Consolidated financial statements

of the VELOBANK S.A. Capital Group

for the period of 15 months ended
31 December 2023
together with the independent
auditor's report

February 2024

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I. CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidated income statement

	Note	05.09.2022 - 31.12.2023 PLN '000
CONTINUING OPERATIONS		
Interest income, of which:	III.1	4,453,947
on financial assets measured at amortised cost		3,731,516
on financial assets measured at fair value through other comprehensive income		664,724
on financial assets measured at fair value through profit or loss		57,707
Interest expenses	III.1	(2,455,030)
Net interest income		**1,998,917**
Fee and commission income	III.2	169,248
Fee and commission expenses	III.2	(116,961)
Net fee and commission income		**52,287**
Dividend income	III.3	136
Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	III.4	5,748
Gain (loss) on derecognition of financial assets not measured at fair value through profit or loss	III.5	(124,943)
Net other operating income and expenses	III.6	(75,639)
Administrative expenses	III.7	(940,107))
Net impairment losses on financial assets and off-balance sheet provisions	III.8	(417,722)
Operating profit/(loss)		**498,677**
Tax on financial institutions		(29,043)
Profit before tax		**469,634**
Income tax	III.9	(85,333)
Net profit		**384,301**
Attributable to:		
equity holders of the parent		**384,301**

Earnings per share in PLN:	III.10	
Basic earnings per share		3,843.01
Diluted earnings per share		3,843.01

2. Consolidated statement of comprehensive income

	05.09.2022 - 31.12.2023 PLN ‘000
Net profit for the period	384,301
Items that may not be reclassified to profit or loss, of which:	**(164)**
Actuarial gains	(222)
Measurement of equity financial assets measured at fair value through other comprehensive income	58
Items that may be reclassified to profit or loss, of which:	**(30,780)**
Measurement of debt financial instruments measured at fair value through other comprehensive income	(1,423)
Effect of cash flow hedges	(29,357)
Net other comprehensive income/(loss)	**(30,944)**
Total comprehensive income/(loss) for the period	**353,357**

3. Consolidated statement of financial position

	Note	31.12.2023 PLN ‘000
ASSETS		
Cash and balances with the Central Bank	III.11	607,620
Amounts due from banks and financial institutions	III.12	593,935
Financial assets measured at fair value through profit or loss	III.13	18,519
Derivative financial instruments	III.14	6,218
Loans and advances to customers	III.15	13,215,740
Other financial instruments, of which:	III.16	33,591,796
measured at fair value through other comprehensive income		8,914,577
measured at amortised cost		24,677,219
Intangible assets	III.18	293,158
Property, plant and equipment	III.19	149,870
Assets obtained from foreclosures	III.20	62,101
Non-current assets held for sale	III.22	318
Deferred tax assets	III.9	147
Receivables relating to current income tax		3,498
Other assets	III.23	120,795
TOTAL ASSETS		**48,663,715**
LIABILITIES AND EQUITY		
Liabilities		
Amounts due to banks and financial institutions	III.24	123,403
Derivative financial instruments	III.14	38,392
Amounts due to customers	III.25	46,717,554
Other liabilities	III.26	611,254
Deferred tax liabilities	III.9	58,008
Provisions	III.27	64,338
Total liabilities		**47,612,949**
Equity attributable to equity holders of the parent		
Share capital		25,000
Supplementary capital		674,862
Revaluation reserve		(30,944)
Other components of equity		(2,453)
Net profit		384,301
Total equity	III.28	**1,050,766**
TOTAL LIABILITIES AND EQUITY		**48,663,715**

4. Consolidated statement of changes in equity

05.09.2022 – 31.12.2023	Note	Equity attributable to equity holders of the parent					Total equity
		Share capital	Supplementary capital	Net profit/ (loss)	Revaluation reserve	Other components of equity	
		PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 03.10.2022		**25,000**	**674,862**	**-**	**-**	**-**	**699,862**
Effect of a business transfer		**-**	**-**	**-**	**-**	(2,453)	**(2,453)**
Comprehensive income/ (loss) for the period		-	-	384,301	(30,944)	-	**353,357**
As at 31.12.2023	**III.28**	**25,000**	**674,862**	**384,301**	**(30,944)**	**(2,453)**	**1,050,766**

5. Consolidated statement of cash flows

	Note	05.09.2022 - 31.12.2023 PLN '000
Cash flows from operating activities		
Net profit		384,301
Total adjustments:		(13,582,210)
Amortisation and depreciation	III.7	135,314
(Gains)/ losses on investing activities		3,708
Interest and dividends		10,469
Change in amounts due from banks and financial institutions		(221,216)
Change in financial assets measured at fair value through profit or loss		(2,805)
Change in derivative financial instruments (assets)		(192)
Change in loans and advances to customers		8,468,088
Change in financial instruments measured at fair value through other comprehensive income		(8,914,411)
Change in financial instruments measured at amortised cost		(20,940,976)
Change in other assets		40,283
Change in amounts due to banks and financial institutions		(39,600)
Change in derivative financial instruments (liabilities)		2,428
Change in amounts due to customers		8,281,669
Change in other liabilities		(425,777)
Change in provisions		48,014
Income tax		(27,206)
Net cash from operating activities		(13,197,909)
Cash flows from investing activities		
Disposal of intangible assets and property, plant and equipment		66,968
Dividends received		136
Purchase of intangible assets and property, plant and equipment		(117,367)
Net cash used in investing activities		(50,263)
Cash flows from financing activities		
Repayment of credit facilities		(14,369)
Interest paid on credit facilities, leases and securities issued		(10,605)
Lease payments		(53,035)
Net cash from financing activities		**(78,009)**
Net increase / (decrease) in cash and cash equivalents		(13,326,181)
including from exchange rate? differences on cash and cash equivalents		*(12,689)*
Cash and cash equivalents at the beginning of the period	III.32	13,954,705
Cash and cash equivalents at the end of the period	**III.32**	628,524

II. GENERAL INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

The general information and explanatory notes constitute an integral part of the consolidated financial statements of the VeloBank S.A. Capital Group for the period of 15 months ended 31 December 2023.

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 "Decision"). 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, 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, 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.

On 27 October 2023, as part of the resolution initiated on 30 September 2022, the Fund issued a Decision on the application of the resolution instrument in the form of separation of the property rights of VeloBank S.A. was applied by transferring to Podmiot Zarządzający Aktywami S.A., which is an asset manager within the meaning of the BFG Act, the property rights and liabilities relating to the agreement on the buy-out of lease payments and loan instalments concluded by Getin Noble Bank S.A. with the leasing companies VB Leasing Spółka Akcyjna w restrukturyzacji and VB Leasing Spółka Akcyjna Automotive Spółka Komandytowo-Akcyjna w restrukturyzacji (current business names), as at 31 October 2023.

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

(figures in PLN ‘000)

Amongst other items, all deposits of Getin Noble'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 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.

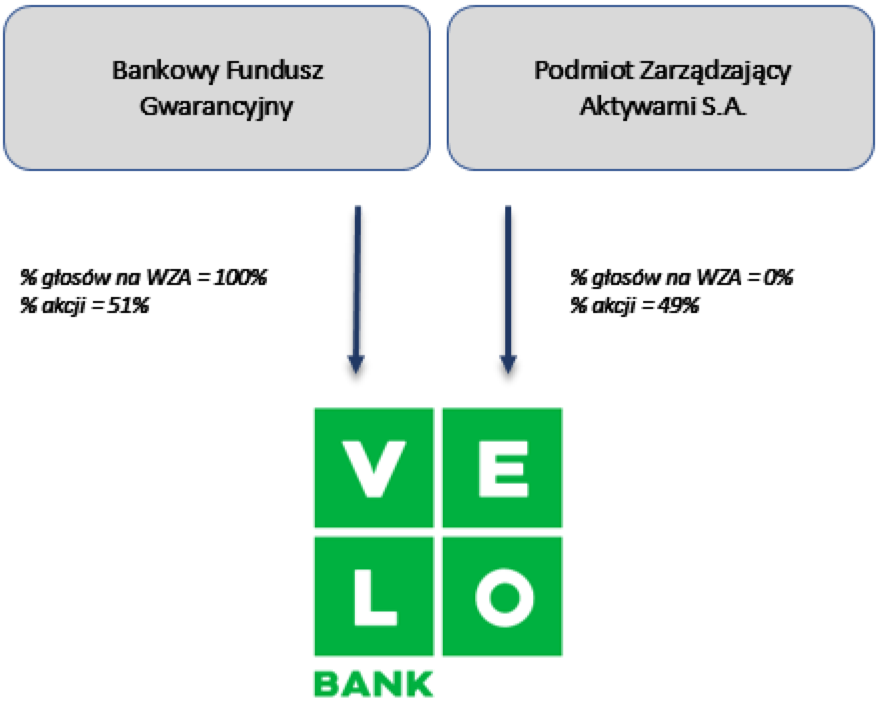
In September 2023, the BGF announced that non-binding offers to purchase the Bank had been received, and in mid-January 2024 that binding offers had been received from potential investors participating in the process.

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 as at the date of authorisation of these consolidated financial statements is as follows:



Bankowy Fundusz Gwarancyjny	Bank Guarantee Fund
Podmiot Zarządzający Aktywami S.A.	Podmiot Zarządzający Aktywami S.A.
% głosów na WZA = 100%	% of votes at GM = 100%

(figures in PLN '000)

% akcji = 51%	% of shares = 51%
% głosów na WZA = 0%	% of votes at GM = 0%
% akcji = 49%	% of shares = 49%

On 27 November 2023, an entry was made in the register of shareholders on the transfer of ownership of the series A ordinary registered shares held by System Ochrony Banków Komercyjnych Spółka Akcyjna to Podmiot Zarządzający Aktywami S.A. (hereinafter: "PZA"), which was established pursuant to Article 224 of the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and resolution.
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 shareholders' meeting are exercised by the BGF.

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

As at the date of signing these consolidated financial statements, the composition of the management and supervisory boards of the parent company 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.	
Chairperson of the Supervisory Board	Piotr Tomaszewski
Deputy Chairperson 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 holding company and its wholly-owned subsidiaries.

31.12.2023	% of ownership interest/ voting rights held by the Bank
Berticoneby Investments Sp. z o.o.	100%
ProEkspert sp. z o. o.	100%
Total investments in 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 to individuals and corporate customers in both Polish złoty and foreign currencies.

The Bank's own offer is complemented by a subsidiary that deals with insurance brokers and agents, and operates the VeloMarket marketplace. 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. Velomarket is a new e-commerce platform, operating under the marketplace model and specialising in environmental and healthy lifestyle categories.

Berticoneby Investments Sp. z o.o. was not engaged in business activities during the reporting period.

Subsidiaries are fully consolidated.

6. Accounting policies

6.1. Basis of preparation of the consolidated financial statements:

These consolidated financial statements of the VeloBank S.A Group cover the period of 15 months ended 31 December 2023.

On 3 October 2022, Getin Noble Bank's enterprise was transferred to the BGF Bank as a bridge institution. This transaction is essential for the Bank to commence operations. The enterprise transfer transaction is described in Section II.1. Accordingly, the balance as at 3 October 2022 is presented in the following notes and explanations as the opening balance.

In the period from 5 September 2022 to 2 October 2022, only share capital contribution transactions and insignificant result transactions related to ordinary operations took place.

Guided by the principles of materiality and fairness, in order to ensure the delivery of information useful for understanding the financial position of the financial institution for the purposes of presentation of data in the notes to the financial statements presenting changes in individual items, the figures for the period from 5 September to 2 October 2022 and the carrying amounts of assets and liabilities recognised in connection with the transfer of the enterprise to the bridge institution have been included in the figures as at the beginning of the reporting period. This approach to presentation ensures, in our view, that more comprehensible data on changes that have taken place during the reporting period are provided.

The presentation of the changes in items of the consolidated financial statements in the period from 5 September 2022 to 31 December 2023, in our opinion, would not reflect the changes in the period from the date of the transfer of the enterprise, i.e. from 3 October 2022 to the balance sheet date, in a clear, transparent, useful and understandable manner.

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

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future, i.e. for a period of at least 12 months from the end of the reporting period. As at the date of authorisation of the 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and related interpretations as endorsed by the EU and, to the extent not regulated by the above standards and interpretations, with the provisions of the Accounting Act and secondary legislation issued thereunder.

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 subsidiaries. The financial statements of the Bank and its subsidiaries 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 S.A. recognised the part of the undertaking comprising the separated property rights and liabilities of Getin Noble 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 was recognised by VeloBank directly in equity.

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, provisions of the Accounting Act and the secondary legislation issued thereunder.

On 3 October 2022, a new accounting policy was adopted. The Group applied IAS/IFRS for the first time. These 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".

6.5. Entity authorised to audit financial statements

The entity authorised to audit the consolidated financial statements of the Group is PKF Consult Spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw.

6.6. Functional and reporting currency

The reporting currency of these consolidated financial statements is the Polish złoty (PLN), and all amounts are expressed in thousands of Polish złoty (PLN '000) unless stated otherwise. The Polish złoty is the functional currency of the parent and subsidiaries covered by these consolidated financial statements and the reporting currency of these consolidated financial statements.

(figures in PLN '000)

6.7. Changes in the applied standards and interpretations

Amendments to existing standards applied for the first time in the Group's consolidated financial statements for 2023

IAS/IFRS		Effective from
IFRS 17	Insurance – new approach to the recognition, measurement, presentation and disclosure of insurance contracts.	1 January 2023
Amendments to IAS 8	Accounting policies, changes in accounting estimates and errors	1 January 2023
Amendments to IAS 12	Income taxes – amendments concerning deferred tax for leases and decommissioning obligations	1 January 2023
Amendments to IAS 1	Presentation of financial statements and IFRS Practice Statement 2	1 January 2023

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

IAS/IFRS		Effective from
Amendments to IAS 1	Presentation of financial statements - the amendment relates to the presentation of liabilities	1 January 2024
Amendments to IAS 7 /IFRS 7	Supplier finance agreements – supplier finance disclosure	1 January 2024
Amendments to IFRS 16	Leases – amendment regarding the calculation of the lease liability in sale and leaseback transactions	1 January 2024
Amendments to IAS 21	The effects of changes in foreign exchange rates	1 January 2025

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

6.8. Foreign currency translation

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

As at the reporting date, monetary assets and liabilities denominated in currencies other than the Polish złoty are translated into the złoty at the mid-exchange rate quoted by the National Bank of Poland for a given currency, effective at the end of the reporting period. Currency translation differences are disclosed in relevant items of the income statement. Non-monetary assets and liabilities recognised at historical cost and denominated in a foreign currency are disclosed at the historical exchange rate effective for the transaction date. Non-monetary assets and liabilities recognised at fair value in a foreign currency are translated at the exchange rate effective on the date of determining the fair value.

6.9. Investments in subsidiaries

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

6.10. 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 Group or by the Group.

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
- 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 Group may have more than one business model for managing its financial instruments. The Group 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 achieved by selling financial assets ("sell" model);

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. However, the Group 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.

In a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group’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 Group 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 Group makes decisions based on the assets' fair values and manages the assets to realise those fair values. In this case, the Group’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 Group 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 Group 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 Group 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

A financial asset 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 Group 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 "sale" business model:

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. POCIs are measured using the effective interest rate method using the effective interest rate adjusted for credit risk. The Group 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 Group 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 asa 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 effective interest or most recent 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 Group adopted quantitative and valuable criteria for the identification of a substantial modification. The qualitative criteria for identifying a substantial modification include:

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

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

The quantitative criteria for identifying a substantial modification is:

- increasing of the exposure amount by at least 10%.
- 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).

Derecognition of financial assets and liabilities

A financial asset is derecognised when the Group 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 Group 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 Group writes off (partially or in full) the gross carrying amount of financial assets measured at amortised cost if there is no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event. The Group performs a periodic analysis of the recoverability of a financial asset, in particular penalty and statutory interest.

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

6.11. 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.

Derivative financial instruments not subject to hedge accounting are recognised as at the date of the transaction and measured at fair value as at the end of the reporting period. The Group includes changes in fair value in gain (loss) on financial instruments measured at fair value through profit or loss or in net foreign exchange income, in correspondence with, respectively, assets / liabilities arising from derivative financial instruments.

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 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).

6.12. Hedge accounting

The Group has adopted accounting policy for cash flow hedge accounting for hedging interest rate risk in accordance with IAS 39 endorsed by the European Commission Regulation. The "carve out" in accordance with IAS 39 endorsed by the European Commission Regulation enables the Group to designate a group of derivative instruments as a hedge, and cancels certain restrictions resulting from the provisions of IAS 39 in the scope of deposit hedging and adoption of the hedging strategy for less than 100% of cash flows. In accordance with IAS 39 endorsed by the European Commission Regulation, hedging relationship is ineffective only when a re-measured value of cash flows within the given time interval is lower than the value hedged in the given time interval.

When applying hedge accounting, hedges are classified as:

- a fair value hedge against changes in fair value of a recognised asset or liability; or
- a cash flow hedge against cash flow changes attributable to a particular type of risk related to a recognised asset, liability, or a forecast transaction; or
- a hedge of a net investment in a foreign operation.

