between Getin Noble S.A. and Open Finance S.A.;

VIII. loan agreement no 135989/KO/2021 on non-revolving working capital loan of 12 February 2021, concluded by and between Getin Noble S.A. and Open Finance S.A.;

IX. loan agreement no 136923/KO/2021 on non-revolving working capital loan of 17 August 2021, concluded by and between Getin Noble S.A. and Open Finance S.A.;

X. agency agreement of 20 March 2013, concluded by and between Getin Noble S.A. and Open Life Towarzystwo Ubezpieczeń Życie S.A.;

XI. agreement of 16 March 2022 for the provision of advisory services, concluded by and between Getin Noble S.A. and ICENTIS CAPITAL Sp. z o.o.;

XII. agreement of 18 August 2022 for the provision of accounting and tax advisory services, concluded by and between Getin Noble S.A. and PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością sp. k.;

XIII. agreement of 29 March 2022 for the provision of services, concluded by and between the Bank and KPMG Advisory Spółka z ograniczoną odpowiedzialnością sp. k.;

XIV. agreement of 28 April 2021 for the provision of legal services, concluded by and between the Bank and T. Studnicki, K. Płeszka, Z. Ćwiąkalski, J. Górski Spółka komandytowa;

2. cash deposited with the National Bank of Poland in the amount of PLN 6,000,000 (in words: six million Polish zloty), and cash in the amount equivalent to liabilities of the Entity under Resolution to tax authorities, as well as payroll liabilities and social insurance liabilities less potential receivables of the Entity under Resolution from tax authorities due to VAT, as at the end of the day of the initiation of resolution, and determined during the period until the Transfer Day;
3. liabilities of the Entity under Resolution, including all liabilities of the Entity under Resolution as at the end of the day of the initiation of resolution, registered in its records, such as accounting records or IT accounting systems, except for:
   3.1. liabilities arising from actual, legal or prohibited acts related to credit and loan agreements denominated in the Swiss franc (CHF) or indexed to the Swiss franc (CHF) exchange rate, and claims arising from these liabilities, including those subject to civil and administrative proceedings, regardless of the date of raising them;

   liabilities arising from actual, legal or prohibited acts related to mortgage loan agreements denominated in a foreign currency or indexed to a foreign currency, and claims arising from these liabilities, including those subject to civil and administrative proceedings, regardless of the date of raising them;

   3.2. liabilities arising from actual, legal or prohibited acts related to agreements, framework agreements or orders concerning FX risk hedging transactions (FX Swap) or FX and interest rate risk hedging transactions (CIRS) related to property rights, concluded by the Bank with:

   I. the National Bank of Poland;

   II. Intesa Sanpaolo S.p.A. (former: Banca IMI S.p.A.); Banca IMI S.p.A.),

   the maturity date of which falls after the day of the initiation of resolution, and claims arising from these property rights or liabilities, including those subject to civil and administrative proceedings, regardless of the date of raising them;

   3.3. liabilities related to property rights recognized by the Bank – as at the end of the day of the initiation of resolution – as meeting the definition of credit-impaired financial assets in accordance with Annex to IFRS 9, other than these specified in point 1 letters a) and b), related to credit and loan agreements originally denominated in Swiss franc (CHF) or originally indexed to Swiss franc (CHF) exchange rates, or mortgage loan agreements originally denominated in a foreign currency or originally indexed to a foreign exchange rate, and claims arising from these property rights or liabilities, including those subject to civil and administrative proceedings, regardless of the date of raising them;

3.4. liabilities arising from actual, legal or prohibited acts related to:

I. accepting and forwarding orders to buy or sell financial instruments;

II. executing orders to buy or sell financial instruments on behalf of the ordering party;

III. buying and selling financial instruments on own account;

IV. offering financial instruments;

V. managing portfolios consisting of one or more financial instruments;

VI. investment consulting;

VII. drafting investment analyses, financial analyses and other recommendations of a general nature pertaining to transactions regarding financial instruments;

VIII. activities entrusted or accepted for execution by the Bank;

IX. other activities (including related to trading, brokerage, offering, management, consulting, advertising and marketing activities) related to financial instruments issued by:

- GetBack S.A., currently Capitea S.A., with its registered office in Warsaw, ul. rtm. Witolda Pileckiego 63, 02-781 Warszawa, entered into the register of entrepreneurs in the National Court Register kept by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, with the number KRS 0000413997 (“GetBack”); and
- related parties of GetBack within the meaning of International Accounting Standard (IAS) 24 (Related Party Disclosures) as defined in Commission Regulation (EU) No 632/2010 of 19 July 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 24 and International Financial Reporting Standard (IFRS) 8 (OJ L 186, 20.7.2010, pp. 1-9, as amended);

and claims arising from these liabilities, including those subject to civil and administrative proceedings, regardless of the date of raising them;

3.5. liabilities arising from actual, legal or prohibited acts related to:

I. provision of financial services associated with insurance and pension funds (except for portfolio insurance contracts and group insurance contracts subject to point II);

II. provision of insurance coverage, performance of insurance brokerage activities based on the Act of 22 May 2003 on insurance brokerage or distribution of insurance based on the Act of 15 December 2017 on insurance distribution, referred to in group 3, section I of the appendix to the Act of 22 May 2003 on insurance activity or in group 3, section I of the appendix to the Act of 11 September 2015 on insurance and reinsurance activity;

and claims arising from these liabilities, including those subject to civil and administrative proceedings, regardless of the date of raising them;

3.6. liabilities arising from actual, legal or prohibited acts related to the provision of services involving management of securitized receivables of securitization funds within the meaning of the Act of 27 May 2004 on investment funds and management of alternative investment funds, and claims arising from these liabilities, including those subject to civil and administrative proceedings, regardless of the date of raising them;

3.7. liabilities arising from actual, legal or prohibited acts related to:

I. performance of commissioned activities related to the issue of debt securities, including bond issue services based on the Act of 29 June 1995 on bonds and the Act of 15 January 2015 on bonds;

II. keeping records of bonds;

III. performing the function of:

i. bank–representative;

ii. mortgage administrator;

iii. pledge administrator;

iv. security administrator;

and claims arising from these liabilities, including those subject to civil and administrative proceedings, regardless of the date of raising them;

3.8. liabilities of the Entity under Resolution resulting from administrative fines imposed in connection with the Bank’s operations;

3.9. liabilities related to:

I. contracts for the provision of legal representation services only in matters relating to the agreements referred to in points a, b and d;

II. contracts for the provision of advisory services only in matters relating to the agreements referred to in points a, b and d;

III. agreement no 8204/10 of 22 June 2020, concluded by and between the Bank and Grant Thornton sp. z o.o. sp. k.;

IV. agreement no 9373/10 of 14 July 2022, concluded by and between the Bank and Grant Thornton sp. z o.o. sp. k.;

V. loan agreement no 131212/KO/2018 on non-revolving working capital loan of 31 December 2018, concluded by and between the Bank and Open Finance S.A.;

VI. loan agreement no 131980/KO/2019 on non-revolving working capital loan of 18 April 2019, concluded by and between the Bank and Open Finance S.A.;

VII. loan agreement no 134194/KO/2020 on non-revolving working capital loan of 18 June 2020, concluded by and between the Bank and Open Finance S.A.;

VIII. loan agreement no 135989/KO/2021 on non-revolving working capital loan of 12 February 2021, concluded by and between the Bank and Open Finance S.A.;

IX. loan agreement no 136923/KO/2021 on non-revolving working capital loan of 17 August 2021, concluded by and between the Bank and Open Finance S.A.;

X. agency agreement of 20 March 2013, concluded by and between the Bank and Open Life Towarzystwo Ubezpieczeń Życie S.A.;

XI. agreement of 16 March 2022 for the provision of advisory services, concluded by and between the Bank and ICENTIS CAPITAL Sp. z o.o.;

XII. agreement of 18 August 2022 for the provision of accounting and tax advisory services, concluded by and between the Bank and PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością sp. k.;

XIII. agreement of 29 March 2022 for the provision of services, concluded by and between the Bank and KPMG Advisory Spółka z ograniczoną odpowiedzialnością sp. k.;

XIV. agreement of 28 April 2021 for the provision of legal services, concluded by and between the Bank and T. Studnicki, K. Płeszka, Z. Ćwiąkalski, J. Górski Spółka komandytowa;

3.10. liabilities of the Entity under Resolution, subject to the proceedings instituted by Euro-Net sp. z o.o. on 31 March 2020 against the Bank, MasterCard Europe Societe Anonyme Naamloze

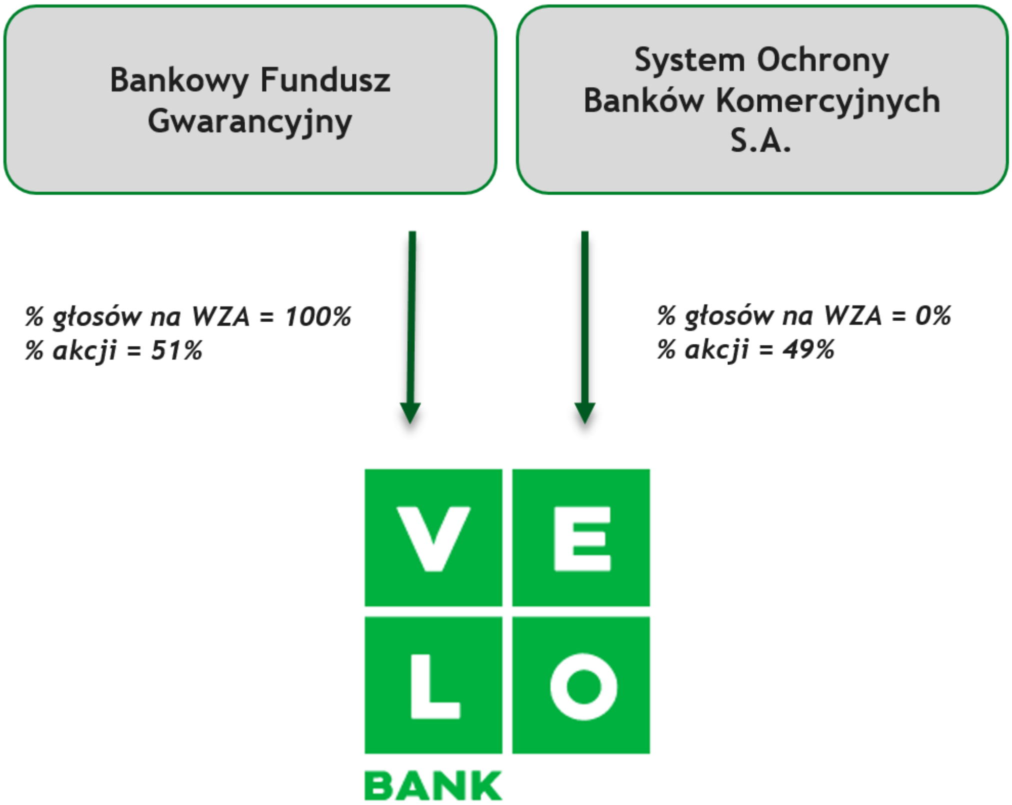
Vennootschap/Societe Anonyme/Aktiengesellschaft with its registered office in Waterloo, Belgium, carrying out the activities in Poland as a branch under the name: MasterCard Europe S.A. Branch in Poland and VISA Europe Management Services Limited with its registered office in London, operating in Poland as a branch office under the name: VISA Europe Management Services sp. z o.o. Branch Office in Poland.

Interim condensed consolidated financial statements for the period of 6 months ended 31 March 2023 (figures in PLN '000)

3. Shareholding structure

The Bank's share capital amounts to PLN 25,000,000.00 and is divided into 100,000 Series A registered shares with a nominal value of PLN 250.00 each.

The ownership structure of the Bank's shares at the date of submission of these interim condensed consolidated financial statements is as follows:



Bankowy Fundusz Gwarancyjny	Bank Guarantee Fund
% głosów na WZA = 100%	% of votes at GM = 100%
% akcji = 51%	% of shares = 51%
System Ochrony Banków Komercyjnych S.A.	System Ochrony Banków Komercyjnych S.A.
% głosów na WZA = 0%	% of votes at GM = 0%
% akcji = 49%	% of shares = 49%

SOBK was established in accordance with the provisions of Chapter 10a of the Banking Law, on the basis of a protection scheme agreement. SOBK is a joint-stock company whose purpose is to support the BFG in the takeover of banks, in accordance with the Banking Law.

