CONSOLIDATED FINANCIAL STATEMENT

for the year ended
31 December 2022

Capital Group
BNP Paribas Bank Polska S.A.

BNP PARIBAS

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SELECTED CONSOLIDATED FINANCIAL DATA

Selected consolidated financial data		in PLN'000		in EUR'000	
Statement of profit or loss	**Note**	**For the period from 1.01.2022 to 31.12.2022**	For the period from 1.01.2021 to 31.12.2021	**For the period from 1.01.2022 to 31.12.2022**	For the period from 1.01.2021 to 31.12.2021
Net interest income	4	**3,493,005**	3,140,942	**745,047**	686,170
Net fee and commission income	5	**1,136,915**	1,048,986	**242,500**	229,161
Profit before tax		**871,927**	616,129	**185,979**	134,599
Profit after tax		**441,497**	176,298	**94,170**	38,514
Total comprehensive income		**(112,667)**	(675,157)	**(24,032)**	(147,495)
Statement of cash flows		**For the period from 1.01.2022 to 31.12.2022**	For the period from 1.01.2021 to 31.12.2021	**For the period from 1.01.2022 to 31.12.2022**	For the period from 1.01.2021 to 31.12.2021
Total net cash flows		**7,704,455**	1,807,496	**1,643,337**	394,865
Ratios		**31.12.2022**	31.12.2021	**31.12.2022**	31.12.2021
Number of shares (items)	46	**147,593,150**	147,518,782	**147,593,150**	147,518,782
Earnings per share	16	**2.99**	1.20	**0.64**	0.26
Statement of financial position		**31.12.2022**	31.12.2021	**31.12.2022**	31.12.2021
Total assets		**151,517,069**	131,777,481	**32,307,100**	28,651,016
Loans and advances to customers measured at amortised cost	21	**89,090,317**	85,080,454	**18,996,208**	18,498,164
Loans and advances to customers measured at fair value through profit or loss	22	**949,298**	1,219,027	**202,413**	265,040
Total liabilities		**140,254,848**	120,415,850	**29,905,723**	26,180,774
Amounts due to customers	33	**120,021,043**	101,092,941	**25,591,386**	21,979,593
Share capital	46	**147,593**	147,519	**31,470**	32,074
Total equity		**11,262,221**	11,361,631	**2,401,378**	2,470,242
Capital adequacy		**31.12.2022**	31.12.2021	**31.12.2022**	31.12.2021
Total own funds		**14,842,133**	15,502,698	**3,164,701**	3,370,591
Total risk exposure		**95,456,297**	91,651,096	**20,353,589**	19,926,750
Total capital ratio		**15.55%**	16.91%	**15.55%**	16.91%
Tier 1 capital ratio		**11.28%**	12.33%	**11.28%**	12.33%

For purposes of data conversion into EUR, the following exchange rates are used by the Group:

For items of the statement of financial position, rates of the National Bank of Poland are applied:

- as at 31.12.2022 - EUR 1 = PLN 4.6899
- as at 31.12.2021 - EUR 1 = PLN 4.5994

For items of the statement of profit or loss and the statement of cash flows, the EUR exchange rate is calculated as the arithmetic mean of the rates published by the National Bank of Poland as at the last day of each month in the period:

- for the period from 1.01.2022 to 31.12.2022 - EUR 1 = PLN 4.6883
- for the period from 1.01.2021 to 31.12.2021 - EUR 1 = PLN 4.5775

Calculation of earnings (loss) per share was described in Note 16.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	12 months to 31.12.2022	12 months to 31.12.2021
Interest income	4	6,482,405	3,420,814
Interest income calculated with the use of effective interest rate method		6,185,466	3,202,725
interest income on financial instruments measured at amortised cost		5,861,349	3,012,072
interest income on financial instruments measured at fair value through other comprehensive income		324,117	190,653
Income of a similar nature to interest on instruments measured at fair value through profit or loss		296,939	218,089
Interest expense	4	(2,989,400)	(279,872)
Net interest income		**3,493,005**	**3,140,942**
Fee and commission income	5	1,405,358	1,284,545
Fee and commission expenses	5	(268,443)	(235,559)
Net fee and commission income		**1,136,915**	**1,048,986**
Dividend income	6	10,817	8,550
Net trading income (including result on foreign exchange)	7	754,701	633,493
Result on investment activities	8	29,227	(5,133)
Result on hedge accounting	20	13,267	50,369
Result on derecognition of financial assets measured at amortized cost due to significant modification		(2,159)	-
Net allowances on expected credit losses of financial assets and provisions for contingent liabilities	9	(275,010)	(266,185)
Result on provisions for legal risk related to foreign currency loans	54	(740,000)	(1,045,304)
General administrative expenses	10	(2,626,707)	(2,143,976)
Depreciation and amortization	12	(411,749)	(399,553)
Other operating income	13	203,874	229,695
Other operating expenses	14	(287,701)	(297,645)
Operating result		**1,298,480**	**954,239**
Tax on financial institutions		(426,553)	(338,110)
Profit before tax		**871,927**	**616,129**
Income tax expenses	15	(430,430)	(439,831)
Net profit		**441,497**	**176,298**
attributable to equity holders of the Group		441,497	176,298
Earnings (loss) per share (in PLN per one share)			
Basic	16	2.99	1.20
Diluted	16	2.99	1.19

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	12 months to 31.12.2022	12 months to 31.12.2021
Net profit for the period		**441,497**	**176,298**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss upon fulfilment of certain conditions		**(553,251)**	**(854,322)**
Measurement of gross financial assets measured at fair value through other comprehensive income	25	(599,039)	(969,416)
Deferred income tax on the valuation of gross financial assets measured through other comprehensive income	37	113,817	184,189
Measurement of cash flow hedge accounting derivatives	20	(83,987)	(85,303)
Deferred income tax on valuation of gross derivatives hedging cash flows	37	15,958	16,208
Items that cannot be reclassified to profit or loss		**(913)**	**2,867**
Actuary gross valuation of employee benefits	3f	(1,129)	3,540
Deferred income tax on actuarial valuation of gross personnel expenses	37	216	(673)
Other comprehensive income (net)		**(554,164)**	**(851,455)**
Total comprehensive income		**(112,667)**	**(675,157)**
attributable to equity holders of the Group		(112,667)	(675,157)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31.12.2022	31.12.2021
Cash and balances at Central Bank	17	2,718,307	4,631,477
Amounts due from banks	18	11,800,189	2,615,150
Derivative financial instruments	19	3,224,272	1,901,919
Adjustment of fair value of hedging item	20	33,025	65,465
Loans and advances to customers measured at amortised cost	21	89,090,317	85,080,454
Loans and advances to customers measured at fair value through profit or loss	22	949,298	1,219,027
Securities measured at amortised cost	23	22,167,261	23,268,041
Securities measured at fair value through profit or loss	24	316,593	347,309
Securities measured at fair value through other comprehensive income	25	17,384,793	9,143,353
Intangible assets	26	821,106	728,475
Property, plant and equipment	27	1,069,429	1,243,523
Deferred tax assets		966,436	876,599
Current tax assets		14,107	94
Other assets	29	961,936	656,595
Total assets		**151,517,069**	**131,777,481**

LIABILITIES	Note	31.12.2022	31.12.2021
Amounts due to the Central Bank	30	8,713	-
Amounts due to other banks	31	7,158,024	8,012,244
Derivative financial instruments	19	3,147,855	1,918,032
Adjustment of fair value of hedging and hedged item	20	(451,646)	44,107
Amounts due to customers	32	120,021,043	101,092,941
Securities issued	33	364,633	722,628
Subordinated liabilities	34	4,416,887	4,334,572
Leasing liabilities	28	718,892	860,004
Other liabilities	35	2,423,182	1,556,289
Current tax liabilities		223,527	175,681
Provisions	36	2,223,738	1,699,352
Total liabilities		**140,254,848**	**120,415,850**

EQUITY	Note	31.12.2022	31.12.2021
Share capital	46	147,593	147,519
Supplementary capital	47	9,110,976	9,110,976
Other reserve capital	47	3,142,098	2,946,115
Revaluation reserve	47	(1,149,786)	(595,622)
Retained earnings		11,340	(247,357)
retained profit		(430,157)	(423,655)
net profit for the period		441,497	176,298
Total equity		**11,262,221**	**11,361,631**
Total liabilities and equity		**151,517,069**	**131,777,481**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as at 1 January 2022	**147,519**	**9,110,976**	**2,946,115**	**(595,622)**	**(423,655)**	**176,298**	**11,361,631**
Total comprehensive income for the period	**-**	**-**	**-**	**(554,164)**	**-**	**441,497**	**(112,667)**
Net profit for the period	-	-	-	-	-	441,497	441,497
Other comprehensive income for the period	-	-	-	(554,164)	-	-	(554,164)
Distribution of retained earnings	**-**	**-**	**190,025**	**-**	**(13,727)**	**(176,298)**	**-**
Distribution of retained earnings intended for capital	-	-	190,025	-	(13,727)	(176,298)	-
Share issue	**74**	**-**	**-**	**-**	**-**	**-**	**74**
Management stock options*	**-**	**-**	**5958**	**-**	**-**	**-**	**5,958**
Other adjustments	**-**	**-**	**-**	**-**	**7225**	**-**	**7,225**
Balance as at 1 January 2022	**147,593**	**9,110,976**	**3,142,098**	**(1,149,786)**	**(430,157)**	**441,497**	**11,262,221**

* the management stock option programme is described in detail in Note 39

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as at 1 January 2021	**147,419**	**9,110,976**	**2,208,982**	**255,833**	**(425,778)**	**733,095**	**12,030,527**
Total comprehensive income for the period	**-**	**-**	**-**	**(851,455)**	**-**	**176,298**	**(675,157)**
Net profit for the period	-	-	-	-	-	176,298	176,298
Other comprehensive income for the period	-	-	-	(851,455)	-	-	(851,455)
Distribution of retained earnings	**-**	**-**	**731,060**	**-**	**2,035**	**(733,095)**	**-**
Distribution of retained earnings intended for capital	-	-	731,060	-	2,035	(733,095)	-
Share issue	**100**	-	-	-	-	-	**100**
Management stock options*	**-**	**-**	**6073**	**-**	**-**	**-**	**6,073**
Other adjustments	**-**	**-**	**-**	**-**	**88**	**-**	**88**
Balance as at 1 January 2021	**147,519**	**9,110,976**	**2,946,115**	**(595,622)**	**(423,655)**	**176,298**	**11,361,631**

* the management stock option programme is described in detail in Note 39

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES:	Note	12 months to 31.12.2022	12 months to 31.12.2021
Net profit (loss)		**441,497**	**176,298**
Adjustments for:		**14,955,194**	**1,639,445**
Income tax expenses		430,430	439,831
Depreciation and amortization		411,749	399,553
Dividend income		(10,817)	(8,550)
Interest income		(6,482,405)	(3,420,814)
Interest expense		2,989,400	279,872
Change in provisions		522,731	1,042,634
Change in amounts due from banks	51	437,452	(1,243,712)
Change in assets due to derivative financial instruments		(1,289,913)	96,026
Change in loans and advances to customers measured at amortised cost	51	(3,691,579)	(11,083,972)
Change in loans and advances to customers measured at fair value through profit or loss		269,729	320,821
Change in amounts due to banks	51	(1,704,577)	171,851
Change in liabilities due to derivative financial instruments		650,083	(187,181)
Change in amounts due to customers	51	18,639,129	11,019,451
Change in receivables due to current income tax		(358,417)	215,053
Change in other liabilities and provisions due to deferred tax		530,201	123,503
Other adjustments	51	90,929	184,199
Interest received		6,203,235	3,578,896
Interest paid		(2,681,069)	(286,745)
Leasing fees for short-term leases not included in the valuation of the liability		(1,097)	(1,271)
Net cash flows from operating activities		**15,396,691**	**1,815,743**

CASH FLOWS FROM INVESTING ACTIVITIES:	Note	12 months to 31.12.2022	12 months to 31.12.2021
Inflows		**73,399,935**	**87,470,007**
Sale of debt securities		73,372,640	87,414,933
Sale of intangible assets and property, plant and equipment		15,741	46,484
Dividends received and other inflows from investing activities		11,554	8,590
Outflows		**(81,458,282)**	**(87,690,384)**
Purchase of debt securities		(81,120,245)	(87,348,001)
Purchase of intangible assets and property, plant and equipment		(338,037)	(342,383)
Net cash flows from investing activities		**(8,058,347)**	**(220,377)**

CASH FLOWS FROM FINANCING ACTIVITIES:	Note	12 months to 31.12.2022	12 months to 31.12.2021
Inflows		**2,193,640**	**2,396,452**
Long-term loans received and subordinated liabilities		2,193,566	2,396,352
Net inflows from share issue		74	100
Outflows		**(1,827,529)**	**(2,184,322)**
Repayment of long-term loans		(1,337,398)	(1,461,637)
Repayment of leasing liabilities		(132,254)	(126,968)
Repurchase of debt securities		(357,877)	(595,717)
Net cash flows from financing activities		**366,111**	**212,130**
TOTAL NET CASH AND CASH EQUIVALENTS		**7,704,455**	**1,807,496**
Cash and cash equivalents at the beginning of the period		**5,512,816**	**3,705,320**
Cash and cash equivalents at the end of the period	50	**13,217,271**	**5,512,816**
effect of exchange rate fluctuations on cash and cash equivalents		32,650	23,247

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE BNP PARIBAS S.A. CAPITAL GROUP

BNP Paribas Bank Polska S.A. (the "Bank" or "BNP Paribas") is the parent company in the Capital Group of BNP Paribas Bank Polska S.A. (the "Group").

The registered office of BNP Paribas Bank Polska S.A. is located at Kasprzaka 2, 01-211 Warsaw, Poland. The Bank is registered in Poland, by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000011571. The duration of the parent entity and the entities from the Capital Group is unlimited.

Since 27 May 2011, pursuant to the decision of the Management Board of Warsaw Stock Exchange (WSE), the Bank's shares have been listed on WSE and classified as finance - banking sector.

As at 31 December 2022, the headcount of the Bank amounted to 8,361.60 FTEs, and 8,535.73 FTEs for the Capital Group, as compared to 8,504.37 FTEs in the Bank and 8,667.46 FTEs in the Group as at 31 December 2021.

BNP Paribas is a universal commercial bank offering a wide range of banking services provided to individual and institutional clients in accordance with the scope of services specified in the Bank's Statute. The Bank operates both in Polish zlotys and in foreign currencies and actively participates in trading on domestic and foreign financial markets. In addition, through its subsidiaries, the Group conducts brokerage and leasing activities and provides other financial services.

The Bank operates mainly in Poland.

Composition of the Bank's Management Board as of 31 December 2022:

FULL NAME	FUNCTION HELD IN THE MANAGEMENT BOARD OF THE BANK
Przemysław Gdański	President of the Management Board
Jean-Charles Aranda	Vice-President of the Management Board
André Boulanger	Vice-President of the Management Board
Przemysław Furlepa	Vice-President of the Management Board
Wojciech Kembłowski	Vice-President of the Management Board
Kazimierz Łabno	Vice-President of the Management Board
Magdalena Nowicka	Vice-President of the Management Board
Volodymyr Radin	Vice-President of the Management Board
Agnieszka Wolska	Vice-President of the Management Board

There were no changes in the composition of the Bank's Management Board in the period from 1 January to 31 December 2022.

Composition of the Bank's Supervisory Board as of 31 December 2022:

FULL NAME	OFFICE HELD IN THE SUPERVISORY BOARD OF THE BANK
Lucyna Stańczak-Wuczyńska	Chairman of the Supervisory Board, Independent member
Jean-Paul Sabet	Vice-Chairman of the Supervisory Board
Francois Benaroya	Vice-Chairman of the Supervisory Board
Jarosław Bauc	Independent Member of the Supervisory Board
Małgorzata Chruściak	Independent Member of the Supervisory Board
Géraldine Conti	Member of the Supervisory Board
Stefaan Decraene	Member of the Supervisory Board
Magdalena Dziewguć	Independent Member of the Supervisory Board
Vincent Metz	Member of the Supervisory Board
Piotr Mietkowski	Member of the Supervisory Board
Khatleen Pauwels	Member of the Supervisory Board
Mariusz Warych	Independent Member of the Supervisory Board

Changes in the composition of the Supervisory Board in the period from 1 January to 31 December 2022:

- On 14 November 2022 Mr Stefaan Decraene resigned from the position of a Member of the Supervisory Board as of 31 December 2022.

The ultimate parent company is BNP Paribas S.A., based in Paris.

As of 31 December 2022, the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A. as the parent company, and its subsidiaries. The Bank's share of the equity of each company is presented in parentheses:

1. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O. in liquidation („ACTUS" 100%).
2. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI" 100%).
3. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING" 100%).
4. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC" 100%).
5. CAMPUS LESZNO SP. Z O.O. (100%)
6. BGZ POLAND ABS1 DAC („SPV").

The Bank has no equity involvement in BGZ Poland ABS1 DAC (SPV). The company is controlled by the Bank in connection with meeting the control conditions under IFRS 10.

On 28 January 2022, the Extraordinary Meeting of Shareholders of BFN ACTUS Sp. z o.o. passed a resolution to dissolve the Company through liquidation. Effective from 1 February 2022, the Company changed its name to Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. in liquidation.

On 24.11.2022, the deletion of BNP Paribas Solutions Sp. z o.o. from the National Court Register was authorized, and this finalised the liquidation process.

Under IFRS rules, the consolidated financial statements include all subsidiaries as of 31 December 2022.

Approval of the financial statements for publication

The present consolidated financial statements have been prepared as at 31 December 2022 and approved for publication by the Management Board of the Bank on 28 February 2023.

Separate financial statements of the Bank have been prepared as at 31 December 2022 and approved for publication by the Management Board of the Bank on 28 February 2023.

Data included in the above mentioned financial statements are presented for the financial year ended 31 December 2022 with comparative data for the financial year ended 31 December 2021.

2. ACCOUNTING PRINCIPLES APPLIED FOR THE PURPOSE OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis for preparation of the consolidated financial statements

The present consolidated financial statements of the Group have been prepared on the historical cost basis, with the exception of derivative contracts and financial instruments held for trading, financial assets not meeting the SPPI test, financial assets assigned to the business model, which does not entail holding them to obtain contractual cash flows, equity instruments measured at fair value through profit or loss, and except for financial instruments measured at fair value through other comprehensive income and equity instruments for which the fair value option has been applied for other comprehensive income.

2.2. Going concern

The present consolidated financial statements have been prepared assuming that the companies of the Capital Group will continue as a going concern in substantially the same scope, in the foreseeable future, i.e. within at least 12 months from the date of the reporting period end.

2.3. Statement of compliance with IFRS

The present consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS EU").

The present consolidated financial statements have been prepared in accordance with the requirements specified in International Accounting Standards ("IAS") and International Financial Reporting Standards endorsed by the European Union ("IFRS EU"), as well as the related interpretations, except for the standards and interpretations listed below, which are awaiting endorsement by the European Union or have already been endorsed by the European Union but entered or will enter into force after the end of the reporting period.

In the period included in these consolidated financial statements, the Group did not early apply standards and interpretations endorsed by the EU, which will enter into force after the balance sheet date.

New standards, interpretations and amendments to these standards that have already been issued by the International Accounting Standards Board (IASB) but not yet approved by the European Union

Standards / Interpretations	Date of issue/ publication	Date of entry into force in EU	Approved by the EU	Description of changes
Amendments to IAS 1, Presentation of financial statements - classification of liabilities	23.01.2020/ 15.07.2020	01.01.2023	No	Amendments to IAS 1 affect the requirements for presenting liabilities in the statement of financial position. In particular, they explain the difference between classification of liabilities as short-term or long-term ones – the classification shall be based on the rights existing at the end of the reporting period. The prospective approach will be applicable while introducing these amendments. The changes will not significantly affect the Group's financial statements.
Amendments to IFRS 16: Leases - Lease liability in transactions such as Sale and Leaseback	22.09.2022	01.01.2024	No	The amendments clarify how a seller-lessee measures sale and leaseback transactions that meet the requirements of IFRS 15 to be accounted for as sales. The changes will not significantly affect the Group's financial statements.
Changes to IAS 1 Presentation of financial statements – Long-term liabilities with covenants	31.10.2022	01.01.2024	No	The changes are aimed at improving the information provided by companies on long-term liabilities with covenants. The changes will not significantly affect the Bank's financial statements.

New standards, interpretations and amendments to the existing standards, that have been issued by the International Accounting Standards Board (IASB), approved by the European Union but not yet effective and have not been implemented by the Group yet

Standards / Interpretations	Date of issue/ publication	Date of entry into force in EU	Date of approval by EU	Description of changes
IFRS 17 Insurance contracts: First application of IFRS 17 and IFRS 9 – comparative data	09.12.2021	01.01.2023	09.09.2022	The amendments provide a transitional option for comparative data on financial assets presented on initial application of IFRS 17. The amendment is intended to help entities avoid temporary accounting mismatches between financial assets and insurance contract liabilities, thereby improving the usefulness of comparative information for users of financial statements. The change will not significantly affect the Group's financial statements.
Amendments to IAS 12 Deferred tax related to assets and liabilities arising from a single transaction	07.05.2021	01.01.2023	12.08.2022	The amendments aim to clarify how companies should account for deferred tax on leases and expired liabilities. The change will not significantly affect the Group's financial statements.