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

Cash flow hedges

At the inception of the hedge, the Bank formally designates and documents the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. That documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in cash flows attributable to the hedged risk. The hedge is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk. The hedge effectiveness is assessed on a monthly basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Throughout the hedging period, the Bank measures the effectiveness of the hedging relationship. A change in the fair value of hedging instruments is recognised in revaluation reserve in the amount of the effective portion of the hedge. The ineffective part of the hedge is recognised in the income statement under "Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income".

When cash flow hedge accounting is discontinued, the Bank:

- continues to recognise the cumulative gain or loss on the hedging instrument allocated to equity in a separate equity item and reclassifies it to the income statement in the same period in which the hedged item affects the income statement; in relation to the portfolio approach to hedging, a straight-line amortisation of the item from equity to the income statement is permitted where:

a) the hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the Bank's documented hedging strategy).

b) the hedge no longer fulfils its purpose (e.g. fails to meet effectiveness tests)

c) the Bank revokes the hedging relationship

- any cumulative gain or loss on the hedging instrument that has been recognised in equity over the period when the hedge was effective is recognised in the income statement when the expected future cash flows on the hedged item are no longer expected.

6.13. Impairment of financial assets

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 Group 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.

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, expected credit 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 Group 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 Group applied the definition of “default” in accordance with the EBA recommendations and the provisions of IFRS 9.

The Group applies the indication of no or delayed repayment above 90 DPD (days-past-due), 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 Group 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;
- problems of a retail counterparty resulting from job loss or income reduction,
- 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 Group 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 Group 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 Group);
- inclusion of the corporate customer in the so-called watch-list as part of the Early Warning System;
- 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 Group defined portfolios of the so-called Low Credit Risk (LCR), including among others exposures to State treasury and local government units/State Treasury, banks. For the purpose of classifying exposures to the appropriate Stage, the Group applies for LCR portfolios all of the above-described classification criteria except for the SICR criterion.

The Group 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 or other transactions concluded at interbank market or developer exposures). For individually significant exposures and for exposures with mandatory individual valuation, the Group 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 Group 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 potential 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 12 month period (Stage 1) or lifetime (for other stages) is estimated.

The Group 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 (Probability of Default) model provides for estimating the probability curves of default depending on the horizon of the estimated loss (12 months or lifetime), taking into account the Group's expectations regarding the future macroeconomic situation and taking into account behavioural data of exposures. In terms of estimation of LGD (Loss Given Default) parameters, the Group 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 Group 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 the Group 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 Group 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 Group 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 paragraphs 5.5.13–5.5.16 of IFRS 9, at each reporting date, the Group 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.

6.14. Repo/ reverse repo agreements

Repo and reverse-repo and sell-buy-back and buy-sell back agreements are sale or purchase transactions of securities with the agreement to repurchase or resale them at a specific future date and price.

Repo and sell-buy back agreements are recognised in “Amounts due to banks and financial institutions” when they occur.

Reverse-repo and buy-sell back agreements are recognised in “Amounts due from banks and financial institutions”.

Repo and reverse repo agreements are measured at amortised cost, and securities which are subject to repo/reverse repo transactions are not derecognised from the balance sheet and measured in accordance with principles applicable for particular securities portfolios. The difference between the sale and repurchase price and the purchase and resale price is treated as interest income or expense, respectively and is accounted for the term of the agreement using the effective interest rate.

6.15. Contingent liabilities

As part of its operations, the Group enters into transactions that are not recognised as assets or liabilities in the statement of financial position when concluded but give rise to contingent liabilities. A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group;
- a present obligation that arises from past events but is not recognised in the statement of financial position because it is not probable that an outflow of cash or other assets will be required to settle the obligation, or the amount of the obligation (liability) cannot be measured reliably.

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.

(figures in PLN '000)

6.16. Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and reported in the statement of financial position on a net basis if the Group holds a valid legal title to offset the recognised amounts and intends to settle the amounts in net amount or to realise the given asset and settle the liability simultaneously.

6.17. 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 13 to 120 months (or the lease period, if shorter)
Buildings	from 300 to 800 months
Machinery and technical equipment	from 13 to 180 months
Computer units	from 13 to 120 months
Vehicles	from 13 to 96 months
Office equipment, furniture	from 13 to 120 months

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

Fixed assets under construction include assets in the course of construction or assembly, and are measured at cost. Fixed assets under construction are not depreciated until completed and placed in service.

6.18. Assets obtained from foreclosures

Assets obtained from foreclosures are 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.

6.19. 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.

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

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.

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

Amortisation of intangible assets is presented under "Administrative expenses" in the income statement.

6.20. Non-current assets held for sale

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

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

If the criteria for classification into the group of non-current assets held for sale are not met, the Group ceases to recognise them as held for sale and reclassifies them into the appropriate category of assets.

In this case, the asset is measured at the lower of:

- its carrying amount as at the date immediately preceding its classification as held for sale, adjusted for the depreciation/amortisation charges and impairment losses which would have been recognised had the asset not been reclassified as held for sale,
- its recoverable amount at the date of the subsequent decision not to sell.

6.21. Impairment of non-financial non-current assets

The carrying amount of individual assets is periodically tested for impairment. If the Group identifies any indicators of impairment, it subsequently determines if the current carrying amount of the affected asset is higher than the value obtainable from its further use or sale, which means that the recoverable amount of the asset is estimated. If the recoverable amount is lower than the current carrying amount of the asset, an impairment loss is recognised in profit or loss.

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

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

6.22. Cash and cash equivalents

The Group recognises the following cash and cash equivalents: cash and balances on current accounts in the Central Bank and balances on current accounts and overnight deposits in other banks.

6.23. Prepayments, accruals and deferred income

Prepayments (assets) comprise of particular expenses which will be settled against the profit and loss as being accrued over the future reporting periods. Prepayments (assets) are included in "Other assets". Accruals (liabilities) comprise accrued costs resulting from performances provided to the Group that will be accounted for in future periods. These balances are included in "Other liabilities".

Deferred income comprises among others received amounts of future services and other types of income received in advance to be settled in the profit and loss in future reporting periods. In the statement of financial position, deferred income is presented under "Other liabilities".

6.24. Employee benefits

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

Pursuant to the provisions contained in the Remuneration Policy, the Employee Remuneration Rules and the Bonus Rules, a bonus may be granted to Bank employees. In 2023, all bank employees were covered by bonus schemes enabling them to earn bonuses. Bonus rules for individual business units and positions differ due to the specific nature of business functions, but follow a uniform standard arising from the remuneration policy. The subjective scope of each bonus regulation is determined each time in the regulation itself. The rules for rewarding managers are specified in the Policy of variable remuneration components or in the bonus rules of the organisational unit concerned.

In accordance with the Polish Labour Code and the Employee Remuneration Rules, the Bank's employees are entitled to retirement severance pay. Such severance pay is paid as a lump sum to an employee upon termination of his or her employment for retirement and the severance pay amount depends on the number of the employee's years of service and his or her individual pay level. Provisions for retirement severance pay constitute defined post-employment benefit plans in accordance with IAS 19 and are estimated based on an actuarial valuation. The provision being the result of the actuarial valuation is recognised and remeasured on an annual basis, and recognised under "Provisions".

The Bank's employees exercise their right to join the Employee Capital Plans (ECPs). Hired employees are enrolled in the scheme by the Bank, however, they may resign from making contributions at any time. Any person who is not automatically enrolled due to age or who has previously resigned can join the scheme without any time limit. Contributions made to EPC are financed by the employing entity and the EPC participant from their own funds. The employer ensures the processing and payment of all contributions. In 2023, the employer made cyclical automatic enrolment of employees into ECPs from the second quarter, in accordance with the provisions of the ECP Act. The costs of EPC are recognized in the item "Administrative expenses – costs of employee benefits" and "Other liabilities".

6.25. Provisions

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 liability amount can be made. The Group recognises the following provisions presented in equity and liabilities under the line item "Provisions":

a) retirement severance pays
The Group recognises provisions for retirement severance pays. The amount of provisions is determined according to valuation made by an independent actuary and remeasured at the end of each reporting period. The provision is expensed to profit or loss except for actuarial gains and losses that are recognised in the revaluation reserve.

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.

c) litigation
The Group keeps records of pending court cases and recognizes provisions based on the assessment of the probability of losing a case in the amount of expected outflows of economic benefits.

d) other
The Group recognises provisions for certain or highly probable future liabilities whose amount can be reliably estimated.

6.26. Operating and finance leases

A contract is recognised by the Group as a lease contract if it conveys the right to control the use of an identified asset. In order to qualify a contract as a lease, the following three conditions must be met:

- the contract conveys the right to use an identified asset to the lessee;
- the lessee obtains the economic benefits from use of this asset;
- the lessee obtains the right to direct the use of this asset throughout the period of the contract.

The Group as a lessee

For contracts where the Group acts as a lessee, the Group applies a uniform model of accounting for the lease.
The Group recognises a right-of-use asset together with a corresponding lease liability in the amount of discounted future payments over the lease term – as a component of "Property, plant and equipment" and "Other liabilities", respectively. In the income statement, the Group recognises the costs of depreciation of the right-of-use asset (under "Administrative expenses") and interest expense on the lease liability (under "Interest expense"). The measurement of the lease liability is periodically reconciled with the lease payments. Right-of-use assets are depreciated using the straight-line method, while liabilities under lease contracts are accounted for using the effective interest rate.
Lease liabilities resulting from leases of real estate denominated in foreign currencies are measured at each balance sheet date, and gains or losses on revaluation are recognised in the income statement.

The Group used the simplified approach provided for in the standard for short-term leases and leases where the underlying asset has a low value. In the case of these leases, the Group accounts for lease payments as an expense on a straight-line basis over the lease term.

The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

When determining the lease term, the Group took into account the extension option if it is included in the contract and the Group considers it probable that the option will be exercised. For agreements concluded for an indefinite period of time, the Group estimates the useful life of the leased asset with reasonable certainty, taking into account the significance of the investment in third-party fixed assets, relocation costs, as well as the strategy of presence in a given location, ensuring business flexibility and efficiency and taking into account the changing expectations and preferences of customers.

The Group as a lessor

The Group presents assets subject to operating leases in respective groups of fixed assets – according to the nature of the assets. Non-current assets in operating leases are depreciated on a straight-line basis over the lease term, taking into account their residual value. The residual value is determined at the amount that the Group is currently expected to obtain, taking into account the age and condition of the asset at the end of the lease, less the estimated costs of disposal.

Lease income from operating leases are recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

The Group is not a lessor in finance lease agreements.

Subleases

The Group as an intermediate lessor classifies the sublease as a finance lease or an operating lease as follows:

a) if the head lease is a short-term lease that the Group, as a lessee, has accounted for applying paragraph 6 of IFRS 16, the sublease is classified as an operating lease.
b) otherwise, the sublease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease).

Sublease receivables, like lease liabilities, are measured by the Group at the inception of the lease at the amount of future payments over the lease term, discounted at the discount rate used in the head lease. Sublease receivables are presented as a component of "Other assets" in the statement of financial position. Interest income on sublease receivables is presented in the income statement as "Interest income".

6.27. Other receivables

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

6.28. Other liabilities

Other liabilities are recognised at amounts due. If the effect of the time value of money is material, the value of an amount payable is determined by discounting the projected future cash flows to their present value using a gross discount rate that reflects the current market estimates of the time value of money. If the discount method is applied, an increase in liabilities over time is recognised in profit or loss. For lease liabilities, they are measured at discounted future payments over the lease term and periodically offset against lease payments.

6.29. Equity

Equity comprises reserves and funds created in accordance with the applicable laws, respective acts and the articles of association. The equity consists of: share capital, retained earnings and other components of equity.

Share capital

Share capital is disclosed at par value, in the amount specified in the articles of association and entered in the court register.

Other components of equity

a) Supplementary capital
Share premium (excess of the issue price over the par value of the shares) less direct expenses incurred in connection with the issue and created from profit appropriation.
b) Revaluation reserve
Revaluation reserve from valuation of debt and equity financial instruments measured at fair value through other comprehensive income, revaluation of cash flow hedges, actuarial gains and losses and deferred tax relating to temporary differences recognised in the revaluation reserve.
c) Reserve capital
Capital reserves are created from the appropriations from profit and other sources and are used for covering special losses and expenses.
d) Retained earnings (undistributed profit or accumulated loss)
Retained earnings include appropriated profits for the current and previous periods, which have not been allocated to other capital and reserves or distributed to the shareholders.

All items of the equity described above, in case of acquisition/ combination of entities, apply to the events taking place after obtaining control over the given entity until the day such control is ceased.

6.30. Revenues

The Group recognises revenue from contracts with customers in a manner reflecting transfer of goods or services to customers and in such amount as to reflect the consideration (i.e. payment) which the Group expects to receive in exchange for these goods or services.

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

Any goods or services that are sold in bundles that are separately identifiable as part of a contract concluded with a customer is recognised separately by the Group. And any discounts and rebates on the transaction price are allocated to the specific bundle items. An amount of variable consideration is recognised as revenue only if it is highly probable that there will not be a subsequent reversal in recognised revenue due to change in estimates. To recognise revenue from contracts with customers under IFRS 15, the Group applies a five-step model:

1. Identification of a contract with customer,
2. Identification of performance obligations under a contract,
3. Determination of transaction price,
4. Allocation of the transaction price to performance obligations,
5. Recognition revenue when (or as) the Group satisfies a performance obligation.

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 integral costs calculated using the effective interest rate method 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 Group under the contract for the asset or liability, excluding the potential future credit losses.

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

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

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

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

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

Net fee and commission income

Fees and commissions accounted for using the effective interest rate method are recognised by the Group 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 Group 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 Group, 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 Group 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 Group 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 Group classifies costs associated with the sale of insurance product to directly related and other indirectly related costs, including fixed costs (recognised as incurred).

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 comprises gains and losses from fair value measurement of held-for-trading financial assets and liabilities, financial assets and liabilities measured at fair value through profit or loss and derivatives, as well as gains and losses arising from the translation of assets and liabilities denominated in foreign currencies at the mid rate quoted for a given currency by the National Bank of Poland for the balance sheet date.

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

Gain (loss) on other financial instruments comprise in particular realised gains and losses on disposal of financial assets measured at amortised cost and debt financial instruments measured at fair value through other comprehensive income and gain (loss) on substantial modification resulting in derecognition of the financial instrument.

6.31. Other operating income and expenses

Other operating income and expenses include income and expenses not directly related to the Group's core business. These include, in particular: gains (losses) on disposal and retirement 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 related to collection activities, court fees and provisions for litigation.

6.32. Dividends

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

6.33. Income tax

Current tax

Current income tax payable and receivable for the current period and for previous periods is measured at the amount expected to be paid to (or recovered from) tax authorities, using the tax rates and laws that were enacted or substantively enacted as at the balance sheet date.

Deferred tax

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

Deferred tax liability is recognised for all taxable temporary differences:

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

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

- except to the extent that the deferred tax assets related to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit before tax nor taxable income (tax loss), and
- in the case of deductible temporary differences associated with investments in subsidiary or associated entities and interests in joint ventures, the related deferred tax asset is recognised in the statement of financial position to the extent it is probable that in the foreseeable future the temporary differences will be reversed and taxable income will be generated which will enable the deductible temporary differences to be offset.

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or provision is released, using tax rates (and tax laws) that prevail at the balance sheet date or those whose future use is certain at the balance sheet date.

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

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

The IFRIC 23 Interpretation explains how to disclose and measure deferred tax assets and liabilities and current tax liabilities when there is uncertainty about the tax treatment. In such circumstances, the entity recognises and measures current tax receivables and liabilities or deferred tax assets and liabilities in compliance with the requirements of IAS 12, based on taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates. In accordance with the interpretation, the effects of uncertainty should be measured based on the approach which best predicts how the uncertainty will be resolved: either the most likely amount method or the expected value method. The Group takes into account the effects of uncertain tax treatment where it would be likely that the tax authorities would not accept the Group's approach.

6.34. Earnings per share

Earnings per share for each reporting period are calculated as quotient of the net profit for the given period and the weighted average number of shares outstanding in the given period. The disclosures required by IAS 33 are presented only on the basis of the consolidated financial data from the consolidated financial statements.

7. Uncertainty of estimates

The preparation of consolidated financial statements in accordance with IFRS requires the Group to make certain estimates and to adopt certain assumptions which affect the amounts presented in the financial statements. The estimates and assumptions are subject to ongoing review by the Group's management and are based on past experience and other factors, including expectations as to future events, which seem justified in a given situation. Although such estimates are based on the best knowledge of current conditions and activities of the Group, actual results may differ from those 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).

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

Impairment of financial instruments

At each reporting date, the Group assesses whether credit risk of a given financial instrument has increased significantly since initial recognition. When making the assessment, the Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. A list of indications of a significant increase in credit risk since initial recognition and other estimates are described in Section II.6.13.

Derivative instruments, financial assets and liabilities measured at fair value through profit or loss

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

Net selling price of assets obtained from foreclosures

The Group makes estimates of the net selling price of assets obtained from foreclosures The estimate reflects market conditions and the legal status as at the valuation date.

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

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

Measurement of provision for old-age retirement severance payments

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

Measurement of provisions for litigation

The chances of winning a case, and consequently the assessment of the need to recognise a provision for losing, in respect of all court proceedings are determined on a case-by-case basis. In the case of actions brought by customers, which were submitted to the Group and are considered before the courts of first and second instance, an individual assessment of the probability of the Group winning a given case was made based on the estimates of the attorney in charge of the case. A provision is recognised for such cases, as a rule, where the Group's chance of winning is determined to be lower than 50%.

