Report of the VELOBANK S.A. Capital Group for the period of 9 months ended 30 June 2023

Table of Contents

I INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Interim consolidated income statement

	Note	3.10.2022 - 30.06.2023 PLN '000
CONTINUING OPERATIONS		
Interest income, of which:	III.1	2,597,339
on financial assets measured at amortised cost		2,186,132
on financial assets measured at fair value through other comprehensive income		394,614
on financial assets measured at fair value through profit or loss		16,593
Interest expenses	III.1	(1,345,670)
Net interest income		**1,251,669**
Fee and commission income	III.2	100,377
Fee and commission expenses	III.2	(80,884)
Net fee and commission income		**19,493**
Gain (loss) on financial instruments, including dividend income, net foreign exchange income	III.3	1,612
Net other operating income and expenses	III.4	213
Administrative expenses	III.5	(555,651)
Net impairment losses on financial assets and off-balance sheet provisions	III.6	(219,824)
Operating profit/(loss)		**497,512**
Tax on financial institutions		(29,043)
Profit before tax		**468,469**
Income tax	III.7	(111,000)
Net profit		**357,469**
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.8	3,574.69
diluted, for profit for the period attributable to equity holders of the parent	III.8	3,574.69

2. Interim consolidated statement of comprehensive income

	3.10.2022 - 30.06.2023 PLN '000
Net profit for the period	357,469
Items that may not be reclassified to profit or loss, of which:	**187**
Actuarial gains	141
Measurement of equity financial assets measured at fair value through other comprehensive income	46
Items that may be reclassified to profit or loss, of which:	**(1,516)**
Measurement of debt financial instruments measured at fair value through other comprehensive income	(1,516)
Net other comprehensive losses	**(1,329)**
Comprehensive income for the period	**356,140**

3. Interim consolidated statement of financial position

	Note	30.06.2023 PLN '000
ASSETS		
Cash and balances with the Central Bank	III.9	863,813
Amounts due from banks and financial institutions	III.10	570,798
Financial assets measured at fair value through profit or loss	III.11	17,483
Derivative financial instruments	III.12	3,883
Loans and advances to customers	III.13	20,380,460
Other financial instruments, of which:	III.14	20,925,927
measured at fair value through other comprehensive income		8,090,958
measured at amortised cost		12,834,969
Intangible assets	III.15	253,162
Property, plant and equipment	III.16	156,615
Property obtained from foreclosures	III.17	95,890
Deferred tax assets		182
Other assets	III.18	134,540
TOTAL ASSETS		**43,402,753**
LIABILITIES AND EQUITY		
Liabilities		
Amounts due to banks and financial institutions	III.19	712,064
Derivative financial instruments	III.12	3,550
Amounts due to customers	III.20	40,998,902
Corporate income tax liabilities		6,559
Other liabilities	III.21	507,264
Deferred tax liabilities		19,751
Provisions	III.22	20,152
Total liabilities		**42,268,242**
Equity attributable to equity holders of the parent		**1,134,511**
Share capital		25,000
Supplementary capital		674,862
Revaluation reserve		(1,329)
Other components of equity		78,509
Net profit		357,469
Total equity	III.23	**1,134,511**
TOTAL LIABILITIES AND EQUITY		**43,402,753**

4. Interim consolidated statement of changes in equity

3.10.2022 – 30.06.2023	Note	Equity attributable to equity holders of the parent						Total equity
		Share capital	Supplementary capital	Revaluation reserve	Net profit/ (loss)	Other components of equity	Total	
		PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 3.10.2022		**25,000**	**674,862**	**-**	**-**	**78,509**	**778,371**	**778,371**
Comprehensive income/ (loss) for the period		-	-	(1,329)	357,469	-	356,140	**356,140**
As at 30.06.2023	**III.23**	**25,000**	**674,862**	**(1,329)**	**357,469**	**78,509**	**1,134,511**	**1,134,511**

5. Interim consolidated statement of cash flows

	Note	3.10.2022 - 30.06.2023 PLN '000
Cash flows from operating activities		
Net profit		357,469
Total adjustments:		(13,387,206)
Amortisation and depreciation	III.5	86,944
(Gains)/ losses on investing activities		(28,132)
Interest and dividends		7,037
Change in amounts due from banks and financial institutions		(184,075)
Change in financial assets measured at fair value through profit or loss		(1,769)
Change in derivative financial instruments (assets)		(1,724)
Change in loans and advances to customers		1,303,368
Change in financial instruments measured at fair value through other comprehensive income		(8,090,896)
Change in financial instruments measured at amortised cost		(9,098,726)
Change in other assets		13,682
Change in amounts due to banks and financial institutions		543,313
Change in derivative financial instruments (liabilities)		810
Change in amounts due to customers		2,563,017
Change in other liabilities		(529,767)
Change in provisions		4,191
Income tax		25,521
Net cash from operating activities		**(13,029,737)**
Cash flows from investing activities		
Disposal of intangible assets and property, plant and equipment		57,050
Dividends received		60
Purchase of intangible assets and property, plant and equipment		(35,253)
Net cash used in investing activities		**21,857**
Cash flows from financing activities		
Repayment of credit facilities		(8,621)
Interest paid on credit facilities, leases and securities issued		(7,097)
Lease payments		(32,386)
Net cash from financing activities		**(48,104)**
Net increase / (decrease) in cash and cash equivalents		(13,055,984)
including from exchange differences on cash and cash equivalents		*(11,608)*
Cash and cash equivalents at the beginning of the period	III.28	13,954,705
Cash and cash equivalents at the end of the period	**III.28**	**898,721**

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 9 months ended 30 June 2023.
The interim consolidated financial statements of the VeloBank S.A. Capital Group have been prepared as at 30 June 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 30 June 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 "BGF 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 BGF in accordance with Articles 181(1) and 185(1), (3) and (5) of the BGF Act, acquired the business of Getin Noble with the effect specified in Article 191(1) of the BGF 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 BGF 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 (BGF) 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, BGF 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 BGF 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 BGF 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 BGF were transferred to the bridge institution.