Amendments to IAS 8, Definition of accounting estimates	12.02.2021	01.01.2023	02.03.2022	In the amendment to IAS 8 Definition of Accounting Estimates, the definition of change in accounting estimates was replaced by the definition of accounting estimates. According to the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The Board also clarified the new definition through additional guidance and examples of how accounting policies and accounting estimates are related and how a change in valuation technique constitutes a change in accounting estimate. The introduction of the definition of accounting estimates and other amendments to IAS 8 were intended to help entities distinguish between changes in accounting policies and changes in accounting estimates. The change will not significantly affect the Group's financial statements.
Amendments to IAS 1 and IFRS 2 Practice Statement on Disclosure of accounting policies	12.02.2021	01.01.2023	02.03.2022	The amendments to IAS 1 and IFRS 2 Practice Statement are intended to help preparers decide which accounting policies to disclose in their financial statements. The amendments introduce the requirement to disclose significant information concerning accounting policies instead of significant accounting policies. Explanations and examples have been added on how an entity can identify relevant information on accounting policies. The amendments clarify that accounting policy information may be material by its nature even if the amounts are immaterial and users of financial statements would need it to understand other material information in the financial statements. The changes will not significantly affect the Group's financial statements.
IFRS 17 "Insurance Contracts", amendments to IFRS 17	18.05.2017, amendments issued on 25.06.2020 amendments published on 23.11.2021	01.01.2023	19.11.2021	IFRS 17 'Insurance Contracts' will replace the IFRS 4 'Insurance Contracts' standard, which allows insurance contracts to continue to be accounted under the accounting rules applicable in national standards and which consequently implies a number of different solutions. IFRS 17 requires consistent recognition of all insurance contracts. Liabilities arising from contracts will be recognised at present values instead of historical cost. The standard is to be applied based on a full retrospective approach (if inapplicable, an entity should use the modified retrospective approach or the fair value approach). The amendments are intended to: - reducing costs by simplifying certain requirements of the standard; - less complicated explanation of financial results; and - facilitating the transition to the new standard by deferring the effective date of the standard to 2023 and introducing additional relief to facilitate the first-time implementation of IFRS 17. The changes will not significantly affect the Group's financial statements.

New standards, interpretations and amendments to the existing standards, that have been issued by the International Accounting Standards Board (IASB), approved by the European Union but not yet effective and have not been implemented by the Group yet

Standards / Interpretations	Date of issue/ publication	Date of entry into force in EU	Date of approval by EU	Description of changes
Amendments to IFRS 3 Business combinations; IAS 16 Property, plant and equipment; IAS 37 Provisions, contingent liabilities and contingent assets; annual improvements 2018-2020	14.05.2021	1.01.2022	02.07.2021	Amendments to IFRS 3 "Business combinations" update the reference to the Framework for Financial Reporting present in IFRS 3 without changing the requirements for accounting for business combinations. Amendments to IAS 16 "Property, plant and equipment" prohibit a company from deducting the amounts received from the sale of items produced in the process of preparation of the asset's to its intended use from the asset's purchase price or from the production cost of property, plant and equipment. Instead, the company should recognise the sales revenue and related costs in the statement of profit or loss. Amendments to IAS 37 "Provisions, contingent liabilities and contingent assets" determine which costs should be considered when assessing whether the contract will result in a loss. Annual improvements introduce minor changes to IFRS 1 First-time adoption of IFRS, IFRS 9 Financial instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases. The changes will not significantly affect the Group's financial statements.

2.4. Recognition of transactions under common control

Business combinations under common control do not fall within the scope of IFRS regulations. In the absence of detailed IFRS regulations in this regard, in line with the guidelines specified in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* BNP Paribas Bank Polska S.A. adopted an accounting policy generally applied to any business combinations under common control within the Bank's Group, whereby such transactions are recognised at their book value.

In accordance with the adopted accounting principles, the acquirer recognizes the assets, liabilities and equity of the acquiree at their present book value adjusted only for purposes of harmonizing the accounting principles of the acquiree with those of the acquirer. Goodwill and negative goodwill are not recognised.

The difference between the book value of the acquired net assets and the fair value of the payment is recognised in the Group's equity. A method based on book values is used, and therefore the comparative data are not restated.
If the business combination under common control involves acquisition of minority interests, the Group recognizes them separately.

2.5. Business combinations

For the need of settling business combinations in which the Bank acts as the acquirer, the acquisition method is applied, in accordance with the requirements of IFRS 3 "Business combinations".

For each business combination, the acquiring entity and the acquisition date are determined, and the acquisition date is the date on which the entity acquired control over the acquired entity. In addition, the application of the acquisition method requires the recognition and measurement of identifiable assets and liabilities acquired, and any non-controlling interest in the acquired entity, as well as the recognition and measurement of goodwill or bargain purchase gain. The acquiring entity measures the identifiable assets and liabilities acquired at their fair values as at the acquisition date.

If the net amount of the fair values of identifiable acquired assets and liabilities exceeds the fair value of the consideration transferred, the Bank, as the acquiring entity, recognizes the gain from the bargain purchase in the profit or loss. Before recognizing the gain from a bargain purchase, the Bank reassess whether all acquired assets and liabilities have been correctly identified and all additional assets and liabilities have been included.

If the value of the consideration transferred, measured at fair value as at the acquisition date, exceeds the net value of fair values of identifiable acquired assets and liabilities as at the acquisition date, the goodwill is recognised. The established goodwill is not subject to amortization, but at the end of each financial year and, whenever there are indications that impairment may have occurred, it is tested in terms of their impairment.

In accordance with the requirements of IFRS 3, the Bank performs a final settlement of the acquisition within a maximum of one year from the date of taking control.

2.6. Changes in accounting policies and changes in presentation of financial data

The Group has not changed its accounting policies in the present consolidated financial statements.

2.7. Consolidation

Subsidiaries are defined as all entities over which the Group exercises control. The Group exercises control over an entity when it holds power over that entity, is exposed to or has the right to variable returns from its involvement in that entity and has the ability to influence those returns by exercising control over that entity. Subsidiaries are subject to full consolidation from the date of taking control over them by the Group. They cease to be consolidated on the day the control ceases.

Transactions, settlements and unrealised profits on transactions between companies within the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the transferred asset. The accounting principles applied by subsidiaries when preparing financial statements for the same reporting period as the parent company's financial data for the purposes of the consolidated financial statements are consistent with the accounting principles applied by the Group.

2.8. Measurement of items denominated in foreign currencies

Functional and presentation currency

Items included in the financial statements of the Group's entities are measured in the currency of the primary economic environment in which the Group operates ("functional currency"). The consolidated financial statements are presented in PLN thousands, which is the functional currency of the Group and the presentation currency of the Group's financial statements.

Transactions and balances

Transactions expressed in foreign currencies are translated into the functional currency at the exchange rate applicable as at the transaction date.

At the end of the reporting period, monetary assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zlotys using the average exchange rate for a given currency determined by the National Bank of Poland in force at the end of the reporting period. Foreign exchange differences resulting from the translation are recognised as a net trading income or in cases specified in the accounting principles (policy), capitalized in the value of assets. Non-monetary assets and liabilities recognised at historical cost expressed in a foreign currency are disclosed at the historical exchange rate as at the transaction date. Non-monetary assets and liabilities recognised at fair value expressed in a foreign currency are translated at the exchange rate effective at the date of fair value measurement.

Basic currency rates used in the preparation of the present consolidated financial statements as at 31 December 2022 and 31 December 2021 are presented in the below table:

	31.12.2022	31.12.2021
1 EUR	4.6899	4.5994
1 USD	4.4018	4.0600
1 GBP	5.2957	5.4846
1 CHF	4.7679	4.4484

2.9. Interest income and expenses

The profit or loss statement includes all interest income on financial instruments measured at amortised cost using the effective interest rate, financial assets measured at fair value through other comprehensive income but also income with its characteristics similar to interest income on financial assets and liabilities measured at fair value through profit or loss.

The effective interest rate is the rate used to estimate future payments or incomes throughout the expected life of financial assets or financial liabilities, discounted to the gross balance sheet value of a financial asset or to the amortised cost of a financial liability. The calculation of the effective interest rate includes all commissions paid and received by the parties, transaction costs and any other premiums and discounts that are an integral part of the effective interest rate.

Interest income is calculated using the effective interest rate based on the balance sheet amount of financial assets except for financial assets that are impaired due to credit risk or purchased or originated credit impaired financial assets ('POCI'). At the moment of recognition of financial assets impairment (reclassification of a financial asset to Stage 3), interest income is accrued on the net value of the financial asset and is recognised at the effective interest rate. In case of POCI, the Group uses the credit risk-adjusted effective interest rate to calculate interest income. Interest income is calculated based on net exposure (gross exposure less impairment allowance).

2.10. Net fee and commission income

Fees and commissions, which are not accounted for using the effective interest rate method but in accordance with the straight-line method or recognised on a one-off basis, are recognised in “Net fee and commission income”.

Income settled over time with straight-line method includes commissions on overdrafts, revolving loans and commitments (guarantees and credit facilities).

Fees for the Group’s commitment to grant a loan or an advance (commissions from promises issued) are deferred and as soon as financial assets are recognised they are accounted for as an element of the effective interest rate or on a straight-line basis.

Revenues from contracts with customers include both fees and commissions, which are settled over time using the straight-line method (throughout the period of providing the service) as well as on a one-off basis. Revenues are presented as the amount of the Group’s remuneration specified in the contracts with customers and do not include amounts collected by the Group on behalf of third parties, which are then transferred to them (i.e., insurance premiums collected which the Group transfers to insurance companies). The Group recognizes revenues when the performance obligation is met (or when it is being fulfilled) by transferring the promised good or service (i.e. an asset) to the customer.

Loans and advances

In respect of loan agreements, the Group generates, in particular, revenues for readiness to give the funding under the granted credit limits, which are recognised in the statement of profit or loss on a straight-line basis over the period for which the limit was granted. For contracts without a specified repayment schedule, in the case of revolving loans, fees for each instalment of a loan tranche are recognised over the average expected repayment period. Under certain loan agreements, the Group receives commissions for readiness or commitment, the amount of which is calculated on the basis of loan balances at the specified moment of the duration of the loan agreement. Despite the fact that they partially constitute remuneration for the provision of services, in case of which the customers derive benefits in a continuous manner, due to significant uncertainty about the credit balance at a specific point in the future, the Group recognizes this type of income when the basis of its calculation is certain.

Debit and credit cards

Under debit card agreements with customers, the Group recognizes revenues from various types of fees and commissions. In a majority of cases, these are activities in which the Group executes its obligation to provide services at a given moment of time, in which the customer derives benefits from these services at once, the remuneration due is recognised by the Group in revenues on a one-off basis. An example may be the fee for issuing a card, for checking the account balance at an ATM, for withdrawing cash at an ATM. In addition to one-off fees for banking operations, analogous to those described above for debit cards, the Group receives annual fees for the use of credit cards sold by the Group together with separate services, including card insurance. The Group allocates remuneration to individual performance obligations and recognizes commissions throughout the service provision period.

Commitments to grant loans and advances

The Group charges a commission for its readiness to grant a loan or advance, which constitutes a separate remuneration for commissions received from the loans at the moment of their commissioning, such as preparation commissions. Despite the provision of the service over time, the Group recognizes the revenue on account of the commission at the moment of the decision regarding the commissioning of the loan, because at the moment of collecting the provision it is not possible to estimate the period by which the due remuneration should be spread.

Investment brokerage and asset management

The Group acts as a broker in the sale of participation units of investment funds for BNP Paribas Towarzystwo Funduszy Inwestycyjnych S.A. ("TFI"), and receives a part of the commission charged for sales from customers. The Group recognizes revenue monthly based on the sales volume for a given month. In addition, the Group receives variable remuneration from TFI as part of the commission for the management of assets created as a result of the sale of investment fund participation units, which TFI collects from clients. The Group's remuneration depends on the valuation of assets in the portfolio under management. The Group recognizes revenue at the end of the month based on its own estimates in the area of valuation of assets under management, which do not imply a potential significant reversal of revenue when settling revenues from TFI.

Insurance brokerage

The Group, acting as an agent in the sale of insurance for an insurance company, is entitled to receive remuneration in the form of a commission and additional remuneration, which the Bank recognizes on a quarterly basis based on the periodic results of the insurance sale volume in an amount that will not be subject to significant reversal in the future, in accordance with IFRS 15.

Recognition of bancassurance income and expenses

Direct relation of a bancassurance product and financial instrument occurs in particular if at least one of the following conditions is met: the offered financial instrument is always accompanied by the bancassurance product, or the bancassurance product is offered only accompanied by the financial instrument, i.e. the Group does not offer any bancassurance products with identical legal form, terms and economic contents without the accompanying financial instrument.

Recognition of bancassurance income for related transactions

For related transactions including bancassurance products and financial instruments, remuneration from sales of the bancassurance products constitute an integral part of the fee for the offered financial instrument.

Fee for bancassurance products offered in related transactions with financial instruments measured at amortised cost is accounted for using the effective interest rate method and recognised in interest income for one-off premium or in commission income on a monthly basis for a monthly premium.

Fee for the brokerage services, whose value is determined based on their economic contents, is recognised in commission income upon sale or renewal (if the renewal is significant) of a bancassurance product.

Recognition of bancassurance expenses for related transactions

Expenses directly related to the sale of bancassurance product are settled in accordance with the matching principle as an element of amortised cost of a financial instrument if the total income related to the sale of the product is settled with the effective interest rate method or, respectively, proportionally to the classification of the income as recognised within amortised cost calculation and that recognised on a one-off basis or over time as the fee for the agency services, if such classification has been introduced.

Recognition of bancassurance income and expenses for transactions not classified as related

If a financial instrument and a bancassurance product are sold in two separate transactions, the Group's fee for the sale of the bancassurance product is recognised separately from the fee for the financial instrument.

Fee for the sale of bancassurance products that do not require the Group to provide any post-sale services is recognised as income as at the effective/renewal date of the relevant insurance policy. The related income is recognised under commission income.

Fee for the services provided by the Group over the whole life of a bancassurance product is deferred and recognised as income based on the percentage of completion of the provided services. Application of the percentage of completion method as at the balance sheet date is limited to cases when a result of a service transaction can be reliably estimated. If the Group is unable to precisely determine the number of activities performed within a given time range or a returns level, income from services or activities performed in relation to a bancassurance product offered by the Group is recognised on a straight-line basis over the lifetime of the product, unless there is evidence that another method would be more representative of the stage of completion.

2.11. Dividend income

Dividend income is recognised in the statement of profit or loss once the Group's right to dividends has been determined.

2.12. Net trading income

Net trading income includes all income and expenses resulting from the change in the fair value of financial assets and liabilities classified as measured at fair value through profit or loss, and interest income and interest expenses on derivatives, except derivative instruments in hedge accounting.

The item includes also gains and losses on translation of assets and liabilities denominated in foreign currencies (revaluation).

2.13. Result on investment activities

The result on investment activities includes the income and expenses on financial assets classified as measured at fair value through other comprehensive income and income and expenses on loans and advances to customers measured at fair value through profit or loss, except for the interest.

2.14. Result from derecognition of financial assets measured at amortized cost due to material modification

Derecognition of financial instruments measured at amortized cost applies to cases of material modification (for a description of the identification and recognition of material modifications, see Section 2.18 Classification and Measurement of Financial Assets and Liabilities, paragraph entitled "Modifications to Financial Assets").

2.15. Result from provisions for legal risk related to foreign currency loans

This item includes the result of provisions for legal risks related to foreign currency loans. For a description of the accounting policy and provisioning methodology, see Note 54 Litigation and claims.

2.16. Other operating income and expenses

In item Other operating income and expenses the Group presents items that are not directly related to the core operating activities of the entity.

The Group includes in abovementioned item mainly: result on sale and liquidation of fixed assets, revaluation of investment property, compensations received and paid, revenue and expenses arising from other services not related to the core business of the Group.

As part of other operating income, the Group recognises revenues under contracts with customers with regard to intermediation in the sale of products and services offered by other entities (including companies belonging to the Group) or re-invoicing of costs incurred by the Bank to other entities (in such a case the Bank acts as an agent and therefore presents net profit).

2.17. Income tax expense

Charge on gross financial profit/loss includes current tax payable and debit/credit arising from a value of change of the deferred tax asset/liability.

Current tax liabilities and receivables for the current and prior periods are measured at projected amounts payable to tax authorities (reimbursable) using tax rates and regulations valid in law or in fact as at the end of the reporting period.

2.18. Classification and measurement of financial assets and liabilities

Classification and measurement of financial assets

In accordance with IFRS 9, financial assets are qualified to the following categories of measurement at the moment of their initial recognition:

- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss.

The classification of financial assets in accordance with IFRS 9 depends on:

- business model relating to financial asset management, and
- the characteristics of contractual cash flows, i.e., whether contractual cash flows represent solely payments of principal and interest ("SPPI").

Irrespective of the above, there is an irrevocable option at the moment of initial recognition of the financial asset to classify it as measured at fair value through profit or loss (if there was no such possibility, the asset would be classified as measured at amortised cost or at fair value through other comprehensive income), if such approach leads to the more relevant information eliminating or significantly reducing the inconsistency in the measurement or recognition of assets or liabilities or related gains and losses. The Group did not designate any financial assets to be measured at fair value through profit or loss at the moment of their initial recognition.

Investments in equity instruments are measured at fair value through profit or loss. At initial recognition, an irrevocable option to recognize them in other comprehensive income may be made regarding the recognition of subsequent changes in the fair value of an investment in an equity instrument that is not held for trading or a contingent consideration recognised by the Group as a business combination in accordance with IFRS 3. If the option to measure the instrument at fair value through other comprehensive income is exercised, only dividends resulting from this investment are recognised in the statement of profit or loss. Profit or loss resulting from the measurement in other comprehensive income are not reclassified to the statement of profit or loss.

In the case of equity investments, the Group did not use the option of fair value measurement through other comprehensive income.

Business models

The Group classifies its financial assets to three business models, taking into account the purpose of maintaining a financial instrument:

Model 1: Receiving contractual cash flows.

Under Model 1, the main business goal is to collect contractual cash flows from the acquired or originated financial assets.

Model 2: Receiving contractual cash flows and sale of financial assets.

Under Model 2, both receiving contractual cash flows and sale of the acquired or originated financial assets are integral elements of the portfolio's business objective.

Model 3: Other financial assets not classified to Model 1 nor Model 2

In a situation when specific groups of financial assets were not acquired or originated under Model 1 and Model 2, they should be classified as Model 3. Most often, Model 3 refers to a strategy that assumes the realization of cash flows from the sale of financial assets or portfolios that are managed based on their fair value.

Assets acquired or originated with impairment identified (POCI assets)

In addition, the Group distinguishes categories of assets acquired or granted with credit impairment. POCI assets are financial assets measured at amortised cost, which are impaired at the moment of initial recognition.

At the moment of initial recognition, POCI assets are recognised at their fair value. After initial recognition, POCI assets are measured at amortised cost using the effective interest rate adjusted for credit risk to determine the amortised cost of the financial asset component and interest income generated by these assets - the CEIR rate. In the case of POCI exposures, the change in expected credit losses - over the entire lifetime - compared to those estimated at the date of their initial recognition is recognised in statement of profit or loss. Financial assets that were classified as POCI at the moment of initial recognition should be treated as POCI in every subsequent period until they are derecognised from the Group’s statement of financial position.

SPPI test

For the purpose of classification and subsequent measurement of financial assets, the Group verifies whether the cash flows from a given instrument constitute solely the payment of principal and interest calculated on the principal.

For the needs of the assessment of cash flow characteristics, the principal is defined as the fair value of the financial asset at the moment of initial recognition. Interests are defined as the reflection of the time value of money and credit risk related to the unpaid part of the principal and other risks and costs associated with the standard loan agreement (e.g. liquidity risk or administrative costs) and margin.

When assessing whether contractual cash flows constitute solely repayments of the principal and interest, the Group analyses the cash flows of the instrument resulting from the contract, i.e. whether the contract contains any provisions that could change the date of contractual payments or their amount in such a way that, in economic terms, they will not constitute solely repayments of the principal and interest on the unpaid principal part.

A financial asset is measured at amortised cost if both of the following conditions are met:

- an asset is held by the Group in accordance with the business model whose purpose is to maintain assets to collect contractual cash flows,
- contractual terms of the financial asset represent contractual cash flows that are solely payment of principal and interest.
- A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:
- an asset is held by the Group in accordance with the business model, which aims to both receive contractual cash flows and sell assets,
- the contractual terms of the financial asset represent contractual cash flows that are solely payment of principal and interest.

Other financial assets are measured at fair value through profit or loss.

Modification of financial assets

If the terms of a financial asset agreement change, the Group assesses whether the cash flows generated by the modified asset differ significantly from those generated by this asset before the terms of its agreement are modified. If a significant difference is identified, the original financial asset is derecognised from the statement of financial position, and the modified financial asset is recognised as a "new" financial asset, which is recognised in its fair value and the new effective interest rate applied to the new asset is calculated. Income or expenses arising as of the date of determination of the effects of a material modification are recognized in the income statement under Result from derecognition of financial assets measured at amortized cost due to a material modification.

If the cash flows generated by the modified asset do not differ significantly from the original cash flows, the modification does not result in derecognition of the financial asset from the statement of financial position. In such case, the Group performs recalculation of the gross book value of the financial asset using modified contractual cashflows discounted using original effective interest rate, and the result arising from the immaterial modification is recognized in interest income.

The assessment of whether a given modification of financial assets is significant depends on the fulfilment of qualitative and quantitative criteria.

If there is evidence that the modified financial asset is initially impaired due to credit risk, it is necessary to calculate the effective interest rate adjusted for the credit risk of that financial asset.

Impairment of financial assets

The requirements of IFRS 9 relating to impairment are based on the model of expected credit loss.

The Group applies a three-step approach to the measurement of expected credit losses from financial instruments measured at amortised cost or at fair value through other comprehensive income, for which no impairment loss was recognised as at the moment of initial recognition. As a result of changes in the credit quality since the initial recognition, financial assets are transferred between the following three stages:

i) Stage 1: An allowance due to expected credit losses in 12-month horizon

If credit risk did not increase significantly from the date of the initial recognition, and the impairment of the loan was not identified from the moment of its granting, the Group recognizes an allowance for the expected credit loss related to the probability of default within the next 12 months. Interest income on such assets is recognised based on the balance sheet amount (amortised cost before the adjustment for impairment allowance) using the effective interest rate.

ii) Stage 2: An allowance due to expected credit losses for the entire lifetime – significant increase in the credit risk since the moment of initial recognition and no impairment of a financial asset identified.

In the case of an exposure for which credit risk has increased significantly since the moment of its initial recognition, but no impairment of the financial asset was identified, an impairment allowance is created for the expected credit loss for the entire financing period. Interest income on such assets is recognised based on the gross balance sheet amount (amortised cost before the adjustment for impairment allowance) using the effective interest rate.

iii) Stage 3: An allowance due to expected credit losses for the entire lifetime – impairment of a financial asset

Financial assets are subject to impairment due to the credit risk resulting from an event or events that occurred after the initial recognition of a given asset. For financial assets, for which an impairment was identified, an allowance is created for the expected credit loss for the entire financing period, while interest income is recognised based on the net balance sheet value (including the impairment allowance) using the effective interest rate.