Deferred tax asset

The Group recognises a deferred tax asset if it assumes that taxable profit will be generated in the future against which the asset can be used. If taxable income deteriorates in the future, this assumption may prove invalid.

Leases – the Group as a lessee

Judgments concerning leases, where the Group is a lessee, in areas such as whether the contract contains a lease, contracts for an indefinite period, exercising the option to extend or shorten the lease term are presented in Notes II.6.26 and III.21 to these consolidated financial statements.

Useful lives of property, plant and equipment and intangible assets

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

- the average useful economic lives applied so far, reflecting the actual wear and tear, intensity of use, etc.;
- technological obsolescence;
- period of control over the asset and any legal or other limitations of the period of use;
- interdependencies between the useful lives of other assets;
- other factors that may affect the useful economic life of the asset type concerned.

If the period of use of an asset is based on contractual rights, the useful life of an asset corresponds to the period arising from such contractual rights, or, if the estimated period is shorter, the estimated useful life is used. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

Estimates regarding reimbursement of fees related to early repaid consumer loans

The Group remeasured a portfolio provision for potential customer claims in respect of a partial reimbursement of fees in connection with early repayment of consumer loans (for prepaid loans before the CJEU judgment, i.e. before 11 September 2019).

The provision was estimated based on the time series of commission amounts returned for prepaid loans before the CJEU judgment in individual periods after the judgment was issued.

The estimate is subject to some uncertainty related to the possible volatility of the observed trend of requests for reimbursement of a part of the commissions and may change in the future.

For prepayments of loans made after 11 September 2019, the Group recognises, respectively, a liability for commission reimbursement.

In addition, the Group remeasures loan receivables measured at amortised cost in respect of the intermediation costs accounted for over time for the expected prepayments in the loan portfolio held as, for which there is an obligation to reimburse fees in the case of early repayment by the customer and for the difference between the effective settlement of fees charged for granting the loan at the effective interest rate and a hypothetical linear settlement of these fees at the expected prepayment date of the loans.

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

8. Correction of errors

In the period of 15 months ended 31 December 2023, there were no adjustments of fundamental errors or changes in areas for which the Group made estimates and applied professional judgement.

III. EXPLANATORY NOTES TO THE 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.

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

Net interest income	05.09.2022 – 31.12.2023 PLN '000
Interest income on:	
Financial assets measured at amortised cost:	**3,731,516**
loans and advances	2,476,419
amounts due from banks and financial institutions	48,634
other financial instruments	1,150,294
reserve requirement	56,169
Financial assets measured at fair value through other comprehensive income	**664,724**
Financial assets measured at fair value through profit or loss	**57,707**
loans and advances	15,580
derivative financial instruments	42,127
Total interest income	**4,453,947**
of which:	
interest income related to impaired financial assets	*164,948*
Interest expense on:	
amounts due to customers	2,367,543
amounts due to banks and financial institutions	33,346
derivative financial instruments	45,341
lease liabilities	8,798
financial assets	2
Total interest expense	**2,455,030**
of which:	
costs calculated using the effective interest rate method, related to financial liabilities not measured at fair value through profit or loss	*2,409,689*
Net interest income	**1,998,917**

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 Group 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 Group 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 Group 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	05.09.2022 - 31.12.2023 PLN '000
Income related to	
loans and advances	10,495
maintenance of bank accounts	36,678
payment and credit cards	60,248
investment products	9,979
insurance products	34,252
transaction margin on foreign exchange operations	15,873
other fee and commission income	1,723
Total fee and commission income	**169,248**
Expense related to	
loans and advances	945
payment and credit cards	70,003
investment and banking products	18,987
insurance products	2,605
promotion and awards to customers	20,153
other fee and commission expense	4,268
Total fee and commission expense	**116,961**
Net fee and commission income	**52,287**

3. Dividend income

Dividend income	05.09.2022 - 31.12.2023 PLN '000
Dividends received:	
from securities classified as financial assets measured at fair value by other comprehensive income	1
from securities classified as financial assets measured at fair value by profit or loss	135
Total dividend income	**136**

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

Gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	05.09.2022 - 31.12.2023 PLN '000
Gain (loss) on financial instruments measured at fair value through profit or loss, of which:	2,720
on instruments designated at initial recognition as measured at fair value through profit or loss	4,617
on financial instruments measured at fair value through profit or loss	3,806
on derivatives	(5,703)
Net foreign exchange income	3,028
Total gain (loss) on financial instruments measured at fair value through profit or loss and net foreign exchange income	**5,748**

5. Gain (loss) on derecognition of financial assets

Gain (loss) on derecognition of financial assets	05.09.2022 - 31.12.2023 PLN '000
Gain (loss) on derecognition of financial assets measured at amortised cost	57,701
Gain (loss) on transfer of separated rights and liabilities to PZA	(184,250)
Gain (loss) on modification resulting in derecognition	1,606
Total gain (loss) on derecognition of financial assets	**(124,943)**

By decision of the Bank Guarantee Fund adopted on 27 October 2023, the resolution instrument in the form of separation of the property rights of VeloBank S.A. was applied by transferring to Podmiot Zarządzający Aktywami S.A. (hereinafter referred to as "PZA"), which is an asset manager within the meaning of the BFG Act, the property rights and liabilities relating to the agreement on the buy-out of lease payments and loan instalments concluded by Getin Noble Bank S.A. (entity under resolution) with the leasing companies VB Leasing Spółka Akcyjna w restrukturyzacji and VB Leasing Spółka Akcyjna Automotive Spółka Komandytowo-Akcyjna w restrukturyzacji (current business names), as at 31 October 2023.
The transfer was effected against consideration determined in accordance with Article 226(1) of the BFG Act. The consideration was paid by PZA by the Bank taking up the bonds issued by PZA. The bonds will be redeemed within 5 years. As a result of the transfer of the separated property rights and liabilities to PZA, a loss before tax of PLN 184 million was recognised in the Bank's income statement.

6. Net other operating income and expenses

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

Net other operating income and expenses	05.09.2022 - 31.12.2023 PLN '000
Other operating income:	
outsourcing services	47,948
income related to the sale and valuation of real estate	8,993
recovered legal and debt collection costs	12,940
reversal of provisions and impairment losses on other assets	3,486
income from bad debts recovered	1,622
revenues from sales of products and services	1,620
penalties, fines and compensations received	882
rental income	2,910
reversal of unused portion of provision for costs	3,768
other income	7,606
Total operating income	**91,775**
Other operating expenses	
debt collection and monitoring of receivables, including legal costs	54,538
recognition of provisions and impairment losses on other assets	49,244
securitisation expenses	5,517
litigation costs, judgements, appeals, cassation claims and experts	2,027
provisions for reimbursement of loan commissions on early repayment of loans	5,480
rental costs	1,079
costs related to own real estate and movable property and to real estate and movable property pledged as collateral for loans	30,182
other expenses	19,347
Total operating expenses	**167,414**
Net other operating income and expenses	**(75,639)**

7. Administrative expenses

Administrative expenses	05.09.2022 - 31.12.2023 PLN '000
Employee benefits	451,231
Raw materials and consumables used	17,024
Third-party services	314,434
Taxes and charges	7,960
Amortisation and depreciation	135,314
Other expenses	4,657
Payments to the Bank Guarantee Fund	9,487
Total administrative expenses	**940,107**

As at 31 December 2023, headcount at the Group was as follows:

	31.12.2023
Number of employees in persons	3,139.00
Number of employees in FTEs	3,099.80

8. 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 Group 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	05.09.2022 - 31.12.2023 PLN '000
Loans and advances to customers	(384,216)
Amounts due from banks and financial institutions	(416)
Other financial instruments	123
Off-balance-sheet liabilities	(8,240)
Other financial assets	(24,973)
Total net impairment losses on financial assets and off-balance sheet provisions	**(417,722)**

03.10.2022 - 31.12.2023	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	384,216	416	(123)	8,240	24,973	**417,722**
Utilisation — written-off	(43,170)	-	-	-	-	**(43,170)**
Utilisation – sale	(882,733)	-	-	-	-	**(882,733)**
Other net increases / (decreases)	(247,927)	(67)	-	(1)	(26,117)	**(274,112)**
Impairment losses/provisions at the end of the period	**1,533,611**	**793**	**20,551**	**13,186**	**-**	**1,568,141**

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

Change in impairment losses on loans and advances to customers 03.10.2022- 31.12.2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	POCI PLN '000	Total PLN '000
Impairment losses at the beginning of the period	**215,133**	**288,428**	**1,819,596**	**68**	**2,323,225**
Change in the period, including:	(111,177)	(54,224)	(625,270)	1,057	**(789,614)**
transfer to Stage 1	63,119	(58,769)	(4,350)	-	**-**
transfer to Stage 2	(39,480)	125,421	(85,941)	-	**-**
transfer to Stage 3	(23,709)	(73,152)	95,851	1,010	**-**
changes in estimation of loss allowances for expected credit losses	(49,373)	60,090	373,452	47	**384,216**
derecognition (cancellation, sale)	-	-	(925,903)	-	**(925,903)**
Other*	(61,734)	(107,814)	(78,379)	-	**(247,927)**
Impairment losses at the end of the period	**103,956**	**234,204**	**1,194,326**	**1,125**	**1,533,611**

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

9. 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 Group carries 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.
The aforementioned provision on universal tax succession applies in the case of a business combination where a bank acquires 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 Group 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 Group;
- 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. were measured at market value. The effect of the measurement was reflected in deferred tax.

Tax expense

Income tax	05.09.2022 - 31.12.2023 PLN '000
Income statement	
Current income tax	***108,232***
Current tax expense	108,230
Adjustments to current income tax for previous years	2
Deferred income tax	***(22,899)***
Related to recognition and reversal of temporary differences	(22,897)
Adjustments to deferred tax from previous years	(2)
Tax expense in the income statement	**85,333**

Reconciliation of effective tax rate

Reconciliation of tax expense on profit (loss) before tax	05.09.2022 - 31.12.2023 PLN '000
Gross profit before tax	**469,634**
Income tax at the applicable rate (19%)	89,230
Effect of permanent differences between profit before tax and taxable income, including:	**(3,897)**
effect of non-deductible expenses	1,809
tax on financial institutions	5,518
effect non-taxable income	(18)
interest payments received on loans taken over	(21,605)
loans written-off	7,223
effect of other permanent differences	3,176
Tax expense recognised in the income statement	**85,333**

Deferred tax

	As at 03.10.2022 PLN '000	Changes in the period recognised in profit or loss PLN '000	As at 31.12.2023 PLN '000
Interest receivable on financial instruments and derivatives	740	79,784	**80,524**
Impairment losses on loans, advances, securities, receivables and off-balance sheet liabilities	194,286	(102,625)	**91,661**
Difference between balance sheet-and tax depreciation/amortisation	(2,870)	5,765	**2,895**
Other	26	35	**61**
Deferred tax liabilities	**192,182**	**(17,041)**	**175,141**
Interest on amounts due to customers, debt securities and derivatives	38,854	28,094	**66,948**
Impairment losses on equity investments	7,842	-	**7,842**
Deferred fees and commissions received	6,068	(4,644)	**1,424**
Revaluation of property	-	4,499	**4,499**
Provision for administrative expenses	10,803	11,895	**22,698**
Valuation of bonds covered by BGF guarantees	-	10,025	**10,025**
Credit holidays	46,704	(43,961)	**2,743**
Other	1,151	(50)	**1,101**
Deferred tax assets	**111,422**	**5,858**	**117,280**
Net provision	**80,760**	**(22,899)**	**57,861**

10. Earnings per share

Basic earnings per share

Basic earnings per share are calculated as the quotient of net profit for the reporting period attributable to holders of ordinary shares of the parent and the weighted average number of ordinary shares outstanding in the period.

	05.09.2022-31.12.2023
Profit for the period attributable to equity holders of the parent (in PLN '000)	384,301
Weighted average number of ordinary shares	100,000
Basic earnings per share (in PLN)	**3,843.01**

Diluted earnings per share

Diluted earnings per share are calculated as the quotient of net profit for the reporting period attributable to holders of ordinary shares of the parent and the weighted average number of ordinary shares outstanding in the period adjusted by the weighted average number of the ordinary shares which would be issued as a result of the conversion of all dilutive potential equity instruments into ordinary shares.

VeloBank S.A. did not issue any dilutive instruments in 2023. Diluted earnings per share are equal to basic earnings per share.

11. Cash and balances with the Central Bank

Cash and balances with the Central Bank	31.12.2023 PLN '000
Cash	107,821
Current and overnight account with the Central Bank	499,799
Total cash and balances with the Central Bank	**607,620**

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

As at 31 December 2023, funds on the reserve requirement account bore interest at the rate of 5.75%.

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. By a resolution of 15 December 2023, the Management Board of the National Bank of Poland upheld the exemption until 31 March 2024.

12. Amounts due from banks and financial institutions

Amounts due from banks and financial institutions	31.12.2023 PLN '000
Current accounts	20,908
Deposits	289,624
Other receivables	284,196
Total gross amounts due from banks and financial institutions	**594,728**
Impairment losses on receivables	(793)
Total net amounts due from banks and financial institutions	**593,935**

	31.12.2023 PLN '000
Current receivables and overnight deposits	305,104
Term receivables maturing in:	289,624
up to 1 month	289,624
Total amounts due from banks and financial institutions	**594,728**
Impairment losses on receivables	(793)
Total net amounts due from banks and financial institutions	**593,935**

	31.12.2023 PLN '000
Value of receivables bearing interest at variable rates	304,539
Value of receivables bearing interest at fixed rates	289,396
Total amounts due from banks and financial institutions, net	**593,935**

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

Financial assets measured at fair value through profit or loss	31.12.2023 PLN '000
Debt instruments	13,933
equity instruments	4,586
Total financial assets measured at fair value through profit or loss	**18,519**

The note presents 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.

14. 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;

c) it is settled at a future date.

Derivative financial instruments not subject to hedge accounting are recognised as at the date of the transaction and measured at fair value as at the end of the reporting period. The Group includes changes in fair value in gain (loss) on financial instruments measured at fair value through profit or loss or in net foreign exchange income, in correspondence with, respectively, assets / liabilities arising from derivative financial instruments.

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 net foreign exchange income.

The notional amounts of derivative transactions are recognized 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 IRSs and CIRSs using the discounted cash flow method).

31.12.2023	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	**1,005,857**	**-**	**124,624**	**-**	**-**	**1,130,481**	**2,934**	**945**
Purchase	503,070	-	63,752	-	-	**566,822**		
Sale	502,787	-	60,872	-	-	**563,659**		
Forward	**9,238**	**-**	**107,689**	**-**	**-**	**116,927**	**288**	**2,875**
Purchase	4,619	-	52,176	-	-	**56,795**		
Sale	4,619	-	55,513	-	-	**60,132**		
Interest rate contracts								
Interest rate swaps (IRS)	**-**	**11,464**	**8,700**	**3,710,000**	**3,272,192**	**7,002,356**	**2,996**	**34,572**
Purchase	-	5,732	4,350	1,855,000	1,636,096	**3,501,178**		
Sale	-	5,732	4,350	1,855,000	1,636,096	**3,501,178**		
Total derivative financial instruments	**1,015,095**	**11,464**	**241,013**	**3,710,000**	**3,272,192**	**8,249,764**	**6,218**	**38,392**

15. Loans to customers

15.1. Loans measured at amortised cost

Loans measured at amortised cost	31.12.2023 PLN '000
Corporate loans	2,440,980
Car loans	765,499
Mortgage loans	7,882,022
Retail loans	3,416,773
Purchased receivables	198,369
Total gross	**14,703,643**
Impairment losses on receivables	(1,533,611)
Total net	**13,170,032**

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

31.12.2023	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	1,348,615	663,834	425,130	3,401	(7,485)	(31,614)	(244,078)	(998)	**2,156,805**
car loans	633,265	77,043	54,926	265	(1,388)	(3,252)	(30,156)	-	**730,703**
mortgage loans	6,003,079	1,141,077	737,397	469	(22,270)	(71,849)	(436,858)	-	**7,351,045**
retail loans	2,118,602	594,886	702,351	934	(70,659)	(125,670)	(481,922)	(127)	**2,738,395**
Purchased receivables	158,197	36,244	3,928	-	(2,154)	(1,819)	(1,312)	-	**193,084**
Total	**10,261,758**	**2,513,084**	**1,923,732**	**5,069**	**(103,956)**	**(234,204)**	**(1,194,326)**	**(1,125)**	**13,170,032**

During the reporting period, the Group sold debt claims which comprised impaired loans with a total principal amount of PLN 1.2 billion.