Some assets and liabilities remained with Getin Noble Bank in accordance with the BGF'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.

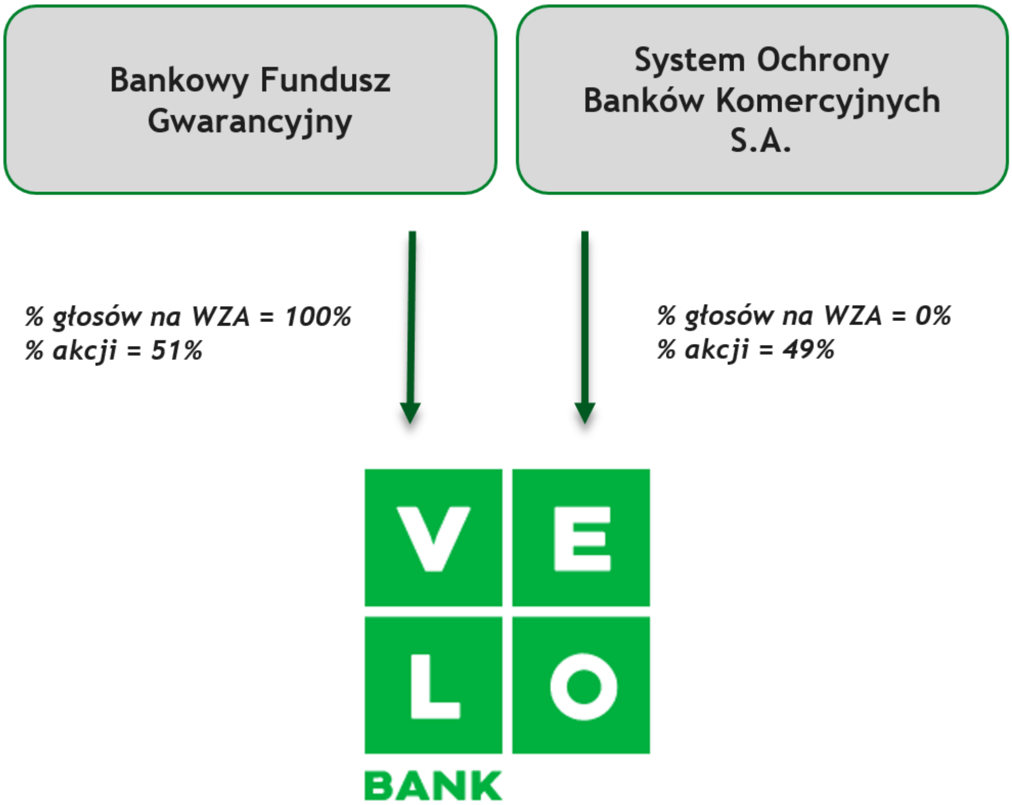
VeloBank is a "bridge bank" that should be sold in whole or in parts within a maximum of 24 months with the option of a 12-month extension - according to the published decision of the European Commission No C(2022)7131 of 1 October 2022, the sale is expected to take place within 18 months.

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 BGF Act and the European Commission Decision No C(2022)7131 of 1 October 2022.

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
System Ochrony Banków Komercyjnych S.A.	System Ochrony Banków Komercyjnych S.A.
% głosów na WZA	% of votes at GM
% akcji	% of shares

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 BGF 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 BGF is not the sole shareholder or shareholder of a bridge institution, the BGF 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 BGF.

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 subsidiaries.

Individual Group companies were established for an indefinite period.

VeloBank is a universal bank offering numerous 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.

Subsidiaries are 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 9-month period ended 30 June 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 BGF 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 are:

- 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 are 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 other 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 and the level of recovery rates broken down by into unsecured and mortgage-secured part, 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, subject to the applicable grace period. 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.

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 BGF'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 recognise 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 that became effective and are effective for annual periods beginning on or after 1 January 2023

- 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 13 September 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 9 months ended 30 June 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 recognising 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 also include 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 - 30.06.2023 PLN '000
Income related to:	
Financial assets measured at amortised cost:	**2,186,132**
loans and advances	1,624,527
amounts due from banks and financial institutions	35,462
other financial instruments	487,766
reserve requirement	38,377
Financial assets measured at fair value through other comprehensive income	**394,614**
Financial assets measured at fair value through profit or loss	**16,593**
loans and advances	10,707
derivative financial instruments	5,886
Total interest income	**2,597,339**
Expense related to:	
amounts due to customers	1,309,151
amounts due to banks and financial institutions	20,228
derivative financial instruments	10,056
lease liabilities	6,233
financial assets	2
Total interest expense	**1,345,670**
Net interest income	**1,251,669**