The establishment of SOBK was approved by the Polish Financial Supervision Authority and SOBK is subject to the PFSA's supervision.

SOBK has no voting rights on VeloBank's authorities and will have no influence on its management. Pursuant to Article 187 of the Bank Guarantee Fund Act, in the event that the BFG is not the sole shareholder or shareholder of a bridge institution, the BFG has the exclusive competence to decide on the most important matters set out in the Act and in the period of operation of the bridge institution, the powers of the general meeting of shareholders or the shareholders' meeting are exercised by the BFG.

Banks participating in SOBK do not receive a return on their participation.

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

At the date of signing of these interim condensed financial statements, the composition of the management and supervisory boards 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
	Mirosław Boda
	Przemysław Koch
	Paulina Strugała

Supervisory Board of VeloBank S.A.	
Chairman of the Supervisory Board	Piotr Tomaszewski
Deputy Chairman of the Supervisory Board	Dagmara Wieczorek-Bartczak
Members of the Supervisory Board	Krzysztof Juzala
	Krzysztof Lebiediew
	Sławomir Stawczyk
	Mariusz Wojtacha

5. Information about the Capital Group

The VeloBank S.A. Capital Group (the "Capital Group", the "Group") consists of VeloBank S.A. as the parent entity and its wholly-owned subsidiary, ProEkspert Sp. z o.o.

Individual Group companies were established for an indefinite period.

VeloBank is a universal bank offering products in the area of financing, saving and investing as well as a wide spectrum of additional services which are provided to clients using a variety of channels, including traditional banking outlets and an online platform.

The principal activities of the Company comprise the provision of banking services and conducting business activities as defined in the Bank's Articles of Association The Bank operates throughout Poland and provides services mainly to individuals, both in Polish zloty and in foreign currencies.

The Bank's own offering is complemented by a subsidiary that deals with insurance brokers and agents. ProEkspert Sp. z o.o. performs insurance intermediation activities for a number of insurance companies on the basis of agency agreements concluded with insurance companies.

The subsidiary is fully consolidated.

6. Accounting policies

6.1. Basis for the preparation of the interim condensed consolidated financial statements

These interim condensed consolidated financial statements of the VeloBank S.A Group cover the six-month period ended 31 March 2023.

These interim condensed consolidated financial statements have been prepared under the historical cost convention, except for financial instruments measured at fair value.

These interim condensed consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, i.e. for a period of at least 12 months from the reporting date. As at the date of authorisation of the interim condensed consolidated financial statements, there are no circumstances indicating a threat to the Group's ability to continue as a going concern.

6.2. Statement of compliance

The interim consolidated condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU, in particular IAS 34 *Interim Financial Reporting*, with the exception of comparative disclosures and selected explanatory notes.

6.3. Consolidation principles

These consolidated financial statements include the separate financial statements of VeloBank S.A. as the parent and the financial statements of its subsidiary. The financial statements of the Bank and its subsidiary used in the preparation of the consolidated financial statements have the same reporting date.

The parent prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made to that group member's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

6.4. Significant accounting policies

VeloBank recognised the part of the undertaking comprising the separated property rights and liabilities of Getin Noble OPB using the predecessors' values method, i.e. the book values derived from the financial statements of Getin Noble Bank S.A. prepared in accordance with IFRS (this method is also referred to as the pooling of interests method). The difference between the assets recognised by VeloBank and the liabilities of the Getin Noble Bank OPB was recognised by VeloBank directly in equity.

The bridge institution is a bank, within the meaning of Article 2 of the Banking Law, as a result of the transfer of the enterprise, which was a bank, to this institution pursuant to Article 188 of the BFG Act. In addition, the transferred undertaking's assets included, among others, shares in a subsidiary (ProEkspert Sp. z o.o.).

BFG Bank applied the provisions of the Accounting Act of 29 September 1994 to maintain accounting records and prepare financial statements. By Resolution No 2 of the Extraordinary Shareholders' Meeting of the company under the business name VeloBank Spółka Akcyjna of 21 October 2022 on the preparation of financial statements in

accordance with IFRS, the Bank adopted International Accounting Standards, International Financial Reporting Standards and related interpretations promulgated in the form of regulations of the European Commission (hereinafter IAS/IFRS) for application as of 3 October 2022, and to the extent not regulated by IAS/IFRS, with the appropriate application of the provisions of the Accounting Act and the secondary legislation issued thereunder.
On 3 October 2022, a new accounting policy was adopted. VeloBank has adopted the accounting policy applied by Getin Noble Bank.
Considering the above and the fact that the Bank applied IAS/IFRS for the first time on 3 October 2022, these interim condensed consolidated financial statements of the VeloBank S.A. Group have been prepared taking into account the requirements of IAS/IFRS and, to the extent not regulated by IAS/IFRS, with appropriate application of the provisions of the Accounting Act and the secondary legislation issued thereunder, in particular IFRS 1 "First-time Adoption of IFRS".

Significant accounting policies for financial assets and liabilities.

Initial recognition

Purchase and sale of financial assets as part of a standardised transaction of purchase or sale of financial assets (within the meaning of IFRS 9) are recognised as at the transaction settlement date, i.e. on the date on which the financial asset is delivered to the Bank or by the Bank.

When a financial asset or financial liability is recognised initially, an entity measures it at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable 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 the time of initial recognition of an asset in the balance sheet and depends on:

- the business model for financial asset management, which is determined at the level reflecting the manner in which groups of financial assets are managed as a whole to achieve the specific business objective, and
- the nature 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 contractual cash flows, financial assets may be classified as:

- measured at amortised 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 assesses its business model considering all relevant evidence that is available at the date of the assessment. Such information includes, among others:

- adopted policies and goals 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;
- frequency, value of assets sold from the portfolio in earlier periods, reasons for those sales and expectations about future sales.

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

- business model whose objective is to hold financial assets in order to collect contractual cash flows (hold-to-collect model);
- business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold to-collect and sell model);
- business model whose objective is to realise cash flows through the sale of assets (the "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 realise cash flows by collecting contractual payments over the life of the instrument. However, the Bank need not hold all instruments under this business model to maturity. This model implies that the sale of financial assets (in particular the loan portfolio and the securities portfolio) within a portfolio:

- is carried out occasionally (even if the value is significant);
- the value of that sale is negligible (individually or in aggregate), even if it occurs frequently.

Notwithstanding the above, a sale under this business model may be made in the following circumstances:

- an increase in the credit risk associated with the financial assets in question (including the sale of the impaired NPL portfolio);
- implementation of a liquidity contingency plan;
- disposal of securities in connection with the imminent maturity of the securities, i.e. within two weeks before actual maturity;
- concentration risk management;
- forced by third parties — this refers to financial assets that have to be sold due to e.g. regulatory requirements, but were originally held to collect contractual cash flows (e.g. implementation of a recovery plan);
- changes in laws or regulations — made to maintain an assumed level of regulatory capital.

In a 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 everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding.

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

If the financial asset is held within the "hold-to-collect" or "hold-to-collect and sell", the Bank determines, by conducting a qualitative SPPI test, whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding, and thus whether they are consistent with the basic lending arrangement. In the basic lending arrangement, the 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 a 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 the contractual (undiscounted) cash flows from the assessed financial asset would differ from the (undiscounted) benchmark cash flows.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met and the Bank did not designate a financial asset 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 the financial assets as measured at fair value through profit or loss:

- the financial asset is held in the “hold to collect and sell” business model (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.

On initial recognition, the Bank may irrevocably elect that certain investments in equity instruments that would otherwise be measured at fair value through profit or loss should subsequently be measured at fair value through 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 amortised 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 other business models than:

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

This category includes two sub-categories:

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

Purchased or originated credit-impaired financial assets (POCI)

POCI concern financial instruments classified as measured at amortised cost or measured at fair value through other comprehensive income. In order for a financial asset to qualify as a POCI, two conditions must be met, i.e.: a new financial asset has emerged (e.g. as a result of a significant modification or purchase) and a new asset is credit impaired (qualification to Stage 3 at the initial recognition). POCIs are measured using the effective interest rate method using the effective interest rate adjusted for credit risk. The Bank allows the effective interest rate to be applied to the insignificant value of financial instruments identified as POCI.

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 unfavourable 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 amortised 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 is accounted for using the continuing involvement approach;

c) financial guarantees issued – after initial recognition, the issuer of such a contract subsequently measures it at the higher of:
   - the amount of allowance for expected credit losses;
   - the amount initially recognised less, if appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15;

d) commitments to provide a loan at a below-market interest rate – after initial recognition, the issuer of such a commitment measures it at the higher of:
   - the amount of allowance for expected credit losses;
   - the amount initially recognised less, if appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15;

e) contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies — the contingent consideration is subsequently measured at fair value, with any changes recognised in profit or loss.

Modifications of financial assets

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

A substantial modification is a change in contractual cash flows related to the financial asset, which leads to derecognition of an existing financial asset as a result of the renegotiation (including settlements signed with customers as part of the forbearance), resulting in the annex to the loan agreement with the customer. The gain or loss on a substantial modification is recognised in “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 recognised in the balance sheet at fair value. Where there are indications that the carrying amount of an asset determined at the moment of a substantial modification is not its fair value, it is necessary to adjust the exposure to fair value.

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

- currency conversion (with the exception of conversion resulting from applicable law and loan agreement);
- change of a debtor (main borrower, except for the debtor’s death);
- change of a product – legal form / type of financial instrument (e.g. from a loan to a bond);
- introduction to a contract a new feature in violation of the SPPI Test criteria or removal of such feature.

The identification of at least one of the above-mentioned quality criteria leads to the recognition of a substantial modification of the financial asset. In the absence of identification of qualitative indicators, verification of the quantitative criterion is required.

The quantitative criteria for identifying a substantial modification is:

- increasing of the exposure amount by at least 10%. - the exposure amount is understood as the contractual value of the financial instrument as at the day preceding the event which is analysed for a substantial modification.
- 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 from the period resulting from the agreement (and subsequent amendments thereto);
  b) an extension of the current financing period by more than double the period resulting from the agreement (and subsequent amendments thereto).

The Bank defines the current financing period as the period from the date of release of the financial instrument in the Bank's accounting records to the date of repayment of the financial instrument under the agreement (and subsequent amendments thereto), as at the date of modification. In the case of a financial instrument that has been called in, the material extension of the financing period as part of the forbearance process is analysed in relation to the financing period indicated in the agreement (and subsequent amendments thereto) in force up to the date the instrument was called in.

Derecognition of financial assets and liabilities

A financial asset is derecognised when the Bank loses control over the contractual rights embodied in 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 passed onto a third party.

In particular, the Bank writes off credit receivables from the balance sheet against impairment losses when the receivables are uncollectible (there is no reasonable prospect of recovering all or part of the cash flows arising from the loan agreement), i.e:

- the loan receivable became due as a whole;
- all legal and factual possibilities to enforce the loan receivable in question have been exhausted.

The Bank writes off (partially or in full) the gross carrying amount of financial assets measured at amortised cost if there is no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event. The Bank performs a periodic analysis of the recoverability of a financial asset, in particular penalty and statutory interest by portfolio types based on historical data analysis in this respect, over the last 5 years. If the analysis of the recoverability of a financial asset, in particular penalty and statutory interest, indicates that the historical recoverability did not exceed 5% of the gross carrying amount of a financial asset, the Bank makes a full write-off of penalty and statutory interest. The financial asset that has been written off may still be the subject of a debt collection process conducted by the Bank to recover amounts receivable.

The Bank derecognises a financial liability (or a part of a financial liability) when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires or a substantial modification of contractual terms occurred.

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 the impairment based on the concept of "expected credit loss" (ECL). This means that the Bank calculates impairment losses based on ECL and forward-looking approach, thus oriented to 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 to the category of financial assets measured at amortised cost or at fair value through other comprehensive income, except for equity instruments.

In accordance with IFRS 9, impairment losses are determined in the following stages:

1. Stage 1: 12-month expected credit loss — expected loss related to impairment within 12 months from the balance sheet date, for exposures for which neither any significant increase in credit risk nor any 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 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 related to impairment over the expected life of a financial asset, for exposures for which impairment was identified to the balance sheet date.

For each reporting date, the Bank determines for each exposure being measured whether the credit risk related to a given exposure has significantly increased since the initial recognition as well as whether any evidence of impairment was reported.