31.12.2023	Impaired loans (Stage 3 and POCI) by valuation model					
	According to case-by-case valuation			According to the collective valuation		
	Gross carrying amount PLN '000	Impairment loss PLN '000	Net carrying amount PLN '000	Gross carrying PLN '000	Impairment loss PLN '000	Net carrying amount PLN '000
corporate loans	357,644	(193,009)	164,635	70,887	(52,067)	18,820
car loans	-	-	-	55,191	(30,156)	25,035
mortgage loans	135,026	(109,796)	25,230	602,840	(327,062)	275,778
retail loans	5,982	(3,926)	2,056	697,303	(478,123)	219,180
Purchased receivables	-	-	-	3,928	(1,312)	2,616
Total	**498,652**	**(306,731)**	**191,921**	**1,430,149**	**(888,720)**	**541,429**

	31.12.2023 PLN '000
Loans to customers, of which:	
to state budget entities	309,316
to financial entities other than banks	210,472
to non-financial entities other than natural persons	1,994,141
to natural persons	10,656,103
Total	**13,170,032**

	31.12.2023
Value of fixed-rate loans and advances (in PLN million)	709
% of total loans and advances portfolio	5%

Change in gross carrying amount 03.10.2022-31.12.2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	POCI PLN '000	Total PLN '000
Gross carrying amount at beginning of period	**17,186,023**	**3,830,889**	**2,857,683**	**2,940**	**23,877,535**
Transfers	(3,525,593)	2,496,385	1,029,208	-	**-**
to Stage 1	1,673,369	(1,627,217)	(46,152)	-	**-**
to Stage 2	(5,040,693)	5,253,367	(212,674)	-	**-**
to Stage 3	(158,269)	(1,129,765)	1,288,034	-	**-**
Purchases	4,329,701	262,467	139	3,630	**4,595,937**
Repayments	(5,006,210)	(1,762,132)	(635,719)	(1,554)	**(7,405,615)**
Write-offs/sales	**-**	-	(925,903)	-	**(925,903)**
Other	(2,722,163)	(2,314,525)	(401,676)	53	**(5,438,311)**
Gross carrying amount at end of period	**10,261,758**	**2,513,084**	**1,923,732**	**5,069**	**14,703,643**

The item Other mainly presents changes due to the transfer of receivables.

31.12.2023	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	17.56%	0.56%	4.76%	57.19%	11.64%
car loans	7.21%	0.22%	4.22%	54.64%	4.55%
mortgage loans	9.36%	0.37%	6.30%	59.21%	6.74%
retail loans	20.58%	3.34%	21.13%	68.54%	19.85%
Purchased receivables	1.98%	1.36%	5.02%	33.40%	2.66%
Total	**13.12%**	**1.01%**	**9.32%**	**61.98%**	**10.43%**

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

Loans and advances measured at fair value through profit or loss	31.12.2023 PLN '000
Credit card loans	41,486
Other loans	4,222
Total loans and advances measured at fair value through profit or loss	**45,708**

15.3. Loans and advances to customers – by maturity

	31.12.2023 PLN '000
Loans and advances to customers by maturity:	
up to 1 month	1,495,780
from 1 to 3 months	261,684
from 3 months to 1 year	1,390,597
from 1 to 5 years	4,446,436
more than 5 years	7,154,854
Total loans and advances to customers	**14,749,351**
Impairment losses	(1,533,611)
Total loans and advances to customers, net	**13,215,740**

16. 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 Group may irrevocably elect that certain investments in equity instruments that would otherwise be measured at fair value through profit or loss should subsequently be measured at fair value through other comprehensive income.

Other financial instruments measured at fair value through other comprehensive income	31.12.2023 PLN '000
Other financial instruments measured at fair value through other comprehensive income	
NBP bills	8,912,987
equity instruments	4,646
Total other financial instruments measured at fair value through other comprehensive income, gross	**8,917,633**
Impairment losses	**(3,056)**
Total financial instruments measured at fair value through other comprehensive income, net	**8,914,577**

	03.10.2022-31.12.2023 PLN '000
Other financial instruments measured at fair value through other comprehensive income at the beginning of the period	**1,531**
Increases	536,934,783
Decreases (sale and redemption)	(528,024,641)
Change in fair value	(1,365)
Other changes (interest, foreign exchange differences)	4,269
Other financial instruments measured at fair value through other comprehensive income at the end of the period	**8,914,577**

	31.12.2023 PLN '000
Other financial instruments measured at fair value through other comprehensive income by maturity:	
up to 1 month	8,912,987
Equity instruments with an unspecified maturity	4,646
Total other financial instruments measured at fair value through other comprehensive income, gross	**8,917,633**
Impairment losses	**(3,056)**
Total other financial instruments measured at fair value through other comprehensive income, net	**8,914,577**

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

Other financial instruments measured at amortised cost	31.12.2023 PLN '000
Other financial instruments measured at amortised cost	
treasury bonds	11,517,336
bonds of local government units	40,526
bonds from banks	73,772
corporate bonds	32,443
bonds secured with the BGF guarantees	5,712,277
bonds secured with the State Treasury guarantees	7,318,360
Total other financial instruments measured at amortised cost, gross	**24,694,714**
Impairment losses	**(17,495)**
Total other financial instruments measured at amortised cost, net	**24,677,219**

	03.10.2022-31.12.2023 PLN '000
Other financial instruments measured at amortised cost at the beginning of the period	**3,736,243**
Increases	22,474,359
Decreases	(1,845,697)
Impairment losses	123
Accrued interest and adjustments on account of settlement at amortised cost	312,191
Other financial instruments measured at amortised cost at the end of the period	**24,677,219**

	31.12.2023 PLN '000
Other financial instruments measured at amortised cost by maturity:	
up to 1 month	37,943
from 1 to 3 months	78,158
from 3 months to 1 year	2,144,239
from 1 to 5 years	14,303,726
more than 5 years	8,130,648
Total other financial instruments measured at amortised cost, gross	**24,694,714**
Impairment losses	**(17,495)**
Total other financial instruments measured at amortised cost, net	**24,677,219**

17. Assets pledged as security for liabilities

Carrying amount of assets pledged as security	31.12.2023 PLN '000
Treasury bonds pledged as security for the guaranteed deposit protection fund of the BGF	120,363
Treasury bonds pledged as security for facilities received	27,387
Treasury bonds pledged as security for repayment of debt	6,675,254
Total assets pledged as security for liabilities	**6,823,004**

In accordance with Article 369 of the Act on BGF, the deposit guarantee scheme and resolution, VeloBank S.A. maintains the guarantee fund in the amount set by the resolution of the BGF Board. The basis for calculation is the total amount of deposits received by the Bank on all accounts, used as the basis for the calculation of the reserve requirement.

18. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, controlled by the Group which will result in the flow of economic benefits to the Group in the future.
Intangible assets may be acquired in a separate transaction, generated internally or acquired in business combination.

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

Intangible Assets	31.12.2023 PLN '000
Software	221,671
Other intangible assets	1,788
Expenditure on intangible assets	69,699
Total intangible assets	**293,158**

	Software PLN '000	Other Intangible Assets PLN '000	Expenditure on intangible assets PLN '000	Total PLN '000
Gross carrying amount as at 03.10.2022	**635,086**	**-**	**53,182**	**688,268**
Increases, including:	96,808	1,996	95,521	**194,325**
purchase	18,278	1,996	95,521	**115,795**
transfer from investments	78,530	-	-	**78,530**
Decreases, including:	(4,644)	-	(79,004)	**(83,648)**
retirement and sale	(4,644)	-	-	**(4,644)**
transfer from investments	-	-	(78,530)	**(78,530)**
Other decreases	-	-	(474)	**(474)**
Gross carrying amount as at 31.12.2023	**727,250**	**1,996**	**69,699**	**798,945**
Accumulated amortisation as at 03.10.2022	**324,723**	**-**	**-**	**324,723**
Increases, including:	52,394	208	-	**52,602**
amortisation for period	52,394	208	-	**52,602**
Decreases, including:	(4,644)	-	-	**(4,644)**
retirement and sale	(4,644)	-	-	**(4,644)**
Accumulated amortisation as at 31.12.2023	**372,473**	**208**	**-**	**372,681**
Impairment losses as at 03.10.2022	**133,106**	**-**	**-**	**133,106**
Increases	**-**	**-**	**-**	**-**
Decreases	**-**	**-**	**-**	**-**
Impairment losses as at 31.12.2023	**133,106**	**-**	**-**	**133,106**
Net carrying amount as at 03.10.2022	**177,257**	**-**	**53,182**	**230,439**
Net carrying amount as at 31.12.2023	**221,671**	**1,788**	**69,699**	**293,158**

19. Property, plant and equipment

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

In the period of 15 months ended 31 December 2023, there were no significant purchases and sales of property, plant and equipment in the Group. As at 31 December 2023, there were no significant liabilities on account of the purchase of property, plant and equipment.

Property, plant and equipment	31.12.2023 PLN '000
Land and buildings, leasehold improvements	13,513
Machinery and equipment	50,949
Vehicles	1,939
Other fixed assets, including equipment	5,201
Right-of-use assets – land	180
Right-of-use assets – vehicles	3,067
Right-of-use assets – lease of space	75,021
Total property, plant and equipment	**149,870**

	Land and buildings	Machinery and equipment	Vehicles	Other fixed assets	Right-of-use assets			Fixed assets under construction	Total
					Lease of space	Land	Vehicles		
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Gross carrying amount as at 03.10.2022	**77,208**	**238,981**	**4,394**	**29,145**	**254,559**	**192**	**3,045**	**4**	**607,528**
Increases, including:	224	28,076	1,436	1,282	31,278	-	4,180	211	**66,687**
purchase	57	28,076	-	1,238	10,916	-	4,095	211	**44,593**
transfer from fixed assets under construction	167	-	-	44	-	-	-	-	**211**
other increases	-	-	1,436	-	20,362	-	85	-	**21,883**
Decreases, including:	(8,744)	(33,825)	(2,920)	(1,927)	(117,785)	-	(2,810)	(215)	**(168,226)**
retirement and sale	(8,744)	(33,825)	(2,399)	(1,927)	(59,358)	-	(2,601)	(4)	**(108,858)**
transfer from fixed assets under construction	-	-	-	-	-	-	-	(211)	**(211)**
other decreases	-	-	(521)	-	(58,427)	-	(209)	-	**(59,157)**
Gross carrying amount as at 31.12.2023	**68,688**	**233,232**	**2,910**	**28,500**	**168,052**	**192**	**4,415**	**-**	**505,989**
Accumulated amortisation as at 03.10.2022	**57,443**	**190,707**	**1,161**	**22,182**	**120,459**	**9**	**1,928**	**-**	**393,889**
Increases, including:	4,564	25,143	1,424	2,987	46,736	3	1,821	**-**	**82,678**
amortisation for period	4,564	25,143	1,424	2,987	46,736	3	1,821	-	**82,678**
Decreases, including:	(8,227)	(33,605)	(1,614)	(1,870)	(76,981)	-	(2,401)	-	**(124,698)**
retirement and sale	(8,227)	(33,605)	(1,314)	(1,870)	(56,026)	-	(2,401)	-	**(103,443)**
other decreases	-	-	(300)	-	(20,955)	-	-	-	**(21,255)**
Accumulated amortisation as at 31.12.2023	**53,780**	**182,245**	**971**	**23,299**	**90,214**	**12**	**1,348**	-	**351,869**
Impairment losses as at 03.10.2022	**1,784**	**74**	**-**	**-**	**5,167**	**-**	**-**	**-**	**7,025**
Increases	**-**	**-**	-	-	112	-	-	-	**112**
Decreases	(389)	(36)	**-**	**-**	(2,462)	**-**	**-**	**-**	**(2,887)**
Impairment losses as at 31.12.2023	**1,395**	**38**	-	**-**	2,817			-	**4,250**
Net carrying amount as at 03.10.2022	**17,981**	**48,200**	**3,233**	**6,963**	**128,933**	**183**	**1,117**	**4**	**206,614**
Net carrying amount as at 31.12.2023	**13,513**	**50,949**	**1,939**	**5,201**	**75,021**	**180**	**3,067**	**-**	**149,870**

20. Assets obtained from foreclosures

Assets obtained from foreclosures comprise undeveloped and developed land as well as premises constituting separate ownership, acquired or repossessed by the Group 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.

Assets obtained from foreclosures are 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.

Assets obtained from foreclosures	31.12.2023 PLN '000
Real estate, of which:	
residential buildings and premises	24,930
other buildings and premises	10,373
agricultural plots	20,341
plots	6,457
Total assets obtained from foreclosures	**62,101**

Assets obtained from foreclosures	03.10.2022-31.12.2023 PLN '000
Assets obtained from foreclosures at the beginning of the period	105,057
Increases, including:	822
purchase of investment property	822
Decreases, including:	(15,970)
sale of investment property	(12,184)
transfer to assets held for sale	(3,786)
Net gains/(losses) on fair value measurement	(27,808)
Assets obtained from foreclosures at the end of the period	**62,101**

21. Leases

The Group recognises a right-of-use asset together with a corresponding lease liability in the amount of discounted future payments over the lease term – as a component of "Property, plant and equipment" and "Other liabilities", respectively. In the income statement, the Group recognises the costs of depreciation of the right-of-use asset (under "Administrative expenses") and interest expense on the lease liability (under "Interest expense"). The measurement of the lease liability is periodically reconciled with the lease payments. Right-of-use assets are depreciated using the straight-line method, while liabilities under lease contracts are accounted for using the effective interest rate.

Lease liabilities resulting from leases of real estate denominated in foreign currencies are measured at each balance sheet date, and gains or losses on revaluation are recognised in the income statement.

The Group used the simplified approach provided for in the standard for short-term leases and leases where the underlying asset has a low value. In the case of these leases, the Group accounts for lease payments as an expense on a straight-line basis over the lease term.

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

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

Leases – recognition in the balance sheet	31.12.2023 PLN '000
Property, plant and equipment	78,268
Other liabilities	92,921
Other receivables	1,807

Leases – recognition in the income statement	05.09.2022 – 31.12.2023 PLN '000
Depreciation of leased assets	(48,560)
Interest expense on lease liabilities	(8,798)
Expenses relating to short-term leases	(242)
Expenses relating to leases of low-value assets	(49)
Foreign exchange gain or loss	10,091
Total amount recognised in profit or loss	**(47,558)**

Operating leases – the Group as a lessor

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

Assets obtained from foreclosures made available for use under operating leases — costs and income	05.09.2022-31.12.2023 PLN '000
Income from rentals/ reinvoices concerning assets obtained from foreclosures	24
Direct costs not to be reinvoiced to the lessee	19

Assets obtained from foreclosures made available for use under operating leases	31.12.2023 PLN '000
Assets obtained from foreclosures made available for use under operating leases	1,470
Fair value if the cost model is selected	1,181

Lease and sublease income and costs	05.09.2022-31.12.2023 PLN '000
Income from rentals/ reinvoices concerning leased and subleased space	29
Direct costs to be reinvoiced to the lessee	7

22. Non-current assets held for sale

As at 31 December 2023, non-current assets held for sale included assets for which the Group assumes that the carrying amount will be recovered principally through a sale transaction, rather than through continued use. Assets are classified as non-current assets held for sale if their sale in their current condition is highly probable, the Group is actively searching for buyers, and the sale date is one year from the date of reclassification.

Non-current assets held for sale	31.12.2023 PLN '000
Real estate, of which:	
residential buildings and premises	311
vehicles	7
Total non-current assets held for sale	**318**

	03.10.2022-31.12.2023 PLN '000
Non-current assets held for sale at the beginning of the period	
Increases, including:	3,793
transfer from property, plant and equipment	7
transfer from assets obtained from foreclosures	3,786
Decreases, including:	(3,475)
sale and liquidation	(3,475)
Non-current assets held for sale at the end of the period	**318**

23. Other assets

Other assets	31.12.2023 PLN '000
Receivables from sundry debtors	89,680
Sublease receivables	1,807
Prepayments	29,273
Recourses and security deposits	2,607
Payment card settlements	35,341
Receivables from of taxes, subsidies and social security	1,576
Other assets	2,719
Total other assets, gross	**163,003**
Impairment losses on other assets	(42,208)
Total other net assets	**120,795**

	03.10.2022-31.12.2023 PLN '000
Impairment losses on other assets at the beginning of the period	**37,815**
Increase taken to profit or loss	35,813
Decrease taken to profit or loss	(5,217)
Other decreases	(26,203)
Impairment losses on other assets at the end of the period	**42,208**

24. Amounts due to banks and other financial institutions

Amounts due to banks and financial institutions	31.12.2023 PLN '000
Current accounts	103,568
Cash collateral	1,016
Loans received	17,257
Other liabilities	1,562
Total amounts due to banks and financial institutions	**123,403**

	31.12.2023 PLN '000
Liabilities bearing interest at variable rates	123,403
Total amounts due to banks and financial institutions	**123,403**

	31.12.2023 PLN '000
Current liabilities	106,146
Term liabilities maturing in:	17,257
from 1 to 5 years	17,257
Total amounts due to banks and financial institutions	**123,403**

25. Amounts due to customers

Amounts due to customers	31.12.2023 PLN '000
Amounts due to corporate entities	**2,122,390**
current accounts and overnight deposits	1,137,898
term deposits	984,492
Amounts due to state budget entities	**2,031,130**
current accounts and overnight deposits	1,560,288
term deposits	470,842
Amounts due to individuals	**42,564,034**
current accounts and overnight deposits	25,061,030
term deposits	17,503,004
Total amounts due to customers	**46,717,554**

	31.12.2023 PLN '000
Liabilities bearing interest at variable rates	13,651,304
Liabilities bearing interest at fixed rates	33,066,250
Total amounts due to customers	**46,717,554**

Structure of liabilities by period from balance sheet date to maturity date	31.12.2023 PLN '000
Current accounts and overnight deposits	27,759,216
Term liabilities maturing in:	**18,958,338**
up to 1 month	5,680,188
from 1 to 3 months	8,778,027
from 3 to 6 months	2,504,427
from 6 months to 1 year	1,335,141
from 1 to 5 years	632,083
more than 5 years	28,472
Total	**46,717,554**

26. Other liabilities

Other liabilities	31.12.2023 PLN '000
Interbank settlements	145,352
Lease liabilities	92,921
Accounts payable to the financial institution	84,191
Amounts due to state budget	45,243
Accruals	89,048
Settlements with counterparties	69,429
Deferred income	35,331
Liabilities on account of fees to be reimbursed	12,360
Payments on account of credit security	10,203
Provision for accrued holiday entitlements	9,000
Settlement of foreign orders	5,516
Settlements relating to the sale of debt claims	1,087
Payment card settlements	7,492
Loan overpayments to be reimbursed	1,389
Other liabilities	2,692
Total other liabilities	**611,254**

27. Provisions

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 liability amount can be made.