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 - 30.06.2023 PLN '000
Income related to	
loans and advances	6,202
maintenance of bank accounts	22,586
payment and credit cards	35,977
investment products	6,992
insurance products	16,853
transaction margin on foreign exchange operations	10,309
other fee and commission income	1,458
Total fee and commission income	**100,377**
Expense related to	
loans and advances	499
payment and credit cards	41,957
investment and banking products	14,577
insurance products	1,573
promotion and awards to customers	19,859
other fee and commission expense	2,419
Total fee and commission expense	**80,884**
Net fee and commission income	**19,493**

3. Gain (loss) on financial instruments, including dividend income, net foreign exchange income

3.1. Dividend income

Dividend income	3.10.2022 - 30.06.2023 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	84
Total dividend income	**85**

3.2. 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 - 30.06.2023 PLN '000
Gain (loss) on financial instruments measured at fair value through profit or loss, of which:	1,889
on instruments designated at initial recognition as measured at fair value through profit or loss	2,906
on financial instruments measured at fair value through profit or loss	1,507
on derivatives	(2,524)
Other foreign exchange differences	(428)
Total gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	**1,461**

3.3. 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 - 30.06.2023 PLN '000
Gain (loss) on cash flow modification resulting in derecognition	66
Total gain (loss) on derecognition of financial assets not measured at fair value through profit or loss	**66**

4. 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 - 30.06.2023 PLN '000
Other operating income:	
outsourcing services	27,922
income related to the sale and valuation of real estate	12,904
recovered legal and debt collection costs	6,832
reversal of provisions and impairment losses on other assets	1,410
income from bad debts recovered	996
revenues from sales of products and services	854
penalties, fines and compensations received	760
rental income	475
reversal of unused portion of provision for costs	2,765
other income	2,633
Total operating income	**57,551**
Other operating expenses	
debt collection and monitoring of receivables, including legal costs	31,641
recognition of provisions and impairment losses on other assets	9,557
securitisation expenses	3,421
litigation costs, judgements, appeals, cassation claims and experts	1,094
provisions for reimbursement of loan commissions on early repayment of loans	3,951
rental costs	929
other expenses	6,745
Total operating expenses	**57,338**
Net other operating income and expenses	**213**

5. Administrative expenses

Administrative expenses	3.10.2022 - 30.06.2023 PLN '000
Employee benefits	256,161
Raw materials and consumables used	10,057
Third-party services	186,179
Taxes and charges	4,391
Amortisation and depreciation	86,944
Other expenses	2,432
Total administrative expenses excluding payments to the Bank Guarantee Fund	**546,164**
Payments to the Bank Guarantee Fund	9,487
Total administrative expenses	**555,651**

6. 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 - 30.06.2023 PLN '000
Loans and advances to customers	(216,797)
Amounts due from banks and financial institutions	(184)
Other financial instruments	91
Off-balance-sheet liabilities	(893)
Other financial assets	(2,041)
Total net impairment losses on financial assets and off-balance sheet provisions	**(219,824)**

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.

3.10.2022 - 30.06.2023	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	216,797	184	(91)	893	2,041	**219,824**
Utilisation — written-off	(30,907)	-	-	-	-	**(30,907)**
Utilisation – sale	(262,422)	-	-	-	-	**(262,422)**
Other net increases / (decreases)	12,003	(57)	-	(1)	-	**11,945**
Impairment losses/provisions at the end of the period	**2,258,696**	**571**	**20,583**	**5,839**	**3,185**	**2,288,874**

"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.

7. 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;
- 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 of 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 - 30.06.2023 PLN '000
Consolidated income statement	
Current income tax	**91,230**
Current tax expense	91,228
Adjustments to current income tax for previous years	2
Deferred income tax	**19,770**
Related to recognition and reversal of temporary differences	19,772
Adjustments to deferred tax from previous years	(2)
Tax expense in the consolidated income statement	**111,000**

Reconciliation of tax expense on profit (loss) before tax	03.10.2022 - 30.06.2023 PLN '000
Gross profit before tax	**468,469**
Income tax at the applicable rate (19%)	89,009
Effect of permanent differences between profit before tax and taxable income, including:	**21,991**
effect of non-deductible expenses (including contribution to BGF)	1,804
tax on financial institutions	5,518
effect of other permanent differences	14,669
Tax expense recognised in the income statement	**111,000**

8. 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 - 30.06.2023
Profit for the period attributable to equity holders of the parent (in PLN '000)	357,469
Weighted average number of ordinary shares	100,000
Basic earnings per share (in PLN)	**3,574.69**

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 nine months ended 30 June 2023. Diluted earnings per share are equal to basic earnings per share.

9. Cash and balances with the Central Bank

Cash and balances with the Central Bank	30.06.2023 PLN '000
Cash	120,678
Current and overnight account with the Central Bank, cash in transit	743,135
Total cash and balances with the Central Bank	**863,813**

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.

10. Amounts due from banks and financial institutions

Amounts due from banks and financial institutions	30.06.2023 PLN '000
Current accounts	34,912
Deposits	353,442
Other receivables	183,015
Total gross amounts due from banks and financial institutions	**571,369**
Impairment losses on receivables	(571)
Total net amounts due from banks and financial institutions	**570,798**

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

Financial assets measured at fair value through profit or loss	30.06.2023 PLN '000
Other instruments	17,483
Total financial assets measured at fair value through profit or loss	**17,483**

"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.