The Bank applied the definition of “default” in accordance with the EBA recommendations and the provisions of IFRS 9.

The Bank applies the indication of no or delayed repayment above 90 DPD, with the use of a definition of past due in accordance with the EBA recommendations and Ordinance of the Minister of Finance, Investment and Development of 3 October 2019 on the level of materiality of an overdue credit liability.

Other evidence that a given exposure should be classified by the Bank in Stage 3 include, among others:

- significant financial difficulties of the debtor manifesting by classification to the worst class (for corporate customers);
- a loan became due as a whole as a result of termination of the agreement (the exposure was forwarded to the debt collection);
- a loan extortion;
- a loan is contested by the debtor through court proceedings;
- death of the customer;
- a loan restructuring — multiple or causing loss of cash flows on the contract or for exposures with significant overdue payments;
- an application has been made for the bankruptcy of the debtor or a request for the institution of recovery proceedings;
- specific indications of default for individually significant exposures;
- infection with credit loss by other customer exposures in the case of corporate customers and taking into account the materiality threshold of 20% for retail customers.

The Bank applies quarantine periods in order to make it probable that the reasons for classifying the exposure as defaults will cease to exist. During the first 3 months of quarantine, the exposure continues to be classified as a default and for the next 3 months of quarantine, in the case of the reason resulting from timely repayment, it is classified in Stage 2.

For the purpose of estimating whether credit risk of an exposure increased significantly since initial recognition, the Bank defined the catalogue of reasons for classification to Stage 2, including:

- lack or delay in payments above 30 DPD (in accordance with the algorithm for estimating delinquency status in the Bank);
- inclusion of the corporate customer in the so-called watch-list as part of the Early Warning System;
- problems of a retail counterparty resulting from job loss or income reduction, failure to pay debt in other institutions or a significant deterioration of DTI (Debt to Income) ratio;
- customer’s use of BGK support (for housing loans);
- restructuring of the exposure, which does not result in the classification 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 probability curves of the exposure during the life of the exposure according to the current exposure status and at the time of initial recognition or by comparing the quality assessments of exposure (for corporate customers for whom the probability curves of default are not used).

The Bank defined portfolios of the so-called Low Credit Risk (LCR), including among others exposures to State treasury and local government units, banks. For the purpose of classifying exposures to the appropriate Stage, the Bank applies for LCR portfolios all of the above-described classification criteria except for the SICR criterion.

The Bank carries out an individual valuation for individually significant exposures classified to Stage 3 and for selected exposure groups irrespective of stage classification and exposure values – hereinafter referred to as exposures with mandatory individual valuation (e.g. NOSTRO exposures, mortgage bonds or other transactions concluded at interbank market or developer exposures). For individually significant exposures and for exposures with mandatory individual valuation, the Bank reviews impairment indications at least once a quarter, and then estimates the level of allowances for individually significant exposures classified to Stage 3 and for exposures with mandatory individual valuation as the difference between the carrying amount of the loan and the present value of estimated future discounted cash flows based on the effective interest rate on the loan. The Bank applies a scenario-based approach for the purpose of estimating the level of cash flow, including for loans for which collateral has been established, the current value of estimated future cash flows includes cash flows that can be obtained from enforcement of the collateral, less the costs of enforcement and sale of the collateral, if the enforcement is probable.

Other exposures not individually valued are included in portfolios with similar credit risk profile due to, among other factors, product type, customer or method of valuation at the disbursement date, and valued on a monthly basis in a group manner — in the first place, exposures are classified to the appropriate Stage, and then the level of credit losses in the 12M period (Stage 1) or lifetime (for other stages) is estimated.

The Bank constructed the portfolio parameter models used to estimate the expected credit losses in a group manner, by including the applied definition of default, forward-looking approach and macroeconomic forecasts. The PD model provides for estimating the probability curves of default depending on the horizon of the estimated loss (12M vs. lifetime), taking into account the Bank's expectations regarding the future macroeconomic situation and taking into account behavioural data of exposures. In terms of estimation of LGD parameters, the Bank applies the approach to estimating the cure rate (CR) and the level of recovery rates broken down by into unsecured (RR) and mortgage-secured part (Haircut), taking into account future macroeconomic situation with respect to changes in real estate prices; in addition, a forward-looking element was implemented based on estimates of exposure characteristics affecting the observed level of recovery and cures from the exposure during its life.

For the purposes of modelling the expected value of exposure as at moment of default for revolving exposures without defined schedules, the Bank has implemented models of balance-sheet and off-balance-sheet values based on historical behavioural patterns of repayments and disbursements before the moment of default.

For each reporting date, the Bank determines for each exposure being measured whether the credit risk related to a given exposure has significantly increased since the initial recognition as well as whether any evidence of impairment was reported. If an entity has measured the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that for a given exposure there are no indications of a significant increase in credit risk from the initial recognition date and the impairment triggers have not been reported, the Bank measures the expected credit loss allowance at the amount equal to the 12-month expected credit loss as at the current reporting date. The Bank uses for a wide catalogue of indicators that classify exposures both to Stage 2 and Stage 3, that is a grace period, i.e. a specified number of calendar months from the last date of observation of the indicator provided that appropriate conditions for timely repayment have been met, only after such grace periods have been met for a given condition it is possible to reclassify exposures from a given Stage.

Subject to clauses 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 the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

The method of calculating impairment of financial assets also affects the method of recognition of interest income. In particular, interest income on assets included in 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 amortised cost of the asset, including impairment losses.

6.5. Functional and reporting currency

The reporting currency of these interim condensed consolidated financial statements is the Polish zloty (PLN), and all amounts are expressed in thousands of Polish zloty (PLN ‘000) unless stated otherwise. The Polish zloty is the functional currency of the parent and the subsidiary covered by these interim condensed consolidated financial statements and the reporting currency of these interim condensed consolidated financial statements.

6.6. Changes in applied accounting policies

Standards and interpretations that became effective and effective as of 1 January 2022

The accounting policies applied in preparing these interim condensed financial statements are consistent with the policies applied in preparing the financial statements of the Bank, transferred by the BFG’s Decision, for the year ended 31 December 2021, save for the effect of applying the following new standards, amendments to existing standards and new interpretation effective for annual periods beginning on or after 1 January 2022:

- Annual Improvements to IFRS Standards 2018-2020; effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 16 *Property, Plant and Equipment* – Proceeds before Intended Use – the amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling assets produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss; effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* — Onerous contracts — cost of fulfilling the contract — the amendments specify which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous; effective for annual periods beginning on or after 1 January 2022;
- Amendments to IFRS 3 Business Combinations — Reference to 2018 Conceptual Framework — effective for annual periods beginning on or after 1 January 2022.

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

- IFRS 17 *Insurance Contracts* — effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* — definition of accounting estimates; effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 — disclosure of accounting policies; effective for annual periods beginning on or after 1 January 2023;

- Amendments to IAS 12 Income Tax — Deferred Tax related to assets and liabilities arising from a single transaction; effective for annual periods beginning on or after 1 January 2023;

New standards and amendments to existing standards issued by the International Accounting Standards Board (IASB), but not yet endorsed by the EU

There are no major differences between the IFRS as endorsed by the EU and the regulations issued by the IASB, with the exception of the following new standards and amendments to existing standards, which were not yet endorsed by the EU as at 14 July 2023 (the following effective dates refer to the full versions of respective standards):

- Amendments to IAS 1 *Presentation of Financial Statements* — the amendments affect requirements in IAS 1 for the presentation of liabilities; specifically, they clarify one of the criteria for classifying a liability as non-current; effective for annual periods beginning on or after 1 January 2024;
- IFRS 16 *Leases* – lease liabilities in sale and leaseback agreements — effective for annual periods beginning on or after 1 January 2024.

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

The Bank estimates that none of those new standards, amendments to the existing standards would have had a material impact on its financial statements had they been applied by the Bank as at the balance sheet date.

7. Changes in estimates and error adjustments

The preparation of financial statements in accordance with IFRS requires the Bank to make certain estimates and to adopt certain assumptions which affect the amounts presented in the financial statements. Estimates and assumptions that are subject to continuous assessment by the Bank's management are based on historical experience and other factors, including expectations of future events which seem reasonable under the circumstances. Although these estimates are based on the best knowledge of the current conditions and actions taken by the Bank, the actual results may differ from these estimates. Estimates made at the end of each reporting period reflect the conditions existing on such dates (e.g. currency exchange rates, interest rates and market prices).

In the period of 6 months ended 31 March 2023, there were no adjustments of fundamental errors or changes in areas for which the Bank made estimates and applied professional judgement.

III. EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE VELOBANK S.A. CAPITAL GROUP

1. Net interest income

Interest income and expense include all interest income and expense on financial instruments measured at amortised cost using the effective interest rate 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 incremental costs relating to originated loans and advances, including integral and direct internal costs.

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

- financial assets classified as measured at amortised cost;
- non-derivative financial liabilities not classified at initial recognition as liabilities measured at fair value through profit or loss.

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

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

However, the method accounting for amounts of commissions/ fees in profit or loss as interest or commission income, and the need to account for them over time, rather than the possibility of recognizing them in profit or loss on a one-off basis, depends on the economic nature of the commission/ fee.

Fees/ commissions accounted for over time include for example, loan approval fees, loan origination fees, fees for loan disbursement, etc. Commissions include also consideration for insurance when there is a direct connection between credit product and insurance product. Such fees are an integral part of the return generated by the given financial instrument. This category also comprises fees and charges incurred for changing the terms and conditions of contracts, which modifies the originally calculated effective interest rate where such modification does not result in the derecognition of a financial asset.

Furthermore, if it is probable that a loan agreement is to be executed, the fees and charges for the Group's obligation to execute the agreement are considered as remuneration for continuing involvement in the purchase of the financial instrument, deferred and recognised as an adjustment of the effective rate of return at the time of execution of the agreement (using the effective interest rate method or the straight-line method, depending on the nature of the product). In case of an asset for which impairment has been identified, the interest income is recognised in profit or loss based on net exposure determined as the difference between gross exposure and impairment loss.

Net interest income also comprises the gain or loss on the interest charged and paid in relation to derivative instruments.

Net interest income	3.10.2022 - 31.03.2023 PLN '000
Income related to:	
Financial assets measured at amortised cost:	**1,443,824**
loans and advances	1,124,456
amounts due from banks and financial institutions	29,072
other financial instruments	260,627
reserve requirement	29,669
Financial assets measured at fair value through other comprehensive income	**235,711**
Financial assets measured at fair value through profit or loss	**12,391**
loans and advances	7,275
derivative financial instruments	5,116
Financial liabilities	**6**
Total interest income	**1,691,932**
Expense related to:	
amounts due to customers	804,982
amounts due to banks and financial institutions	10,205
derivative financial instruments	5,758
lease liabilities	4,339
financial assets	175
Total interest expense	**825,459**
Net interest income	**866,473**

Interest income on loans and advances includes PLN 74.9 million recognised on account of a change in the estimate of the amount of a provision recognised in connection with the statutory introduction of the option to suspend loan repayments, known as a "credit vacation", for customers with mortgage loans in PLN.

2. Net fee and commission income

Fees and commissions accounted for using the effective interest rate method are recognised by the Bank in the net interest income. Fees and commissions that are accounted for over time using the straight-line method or on a one-off basis, are recognised in net fee and commission income. The fee and commission income include fee and commission income arising from transaction services comprising execution of significant activities. Such income includes fees for activities, recognised on a one-off basis, 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 commission and fees not being an integral part of the effective interest rate of loan receivables.

The Bank, offering insurance products to its customers, recognises fees for insurance services based on a professional judgment regarding the scope of sale: whether it is limited to the agency service or the sale of insurance is linked to the sale of 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 direct link which results in the recognition of remuneration for offering insurance products under the amortised cost method using the effective interest rate method in interest income;
- the absence of a direct link which results in the recognition of remuneration for offering insurance products in commission income in accordance with IFRS 15 *Revenue from contracts with customers*;

– the existence of a bancassurance product composed of a financial instrument and an insurance product, resulting in the division of remuneration for offering insurance product based on separating the fair value of the offered financial instrument and fair value of the insurance product sold together with such instrument.