Provisions	31.12.2023 PLN '000
Commitments and guarantees given	13,186
Litigation	12,173
Reimbursement of costs of loans	4,740
Retirement and disability severance pay	1,383
Risk of joint and several liability for VAT	32,856
Total provisions	**64,338**

Provision for commitments and guarantees issued

Provisions are recognised in accordance with IFRS 9 for off-balance-sheet liabilities which involve the risk that the principal will default on the terms of the agreement.

Provision for commitments and guarantees issued	03.10.2022-31.12.2023 PLN '000
Provisions as at the beginning of the period	**4,947**
Recognition/ remeasurement	33,746
Reversal	(25,505)
Other increases / (decreases)	(2)
Provisions as at the end of the period	**13,186**

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

31.12.2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Provisions on commitments and financial guarantees issued	10,625	2,284	277	**13,186**

Provision for litigation

During the reporting period, the Group companies were not a party to any proceedings concerning liabilities or receivables whose value would account for 10% or more of the Group's equity as at 31 December 2023.

As 31 December 2023, the total value of claims in all 896 court proceedings amounted to PLN 233 million. The value of provisions recognised for disputes was PLN 12 million.

The Group became aware of information available in the public domain that a lawsuit had been filed by the former main shareholder of Getin Noble Bank S.A against VeloBank S.A. and the State Treasury, but by the date of signing of these financial statements the lawsuit had not been served.

Provision for litigation	03.10.2022-31.12.2023 PLN '000
Provisions as at the beginning of the period	**3,232**
Recognition/ remeasurement	11,983
Utilisation	(1,371)
Reversal	(1,671)
Provisions as at the end of the period	**12,173**

Provision for the expected amount of returns of a portion of collected commissions upon the early repayment of consumer 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". As at 31 December 2023, the Group was sued in 436 cases concerning reimbursement of a part of fees for granting consumer loans for which provisions were recognised in the total amount of PLN 1,985 million, recognised under Provision for litigation.

In addition, the Group estimated the provision based on a time series of the amounts of commissions returned for prepaid loans before the CJEU judgment in individual periods after the judgment was issued. As at 31 December 2023, the balance of these provisions is PLN 4.7 million.

Provision for reimbursement of costs of loans	03.10.2022-31.12.2023 PLN '000
Provisions as at the beginning of the period	**5,741**
Recognition/ remeasurement	5,480
Reversal	(4,609)
Other increases / (decreases)	(1,872)
Provisions as at the end of the period	**4,740**

Provision for old-age and disability retirement severance payments

Provision for employee benefits concern old-age and disability retirement severance payments and 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. Changes in future employee benefit obligations are presented below:

Provision for old-age and disability retirement severance payments	03.10.2022-31.12.2023 PLN '000
Provisions as at the beginning of the period	**1,061**
Recognition/ remeasurement	295
Utilisation	(192)
Reversal	(3)
Other increases / (decreases)	222
Provisions as at the end of the period	**1,383**

	03.10.2022-31.12.2023 PLN '000
Present value of the liability at the beginning of the period	**904**
Costs recognised in profit or loss, of which:	207
Current service costs	149
interest expense	58
(Gains)/losses recognised in other comprehensive income, of which:	363
Actuarial (gains)/losses rising from ex-post adjustments to assumptions	60
Actuarial (gains)/losses arising from changes in demographic assumptions	107
Actuarial (gains)/losses arising from changes in financial assumptions	196
Benefits paid	(91)
Present value of the liability at the end of the period	**1,383**
Carrying amount of current liabilities	**245**
Carrying amount of non-current liabilities	**1,138**

A discount rate of 5.01% was used for the calculation. It corresponds to market yields on long-term Treasury bonds as at the valuation date. The effect of an increase/decrease in the discount rate on the change in provision for old-age and disability retirement severance payments is presented in the table below:

	31.12.2023	
	+0.25 p.p.	**-0.25 p.p.**
Provision for old-age and disability retirement severance payments	1,350	1,397

Provision for the risk of joint and several liability for VAT

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

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

Provision for the risk of joint and several liability for VAT	03.10.2022-31.12.2023 PLN '000
Provisions as at the beginning of the period	**-**
Recognition	32,856
Provisions as at the end of the period	**32,856**

28. Equity

	31.12.2023 PLN '000
Share capital	25,000
Supplementary capital	674,862
Revaluation reserve, including:	(30,944)
measurement of financial assets at fair value through other comprehensive income	(1,365)
measurement of cash flow hedges	(29,357)
actuarial gains/ (losses)	(222)
Other components of equity	(2,453)
Net profit	384,301
Total equity	**1,050,766**

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.

Change in revaluation reserve from revaluation of financial instruments measured at fair value through other comprehensive income	03.10.2022 - 31.12.2023 PLN '000
Opening balance	**-**
Increase/ (decrease) due to revaluation	(103,054)
Accumulated (gain)/loss reclassified to profit or loss on sale/redemption	101,689
Closing balance	**(1,365)**

29. Dividends paid and proposed

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

30. Issue, redemption and repurchase of securities

In the 15-month period ended 31 December 2023, the Group did not issue any bonds.

31. Contingent lending and guarantee commitments

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

Commitments and financial guarantees given	31.12.2023 PLN '000
Financial commitments given	**1,290,790**
to financial entities	120,366
to non-financial entities	1,134,713
to the State budget	35,711
Guarantee commitments given	**41,228**
to non-financial entities	38,162
to the State budget	3,066
Total contingent commitments given	**1,332,018**

31.12.2023	Stage 1 PLN '000	Stage 2 PLN '000	Stage 3 PLN '000	Total PLN '000
Commitments and financial guarantees given	1,179,366	136,116	16,536	**1,332,018**

Contingent commitments received	31.12.2023 PLN '000
Guarantee commitments	16,768,940
Total contingent commitments received	**16,768,940**

32. Additional notes to the statement of cash flows

Cash and cash equivalents

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

Cash and cash equivalents	31.12.2023 PLN '000
Cash and balances with Central Bank	607,620
Current amounts due from other banks, including O/N deposits	20,904
Total cash and cash equivalents	**628,524**

33. Fair value of assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For many financial instruments, the market values are unattainable hence the presented fair values are estimated with the use of a range of valuation techniques. The fair value of financial assets and liabilities was measured using a model based on estimating the present value of future cash flows by discounting them using appropriate market discount rates.

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

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

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

Cash and balances with the 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.

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;
- margin of the issue, for securities issued over the past six months, if the issuer is not related to the Bank;
- adjusted margin on a different security of the 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 measured in accordance with the valuation model described above (using margins ranging from 0.2% to 2.8%) amounts to PLN 128,398 thousand. In case of one-sided change in the risk margins on securities by 25 basis points, the fair value increases by PLN 341 thousand — for a decrease in margins, and decreases by PLN 337 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:

	31.12.2023	
	Carrying amount PLN '000	Fair value PLN '000
ASSETS:		
Cash and balances with the Central Bank	607,620	607,620
Amounts due from banks and financial institutions	593,935	593,935
Loans and advances to customers measured at amortised cost	13,170,032	13,135,907
Financial assets measured at amortised cost	24,677,219	24,985,609
LIABILITIES:		
Amounts due to banks and financial institutions	123,403	123,403
Amounts due to customers	46,717,554	46,854,123

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

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

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

Level 1

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

Level 2

Financial assets and liabilities measured using valuation techniques based on quoted market prices that are directly observable or other information based on quoted market prices. This category includes 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 3 hierarchy levels:

31.12.2023	Level 1 PLN '000	Level 2 PLN '000	Level 3 PLN '000	Total PLN '000
ASSETS				
Financial assets measured at fair value through profit or loss	13,933	-	4,586	**18,519**
Derivative financial instruments	-	6,218	-	**6,218**
Loans and advances measured at fair value through profit or loss	-	-	45,708	**45,708**
Financial instruments measured at fair value through other comprehensive income	-	8,912,987	1,590	**8,914,577**
LIABILITIES				
Derivative financial instruments	-	38,392	-	**38,392**

In the period of 15 months ended 31 December 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 4,646 thousand in the period of 15 months ended 31 December 2023, while the impact on other comprehensive income was PLN 58 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 Group include: methods of valuation based on net assets, income-based methods and comparative methods. An exposure may be measured using a combination of two or more techniques. Valuations of selected equity exposures may be prepared by external entities specializing in this type of services.

Loans measured at fair value through profit or loss

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

Change in financial assets / liabilities classified as level 3 of valuation:

03.10.2022 – 31.12.2023	Loans and advances to customers at fair value through profit or loss	Financial assets measured at fair value through profit or loss	Other financial instruments
	PLN '000	PLN '000	PLN '000
Opening balance	**129,518**	**3,746**	**1,531**
Gains or losses, including:	3,806	840	59
recognised in the income statement	3,806	840	-
recognised in other comprehensive income	-	-	59
Change: sales/ redemptions/ acquisitions/ granting/ settlements	(87,616)	-	-
Closing balance	**45,708**	**4,586**	**1,590**

34. Information on operating segments

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

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

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

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

Selected items of the income statement		05.09.2022 - 31.12.2023 PLN '000
Interest income	Mortgage loans	962,205
	Car loans	82,027
	Retail loans	530,495
	Corporate loans	230,378
	Purchased lease receivables	681,454
	Other amounts due from customers	5,440
	Other activities of the Bank	1,961,948
	Total	**4,453,947**
Interest expenses	Retail deposits	(2,232,581)
	Corporate deposits	(154,473)
	Other activities of the Bank	(67,976)
	Total	**(2,455,030)**
Net fee and commission income	Mortgage loans	1,097
	Car loans	590
	Retail loans	(240)
	Corporate loans	7,785
	Purchased lease receivables	318
	Other activities of the Bank	42,737
	Total	**52,287**
Gain (loss) on financial instruments, including dividend income, net foreign exchange income		(119,059)
Other operating income		91,775
Other operating expenses		(167,414)
Administrative expenses		(940,107)
Net impairment losses on financial assets and off-balance sheet provisions	Loans and advances to customers	(384,216)
	Other activities of the Bank	(33,506)
	Total	**(417,722)**
Tax on financial institutions		(29,043)
Profit before tax		**469,634**
Tax		(85,333)
Net profit		**384,301**

Selected elements of the statement of financial position		31.12.2023 PLN '000
Assets	Mortgage loans	7,351,045
	Car loans	730,703
	Retail loans	2,738,395
	Corporate loans	2,156,805
	Purchased lease receivables	193,084
	Other	35,493,683
	Total	**48,663,715**
Equity and liabilities	Retail deposits	42,564,034
	Corporate deposits	4,153,520
	Other	1,946,161
	Total	**48,663,715**

35. Company Social Benefits Fund

The Act on Company Social Benefits Fund of 4 March 1994, as amended, stipulates that each employer with 50 or more full-time employees, as at 1 January of a given year, is obliged to create and make contributions to a social benefits fund. The Fund's assets are used to finance welfare activities, employee loans and other social expenses. In 2023, the Bank, pursuant to Article 4 of the Act on Company Social Benefits Fund of 4 March 1994 (Journal of Laws of 1996, No 70, item 335, as amended), created a Company Social Benefits Fund and made appropriate deductions in this respect, in accordance with the principles set out in the Remuneration Rules.

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

36. Affiliate transactions

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

05.09.2022 - 31.12.2023	Income statement Interest and commission expense PLN '000
Members of the Management Board and the Supervisory Board of VeloBank S.A.	52

31.12.2023	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.	1,206	119

The transaction of separating the receivables to PZA and its impact on profit or loss resulting from the BGF Decision is described in Note III.5. The guarantee agreement to cover losses arising from the risk of lease receivables has been terminated. The BGF guarantee covered bonds issued by PZA. There were no other significant transactions with the Fund or entities controlled by the Fund during the reporting period.

Remuneration of key management personnel

	05.09.2022-31.12.2023 PLN '000
Short-term employee benefits	32,554
Termination benefits	1,126
Total remuneration	**33,680**

Key management personnel of VeloBank S.A. - number of persons	62*

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

Short-term employee benefits consist of fixed remuneration and other benefits representing salary costs for the period from 3 October 2022 to 31 December 2023. No variable remuneration was awarded and paid during the reporting period. The amounts reported do not include overheads on account of social security contributions.
Key management personnel include members of the Supervisory Board, members of the Management Board of the Bank and other employees in positions that have a material impact on the Bank's risks.

Benefits to the management of the holding company arising from the remuneration policy in respect of the variable component of remuneration

The variable remuneration of key management personnel is accounted for in a transparent manner to ensure effective implementation of the Remuneration Policy at VeloBank S.A.. No variable remuneration components are paid to members of the bank's bodies. The rules of awarding and payment of variable remuneration for this group of employees, i.e. those in positions with a material impact on the bank's risk, are defined in the Policy for Variable Remuneration Components, which forms a part of the Remuneration Policy. In accordance with the policy, the amount of the variable components of remuneration is determined on the basis of an employees' performance appraisal in at least 3-years horizon so that the amount of variable remuneration takes into account the business cycle of the Bank and the risk associated with its business operations. The Bank's performance used in determining the variable components of remuneration should include the cost of the Bank's risk, cost of capital and liquidity risk in long-term perspective. To evaluate the work performance, financial and non-financial criteria are used, determined in the form of annual objectives.
The amount of variable remuneration granted and paid out must reflect financial situation of the Bank and appropriate level of cost of the Bank's risk, cost of capital and liquidity risk in long term, and may be subject to adjustments in this respect. Moreover, variable components of remuneration of the key management personnel are conditional. It is conditioned, among other things, by the absence of a significant deterioration of the Bank's situation as a result of activities falling within the responsibilities of a given manager, exceeding the risk, capital and liquidity risk cost ratios that exposed the Bank to significant losses. Variable remuneration may not exceed 100% of total annual fixed remuneration received at the Bank. Granting and payment of 60% (or 40%, where the amount of variable remuneration exceeds PLN 2,000,000) takes place after the end of the settlement period and the announcement of financial results, and the payment of the remainder, i.e. respectively 40% or 60% of variable remuneration, is deferred over a period of five years and divided into equal instalments. Variable remuneration both granted and paid in the year following the settlement period and deferred is split equally between cash and financial instruments.

37. Remuneration of the auditor

The following table presents the net remuneration paid or payable to PKF Consult Spółka z ograniczoną odpowiedzialnością Spółka komandytowa for the period ended 31 December 2023 by type of service:

	05.09.2022-31.12.2023 Group PLN '000
Mandatory audit of the annual consolidated financial statements	647
Other assurance services, including a review of the consolidated financial statements	692
Total remuneration of the statutory auditor	**1,339**

The reported remuneration for the audit of the financial statements may be increased by additional direct costs for the performance of the agreement up to 3% of its value and adjusted for inflation.

38. 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;
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.
The minimum capital requirements applicable to the Bank after 3 October 2023 are as set out in the table below:

Minimum capital ratios	**31.12.2023**			
	TCR	**T1**	**CET1**	**LR Leverage**
Total	**10.50%**	**8.50%**	**7.00%**	**3.00%**

In view of the expiry of the period referred to above, on 10 October 2023 the Bank filed a Capital Conservation Plan with the Polish Financial Supervision Authority, which was approved on 24 November 2023.

Consolidated capital ratio of the VeloBank S.A. Capital Group	31.12.2023 PLN '000
TIER 1 CAPITAL	
Equity instruments eligible as Tier 1	25,000
Supplementary capital	674,862
Other components of equity	10,150
Accumulated losses	(12,595)
Current profit	357,469
Accumulated other comprehensive income/ (losses)	(1,587)
Intangible assets	(112,059)
Prudent valuation adjustments and insufficient coverage for non-performing exposures	(15,510)
TOTAL OWN FUNDS	**925,730**
Own funds requirements	
Credit risk	723,703
Operational risk	217,379
Other risks	408
TOTAL CAPITAL REQUIREMENT	**941,490**
CAPITAL RATIOS	
CET1 Capital ratio	7.87%
T1 Capital ratio	7.87%
Total capital ratio	7.87%

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 złoty) per share and a total value of PLN 25,000,000.00 (in words: twenty-five million Polish złoty) 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 27 October 2023, approved the inclusion of audited prudentially consolidated net profit for the period ended 30 June 2023 in the full amount of PLN 357,469 thousand in Common Equity Tier 1.