12. 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).

30.06.2023	Up to 1 month	From 1 to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total	Fair value	
							assets	liabilities
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Currency transactions								
Currency swap	**708,750**	**62,486**	**-**	**-**	**-**	**771,236**	**3,444**	**10**
Purchase	356,078	31,334	-	-	-	**387,412**		
Sale	352,672	31,152	-	-	-	**383,824**		
Forward	**-**	**9,303**	**60,707**	**-**	**-**	**70,010**	**-**	**2,772**
Purchase	-	4,450	28,927	-	-	**33,377**		
Sale	-	4,853	31,780	-	-	**36,633**		
Interest rate contracts								
Interest rate swaps (IRS)	**-**	**-**	**11,944**	**11,500**	**74,378**	**97,822**	**439**	**768**
Purchase	-	-	5,972	5,750	37,189	**48,911**		
Sale	-	-	5,972	5,750	37,189	**48,911**		
Total derivative financial instruments	**708,750**	**71,789**	**72,651**	**11,500**	**74,378**	**939,068**	**3,883**	**3,550**

13. Loans and advances to customers

13.1. Loans and advances measured at amortised cost

Loans and advances measured at amortised cost	30.06.2023 PLN '000
Loans and advances	15,347,605
Purchased receivables	7,162,750
Total	**22,510,355**
Impairment losses on receivables	(2,258,696)
Total net	**20,251,659**

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

30.06.2023	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	1,180,376	724,983	572,363	99	(4,700)	(29,721)	(376,671)	(5)	**2,066,724**
purchased lease receivables	3,274,124	2,202,740	96,482	86	(59,757)	(66,445)	(20,742)	(1)	**5,426,487**
purchased other receivables	927,267	627,888	34,163	-	(12,768)	(14,618)	(6,643)	-	**1,555,289**
car loans	658,050	75,685	68,736	329	(1,653)	(3,925)	(42,259)	-	**754,963**
mortgage loans	6,296,801	1,125,808	1,060,258	474	(24,247)	(67,430)	(625,031)	-	**7,766,633**
retail loans	1,939,305	721,467	922,052	819	(71,333)	(179,795)	(650,854)	(98)	**2,681,563**
Total	**14,275,923**	**5,478,571**	**2,754,054**	**1,807**	**(174,458)**	**(361,934)**	**(1,722,200)**	**(104)**	**20,251,659**

In the first half of 2023, the Bank sold debt claims relating to mortgage loans, which comprised impaired loans with a total principal amount of PLN 350 million.

	30.06.2023 PLN '000
Loans and advances to customers, of which:	
to state budget entities	356,793
to financial entities other than banks	304,779
to non-financial entities other than natural persons	8,568,357
to natural persons	11,021,730
Total	**20,251,659**

30.06.2023	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	23.10%	0.40%	4.10%	65.80%	16.59%
purchased lease receivables	1.73%	1.83%	3.02%	21.48%	2.64%
purchased other receivables	2.15%	1.38%	2.33%	19.45%	2.14%
car loans	8.60%	0.25%	5.19%	61.19%	5.96%
mortgage loans	12.50%	0.39%	5.99%	58.92%	8.45%
retail loans	25.75%	3.68%	24.92%	70.54%	25.17%
Total	**12.24%**	**1.22%**	**6.61%**	**62.50%**	**10.03%**

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

Loans and advances measured at fair value through profit or loss	30.06.2023 PLN '000
Corporate loans	84,820
Credit card loans	41,910
Other loans	2,071
Total loans and advances measured at fair value through profit or loss	**128,801**

14. 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	30.06.2023 PLN '000
Other financial instruments measured at fair value through other comprehensive income	
NBP bills	8,089,381
equity instruments	4,633
Total other financial instruments measured at fair value through other comprehensive income, gross	**8,094,014**
Impairment losses	**(3,056)**
Total financial instruments measured at fair value through other comprehensive income, net	**8,090,958**

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	30.06.2023 PLN '000
Other financial instruments measured at amortised cost	
treasury bonds	11,105,188
bonds of local government units	49,740
bonds from banks	29,019
corporate bonds	31,760
bonds secured with the State Treasury guarantees	1,636,789
Total other financial instruments measured at amortised cost, gross	**12,852,496**
Impairment losses	**(17,527)**
Total financial instruments measured at amortised cost, net	**12,834,969**

15. 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	30.06.2023 PLN '000
Software	217,210
Expenditure on intangible assets	35,952
Total intangible assets	**253,162**

16. 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	30.06.2023 PLN ‘000
Land and buildings, leasehold improvements	14,748
Machinery and equipment	36,637
Vehicles	1,936
Other fixed assets, including equipment	5,867
Right-of-use assets – land	182
Right-of-use assets – vehicles	3,151
Right-of-use assets – lease of space	94,073
Fixed assets under construction	21
Total property, plant and equipment	**156,615**

17. 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	30.06.2023 PLN ‘000
Real estate, of which:	
residential buildings and premises	58,012
other buildings and premises	10,606
agricultural plots	21,008
plots	6,264
Total property obtained from foreclosures	**95,890**