If a bancassurance product is identified, the remuneration for the sale of insurance product is divided into the part constituting the amortised cost element of the financial instrument and the part constituting the fee for agency services. The fee is divided based on the identifiable portion of the fair value of the financial instrument and the fair value of the agency service referred to the total of both amounts. Fair value measurement of the agency services and the financial instrument is based on market data. In the case of provision of after-sales services resulting from the offered insurance product, the corresponding part of the remuneration allocated to the agency service is accounted for during the term of the insurance contract according to the method of completion, taking into account the matching principle. This remuneration is recognised in fee and commission income.

The Bank estimates the share of remuneration that will be returned (e.g. due to the termination of the insurance contract by the customer, prepayments or other) in the periods after the sale of an insurance product. The estimated part of remuneration is deferred up to the value of expected returns. For the part relating to revenues accounted for at amortised cost, the projected returns are included in the remuneration recognised at amortised cost of a financial instrument. In a situation, when the remuneration is divided for a bancassurance product, the projected returns for the part accounted for using the effective interest rate and recognised as remuneration for agency service of insurance sale are assigned to those items in the same way as the remuneration has been split.

The Bank classifies costs associated with the sale of insurance product to directly related and other indirectly related costs, including fixed costs (recognised as incurred).

Net fee and commission income	3.10.2022 - 31.03.2023 PLN '000
Income related to	
loans and advances	4,388
maintenance of bank accounts	15,346
payment and credit cards	20,830
investment products	4,228
insurance products	11,146
transaction margin on foreign exchange operations	7,406
other fee and commission income	1,255
Total fee and commission income	**64,599**
Expense related to	
loans and advances	252
payment and credit cards	28,858
investment and banking products	8,979
insurance products	979
promotion and awards to customers	8,055
other fee and commission expense	1,617
Total fee and commission expense	**48,740**
Net fee and commission income	**15,859**

3. Dividend income

Dividend income	3.10.2022 - 31.03.2023 PLN '000
Dividends received:	
from securities classified as financial assets measured at fair value through other comprehensive income	1
from securities classified as financial assets measured at fair value by profit or loss	59
Total dividend income	**60**

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

Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	03.10.2022 - 31.03.2023 PLN '000
Gain (loss) on financial instruments measured at fair value through profit or loss, of which:	(78)
on instruments designated at initial recognition as measured at fair value through profit or loss	2,060
on financial instruments measured at fair value through profit or loss	(822)
on derivatives	(1,316)
Other foreign exchange differences	(381)
Total gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	**(459)**

5. Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss

Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss	3.10.2022 - 31.03.2023 PLN '000
Gain (loss) on cash flow modification resulting in derecognition	35
Total gain (loss) on derecognition of financial assets not measured at fair value through profit or loss	**35**

6. Net other operating income and expenses

Other operating income and expenses include income and expenses not directly related to the Group's banking business. These include, in particular: gains (losses) on disposal of fixed assets, income and expenses from provisions and impairment losses on non-financial assets, rental income and expenses, sales of other services, penalties and fines received and paid, as well as expense relating to the debt collection activities and court fees.

Net other operating income and expenses	3.10.2022 - 31.03.2023 PLN '000
Other operating income:	
outsourcing services	18,613
income related to the sale and valuation of real estate	6,796
recovered legal and debt collection costs	4,335
reversal of provisions and impairment losses on other assets	693
income from bad debts recovered	700
revenues from sales of products and services	636
penalties, fines and compensations received	382
rental income	225
other income	2,162
Total operating income	**34,542**
Other operating expenses	
debt collection and monitoring of receivables, including legal costs	22,940
recognition of provisions and impairment losses on other assets	6,673
securitisation expenses	2,327
litigation costs, judgements, appeals, cassation claims and experts	683
provisions for reimbursement of loan commissions on early repayment of loans	1,222
rental costs	594
other expenses	1,991
Total operating expenses	**36,430**
Net other operating income and expenses	**(1,888)**

7. Administrative expenses

Administrative expenses	3.10.2022 - 31.03.2023 PLN '000
Employee benefits	161,307
Raw materials and consumables used	6,443
Third-party services	127,080
Taxes and charges	2,971
Amortisation and depreciation	58,582
Other expenses	1,313
Total administrative expenses excluding payments to the Bank Guarantee Fund	**357,696**
Payments to the Bank Guarantee Fund	10,000
Total administrative expenses	**367,696**

8. Gain (loss) on non-substantial modification

Gain (loss) on non-substantial modification	3.10.2022 - 31.03.2023 PLN '000
Gain/ (loss) on modification	(3,300)

9. Net impairment losses on financial assets and off-balance sheet provisions

The Group 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 the impairment based on the concept of "expected credit loss" (ECL). This means that the Group calculates impairment losses based on ECL and forward-looking approach, thus oriented to estimating future losses based on forecasts and expected future economic conditions in the context of credit risk assessment of exposures.

Net impairment losses on financial assets and off-balance sheet provisions	3.10.2022 - 31.03.2023 PLN '000
Loans and advances to customers	(111,350)
Amounts due from banks and financial institutions	(102)
Other financial instruments	44
Off-balance-sheet liabilities	(13,836)
Other financial assets	709
Total net impairment losses on financial assets and off-balance sheet provisions	**(124,535)**

3.10.2022 - 31.03.2023	Loans and advances to customers 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 recognised in profit or loss	111,350	102	(44)	13,836	(709)	**124,535**
Utilisation — written-off	(14,437)	-	-	-	-	**(14,437)**
Utilisation – sale	(262,422)	-	-	-	-	**(262,422)**
Other net increases / (decreases)	8,680	(41)	-	(1)	-	**8,638**
Impairment losses/provisions at the end of the period	**2,166,396**	**505**	**20,630**	**18,782**	**435**	**2,206,748**

"Other net increases / decreases" includes an adjustment to interest income on impaired loans. This item also reflects changes due to measurement of impairment losses on assets in foreign currencies.

10. Income tax

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

At present, the Bank will carry out a tax settlements holding the view that there was no tax succession at the time of the resolution on the basis of the regulation of Article 93 § 4 of the Tax Ordinance, whereby the provision on universal tax succession in the event of a merger of entities applies mutatis mutandis in a situation in which a bank takes over another bank. The understanding is supported by the wording of the explanatory memorandum to the act introducing this provision, which indicates that it relates to the takeover of a bank by another bank carried out under the provisions of the banking law, as a result of which the bank being taken over 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:

- allowances for expected credit losses or debt claims written off as uncollectible cannot constitute a tax-deductible expense for CIT purposes for the Bank;
- the tax result relating to these debt claims should be determined in accordance with Article 15ba of the CIT Act, according to which:
  1) "*If at least 100 debt claims are purchased in a single transaction without separating the purchase price of the individual claims (debt package), the income from the debt package is the excess of the income from the claims included in the debt package over the cost of the debt package.*
  2) *Income from the debt claims included in the debt package shall be understood as the funds or values received from the settlement of these claims or the funds or values from the disposal of all or part of the claims included in the respective debt package, with the exception of fees, interest, late payment interest and penalties accrued after the date of purchase of the debt package.*
  3) *The cost of a debt package is understood to be the purchase price of such a debt package.*
  4) *The costs of a debt package shall be deducted in the accounting period in which the income from the debt claims included in the debt package is earned, up to the amount corresponding to that income.*
  5) *Paragraphs 1 to 4 shall apply mutatis mutandis to the acquisition of a single claim.*"
- The loss on the sale of debt claims will not be deductible under Article 16(1)(39a) of the CIT Act.

Due to the absence of tax succession as stipulated in Article 93 of the Tax Ordinance, the assets and liabilities transferred on 3 October 2022 to the bridge institution as a result of the Bank Guarantee Fund's decision to initiate a resolution against Getin Noble Bank S.A. should be measured to fair market value in order to determine their tax bases. As a consequence of determining the tax bases of assets and liabilities, the Bank will be entitled to recognise deferred tax. According to preliminary estimates based on carrying amounts as at 3 October 2022, the Bank should be permitted to recognise a deferred tax asset. An external valuation is planned to be obtained in the third quarter of this year.

Income tax	3.10.2022 - 31.03.2023 PLN '000
Consolidated income statement	
Current income tax	**37,608**
Current tax expense	37,608
Deferred income tax	**38,824**
Related to recognition and reversal of temporary differences	38,824
Tax expense in the consolidated income statement	**76,432**

Reconciliation of tax expense on profit (loss) before tax	03.10.2022 - 31.03.2023 PLN '000
Gross profit before tax	**355,506**
Income tax at the applicable rate (19%)	67,546
Effect of permanent differences between profit before tax and taxable income, including:	**8,886**
effect of non-deductible expenses (including contribution to BFG)	(1,896)
tax on financial institutions	(5,518)
effect of other permanent differences	16,300
Tax expense recognised in the income statement	**76,432**

11. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the net profit/(loss) for the period attributable to ordinary shareholders of the parent entity by the weighted average number of ordinary shares outstanding during the period.

	3.10.2022 - 31.03.2023
Profit for the period attributable to equity holders of the parent (in PLN '000)	279,074
Weighted average number of ordinary shares	100,000
Basic earnings per share (in PLN)	**2,790.74**

Diluted earnings per share

Diluted earnings per share is calculated by dividing the net profit / (loss) for the period attributable to ordinary shareholders of the parent entity by the weighted average number of ordinary shares outstanding during the period, adjusted by the weighted average of ordinary shares that would be issued to convert all dilutive potential equity instruments into ordinary shares.

There were no dilutive instruments in VeloBank S.A. in the period of six months ended 31 March 2023. Diluted earnings per share are equal to basic earnings per share.

12. Cash and balances with the Central Bank

Cash and balances with the Central Bank	31.03.2023 PLN '000
Cash	138,587
Current and overnight account with the Central Bank, cash in transit	394,694
Total cash and balances with the Central Bank	**533,281**

During the day, the Bank may use funds on the current accounts with the Central Bank to carry out current monetary settlements; however, the Bank must ensure that the average monthly balance is maintained on these accounts in the amount consistent with the declaration of the reserve requirement.

Funds on the reserve requirement account bear interest at the rate of 6.75%.

On 28 December 2022, the Management Board of the National Bank of Poland adopted a resolution on exempting VeloBank S.A. from the obligation to maintain 60% of the reserve requirement. The exemption applies from 1 January 2023 until 31 December 2023.

13. Amounts due from banks and financial institutions

Amounts due from banks and financial institutions	31.03.2023 PLN '000
Current accounts	27,827
Deposits	366,341
Other receivables	166,947
Total gross amounts due from banks and financial institutions	**561,115**
Impairment losses on receivables	(505)
Total net amounts due from banks and financial institutions	**560,610**

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

Financial assets measured at fair value through profit or loss	31.03.2023 PLN '000
other instruments	17,375
Total financial assets measured at fair value through profit or loss	**17,375**

"Other instruments" include shares in VISA Inc. Series C shares are recognised in the financial statements as debt instruments. Series A preference shares (upon conversion) are recognised as equity instruments. The valuation of the series A preferred shares in VISA is determined on the basis of the quotation of ordinary shares in VISA Inc on the US Stock Exchange.

15. Derivative financial instruments

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

a) its value changes in response to the 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 other 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");

b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

c) it is settled at a future date.

The result of the final settlement of derivative transactions is recognised in gain (loss) on financial instruments measured at fair value through profit or loss or – for currency derivatives (FX swaps, FX forwards and CIRSs) net foreign exchange income.

The notional amounts of derivative transactions are recognised in off-balance sheet items as at the date of the transaction and throughout their duration. Revaluation of off-balance sheet items expressed in foreign currencies takes place at the end of the day, at the mid-exchange rate quoted by the National Bank of Poland (fixing as at the valuation date).

The fair value of financial instruments quoted in a market is the market price of such instruments. In other cases, the fair value is 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).