At each balance sheet date, the Group assesses whether there has been a significant increase in credit risk for financial assets since the moment of their initial recognition, by comparing the risk of loan default during the expected financing period as at the balance sheet date and the initial recognition date, using, among others, the internal credit risk assessment system, external credit ratings, information on delay in repayments and information from internal credit risk monitoring systems, such as warning letters and information about restructuring.

The Group assesses whether the credit risk has increased significantly on the basis of individual and group assessment. In order to perform an impairment calculation on a group basis, financial assets are divided into homogeneous product groups based on common credit risk characteristics, taking into account the type of instrument, credit risk rating, initial recognition date, remaining maturity, industry branch, geographical location of the borrower and other relevant factors.

The value of expected credit loss is measured as the current value of all cash flow shortages in the expected life of a financial asset weighted with probability, and discounted using the effective interest rate. The shortfall in cash flows is the difference between all contractual cash flows due to the Group and all cash flows that the Group expects to collect. The value of the expected credit loss is recognised in the statement of profit or loss in the result on allowances related to the expected credit losses on financial assets and provisions for contingent liabilities.

The Group takes into account historical data on credit losses and adjusts them to current observable data. In addition, the Group uses reasonable and justified forecasts of the future economic situation, including its own judgment based on experience, with the purpose of estimating the expected credit losses. IFRS 9 introduces an application of macroeconomic factors to the calculation of expected credit losses on financial assets. These factors include: unemployment rate, interest rates, gross domestic product, inflation, commercial property prices, exchange rates, stock indices, and wage rates. IFRS 9 also requires an assessment of both the current and the forecasted direction of the economic cycles. The inclusion of forecast information in the calculation of expected credit losses on financial assets increases the level of judgement to what extent these macroeconomic factors will affect the expected credit losses. The methodology and assumptions, including all forecasts of the future economic situation, are regularly monitored.

If in the subsequent period the allowance for expected credit losses decreases, and the decrease can be objectively related to an event occurring after the impairment was recognised, then the previously recognised impairment allowance is reversed by adjusting the allowance for expected credit losses. The amount of the reversed impairment allowance is recognised in the statement of profit or loss.

For debt instruments measured at fair value through other comprehensive income, the measurement of the expected credit loss is based on a three-step approach, as in the case of financial assets measured at amortised cost. The Group recognizes the amount of the expected credit losses in the statement of profit or loss, including the corresponding value recognised in other comprehensive income, without reducing the balance sheet amount of assets (i.e. their fair value) in the statement of financial position.

Classification and measurement of financial liabilities

Financial liabilities as at the date of their acquisition or establishment are classified into the following categories:

- financial liabilities measured at fair value through profit or loss,
- other financial liabilities (measured at amortised cost).

Financial instruments – other than liabilities measured at fair value through profit or loss – are measured after initial recognition at amortised cost using the effective interest rate. If a cash flow schedule cannot be determined for a given financial liability and therefore the effective interest rate cannot be reliably estimated, such liability is measured at amount due.

Compensation

Financial assets and liabilities are compensated and presented in the statement of financial position at net amount, if a valid and exercisable netting-off right occurs and the Group intends to settle a financial asset and a financial liability net or simultaneously settle the amount due.

Securitization

In December 2017, the Bank performed a securitization transaction on the portfolio of cash and car loans of SPV subsidiary. The transaction is a traditional and revolving securitization, involving the transfer of ownership of securitized receivables to SPV.

The company issued, based on securitized assets, bonds secured by a registered pledge on the assets of SPV.

The Group performed a comprehensive analysis of the transaction, considering that in the light of the provisions of IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of the securitized assets. As at the date of the transaction, the Group received the initial remuneration from the SPV irrevocably, corresponding to the total nominal value of the securitized loan portfolio. The transaction uses the mechanism of deferred remuneration payable to the Group by SPV. Deferred remuneration corresponds to the SPV result after settling the financing costs and operating costs.

Due to the applied deferred remuneration mechanism, the Group retains substantially all the risks and rewards associated with the transferred loans. The deferred remuneration of the Group, as expected, will be absorbing the entire volatility of cash flows from the portfolios of securitized loans. The Group bears this volatility risk as the payment of the deferred remuneration by SPV to the Group is entirely subordinated to the SPV's liabilities towards investors in respect of financing.

In connection with the above, the Group recognizes a liability for cash flows from securitization that are measured with the use of effective interest rate calculated on the basis of future SPV payments due to liabilities resulting from bonds issued. The securitization transaction is described in Note 44 *Securitization*.

Repo and sell buy back transactions

Securities sold under repo and sell buy back transactions are not excluded from the statement of financial position. Liabilities to counterparties are recognised as financial liabilities under "Liabilities arising from securities sold under repo and sell buy back transactions". Securities purchased under reverse repo and buy sell back transactions are recognised under “Receivables arising from securities purchased under reverse repo and buy sell back transactions”. The difference between the sale and repurchase price is treated as interest and calculated using the effective interest method over the agreement term.

Principles for recognition and derecognition of financial assets and liabilities from the statement of financial position

The Group recognizes a financial asset or liability when it becomes a party to the contract of such an instrument. Standardized purchase and sale transactions of financial assets are recognised at the date of the transaction, which is the date when the Group is required to purchase or sell a given financial asset. Standardized transactions for the purchase or sale of financial assets are transactions whose contractual terms require the delivery of an asset in the period resulting from the applicable regulations or conventions adopted on a given market. Standardized purchase or sale transactions refer in particular to FX spot FX transactions, the spot leg in FX swap transactions and securities purchase and sale transactions, where, normally, two business days pass between the transaction date and the settlement date, except for repo transactions.

The Group derecognizes a financial asset when :

- contractual rights to cash flows from a financial asset expire, or
- the Group transfers contractual rights to receive cash flows from a financial asset.

Transfer takes place:

- in a transaction in which the Group transfers substantially all risk and all benefits associated with the financial asset component, or
- when the Group keeps contractual rights to receive cash flows from a financial asset, but takes contractual obligation to transfer cash flows from a financial asset to the entity outside the Group.

2.19. Fixed assets held for sale

Fixed assets (or held for sale groups) classified as held for sale are measured at the lower of the following values: carrying amount or fair value less costs to sell.

Fixed assets and groups of assets are classified as held for sale, if their balance sheet amount will be recovered as a result of the sale. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The classification as an asset held for sale assumes that the Group's Management intends to complete the sale within one year from the date of reclassification.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to reselling.

2.20. Investment properties

Investment properties include properties treated as a source of revenue from lease and/or maintained due to a potential value increase.

Investment property is recognised in assets when and only when:

- obtaining economic benefits from this property is probable, and
- its cost of acquisition or development can be reliably measured.

Upon initial recognition, investment properties are measured at the acquisition price including transaction costs.

The Group adopted the principles of measuring investment properties at fair value as at subsequent balance sheet dates.

Gains resulting from changes in fair value of investment property are recognised in the statement of profit or loss as other operating income in the period in which the change has occurred, while losses are charged to other operating expenses in the period in which the change has occurred.

2.21. Intangible assets

Intangible assets acquired in a separate transaction are initially measured at acquisition or development cost.

The Group determines whether the useful life of intangible assets is defined or indefinite. Intangible assets with defined useful life are amortised over their useful life and tested for impairment each time when an impairment trigger occurs, at least once a year. The period and method of amortization for intangible assets with defined useful life are verified at the end of each financial year.

Changes in the expected useful life or the manner of consuming economic benefits arising from a given asset are recognised through a change in the amortization period or method, respectively, and treated as changes in estimates. Amortization charges on intangible assets with a defined useful life are recognised in the statement of profit or loss under "Amortization".

An intangible asset created as a result of development works (or completion of the development stage of an internally conducted project) shall be recognized if and only if the Group can prove:

1) the possibility of completing the intangible asset so that it is suitable for use or sale from a technical point of view;
2) the intention to complete the intangible asset and to use or sell it;
3) the ability to use or sell the intangible asset;
4) the method of how the intangible asset will generate probable future economic benefits; among other things, the Group can prove the existence of the market for the given products generated by the intangible asset or for the intangible asset itself or, if the intangible asset is to be used by the Group, the utility of the intangible asset;
5) the availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset;
6) the ability to reliably determine the expenditures incurred during the development work attributable to the intangible asset.

Intangible assets with indefinite useful life and those not used, are annually tested for impairment individually or on the level of cash generating unit. Standard intangible assets (with defined useful life and those that are used) are subject to annual impairment tests.

Purchased software licenses are capitalized in the amount of costs incurred for the purchase of a given software and its adaptation for use. Capitalized costs are amortised over an estimated useful life of the software. Expenses related to the maintenance of computer programs are charged to expense in the period to which they relate.

Amortization of intangible assets is calculated using the straight-line method in order to spread out the initial asset value or its amount revalued over the useful life, different for each intangible asset group:

- licenses 12.5 – 50.0%
- copyrights 20.0 – 50.0%

The useful lives of intangible assets are verified annually at the minimum, and adjusted if necessary.

Amortised intangible assets are tested for impairment in each case when events or circumstances indicate that their balance sheet amount may be irrecoverable. In such cases, the balance sheet amount is immediately reduced to the recoverable amount if the former exceeds the estimated level of the latter. The recoverable amount is equal to the fair value less the sell costs or the value in use, whichever is higher.

2.22. Property, plant and equipment

Property, plant and equipment are recognised at the acquisition price or development costs less depreciation charges and impairment allowance. The initial amount of fixed assets includes their acquisition price increased by all costs directly related to their purchase and adaptation for use. Costs incurred after the date the fixed asset is transferred for utilization, such as costs of maintenance and repair, are charged to profit or loss when incurred.

Upon acquisition, property, plant and equipment items are divided into components of material value to which separate useful life may be assigned. Costs of overhauls are also a component.

Land is not depreciated. Depreciation of other fixed assets is calculated using the straight-line method in order to spread out the initial asset value or its revalued amount less residual value over the useful life, different for each asset group:

- buildings and leasehold improvements 2.5 – 20.0%
- machines and equipment 10.0 – 20.0%
- computer sets 20.0%

The residual value and useful lives of property, plant and equipment are verified annually at the minimum, and adjusted if necessary.

Depreciated property, plant and equipment are tested for impairment at least annually, in each case when events or circumstances indicate that their balance sheet amount may be irrecoverable. In such cases, the balance sheet amount is immediately reduced to the recoverable amount if the former exceeds the estimated level of the latter. The recoverable amount is equal to the fair value less costs to sell or the value in use, whichever is higher.

If the recoverable amount is lower than the current balance sheet amount of an asset, an impairment allowance is charged to the statement of profit or loss.

Gain or loss from disposal of property, plant and equipment is determined by comparison of sales proceeds with their balance sheet amount and recognised in the statement of profit or loss in other operating income or expenses.

2.23. Hedge accounting

The Group selected the accounting policy in the area of hedge accounting and decided to continue applying the hedge accounting principles in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" until the end of works of the International Reporting Standards Board on the guidelines for macro hedge accounting (Macro hedging).

Hedge accounting recognizes the compensation effects of changes in the fair value measurement of hedging and hedged items affecting the statement of profit or loss. Pursuant to the adopted hedge accounting principles, the Group designates certain derivatives as hedges of fair value and future cash flows of certain assets, provided the criteria determined in IAS 39 are met. Hedge accounting is used to account for hedging relationships if all of the following conditions are met:

- at the inception of the hedge there is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, 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 the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecast transaction that will be hedged must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedge

Changes in the fair value measurement of financial instruments designated as hedged items are charged to the statement of profit or loss in the portion arising from the risk subject to hedge. The remaining portion of the change in the balance sheet amount is booked in accordance with general principles applicable to the particular class of financial instruments.

Change in the fair value measurement of financial instruments designated as hedged items is presented in the statement of financial position as *Differences from hedge accounting* in assets or liabilities.

Changes in the fair value measurement of derivatives designated as hedging instruments under hedge accounting are entirely recognised in the statement of profit or loss under the same item as results of changes in the value of the hedged items, i.e. in the *Result on hedge accounting*.

Cash flow hedge

The effective part of changes in the fair value of derivative instruments designated and qualified as cash flow hedges is recognised in other comprehensive income. The profit or loss relating to the ineffective part is presented in the statement of profit or loss for the current period.

Amounts recognised in other comprehensive income are included in revenues or costs of the same period in which the hedged item will affect the statement of profit or loss.

If the hedging instrument expired or was sold, or when the hedge no longer meets the hedge accounting criteria, any accumulated profits or losses recognized at this moment in other comprehensive income remain in other comprehensive income until the forecast transaction is recognised in the statement of profit or loss. If the forecasted transaction is no longer considered probable, total gains and losses recognised in other comprehensive income are immediately transferred to the statement of profit or loss.

2.24. Provisions

Provisions are created when the Group is subject to an obligation (legal or constructive) resulting from past events and it is probable that the fulfilment of such obligation will create a liability and where a reliable estimate of the amount of that liability can be made. If the Group expects reimbursement of the expenditure required to settle the provision (for example, through insurance contracts), the reimbursement is recognised as a separate asset, but only when it is virtually certain that reimbursement will be received. The costs relating to the provision are recognised in the statement of profit or loss less any reimbursement amount. If the impact of time value of money is material, the provision is determined by discounting projected future cash flows to the present value with a gross discount rate that reflects current market assessment of time value of money and a possible risk pertaining to a liability. An increase in provision over time is recognised as interest expense.

A provision for restructuring costs is recognised when general provision recognition criteria are met, as well as detailed ones regarding the occurrence of an obligation to recognize a provision for restructuring costs determined in IAS 37. In particular, the constructive obligation to perform a restructuring procedure occurs only when the Group has a detailed, formal restructuring plan and has raised justified expectations of parties involved in the plan that the restructuring would be performed in the form of initiating its implementation or announcing its key elements to these parties.

A detailed restructuring plan determines at least the operations involved or their part, the key locations to be included, the place of employment, positions and approximate number of employees to be compensated in exchange for termination of their employment, the amount of outlays to be incurred and the plan implementation deadline.

A restructuring provision includes only direct outlays arising from the restructuring, which:

a) are an indispensable effect of the restructuring procedure and

b) at the same time are not related to current operations of the entity.

The restructuring provision does not cover costs such as:

a) training of remaining employees or reassignment of employees;

b) marketing; or

c) investment in new distribution systems and networks.

Restructuring provision does not include future operating expenses.

2.25. Leases

Group as a lessee

On the commencement date of the lease, the Group recognizes the lease liability (liability to make lease payments) and the asset that constitutes the right to use the subject of the lease for the duration of the leasing contract (right to use an asset).

In determining the lease term, the Group considers all relevant facts and events creating economic incentives to exercise the option to renew or not to exercise an option to terminate. The Group reassesses the length of the lease term in case of a significant event or a significant change in circumstances that affects the assessment made previous

For contracts with indefinite duration relating to the Bank's branch offices, the Group has adopted a lease term consistent with the period of depreciation of the unamortised investments made in these properties at the date of implementation of the standard, or in the absence of such investments, a 3-year period, taking into account the significant costs associated with changing the location of the branches during their operation.

The Group applies the exemptions provided for in IFRS 16 and does not recognize the asset components due to the right of use in the case of short-term leases and leases covering components of low-value assets. Short-term leases are defined as leases with a period of no longer than 12 months as at the beginning date (including periods for which the lease can be extended, if it can be assumed with reasonable assurance that the lessee will exercise that right) and do not include a call option. Low-value assets are those which have a value of no more than EUR 5,000.

On the commencement date, the lessee measures the lease liability based on the current value of lease payments remaining to be paid as at that date. Lease payments are discounted using the interest rate of the lease, if such a rate can be easily determined. Otherwise, the lessee applies the marginal interest rate of the lessee. The lessee's marginal interest rate is the interest rate that the lessee would have to pay to borrow the funds necessary to purchase a right-of-use asset of similar value for a similar term and with similar collateral in a similar economic environment. The Group determines the marginal interest rate for all contract types on the basis of the average funding rate in the currency concerned.

The following elements are included in the measurement of leasing liabilities:

- fixed payments, less any lease incentives receivable,
- variable lease payments that depend on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option,
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Floating fees, which do not depend on the index or rate and do not have a certain minimum level, are not included in the value of the lease liability. These fees are recognised in the statement of profit or loss in the period when the event that causes their maturity occurred.

On the commencement date, the lessee measures an asset due to the right to use at its cost. The cost of an asset due to the right of use should include:

- the initial value of the lease liability,
- leasing payments made at the time or before the conclusion of the contract less any incentives received,
- all initial costs incurred by the lessee, and
- estimated costs of dismantling and removing the underlying asset, that must be incurred by the Group in connection with the asset included in the agreement in order to restore the place in which the asset is located or the asset itself to the conditions required under the leasing contract.

After the initial recognition, the right of use is reduced by depreciation and total impairment losses and adjusted in connection with the revaluation of the lease liability due to changes in the lease, which do not require the recognition of a separate lease component.

Assets with to the right of use are amortised on a straight-line basis over the shorter of two periods: the leasing period or the useful life of the underlying asset, unless the Group has sufficient certainty that it will obtain ownership before the end of the leasing period - then the right to use is depreciated from the day of commencement until the end of the asset's useful life.

Group as a lessor

Lease contracts under which substantially all of the risks and gains incidental to the ownership of the asset are transferred to the lessee are classified as financial lease agreements. In the statement of financial position the value of receivables in the amount equal to the net investment in the lease is recognised. The recognition of revenues from financial leasing contracts is performed in a manner reflecting the constant periodic rate of return on the net investment in the lease made by the Group under finance lease.

The Group does not offer operating lease products, i.e. such products in which all risks and rewards incidental to ownership of the assets are transferred to the lessee.

2.26. Financial guarantees

On initial recognition, a financial guarantee contract is measured at fair value.

Financial guarantees after initial recognition are measured at the higher value of:

- the amount of the impairment loss determined in accordance with the principles applicable to impairment losses for assets measured at amortised cost in accordance with IFRS 9,
- the amount initially recognised less the cumulative income recognised in accordance with the principles of IFRS 15.

For loan commitments and financial guarantee contracts, the date on which the Group becomes a party to the irrevocable commitment is considered as the date of initial recognition for the purpose of applying the impairment requirements.

2.27. Employee benefits

The Group creates a provision for future liabilities due to retirement, disability and post-mortem benefits, unused annual holiday, restructuring of employment and for incentive and retention programs. Provisions for retirement, disability and post-mortem benefits are created using the actuarial method, as described in Note 3f and 11 hereof.

Employees of the Group are entitled to the following benefits:

Retirement, disability and post-mortem benefits

Retirement benefits classified as post-employment defined benefit plans are available upon retirement for pensioners or disability pensioners. The term of employment includes all previously completed periods of employment based on an employment contract.

Liabilities due to unused annual holiday

Provisions for unused holiday leave are calculated as the product of the daily basic salary and the number of outstanding leave days as at the end of the reporting period, including surcharges for Social Insurance Institution (ZUS) benefits. Provisions for the unused holiday leave are presented in the separate financial statements under “Other liabilities”.

Benefits arising from the variable remuneration program

On 9 December 2021, the Supervisory Board of BNP Paribas Bank Polska S.A. approved an amended Remuneration Policy for persons with a material impact on the risk profile of BNP Paribas Bank Polska S.A. (hereinafter: the Policy). The changes were related, among others, to the need to adjust the Policy to the provisions of the Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system and internal control system and remuneration policy in banks.

Performance evaluation of individuals included in the program underlies the calculation of the variable remuneration Policy.

Under the current remuneration scheme, the variable remuneration is divided into:

- a non-deferred and deferred part and a part granted in the form of a financial instrument, which is the Bank's shares (settled in accordance with IFRS 2)
- a remaining deferred part granted in cash (settled in accordance with IAS 19 "Employee benefits").

The right to variable remuneration in the form of Bank shares is granted by issuing subscription warrants in a number corresponding to the number of shares granted, one warrant entitles to acquire one share. Payment of the variable remuneration expressed in the form of Bank shares, i.e. acquisition of Bank shares through exercise of rights from subscription warrants, takes place after the expiry of the retention period.

The retention period is at least 5 years for Senior Management and a minimum of 4 years and a maximum of 5 years for staff other than Senior Management. A maximum deferral period of 5 years is applied when Variable Remuneration is assigned in the amount exceeding an amount considered as a particularly high amount. The deferred part of the variable remuneration is divided into equal parts according to the number of years of the deferral period.

The cash payments under the programme are recognised in line with the projected unit credit method and settled over the vesting period (i.e. both in the evaluation period understood as the year in service to which the benefit pertains and in the period of deferring relevant portions of the benefit). The benefit value is recognised as a liability to employees in correspondence with the statement of profit or loss.

Liabilities due to restructuring of employment

In connection with the implemented process of group layoffs at BNP Paribas Bank Polska S.A., the Bank paid a severance pay for employees made redundant at the initiative of the employer and for employees covered by voluntary departure schemes.

Liabilities due to incentive – retention programs

The programmes have been completed by the reporting date, except for the deferred parts concerning individuals with significant influence on the Group's risk profile, in accordance with the Group's policy in this respect.

2.28. Capital

Share capital

Registered share capital is disclosed at its nominal value, in accordance with the statute and the entry in the court register.

Own shares

If the Bank purchases its own shares, the amount paid reduces equity as treasury shares until their cancellation. Should these shares be sold or re-allocated, the payment received is recognised in equity.

Supplementary capital from the sale of shares above their par value

The supplementary capital is created from the issue premium obtained from the issue of shares, reduced by the direct costs incurred with the issue.
The costs directly related to the issue of new shares, after deduction of income tax, reduce the proceeds from the issue included in the equity.

Other capital

Other capital: spare capital, reserve capital and general risk funds are created from profit allocations and are designated for purposes specified in the statute or other legal regulations.

Other capital items

Other equity items are created as a result of:

- valuation of financial assets at fair value through other comprehensive income,
- actuarial profits and losses related to post-employment benefits,
- valuation of derivatives as part of cash flow hedge accounting with reference to the effective part of the hedge.

2.29. Custody operations

BNP Paribas Bank Polska S.A. performs custody operations including maintaining securities accounts of its customers.

Assets managed under the custody services are not included in the present financial statements as they do not meet the definition of Group's assets.