18. Other assets

Other assets	30.06.2023 PLN '000
Repo receivables	40,386
Receivables from sundry debtors	55,247
Payment card settlements	28,188
Sublease receivables	3,221
Prepayments	32,060
Deposits	13,803
Receivables from of taxes, subsidies and social security	871
Other assets	508
Total other assets, gross	**174,284**
Impairment losses on other assets	(39,744)
Total other net assets	**134,540**

19. Amounts due to banks and other financial institutions

Amounts due to banks and financial institutions	30.06.2023 PLN '000
Current accounts	187,614
Term deposits	497,389
Cash collateral	1,319
Loans and advances received	23,008
Other liabilities	2,734
Total amounts due to banks and financial institutions	**712,064**

20. Amounts due to customers

Amounts due to customers	30.06.2023 PLN '000
Amounts due to corporate entities	**1,724,449**
current accounts and overnight deposits	942,237
term deposits	782,212
Amounts due to state budget entities	**1,632,103**
current accounts and overnight deposits	1,318,219
term deposits	313,884
Amounts due to individuals	**37,642,350**
current accounts and overnight deposits	17,084,547
term deposits	20,557,803
Total amounts due to customers	**40,998,902**

Structure of liabilities by period from balance sheet date to maturity date	30.06.2023 PLN '000
Current accounts and overnight deposits	19,345,003
Term liabilities maturing in:	**21,653,899**
up to 1 month	6,378,260
from 1 to 3 months	9,266,756
from 3 to 6 months	4,234,469
from 6 months to 1 year	1,137,171
from 1 to 5 years	553,985
more than 5 years	83,258
Total	**40,998,902**

21. Other liabilities

Other liabilities	30.06.2023 PLN '000
Interbank settlements	46,009
Lease liabilities	115,528
Accounts payable to the EIB	84,639
Amounts due to state budget	49,147
Accruals	98,709
Settlements with counterparties	37,113
Deferred income	32,119
Liabilities on account of fees to be reimbursed	11,407
Payments on account of credit security	10,482
Provision for accrued holiday entitlements	9,780
Settlement of foreign orders	5,104
Settlements relating to the sale of debt claims	599
Payment card settlements	2,889
Loan overpayments to be reimbursed	1,321
Other liabilities	2,418
Total other liabilities	**507,264**

22. 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 number 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	30.06.2023 PLN '000
Retirement and disability severance pay	896
Litigation	7,634
Reimbursement of costs of loans	4,805
Commitments and guarantees given	5,839
Restructuring	978
Total provisions	**20,152**

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

30.06.2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Provisions on commitments and financial guarantees issued	4,076	1,365	398	**5,839**

23. Equity

	30.06.2023 PLN '000
Share capital	25,000
Supplementary capital	674,862
Revaluation reserve, including:	(1,329)
measurement of financial assets at fair value through other comprehensive income	(1,470)
actuarial gains	141
Other components of equity	78,509
Net profit	357,469
Total equity	**1,134,511**

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 "Other components of equity" in equity.

24. 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.

25. Issue, redemption and repurchase of securities

In the period of 9 months ended 30 June 2023, the Group did not issue any bonds.

26. Dividends paid and proposed

The Group did not pay or propose any dividends in the period of 9 months ended 30 June 2023.

27. 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	30.06.2023 PLN '000
Financial commitments given	**946,636**
to financial entities	88,354
to non-financial entities	750,523
to the State budget	107,759
Guarantee commitments given	**46,473**
to financial entities	286
to non-financial entities	43,121
to the State budget	3,066
Total contingent commitments given	**993,109**

30.06.2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Commitments and financial guarantees given	857,467	119,148	16,494	**993,109**

Contingent commitments received	30.06.2023 PLN '000
Financial commitments	-
Guarantee commitments	6,649,721
Total contingent commitments received	**6,649,721**

28. 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	30.06.2023 PLN '000
Cash and balances with Central Bank	863,813
Current amounts due from other banks, including O/N deposits	34,908
Total cash and cash equivalents	**898,721**

29. 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.

29.1. 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. 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 (excluding Treasury bonds and bonds guaranteed by the State Treasury) 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 0.2% to 2.8%) amounts to PLN 93,382 thousand. In case of one-sided change in the risk margins on securities by 25 basis points, the fair value increases by PLN 418 thousand — for a decrease in margins, and decreases by PLN 415 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.

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:

	30.06.2023	
	Carrying amount PLN '000	Fair value PLN '000
ASSETS:		
Cash and balances with the Central Bank	863,813	863,813
Amounts due from banks and financial institutions	570,798	570,798
Loans and advances to customers measured at amortised cost	20,251,659	20,059,585
Financial assets measured at amortised cost	12,834,969	13,036,669
LIABILITIES:		
Amounts due to banks and financial institutions	712,064	712,064
Amounts due to customers	40,998,902	40,740,986

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

29.2. 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 NBP money bills measured based on the reference curve 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 three hierarchy levels:

30.06.2023	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	13,263	-	4,220	**17,483**
Derivative financial instruments	-	3,883	-	**3,883**
Loans and advances measured at fair value through profit or loss	-	-	128,801	**128,801**
Financial instruments measured at fair value through other comprehensive income	-	8,089,381	1,577	**8,090,958**
LIABILITIES				
Derivative financial instruments	-	3,550	-	**3,550**