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

Supervisory liquidity measures		Minimum value	31.12.2023
LCR	Short-term liquidity ratio	100%	695.78%
NSFR	Stable funding measure	100%	236.26%

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

	31.12.2023
Leverage	1.88%
Total exposure measure (in PLN '000)	49,339,249

39. Tax on financial institutions

On 1 February 2023, the Regulation of the Minister of Finance came into force, introducing the waiver of the collection of the tax on certain financial institutions (bank tax) on the assets of domestic banks that serve as bridge institutions. The waiver applies to taxable assets in 2023 in respect of entities that are bridge institutions within the meaning of Article 2(26) of the BGF Act, 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.

On 24 November 2023, the Regulation of the Minister of Finance came into force to extend the period of waiver of the collection of the tax on financial institutions to 2024.

40. Events subsequent to the end of reporting period

After 31 December 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.

IV. RISK MANAGEMENT IN THE GROUP

The VeloBank S.A. Capital Group is exposed primarily to risks typical for the operations of universal banks. Credit risk, liquidity risk, market risk and operational risk management are of key importance in the Bank's operations. Compliance risk management is also of significance.

The purpose of risk management is to stabilise the Bank's financial performance in the long term and, in the short term, to maintain the expected value of asset quality parameters and the desired structure of balance sheet and off-balance sheet items, as well as the quality of operating processes to maintain the assumed income to risk ratio.

In line with legal obligations, supervisory requirements and good market practice, the Bank's Management Board is responsible for risk management at the strategic level. Objectives in this respect are included in the "Strategy for risk management in the bank".

Operational risk management is assigned to the committees responsible for recommendations and decisions and for monitoring particular risks.These are:

- Credit Committee,
- Asset and Liability Committee,
- Credit Risk and Debt Recovery Committee,
- Operational Risk and Process Quality Committee

In addition to the aforementioned tasks related to risk level monitoring, the committees take decisions on an ongoing basis regarding changes to risk management policies, debt collection strategy, internal limits on exposure to specific risks. These tasks are carried out as part of the strategies adopted by the Bank's Management Board, taking into account regulatory requirements, including supervisory limits.

Corporate governance in terms of risk management policy is exercised by the Bank's Supervisory Board.

1. Credit risk

Credit risk results from a potential failure to perform or untimely performance by a customer of financial liabilities arising from transactions concluded, in particular credit and other financial instruments.

The Bank manages credit risk in order to build and maintain loan portfolios with a risk level expected by the Bank expressed as averaged risk costs for particular portfolios, understood as a ratio of allowances for expected losses recognised in a given period to the average balance of credit exposures. To this end, the Bank manages credit risk at all stages of life of credit transactions, i.e. at the stage of:

- customer acquisition and lending process,
- monitoring of credit exposures, including concentration limits and financial standing of customers;
- monitoring of the quality of the credit portfolio in relation to the assumed risk appetite;
- restructuring and recovery of credit exposures.

The main credit risk management tools are policies and strategies, including industry-wide ones, acceptance rules, statistical models used in the decision-making process for customer segmentation and transaction risk assessment. Credit decisions are made in accordance with the organisation of the loan granting process, within decision-making competences described in detail in the Bank's procedures.

In 2023, the Bank focused on adapting processes and changes in policies and strategies in the area of credit risk to the Bank's new situation in connection with the resolution completed in 2022. All policies and strategies were updated taking into account the change in the new bank's asset structure. At the same time, changes were made to the organisational structure, incorporating the debt collection area into the Risk Management Division. In 2023, the Bank's focus was on the implementation of its strategy as part of its established strategic projects in the risk area. Acceptance models for unsecured products and anti-fraud rules were updated, changes were implemented in the lending process in terms of decision rules and increased process automation in line with the new credit policy. For new products (mortgage loan, micro-entrepreneur segment), new risk rules were implemented and sales processes were launched.

As part of the optimisation of the risk management process, a new risk decision engine was deployed to enable quick parameterisation and implementation of changes to existing rules and rating models. A new acceptance scoring model tailored to the observed risk profile was built for the business customer segment.

The measures taken have contributed directly to the strengthening of controls in the lending process and the monitoring of the portfolio. In particular, the Bank focused on monitoring the quality of the loan portfolio and, in addition to process changes, new reporting was implemented as part of the management information system for the Bank's Management Board and Supervisory Board. The scope and comprehensiveness of the measures in the area of risk were influenced by the EC covenants imposed, in connection with the resolution in 2022.

Structure and organisation of the credit risk management process

The basic participants of the Bank's credit risk management system include:

<u>Supervisory Board of the Bank</u>

The role of the Supervisory Board is to approve credit risk management strategy and credit policy, perform periodic assessments of the implementation by the Management Board of the objectives of the Bank's credit strategy and policy, supervise the control over the credit risk management system and assess its adequacy and efficiency.

<u>Management Board of the Bank</u>

The Bank's Management Board is responsible for the development, implementation and updates of strategies and procedures related to the credit risk management system as well as the credit policy, periodical reporting to the Supervisory Board on the effects of the implementation of the credit policy and on functioning of the credit risk management system, maintaining communication with the supervisory authorities and reporting to these authorities as well as making available to these authorities all required by law information on credit risk. The Management Board of the Bank is also responsible for the development of the credit risk management system and for overseeing credit risk management in all areas of the Bank's operations. Pursuant to the Management Board's decision, a Credit Committee has been established in the Bank. The Management Board of the Bank makes credit decisions regarding exposures in accordance with the adopted levels of decision-making competences.

<u>Credit Committee of the Bank</u>

The role of the Bank's Credit Committee is to support the Bank's Management Board by fulfilling opinion-making and advisory functions in the process of making credit decisions, or making independent decisions in accordance with the powers granted. It is also responsible for recommending to the Bank's Management Board system solutions related to the determination of internal limits of exposure to issuers of securities and to other banks. The Credit Committee of the Bank adopts recommendations regarding credit exposures reserved by its size to the discretion of the Bank's Management Board.

<u>Internal audit function</u>

The role of the internal audit function is to control and assess the quality of credit risk management system and to conduct periodic reviews of the credit risk management process in the Bank. The aim of the internal audit function is to identify any irregularities in executing roles and tasks by credit risk management system participants.

Credit risk management strategy and processes

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

- mortgage loans (the Bank does not sell mortgage loans since October 2014);
- unsecured lending to individuals – cash loans, credit cards, overdraft facilities (retail loans);
- private banking,

- vehicle purchase financing, purchase of lease receivables;
- servicing small and medium-sized enterprises, housing co-operatives and local government units;
- financing of development projects.

The lending strategy for all areas is set out in documents, primarily in the "Risk management strategy for credit exposures of VeloBank S.A.", "Risk management policy for non-retail credit exposures" and "Risk management policy for credit exposures of retail and micro-business customers", which set out principles, guidelines for lending activities. The credit risk policy is subject to reviews and adjustments to external regulations (changes in the legal and regulatory environment), as well as to macroeconomic factors that may, in the Bank's opinion, have an impact on the credit risk increase.

Credit risk in the Bank is managed on the basis of internal procedures concerning risk identification, measurement, monitoring and control. The applied credit risk identification and measurement models are adjusted to the profile, scale and complexity of the risk assumed, however, the Bank intensively implements changes in the applied risk identification and measurement models, consistently implementing the approach based on estimation of expected loss (EL).

In order to ensure objectivity of credit risk assessment, the sales process has been separated in the structures of the business areas from the process of assessing and accepting customers' credit risk.

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

Scope and type of risk reporting and measurement systems

The Bank monitors and assesses the loan portfolio quality on the basis of an internal procedure which includes monitoring the Bank's entire loan portfolio, both by individual units within the business divisions and by units of the Risk Management Division. The results of analyses are presented in periodical reports to the competent bodies of the Bank. Conclusions from such analyses are used for the purpose of ongoing credit risk management at the Bank.

The applied risk monitoring system includes individual risk monitoring (related to particular customers) and overall monitoring of the Bank's entire loan portfolio.

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

As part of the overall monitoring of the loan portfolio, credit risk management units perform a number of analyses and activities, including:

- monitoring the quality of the Bank's loan portfolio, including large exposures,
- periodic assessments of exposure concentration risk including: industry risk (to determine maximum exposure concentration limits for particular industries), exposure concentration risk to individual entity and groups of affiliates (to monitor the so-called large exposures),
- assessing the financial standing of banks-counterparties, determine maximum concentration limits for particular banks,
- performing stress tests for selected product groups,

– submitting periodic management reports to the Supervisory and the Management Board.

The Bank strives to limit the concentration of exposures to individual customers or groups of related customers. The Bank's Management Board established a limit value for large exposures. The internal limit — the sum of large exposures may not be higher than 400% of the Bank's Tier 1 capital (the exclusions specified in Article 400 of the CRR Regulation and the Regulation of the Minister of Finance of 1 July 2016 on exposures of banks excluded from large exposure limits are taken into account when calculating the limit usage). A large exposure of the Bank to a customer or a group of related customers is an exposure whose value is equal to or exceeds 5% of Tier 1 capital of the Bank.

Policies on the use of collateral and risk mitigation

In order to mitigate credit risk, the Bank applies a wide range of legally permitted collateral, selected based on the characteristics of products and business area. Detailed rules for selection, use and establishment of collateral are contained in internal regulations and product procedures of particular trading areas. The collateral accepted should ensure that the Bank will satisfy itself in the event of the borrower's default under the loan agreement. When selecting the collateral, the Bank takes into account the type and amount of the loan, the lending period, legal status and financial standing of the borrower, as well as the Bank's risk and other threats. Preference is given to collateral in a form that guarantees full and quick recovery of debts through debt collection.

Typical forms of collateral required by the Bank are as follows:

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

When granting loans for vehicle purchase, including for purchased lease receivables, the Bank's collateral catalogue includes in particular the following: a registered pledge on the vehicle, partial or full transfer of the ownership right to the vehicle, security transfer of ownership under a condition precedent. The Bank may require personal collaterals (a blank promissory note, a third party guarantee in the form of a promissory note or a civil-law surety) and the conclusion of insurance agreements (e.g. in the event of the borrower's death or total disability and the assignment of rights under the insurance policy or the designation of the Bank as the policy beneficiary).
Collateral for consumer loans comprises: an insurance policy and personal collateral (e.g. a third party guarantee in the form of a promissory note or a civil-law surety).
Collateral such as a first-rank mortgage over real property, a registered pledge (over the company's assets or the complete transfer of ownership of the borrower's business or the borrower's or the company's management's personal assets) or a cash deposit or a pledge over cash in an escrow account, are some of the types of collateral used for corporate loans.

The Bank also accepts personal collateral (third party guarantee in the form of a promissory note or civil-law surety, blank promissory note) and assignment of receivables.

Reform of interest rate indices

In connection with the provisions of the Act of 7 July 2022 on crowdfunding for business ventures and assistance to borrowers (Journal of Laws of 2022, item 1488), the Bank's product portfolio needs to be adapted to the requirements related to the benchmark reform. In Poland, work is being carried out by the National Working Group on Benchmark Reform, which has developed a Roadmap for the process of replacing the WIBID and WIBOR benchmarks with the WIRON benchmark. The Bank has launched the WIRON project, which involves experts representing all of the Bank's business lines, and the work is supervised by a Steering Committee comprising toplevel personnel, including members of the Management Board. The Bank plans the work to ensure that the timing of the launch of WIRON-based products is in line with the Roadmap.

Forbearance

The Bank's forbearance activities are intended to maximise the effectiveness of difficult debt management, i.e. to ensure the highest recovery with reduced costs incurred to recover the debts, which eventually are imposed on the debtor.

Forbearance consists in changing the terms of debt repayment, which are defined individually for each contract.

Forbearance of a credit exposure involves renegotiation or amendment of the terms of a loan agreement, receivables or held-to-maturity investment, resulting from the financial difficulties of the debtor or issuer.

The catalogue of (forbearance) concessions offered to the customer in connection with his or her difficult financial situation includes, in particular, such measures as:

1) capitalisation of the outstanding debt and establishment of a new payment schedule;

2) extension of the repayment periods for both the principal and the interest (grace period for principal and/or interest);

3) rescheduling (extending) repayments of principal and interest as compared to the applicable repayment schedule (individual repayment schedule);

4) waiving the charging of interest on all or part of the debt claim over a specific period;

5) periodic accumulation of interest;

6) change of financial terms of the transaction (including in particular a change of the interest rate, extension of the lending period);

7) cancellation of a part of the outstanding principal amount;

8) cancellation of / waiving the recovery of some or all of the unpaid interest due up to the date of signing the settlement;

9) waiving of charging and collecting part or all of the interest due on the debt, starting from the date of signing the settlement (agreement), if the debt is repaid within the deadline specified in the agreement;

10) change of the order in which the repayments provided for in the agreement will be accounted for (payments are accounted for firstly as repayments of the principal amount);

11) granting the debtor, in special cases, new banking products to support the implementation of the forbearance plan, provided that the justification for granting them is documented;

12) conversion of part or all of the debt into shares or interests in the assets of the debtor, takeover of the assets of the debtor in exchange for release from part or all of the debt;

13) release/sale of collateral;

14) debt refinancing (which means the use of debt contracts to ensure the total or partial payment of other debt contracts the current terms of which the debtor is unable to comply with).

The Bank renegotiates agreements with debtors who found themselves in difficult financial circumstances and are unable to comply with the original terms and conditions of the loan agreement. The forbearance process involves the evaluation of the debtor's ability to perform its obligations set out in the forbearance annex (i.e. to pay the debt within agreed deadlines). When providing forbearance to customers, the Bank makes appropriate entries in the systems to enable identification of the portfolio of forborne receivables. Forborne exposures are subject to the monitoring process.

After a quarantine period of at least one year, during which the debt has been serviced on a regular basis, the debt loses its status as a forborne exposure and is classified as a cured/ performing exposure. If the timely service is discontinued during the 12-month grace period, the grace period is interrupted. This period restarts as soon as the timely debt service is resumed. The period from the recording of the condition until its complete cessation is defined as the period during which forbearance becomes probable.

For the purpose of calculating impairment losses, a definition of a forborne exposure was additionally introduced as an exposure for which forbearance occurred and which is in the period when the forbearance becomes probable. The exposure is treated as being forborne until the forbearance becomes probable. Where the exposure is not serviced in a timely manner, the period when forbearance is probable is extended. Each time the Bank carries out a forbearance process, it conducts an impairment test to assess whether there is a significant difference between cash flows generated by the forbearance those resulting from the original loan agreement

Exposures for which the Forbearance condition was reported and are in the period when the forbearance is probable are classified in Stage 3, e.g. in the case when there was a significant loss of cash flows due to the forbearance or the exposure was reported to be over 90 DPD or it is an event of so-called multiple forbearance. Other forborne agreements are classified to Stage 2 in the period when the forbearance is probable. For these agreements, impairment is calculated in accordance with the algorithms adopted for a given Stage.

The figures for forborne exposures taken into account in the calculation of impairment losses are presented below:

Forborne exposures 31.12.2023	Gross carrying amount – Stages 1 and 2 PLN '000	Gross carrying amount – Stage 3 PLN '000	Impairment losses on loans and advances – Stages 1 and 2 PLN '000	Impairment losses on loans and advances – Stage 3 PLN '000	Total net carrying amount PLN '000
Loans and advances:					
assessed on a case-by-case basis	135,977	220,460	(22,536)	(109,440)	**224,461**
assessed on a collective basis	90,740	652,692	(9,254)	(393,010)	**341,168**
Total	**226,717**	**873,152**	**(31,790)**	**(502,450)**	**565,629**

Forborne exposures – geographical structure	31.12.2023 Minimum gross PLN '000	Impairment losses PLN '000	Total net carrying amount PLN '000
Poland	1,090,532	(527,672)	**562,860**
Spain	2,426	(1,115)	**1,311**
Switzerland	1,391	(649)	**742**
Other countries	5,520	(4,804)	**716**
Total	**1,099,869**	**(534,240)**	**565,629**

Forborne exposures – by entity	31.12.2023 Minimum gross PLN '000	Impairment losses PLN '000	Total net carrying amount PLN '000
Loans and advances to:			
financial entities other than banks	592	(318)	**274**
non-financial entities other than natural persons	313,018	(98,656)	**214,362**
natural persons	785,914	(435,266)	**350,648**
State budget entities	345	-	**345**
Total	**1,099,869**	**(534,240)**	**565,629**

Forborne exposures – by type	31.12.2023 Minimum gross PLN '000	Impairment losses PLN '000	Total net carrying amount PLN '000
corporate loans	270,631	(74,911)	**195,720**
car loans	11,088	(6,031)	**5,057**
mortgage loans	558,935	(297,834)	**261,101**
retail loans	259,215	(155,464)	**103,751**
Total	**1,099,869**	**(534,240)**	**565,629**

Forborne exposures – by DPD	31.12.2023 Minimum gross PLN '000	Impairment losses PLN '000	Total net carrying amount PLN '000
non-past due and past due up to 30 days	490,959	(157,341)	**333,618**
past due from 30 days to 90 days	81,038	(28,107)	**52,931**
past due more than 90 days	527,872	(348,792)	**179,080**
Total	**1,099,869**	**(534,240)**	**565,629**

Forborne exposures	31.12.2023 PLN '000
Collateral value	271,578

Structure of the loan portfolio

The structure of the Bank's loan portfolio by geographical segments of the market and sectors of the economy as at 31 December 2023 is shown in the tables below:

Concentration amount by industry	% of the portfolio 31.12.2023
Agriculture and hunting	0.06
Manufacturing	0.46
Construction	4.68
Wholesale and retail trade	1.46
Transport, storage and communications	0.46
Financial intermediation	1.80
Real estate activities	6.60
Public administration	1.32
Other sections	2.53
Natural persons	80.63
Total	**100.00**

Amount of concentration by geographical segment	% of the portfolio
According to the administrative division of Poland:	
Dolnośląskie	11.64
Kujawsko-Pomorskie	4.16
Lubelskie	2.99
Lubuskie	2.98
Łódzkie	5.99
Małopolskie	6.32
Mazowieckie	23.02
Opolskie	1.76
Podkarpackie	1.98
Podlaskie	1.56
Pomorskie	9.14
Śląskie	10.35
Świętokrzyskie	1.27
Warmińsko-Mazurskie	3.51
Wielkopolskie	8.40
Zachodniopomorskie	4.64
Seated outside Poland	0.29
Total	**100.00**

The maximum exposure of to credit risk as at 31 December 2023 without taking into account accepted collateral and other factors improving loan quality is presented below:

Maximum exposure to credit risk	31.12.2023 PLN '000
Financial assets:	
Cash and balances with the Central Bank (excluding cash)	499,799
Amounts due from banks and financial institutions	593,935
Financial assets measured at fair value through profit or loss	18,519
Derivative financial instruments	6,218
Loans and advances to customers	13,215,740
measured at amortised cost	13,170,032
measured at fair value through profit or loss	45,708
Other financial instruments	33,591,796
measured at fair value through other comprehensive income	8,914,577
measured at amortised cost	24,677,219
Other assets	53,564
Total financial assets	**47,979,571**
Guarantee commitments	41,228
Contingent financial liabilities	1,290,790
Total off-balance sheet liabilities	**1,332,018**
Total exposure to credit risk	**49,311,589**

The Group uses funded and unfunded credit protection with respect to the banking book. It does not use CRM techniques with respect to trading book transactions.