2.30. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include items that mature within three months from their acquisition date, including cash in hand and non-restricted cash at the Central Bank (current account), statutory reserve account and receivables from other banks (including nostro accounts).

3. ESTIMATES

The Group makes estimates and assumptions which affect the value of its assets and liabilities in the subsequent period. The estimates and assumptions, which are reviewed on an ongoing basis, are made based on prior experience and considering other factors, including expectations as to future events, which appear reasonable in specific circumstances.

a. Impairment of financial assets

The assessment of impairment of financial assets in accordance with IFRS 9 requires estimates and assumptions, especially in the areas of estimates of the value and timing of future cash flows, the value of collaterals established, or the assessment of a significant increase in credit risk.

The assessment of impairment in accordance with IFRS 9 covers financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income as well as loan commitments. The recognition of expected credit losses depends on the change in the level of credit risk recorded since the moment of initial recognition of the financial asset. Financial assets are subject to the assessment as to whether there are any events of default.

The requirements of IFRS 9 relating to impairment are based on the model of expected credit loss.

Financial instruments subject to the assessment in terms of impairment are classified into one of three stages based on the assessment of changes in credit quality observed since initial recognition:

i. Stage 1: An allowance due to expected credit losses in 12-month horizon

If the credit risk did not increase significantly from the date of the initial recognition, and the event of default did not occur from the moment of granting the financial instrument, the Group recognizes an allowance for the expected credit loss within the next 12-month horizon.

ii. Stage 2: An allowance due to expected credit losses for the entire lifetime – no event of default identified

In the case of financial instruments, whose credit risk has increased significantly since the moment of their initial recognition, but no event of default occurred, an impairment allowance is created for the entire remaining financing period, considering the probability of the occurrence of the event of default.

iii. Stage 3: An allowance due to expected credit losses for the entire lifetime – event of default

In the case of financial instruments for which the event of default occurred, an allowance for the expected credit loss is created for the entire remaining financing period.

Criteria for stage classification

In order to assess whether there has been a significant increase in credit risk since the initial recognition of the financial instrument (Stage 2), the Group compares the risk of default during the expected period of financing granted as at the balance sheet date and the date of initial recognition.

The assessment consists in verifying whether the ratio of the cumulative PD as of the report date determined for the period from the report date to the maturity date and the cumulative PD as of the initial recognition date determined for the period from the report date to the maturity date exceeds the relative threshold for the change in the PD lifetime parameter. Exceeding the threshold results in classification into Stage 2. PD lifetime weighted by the probability of occurrence of individual macroeconomic scenarios is used for comparison.

The threshold amount is set at the level of homogeneous portfolios based on an analysis of loss levels for historical data. The analysis is designed to ensure high discriminatory power of the introduced allocation and its results are subject to verification for intuitiveness. The thresholds adopted at the Group range from 1.8 to 2.7 times PD lifetime growth relative to initial recognition, depending on the segment.

In addition, in order to assess a significant increase in credit risk, the Group uses an internal credit risk rating system, information on delay in repayments (over 30 days of delay) and information from internal credit risk monitoring systems, such as warning letters and information about restructuring.

For exposures classified as Stage 2, if in subsequent periods the credit quality of the financial instrument improves and previous conclusions regarding a significant increase in credit risk since initial recognition are reversed, the exposure is reclassified from Stage 2 to Stage 1 and the allowance for expected credit losses for these financial instruments is calculated over a 12-month horizon.

For the purpose of identifying exposures eligible for Stage 3, the Group uses a single definition of defaulted exposures and a definition of impaired exposures, and classification is based on the principles of the default triggers.

The principal event of default is a delay in repayment of more than 90 days (or more than 30 days for exposures with granted facilities) of a material amount of a past due credit obligation. In addition, other indications are taken into account, including in particular:

- restructuring,
- granting of a facility where the exposure is granted a facility or restructured,
- granting of a facility without significant economic loss where at least one of the following conditions is met
    - a large lump sum payment towards the end of the repayment schedule;
    - irregular repayment schedule, with significantly lower payments at the beginning of the repayment schedule;
    - significant grace period at the beginning of the repayment schedule;
    - exposures to an obligor that are subject to distress restructuring on more than one occasion.
- suspicion of fraud (including economic crime or any other criminal offence related to the credit exposure),
- information has been received about the submission of an application for restructuring proceedings within the meaning of the Act on Restructuring Law,
- filing of an application for commencing enforcement proceedings by the Group or becoming aware of the fact that enforcement proceedings against the debtor are being conducted in the amount which, in the opinion of the Group, may result in the loss of creditworthiness,
- becoming aware of the fact of filing of an application for declaring the debtor bankrupt (liquidation, consumer), putting the debtor into liquidation, dissolution or cancellation of the company, appointment of a curator, appointment of a receiver over the debtor's activity,
- filing of an application for bankruptcy proceedings, a declaration of bankruptcy or becoming aware of the dismissal of the bankruptcy application due to the fact that the debtor's assets are insufficient or sufficient only to meet the costs of the bankruptcy proceedings,
- termination of the credit agreement,
- submission by the Bank of an application to initiate enforcement proceedings against the customer,
- granting of a public moratorium,
- financial difficulties identified during the customer monitoring/review process or on the basis of information obtained from the customer in the course of other activities,
- significant deterioration in customer rating.

In determining the materiality level of a past due credit obligation, the Group takes into account the thresholds contained in the "Regulation of the Minister of Finance, Investment and Development dated 3 October 2019 on the materiality level of a past due credit obligation".

A past due credit commitment is considered material when both materiality thresholds are exceeded together:

1) the amount of past due liabilities exceeds PLN 400 for retail exposures or PLN 2,000 for non-retail exposures, and
2) the share of past due liabilities in the exposure is greater than 1%.

Accordingly, the calculation of the number of overdue days for the purpose of determining a default event starts once both of the aforementioned thresholds are exceeded.

While reclassifying the exposure from Stage 3 to Stage 2 or Stage 1, the Group considers quarantine period, according to which a credit exposure with recognised objective trigger of impairment may only be reclassified into Stage 2 or Stage 1 if the customer has been servicing the receivable on time for a specified number of months. The required quarantine period differs depending on the customer type. Its length is determined by the Group on the basis of historical observations which allow for determining the period after which the probability of default decreases to the level comparable to that of other exposures classified to the portfolio with no indications of impairment.

With regard to the criteria for assignment to Stages, in the first half 2022 the Group implemented a premise based on the assessment of the relative change in the PD lifetime parameter. In connection with the implementation of the premise, there was an increase in the exposure to Stage 2 in the amount of PLN 1,108,939 thousand, and PLN 27,225 thousand of allowances for expected credit losses were created. In the third quarter of 2022, the SICR premise for Leasing exposures was also implemented, resulting in a Stage 2 increase of PLN 561,000 thousand. The change was implemented together with the introduction of additional PD parameter grouping based on the rating for Leasing exposures. The combined effect on the result of both changes was immaterial.

Due to the ongoing war in Ukraine and the economic sanctions issued against Russia and Belarus, the Bank analysed credit exposures directly related to these countries and, based on this, did not identify any significant exposures both in the portfolio of business and retail clients. At the same time, the Bank monitors the situation of customers on an ongoing basis with a view to securing the credit portfolio by adequately reflecting the level of risk on these customers in the amount of allowances. The Bank has identified institutional customers who are vulnerable to the effects of the situation in Ukraine, including, in particular, customers whose business is linked to the economies of the above countries (and thus may be exposed to the effects of war and imposed sanctions) and whose business is vulnerable to the embargo on Russian gas. These customers accounted for 931,000 thousand of exposure as of 31 December 2022, and were classified in Stage 2, as customers for whom there was a significant increase in credit risk. Due to the recognition of an allowance for expected credit losses for these customers over the entire remaining expected life, the level of the allowance for these customers increased by PLN 21,904 thousand.

With regard to the remaining segments, in the process of assigning Stages, the Bank took into account the increased risk associated with customers with the greatest exposure to turbulence in the economic environment by transferring these exposures to Stage 2. The basis for identifying sensitive customers was:

- for the portfolio of loans secured by real estate in PLN, simulations of debt servicing capacity, taking into account current and projected levels of interest rates,
- for the segment of other retail customers, available indicators that are indicative of the level of debt burden and the timeliness of servicing obligations with other institutions,
- for the portfolio of micro-entrepreneurs, the level of the customer's rating.

The cumulative effect of these actions on other segments resulted in the inclusion in Stage 2 of exposures in the amount of PLN 1 082,000 thousand and the recognition of PLN 26,351 thousand in allowances on this account (including the transfer to Stage 2 of exposures in the amount of PLN 422,000 thousand and the recognition of an additional allowance in the amount of PLN 5,651 thousand in connection with the portfolio of loans secured by real estate in PLN).

Description of the methods used to determine the allowance for expected credit losses

The individual valuation is performed by the Group for individually significant financial assets, for which the event of default was identified. It consists in the individual determination of the allowance for expected credit losses. During the individual valuation, the Bank determines expected future cash flows and impairment allowance is calculated as the difference between the present value (balance sheet amount) of a financial asset which is individually significant and the value of future cash flows generated by that asset, discounted using the effective interest method. Cash flows from collateral are taken into account for purposes of estimating future cash flows.

The following assets are measured collectively:

- classified as individually insignificant;
- classified as individually significant, for which the event of default was not identified.

The amount of collective impairment allowances is determined with the application of statistical methods for defined exposure portfolios which are homogenous from the perspective of credit risk. Homogeneous exposure portfolios are defined based on, among others, customer segment and type of credit products. The criteria applied by the Group to define homogeneous portfolios are aimed at grouping exposures so that the credit risk profile is reflected as accurately as practicable and, consequently, so as to estimate the level of allowances for the expected credit losses on financial assets as objectively and adequately as possible. The amount of the allowance for expected credit losses in the collective method is determined under three macroeconomic scenarios. The final value of the allowance is determined as the average of these three calculations weighted by the probability of occurrence of a given scenario. The weight of the base scenario is 50%, the weight of the negative scenario is estimated based on the ratio of the current projected loss to the long-term average for the segment, and the weight of the positive scenario is derived from the weight of the negative scenario. In addition, an assumption is made that the weight of none of the scenarios can be less than 10%. The weight of the negative scenario, depending on the segment at the end of fiscal 2022, ranged from 11.06% to 11.68%.

In the process of calculating the amount of allowances, the following parameters are used:

1) probability of default (PD).

The amount of the parameter for individual exposures is estimated using a model based on Markov chains. For its estimation, historical matrices of migration of exposures between risk classes are used. Risk classes are determined based on internal ratings and baskets of the number of days in default. Migrations are determined within homogeneous portfolios defined by customer segment and product type.

The parameter values resulting from the above model are through-the-cycle. In order to ensure the point-in-time nature required by the IFRS9 standard, they are subsequently adjusted based on current forecasts of the macroeconomic environment. The adjustment made is based on econometric models built for individual segments based on time series. If it is not possible to build a model for a particular segment, a simplification based on the Box-Cox transformation is applied.

2) loss given default (LGD) ratio

The amount of the parameter for individual exposures is determined based on the probability of occurrence of individual recovery paths (return to regular repayments, full repayment of the obligation, commencement of hard recovery) and the expected levels of loss if a given path occurs. The probabilities of occurrence of individual paths are determined based on a Markov chain-based model and estimation based on historical data. Loss levels are determined based on historically observed recoveries. They take into account recoveries linked to collateral allocated to a given exposure, repayments not linked to collateral, and recoveries expected from the sale of receivables.

Assignment of specific components is based on customer segment, product type, exposure characteristics, current number of days in default, contract status and number of months since the commencement of hard recovery. The parameters for recovery from the collateral are based on the type of collateral and the number of months since the commencement of hard collection.

The parameter values resulting from the above model are through-the-cycle. In order to ensure the point-in-time nature required by the IFRS9 standard, they are adjusted based on current forecasts of the macroeconomic environment. The adjustment made is based on econometric models built for individual segments, based on time series. If it is not possible to build a model for a particular segment, a simplification based on the Box-Cox transformation is applied - this does not apply to portfolios where expert values are used for parameter estimation due to the lack of sufficient historical observations.

3) the conversion factor of granted off-balance sheet liabilities to on-balance sheet receivables (CCF - credit conversion factor).

The amount of the parameter is determined based on average observed historical values. The parameter is estimated within homogeneous portfolios defined by customer segment and product type. For segments where there are not enough observations to determine the parameter, expert values are adopted.

For the CCF parameter, the Group demonstrated its lack of dependence on macroeconomic factors based on historical data.

4) prepayment expectation factor (PPF)

The amount of the parameter is determined based on the prepayment curve assigning dependence on the months of existence of the credit exposure. The prepayment curve is estimated based on historical data by customer segment and product type. When calculating the expected credit loss, prepayment factors adjust the balance sheet exposure resulting from the loan repayment schedule.

For the PPF parameter, the Group demonstrated its lack of dependence on macroeconomic factors based on historical data.

5) expected life of the loan (BRL - behavioural lifetime)

For exposures for which there is no contractual existence life-time, the behavioural lifetime of the loan is estimated. This value is assigned by customer segment and credit product type. The estimation of the behavioural life of a loan is based on building a profile of historically observed existence length in an exposure of a given type and fitting a logistic regression function to it. This function is then used to estimate the final value in a given segment.

During the fiscal year 2022, the Group made the following changes to the allowance calculation process:

- adjustment of the form of the LGD model to the shape of the collection process and inclusion of additional dimensions that differentiate the LAG level for Stage 1 and Stage 2 exposures resulted in a total impact of PLN 16,316 thousand,
- implementation of the new Default Rate macroeconomic model for full accounting resulted in the allocation of provisions in the amount of PLN 9,000 thousand,
- implementation of the updated form of the CCF model resulted in the release of provisions in the amount of PLN 16,145 thousand,
- implementation of the LGD model for lease exposures replacing the expert parameters previously used for this segment resulted in the release of provisions in the amount of PLN 25,811 thousand,
- implementation of additional grouping of PD parameter based on rating for Lease exposures. The change was implemented jointly with the introduction of the SICR model for Lease exposures in the third quarter of 2022. The combined impact of both changes was immaterial.

The following table provides quantitative information on credit risk parameters as required by Recommendation R (Recommendation 36.2).

BUSINESS ENTITIES		a)	b)	c)	d)	e)	f)	g)	h)
	PD scale	Original gross balance sheet exposures	Off-balance sheet exposures	EAD after credit risk mitigation and application of credit conversion factor	Average PD expressed in % - acceptable range (from 0% to 100%)	Number of exposures	Average LGD expressed in %	Average maturity	Expected credit loss (ECL)
Stage 1	from 0.00 to <0.15%	6,146,397	2,411,782	7,030,038	0.1%	3,626	60.1%	4	7,297
	from 0.15 to <0.25%	3,185,635	409,782	3,294,215	0.2%	1,635	58.6%	3	5,210
	from 0.25 to <0.50%	6,272,657	1,431,619	6,857,546	0.4%	6,677	50.0%	4	17,543
	from 0.50 to <0.75%	3,705,018	343,064	3,857,633	0.9%	3,934	48.2%	4	17,446
	from 0.75 to <2.50%	12,941,131	2,294,595	13,869,753	1.1%	30,911	46.3%	3	77,643
	from 2.50 to <10.00%	6,582,266	978,324	7,031,021	2.5%	35,521	41.0%	5	84,485
	from 10.00 to <45.00%	670,344	136,526	724,053	3.6%	4,917	39.0%	6	11,123
	from 45.00 to <100.00%	751	45	776	6.8%	11	37.7%	6	23
Stage 2	from 0.00 to <0.15%	384,541	75,620	421,878	2.9%	1,166	42.2%	4	16,197
	from 0.15 to <0.25%	441,123	247,199	566,175	1.4%	365	45.9%	7	26,166
	from 0.25 to <0.50%	754,784	93,673	786,625	3.8%	1,253	48.4%	3	36,563
	from 0.50 to <0.75%	455,920	75,365	491,605	6.1%	665	40.5%	3	23,330
	from 0.75 to <2.50%	1,622,637	179,,262	1,701,744	7.4%	5,179	40.9%	4	115,939
	from 2.50 to <10.00%	1,278,899	113,678	1,316,331	11.9%	7,222	39.9%	4	119,589
	from 10.00 to <45.00%	470,790	52,867	490,193	17.9%	9,421	39.3%	4	63,576
	from 45.00 to <100.00%	3,291	-	3,292	23.9%	44	39.6%	6	528

RETAIL CUSTOMERS		a)	b)	c)	d)	e)	f)	g)	h)
	PD scale	Original gross balance sheet exposures	Off-balance sheet exposures	EAD after credit risk mitigation and application of credit conversion factor	Average PD expressed in % - acceptable range (from 0% to 100%)	Number of exposures	Average LGD expressed in %	Average maturity	Expected credit loss (ECL)
Stage 1	from 0.00 to <0.15%	2,120,088	120,901	2,225,840	0.2%	89,651	27.9%	20	2,591
	from 0.15 to <0.25%	2,024,316	111,427	2,121,200	0.3%	54,390	27.1%	21	2,772
	from 0.25 to <0.50%	5,193,771	193,799	5,343,600	0.3%	169,286	27.4%	20	8,059
	from 0.50 to <0.75%	5,434,033	177,936	5,530,245	0.4%	68,576	28.3%	22	9,780
	from 0.75 to <2.50%	13,943,644	517,134	14,016,574	0.8%	387,286	33.8%	15	58,160
	from 2.50 to <10.00%	4,933,474	423,731	5,013,747	2.5%	380,553	39.9%	11	61,396
	from 10.00 to <45.00%	315,285	10,905	318,932	4.9%	23,197	41.5%	11	7,182
	from 45.00 to <100.00%	-	-	-	0.0%	-	0.00%	-	-
Stage 2	from 0.00 to <0.15%	298,581	9,444	302,793	4.1%	6,626	26.3%	20	10,749
	from 0.15 to <0.25%	159,364	4,076	161,726	10.2%	3,255	25.7%	19	9,137
	from 0.25 to <0.50%	356,136	4,724	357,764	15.7%	11,151	32.7%	15	27,865
	from 0.50 to <0.75%	394,818	3,851	396,202	22.5%	11,044	38.7%	15	43,949
	from 0.75 to <2.50%	1,714,445	12,431	1,717,110	15.3%	44,449	38.3%	12	189,776
	from 2.50 to <10.00%	745,968	20,042	753,004	18.1%	86,345	42.8%	9	99,709
	from 10.00 to <45.00%	183,925	7,332	189,542	19.7%	13,801	45.0%	9	27,850
	from 45.00 to <100.00%	34	1	34	83.6%	8	40.4%	7	11

BUSINESS ENTITIES		a)	b)	c)	d)
	Time in default	EAD after credit risk mitigation and application of credit conversion factor	Number of exposures	Average PD expressed in %	Expected credit loss (ECL)
Stage 3	to 12 months	547,321	3,310	48,7%	239,260
	from 13 to 24 months	218,290	1,824	56,0%	121,710
	from 25 to 36 months	303,164	1,422	58,1%	177,982
	from 37 to 48 months	329,175	949	63,3%	228,504
	from 49 to 60 months	123,308	511	65,0%	87,885
	from 61 to months	136,783	457	81,3%	109,408
	over 84 months	112,674	336	88,3%	103,455
POCI	to 12 months	78,558	41	39,5%	139
	from 13 to 24 months	6,343	48	48,4%	1,068
	from 25 to 36 months	263	139	64,0%	22
	from 37 to 48 months	9,447	322	86,2%	4,976
	from 49 to 60 months	174,817	852	84,1%	29,683
	from 61 to 84 months	1,373	7	90,0%	433
	over 84 months	368	2	90,0%	31
POCI performing		29,586	3,307	39,7%	401

RETAIL CUSTOMERS		a)	b)	c)	d)
	Time in default	EAD after credit risk mitigation and application of credit conversion factor	Number of exposures	Average PD expressed in %	Expected credit loss (ECL)
Stage 3	to 12 months	378,112	22,071	47.2%	188,037
	from 13 to 24 months	176,646	10,204	60,4%	109,108
	from 25 to 36 months	120,919	5,739	61.6%	75,828
	from 37 to 48 months	66,458	2,240	65.7%	44,836
	from 49 to 60 months	44,516	1,524	71.7%	32,636
	from 61 to 84 months	109,397	1,281	77.5%	92,854
	over 84 months	89,977	1,537	84.6%	77,869
POCI	to 12 months	3,462	201	38.2%	319
	from 13 to 24 months	577	95	61.7%	109
	from 25 to 36 months	1,352	491	44.6%	248
	from 37 to 48 months	1,755	753	70.9%	290
	from 49 to 60 months	17,667	1,559	71.5%	1,551
	from 61 to 84 months	-	-	0%	-
	over 84 months	-	-	0%	-
POCI performing		30,942	43,574	33.5%	191

In 2022, as part of adjusting the level of allowances to expectations of the future macroeconomic situation, the level of provisions increased by PLN 207,844 thousand, including:

- provisions related to updating forecasts of macroeconomic variables included in the IFRS9 model used, in the amount of PLN 65,374 thousand, and
- additional provisions related to risk factors not directly included in the macroeconomic model in the amount of PLN 142,470 thousand (taking into account the provisions created in 2021 in the amount of PLN 9,000 thousand, the balance of these provisions as of 31 December 2022 amounted to PLN 151,470 thousand).

In addition, the level of allowances in 2022 was affected by the following movements on provisions held as Post Model Adjustments:

- the full release of a provision related to the negative effects of COVID (in the amount of PLN 200,130 thousand),
- the release of PLN 65,170 thousand of provisions in connection with the reversal of changes in legislation that affected the reduction of expected recovery levels on the portfolio of loans to farmers (significantly affecting the result in the institutional loans segment),
- an increase in the balance of provisions related to customers most exposed to turbulence in the economic environment in the amount of PLN 9,700 thousand zloty. The Bank released created provisions due to the negative impact of energy prices in 2021 in the amount of PLN 15,300 thousand reflecting this risk directly in the assessment of individual CTB/SME clients. At the same time, 25,000 thousand PLN provision for customers most exposed to turbulence in the economic environment was created,
- creation of an additional amount of PLN 24,200 thousand of provisions in the form of Post Model Adjustments due to planned changes in the LGD model which results from updating the level of these provisions. Taking this into account, the balance of these provisions amounted to PLN 53,700 thousand as of 31 December 2022, compared to PLN 29,500 thousand as of 31 December 2021,
- with regard to the portfolio of loans secured by real estate in PLN, the Bank adjusted PD/LGD parameters for exposures transferred to Stage 2 as part of the identification of vulnerable customers. This change resulted in a PLN 76,901 thousand provision adjustment.