In the period of 9 months ended 30 June 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 1,981 thousand in the period of 9 months ended 30 June 2023, while the impact on other comprehensive income was PLN 46 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 specialising 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 – 30.06.2023	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:	1,507	474	46
recognised in the income statement	1,507	474	-
recognised in other comprehensive income	-	-	46
Change: sales/ redemptions/ acquisitions/ granting/ settlements	(2,224)	-	-
Closing balance	**128,801**	**4,220**	**1,577**

30. 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 - 30.06.2023 PLN '000
Interest income	Mortgage loans	630,509
	Car loans	50,880
	Retail loans	332,401
	Corporate loans	141,905
	Purchased lease receivables	476,527
	Other amounts due from customers	3,012
	Other activities of the Bank	962,105
	Total	**2,597,339**
Interest expenses	Retail deposits	(1,238,600)
	Corporate deposits	(70,538)
	Other activities of the Bank	(36,532)
	Total	**(1,345,670)**
Net fee and commission income	Mortgage loans	665
	Car loans	477
	Retail loans	(104)
	Corporate loans	4,386
	Purchased lease receivables	279
	Other activities of the Bank	13,790
	Total	**19,493**
Gain (loss) on financial instruments, including dividend income, net foreign exchange income		1,612
Other operating income		57,551
Other operating expenses		(57,338)
Administrative expenses		(555,651)
Net impairment losses on financial assets and off-balance sheet provisions	Loans and advances to customers	(216,797)
	Other activities of the Bank	(3,027)
	Total	**(219,824)**
Tax on financial institutions		(29,043)
Profit before tax		**468,469**
Tax		(111,000)
Net profit		**357,469**

Selected elements of the statement of financial position		30.06.2023 PLN '000
Assets	Mortgage loans	7,766,633
	Car loans	754,963
	Retail loans	2,681,563
	Corporate loans	2,066,724
	Purchased lease receivables	5,426,487
	Purchased other receivables	1,555,289
	Other	23,151,094
	Total	**43,402,753**
Equity and liabilities	Retail deposits	37,642,350
	Corporate deposits	3,356,552
	Other	2,403,851
	Total	**43,402,753**

31. 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 BGF Act, following the aforementioned period, but not longer than within one year following the commencement of business referred to in Article 188 section 1 of the BGF 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	30.06.2023 PLN '000
TIER 1 CAPITAL	
Equity instruments eligible as Tier 1	25,000
Supplementary capital	674,862
Other capital reserves	10,150
Retained earnings	68,367
Current profit	279,074
Accumulated other comprehensive income/ (losses)	(1,329)
Intangible assets	(51,994)
Prudent valuation adjustments and insufficient coverage for non-performing exposures	(11,738)
TOTAL OWN FUNDS	**992,392**
Own funds requirements	
Credit risk	1,041,624
Operational risk	217,379
Other risks	372
TOTAL CAPITAL REQUIREMENT	**1,259,375**
CAPITAL RATIOS	
CET1 Capital ratio	6.30%
T1 Capital ratio	6.30%
Total capital ratio	6.30%

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.

Pursuant to Article 26(2) of Regulation (EU) No 575/2013 of the European Parliament and of the Council, VeloBank S. A. applied for and the Polish Financial Supervision Authority, in its decision of 7 August 2023, approved the inclusion of audited prudentially consolidated net profit for the period ended 31 March 2023 in the full amount of PLN 279,074 thousand in Common Equity Tier 1.

In accordance with the position of the European Banking Authority (EBA) as expressed in the Single Rulebook Q&A 2018_3822, the Group has included audited prudentially consolidated net profit for the period ended 31 March 2023 in the calculation of capital ratios as at 30 June 2023.

The table below presents the development of supervisory measures of the VeloBank S.A. Capital Group as at 30 June 2023:

Supervisory liquidity measures		Minimum value	30.06.2023
LCR	Short-term liquidity ratio – Group	100%	741%
NSFR	Stable funding measure — Group	100%	226%

As at 30 June 2023, the VeloBank S.A. Group's leverage was as follows:

		30.06.2023
Leverage	Leverage – Group	2.26%

32. 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 - 30.06.2023	Income statement Interest and commission expense PLN '000
Members of the Management Board and the Supervisory Board of VeloBank S.A.	20

30.06.2023	Statement of financial position Liabilities – deposits PLN '000	Off-balance sheet Financial and guarantee commitments given PLN '000
Members of the Management Board and the Supervisory Board of VeloBank S.A.	583	7

33. Other notes

33.1. 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 9 months ended 30 June 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.

33.2. 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 30 June 2023:

Impairment losses	30.06.2023 PLN '000
Amounts due from banks and financial institutions	571
Loans and advances to customers	2,258,696
Other financial instruments	20,583
Intangible assets	133,106
Property, plant and equipment	4,655
Other financial assets	3,185
Other assets	36,559
Total impairment losses on assets	**2,457,355**

In the period of 9 months ended 30 June 2023, the Group reversed impairment losses on other assets in the amount of PLN 161 thousand.

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

In the period of 9 months ended 30 June 2023, there were no significant purchases and sales of property, plant and equipment in the Group. As at 30 June 2023, there were no significant liabilities on account of the purchase of property, plant and equipment.

33.4. Other data

As of 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.

34. Events subsequent to the end of reporting period

On July 25, 2023, the District Court for Wrocław-Fabryczna in Wrocław issued a decision to initiate restructuring proceedings in relation to leasing companies, contractors of the Bank whose cooperation agreements were terminated (as referred to in note III.6).