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

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

In connection with the use of unfunded credit protection, the Group analyses the risk of excessive concentration towards a single credit protection provider or on account of the use of this protection instrument.

The amount of collateral assumed in the calculation of impairment losses on individually significant loans as at 31 December 2023 was PLN 257 million.

The value of assets obtained from foreclosures in the period of 15 months ended 31 December 2023 amounted to PLN 822 thousand.

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

Credit quality of financial assets as at 31.12.2023	Not past due and not impaired	Past due – Stages 1 and 2			Past due – Stage 3 and POCI	Impairment losses	Total
		up to 1 month	more than 1 month up to 2 months	over 2 months			
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Amounts due from banks and financial institutions	**594,728**	**-**	**-**	**-**	**-**	**(793)**	**593,931**
Financial assets measured at fair value through profit or loss, of which:	**18,519**	**-**	**-**	**-**	**-**	**-**	**18,519**
other instruments	18,519	-	-	-	-	-	**18,519**
Loans and advances to customers measured at amortised cost, of which:	**12,346,707**	**356,650**	**46,045**	**25,440**	**1,928,801**	**(1,533,611)**	**13,170,032**
corporate loans	1,979,305	32,384	519	241	428,531	(284,175)	**2,156,805**
car loans	682,093	24,713	2,440	1,062	55,191	(34,796)	**730,703**
mortgage loans	6,954,479	163,369	17,052	9,256	737,866	(530,977)	**7,351,045**
retail loans	2,567,012	112,926	21,618	11,932	703,285	(678,378)	**2,738,395**
Purchased receivables	163,818	23,258	4,416	2,949	3,928	(5,285)	**193,084**
Other financial instruments measured at fair value through other comprehensive income, of which:	**8,914,577**	**-**	**-**	**-**	**3,056**	**(3,056)**	**8,914,577**
NBP bills	8,912,987	-	-	-	-	-	**8,912,987**
equity instruments	1,590	-	-	-	3,056	(3,056)	**1,590**
Other financial instruments measured at amortised cost, of which:	**24,671,820**	**5,516**	**-**	**-**	**17,378**	**(17,495)**	**24,677,219**
treasury bonds	11,517,336	-	-	-	-	-	**11,517,336**
bonds of local government units	35,010	5,516	-	-	-	(7)	**40,519**
bonds issued by banks	73,772	-	-	-	-	(56)	**73,716**
corporate bonds	15,065	-	-	-	17,378	(17,432)	**15,011**
bonds secured with the guarantees from the Bank Guarantee Fund	5,712,277	-	-	-	-	-	**5,712,277**
bonds secured with the State Treasury guarantees	7,318,360	-	-	-	-	-	**7,318,360**
Total financial assets	**46,546,347**	**362,166**	**46,045**	**25,440**	**1,949,235**	**(1,554,955)**	**47,374,278**

2. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal procedures, human and system errors or from external events, including legal risk. The operational risk category does not include strategic risk and reputational risk.

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

The core objective of operational risk management is to strive to identify operational risk and to measure the size and assess its profile as precisely as possible. For this purpose, solutions concerning the model of operational risk measurement and management are being improved, taking into account the Bank-specific factors and parameters of operational risk, i.e. closely related to the Bank's business profile.

Structure and organisation of the operational risk management unit

The following organisational units are actively involved in the operational risk management process:

- all functions and organisational units of the Bank's Head Office, operational units (constituting local organisational units of the Bank);
- affiliates – the Bank's subsidiaries;
- third parties – franchise units and agencies.

From a functional point of view, there are two groups of organisational units involved in the process:

- system units – responsible for systemic operational risk management, establishing internal regulations and developing solutions for day-to-day operational risk management, performing also tasks relating to day-to-day operational risk management;
- operational units – involved in day-to-day operational risk management.

In all divisions and at all levels of the Bank's organisational structure, the following groups of units, persons and functions, which are executed at the following three levels, are to be distinguished:

- basic level – units and staff dealing with operational risk management in their everyday activities;
- supervisory level – staff holding managerial positions, performing functional control;
- superior level, functioning in centralized form – its main function is operational risk management. This function is performed by individuals performing the tasks of a separate operational risk management unit, operating as part of the Operational Risk Management Team and the Committee for Operational Risk, Quality and Processes.

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

The activities of the Bank's Management Board, at the operational level, are performed by the Committee for Operational Risk, Quality and Processes – it is responsible for monitoring operational risk, evaluating regulations concerning operational risk management and recommending measures and standards for risk exposure.

The main, superior role in operational risk management in the Bank is performed by designated employees of an independent operational risk management unit — the Operational Risk Management Team which is part of the Risk Management Division of the Risk Control and Validation Department.

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

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

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

- taking into account the prudential regulations resulting from the Banking Law and relevant resolutions and recommendations of banking supervision authority,
- containing a description of the policies already in place at the Bank and those that are under development and planned for the future.

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

The management and supervisory reporting is based on assumptions resulting from:

- guidelines included in the Recommendation M,
- supervisory regulations concerning the rules and methods for announcing qualitative and quantitative information on capital adequacy by banks.

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

- the own funds requirement for operational risk,
- ratios indicating the level of the Bank's exposure to operational risk, also called the Bank's sensitivity to operational risk,
- aggregate volume of actual losses.

Policies and strategies related to mitigation of operational risk

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

- development and implementation of business continuity plans (including contingency plans) to ensure the organisation's ability to continue operations at a defined level;
- insurance against the effects of errors or operational events which are not easily predictable and may give rise to significant financial consequences;
- outsourcing of activities.

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

Key business processes have been described in appropriate documents – Policies and Procedures. The correctness of business operations is monitored on an ongoing basis, and reports are submitted directly to the Management Board.

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

3. Liquidity risk

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

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

The Bank's approach to liquidity risk management is defined in the "Liquidity Risk Management Policy" and in each Financial Plan adopted for the given year or strategic assumptions adopted by the Bank's Supervisory Board. These documents define the risk appetite level understood as the expected risk exposure level and the extent of tolerance, i.e. the maximum risk levels that must not be exceeded.

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

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

- risks arising from external factors (changes in the volume of the deposit balance in the system, macroeconomic situation);

- risks arising from internal factors (such as the ability to maintain stable sources of financing, including the ability to renew customer deposits at an acceptable cost).

Maintaining current, short-, medium- and long-term liquidity is based on the implementation by the Group of the following objectives:

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

Supervision of the management of medium- and long-term liquidity, including ensuring stable funding of long-term liabilities under both normal and stressed conditions, is the responsibility of the Bank's Management Board, while the management of current and short-term liquidity is the responsibility of the Treasury Area in accordance with the scope of powers granted and within the applicable liquidity risk limits. Oversight of the current and short-term liquidity management process is exercised by the member of the Management Board who supervises the Treasury Area. The Assets and Liabilities Committee performs the role of opinion and advice providers in the process of liquidity management.

The Financial Risk, Asset Valuation and Capital Requirements Department, located in the Risk Management Division, is responsible for controlling liquidity risk management. Its key tasks include monitoring of key liquidity risk measures, developing risk measurement methods and recommending internal limits and prudential standards in this respect.

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

The assessment of liquidity risk involves the monitoring of:

- supervisory liquidity standards, including LCR (Liquidity coverage ratio) and NSFR (Net stable funding ratio) ratios,

- internally determined measures of maturity mismatch of assets, balance sheet structure ratios, measures of concentration and measures of stability of financing sources;
- results of stress tests taking into account crisis scenarios referring to internal factors as well as factors relating to the situation on the financial markets.

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

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

- the level of key liquidity ratios (including supervisory measures),
- the structure and level of liquid assets,
- liquidity gap,
- stability of financing sources.

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

The report is submitted to the Assets and Liabilities Committee and the Bank's Management Board.

Information on the liquidity situation is reported at least quarterly to the Audit and Risk Committee of the Supervisory Board and to the Supervisory Board.

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

To ensure the required level of liquidity, the Bank creates the structure of assets and liabilities in line with the accepted internal limits and the recommendations of NBP and PFSA; for this purpose:

- the Bank maintains liquidity reserves in safe and liquid financial assets,
- the Bank has a possibility of using additional sources of financing such as lombard intraday facilities with the National Bank of Poland,
- lending is financed mainly by own funds and a stable deposit base,
- the Bank is operationally ready to apply to the NBP for a refinancing facility (periodically verifies the available facility amount).

The effectiveness of liquidity risk management (including its hedging) is evaluated on the basis of the level of utilisation of limits on exposure to risk, including supervisory limits and more broadly through the ILAAP process described above.

The Group carries out simulations of the Bank resilience in case of increased cash outflows (stress tests). The analyses are an important element in the process of asset and liability management. The Bank has a procedure for situation threatening the significant increase in the liquidity risk, entitled “The procedure for the liquidity contingency plan of VeloBank S.A. in crisis situations”.

The procedure sets out, among others, signs of deterioration in the liquidity position of the Bank, the so-called warning and crisis signs, which are intended to indicate potential threats in advance. They are monitored on a daily basis. In the event of a situation threatening the liquidity of the Bank, the Management Board and the Assets and Liabilities Committee are informed of the occurrence of the threat.

In 2023, the Bank complied with supervisory liquidity security requirements, including compliance with supervisory liquidity standards such as LCR or NSFR.

(figures in PLN '000)

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

Supervisory liquidity measures		Minimum value	31.12.2023
LCR	Short-term liquidity ratio	100%	695.78%
NSFR	Stable funding measure	100%	236.26%

The LCR ratio was stable in 2023. The level of the ratio was maintained above 600% during the period under review.

The Bank's liquid funds account for more than half of the Bank's assets (ca. 56%). Net loans to amounts due to customers is approximately 28% and did not exceed 62% during the period under review. The significant decrease in the ratio at the end of the period under review is due to the sale of the portfolio of purchased leasing receivables. Customer deposits represent the primary source of funding for the Bank's lending and investment activities and account for approximately 99% of the Bank's funding sources (excluding equity). Retail customer deposits account for the majority of customer deposits (currently accounting for about 91% of the volume), while deposits from corporate entities and local authorities complement the bank's sources of funding.

The maturity structure of the Group's assets, equity and liabilities as at 31 December 2023 is set out below:

Maturity structure of assets, equity and liabilities as at 31.12.2023	Up to 1 month PLN '000	From 1 to 3 months PLN '000	Over 3 months to 1 year PLN '000	Over 1 year to 5 years PLN '000	Over 5 years PLN '000	Unspecified maturity* PLN '000	Total PLN '000
ASSETS							
Cash and balances with the Central Bank	607,620	-	-	-	-	-	**607,620**
Amounts due from banks and financial institutions	594,728	-	-	-	-	(793)	**593,935**
Financial assets measured at fair value through profit or loss	-	-	-	-	-	18,519	**18,519**
Derivative financial instruments	1,133	344	2,154	2,293	294	-	**6,218**
Loans and advances to customers	1,495,780	261,684	1,390,597	4,446,436	7,154,854	(1,533,611)	**13,215,740**
Other financial instruments measured at fair value through other comprehensive income	8,912,987	-	-	-	-	1,590	**8,914,577**
Other financial instruments measured at amortised cost	37,943	78,158	2,144,239	14,303,726	8,130,648	(17,495)	**24,677,219**
Other assets	-	-	-	-	-	629,887	**629,887**
Total assets	**11,650,191**	**340,186**	**3,536,990**	**18,752,455**	**15,285,796**	**(901,903)**	**48,663,715**
EQUITY AND LIABILITIES							
Amounts due to banks and financial institutions	106,146	-	-	17,257	-	-	**123,403**
Derivative financial instruments	1,129	-	2,692	5,141	29,430	-	**38,392**
Amounts due to customers	33,439,404	8,778,027	3,839,568	632,083	28,472	-	**46,717,554**
Other liabilities	-	-	-	-	-	669,262	**669,262**
Provisions	-	-	-	-	-	64,338	**64,338**
Total liabilities	**33,546,679**	**8,778,027**	**3,842,260**	**654,481**	**57,902**	**733,600**	**47,612,949**
Equity	**-**	**-**	**-**	**-**	**-**	**1,050,766**	**1,050,766**
Total liabilities and equity	**33,546,679**	**8,778,027**	**3,842,260**	**654,481**	**57,902**	**1,784,366**	**48,663,715**
LIQUIDITY GAP	**(21,896,488)**	**(8,437,841)**	**(305,270)**	**18,097,974**	**15,227,894**	**(2,686,269)**	**-**

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

The analysis of undiscounted financial liabilities by contractual maturity dates is presented below:

31.12.2023	Up to 1 month PLN '000	Over 1 month up to 3 months PLN '000	Over 3 months to 1 year PLN '000	Over 1 year to 5 years PLN '000	Over 5 years PLN '000	Total PLN '000
Amounts due to banks and financial institutions	106,634	148	445	17,554	-	**124,781**
Derivative financial instruments	1,129	-	2,692	5,141	29,430	**38,392**
Amounts due to customers	33,507,310	8,846,482	3,897,610	722,632	34,380	**47,008,414**
Lease liabilities	3,388	6,555	27,507	61,478	586	**99,514**
Total financial liabilities	**33,618,461**	**8,853,185**	**3,928,254**	**806,805**	**64,396**	**47,271,101**

4. Market risk

Market risk consists in the possibility of the Group incurring losses as a result of volatility of market factors, primarily interest rates, foreign exchange rates and prices of securities and other, including derivative financial instruments. Through the applied policy of assets and liabilities management and the system of market risk limits, the Group aims to optimize the income to risk ratio.

The Bank's Management Board is responsible for overseeing market risk management on a Bank-wide basis. The Assets and Liabilities Committee performs the role of opinion and advice providers in the process of liquidity management. Its role is to create a policy of assets and liabilities management, setting risk limits and monitoring their use. Operationally, the Treasury Area is responsible for market risk management, performing ongoing monitoring of risk positions and shaping their size by entering into transactions on the interbank market and by defining exchange rates and transfer rates for transactions concluded with customers.

The Financial Risk, Asset Valuation and Capital Requirements Department, located in the Risk Management Division, is responsible for controlling market risk management. Its key tasks include monitoring of key market risk measures, developing risk measurement methods and recommending internal limits and prudential standards in this respect. The Financial Risk, Asset Valuation and Capital Requirements Department submits information on market risk management to the Asset and Liability Management Committee and the Bank's Management Board on a monthly basis and, at least quarterly, submits synthetic information on market risk management to the Audit and Risk Committee of the Supervisory Board and the Supervisory Board.

4.1. Foreign exchange risk

The Bank's foreign exchange risk arises from the negative impact of exchange rates fluctuations on the Bank's financial results. The basic objective of currency risk management is to shape the structure of the Bank's currency position in order to minimize sensitivity to exchange rate volatility. The tool serving this purpose is a system of monitoring internal limits and prudential standards resulting from supervisory regulations. The Bank offers its Customers primarily deposit and lending products in PLN, which do not affect the level of foreign exchange risk. The Bank also offers its Customers financial instruments to hedge currency risks (spot, forward and option currency transactions). Derivatives and treasury activities in the trading book are limited to hedging risks arising from transactions with Customers.