31.03.2023	Up to 1 month PLN '000	From 1 to 3 months PLN '000	from 3 months to 1 year PLN '000	from 1 year to 5 years PLN '000	over 5 years PLN '000	Total PLN '000	Fair value assets PLN '000	Fair value liabilities PLN '000
Currency transactions								
Currency swap	**1,177,935**	**-**	**-**	**-**	**-**	**1,177,935**	**-**	**3,814**
Purchase	586,783	-	-	-	-	**586,783**		
Sale	591,152	-	-	-	-	**591,152**		
Forward	**3,496**	**28,989**	**62,334**	**-**	**-**	**94,819**	**29**	**1,616**
Purchase	1,748	14,027	30,391	-	-	**46,166**		
Sale	1,748	14,962	31,943	-	-	**48,653**		
Interest rate contracts								
Interest rate swaps (IRS)	**-**	**-**	**12,228**	**13,000**	**75,466**	**100,694**	**606**	**917**
Purchase	-	-	6,114	6,500	37,733	**50,347**		
Sale	-	-	6,114	6,500	37,733	**50,347**		
Total derivative financial instruments	**1,181,431**	**28,989**	**74,562**	**13,000**	**75,466**	**1,373,448**	**635**	**6,347**

16. Loans and advances to customers

16.1. Loans and advances measured at amortised cost

Loans and advances measured at amortised cost	31.03.2023 PLN '000
Loans and advances	15,487,776
Purchased receivables	7,185,790
Total	**22,673,566**
Impairment losses on receivables	(2,166,396)
Total net	**20,507,170**

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

31.03.2023	Gross carrying amount Stage 1 PLN '000	Gross carrying amount Stage 2 PLN '000	Gross carrying amount Stage 3 PLN '000	Gross carrying amount – 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 carrying amount PLN '000
corporate loans	1,102,410	751,497	549,174	125	(8,063)	(28,391)	(369,696)	(4)	**1,997,052**
purchased lease receivables	3,809,408	1,699,101	73,500	97	(29,658)	(17,199)	(3,554)	-	**5,531,695**
purchased other receivables	1,075,269	504,154	24,261	-	(6,211)	(3,865)	(1,821)	-	**1,591,787**
car loans	639,522	75,744	67,217	373	(2,474)	(3,755)	(42,166)	-	**734,461**
mortgage loans	6,734,216	908,214	1,052,751	560	(54,142)	(57,572)	(629,837)	-	**7,954,190**
retail loans	1,977,832	748,678	878,682	781	(99,124)	(190,240)	(618,547)	(77)	**2,697,985**
Total	**15,338,657**	**4,687,388**	**2,645,585**	**1,936**	**(199,672)**	**(301,022)**	**(1,665,621)**	**(81)**	**20,507,170**

	31.03.2023 PLN '000
Loans and advances to customers, of which:	
to state budget entities	346,636
to financial entities other than banks	244,390
to non-financial entities other than natural persons	8,710,511
to natural persons	11,205,633
Total	**20,507,170**

31.03.2023	NPL gross carrying amount — Stage 3 and POCI	Coverage ratio – Stage 1	Coverage ratio – Stage 2	NPL coverage ratio – Stage 3 and POCI	Total coverage ratio
corporate loans	22.86%	0.73%	3.78%	67.30%	16.90%
purchased lease receivables	1.32%	0.78%	1.01%	4.83%	0.90%
purchased other receivables	1.51%	0.58%	0.77%	7.51%	0.74%
car loans	8.63%	0.39%	4.96%	62.38%	6.18%
mortgage loans	12.11%	0.80%	6.34%	59.80%	8.53%
retail loans	24.39%	5.01%	25.41%	70.34%	25.18%
Total	**11.68%**	**1.30%**	**6.42%**	**62.92%**	**9.55%**

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

Loans and advances measured at fair value through profit or loss	31.03.2023 PLN '000
Corporate loans	79,707
Credit card loans	42,898
Other loans	1,739
Total loans and advances measured at fair value through profit or loss	**124,344**

17. Other financial instruments

Other financial instruments measured at fair value through other comprehensive income

A financial instrument is measured at fair value through other comprehensive income if both of the following conditions are met and the Group did not designate a financial asset as measured at fair value through profit or loss:

- the financial asset is held in the "hold to collect and sell" business model (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.
- On initial recognition, the Bank may irrevocably elect that certain investments in equity instruments that would otherwise be measured at fair value through profit or loss should subsequently be measured at fair value through other comprehensive income.

Other financial instruments measured at fair value through other comprehensive income	31.03.2023 PLN '000
Other financial instruments measured at fair value through other comprehensive income	
NBP bills	9,887,021
equity instruments	4,625
Total other financial instruments measured at fair value through other comprehensive income, gross	**9,891,646**
Impairment losses	**(3,056)**
Total financial instruments measured at fair value through other comprehensive income, net	**9,888,590**

On initial recognition, the Group irrevocably elected that certain investments in equity instruments that would otherwise be measured at fair value through profit or loss should subsequently be measured at fair value through other comprehensive income.

Other financial instruments measured at amortised cost	31.03.2023 PLN '000
Other financial instruments measured at amortised cost	
treasury bonds	8,549,931
bonds of local government units	64,558
covered bonds	26,026
corporate bonds	31,434
bonds secured with the State Treasury guarantees	573,590
Total other financial instruments measured at amortised cost, gross	**9,245,539**
Impairment losses	**(17,574)**
Total financial instruments measured at amortised cost, net	**9,227,965**

18. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, controlled by the Group which will result in the flow of economic benefits to the Group in the future.

Intangible assets may be acquired in a separate transaction, generated internally or acquired in business combination.

The Group initially recognises intangible assets at cost. Cost of intangible assets acquired in a business combination is equivalent to their fair value as at the date of the combination. Following initial recognition, intangible assets with a definite useful life are recognised at cost less accumulated amortisation and impairment losses.

The following expenditures on development works are capitalised in intangible assets:

- expenditure on services used in the creation of an intangible asset,
- expenditure on employee benefits directly related to the creation of a given asset.

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

The Group determines whether intangible assets have definite or indefinite useful lives. Intangible assets with definite useful lives are amortised throughout their useful lives and tested for impairment each time there is an indication of impairment. The amortisation period and the amortisation method for an intangible asset with a definite useful life are reviewed at the end of each financial year or more frequently. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in an asset are disclosed by adjusting the amortisation period or amortisation method, as appropriate, and treated as changes in accounting estimates.

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

Intangible Assets	31.03.2023 PLN '000
Software	182,517
Expenditure on intangible assets	50,853
Total intangible assets	**233,370**

19. Property, plant and equipment

Items of property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses. Initial value of an item of property, plant and equipment comprises its cost plus any costs directly related to its acquisition and bringing it to working condition for its intended use. The carrying amount of property, plant and equipment also includes expenses related to the improvement/increase in the value of the fixed asset. Any costs incurred after a given fixed asset has been placed in service, such as costs of maintenance or repair, are charged to profit or loss as incurred.

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

Depreciation is charged 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.

Type of fixed assets	Estimated useful life
Leasehold improvements	From 2 to 10 years (or the lease period, if shorter)
Buildings	from 25 to 66.6 years
Machinery and technical equipment	from 2 to 15 years
Computer units	from 2 to 10 years
Vehicles	from 3 to 8 years
Office equipment, furniture	from 2 to 10 years

Property, plant and equipment	31.03.2023 PLN '000
Land and buildings, leasehold improvements	15,624
Machinery and equipment	40,259
Vehicles	2,454
Other fixed assets, including equipment	6,379
Right-of-use assets – land	182
Right-of-use assets – vehicles	1,128
Right-of-use assets – lease of space	101,277
Fixed assets under construction	24
Total property, plant and equipment	**167,327**

20. Property obtained from foreclosures

Property obtained from foreclosures comprises undeveloped and developed land as well as premises constituting separate ownership, acquired or repossessed 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 restrictions on their realisability or the remittance of income and proceeds of disposal.

Property obtained from foreclosures is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price less the costs necessary to make the sale.

Property obtained from foreclosures	31.03.2023 PLN '000
Real estate, of which:	
residential buildings and premises	57,365
other buildings and premises	10,582
agricultural plots	21,094
plots	6,018
Total property obtained from foreclosures	**95,059**

21. Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying amount will be recovered through a sale transaction rather than through continuing use. That condition is met 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 management intends to complete the sale within one year from the change of its classification.

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

Non-current assets classified as held for sale	31.03.2023 PLN '000
Residential buildings and premises	1,198
Total non-current assets classified as held for sale	**1,198**

22. Other assets

Other assets	31.03.2023 PLN '000
Repo receivables	10,889
Receivables from sundry debtors	75,833
Payment card settlements	27,450
Sublease receivables	10,940
Prepayments	33,089
Deposits	14,492
Receivables from of taxes, subsidies and social security	188
Other assets	463
Total other assets, gross	**173,344**
Impairment losses on other assets	(36,861)
Total other net assets	**136,483**

23. Amounts due to banks and other financial institutions

Amounts due to banks and financial institutions	31.03.2023 PLN '000
Current accounts	177,374
Term deposits	391,639
Loans and advances received	25,888
Other amounts due to other banks	1,078
Total amounts due to banks and financial institutions	**595,979**

24. Amounts due to customers

Amounts due to customers	31.03.2023 PLN '000
Amounts due to corporate entities	**1,499,570**
current accounts and overnight deposits	997,999
term deposits	501,571
Amounts due to state budget entities	**1,576,078**
current accounts and overnight deposits	1,407,099
term deposits	168,979
Amounts due to individuals	**36,205,793**
current accounts and overnight deposits	13,867,235
term deposits	22,338,558
Total amounts due to customers	**39,281,441**

25. Other liabilities

Other liabilities	31.03.2023 PLN '000
Interbank settlements	39,310
Lease liabilities	135,879
Accounts payable to the EIB	65,286
Amounts due to state budget	40,761
Accruals	98,727
Settlements with counterparties	33,640
Deferred income	15,245
Liabilities on account of fees to be reimbursed	12,566
Payments on account of credit security	11,144
Provision for accrued holiday entitlements	12,155
Settlement of foreign orders	4,556
Settlements relating to the sale of debt claims	9,822
Payment card settlements	2,838
Loan overpayments to be reimbursed	1,309
Other liabilities	1,961
Total other liabilities	**485,199**

26. Provisions and contingent liabilities

Provisions are recognised if the Group 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 obligation amount can be made. The Group recognises the following provisions:

a) retirement severance pays

Provision for old-age and disability retirement severance payments is recognised individually for each employee on the basis of an actuarial valuation performed by an independent actuary. The basis for calculation of provisions is the expected amount of the old-age and disability retirement severance payment that the Group is obliged to make pursuant to the remuneration policy. The calculated value of the provisions is equal to the amount of discounted future payments, taking into account employee turnover, and relates to the period until the reporting date.

b) off-balance-sheet liabilities

The Group recognises an allowance for expected credit losses on contingent liabilities. If, at the balance sheet date, objective evidence has been identified that assets underlying contingent liabilities are impaired, the Group recognises a provision in the amount of a difference between a statistically estimated part of the off-balance-sheet exposure (balance sheet equivalent of current off-balance sheet items) and the present value of estimated future cash flows. Provisions in accordance with IFRS 9 are recognised for off-balance sheet liabilities granted with the risk of the customer's failure to meet the terms of the agreement.

c) litigation

The Bank keeps records of pending court cases and recognises provisions based on the assessment of the probability of losing a case in the amount of expected outflows of economic benefits.

d) reimbursement of costs of loans

On 11 September 2019, the CJEU, in response to the question of a Polish court referred 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 23 April 2008 on credit agreements for consumers, issued a ruling in case C 383/18, indicating the right of the consumer to a reduction in the total cost of the loan in the event of early repayment of the loan includes all the costs imposed on the consumer. This applies to consumer loans granted as of 18 December 2011 in the amount not exceeding PLN 255 thousand and mortgage loans granted as of 22 July 2017 without limitation of the loan amount, which are repaid before the contractual maturity. When assessing the legal risk resulting from court actions, the Group recognises provisions for litigation in accordance with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

e) other

The Group recognises provisions for certain or highly probable future liabilities whose amount can be reliably estimated. The Bank recognises provisions for restructuring costs only on condition that the general criteria of recognising provisions under IAS 37 be fulfilled and in particular but not limited to the situation when the Bank is in possession of the specific, formal restructuring plan determining at least the operations or part thereof, basic locations, place of employment, the functions and estimated number of employees entitled to compensation, the expenditure to be incurred and the term of execution. The commencement of restructuring procedure or the public announcement thereof is the condition indispensable for recognising the provision. The provisions recognised comprise only the direct and necessary expenditures to be incurred due to the restructuring procedure, which are not related to the current business operations nor cover the future operating expenses.