On 6 September this year, the Monetary Policy Council decided to cut the NBP reference rate by 0.75 percentage points, i.e. to 6.00%. At the same time, the Council set the remaining NBP interest rates at the following levels: lombard rate — 6.50%; deposit rate — 5.50%; rediscount rate on bills of exchange — 6.05%; discount rate on bills of exchange — 6.10%.

After 30 June 2023, there were no 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*	The original Polish document is signed with a qualified electronic signatures
Adrian Adamowicz	*Member of the Management Board*	The original Polish document is signed with a qualified electronic signatures
Mirosław Boda	*Member of the Management Board*	The original Polish document is signed with a qualified electronic signatures
Przemysław Koch	*Member of the Management Board*	The original Polish document is signed with a qualified electronic signatures
Paulina Strugała	*Member of the Management Board*	The original Polish document is signed with a qualified electronic signatures

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, 13 September 2023

Financial statements

VeloBank S.A.

for the period of 9 months ended

30 June 2023

Table of contents

I. INTERIM CONDENSED SEPARATE FINANCIAL DATA

1. Interim standalone income statement

	3.10.2022 - 30.06.2023 PLN '000
CONTINUING OPERATIONS	
Interest income, of which:	2,597,339
on financial assets measured at amortised cost	2,186,132
on financial assets measured at fair value through other comprehensive income	394,614
on financial assets measured at fair value through profit or loss	16,593
Interest expenses	(1,345,894)
Net interest income	**1,251,445**
Fee and commission income	87,711
Fee and commission expenses	(81,037)
Net fee and commission income	**6,674**
Gain (loss) on financial instruments, including dividend income, net foreign exchange income	1,612
Net other operating income and expenses	213
Administrative expenses	(553,472)
Net impairment losses on financial assets and off-balance sheet provisions	(219,824)
Operating profit/(loss)	**486,648**
Tax on financial institutions	(29,043)
Profit before tax	**457,605**
Income tax	(108,930)
Net profit	**348,675**

2. Interim standalone statement of comprehensive income

	3.10.2022 - 30.06.2023 PLN '000
Net profit for the period	348,675
Items that may not be reclassified to profit or loss, of which:	**187**
Actuarial gains	141
Measurement of equity financial assets measured at fair value through other comprehensive income	46
Items that may be reclassified to profit or loss, of which:	**(1,516)**
Measurement of debt financial instruments measured at fair value through other comprehensive income	(1,516)
Net other comprehensive losses	**(1,329)**
Comprehensive income for the period	**347,346**

3. Interim standalone statement of financial position

	30.06.2023 PLN '000
ASSETS	
Cash and balances with the Central Bank	863,813
Amounts due from banks and financial institutions	570,580
Financial assets measured at fair value through profit or loss	17,483
Derivative financial instruments	3,883
Loans and advances to customers	20,380,460
Other financial instruments, of which:	20,925,927
measured at fair value through other comprehensive income	8,090,958
measured at amortised cost	12,834,969
Investments in subsidiaries	28
Intangible assets	251,565
Property, plant and equipment	156,595
Property obtained from foreclosures	95,890
Other assets	132,654
TOTAL ASSETS	**43,398,878**
LIABILITIES AND EQUITY	
Liabilities	
Amounts due to banks and financial institutions	712,064
Derivative financial instruments	3,550
Amounts due to customers	41,015,479
Corporate income tax liabilities	6,317
Other liabilities	505,993
Deferred tax liabilities	19,751
Provisions	20,149
Total liabilities	**42,283,303**
Equity	
Share capital	25,000
Supplementary capital	674,862
Revaluation reserve	(1,329)
Retained earnings	68,367
Net profit	348,675
Total equity	**1,115,575**
TOTAL LIABILITIES AND EQUITY	**43,398,878**

4. Interim standalone statement of changes in equity

3.10.2022 – 30.06.2023	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		348,675	-	(1,329)	-	**347,346**
As at 30.06.2023	**25,000**	**348,675**	**674,862**	**(1,329)**	**68,367**	**1,115,575**

5. Interim standalone statement of cash flows

	3.10.2022 - 30.06.2023 PLN '000
Cash flows from operating activities	
Net profit	348,675
Total adjustments:	(13,370,324)
Amortisation and depreciation	86,918
(Gains)/ losses on investing activities	(28,133)
Interest and dividends	7,037
Change in amounts due from banks and financial institutions	(184,071)
Change in financial assets measured at fair value through profit or loss	(1,769)
Change in derivative financial instruments (assets)	(1,724)
Change in loans and advances to customers	1,303,369
Change in financial instruments measured at fair value through other comprehensive income	(8,090,897)
Change in financial instruments measured at amortised cost	(9,098,726)
Change in other assets	14,831
Change in amounts due to banks and financial institutions	543,313
Change in derivative financial instruments (liabilities)	810
Change in amounts due to customers	2,578,826
Change in other liabilities	(529,851)
Change in provisions	4,194
Income tax	25,549
Net cash from operating activities	**(13,021,649)**
Cash flows from investing activities	
Disposal of intangible assets and property, plant and equipment	57,050
Dividends received	60
Purchase of shares in a subsidiary	(15)
Purchase of intangible assets and property, plant and equipment	(34,515)
Net cash used in investing activities	**22,580**
Cash flows from financing activities	
Repayment of credit facilities	(8,621)
Interest paid on credit facilities, leases and securities issued	(7,097)
Lease payments	(32,386)
Net cash from financing activities	**(48,104)**
Net increase / (decrease) in cash and cash equivalents	(13,047,173)
including from exchange differences on cash and cash equivalents	*(11,608)*
Cash and cash equivalents at the beginning of the period	13,945,680
Cash and cash equivalents at the end of the period	**898,507**

II. GENERAL INFORMATION TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

The interim separate financial statements of VeloBank S.A. have been prepared as at 30 June 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 30 June 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 9-month period ended 30 June 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 9 months ended 30 June 2023 in Section II.6.4.