The Treasury Area monitors the level of the open currency position on an ongoing basis and regulates its size through FX transactions concluded on the interbank market. These are predominantly spot transactions. In addition, the Group enters into derivative transactions within internal limits.

The analysis of the Bank's exposure to currency risk takes place on the basis of market-based methods based on estimation of the impact of volatility on profit or loss and on the use of internal limits restricting the amount of the currency position. The basic methods in this area include:

– measurement of the Value of Risk (VaR),

- stress tests,
- analysis of the size of the currency position and calculation of the capital requirement for covering currency risk.

The Group's exposure to foreign exchange risk is controlled on a daily basis and, in the event of overexposure, appropriate information is communicated to the Bank's management. The Financial Risk, Asset Valuation and Capital Requirements Department submits a full set of information on the development of foreign exchange risk to the Asset and Liability Management Committee and the Bank's Management Board on a monthly basis. Among other things, the report contains information on the size of the Group's currency positions in individual currencies, the size of the risk measures, the results of the stress tests and the degree of utilisation of the limits on open currency positions for the previous period. Synthetic information on the management of foreign exchange risk, including information on the implementation of strategic objectives (risk appetite and tolerance) is provided to the Audit and Risk Committee of the Supervisory Board and the Supervisory Board.

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

Analysis of sensitivity to currency risk

The VeloBank S.A. Capital Group prepares a sensitivity analysis for foreign exchange risk on a daily basis:

VAR (1D, 99.9%)	31.12.2023 PLN '000
Foreign exchange risk	58

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

The Group does not hold open currency positions at a level which would generate significant currency risk in any of the currencies. In 2023, the average level of the total currency position (sum of net long or sum of net short positions on individual currencies - whichever is higher) was PLN 2.7 million, while the maximum level in 2023 was PLN 13.2 million. In the immediate period following the initiation of the resolution (3-11 October 2022), the Group experienced increased exposure to foreign exchange risk due to the inability to close out positions as a result of not having transaction limits with other banks. The position was closed with the ability to make transactions on the interbank market.

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

Currency exposure by type of assets, liabilities and off-balance sheet items as at 31.12.2023	CURRENCY							Total
	PLN	EUR	CHF	USD	GBP	JPY	Other	
Cash and balances with the Central Bank	544,601	34,545	4,884	19,716	3,874	-	-	**607,620**
Amounts due from banks and financial institutions	155,117	58,459	5,489	368,350	5,017	128	1,375	**593,935**
Loans and advances to customers	12,968,965	246,775	-	-	-	-	-	**13,215,740**
Other assets	33,232,365	995,435	-	18,620	-	-	-	**34,246,420**
Total assets	**46,901,048**	**1,335,214**	**10,373**	**406,686**	**8,891**	**128**	**1,375**	**48,663,715**
Amounts due to banks and financial institutions	123,403	-	-	-	-	-	-	**123,403**
Amounts due to customers	44,530,130	1,533,410	35,356	582,579	35,718	7	354	**46,717,554**
Other liabilities	697,270	70,078	684	3,482	465	4	9	**771,992**
Total liabilities	**45,350,803**	**1,603,488**	**36,040**	**586,061**	**36,183**	**11**	**363**	**47,612,949**
Equity	**1,050,766**	**-**	**-**	**-**	**-**	**-**	**-**	**1,050,766**
Total liabilities and equity	**46,401,569**	**1,603,488**	**36,040**	**586,061**	**36,183**	**11**	**363**	**48,663,715**
NET EXPOSURE	**499,479**	**(268,274)**	**(25,667)**	**(179,375)**	**(27,292)**	**117**	**1,012**	**-**
Financial and guarantee commitments given	1,330,751	1,267	-	-	-	-	-	**1,332,018**

Currency exposure of notional amounts of derivative instruments and FOREX transactions as at 31.12.2023	CURRENCY						Total
	PLN	EUR	CHF	USD	GBP	Other	
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Purchase	3,573,272	341,318	25,755	180,617	27,498	-	**4,148,460**
Sale	4,079,660	68,264	-	394	-	292	**4,148,610**

4.2. Interest rate risk

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

The Group's primary objective in interest rate risk management in the banking book is to mitigate the risk of decrease in the expected interest income due to changes in market interest rates and to maintain the value of open balance sheet and off-balance-sheet items exposed to changes in market interest rates within the limits that do not pose a threat to the Bank's security.

The main objective of the Group in the area of interest rate risk management in the trading book is to generate an additional gain on the portfolio of financial instruments by using projected changes in the level of market interest rates within the limits of the rights held and the limits granted. Derivatives and treasury activities in the trading book are primarily limited to hedging risks arising from treasury transactions with Customers. The scale of the Group's operations in the trading book is insignificant.

The interest rate risk management boils down to minimising the risk of negative impact of the fluctuation of the market interest rates on the Bank's financial situation by, without limitation:

- setting and observing limits reducing the acceptable level of interest rate risk;
- offering lending products based on variable and fixed interest rates. Within its deposit offering, the Bank focuses on fixed-rate term products as well as savings and current accounts with variable interest rates;
- in order to minimise interest rate risk, the Bank carries out transactions that affect the structure of the balance sheet and reduce the Bank's exposure to interest rate risk - mainly the purchase/sale of fixed or floating rate debt securities, derivative transactions (e.g: Interest Rate Swap) and asset swaps;
- to limit the negative impact of entering into risk hedging transactions on the income statement, the Bank has implemented and applies hedge accounting;
- when investing free funds, the Bank is guided by its interest rate risk profile.

The effectiveness of risk management (including its hedging) is evaluated on the basis of the level of utilisation of limits on exposure to risk and supervisory thresholds.

The Group follows the EBA's guidelines on interest rate and CSRBB credit spread risk management.

Interest rate risk is monitored, among others, through:

- analysis of assets, liabilities and off-balance sheet items sensitive to changes in interest rates broken down into currencies, according to the repricing of interest rates. The analysis takes into account, among other things, the modelling of positions with unspecified maturity;
- analysis of underlying risk, profitability curve risk and customer option risk;
- testing the sensitivity of profit or loss to changes in interest rates (EaR/(ΔNII method);
- testing the sensitivity of the economic value of capital to changes in interest rates (EVE/ΔEVE method);
- analysis of value at risk of the Bank's portfolio related to market valuation (VaR method) and backtesting of VaR model;
- stress tests (including reverse stress tests), showing the susceptibility of the Bank to losses in case of unfavourable market conditions or in case the key assumptions of the Bank become invalid;
- credit spread risk analysis (CSRBB),
- analysis of changes in the interest margin and its impact on the Bank's profit or loss.

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

The Financial Risk, Asset Valuation and Capital Requirements Department monitors interest rate risk parameters and provides a full set of information on interest rate risk to the Assets and Liabilities Committee and the Bank’s Management Board. The report contains, among other things, information on the size of risk measures and the degree of utilisation of individual internal limits. On a quarterly basis, the report is expanded to include the results of stress tests (including reverse stress tests), as well as an analysis of credit spread risk (CSRBB). Synthetic information on interest rate risk management is provided at least quarterly to the Audit and Risk Committee of the Supervisory Board and the Supervisory Board.

Analysis of sensitivity to interest rate risk

The VeloBank S.A. Group prepares a monthly sensitivity analysis for interest rate risk in the banking book:

	31.12.2023	
	EaR (+/- 25 pb) PLN ‘000	**EVE (+/- 25 pb) PLN ‘000**
Interest rate risk	8,491	1,189

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

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

When measuring its exposure to interest rate risk, the Group takes into account the impact of assumptions regarding deposits with an unspecified maturity, namely current accounts and savings accounts, by estimating the stable portion held in these accounts. The maturity/ revaluation date for such items is modelled on the basis of models specific to these balance sheet items.

In order to supplement information on the possible loss of the Group due to unfavourable changes in interest rates, stress tests are also carried out quarterly on the simulation of the impact of major changes in market interest rates and the structure and balances of assets and liabilities as well as off-balance sheet items, on the level of interest rate risk to which the Bank/ Group is exposed as regards net interest income and valuation of the portfolio of receivables/ liabilities sensitive to interest rate risk.

The Bank tests changes in the structure of receivables and liabilities by taking into account the risk of the customer options (increased level of early repayments of fixed-rate loans, together with a decrease in withdrawal of deposits, or increased withdrawal of deposits, together with a decrease in loan overpayments - depending on the exposure direction) and potential changes in the Bank's income and changes in the economic value of the portfolio assuming “shocking” changes in interest rates, for the revised structure of the portfolio. As regards assumptions concerning changes in interest rates, the Bank adopts the following options:

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

In addition, the Bank carries out quarterly supervisory stress tests as set out in EBA/GL/2022/14 guidelines, involving six specific EBA supervisory scenarios of different nature of yield curve changes for the EVE measure and two supervisory scenarios for the NII measure.

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

Breakdown of assets, liabilities and off-balance sheet items by the interest rate risk criterion as at 31.12.2023	up to 1 month PLN '000	over 1 month up to 3 months PLN '000	over 3 months to 1 year PLN '000	over 1 year to 5 years PLN '000	over 5 years PLN '000	non-interest bearing assets/liabilities PLN '000	Total PLN '000
ON-BALANCE SHEET ITEMS							
Cash and balances with the Central Bank	499,799	-	-	-	-	107,821	**607,620**
Amounts due from banks and financial institutions	593,935	-	-	-	-	-	**593,935**
Financial assets measured at fair value through profit or loss	-	-	-	-	-	18,519	**18,519**
Loans and advances to customers	4,435,470	7,824,447	475,508	390,856	89,459	-	**13,215,740**
Other financial instruments	9,530,198	5,776,209	12,630,916	3,361,285	2,293,188	-	**33,591,796**
Other assets	-	-	-	-	-	636,105	**636,105**
Total assets	**15,059,402**	**13,600,656**	**13,106,424**	**3,752,141**	**2,382,647**	**762,445**	**48,663,715**
Amounts due to banks and financial institutions	106,146	17,257	-	-	-	-	**123,403**
Amounts due to customers	19,263,213	18,033,109	4,544,923	4,167,494	708,815	-	**46,717,554**
Other liabilities	-	-	-	-	-	771,992	**771,992**
Total liabilities	**19,369,359**	**18,050,366**	**4,544,923**	**4,167,494**	**708,815**	**771,992**	**47,612,949**
Equity	**-**	**-**	**-**	**-**	**-**	**1,050,766**	**1,050,766**
Total liabilities and equity	**19,369,359**	**18,050,366**	**4,544,923**	**4,167,494**	**708,815**	**1,822,758**	**48,663,715**
BALANCE SHEET GAP	**(4,309,957)**	**(4,449,710)**	**8,561,501**	**(415,353)**	**1,673,832**	**(1,060,313)**	**-**
OFF-BALANCE-SHEET ITEMS							
Interest rate contracts							
Receivables	4,350	2,043,659	685,000	750,000	18,169	671,694	4,172,872
Liabilities	23,901	-	754,350	1,105,000	1,617,927	671,885	4,173,063
BALANCE SHEET GAP	**(19,551)**	**2,043,659**	**(69,350)**	**(355,000)**	**(1,599,758)**	**(191)**	**(191)**
TOTAL GAP	**(4,329,508)**	**(2,406,051)**	**8,492,151**	**(770,353)**	**74,074**	**(1,060,504)**	**(191)**

5. Risk related to derivatives

Basic types of risk related to derivative financial instruments are market risk and credit risk.

At initial recognition derivative financial instruments usually are of zero or low market value. This is due to the fact that no initial net investment or proportionally low investment is required in comparison with other types of agreements with similar reactions to changes of market conditions.

Derivative financial instruments take a positive or negative value along with changes of specific interest rate, price of securities, commodity price, exchange rate, price index, credit classification, credit index or other market parameter. As a result of these changes, derivatives held become more or less profitable in comparison with instruments with the same residual maturity date which are available on the market at a given point in time.

Credit risk related to derivatives is a potential cost of signing a new contract on the original terms if the other party to the original contract does not fulfil its obligation. In order to estimate the value of the potential replacement cost, the Bank uses the same methods as for the assessment of market risk incurred.

In controlling the level of credit risk assumed, the Bank assesses other parties to contracts by using the same methods as those used for making credit decisions.

The Bank enters into transactions on derivative financial instruments with domestic and foreign banks. Transactions are concluded within the credit limits allocated to particular institutions.

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

6. Hedge accounting

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

- cash flow hedge accounting for term deposits;
- cash flow hedge accounting for assets.

Cash flow hedge accounting for term deposits

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

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

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

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

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

The Bank addresses the above potential sources of ineffectiveness by:

- the creation of hedging relationships at a date close to the conclusion of the hedging instrument, which minimises the risk of a difference in the fixed interest rate for the hedging instrument and the hypothetical derivative,
- limiting timing differences by selecting interest periods consistent with the revaluation periods of the hedged items.

Cash flow hedge accounting for assets

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

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

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

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

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

The Bank addresses the above potential sources of ineffectiveness by:

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

As at 31 December 2023, the effective change in the fair value of hedging instruments recognised in the revaluation reserve amounts to PLN -29,357 thousand. Cash flows from the hedged item will occur in the period from 1 January 2024 to 29 September 2033, i.e. until the maturity date of the longest IRS transaction.

The maturity structure of IRS hedging transactions (in nominal value) is presented below:

	31.12.2023	
	Fixed to float PLN '000	**Float to fixed PLN '000**
Maturity of IRS hedging transactions:		
from 3 months to 1 year	100,000	-
from 1 to 5 years	1,105,000	750,000
more than 5 years	1,600,000	-
Total IRS hedging transactions	**2,705,100**	**750,000**

The table below presents the fair value of cash flow hedges as at 31 December 2023. The carrying amount of the hedging instrument is disclosed as its fair value.

	31.12.2023 PLN '000
IRS — positive valuation	2,518
IRS — negative valuation	(33,795)

The change in fair value of cash flow hedges recognised in equity is presented below:

	03.10.2022-31.12.2023 PLN '000
Accumulated comprehensive income at the beginning of the period (before tax)	**-**
Gains/(losses) on hedging instrument	(28,008)
Amount reclassified from other comprehensive income to profit or loss during period, of which:	(1,349)
interest income	(1,349)
Accumulated comprehensive income at the end of the period (before tax)	**(29,357)**
Accumulated comprehensive income at the end of the period (net of tax)	**(29,357)**
Ineffective portion of cash flow hedges and amortisation of cash flows recognised in profit or loss	**(46)**
Effect on other comprehensive income (before tax) during period	**(29,357)**
Effect on comprehensive income (net of tax) during period	**(29,357)**

The impact of measuring the effectiveness of the hedging relationship on profit or loss and other comprehensive income by type of hedged item is set out below:

Amounts before tax	03.10.2022-31.12.2023 Relationship – deposits PLN '000	Relationship – bonds PLN '000
Accumulated comprehensive income at the end of the period (open hedging relationships)	(32,803)	3,446
Effect on other comprehensive income during period	**(32,803)**	**3,446**
Ineffective portion of cash flow hedges recognised in profit or loss	(76)	30
Effect on profit or loss in the period	**(76)**	**30**

7. Capital management

The primary objective of capital management strategy in the Group is to have an adequate level of capital hedging the risk assumed.

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

8. Compliance risk

The Group ensures compliance through its control function and compliance risk management.

Compliance risk is a risk of bearing the consequences of failure to comply with legal regulations (including laws, regulations, resolutions) together with prudential regulations, internal regulations or internally adopted market standards, rules or codes of conduct.

The compliance risk management process includes: risk identification, risk assessment, risk control, monitoring of the size and profile of risks after the application of compliance risk controls and risk reporting.

In the process of compliance risk identification, the Group carries out ongoing analyses of the applicable laws, prudential regulations, internal regulations and standards of conduct adopted by the Group, and collects information on the existing cases of non-compliance and reasons for their occurrence. When assessing the risk, the Group defines the nature and potential scale of financial losses or legal sanctions and the probability of their occurrence. Monitoring of compliance risk involves the systematic observation and tracking changes of the compliance risk profile, as well as the effectiveness of applied methods of compliance risk reduction. The process of compliance risk control and reduction at the Group includes: activities to prevent the occurrence of non-compliance and violations, elimination of identified non-compliance incidents and minimise the impact of their occurrence and covers following aspects: preventive (i.e. allowing risk reduction through implementation of procedures and solutions ensuring compliance) and mitigating (i.e. risk management upon identification of non-compliance and aimed at alleviating the possible negative outcomes of risks). Compliance risk reporting includes the results of identification, including the identified irregularities, the assessment of compliance risk, and the results of monitoring and control, including the results of testing key control mechanisms to ensure compliance. The reports are submitted in particular to the Operational Risk, Quality and Processes Committee, President of the Management Board, Management Board, Audit and Risk Committee and Supervisory Board of the Group.

In the process of compliance risk management, the Group takes into account risks resulting from activities of entities of the Capital Group.

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

Adam Marciniak	*President of the Management Board*	Signed with a qualified electronic signature
Adrian Adamowicz	*Member of the Management Board*	Signed with a qualified electronic signature
Mirosław Boda	*Member of the Management Board*	Signed with a qualified electronic signature
Przemysław Koch	*Member of the Management Board*	Signed with a qualified electronic signature
Paulina Strugała	*Member of the Management Board*	Signed with a qualified electronic signature

Signature of the person responsible for keeping the accounting records:

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

Warsaw, 26 February 2024