Provisions	31.03.2023 PLN '000
Retirement and disability severance pay	896
Litigation	3,578
Reimbursement of costs of loans	3,077
Commitments and guarantees given	18,782
Restructuring	978
Complaints	143
Total provisions	**27,454**

The provision for commitments and guarantees issued by Stage is presented below:

31.03.2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Provisions on commitments and financial guarantees issued	14,900	3,438	444	**18,782**

27. Equity

	31.03.2023 PLN '000
Share capital	25,000
Supplementary capital	674,862
Revaluation reserve, including:	(1,674)
measurement of financial assets at fair value through other comprehensive income	(1,815)
actuarial gains	141
Undistributed profit	10,142
Retained earnings	68,367
Net profit	279,074
Total equity	**1,055,771**

The Bank's share capital amounts to PLN 25,000,000.00 and is divided into 100,000 Series A registered shares with a nominal value of PLN 250.00 each.

Series A shares were subscribed for at a total issue price of PLN 700,000,000.00, including PLN 25,000,000.00 allocated as a cash contribution for the shares and PLN 675,000,000.00 allocated to the Bank's supplementary capital.

The outstanding portion of the grant was presented as "Retained earnings" in equity.

28. Seasonality of operations

The Group's business is not exposed to any significant seasonal or cyclical fluctuations, and therefore the Group's presented financial results do not show any material fluctuations during the year.

29. Issue, redemption and repurchase of securities

In the period of 6 months ended 31 March 2023, the Group did not issue any bonds.

30. Dividends paid and proposed

The Group did not pay or propose any dividends in the period of 6 months ended 31 March 2023.

31. Contingent lending and guarantee commitments

The Group has lending commitments. These commitments comprise approved but not fully disbursed loans, undrawn credit card limits and overdraft facilities. The Group issues guarantees and letters of credit to secure that its customers will discharge their liabilities towards third parties. The Group charges fee for these commitments given, settled in accordance with the nature of the respective instrument.

Commitments and financial guarantees given	31.03.2023 PLN '000
Financial commitments given	**1,006,903**
to financial entities	234,148
to non-financial entities	658,815
to the State budget	113,940
Guarantee commitments given	**41,258**
to financial entities	286
to non-financial entities	37,906
to the State budget	3,066
Total contingent commitments given	**1,048,161**

31.03.2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Commitments and financial guarantees given	914,175	120,060	13,926	**1,048,161**

Contingent commitments received	31.03.2023 PLN '000
Financial commitments	-
Guarantee commitments	6,614,205
Total contingent commitments received	**6,614,205**

32. Additional notes to the statement of cash flows

For the purposes of the statement of cash flows, the following classification of economic activity types was adopted:

- operating activities — comprise the basic scope of activities related to the provision of services by the Bank, covering activities aimed at generating profit but not constituting investing or financing activities. The Bank prepares the statement of cash flows from operating activities using the indirect method, under which a net profit or loss for a reporting period is adjusted by non-cash effects of transactions, prepayments and accrued income and accrued costs and deferred income which relate to future or past inflows and outflows from operating activities and by other items of costs and revenues connected with cash flows from investing activities;
- investing activities — comprise activities related to purchasing and selling stocks or shares in subordinated entities as well as intangible assets and fixed assets. Inflows from investing activities include also received dividends related to shares and stocks held in other entities.
- financing activities — include operations that involve raising funds in the form of capital or liabilities as well as servicing of the financing sources, including leases.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the balance of cash and balances of current accounts and short-term deposits.

Cash and cash equivalents	31.03.2023 PLN '000
Cash and balances with Central Bank	533,281
Current amounts due from other banks, including O/N deposits	395,035
Total cash and cash equivalents	**928,316**

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 unattainable hence the presented fair values are estimated with the use of a range of valuation techniques. The fair value of financial assets and liabilities was measured using a model based on estimating the present value of future cash flows by discounting them using appropriate market discount rates.

For certain groups of financial assets and liabilities, it has been assumed that their carrying amount approximately equals their fair values, which is due to the lack of expected material differences between their carrying amount and fair value resulting from the characteristics of these groups.

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

The main methods and assumptions used in estimating the fair value of financial assets and liabilities that are not carried at fair value in the consolidated statement of financial position are as follows:

Cash and balances with Central Bank

The carrying amounts of such assets have been assumed to approximate their fair values due to their short-term nature.

Amounts due from banks and financial institutions

Amounts due from banks comprise mainly deposits made on the interbank market and margins on derivative transactions (CIRS). Fixed-rate deposits made on the interbank market comprise short-term deposits. For this reason, it has been assumed that the fair value of amounts due from banks approximates their carrying amount.

Loans and advances to customers measured at amortised cost

The fair value was calculated for loans with a defined payment schedule. For agreements where such payments have not been specified (e.g. overdraft facilities), the fair value is assumed to be equal to the carrying amount. A similar assumption has been made for past due payments and impaired agreements.
In order to calculate the fair value, on the basis of information recorded in transaction systems, a schedule of principal and interest flows is identified for each agreement, grouped by type of interest rate, disbursement date, product type and currency of the agreement. The cash flows determined in this manner were discounted at rates reflecting current margins for a particular product type.
In the case of foreign currency loans for which there is no appropriate sample of disbursements in the period under consideration, the margins were determined as for loans in PLN adjusted for historical differences between margins for loans in PLN and in foreign currencies. Comparison of the amount of cash flows discounted with the aforesaid interest rate assigned to a given agreement with its carrying amount enables to determine the difference between the fair value and the carrying amount. The appropriate rate for discounting a particular cash flow is identified on the basis of the agreement currency, the product and the cash flow date.

Other financial instruments measured at amortised cost

The measurement of debt securities from the portfolio of instruments measured at amortised cost is based on the discounted cash flow model, with the discount rate for unrealised 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:
- average margin on loans granted to local government units concluded recently in the case of municipal bonds;
- issue margin, for securities issued in the last six months, if the issuer is not related with the Bank;
- the adjusted margin of another security of a given issuer;
- 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 valued according to the valuation model described above (using margins in the range from 0.7% to 2.8%) amounts to PLN 105,658 thousand. In case of one-sided change in the risk margins on

securities by 25 basis points, the fair value increases by PLN 690 thousand — for a decrease in margins, and decreases by PLN 680 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 loans contracted in the interbank market at variable interest rates approximates their carrying amount.

Amounts due to customers

The fair value was calculated for fixed-rate deposits with a fixed maturity. The fair value of current deposits is assumed to be equal to their carrying amount. In order to calculate 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 calculated in this manner are discounted at the interest rate constructed as a sum of the market rate from the yield curve for a given currency and the deposit maturity date as well as the margin obtained on deposits placed in the last month of the settlement period. The margin is calculated by comparing the interest rate of deposits placed during the past month with the market rate. The discounting period is defined as the difference between the end of the deposit (with the accuracy of one calendar month) and the date of the financial statements. The discounted value calculated in this manner 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.

Debt securities issued

The fair value of debt securities listed on the Catalyst bond market was estimated based on market quotations.
Due to the fact that for most financial assets and liabilities measured at amortised 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 carrying amounts and fair values of financial assets and liabilities is presented below:

	31.03.2023	
	Carrying amount PLN ‘000	Fair value PLN ‘000
ASSETS:		
Cash and balances with the Central Bank	533,281	533,281
Amounts due from banks and financial institutions	560,610	560,610
Loans and advances to customers measured at amortised cost	20,507,170	20,143,225
Financial assets measured at amortised cost	9,227,965	9,407,280
LIABILITIES:		
Amounts due to banks and financial institutions	595,979	595,979
Amounts due to customers	39,281,441	39,394,721

Fair values of financial assets and liabilities meet the conditions for classification to level 3, except for liabilities on account of debt securities issued, quoted on an active market and classified to level 1, and those whose fair value approximates their carrying amount and therefore have not been measured.

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

The Group classifies financial assets and liabilities measured and presented in the consolidated financial statements at fair value according to the following hierarchy:

Level 1

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

Level 2

Financial assets and 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 debt and equity securities in the portfolio of the Brokerage House traded on the regulated market with limited liquidity, NBP money bills measured based on the reference curve, investment certificates measured based on the price published by the fund and derivatives.

Level 3

Financial assets and liabilities measured using valuation techniques based on quoted market prices which are not directly observable. This category includes shares 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:

31.03.2023	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	13,165	-	4,210	**17,375**
Derivative financial instruments	-	635	-	**635**
Loans and advances measured at fair value through profit or loss	-	-	124,344	**124,344**
Financial instruments measured at fair value through other comprehensive income	-	9,887,021	1,569	**9,888,590**
LIABILITIES				
Derivative financial instruments	-	6,347	-	**6,347**

In the period of 6 months ended 31 March 2023, 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 in the fair value hierarchy.

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

– transfer from level 1 to level 2 – if there are no quoted prices from active markets for identical assets and liabilities on the balance sheet date,

– transfer from level 2 to level 3 – if the non-market component taken into account in the valuation techniques used has become material at the balance sheet date.

For financial instruments measured on a recurring basis at fair value using significant unobservable inputs (level 3), the impact of valuations on profit or loss was PLN -358 thousand in the period of 6 months ended 31 March 2023, while the impact on other comprehensive income was PLN 38 thousand.

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

Derivative instruments

Derivative instruments of a straight-line nature are measured based on the discounted cash flow model, using discount and projection curves generated on the basis of market quotations of financial instruments. Discount curves are constructed according to the discount concept based on the cost of margin, using OIS rates, SWAP point quotations, FRA, IRS, tenor basis swap and CCBS points. Additionally, for the purposes of instruments based on a variable interest rate, a projection curve is constructed, based on FRA, IRS and 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 in unlisted companies

Shares in companies for which no quotations on the capital market are available are measured at fair value using various valuation techniques, selected depending on, among others, the specificity of a particular market segment or the availability of observable inputs. The principal 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 external entities 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 of capital maintenance, the cost of funding liabilities and the expected credit loss on the exposure. For default exposures, 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 / liabilities classified as level 3 of valuation:

3.10.2022 – 31.03.2023	Loans and advances to customers 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
Opening balance	**129,518**	**3,746**	**1,531**
Gains or losses, including:	(822)	464	38
recognised in the income statement	(822)	464	-
recognised in other comprehensive income	-	-	38
Change: sales/ redemptions/ acquisitions/ granting/ settlements	(4,352)	-	-
Closing balance	**124,344**	**4,210**	**1,569**

33.3. Non-financial assets and liabilities carried at fair value in the statement of financial position

31.03.2023	Level 1 PLN '000	Level 2 PLN '000	Level 3 PLN '000	Total PLN '000
ASSETS				
Non-current assets held for sale	-	-	1,198	**1,198**

34. Information on operating segments

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

- mortgage – real estate market financing,
- cars – car purchase financing,
- retail – deposit and investment products for retail customers, as well as financing customers' consumption needs through retail loans (mainly cash loans and credit cards),
- corporate – services for companies and state budget entities.

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

- for loan products – purpose of loans and advances granted and type of entity,
- for deposits – type of entity, taking into account the classification of funds obtained from individuals through financial entities under framework agreements, as determined by the management.

Selected items of the income statement		03.10.2022 - 31.03.2023 PLN '000
Interest income	Mortgage loans	454,944
	Car loans	33,581
	Retail loans	229,150
	Corporate loans	95,762
	Purchased lease receivables	316,122
	Other amounts due from customers	2,171
	Other activities of the Bank	560,202
	Total	**1,691,932**
Interest expenses	Retail deposits	(760,759)
	Corporate deposits	(44,207)
	Other activities of the Bank	(20,493)
	Total	**(825,459)**
Net fee and commission income	Mortgage loans	509
	Car loans	358
	Retail loans	(62)
	Corporate loans	3,132
	Purchased lease receivables	199
	Other activities of the Bank	11,723
	Total	**15,859**
Dividend income		60
Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income		(459)
Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss		35
Other operating income		34,542
Other operating expenses		(36,430)
Administrative expenses		(367,696)
Net impairment losses on financial assets and off-balance sheet provisions	Loans and advances to customers	(111,350)
	Other activities of the Bank	(13,185)
	Total	**(124,535)**
Gain (loss) on modification, including modification resulting in derecognition		(3,300)
Tax on financial institutions		(29,043)
Profit before tax		**355,506**
Tax		(76,432)
Net profit		**279,074**

Selected elements of the statement of financial position		31.03.2023 PLN '000
Assets	Mortgage loans	7,954,190
	Car loans	734,461
	Retail loans	2,697,985
	Corporate loans	1,997,052
	Purchased lease receivables	5,531,695
	Purchased other receivables	1,591,787
	Other	20,986,468
	Total	**41,493,638**
Equity and liabilities	Retail deposits	36,205,793
	Corporate deposits	3,075,648
	Other	2,212,197
	Total	**41,493,638**

35. Capital and liquidity ratios

The Polish Financial Supervision Authority, in its decision authorising the establishment of the bridge institution, stipulated, for a period of three years from its establishment, that the Bank would not be subject to the requirements set out in the provisions of the Regulation of the European Parliament and of the Council (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, the Banking Law, the Act on trading in financial instruments and the Act on macro-prudential supervision of the financial system and crisis management in the financial system of 5 August 2015, i.e.:

1) capital ratios referred to in points (a)-(c) of Article 92(1) of Regulation No 575/2013;

2) the leverage ratio referred to in point (d) of Article 92(1) of Regulation No 575/2013;

3) the combined buffer requirement referred to in Article 55(4) of the Act on macro-prudential supervision;

4) the liquidity coverage requirement referred to in Article 412 of Regulation No 575/2013;

5) the stable funding requirement referred to in Article 413 of Regulation No 575/2013;

for a period of 3 years from the establishment of the bridge institution, in particular the reduction of the minimum capital ratio requirement, the CET 1 ratio, the Tier 1 capital ratio to 4%, the non-imposition of an additional capital requirement (add-on) and the absence of a combined buffer requirement and liquidity standards.