1.4. Functional and reporting currency

The reporting currency of these interim 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 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 BGF'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 recognise 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 that became effective and are effective for annual periods beginning on or after 1 January 2023

- 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 13 September 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 9 months ended 30 June 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 subsidiaries:

30.06.2023	Proportion of ownership interest/ voting rights held by the Group %	Gross carrying amount PLN '000	Impairment loss PLN '000	Carrying amount PLN '000
ProEkspert sp. z o.o.	100%	13	-	13
Berticoneby Investments Sp. z o.o.	100%	15	-	15
Total investments in subsidiaries		**28**	**-**	**28**

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 9 months ended 30 June 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 9 months ended 30 June 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 BGF Act, following the aforementioned period, but not longer than within one year following the commencement of business referred to in Article 188 section 1 of the BGF 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.	30.06.2023 PLN '000
TIER 1 CAPITAL	
Equity instruments eligible as Tier 1	25,000
Supplementary capital	674,862
Retained earnings	68,367
Current profit	272,735
Accumulated other comprehensive income/ (losses)	(1,329)
Intangible assets	(51,994)
Prudent valuation adjustments and insufficient coverage for non-performing exposures	(11,738)
TOTAL OWN FUNDS	**975,903**
Own funds requirements	
Credit risk	1,040,107
Operational risk	215,450
Other risks	372
TOTAL CAPITAL REQUIREMENT	**1,255,929**
CAPITAL RATIOS	
CET1 Capital ratio	6.22%
T1 Capital ratio	6.22%
Total capital ratio	6.22%

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 30 June 2023.

Pursuant to Article 26(2) of Regulation (EU) No 575/2013 of the European Parliament and of the Council, VeloBank S. A. applied for and the Polish Financial Supervision Authority, in its decision of 7 August 2023, approved the inclusion of audited net profit for the period ended 31 March 2023 in the full amount of PLN 272,735 thousand in Common Equity Tier 1.

In accordance with the position of the European Banking Authority (EBA) as expressed in the Single Rulebook Q&A 2018_3822, the Bank has included audited net profit for the period ended 31 March 2023 in the calculation of capital ratios as at 30 June 2023.

The table below presents the development of supervisory measures of VeloBank S.A. as at 30 June 2023:

Supervisory liquidity measures		Minimum value	30.06.2023
LCR	Short-term liquidity ratio – Bank	100%	741%
NSFR	Stable funding measure — Bank	100%	226%

As at 30 June 2023, VeloBank S.A.'s leverage was as follows:

		30.06.2023
Leverage	Leverage – Bank	2.23%

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 subsidiaries and other related parties

3.10.2022 - 30.06.2023	Income statement		
	Interest and commission income PLN ‘000	Interest and commission expense PLN ‘000	Other sales PLN ‘000
Subsidiaries	5	377	66
Members of the Management Board and the Supervisory Board of VeloBank S.A.	-	20	-

30.06.2023	Statement of financial position			Off-balance sheet
	Assets – financial instruments PLN ‘000	Assets – other receivables PLN ‘000	Liabilities – deposits PLN ‘000	Financial and guarantee commitments given PLN ‘000
Subsidiaries	28	11	16,577	5
Members of the Management Board and the Supervisory Board of VeloBank S.A.	-	-	583	7

7. Events subsequent to the end of reporting period

On July 25, 2023, the District Court for Wrocław-Fabryczna in Wrocław issued a decision to initiate restructuring proceedings in relation to leasing companies, contractors of the Bank whose cooperation agreements were terminated (as referred to in note III.6 of the interim condensed consolidated financial statements).

On September 6 this year The Monetary Policy Council decided to reduce the NBP reference rate by 0.75 percentage points, i.e. to 6.00%. At the same time, the Council established the following level of other NBP interest rates: lombard rate 6.50%; deposit rate 5.50%; rediscount rate of bills of exchange 6.05%; bill of exchange discount rate 6.10%.

After 30 June 2023, there were no events which were not disclosed in these financial statements which may significantly impact the future financial results of VeloBank S.A.

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

Adam Marciniak	*President of the Management Board*	The original Polish document is signed with a qualified electronic signatures
Adrian Adamowicz	*Member of the Management Board*	The original Polish document is signed with a qualified electronic signatures
Mirosław Boda	*Member of the Management Board*	The original Polish document is signed with a qualified electronic signatures
Przemysław Koch	*Member of the Management Board*	The original Polish document is signed with a qualified electronic signatures
Paulina Strugała	*Member of the Management Board*	The original Polish document is signed with a qualified electronic signatures

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, 13 September 2023