Taking into account the elements described above, in 2022 the Group released PLN 12,029 thousand in additional provisions (in the form of Post Model Adjustments). The balance of these additional provisions as of 31 December 2022 amounted to PLN 307,071 thousand, while the balance as of 31 December 2021 amounted to PLN 319,100 thousand.

Type of Post Model Adjustment (data in PLN thousand)	**Balance 31.12.2021**	**Change**	**Balance 31.12.2022**
Risk factors not included in the macroeconomic model	9,000	142,470	151,470
COVID provision	200,130	(200,130)	-
Changes in legislation for farmers	65,170	(65,170)	-
Customers particularly sensitive to changes in the economic environment	15,300	9,700	25,000
Planned changes to the LGD model	29,500	24,200	53,700
Correction of parameters for sensitive customers using credit holidays	-	76,901	76,901
Total	**319,100**	**(12,029)**	**307,071**

Sensitivity of allowances

Allowances for the expected credit losses on financial assets are back-tested on a regular basis. The models of risk parameters used for purposes of estimating impairment allowances are covered by the model management process, which specifies the principles of their development, approval and monitoring (including model back-testing). Additionally, there is a validation unit in the Group, which is independent of the owners and users of the models. The tasks of the unit include: annual validation of risk parameters considered to be significant. The process of validation covers both qualitative and quantitative approach. The process of estimating impairment allowances is subject to periodic functional control and verified independently by the Bank's internal audit.

In order to calculate the sensitivity of the level of allowances related to the realisation of macroeconomic scenarios, the Bank used the method of changing the weights of the pessimistic, baseline and optimistic scenarios in accordance with their application consistent with IFRS 9.

The impact of particular scenarios is presented in the table below:

Analysis/scenario	Change in the amount of allowance (2022)	The percentage change in the amount of allowance (2022)	Change in the amount of allowance (2021)	The percentage change in the amount of allowance (2021)
Pessimistic scenario – considering pessimistic and baseline scenarios only (optimistic scenario 0%, baseline scenario 50%, pessimistic scenario 50%)	233,670	10%	123,930	5%
Optimistic scenario – considering optimistic and baseline scenarios only (optimistic scenario 50%, baseline scenario 50%, pessimistic scenario 0%)	(69,685)	-3%	(66,406)	-3%
Baseline scenario – uniform distribution of optimistic and pessimistic scenarios(optimistic scenario 25%, baseline scenario 50%, pessimistic scenario 25%)	81,993	3%	28,762	1%

The sensitivity of the level of allowances results directly from the counter-cyclical nature of the calculation of weights assigned to individual macroeconomic scenarios. Countercyclicality is expressed in reducing the weight for the pessimistic scenario as the recession deepens, and in reducing the impact of the optimistic scenario in the event of an "overheating" of the economy.

In addition, the impact of the estimated change in the level of allowances due to scenarios of changes in risk parameters is presented below.

Analysis/scenario	Change in the amount of allowance (2022)	The percentage change in the amount of allowance (2022)	Change in the amount of allowance (2021)	The percentage change in the amount of allowance (2021)
PD decrease by 10%	(109,224)	-5%	(101,860)	-4%
PD increase by 10%	108,919	5%	101,805	4%
LGD decrease by 10%	(239,766)	-10%	(232,852)	-10%
LGD increase by10%	225,001	9%	197,989	9%

The following table considers the impact of a change in the present value of estimated future cash flows for exposures subject to individual valuation.

Analysis/scenario	Change in the amount of allowances	The percentage change in the amount of allowance for individually measured exposures
Decrease in present value of estimated future cash flows for individually assessable exposures by 10%	46,574	6%
Increase in present value of estimated future cash flows for individually assessable exposures by 10%	(46,146)	-6%

Adjustment to Recommendation R

In connection with the issuance of the revised Recommendation R by the PFSA, the Group carried out a process aiming to adapt the Group's operations to the new regulations. All changes were implemented before the implementation date of Recommendation R, i.e. 1 January 2022, and included, in particular, processes, applied solutions and scope of reporting.

As part of the adjustment to the provisions of the Recommendation, the Group reviewed, among other things, the currently applied rules for classifying exposures into Stages 2 and 3. In terms of classification into Stage 2, a new trigger was introduced. The trigger assigns all exposures that are more than 90 days past due, where the credit overdue materiality criterion was not met. With regard to the classification into Stage 3, the individual triggers were clarified and aligned with the current external regulations on bankruptcy and restructuring law.

The changes made as part of the aforementioned process had no material impact on the level of allowances at the Group.

Climate issues

When considering the need to disclose climate-related risks, the Group takes into account the requirements for determining materiality of financial information in paragraph 7 of IAS 1. According to these requirements, the Group should consider both quantitative factors and qualitative factors, as well as the interactions between the factors, when assessing whether or not the information is material.

In 2021, in response to the requirements of the EBA/GL/2020/06 Guideline of 29 May 2020 on lending and monitoring, the Group developed ESG assessment questionnaires, which were implemented in the lending process. According to the timetable for the implementation of the Guidelines, in Phase I the assessment is carried out for Customers for whom new financing or an increase in financing is being processed. The purpose of the assessment is to identify any risks related to ESG factors affecting the financial position of the customers, as well as the impact of the customers' business activities on ESG factors (double materiality principle). Environmental risks are subject to special analysis by the Group. They may materialise through:

1) physical risks related to environmental degradation, as well as climate change, including the occurrence of:
    a) long-term climate change,
    b) extreme weather events,
2) transition (transformation) risks resulting from the need to adapt the economy to gradual climate change, in particular to the use of low-carbon and more environmentally sustainable solutions, including the occurrence of:
    a) regulatory risk (changes in climate and environmental policies),
    b) technological risks (a technology with a less damaging effect on the climate or the environment replaces a more damaging technology, making it outdated),
    c) changes in market sentiment and social norms,
3) liability risk arising from the Group's exposure to counterparties that could potentially be held liable for the negative impact of their activities on environmental, social and corporate governance factors.

The assessment of the impact of long-term climate change and extreme weather events on the activities carried out by customers, is taken into account by the Group, in the process of granting and monitoring loans, in accordance with the following systematics:

Long-term climate changes:	Extreme weather events:
impact of higher temperatures	impact of heat waves
impact of temperature shocks	impact of cold waves
impact of changing wind patterns	impact of fires
impact of changing rain/snow-fall patterns and types	impacts of storms, tornadoes, etc.
impact of sea level rise	impact of droughts
impact of water stress (reduced access to water)	impact of heavy rain/snow-falls
impact of soil and coastal erosion	impact of floods
impact of soil degradation	impact of landslides

In the Group's view, the impact of climate and environmental risks does not materially affect the level of credit risk, so the Group does not isolate these risks in the calculation of expected credit losses.

However, the Group recognises that climate and environmental risks may represent a material risk to businesses and a systemic risk to the economy, so it is taking steps to collect relevant data on these risks.

b. Classification of financial instruments

When classifying financial instruments in accordance with IFRS 9, the Bank used the assessment of business models for maintaining financial assets and assessing whether the contractual terms related to a financial asset resulted in cash flows that were solely payment of principal and interest on the principal amount remaining to be repaid.

c. Fair value of derivative instruments

The fair value of derivative instruments which are not quoted on active markets is determined using measurement techniques (e.g. models). Such methods are evaluated and verified periodically by qualified independent employees who have not participated in their development. All models require approval before use as well as calibration to ensure that the results reflect actual data and comparable market prices. The models used at present rely on the data obtained from Refinity and/or Bloomberg information systems. Derivative instruments are measured on the basis of generally acceptable models. Linear instruments are measured using the discounted cash flow method while plain vanilla options using the Black-Scholes model. Other options included in structured deposits are measured either through decomposition into vanilla options or through Monte Carlo simulations.
Credit Valuation Adjustment / Debit Valuation Adjustment (CVA/DVA) is estimated for all derivatives which are active at a specific date. The adjustment (counterparty credit risk exposure and default risk) is determined based on the projected future exposure resulting from the instrument, counterparty rating and collateral provided/accepted.

d. Fair value of securities

Securities, for which no liquid market exists, are measured using the discounted cash flow model. As regards securities classified to the level in the fair value hierarchy, the credit risk margin is a non-observable parameter corresponding to the market margin for instruments with similar characteristics.

e. Impairment of fixed assets

At the end of each reporting period, the Group verifies whether there is any objective impairment trigger concerning its fixed assets. If such triggers have been identified, the Group estimates the recoverable amount. Determination of the value in use of a fixed asset requires the Group to make assumptions as to the estimated amounts, dates of future cash flows that may be generated by the Group on the fixed asset as well as other factors. When estimating the fair value less costs to sell, the Group relies on available market data or valuations of independent appraisers, which generally are also based on estimates.

f. Provisions for retirement, disability and post-mortem benefit obligations

The Group creates provisions for retirement, disability and post-mortem severance pay ("severance"), in accordance with IAS 19. The provisions are calculated for each employee separately, using the actuarial method of projected unit credit as at the date of valuation. The calculations take a number of factors into account, including macroeconomic conditions, employee turnover, risk of death and others. The basis for calculating the provision for employees is the anticipated value of severance pay which the Group is to pay pursuant from the Remuneration Regulations in force at the Group. The anticipated severance pay is calculated as the resultant of:

- the expected severance base, in accordance with the provisions of the Collective Bargaining Agreement,
- the expected increase in the severance base from the moment of valuation until the payment of severance,
- the recommended proportional dependence on seniority (in accordance with the provisions of the Collective Labour Agreement),
- gradual rights to services, unique for each team and proportional to their seniority at the Group.

The projected value is discounted actuarially at the end of each quarter. In accordance with the requirements of IAS 19, the financial discount rate for calculating the current value of liabilities related to employee benefits is determined on the basis of market yields on treasury bonds whose currency and maturity date are consistent with the currency and the estimated date of the benefit obligations.

The actuarial discount is the product of the financial discount, the probability of a person's continued employment at the Group until the severance is required, and the probability of the need for a particular benefit (e.g. the probability of acquiring a disability). The value of annual write-offs and the probability are projected with the use of models which take the following three risks into account:

- possibility of dismissal from work,
- risk of inability to work,
- risk of death.

The possibility of dismissal from work is estimated trough a probability distribution, based on the Group's statistical data. The likelihood of dismissal depends on the age of the employee and is constant throughout each year of work. The risks of death and disability were estimated based on analyses of the latest statistical data on life expectancy in Poland (for men and women) as well as historical data published by the Central Statistical Office and the Social Security Office.

Provisions resulting from actuarial valuation are updated quarterly.

Sensitivity analysis

The table below presents the impact of a 1 p.p. change in the relevant actuarial assumptions on liabilities due to retirement, disability and post-mortem severance as at 31 December 2022 and 31 December 2021.

	increase by 1 p.p.	decrease by 1 p.p.
31.12.2022		
discount rate	(1,683)	1,961
wage growth rate	1,949	(1,702)
31.12.2021		
discount rate	(1,507)	1,776
wage growth rate	1,759	(1,521)

Reconciliation of present value of retirement, disability and post-mortem benefit obligations

The table below presents the reconciliation from the beginning balances to the ending balances for present value liabilities due to retirement, disability and post-mortem benefit obligations:

	31.12.2022	31.12.2021
Opening balance	**15,811**	**18,188**
current employment costs	1,606	1,725
net interest on net liability	854	308
actuarial gain or loss	1,129	(3,540)
benefits paid	(455)	(870)
Closing balance	**18 945**	**15 811**

g. Restructuring provision

On 18 December 2020, the Group finalized negotiations with trade union organizations operating in the Group and concluded an agreement on defining the rules with reference to the matters concerning employees in connection with the collective redundancies process resulting from the adaptation of the Group's business model in relation to the change of business environment. In connection with the agreement concluded in December 2020, the Group created restructuring provision to cover the costs of employment reduction. The negotiated collective redundancies programme was implemented on the beginning of 2021.

h. Asset and provision for deferred income tax

The provision for deferred income tax is recognised in the full amount using the balance sheet method, due to positive temporary differences between the tax value of assets and liabilities, and their balance sheet value in the financial statements. Deferred tax assets are recognised for all negative temporary differences, as well as unused tax credits and unused tax losses carried forward to the subsequent years, in the amount in which it is probable that taxable income will be generated that will allow the use of the above mentioned differences, assets and losses. Deferred income tax is determined using tax rates (and regulations) in force or at the end of the reporting period, which are expected to be effective at the time of realization of the related assets due to deferred income tax or settlement of liabilities due to deferred income tax.

If the temporary differences arose as a result of the recognition of an asset or liability resulting from a transaction that is not a business combination and which at the time of the conclusion did not affect the tax or accounting result, the deferred tax is not recognised. In addition, a deferred tax provision is created for positive temporary differences arising from investments in subsidiaries or associates and investments in joint ventures - except the situations when the timing of temporary differences reversal is subject to control by the entity and when it is probable that in the foreseeable future, temporary differences will not be reversed Deferred tax assets in the event of negative temporary differences from investments in subsidiaries or associates and investments in joint ventures, only to the extent that it is probable that in the foreseeable future the abovementioned temporary differences will be reversed and taxable income allowing to offset any negative temporary differences will be generated.

The balance sheet amount of the deferred tax asset is reviewed at the end of each reporting period and is reduced accordingly, and so far as it is no longer probable that taxable income sufficient for partial or total realization of the deferred tax asset will be realized. An unrecognised deferred tax asset is subject to reassessment at the end of each reporting period and is recognised up to an amount that reflects the probability of achieving future taxable income that will allow recovery of that asset. The Group offsets deferred tax assets with deferred tax provisions if and only if it has an enforceable legal title to compensate corresponding receivables and liabilities due to current tax and deferred income tax is related to the same taxpayer and the same tax authority.

Income tax related to the items recognised directly in equity is recognised in equity and in the statement of comprehensive income.

In 2022 and 2021, current income tax and deferred tax provision were calculated using the 19% rate.

i. Provision for the return of commission due to early repayment of the loan

On 11 September 2019, the CJEU issued a judgment in which it was stated that Article 16 paragraph 1 of the Directive No. 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on consumer loan agreements which repealed Council Directive No. 87/102/EEC should be interpreted in the following way: the consumer's right to reduce the total cost of a loan in the event of earlier repayment includes all costs that have been imposed on the consumer. The CJEU pointed out that a comparative analysis of the different language versions of Article 16 clause 1 of the Directive does not allow to clearly determine the exact scope of the reduction of the total cost of a loan envisaged by this provision, because some language versions of this provision suggest reducing the costs related to the remaining period of the contract, others suggest that the costs associated with this period constitute an indication for calculating the reduction, others still only refer to interest and costs due for the remaining period of the contract.

The judgment was issued following a question referred for a preliminary ruling by the Lublin-Wschód District Court based in Świdnik, which examined three disputes between the company Lexitor, which acquired the claims of three clients, and SKOK Stefczyka, Santander Consumer Bank and mBank, regarding the reduction of the total cost of consumer loans due to their earlier repayment. The Polish court had doubts about the interpretation of Article 16 paragraph 1 of Directive No. 2008/48/EC of the European Parliament and of the Council of 23 April 2008, and therefore asked the CJEU whether this provision concerns all costs or only those related to the duration of the contract.

As a result of the analysis concerning the impact of the judgment on the Bank's revenues, in particular on relations expired before the judgment was issued, in 2019 the Bank decided to create a provision for a proportional refund of commission in the event of early repayment of the loan in the amount of PLN 48,750 thousand. As at 31 December 2022 the provision amounted to PLN 14,583 (as at 31 December 2021 the provision amounted to 19,156 thousand). The provision was estimated based on the estimation of the total amount of the provision for the early repaid loans and the expected percentage of customers who will claim for a refund of the due part of the commission. Assuming that the percentage of customers would be 5 p.p. higher than the assumed level, the amount of the provision would be higher by PLN 12.5 million.

Simultaneously, the Group recognises its liability due to the proportional reimbursement of commissions in the event of their early repayment in the period from the date of the judgment of the CJEU on 11 September 2019 to 31 December 2019. As of 31 December 2022, this liability amounted to PLN 2,300 thousand (PLN 2,363 thousand as of 31 December 2021).

Additionally, the Group created a provision to cover the partial reimbursements of loan commissions in the event of their early repayment. The estimate of the provision is based on the difference between the value of commissions to be reimbursed and the balance of unsettled commissions as at the expected date of early loan repayment.

This provision is calculated as a percentage of commissions charged to the customer, which reflects the expected average difference between the amounts of commissions to be refunded to customers and the balance of outstanding commissions at the expected time of early repayment of the loan. This percentage is calculated based on the estimated level of early repayments and the expected timing of repayment. In the event of early loan repayment, this provision is released and for newly sold loans a provision will be created on an ongoing basis. As of 31 December 2022, the provision amounted to PLN 36,327 thousand (PLN 30,251 thousand as of 31 December 2021).

The total amount of provisions related to the CJEU judgment as of 31 December 2022 was PLN 53,211 thousand (as of 31 December 2021, the provision was PLN 51,710 thousand).

The created provision level is based on estimates and may be changed.

The above provisions are presented by the Group under Provisions: Provision for litigation, while the Bank presents the liability under Other liabilities: Sundry creditors.

j. Impact of suspension of performance of mortgage loan agreements granted in PLN in the period from 1 August 2022 to 31 December 2023

Following the enactment of the Community Financing for Business Ventures and Borrower Assistance Act ("the Act"), allowing customers to suspend the performance of their PLN mortgage contracts from 1 August 2022 to 31 December 2023 ("the suspension"), the Bank's Management Board approved an estimate of the impact of the Act on the Bank's results and operations on 15 July 2022.

In accordance with International Financial Reporting Standard 9 ("IFRS 9"), the impact estimate is based on the calculation of the projected gross carrying value of the mortgage portfolio based on cash flows, taking into account the possibility of suspension, discounted at the original effective interest rate, which was recognised in the income statement, in the interest income. The Bank applies the above approach to applications already submitted by customers as well as potential applications that will be submitted by customers in 2023.

Based on the observed and projected number of suspension requests, the Bank recognised a PLN 965 million negative impact on the Bank's result in the third quarter of 2022, reducing the gross carrying amount of loans by the mentioned amount.

Based on data on customers' use of the option to suspend performance of contracts, in the fourth quarter of 2022 the Bank revised its estimates and adjusted the impact of the suspension recognized in the third quarter of 2022 by PLN 70 million. This adjustment had a positive impact on net interest income in the fourth quarter of 2022. The total impact of the suspension on the Bank's result in 2022 was PLN 895 million.

In 2022, customers accounting for about 69% of the volume of the PLN mortgage portfolio in the Bank requested suspension of contracts. The Bank estimates that customers with about 80% of the volume of credit portfolio will apply for suspension in 2023.

The above calculation is based on an estimate of customers' expected use of entitlements to suspend instalments. Therefore, it may change if the actual exercise of entitlements in 2023 differs from the assumptions.

The suspension of contracts did not change the classification of exposures into different credit risk stages or the assignment of the forbearance flag at the end of 2022, except when the Bank had information indicating a material increase in risk or impairment.

k. Provision for potential claims arising from legal proceedings related to loans in CHF

Provision for potential claims resulting from proceedings related to CHF loan agreements and model used by the Group were presented in Note 54 Litigation and claims.

4. NET INTEREST INCOME

Interest income	12 months to 31.12.2022	12 months to 31.12.2021
Amounts due from banks	340,896	9,147
Loans and advances to customers measured at amortised cost, including:	4,920,973	2,411,404
non-banking financial institutions	55,902	11,389
retail customers	1,707,383	1,239,713
corporates	2,847,459	1,056,358
including retail farmers	605,276	285,509
public sector institutions	4,597	1,997
leasing receivables	305,632	101,947
Loans and advances to customers measured at amortised cost through profit or loss	88,692	9,969
Debt instruments measured at amortised cost	599,413	591,247
Debt instruments measured at fair value through profit or loss	8,121	4,640
Debt instruments measured at fair value through other comprehensive income	324,117	190,653
Derivative instruments as part of fair value hedge accounting	188,498	195,568
Derivative instruments as part of cash flow hedge accounting	11,628	7,912
Securities purchased under repurchase agreements	67	274
Total interest income	**6,482,405**	**3,420,814**

Interest expense	12 months to 31.12.2022	12 months to 31.12.2021
Amounts due to banks	(506,952)	(126,757)
Amounts due to debt securities issued	(19,873)	(27,797)
Amounts due to customers, including:	(1,586,802)	(59,828)
non-banking financial institutions	(50,987)	(8,397)
retail customers	(721,227)	(34,019)
corporates	(696,529)	(16,217)
including retail farmers	(6,351)	(109)
public sector institutions	(118,059)	(1,195)
Lease liabilities	(15,288)	(4,551)
Derivative instruments as part of fair value hedge accounting	(790,845)	(53,031)
Derivatives under cash flow hedge accounting	(30,960)	(2,267)
Securities sold subject to repurchase agreements	(38,592)	(1,056)
Other related to financial assets	(88)	(4,585)
Total interest expense	**(2,989,400)**	**(279,872)**
Net interest income	**3,493,005**	**3,140,942**

The value of interest expenses calculated using the effective interest rate in relation to financial liabilities, which are measured at amortised cost, amounted to PLN 2,167,507 thousand (PLN 219,989 thousand for the period of 12 months ended 31 December 2021).

Interest income includes interest on financial assets assessed individually and collectively, for which impairment was identified. The amount of the above mentioned interest, which was recognised in the interest income for 2022, amounted to PLN 116,520 thousand, as compared to PLN 70,804 thousand for 2021.