Pursuant to Article 186 of the BFG Act, following the aforementioned period, but not longer than within one year following the commencement of business referred to in Article 188(1) of the BFG Act by a bridge institution established. the requirements stipulated in the provisions of Regulation No 575/2013, the Banking Law, the Act on trading in financial instruments and the Act on macro-prudential supervision.

Consolidated capital ratio of the VeloBank S.A. Capital Group	31.03.2023 PLN '000
TIER 1 CAPITAL	**703,817**
Equity instruments eligible as Tier 1	25,000
Supplementary capital	674,862
Retained earnings	78,516
Accumulated other comprehensive income/ (losses)	(1,674)
Intangible assets	(61,229)
Prudent valuation adjustments and insufficient coverage for non-performing exposures	(11,658)
TOTAL OWN FUNDS	**703,817**
Own funds requirements	
Credit risk	1,058,718
Operational risk	217,379
Other risks	560
TOTAL CAPITAL REQUIREMENT	**1,276,657**
CAPITAL RATIOS	
CET1 Capital ratio	4.41%
T1 Capital ratio	4.41%
Total capital ratio	4.41%

Pursuant to Article 26(3) in conjunction with Article 28 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, in its decision dated 9 December 2022, allowed VeloBank S.A. to classify equity instruments in the form of issued 100,000 (in words: one hundred thousand) series A registered shares with a nominal value of PLN 250.00 (in words: two hundred and fifty Polish zloty) per share and a total value of PLN 25,000,000.00 (in words: twenty-five million Polish zloty) as Common Equity Tier 1 instruments.

In the above calculation of the Bank's own funds and the Group's consolidated own funds, the equity instruments issued are recognised as at 31 March 2023.

The table below presents the development of supervisory measures of the VeloBank S.A. Capital Group as at 31 March 2023:

Supervisory liquidity measures		Minimum value	31.03.2023
LCR	Short-term liquidity ratio – Group	100%	737.0%
NSFR	Stable funding measure — Group	100%	213.2%

As at 31 March 2023, the VeloBank S.A. Group's leverage was as follows:

		31.03.2023
Leverage	Leverage – Group	1.67%

36. Related-party transactions

On 2 December 2022, an agreement was signed with the Bank Guarantee Fund to guarantee the coverage of losses arising from risks related to leasing assets up to PLN 6.5 billion according to the balance of lease contracts on the Bank's balance sheet as at 30 September this year.

Transactions of the VeloBank S.A. Capital Group with other related parties

3.10.2022 - 31.03.2023	Income statement		
	Interest and commission income PLN '000	Interest and commission expense PLN '000	Other sales PLN '000
Members of the Management Board and the Supervisory Board of VeloBank S.A.	-	11	-

31.03.2023	Statement of financial position				Off-balance sheet
	Assets – financial instruments PLN '000	Assets – other receivables PLN '000	Liabilities – deposits PLN '000	Equity and liabilities – other liabilities PLN '000	Financial and guarantee commitments given PLN '000
Members of the Management Board and the Supervisory Board of VeloBank S.A.	-	-	689	-	6

37. Other notes

37.1. Information on credit default or breach of material credit covenants with respect to which no remedial action was taken before the end of the reporting period

In the period of 6 months ended 31 March 2023, there was no situation of failure to repay a loan or loan or breach of significant provisions of the loan agreement in respect of which no remedial actions were taken in the VeloBank S.A. Capital Group.

37.2. Information on recognition and reversal of impairment losses on financial assets, property, plant and equipment, intangible assets or other assets

The table below presents the amount of impairment losses on assets as at 31 March 2023:

Impairment losses	31.03.2023 PLN '000
Amounts due from banks and financial institutions	505
Loans and advances to customers	2,166,396
Other financial instruments	20,630
Intangible assets	133,106
Property, plant and equipment	4,918
Other financial assets	435
Other assets	36,426
Total impairment losses on assets	**2,362,416**

In the period of 6 months ended 31 March 2023, the Group reversed impairment losses on other assets in the amount of PLN 142 thousand.

37.3. Information on material transactions to purchase or sell items of property, plant and equipment

In the period of 6 months ended 31 March 2023, there were no significant purchases and sales of property, plant and equipment in the Group. As at 31 March 2023, there were no significant liabilities on account of the purchase of property, plant and equipment.

37.4. Other data

On 1 February 2023, the Regulation of the Minister of Finance came into force, introducing the waiver of the collection of the tax on certain financial institutions (bank tax) on the assets of domestic banks that serve as bridge institutions. The waiver applies to taxable assets in 2023 that are bridge institutions within the meaning of Article 2(26) of the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and resolution (Journal of Laws of 2022, item 2253), excluding bridge institutions established pursuant to Article 181(2) of that Act. Accordingly, the Bank discontinued payment of the bank tax as of 2 February 2023.

38. Events subsequent to the end of reporting period

In June 2023, the Bank terminated general cooperation agreements with the Bank's significant leasing and lending counterparties that belong to the same capital group. The termination dates of these agreements are still running and the Bank has advised the counterparties of the possibility of continuing negotiations in the period of notice regarding the possibility of continued cooperation with revised contractual terms, based on additional security, in a way that better reflects the Bank's risk level. Under the aforementioned general agreements, the Bank purchased leasing and loan debt claims, and in the event of delays of more than 85 days in repayment of these claims, the Bank resold them back to the original creditors, i.e. the lessor and lender.

For the purpose of estimating the level of recoveries made on these debt claims under IFRS 9, the Bank used historical data on the average recovery rate from the collateral of the debt claims in question and additionally took into account the fact that it was possible to request counterparties to repurchase debt claims that were overdue.

Thus, the debt repurchase mechanism increased the level of expected recoveries recognised in the estimation of the LGD (loss given default) parameter.

The termination of cooperation with the aforementioned counterparties may result in the need to update the level of expected recoveries from leasing and loan debt claims acquired under terminated general agreements. According to the Bank's estimate, the value of additional impairment losses for the leasing/loan debt portfolio may amount to approximately PLN 190 million.

A portion of the portfolio of purchased debt claims in question is, according to the Bank, covered by collateral in the form of a conditional guarantee of loss coverage. Therefore, in the event that the rights under the aforementioned collateral are exercised, the negative impact on the Bank's profit or loss would be limited to around PLN 35 million.

On 30 June 2023, the Bank Guarantee Fund announced the commencement of a competitive sale process for 100% of VeloBank S.A. shares and invited interested investors to participate in the Transaction. The sale process is conducted in accordance with the provisions of the BFG Act and the European Commission Decision No C(2022)7131 of 1 October 2022.

After 31 March 2023, there were no other events which were not disclosed in these financial statements which may significantly impact the future financial results of the VeloBank S.A. Capital Group.

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

Adam Marciniak	*President of the Management Board*
Adrian Adamowicz	*Member of the Management Board*
Mirosław Boda	*Member of the Management Board*
Przemysław Koch	*Member of the Management Board*
Paulina Strugała	*Member of the Management Board*

Signature of the person responsible for keeping the accounting records:

Michał Sasim	*Director of the Accounting Department*

The original Polish document is signed with a qualified electronic signatures.

Warsaw, 14 July 2023

Financial statements

VeloBank S.A.

for the period of 6 months ended

31 March 2023

Table of contents

I. INTERIM CONDENSED SEPARATE FINANCIAL DATA

1. Interim standalone income statement

	3.10.2022 - 31.03.2023 PLN '000
CONTINUING OPERATIONS	
Interest income, of which:	1,691,932
on financial assets measured at amortised cost	1,443,824
on financial assets measured at fair value through other comprehensive income	235,711
on financial assets measured at fair value through profit or loss	12,391
on liabilities	6
Interest expenses	(825,621)
Net interest income	**866,311**
Fee and commission income	55,898
Fee and commission expenses	(48,842)
Net fee and commission income	**7,056**
Dividend income	60
Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	(459)
Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss	35
Other operating income	34,537
Other operating expenses	(36,427)
Net other operating income and expenses	**(1,890)**
Administrative expenses	(366,560)
Gain (loss) on non-substantial modification	(3,300)
Net impairment losses on financial assets and off-balance sheet provisions	(124,535)
Operating profit/(loss)	**376,718**
Tax on financial institutions	(29,043)
Profit before tax	**347,675**
Income tax	(74,940)
Net profit	**272,735**

2. Interim standalone statement of comprehensive income

	3.10.2022 - 31.03.2023 PLN '000
Net profit for the period	272,735
Items that may not be reclassified to profit or loss, of which:	**179**
Actuarial gains	141
Measurement of equity financial assets measured at fair value through other comprehensive income	38
Items that may be reclassified to profit or loss, of which:	**(1,853)**
Measurement of debt financial instruments measured at fair value through other comprehensive income	(1,853)
Net other comprehensive losses	**(1,674)**
Comprehensive income for the period	**271,061**

3. Interim standalone statement of financial position

	31.03.2023 PLN '000
ASSETS	
Cash and balances with the Central Bank	533,281
Amounts due from banks and financial institutions	560,269
Financial assets measured at fair value through profit or loss	17,375
Derivative financial instruments	635
Loans and advances to customers, of which:	20,631,514
measured at amortised cost	20,507,170
measured at fair value through profit or loss	124,344
Other financial instruments, of which:	19,116,555
measured at fair value through other comprehensive income	9,888,590
measured at amortised cost	9,227,965
Investments in subsidiaries	13
Intangible assets	232,632
Property, plant and equipment	167,299
Property obtained from foreclosures	95,059
Non-current assets held for sale	1,198
Other assets	134,964
TOTAL ASSETS	**41,490,794**
LIABILITIES AND EQUITY	
Liabilities	
Amounts due to banks and financial institutions	595,979
Derivative financial instruments	6,347
Amounts due to customers	39,297,152
Corporate income tax liabilities	2,221
Other liabilities	483,499
Deferred tax liabilities	38,855
Provisions	27,451
Total liabilities	**40,451,504**
Equity	
Share capital	25,000
Supplementary capital	674,862
Revaluation reserve	(1,674)
Retained earnings	68,367
Net profit	272,735
Total equity	**1,039,290**
TOTAL LIABILITIES AND EQUITY	**41,490,794**

4. Interim standalone statement of changes in equity

3.10.2022 – 31.03.2023	Share capital	Net profit/ (loss)	Other components of equity			Total equity
			Supplementary capital	Revaluation reserve	Retained earnings	
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 3.10.2022	**25,000**	**-**	**674,862**	**-**	**68,367**	**768,229**
Comprehensive income/ (loss) for the period		272,735	-	(1,674)	-	**271,061**
As at 31.03.2023	**25,000**	**272,735**	**674,862**	**(1,674)**	**68,367**	**1,039,290**

5. Interim standalone statement of cash flows

	3.10.2022 - 31.03.2023 PLN '000
Cash flows from operating activities	
Net profit	272,735
Total adjustments:	(13,298,461)
Amortisation and depreciation	58,565
(Gains)/ losses on investing activities	(22,421)
Interest and dividends	2,579
Change in amounts due from banks and financial institutions	186,240
Change in financial assets measured at fair value through profit or loss	(1,661)
Change in derivative financial instruments (assets)	1,524
Change in loans and advances to customers	1,052,315
Change in financial instruments measured at fair value through other comprehensive income	(9,888,874)
Change in financial instruments measured at amortised cost	(5,491,722)
Change in other assets	16,825
Change in amounts due to banks and financial institutions	424,355
Change in derivative financial instruments (liabilities)	3,607
Change in amounts due to customers	860,499
Change in other liabilities	(552,345)
Change in provisions	11,496
Income tax	40,557
Net cash from operating activities	**(13,025,726)**
Cash flows from investing activities	
Disposal of intangible assets and property, plant and equipment	39,843
Dividends received	30
Purchase of intangible assets and property, plant and equipment	(13,098)
Net cash used in investing activities	**26,775**
Cash flows from financing activities	
Repayment of credit facilities	(5,748)
Interest paid on credit facilities, leases and securities issued	(2,609)
Lease payments	(10,397)
Net cash from financing activities	**(18,754)**
Net increase / (decrease) in cash and cash equivalents	(13,017,705)
including from exchange differences on cash and cash equivalents	*(9,149)*
Cash and cash equivalents at the beginning of the period	13,945,680
Cash and cash equivalents at the end of the period	**927,975**

II. GENERAL INFORMATION TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

The interim separate financial statements of VeloBank S.A. have been prepared as at 31 March 2023 and for the period from 5 September 2022. The period covered by the interim separate financial statements includes the period of operation of Bank BFG, i.e. from 5 September 2022 to 3 October 2022, and the period from 3 October 2022 (i.e. from the date of transfer of the Getin Noble Bank enterprise to the bridge institution) to 31 March 2023.