5. NET FEE AND COMMISSION INCOME

Fee and commission income	12 months to 31.12.2022	12 months to 31.12.2021
loans, advances and leases	323,037	311,790
account maintenance	247,832	254,418
cash service	42,312	32,875
cash transfers and e-banking	98,151	83,545
guarantees and documentary operations	54,530	50,555
asset management and brokerage operations	120,056	153,834
payment and credit cards	325,966	246,382
insurance mediation activity	153,471	120,143
product sale mediation and customer acquisition	17,374	11,687
other commissions	22,629	19,316
Total fee and commission income	**1,405,358**	**1,284,545**

Fee and commission expense	12 months to 31.12.2022	12 months to 31.12.2021
loans, advances and leases	(1,388)	(408)
account maintenance	(10,291)	(9,821)
cash service	(24,676)	(17,935)
cash transfers and e-banking	(7,873)	(2,682)
asset management and brokerage operations	(4,929)	(6,622)
payment and credit cards	(117,284)	(102,415)
insurance mediation activity	(22,582)	(19,271)
product sale mediation and customer acquisition	(24,719)	(30,341)
other commissions	(54,701)	(46,064)
Total fee and commission expense	**(268,443)**	**(235,559)**
Net fee and commission income	**1,136,915**	**1,048,986**

Net commission income for 2022 includes revenues from custody activities in the amount of PLN 120,056 thousand (PLN 153,834 thousand in 2021) and the amount of costs from custody activities in the amount of PLN 4,929 thousand (PLN 6,622 thousand in 2021).

Net commission income includes commission income that relate to assets and liabilities that are not measured at fair value with the result of measurement recognised in the statement of profit or loss for 2022 in the amount of PLN 882,177 thousand, while for 2021 in the amount of PLN 814,458 thousand, and commission costs for 2022 in the amount of PLN 91,529 thousand, as compared to PLN 80,458 thousand for 2021.

6. DIVIDEND INCOME

Dividend income	12 months to 31.12.2022	12 months to 31.12.2021
Equity instruments measured at fair value through profit or loss	10,817	8,550
Total dividend income	**10,817**	**8,550**

7. NET TRADING INCOME (INCLUDING RESULT ON FOREIGN EXCHANGE)

Net trading income	12 months to 31.12.2022	12 months to 31.12.2021
Equity instruments measured at fair value through profit or loss	11,559	22,454
Debt instruments measured at fair value through profit or loss	(1,425)	(1,406)
Derivative instruments and result on foreign exchange transactions	744,567	612,445
Result on financial instruments measured at fair value through profit or loss and foreign exchange differences, total	**754,701**	**633,493**
including margin on foreign exchange and derivative transactions with customers	**758,119**	**575,096**

8. RESULT ON INVESTMENT ACTIVITIES

Result on investment activities	12 months to 31.12.2022	12 months to 31.12.2021
Equity instruments measured at fair value through other comprehensive income	1,847	-
Debt instruments measured at fair value through other comprehensive income	3,286	(2,276)
Loans and advances to customers measured at fair value through profit or loss	24,094	(2,857)
Total result on investment activities	**29,227**	**(5,133)**

During the year, the Group has not reclassified any financial assets measured at amortised cost to financial assets measured at fair value through other comprehensive income.

9. NET IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS AND PROVISION ON CONTINGENT LIABILITIES

Net allowances on expected credit losses of financial assets and provisions on contingent liabilities

12 months ended 31.12.2022	Stage 1	Stage 2	Stage 3	Total	Including POCI
Amounts due from other banks	4,411	-	-	4,411	-
Loans and advances to customers measured at amortised cost	214,700	(296,734)	(254,520)	(336,554)	(11,454)
Contingent commitments granted	48,846	(7,537)	15,152	56,461	186
Securities measured at amortised cost	241	318	113	672	113
Total net allowances on expected credit losses of financial assets and provisions on contingent liabilities	**268,198**	**(303,953)**	**(239,255)**	**(275,010)**	**(11,155)**

Net allowances on expected credit losses of financial assets and provisions on contingent liabilities

12 months ended 31.12.2021	Stage 1	Stage 2	Stage 3	Total	Including POCI
Amounts due from other banks	(4,055)	-	-	(4,055)	-
Loans and advances to customers measured at amortised cost	(115,760)	87,755	(258,893)	(286,898)	(32,630)
Contingent commitments granted	38,513	19,094	1,605	59,212	750
Securities measured at amortised cost	293	128	(34,865)	(34,444)	(34,865)
Total net allowances on expected credit losses of financial assets and provisions on contingent liabilities	**(81,009)**	**106,977**	**(292,153)**	**(266,185)**	**(66,745)**

Change of allowances on expected credit losses of financial assets and provisions on contingent liabilities	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**(3,169,529)**	**(3,415,311)**
Increases due to acquisition or origination	(534,016)	(667,374)
Decreases due to derecognition	204,448	268,134
Net changes in credit risk	(109,105)	(114,714)
Changes arising from changes to the applied estimation method (net)	(2,819)	20,384
Change due to significant modification	(1,486)	-
Use of allowances	480,528	749,471
Other changes (including foreign exchange differences)	(20,093)	(10,119)
Closing balance	**(3,152,073)**	**(3,169,529)**

Net allowances on expected credit losses of financial assets and provisions on contingent liabilities	12 months to 31.12.2022	12 months to 31.12.2021
Change in impairment allowances on financial assets and provisions on contingent liabilities	(341,822)	(475,125)
Change in initial impairment on financial assets classified as POCI	(27,420)	21,521
Revenue from the sale and write-off of receivables and costs related to the write-off of receivables	94,232	187,419
	(275,010)	**(266,185)**

10. GENERAL ADMINISTRATIVE COSTS

General administrative costs	12 months to 31.12.2022	12 months to 31.12.2021
Personnel expenses	(1,261,353)	(1,183,578)
Marketing	(84,532)	(102,155)
IT and telecom expenses	(267,868)	(220,753)
Short-term leasing and operation	(68,348)	(63,944)
Other non-personnel expenses	(528,397)	(384,354)
Business travels	(14,300)	(6,773)
ATM and cash handling expenses	(26,045)	(22,746)
Costs of outsourcing services related to leasing operations	(2,623)	(2,915)
Bank Guarantee Fund fee	(152,340)	(143,352)
Commercial Banks Protection Scheme fees	(206,531)	-
Cost of PFSA supervision	(14,370)	(13,406)
Total general administrative expenses	**(2,626,707)**	**(2,143,976)**

The Other non-personnel expenses line presents costs related to legal services for CHF loan litigation in the amount of PLN 74,519 thousand in 2022 (2021: PLN 82,016 thousand).

The Commercial Bank Protection Scheme is described in Note 56.

11. PERSONNEL EXPENSES

Personnel expenses	12 months to 31.12.2022	12 months to 31.12.2021
Payroll expenses	(1,005,932)	(945,338)
Payroll charges	(181,716)	(166,822)
Employee benefits	(46,325)	(47,380)
Costs of restructuring provision	(775)	(1,091)
Costs of provision for future liabilities arising from unused annual leave and retirement benefits	(9,885)	(8,755)
Appropriations to Social Benefits Fund	(14,225)	(13,372)
Other	(2,495)	(820)
Total personnel expenses	**(1,261,353)**	**(1,183,578)**

12. DEPRECIATION AND AMORTISATION

Depreciation and amortization	12 months to 31.12.2022	12 months to 31.12.2021
Property, plant and equipment	(207,007)	(230,288)
Intangible assets	(204,742)	(169,265)
Total depreciation and amortization	**(411,749)**	**(399,553)**

13. OTHER OPERATING INCOME

Other operating income	12 months to 31.12.2022	12 months to 31.12.2021
Sale or liquidation of property, plant and equipment and intangible assets	18,002	51,802
Release of allowances on other receivables	9,782	9,662
Profit from sales of goods and services	999	14,576
Release of provisions for litigation and claims and other liabilities	56,753	43,043
Recovery of debt collection costs	20,700	25,595
Recovered indemnities	662	465
Income from leasing operations	52,450	43,405
Other operating income	44,526	41,147
Total other operating income	**203,874**	**229,695**

14. OTHER OPERATING EXPENSES

Other operating expenses	12 months to 31.12.2022	12 months to 31.12.2021
Loss on sale or liquidation of property, plant and equipment and intangible assets	(21,953)	(52,485)
Impairment allowances on other receivables	(13,328)	(13,515)
Provisions for litigation and claims and other liabilities	(58,520)	(63,002)
Debt collection	(39,739)	(46,570)
Donations made	(6,661)	(5,983)
Costs of leasing operations	(32,733)	(23,472)
Costs of compensations, penalties and fines	(5,356)	(10,834)
Other operating expenses	(109,411)	(81,784)
Total other operating expenses	**(287,701)**	**(297,645)**

15. INCOME TAX EXPENSE

	12 months to 31.12.2022	12 months to 31.12.2021
Current income tax	(390,324)	(371,099)
Deferred income tax	(40,106)	(68,732)
Total income tax expense	**(430,430)**	**(439,831)**
Profit before income tax	871,927	616,129
Statutory tax rate	19%	19%
Income taxes on gross profit	**(165,666)**	**(117,065)**
Taxable permanent differences, including:	**(264,764)**	**(322,767)**
Receivables written-off	(27,706)	(20,298)
Representation expenses	(683)	(129)
PFRON	(1,840)	(1,596)
Prudential fee to the Bank Guarantee Fund	(28,945)	(27,237)
Tax on financial institutions	(81,045)	(64,241)
Research and development relief	17,015	7,185
Provision for claims related to CHF loans	(112,494)	(197,732)
Legal risk provisions	3,633	(4,296)
Other differences	(14,317)	198
Receivables written-off	(18,381)	(14,621)
Total income tax expense	**(430,430)**	**(439,831)**

16. EARNINGS PER SHARE

	12 months to 31.12.2022	12 months to 31.12.2021
Basic		
Net profit	441,497	176,298
Weighted average number of ordinary shares (units)	147,574,201	147,492,790
Basic earnings (loss) per share (in PLN per one share)	2.99	1.20
Diluted		
Net profit used in determining diluted earnings per share	441,497	176,298
Weighted average number of ordinary shares (units)	147,574,201	147,492,790
Adjustments for:		
- stock options	122,459	126,141
Weighted average number of ordinary shares for the diluted earnings per share (units)	147,696,660	147,618,931
Diluted earnings (loss) per share (in PLN per one share)	2.99	1.19

In accordance with IAS 33 the Bank prepares the calculation of diluted net profit per share, taking into account the shares issued conditionally under incentive schemes described in Note 39. The calculation does not take into account those elements of the incentive schemes which had antidilutive effect in the presented reporting periods and which may potentially affect the dilution of profit per share in the future.

The basic earnings per share is calculated by dividing the net profit by the weighted average number of ordinary shares during the period.

The diluted earnings per share is calculated based on the ratio of net profit to the weighted average number of ordinary shares adjusted as if all potential dilutive ordinary shares had been converted to shares. The Bank has one category of dilutive potential ordinary shares: share options. Dilutive shares are calculated as the number of shares that would be issued if all share options were exercised at the market price determined as the average annual closing price of the Bank's shares.

17. CASH AND CASH BALANCES AT CENTRAL BANK

Cash and cash equivalents	31.12.2022	31.12.2021
Cash and other balances	2,669,617	3,049,607
Account in the National Bank of Poland	48,699	1,582,153
Gross cash and cash equivalents	**2,718,316**	**4,631,760**
Impairment allowances	(9)	(283)
Total cash and cash equivalents	**2,718,307**	**4,631,477**

Change of impairment allowances	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**(283)**	**(3)**
Increases due to acquisition or origination	(3,241)	(3,067)
Decreases due to derecognition	3,525	3,120
Other changes (including foreign exchange differences)	(10)	(333)
Closing balance	**(9)**	**(283)**

During the day, the Group may use cash on statutory reserve accounts for current cash settlements based on an order placed at the National Bank of Poland. The Bank has to ensure that the average monthly balance matches the declared statutory reserve amount.

The funds on the statutory reserve account bear interest. As at 31 December 2022 interest on statutory reserve accounts was 6.75% (0.75% as at 31 December 2021).

The balance of cash in hand and at Central Bank includes the statutory reserve maintained with the National Bank of Poland. The basic reserve requirement at 31.12.2022 was 3.5% (at 31.12.2021 it was 2%). The declared reserve level to be maintained since 31 December 2022 was PLN 4,082,128 thousand (as compared to PLN 2,079,746 thousand in December 2021).

18. AMOUNTS DUE FROM OTHER BANKS

Amounts due from other banks	31.12.2022			31.12.2021		
	Gross balance sheet value	Allowance	Net balance sheet value	Gross balance sheet value	Allowance	Net balance sheet value
Current accounts	9,058,686	(1,075)	9,057,611	234,103	(52)	234,051
Interbank deposits	1,626,427	(220)	1,626,207	726,430	(25)	726,405
Loans and advances	201,160	(133)	201,027	100,078	(5)	100,073
Other receivables	915,421	(77)	915,344	1,559,982	(5,361)	1,554,621
Total amounts due from other banks	**11,801,694**	**(1,505)**	**11,800,189**	**2,620,593**	**(5,443)**	**2,615,150**

Receivables from cash collateral in the amount of PLN 911,221 thousand (PLN 1,545,152 thousand as at 31 December 2021) were also presented under “Other receivables”.

The total balance of long-term amounts due from banks as at 31 December 2022 amounted to PLN 911,221 thousand (PLN 1,545,152 thousand as at 31 December 2021).

Change in impairment allowance	12 months to 31.12.2022	12 months to 31.12.2021
Balance at the beginning of the period	**(5,443)**	**(1,668)**
Increases due to acquisition or origination	(2,023)	(4,865)
Decreases due to derecognition	1,903	4,224
Changes resulting from the change in credit risk (net)	4,257	(3,134)
Other changes (including foreign exchange differences)	(199)	-
Balance at the end of the period	**(1,505)**	**(5,443)**

As at 31 December 2022 and 31 December 2021, amounts due from other banks were classified as Stage 1.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value of derivatives held by the Bank is presented in the below table:

Trading derivatives	Nominal value	Fair value	
31.12.2022		Assets	Liabilities
Currency derivatives			
Foreign Exchange Forward (FX Forward + NDF)	15,888,527	411,685	502,865
Currency Swap (FX Swap)	28,263,457	645,483	363,810
Currency Interest Rate Swaps (CIRS)	8,544,052	266,087	302,954
OTC currency options	3,564,359	130,680	141,744
Total currency derivatives	**56,260,395**	**1,453,935**	**1,311,373**
Interest rate derivatives:			
Interest Rate Swap	48,463,023	1,581,137	1,647,210
OTC interest rate options	10,857,435	164,484	164,851
Total interest rate derivatives	**59,320,458**	**1,745,621**	**1,812,061**
Other derivatives			
OTC options	674,358	24,716	24,421
Currency Spot (FX Spot)	3,292,998	-	-
Total other derivatives	**3,967,356**	**24,716**	**24,421**
Total trading derivatives	**119,548,209**	**3,224,272**	**3,147,855**
Including: measured using models	119,548,209	3,224,272	3,147,855

Trading derivatives	Nominal value	Fair value	
31.12.2021		Assets	Liabilities
Currency derivatives			
Foreign Exchange Forward (FX Forward + NDF)	17,001,834	514,600	191,389
Currency Swap (FX Swap)	24,891,458	223,832	443,129
Currency Interest Rate Swaps (CIRS)	12,752,996	374,796	405,837
OTC currency options	3,073,655	79,587	62,336
Total currency derivatives	**57,719,943**	**1,192,815**	**1,102,691**
Interest rate derivatives			
Interest Rate Swap	45,520,032	642,406	749,207
OTC interest rate options	7,166,523	39,727	39,479
Total interest rate derivatives	**52,686,555**	**682,133**	**788,686**
Other derivatives			
OTC commodity swaps	716,368	26,971	26,655
Currency Spot (FX Spot)	1,313,499	-	-
Total other derivatives	**2,029,867**	**26,971**	**26,655**
Total trading derivatives	**112,436,365**	**1,901,919**	**1,918,032**
including: measured using models	112,436,365	1,901,919	1,918,032

Fair value of derivatives by their maturity

	Fair value of assets						Fair value of liabilities					
31 December 2022	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years
Trading derivatives												
Currency derivatives:												
Foreign Exchange Forward (FX Forward + NDF)	**411,685**	33,973	33,354	74,478	269,880	-	**502,865**	23,889	35,032	112,889	331,055	-
Currency Swap (FX Swap)	**645,483**	85,915	70,599	170,179	318,790	-	**363,810**	44,920	55,138	76,624	187,128	-
Currency Interest Rate Swaps (CIRS)	**266,087**	-	1,604	62,673	131,289	70,521	**302,954**	-	621	36,111	155,786	110,436
OTC currency options	**130,680**	4,878	12,883	56,314	56,605	-	**141,744**	9,569	18,705	60,567	52,903	-
Total currency derivatives:	**1,453,935**	**124,766**	**118,440**	**363,644**	**776,564**	**70,521**	**1,311,373**	**78,378**	**109,496**	**286,191**	**726,872**	**110,436**
Interest rate derivatives:												
Interest Rate Swap	**1,581,137**	1,518	3,730	54,135	1,177,093	344,661	**1,647,210**	2,360	10,309	119,039	1,148,180	367,322
OTC interest rate options	**164,484**	1	-	3,523	154,376	6,584	**164,851**	12	-	2,911	155,365	6,563
Total interest rate derivatives	**1,745,621**	**1,519**	**3,730**	**57,658**	**331,469**	**351,245**	**1,812,061**	**2,372**	**10,309**	**121,950**	**1,303,545**	**373,885**
Other derivatives												
OTC commodity swaps	**24,716**	7,446	5,614	11,656	-	-	**24,421**	7,435	5,434	11,552	-	-
Total other derivatives:	**24,716**	**7,446**	**5,614**	**11,656**	**-**	**-**	**24,421**	**7,435**	**5,434**	**11,552**	**-**	**-**
Total trading derivatives	**3,224,272**	**133,731**	**127,784**	**432,958**	**2,108,033**	**421,766**	**3,147,855**	**88,185**	**125,239**	**419,693**	**2,030,417**	**484,321**

* Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

	Fair value of assets						Fair value of liabilities					
31 December 2021	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years
Trading derivatives												
Currency derivatives:												
Foreign Exchange Forward (FX Forward + NDF)	**514,600**	19,613	12,133	73,947	408,907	-	**191,389**	25,674	35,343	102,217	28,155	-
Currency Swap (FX Swap)	**223,832**	23,936	38,974	113,108	47,814	-	**443,129**	47,732	48,969	62,742	283,686	-
Currency Interest Rate Swaps (CIRS)	**374,796**	-	486	38,218	155,189	180,903	**405,837**	4,644	8,463	24,196	130,812	237,722
OTC currency options	**79,587**	1,820	6,785	22,729	48,253	-	**62,336**	2,138	7,595	17,967	34,636	-
Total currency derivatives:	**1,192,815**	**45,369**	**58,378**	**248,002**	**660,163**	**180,903**	**1,102,691**	**80,188**	**100,370**	**207,122**	**477,289**	**237,722**
Interest rate derivatives:												
Interest Rate Swap	**642,406**	5,439	6,103	60,227	226,917	343,720	**749,207**	2,756	7,851	63,481	325,406	349,713
OTC interest rate options	**39,727**	-	1	1,074	21,946	16,706	**39,479**	-	3	868	21,928	16,680
Total interest rate derivatives	**682,133**	**5,439**	**6,104**	**61,301**	**248,863**	**360,426**	**788,686**	**2,756**	**7,854**	**64,349**	**347,334**	**366,393**
Other derivatives												
OTC commodity swaps	**26,971**	7,018	3,096	16,857	-	-	**26,655**	6,981	3,067	16,607	-	-
Total other derivatives:	**26,971**	**7,018**	**3,096**	**16,857**	**-**	**-**	**26,655**	**6,981**	**3,067**	**16,607**	**-**	**-**
Total trading derivatives	**1,901,919**	**57,826**	**67,578**	**326,160**	**909,026**	**541,329**	**1,918,032**	**89,925**	**111,291**	**288,078**	**824,623**	**604,115**

* Financial data have been rounded and presented in PLN ‘000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

Maturity dates:
- for NDF, FX forward, FX swap, currency options and indexes, IRS, CIRS calculated as a difference in days between the transaction maturity date and the balance sheet date
- for FX spot, FRA, securities to be issued/received calculated as a difference in days between the transaction currency date and the balance sheet date

20. HEDGE ACCOUNTING

As at 31 December 2022, the Group used fair value hedge (**macro fair value hedge**).

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	Fixed-rate PLN, EUR and USD current accounts are the hedged items.
Hedging instruments	Hedging instruments include standard IRS transactions, i.e. plain vanilla IRS in PLN, EUR and USD, in which the Bank receives a fixed interest rate and pays a floating rate based on WIBOR 6M, WIBOR 3M, EURIBOR 6M, EURIBOR 3M, EURIBOR 1M, USD LIBOR 6M, USD LIBOR 3M, USD SFROIS.

IRS	Nominal value	Fair value	
		Assets	Liabilities
31.12.2022	14,833,485	29,101	1,298,074
31.12.2021	25,073,220	65,465	1,028,790

Presentation of result on the hedged and hedging transactions	The change in fair value of hedging instruments is recognised in the Result on hedge accounting. Interest on IRS transactions and current accounts is recognised in Interest income.

The liabilities in the item "Differences from hedge accounting" include the adjustment of the value of hedged instruments (deposits) amounting to:

31.12.2022 - PLN 1,233,598 thousand
31.12.2021 - PLN 1,083,866 thousand

and the difference in valuation to fair value of hedged items for which the hedging relationship was terminated during its term, amounting to:

31.12.2022 - PLN 692,574 thousand

The below table presents derivative hedging instruments at their nominal value by residual maturity dates as at 31 December 2022 and 31 December 2021:

31.12.2022

Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	29,101	1,298,074	-	1,196,899	5,606,850	4,867,771	3,161,966	14,833,485
Hedging derivatives - total	**29,101**	**1,298,074**	**-**	**1,196,899**	**5,606,850**	**4,867,771**	**3,161,966**	**14,833,485**

31.12.2021

Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	65,465	1,028,790	500,000	545,994	6,189,910	14,700,739	3,136,577	25,073,220
Hedging derivatives - total	**65,465**	**1,028,790**	**500,000**	**545,994**	**6,189,910**	**14,700,739**	**3,136,577**	**25,073,220**

Also included in assets under "Fair value adjustment of hedged and hedging items" is an adjustment to the value of hedged instruments (loans) amounting to:

31.12.2022 PLN 3,923 thousand

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	The hedged items are fixed-rate loans in PLN.
Hedging instruments	Hedging instruments are the standard IRS transactions, i.e. plain vanilla IRS, denominated in PLN, in which the Bank receives a floating rate based on WIBOR 6M and pays a fixed interest rate.