The transfer of the enterprise took place as at the end of the date of initiation of the resolution, i.e. 30 September 2022, and therefore the interim separate income statement includes income and expenses recognised as of 1 October 2022.

1. Accounting policies

1.1. Basis for the preparation of the interim consolidated financial statements

These interim condensed financial statements of VeloBank S.A cover the six-month period ended 31 March 2023.

These interim condensed financial statements have been prepared under the historical cost convention, except for financial instruments measured at fair value.

These interim consolidated financial statements have been 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 from the reporting date. As at the date of authorisation of the interim condensed financial statements, there are no circumstances indicating a threat to the Bank's ability to continue as a going concern.

1.2. Statement of compliance

The interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU, in particular IAS 34 *Interim Financial Reporting*, with the exception of comparative disclosures and selected explanatory notes.

1.3. Significant accounting policies

Detailed accounting policies are presented in the VeloBank S.A. Group Report for the period of 6 months ended 31 March 2023 in Section II.6.4.

1.4. Functional and reporting currency

The reporting currency of these interim consolidated financial statements is the Polish złoty (PLN), and all amounts are expressed in thousands of Polish złoty (PLN ‘000) unless stated otherwise. The Polish złoty is the functional currency of the Bank covered by these interim condensed separate financial statements and the reporting currency of these interim separate consolidated financial statements.

1.5. Changes in applied accounting policies

Standards and interpretations that became effective and effective as of 1 January 2022

The accounting policies applied in preparing these interim condensed separate financial statements are consistent with the policies applied in preparing the financial statements of the Bank, transferred by the BFG's Decision, for the year ended 31 December 2021, save for the effect of applying the following new standards, amendments to existing standards and new interpretation effective for annual periods beginning on or after 1 January 2022:

- Annual Improvements to IFRS Standards 2018-2020; effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 16 *Property, Plant and Equipment* – Proceeds before Intended Use – the amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling assets produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss; effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* — Onerous contracts — cost of fulfilling the contract — the amendments specify which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous; effective for annual periods beginning on or after 1 January 2022;
- Amendments to IFRS 3 Business Combinations - reference to the Conceptual Framework from 2018; applicable to annual periods beginning on or after January 1, 2022.

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

- IFRS 17 *Insurance Contracts* — effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* — definition of accounting estimates; effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 — disclosure of accounting policies; effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 12 Income Tax — Deferred Tax related to assets and liabilities arising from a single transaction; effective for annual periods beginning on or after 1 January 2023;

New standards and amendments to existing standards issued by the International Accounting Standards Board (IASB), but not yet endorsed by the EU

There are no major differences between the IFRS as endorsed by the EU and the regulations issued by the IASB, with the exception of the following new standards and amendments to existing standards, which were not yet endorsed by the EU as at 14 July 2023 (the following effective dates refer to the full versions of respective standards):

- Amendments to IAS 1 *Presentation of Financial Statements* — the amendments affect requirements in IAS 1 for the presentation of liabilities; specifically, they clarify one of the criteria for classifying a liability as non-current; effective for annual periods beginning on or after 1 January 2024;
- IFRS 16 *Leases* – lease liabilities in sale and leaseback agreements — effective for annual periods beginning on or after 1 January 2024.

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

The Bank estimates that none of those new standards, amendments to the existing standards would have had a material impact on its financial statements had they been applied by the Bank as at the balance sheet date.

1.6. Changes in estimates and error adjustments

The preparation of financial statements in accordance with IFRS requires the Bank to make certain estimates and to adopt certain assumptions which affect the amounts presented in the financial statements. Estimates and assumptions that are subject to continuous assessment by the Bank's management are based on historical experience and other factors, including expectations of future events which seem reasonable under the circumstances. Although these estimates are based on the best knowledge of the current conditions and actions taken by the Bank, the actual results may differ from these estimates. Estimates made at the end of each reporting period reflect the conditions existing on such dates (e.g. currency exchange rates, interest rates and market prices).

In the period of 6 months ended 31 March 2023, there were no adjustments of fundamental errors or changes in areas for which the Bank made estimates and applied professional judgement.

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

1. Investments in subsidiaries

VeloBank holds shares in the following subsidiary:

31.03.2023	Proportion of ownership interest/ voting rights held by the Group	Gross carrying amount	Impairment loss	Carrying amount
	%	PLN '000	PLN '000	PLN '000
ProEkspert sp. z o.o.	100%	13	-	13
Total investments in subsidiaries		**13**	**-**	**13**

2. Seasonality of operations

The Bank's business is not exposed to any significant seasonal or cyclical fluctuations, and therefore the Bank's presented financial results do not show any material fluctuations during the year.

3. Issue, redemption and repurchase of securities

In the period of 6 months ended 31 March 2023, the Bank did not issue any bonds.

4. Dividends paid and proposed

The Bank did not pay or propose any dividends in the period of 6 months ended 31 March 2023.

5. Capital and liquidity ratios

The Polish Financial Supervision Authority, in its decision authorising the establishment of the bridge institution, stipulated, for a period of three years from its establishment, that the Bank would not be subject to the requirements set out in the provisions of the Regulation of the European Parliament and of the Council (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, the Banking Law, the Act on trading in financial instruments and the Act on macro-prudential supervision of the financial system and crisis management in the financial system of 5 August 2015, i.e.:

1) capital ratios referred to in points (a)-(c) of Article 92(1) of Regulation No 575/2013;

2) the leverage ratio referred to in point (d) of Article 92(1) of Regulation No 575/2013;

3) the combined buffer requirement referred to in Article 55(4) of the Act on macro-prudential supervision;

4) the liquidity coverage requirement referred to in Article 412 of Regulation No 575/2013;

5) the stable funding requirement referred to in Article 413 of Regulation No 575/2013;

for a period of 3 years from the establishment of the bridge institution, in particular the reduction of the minimum capital ratio requirement, the CET 1 ratio, the Tier 1 capital ratio to 4%, the non-imposition of an additional capital requirement (add-on) and the absence of a combined buffer requirement and liquidity standards.

Pursuant to Article 186 of the BFG Act, following the aforementioned period, but not longer than within one year following the commencement of business referred to in Article 188(1) of the BFG Act by a bridge institution established. the requirements stipulated in the provisions of Regulation No 575/2013, the Banking Law, the Act on trading in financial instruments and the Act on macro-prudential supervision.

Stand-alone capital ratio of VeloBank S.A.	31.03.2023 PLN '000
TIER 1 CAPITAL	**693,668**
Equity instruments eligible as Tier 1	25,000
Supplementary capital	674,862
Retained earnings	68,367
Accumulated other comprehensive income/ (losses)	(1,674)
Intangible assets	(61,229)
Prudent valuation adjustments and insufficient coverage for non-performing exposures	(11,658)
TOTAL OWN FUNDS	**693,668**
Own funds requirements	
Credit risk	1,057,399
Operational risk	215,450
Other risks	560
TOTAL CAPITAL REQUIREMENT	**1,273,409**
CAPITAL RATIOS	
CET1 Capital ratio	4.36%
T1 Capital ratio	4.36%
Total capital ratio	4.36%

Pursuant to Article 26(3) in conjunction with Article 28 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, in its decision dated 9 December 2022, allowed VeloBank S.A. to classify equity instruments in the form of issued 100,000 (in words: one hundred thousand) series A registered shares with a nominal value of PLN 250.00 (in words: two hundred and fifty Polish zloty) per share and a total value of PLN 25,000,000.00 (in words: twenty-five million Polish zloty) as Common Equity Tier 1 instruments.
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	Supervisory liquidity measures	Minimum value	31.03.2023
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As at 31 March 2023, VeloBank S.A.'s leverage was as follows:

		31.03.2023
Leverage	Leverage – Bank	1.65%

6. Related-party transactions

On 2 December 2022, an agreement was signed with the Bank Guarantee Fund to guarantee the coverage of losses arising from risks related to leasing assets up to PLN 6.5 billion according to the balance of lease contracts on the Bank's balance sheet as at 30 September this year.

VeloBank S.A.'s transactions with its subsidiary and other related parties

3.10.2022 - 31.03.2023	Income statement		
	Interest and commission income PLN '000	Interest and commission expense PLN '000	Other sales PLN '000
Subsidiary	3	264	42
Members of the Management Board and the Supervisory Board of VeloBank S.A.	-	11	-

31.03.2023	Statement of financial position				Off-balance sheet
	Assets – financial instruments PLN '000	Assets – other receivables PLN '000	Liabilities – deposits PLN '000	Equity and liabilities – other liabilities PLN '000	Financial and guarantee commitments given PLN '000
Subsidiary	13	9	15,711	21	5
Members of the Management Board and the Supervisory Board of VeloBank S.A.	-	-	689	-	6

7. Events subsequent to the end of reporting period

In June 2023, the Bank terminated general cooperation agreements with the Bank's significant leasing and lending counterparties that belong to the same capital group. The termination dates of these agreements are still running and the Bank has advised the counterparties of the possibility of continuing negotiations in the period of notice regarding the possibility of continued cooperation with revised contractual terms, based on additional security, in a way that better reflects the Bank's risk level. Under the aforementioned general agreements, the Bank purchased leasing and loan debt claims, and in the event of delays of more than 85 days in repayment of these claims, the Bank resold them back to the original creditors, i.e. the lessor and lender.

For the purpose of estimating the level of recoveries made on these debt claims under IFRS 9, the Bank used historical data on the average recovery rate from the collateral of the debt claims in question and additionally took into account the fact that it was possible to request counterparties to repurchase debt claims that were overdue. Thus, the debt repurchase mechanism increased the level of expected recoveries recognised in the estimation of the LGD (loss given default) parameter.

The termination of cooperation with the aforementioned counterparties may result in the need to update the level of expected recoveries from leasing and loan debt claims acquired under terminated general agreements. According to the Bank's estimate, the value of additional impairment losses for the leasing/loan debt portfolio may amount to approximately PLN 190 million.

A portion of the portfolio of purchased debt claims in question is, according to the Bank, covered by collateral in the form of a conditional guarantee of loss coverage. Therefore, in the event that the rights under the aforementioned collateral are exercised, the negative impact on the Bank's profit or loss would be limited to around PLN 35 million.

On 30 June 2023, the Bank Guarantee Fund announced the commencement of a competitive sale process for 100% of VeloBank S.A. shares and invited interested investors to participate in the Transaction. The sale process is conducted in accordance with the provisions of the BFG Act and the European Commission Decision No C(2022)7131 of 1 October 2022.

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Adam Marciniak	*President of the Management Board*
Adrian Adamowicz	*Member of the Management Board*
Mirosław Boda	*Member of the Management Board*
Przemysław Koch	*Member of the Management Board*
Paulina Strugała	*Member of the Management Board*

Signature of the person responsible for keeping the accounting records:

Michał Sasim	*Director of the Accounting Department*

The original Polish document is signed with a qualified electronic signatures.

Warsaw, 14 July 2023