IRS	Nominal value	Fair value	
		Assets	Liabilities
31.12.2022	250,000	-	3,773

Presentation of result on the hedged and hedging transactions	The change in fair value of hedging transactions is recognised in the Result on hedge accounting. Interest on IRS transactions and hedged items is recognised in Interest income.

The below table presents derivative hedging instruments at their nominal value by residual maturity dates as at 31 December 2022:

	31.12.2022							
Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	3,773	-	-	-	250,000	-	250,000
Hedging derivatives - total	**-**	**3,773**	**-**	**-**	**-**	**250,000**	**-**	**250,000**

The Group does not apply **micro fair value hedge** accounting as of 31 December 2022. The hedging relationship that existed at 31 December 2021 expired in April 2022.

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	The hedged items were: Fixed rate bond PS0422.
Hedging instruments	Hedging instruments are the standard IRS transactions, i.e. plain vanilla IRS, denominated in PLN, in which the Bank receives a floating rate based on WIBOR 6M and pays a fixed interest rate.

IRS	Nominal value	Fair value	
		Assets	Liabilities
31.12.2021	750,000	-	13,817

Presentation of result on the hedged and hedging transactions	The change in fair value of hedging transactions is recognised in the Result on hedge accounting. Interest on IRS transactions and hedged items is recognised in Interest income.

The below table presents derivative hedging instruments at their nominal value by residual maturity dates as at 31 December 2021:

Hedging derivatives	31.12.2021							
	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	13,817	-	-	750,000	-	-	750,000
Hedging derivatives - total	**-**	**13,817**	**-**	**-**	**750,000**	**-**	**-**	**750,000**

Amounts recognised in the profit or loss account under fair value hedge accounting:

Fair value	12 months to 31.12.2022	12 months to 31.12.2021
Net interest income on hedging derivative instruments	188,498	195,568
Net interest expense on derivative hedging instruments	(790,845)	(53,031)
Change in fair value of hedging transactions recognised in the Result on hedge accounting, including:	13,267	50,369
change in fair value of hedging instruments	(988,077)	(1,472,733)
change in fair value of hedged instruments	1,001,344	1,523,101

Additionally, the Group applies **cash flow hedge accounting** as of 31 December 2022.

Hedging relationship description	The hedges are used against interest rate risk, specifically no changes in the interest cash flows on the hedged item, resulting from the changes in a specific reference rate.
Hedged items	The hedged items are: Floating rate bond WZ1131.
Hedging instruments	Hedging instruments include standard IRS transactions, i.e. plain vanilla IRS in which the Bank receives a fixed rate and pays a floating rate based on WIBOR 6M.

IRS	Nominal value	Fair value	
		Assets	Liabilities
31.12.2022	625 000	-	172,679
31.12.2021	625,000	-	85,365

Presentation of result on hedging and hedging transactions	The change in fair value of derivative hedging instruments designated as hedging of cash flows is recognised directly in the Revaluation reserve in the part constituting the effective part of the hedge. The ineffective part of the hedge is recognised in the statement of profit or loss under Result on hedge accounting.

The below table presents derivative hedging instruments at their nominal value by residual maturity dates as of 31 December 2022 and 31 December 2021.

Hedging derivatives	31.12.2022							
	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	172,679	-	-	-	-	625,000	625,000
Hedging derivatives – total	**-**	**172,679**	**-**	**-**	**-**	**-**	**625,000**	**625,000**

31.12.2021								
Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	85,365	-	-	-	-	625,000	625,000
Hedging derivatives – total	**-**	**85,365**	**-**	**-**	**-**	**-**	**625,000**	**625,000**

Cash flow hedges	12 months to 31.12.2022	12 months to 31.12.2021
Interest income on hedging derivatives	11,628	7,912
Interest expense on hedging derivatives	(30,960)	(2,267)

Changes in revaluation reserve due to valuation of derivative hedging instruments **in cash flow hedge** accounting.

Interest rate risk	31.12.2022	31.12.2021
Balance at the beginning of the period	**(83,303)**	**-**
Hedging gains or losses recognised in other comprehensive income during the reporting period	(83,987)	(85,303)
Balance at the end of the period	**(169,290)**	**(85,303)**

21. LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST

31.12.2022			
Loans and advances to customers measured at amortised cost	Gross balance sheet value	Allowance	Net balance sheet value
Loans and advances for:			
Non-banking financial entities	**852,935**	**(3,333)**	**849,602**
current account loans	615,660	(2,832)	612,828
investment loans	217,912	(313)	217,599
other loans	19,363	(188)	19,175
Retail customers:	**38,843,860**	**(1,178,889)**	**37,664,971**
mortgage loans	26,651,564	(514,442)	26,137,122
other loans	12,192,296	(664,447)	11,527,849
Corporate customers:	**46,813,192**	**(1,709,720)**	**45,103,472**
current account loans	21,604,527	(1,006,260)	20,598,267
investment loans	17,620,240	(531,304)	17,088,936
other loans	7,588,425	(172,156)	7,416,269
including retail farmers:	**6,835,131**	**(483,836)**	**6,351,295**
current account loans	3,195,612	(252,641)	2,942,971
investment loans	3,626,312	(228,995)	3,397,317
other loans	13,207	(2,200)	11,007
Public sector institutions:	**58,956**	**(922)**	**58,034**
current account loans	37,820	(787)	37,033
investment loans	20,825	(127)	20,698
other loans	311	(8)	303
Lease receivables	**5,527,297**	**(113,059)**	**5,414,238**
Total loans and advances to customers measured at amortised cost	**92,096,240**	**(3,005,923)**	**89,090,317**

31.12.2021			
Loans and advances to customers measured at amortised cost	Gross balance sheet value	Allowance	Net balance sheet value
Loans and advances for:			
Non-banking financial entities	**796,517**	**(2,075)**	**794,442**
current account loans	729,310	(1,644)	727,666
investment loans	45,208	(287)	44,921
other loans	21,999	(144)	21,855
Retail customers:	**38,817,716**	**(935,977)**	**37,881,739**
mortgage loans	26,710,997	(311,056)	26,399,941
other loans	12,106,719	(624,921)	11,481,798
Corporate customers:	**43,354,896**	**(1,860,797)**	**41,494,099**
current account loans	21,236,676	(1,198,743)	20,037,933
investment loans	15,549,486	(449,945)	15,099,541
other loans	6,568,734	(212,109)	6,356,625
including retail farmers:	**7,755,784**	**(389,619)**	**7,366,165**
current account loans	3,712,040	(191,153)	3,520,887
investment loans	4,032,732	(197,030)	3,835,702
other loans	11,012	(1,436)	9,576
Public sector institutions:	**84,487**	**(1,542)**	**82,945**
current account loans	57,032	(1,240)	55,792
investment loans	27,118	(299)	26,819
other loans	337	(3)	334
Lease receivables	**4,989,351**	**(162,122)**	**4,827,229**
Total loans and advances to customers measured at amortised cost	**88,042,967**	**(2,962,513)**	**85,080,454**

Net loans and advances to customers by Stages

31.12.2022	Stage 1	Stage 2	Stage 3	Total	Including POCI
Loans and advances for:	**78,778,927**	**10,295,434**	**3,021,879**	**92,096,240**	**165,799**
Non-banking financial entities	850,552	456	1,927	852,935	97
Retail customers	33,964,611	3,881,824	997,425	38,843,860	39,402
Corporate customers:	39,504,200	5,439,644	1,869,348	46,813,192	126,300
including retail farmers	5,156,901	1,099,973	578,257	6,835,131	120
Public sector entities:	58,160	-	796	58,956	-
Lease receivables	4,401,404	973,510	152,383	5,527,297	-
Expected credit losses on loans and receivables for:	**(373,569)**	**(831,097)**	**(1,801,257)**	**(3,005,923)**	**(39,482)**
Non-banking financial entities	(1,602)	(33)	(1,698)	(3,333)	(84)
Retail customers	(148,821)	(406,382)	(623,686)	(1,178,889)	(2,671)
Corporate customers:	(211,404)	(385,774)	(1,112,542)	(1,709,720)	(36,727)
including retail farmers	(45,330)	(117,604)	(320,902)	(483,836)	-
Public sector entities	(503)	-	(419)	(922)	-
Lease receivables	(11,239)	(38,908)	(62,912)	(113,059)	-
Net loans and advances to customers measured at amortised cost	**78,405,358**	**9,464,337**	**1,220,622**	**89,090,317**	**126,317**

31.12.2021	Stage 1	Stage 2	Stage 3	Total	Including POCI
Loans and advances for:	**77,810,462**	**7,025,786**	**3,206,719**	**88,042,967**	**222,556**
Non-banking financial entities	794,896	5	1,616	796,517	88
Retail customers	35,339,880	2,350,493	1,127,343	38,817,716	52,581
Corporate customers:	37,247,318	4,234,645	1,872,933	43,354,896	169,887
including retail farmers	5,998,472	1,123,755	633,557	7,755,784	2
Public sector entities:	83,411	1,076	-	84,487	-
Lease receivables	4,344,957	439,567	204,827	4,989,351	-
Expected credit losses on loans and receivables for:	**(615,798)**	**(507,388)**	**(1,839,327)**	**(2,962,513)**	**(70,908)**
Non-banking financial entities	(752)	(1)	(1,322)	(2,075)	(72)
Retail customers	(107,829)	(206,279)	(621,869)	(935,977)	(4,485)
Corporate customers:	(469,618)	(276,852)	(1,114,327)	(1,860,797)	(66,351)
including retail farmers	(33,289)	(76,937)	(279,393)	(389,619)	-
Public sector entities	(1,342)	(200)	-	(1,542)	-
Lease receivables	(36,257)	(24,056)	(101,809)	(162,122)	-
Net loans and advances to customers measured at amortised cost	**77,194,664**	**6,518,398**	**1,367,392**	**85,080,454**	**151,648**

Expected credit losses of loans and advances to customers measured at amortised cost

Change in expected credit losses	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 January 2022	**(615,798)**	**(507,388)**	**(1,839,327)**	**(2,962,513)**
Increase due to acquisition or origination	(235,045)	(173,513)	(70,935)	(479,493)
Decrease due to derecognition	33,739	36,678	107,912	178,329
Changes resulting from the change in credit risk (net)	449,286	(189,349)	(459,001)	(199,064)
Net changes due to modification (no derecognition)	(1,040)	(436)	-	(1,476)
Changes arising from updates to the method of estimation used (net)	(2,819)	-	-	(2,819)
Use of allowances	417	1,279	478,833	480,529
Other changes (including foreign exchange differences)	(2,309)	1,632	(18,739)	(19,416)
Closing balance as at 31 December 2022	**(373,569)**	**(831,097)**	**(1,801,257)**	**(3,005,923)**

Change in expected credit losses	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 January 2021	**(505,527)**	**(594,339)**	**(2,086,939)**	**(3,186,805)**
Increase due to acquisition or origination	(353,275)	(109,644)	(80,095)	(543,014)
Decrease due to derecognition	53,907	27,882	123,587	205,376
Changes resulting from the change in credit risk (net)	209,417	140,773	(551,258)	(201,068)
Changes arising from updates to the method of estimation used (net)	(26,280)	28,131	21,386	23,237
Use of allowances	6,230	523	742,719	749,472
Other changes (including foreign exchange differences)	(270)	(714)	(8,727)	(9,711)
Closing balance as at 31 December 2021	**(615,798)**	**(507,388)**	**(1,839,327)**	**(2,962,513)**

The total balance of long-term loans and advances due to customers as at 31 December 2022 amounted to PLN 76,281,517 thousand (PLN 76,534,598 thousand as at 31 December 2021).

Change in gross loans and advances to customers measured at amortised cost	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 January 2022	**77,810,462**	**7,025,786**	**3,206,719**	**88,042,967**
Increase due to acquisition or origination	22,568,209	914,294	114,971	23,597,474
Decrease due to derecognition	(38,731,257)	(4,967,978)	(1,402,619)	(45,101,855)
Changes resulting from the change in credit risk (net)	(6,556,555)	5,833,110	723,445	-
Other changes (including foreign exchange differences)	23,688,068	1,490,222	379,363	25,557,654
Closing balance as at 31 December 2022	**78,778,927**	**10,295,434**	**3,021,879**	**92,096,240**

Change in gross loans and advances to customers measured at amortised cost	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 January 2021	**65,969,373**	**7,165,450**	**4,149,251**	**77,284,074**
Increase due to acquisition or origination	25,997,731	525,173	127,049	26,649,953
Decrease due to derecognition	(34,424 311)	(3,137 924)	(1,770 102)	(39,332 337)
Changes resulting from the change in credit risk (net)	(1,803 072)	1,369,737	433,335	-
Other changes (including foreign exchange differences)	22,070,741	1,103,350	267,186	23,441,277
Closing balance as at 31 December 2021	**77,810,462**	**7,025,786**	**3,206,719**	**88,042,967**

Gross amount of foreign currency mortgage loans for retail customers (in PLN ‘000)

Loans by currency	31.12.2022	31.12.2021
CHF	4,092,391	4,531,564
EUR	31,874	36,388
PLN	22,526,701	22,141,389
USD	598	1,656
Total	**26,651,564**	**26,710,997**

	31.12.2022			
Value of CHF loan portfolio	Gross balance sheet value	including CHF exposures	Allowance	including CHF exposures
Loans and advances for:				
Non-banking financial entities	**852,935**	**-**	**(3,333)**	**-**
current account loans	615,660	-	(2,832)	-
investment loans	217,912	-	(313)	-
other loans	19,363	-	(188)	-
Retail customers:	**38,843,860**	**4,132,032**	**(1,178,889)**	**(302,947)**
mortgage loans	26,651,564	4,092,391	(514,442)	(291,370)
other loans	12,192,296	39,641	(664,447)	(11,577)
Corporate customers:	**46,813,192**	**57,138**	**(1,709,720)**	**(13,228)**
current account loans	21,604,527	47,864	(1,006,260)	(5,723)
investment loans	17,620,240	9,167	(531,304)	(7,505)
other loans	7,588,425	107	(172,156)	-
including retail farmers:	**6,835,131**	**821**	**(483,836)**	**(61)**
current account loans	3,195,612	802	(252,641)	(61)
investment loans	3,626,312	19	(228,995)	-
other loans	13,207	-	(2,200)	-
Public sector institutions:	**58,956**	**-**	**(922)**	**-**
current account loans	37,820	-	(787)	-
investment loans	20,825	-	(127)	-
other loans	311	-	(8)	-
Lease receivables	**5,527,297**	**27,626**	**(113,059)**	**(6,886)**
Total loans and advances	**92,096,240**	**4,216,796**	**(3,005,923)**	**(323,061)**

	31.12.2021			
Value of CHF loan portfolio	Gross balance sheet value	including CHF exposures	Allowance	including CHF exposures
Loans and advances for:				
Non-banking financial entities	**796,517**	**-**	**(2,075)**	**-**
current account loans	729,310	-	(1,644)	-
investment loans	45,208	-	(287)	-
other loans	21,999	-	(144)	-
Retail customers:	**38,817,716**	**4,575,112**	**(935,977)**	**(230,270)**
mortgage loans	26,710,997	4,531,564	(311,056)	(221,397)
other loans	12,106,719	43,548	(624,921)	(8,873)
Corporate customers:	**43,354,896**	**65,713**	**(1,860,797)**	**(10,781)**
current account loans	21,236,676	56,263	(1,198,743)	(5,538)
investment loans	15,549,486	8,915	(449,945)	(5,243)
other loans	6,568,734	535	(212,109)	-
including retail farmers:	**7,755,784**	**1,284**	**(389,619)**	**(84)**
current account loans	3,712,040	1,225	(191,153)	(84)
investment loans	4,032,732	59	(197,030)	-
other loans	11,012	-	(1,436)	-
Public sector institutions:	**84,487**	**-**	**(1,542)**	**-**
current account loans	57,032	-	(1,240)	-
investment loans	27,118	-	(299)	-
other loans	337	-	(3)	-
Lease receivables	**4,989,351**	**27,917**	**(162,122)**	**(7,274)**
Total loans and advances	**88,042,967**	**4,668,742**	**(2,962,513)**	**(248,325)**

22. LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2022	31.12.2021
Subsidised loans	949,298	1,219,027
Total loans and advances to customers measured at fair value through profit a loss	**949,298**	**1,219,027**

The table below presents a comparison of the fair value of subsidised loans with their gross balance sheet value, which would have been recognised if the Group - in accordance with the requirements of IFRS 9 - did not reclassify these portfolios to fair value through profit or loss.

	Gross balance sheet value	Fair value
31.12.2022	1,023,731	949,298
31.12.2021	1,343,402	1,219,027

Subsidised loans measured through fair value	Stage 1	Stage 2	Stage 3	Total
31.12.2022	681,103	207,147	61,048	949,298
31.12.2021	897,554	244,754	76,719	1,219,027

23. SECURITIES MEASURED AT AMORTISED COST

	31.12.2022		
Securities	Gross balance sheet value	Allowance	Net balance sheet value
issued by local banks – mortgage bonds	1,221	(15)	1,206
issued by local banks	3,833,869	-	3,833,869
issued by other financial institutions	1,131,309	-	1,131,309
issued by governments – Treasury bonds	17,066,487	(90)	17,066,397
issued by non-financial entities – bonds	112,472	(44,690)	67,782
issued by local governments – municipal bonds	66,882	(184)	66,698
Total securities measured at amortised cost	**22,212,240**	**(44,979)**	**22,167,261**

	31.12.2021		
Securities	Gross balance sheet value	Allowance	Net balance sheet value
issued by local banks – mortgage bonds	5,612	(82)	5,530
issued by local banks	3,834,998	-	3,834,998
issued by other financial institutions	584,844	-	584,844
issued by governments – Treasury bonds	18,642,064	(96)	18,641,968
issued by non-financial entities – bonds	167,813	(45,156)	122,657
issued by local governments – municipal bonds	78,362	(318)	78,044
Total securities measured at amortised cost	**23,313,693**	**(45,652)**	**23,268,041**

31.12.2022	Stage 1	Stage 2	Stage 3	Total	Including POCI
Securities	**22,099,768**	**-**	**112,472**	**22,212,240**	**108,317**
issued by local banks – mortgage bonds	1,221	-	-	**1,221**	-
issued by local banks	3,833,869	-	-	**3,833,869**	-
issued by other financial institutions	1,131,309	-	-	**1,131,309**	-
issued by governments – Treasury bonds	17,066,487	-	-	**17,066,487**	-
issued by non-financial entities – bonds	-	-	112,472	**112,472**	108,317
issued by local governments – municipal bonds	66,882	-	-	**66,882**	-
Expected credit losses on securities:	**(289)**	**-**	**(44,690)**	**(44,979)**	**(40,535)**
issued by local banks – mortgage bonds	(15)	-	-	**(15)**	-
issued by governments – Treasury bonds	(90)	-	-	**(90)**	-
issued by non-financial entities – bonds	-	-	(44,690)	**(44,690)**	(40,535)
issued by local governments – municipal bonds	(184)	-	-	**(184)**	-
Total net securities measured at amortised cost	**22,099,479**	**-**	**67,782**	**22,167,261**	**67,782**

31.12.2021	Stage 1	Stage 2	Stage 3	Total	Including POCI
Securities	**23,149,109**	**4,001**	**160,583**	**23,313,693**	**156,428**
issued by local banks – mortgage bonds	5,612	-	-	**5,612**	-
issued by local banks	3,834,998	-	-	**3,834,998**	-
issued by other financial institutions	584,844	-	-	**584,844**	-
issued by governments – Treasury bonds	18,642,064	-	-	**18,642,064**	-
issued by non-financial entities – bonds	3,229	4,001	160,583	**167,813**	156 428
issued by local governments – municipal bonds	78,362	-	-	**78,362**	-
Expected credit losses on securities:	**(530)**	**(318)**	**(44,804)**	**(45,652)**	**(40,648)**
issued by local banks – mortgage bonds	(82)	-	-	**(82)**	-
issued by governments – Treasury bonds	(96)	-	-	**(96)**	-
issued by non-financial entities – bonds	(34)	(318)	(44,804)	**(45,156)**	(40,648)
issued by local governments – municipal bonds	(318)	-	-	**(318)**	-
Total net securities measured at amortised cost	**23,148,579**	**3,683**	**115,779**	**23,268,041**	**115,780**

In accordance with the Banking Guarantee Fund (“BFG”) Act of 14 December 1994, as at 31 December 2022, BNP Paribas Bank Polska S.A. held Treasury bonds recognised in the statement of financial position in the amount of PLN 436,880 thousand (with the nominal value of PLN 460,000 thousand), securing the guaranteed funds under BFG (in 2021 in the amount of PLN 336,429 thousand, with the nominal value of PLN 340,000 thousand).

Change of securities measured at amortised cost based on the balance sheet value:	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**23,268,041**	**23,361,022**
Purchase of securities	636,437	-
Sale/repurchase of securities	(1,704,560)	(56,116)
Change in impairment allowances	672	(33,258)
Change on the initial value adjustment	(2,792)	-
Change in interest due, foreign exchange differences, discounts and bonuses	(30,537)	(3,607)
Closing balance	**22,167,261**	**23,268,041**

Change in expected credit losses of securities measured at amortised cost	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**(45,652)**	**(12,392)**
Decreases due to derecognition	440	259
Changes due to changes in credit risk (net)	233	(33,519)
Closing balance	**(44,979)**	**(45,652)**

The gross amount of long-term securities measured at amortised cost as at 31 December 2022 was PLN 21,054,754 thousand (PLN 23,257,519 thousand as at 31 December 2021).

24. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities measured at fair value through profit or loss	31.12.2022	31.12.2021
	Balance sheet value	
Treasury bonds issued by central government entities	4,907	27,046
Bonds issued by non-financial entities	26,005	41,286
Bonds convertible for non-financial entities bonds	56,160	51,121
Equity instruments	228,234	226,988
Units	450	47
Certificates issued by non-financial entities	837	821
Total securities measured at fair value through profit or loss	**316,593**	**347,309**

Change in securities measured at fair value through profit or loss	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**347,309**	**371,900**
Purchase of securities	8,588	35,963
Sale of securities	(56,097)	(30,552)
Change in measurement at fair value through profit or loss	11,386	(32,713)
Change in interest due, foreign exchange differences, discounts and bonuses	5,412	2,690
Other changes	(5)	21
Closing balance	**316,593**	**347,309**

The gross amount of long-term securities measured at fair value through profit or loss as at 31 December 2022 was PLN 51,131 thousand (PLN 76,758 thousand as at 31 December 2021).

The table below presents the amount of securities measured at fair value through profit or loss, divided into designated at fair value through profit or loss and obligatorily measured at fair value through profit and loss.

	12 months to 31.12.2022	12 months to 31.12.2021
Classified as obligatory measured at fair value through profit or loss as at the moment of initial recognition	87,909	120,274
Classified as measured at fair value through profit or loss as at the moment of initial recognition	228,684	227,035
Total securities measured at fair value through profit or loss	**316,593**	**347,309**

25. SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt securities	31.12.2022	31.12.2021
NBP bills	8,495,585	-
Bonds issued by banks	2,251,139	2,608,513
Treasury bonds issued by central governments	4,141,351	4,101,875
Bonds issued by other financial institutions	2,496,718	2,432,965
Securities measured at fair value through other comprehensive income	**17,384,793**	**9,143,353**

Change of securities measured at fair value through other comprehensive income	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**9,143,353**	**10,228,560**
Purchase of securities	80,475,220	87,312,000
Sale of securities	(71,612,720)	(87,328,265)
Change in measurement at fair value through other comprehensive income	(599,039)	(969,416)
Change in measurement at fair value through profit or loss	(2,104)	(44,296)
Change in interest due, foreign exchange differences, discounts and bonuses	(19,917)	(55,230)
Closing balance	**17,384,793**	**9,143,353**

The gross amount of securities measured at fair value through other comprehensive income as at 31 December 2022 was PLN 8,889,208 thousand (PLN 8,261,704 thousand as at 31 December 2021).

The table below presents gains and losses related to securities measured at fair value through other comprehensive income, which in the given period were recognised directly in equity, and then were derecognised and recognised in profit or loss for a given period of 12 months until 31 December 2022 and 31 December 2021.

Profit/ loss on securities measured at fair value through other comprehensive income	12 months to 31.12.2022	12 months to 31.12.2021
Profits included directly in equity and then transferred from equity to the statement of profit or loss	13,598	31,559
Losses included directly in equity and then transferred from equity to the statement of profit or loss	(10,312)	(33,835)
Total profit/ loss on securities measured at fair value through other comprehensive income	**3,286**	**(2,276)**

26. INTANGIBLE ASSETS

Intangible assets	31.12.2022	31.12.2021
Licenses	604,313	533,757
Other intangible assets	39,153	17,227
Expenditure on intangible assets	177,640	177,491
Total intangible assets	**821,106**	**728,475**

Intangible assets				
12 months ended 31.12.2022	Licenses	Other intangible assets	Expenditure on intangible assets	Total
Gross book value				
As at 1 January	**1,363,768**	**30,093**	**177,971**	**1,571,832**
Increases:	274,364	31,542	268,393	574,299
reclassification from expenditure	233,561	30,870	-	264,431
purchase	40,803	672	251,445	292,920
other	-	-	16,948	16,948
Decreases:	(18,969)	(186)	(268,628)	(287,783)
reclassification from expenditure	-	-	(264,431)	(264,431)
sale, liquidation, donation, shortage	(18,797)	(36)	-	(18,833)
changes related to the liquidation of a subsidiary	-	(150)	-	(150)
other	(172)	-	(4,197)	(4,369)
As at 31 December	**1,619,163**	**61,449**	**177,736**	**1,858,348**
Accumulated amortisation (-)				
As at 1 January	**830,011**	**12,866**	**-**	**842,877**
Changes:	184,839	9,430	-	194,269
amortisation for the financial year	196,279	8,463	-	204,742
other	-	1,147	-	1,147
sale, liquidation, donation, shortage	(11,440)	(36)	-	(11,476)
changes related to the liquidation of a subsidiary	-	(144)	-	(144)
other		(70)	-	(70)
As at 31 December	**1,014,850**	**22,296**	**-**	**1,037,146**
Impairment allowances (-)				
As at 1 January	**-**	**-**	**480**	**480**
Balance changes:	-	-	(384)	(384)
impairment allowance recalculation	-	-	(384)	(384)
As at 31 December	**-**	**-**	**96**	**96**
Net book value				
As at 1 January	**533,757**	**17,227**	**177,491**	**728,475**
As at 31 December	**604,313**	**39,153**	**177,640**	**821,106**

Intangible assets				
12 months ended 31.12.2021	Licenses	Other intangible assets	Expenditure on intangible assets	Total
Gross book value				
As at 1 January	**1,481,814**	**23,432**	**223,228**	**1,728,474**
Increases:	285,008	14,133	278,231	577,372
reclassification from expenditure	268,487	13,977	158	282,622
purchase	16,403	156	278,073	294,632
other	118	-	-	118
Decreases:	(403,054)	(7,472)	(323,488)	(734,014)
reclassification from expenditure	-	-	(282,622)	(282,622)
sale, liquidation, donation, shortage	(401,883)	(7,471)	-	(409,354)
other	(1,171)	(1)	(40,866)	(42,038)
As at 31 December	**1,363,768**	**30,093**	**177,971**	**1,571,832**
Accumulated amortisation (-)				
As at 1 January	**1,061,385**	**15,481**	**-**	**1,076,866**
Changes:	(231,374)	(2,615)	-	(233,989)
amortisation for the financial year	154,323	14,942	-	169,265
other	-	(11,065)	-	(11,065)
sale, liquidation, donation, shortage	(385,697)	(6,492)	-	(392,189)
As at 31 December	**830,011**	**12,866**	**-**	**842,877**
Impairment allowances (-)				
As at 1 January	**-**	**-**	**-**	**-**
Balance changes:	-	-	480	480
impairment allowance recalculation	-	-	480	480
As at 31 December	**-**	**-**	**480**	**480**
Net book value				
As at 1 January	**420,429**	**7,951**	**223,228**	**651,608**
As at 31 December	**533,757**	**17,227**	**177,491**	**728,475**

The Group identifies impairment triggers for intangible assets which are not transferred to utilisation yet, i.e. those under development, on an ongoing basis.

As at 31 December 2022, the Group had significant contractual obligations incurred in connection with the acquisition of intangible assets in the amount of PLN 14,615 thousand (PLN 3,505 as of 31 December 2021).

27. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	31.12.2022	31.12.2021
Fixed assets, including:	402,972	455,206
land and buildings	95,279	104,873
IT equipment	118,902	145,741
office equipment	45,481	52,065
other, including leasehold improvements	143,310	152,527
Fixed assets under construction	44,502	22,970
Right of use, including:	621,955	765,347
land and buildings	596,181	743,564
motor vehicles	25,304	21,655
other, including leasehold improvements	470	128
Total property, plant and equipment	**1,069,429**	**1,243,523**

Changes in property, plant and equipment in 2022 and 2021 were presented below:

Property, plant and equipment and fixed assets under construction				
12 months ended 31.12.2022	Land and buildings	Property, plant and equipment	Fixed assets under construction	Total
Gross book value				
As at 1 January	**221,599**	**1,042,570**	**22,974**	**1,287,143**
Increases:	2,026	70,478	58,900	131,404
reclassification from fixed assets under construction	1,532	32,120	-	33,652
purchase	52	21,224	33,624	54,900
changes due to the liquidation of a subsidiary	-	23	-	23
other	442	17,111	25,276	42,829
Decreases:	(15,815)	(100,512)	(37,203)	(153,530)
reclassification from fixed assets under construction	-	-	(33,652)	(33,652)
sale, liquidation, donation, shortage, theft	(15,808)	(82,515)	-	(98,323)
changes due to the liquidation of a subsidiary	-	(475)	(25)	(500)
other	(7)	(17,522)	(3,526)	(21,055)
As at 31 December	**207,810**	**1,012,536**	**44,671**	**1,265,017**
Accumulated depreciation (-)				
As at 1 January	**105,853**	**690,029**	**-**	**795,882**
Balance changes:	(2,509)	13,197		10,688
depreciation for the financial year	5,316	91,950		97,266
sale, liquidation, donation, shortage	(8,131)	(78,058)		(86,189)
changes due to the liquidation of a subsidiary	306	(331)		(25)
other	-	(364)		(364)
As at 31 December	**103,344**	**703,226**		**806,570**
Impairment allowances (-)				
As at 1 January	**10,873**	**2,208**	**4**	**13,085**
Balance changes:	(1,686)	(591)	165	(2,112)
impairment allowance recalculation	(1,686)	(591)	165	(2,112)
As at 31 December	**9,187**	**1,617**	**169**	**10,973**
Net book value				
As at 1 January	**104,873**	**350,333**	**22,970**	**478,176**
As at 31 December	**95,279**	**307,693**	**44,502**	**447,474**

Property, plant and equipment and fixed assets under construction				
12 months ended 31.12.2021	Land and buildings	Property, plant and equipment	Fixed assets under construction	Total
Gross book value				
As at 1 January	**266,893**	**1,218,204**	**47,491**	**1,532,588**
Increases:	1,220	85,108	47,682	134,010
reclassification from fixed assets under construction	1,109	57,114	-	58,223
purchase	36	20,635	44,179	64,850
other	75	7,359	3,503	10,937
Decreases:	(46,514)	(260,742)	(72,199)	(379,455)
reclassification from fixed assets under construction	-	-	(58,223)	(58,223)
sale, liquidation, donation, shortage, theft	(46,514)	(254,030)	-	(300,544)
other	-	(6,712)	(13,976)	(20,688)
As at 31 December	**221,599**	**1,042,570**	**22,974**	**1,287,143**
Accumulated depreciation (-)				
As at 1 January	**124,018**	**839,107**	**-**	**963,125**
Balance changes:	(18,165)	(149,078)	-	(167,243)
depreciation for the financial year	5,989	97,319	-	103,308
sale, liquidation, donation, shortage	(24,154)	(246,397)	-	(270,551)
As at 31 December	**105,853**	**690,029**	**-**	**795,882**
Impairment allowances (-)				
As at 1 January	**13,166**	**1,365**	**41**	**14,572**
Balance changes:	(2,293)	843	(37)	(1,487)
impairment allowance recalculation	(2,293)	843	(37)	(1,487)
As at 31 December	**10,873**	**2,208**	**4**	**13,085**
Net book value				
As at 1 January	**129,709**	**377,732**	**47,450**	**554,891**
As at 31 December	**104,873**	**350,333**	**22,970**	**478,176**

As at 31 December 2022, the Group had significant contractual obligations incurred in connection with the acquisition of property, plant and equipment in the amount of PLN 569 thousand (PLN 391 thousand as of 31 December 2021).

Right of use				
12 months ended 31.12.2022	Land and buildings	Motor vehicles	Other, including leasehold improvements	Total
Gross book value				
As at 1 January	**1,055,942**	**36,545**	**145**	**1,092,632**
Increases:	88,261	17,911	1,333	107,505
Decreases:	(210,146)	(8,450)	(637)	(219,233)
As at 31 December	**1,055,942**	**36,545**	**841**	**980,904**
Accumulated depreciation (-)				
As at 1 January	**296,157**	**14,890**	**17**	**311,064**
Balance changes:	40,512	5,812	354	46,678
depreciation for the financial year	99,989	9,635	117	109,741
other	(59,477)	(3,723)	237	(62,963)
sale, liquidation, donation, shortage	-	(100)	-	(100)
As at 31 December	**336,669**	**20,702**	**371**	**357,742**
Impairment allowances (-)				
As at 1 January	**16,220**	**-**	**-**	**5,914**
Balance changes:	(15,014)	-	-	10,306
recognition of impairment allowance	696	-	-	13,250
reversal of impairment allowance	(15,710)	-	-	(2,944)
As at 31 December	**1,206**	**-**	**-**	**16,220**
Net book value				
As at 1 January	**743,564**	**21,655**	**128**	**765,347**
As at 31 December	**596,181**	**25,304**	**470**	**621,955**

Right of use				
12 months ended 31.12.2021	Land and buildings	Motor vehicles	Other, including leasehold improvements	Total
Gross book value				
As at 1 January	**1,116,121**	**27,608**	**280**	**1,144,009**
Increases:	79,969	14,451	145	94,565
Decreases:	(140,148)	(5,514)	(280)	(145,942)
As at 31 December	**1,055,942**	**36,545**	**145**	**1,092,632**
Accumulated depreciation (-)				
As at 1 January	**202,379**	**10,880**	**187**	**213,446**
Balance changes:	93,778	4,010	(170)	97,618
depreciation for the financial year	118,142	8,727	111	126,980
other	(24,343)	(4,639)	(281)	(29,263)
sale, liquidation, donation, shortage	(21)	(78)	-	(99)
As at 31 December	**296,157**	**14,890**	**17**	**311,064**
Impairment allowances (-)				
As at 1 January	**5,914**	**-**	**-**	**5,914**
Balance changes:	10,306	-	-	10,306
recognition of impairment allowance	13,250	-	-	13,250
reversal of impairment allowance	(2,944)	-	-	(2,944)
As at 31 December	**16,220**	**-**	**-**	**16,220**
Net book value				
As at 1 January	**907,828**	**16,728**	**93**	**924,649**
As at 31 December	**743,564**	**21,655**	**128**	**765,347**

28. LEASES

Group as a lessee

Group is a contractual party of leasing agreements related to such base assets as:

- property,
- vehicles,
- land, including perpetual usufruct right to land,
- cash deposit machines,
- equipment,
- IT equipment.

The leasing period of vehicles equals 1 to 5 years. Leasing agreements contain extension options. In respect of vehicles, the Group also concludes leaseback agreements.

The Group is also a party to real estate leasing agreements. The contracts are concluded for both a definite period of 1 to 30 years and indefinite period. In the case of contracts concluded for an indefinite period, the Group determines the leasing period based on the notice period. The agreements provide for variable leasing fees depending on the index (e.g. CSO, HICP).

The Group has also land lease agreements concluded for an indefinite period, and perpetual usufruct rights for land received for the period of 40 to 100 years. Lease payments are indexed in accordance with the land management act.

	12 months to 31.12.2022	12 months to 31.12.2021
Costs of leasing recognised in profit and loss account	**(125,328)**	**(134,006)**
cost of interest from leasing liabilities	(15,288)	(4,551)
cost of amortization of assets due to the right of use	(109,741)	(126,980)
costs related to short-term leases (recognised as administrative costs)	(300)	(2,475)

Undiscounted lease payments by maturity	31.12.2022	31.12.2021
up to 1 year	133,489	127,496
from 1 year to 5 years	426,440	461,962
over 5 years	240,323	312,375
Total	**800,252**	**901,833**

	31.12.2022	31.12.2021
Book value of liabilities due to discounted lease	**718,892**	**860,004**

Group as a lessor

Lease contracts under which substantially all the risk and rewards of ownership are transferred to the lessee are classified as finance leases. The statement of financial position includes the value of receivables equal to the net leasing investment. The revenue recognition from finance lease agreements reflects the constant periodic rate of return on the net leasing investment made by the Group under finance leases.

The Group does not offer operational leasing products, i.e. those in which substantially all the risks and rewards of ownership are not transferred to the lessee.

Finance lease receivables	31.12.2022	31.12.2021
Gross receivables due to finance lease	5,564,529	5,087,870
Unrealized financial income	(26,153)	(98,518)
Present value of minimum lease payments	**5,538,376**	**4,989,351**
Impairment allowance	(113,059)	(162,122)
Total finance lease receivables	**5,425,317**	**4,827,229**

Gross finance lease receivables by maturity	31.12.2022	31.12.2021
up to 1 year	2,158,054	1,899,558
from 1 year to 5 years	3,188,954	2,990,155
over 5 years	217,521	198,157
Total gross finance lease receivables	**5,564,529**	**5,087,870**

29. OTHER ASSETS

Other assets:	31.12.2022	31.12.2021
Receivables from contracts with customers:		
sundry debtors	321,595	247,178
accrued income	88,165	106,560
payment card settlements	17,195	16,194
social insurance settlements	3,012	6,623
Other:		
interbank and intersystem settlements	367,050	121,977
deferred expenses	78,588	48,056
tax and other regulatory receivables	30,905	48,181
other lease receivables	27,453	36,040
other	85,442	84,690
Total other assets (gross)	**1,019,405**	**715,499**
Impairment allowances on other receivables from other debtors	(57,469)	(58,904)
Total other assets (net)	**961,936**	**656,595**

30. AMOUNTS DUE TO CENTRAL BANK

Amounts due to Central Bank	31.12.2022	31.12.2021
Current account overdraft	8,713	-

31. AMOUNTS DUE TO OTHER BANKS

Amounts due to other banks	31.12.2022	31.12.2021
Current accounts	46,361	518,981
Interbank deposits	646,658	1,967,290
Loans and advances received	5,870,409	5,351,400
Other liabilities	594,596	174,573
Total amounts due to other banks	**7,158,024**	**8,012,244**

Under "Other liabilities" as at 31.12.2021, there are liabilities due to securities sold as a repo transactions in the amount of PLN 92,809 thousand.

There were no breaches of contractual provisions and covenants related to the financial situation of the Group and disclosure obligations in 2022 and 2021.

The amount of long-term liabilities due to other banks as at 31 December 2022 equals PLN 4,707,596 thousand (PLN 3,559,283 thousand as at 31 December 2021).

32. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers	31.12.2022	31.12.2021
OTHER FINANCIAL INSTITUTIONS	**2,378,213**	**1,315,721**
Current accounts	1,043,816	1,200,041
Term deposits	841,098	11,420
Loans and advances received	491,823	101,666
Other liabilities	1,476	2,594
RETAIL CUSTOMERS	**49,020,456**	**44,771,970**
Current accounts	29,182,509	38,430,796
Term deposits	19,342,539	5,880,637
Other liabilities	495,408	460,537
CORPORATE CUSTOMERS	**66,040,455**	**53,418,415**
Current accounts	49,139,666	47,213,927
Term deposits	16,128,824	5,428,183
Other liabilities	771,965	776,305
including RETAIL FARMERS	**3,021,185**	**2,717,618**
Current accounts	2,777,133	2,658,847
Term deposits	226,637	41,112
Other liabilities	17,415	17,659
PUBLIC SECTOR INSTITUTIONS	**2,581,919**	**1,586,835**
Current accounts	1,683,350	1,487,523
Term deposits	895,643	78,654
Other liabilities	2,926	20,658
Total amounts due to customers	**120,021,043**	**101,092,941**

The amount of long-term amounts due to customers as at 31 December 2022 equals PLN 1,341,514 thousand (PLN 474,970 thousand as at 31 December 2021).

33. DEBT SECURITIES ISSUED

	31.12.2022	31.12.2021
Debt securities	**364,633**	**722,628**

Changes in the balance of debt securities issued	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**722,628**	**1,318,380**
Redemption of certificates of deposit	(357,877)	(595,717)
Changes in discount, interests, commission and fees on certificates of deposit amortised using EIR, foreign currency exchange differences	(118)	(35)
Closing balance	**364,633**	**722,628**

In December 2017, the SPV issued bonds for a total amount of PLN 2,180,850 thousand with a maximum original maturity of 27 April 2032. The bonds are secured by loan receivables subject to securitization. The securitization transaction of the cash and car loan portfolio is described in Note 44.

34. SUBORDINATED LIABILITIES

	31.12.2022	31.12.2021
Subordinated liabilities	**4,416,887**	**4,334,572**

Change in the balance of subordinated liabilities	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**4,334,572**	**4,306,539**
Change in the balance of interest	16,290	6,716
Exchange differences	66,025	21,317
Closing balance	**4,416,887**	**4,334,572**

35. OTHER LIABILITIES

Other liabilities	31.12.2022	31.12.2021
Liabilities due to contracts with customers		
Sundry creditors	185,355	207,148
Payment card settlements	172,479	158,617
Deferred income	83,508	89,110
Escrow account liabilities	488	581
Social insurance settlements	25,559	34,769
Other liabilities		
Interbank and intersystem settlements	997,337	284,944
Provisions for non-personnel expenses	486,249	343,656
Provisions for other employees-related liabilities	240,835	246,935
Provision for unused annual holidays	43,801	42,426
Other regulatory liabilities	75,056	54,689
Other lease liabilities	28,961	28,320
Other	83,554	65,094
Total other liabilities	**2,423,182**	**1,556,289**

36. PROVISIONS

	31.12.2022	31.12.2021
Provision for restructuring	45,843	56,280
Provision for retirement benefits and similar obligations	18,994	15,858
Expected credit losses of contingent liabilities	99,657	155,638
Provisions for litigation and claims	2,050,954	1,463,347
Other provisions	8,290	8,229
Total provisions	**2,223,738**	**1,699,352**

Provisions for restructuring	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**56,280**	**82,918**
Provisions recognition	11,306	4,917
Provisions utilization	(21,472)	(31,177)
Provisions release	(271)	(378)
Closing balance	**45,843**	**56,280**

Provision for retirement benefits and similar obligations	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**15,858**	**18,188**
Provisions recognition	5,440	2,492
Provisions utilization	(455)	(884)
Provisions release	(1,849)	(3,938)
Closing balance	**18,994**	**15,858**

Expected credit losses of contingent liabilities	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**155,638**	**214,443**
Provisions recognition	49,259	116,428
Provisions utilization	(20,692)	(55,414)
Changes resulting from changes in credit risk (net)	(85,040)	(123,080)
Net changes due to modification (no derecognition)	11	-
Changes arising from updates to the method of estimation used (net)	-	2,853
Other changes	481	408
Closing balance	**99,657**	**155,638**

Provisions for litigation and similar liabilities	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**1,463,347**	**335,629**
Provisions recognition	788,545	1,125,766
Provisions utilization	(289,778)	(32,231)
Provisions release	(8,557)	(16,433)
Other changes, including foreign exchange differences	97,397	50,616
Closing balance	**2,050,954**	**1,463,347**

Other provisions	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**8,229**	**8,232**
Provisions recognition	63	16
Provisions utilization	(1)	(17)
Provisions release	(1)	(2)
Closing balance	**8,290**	**8,229**

37. DEFERRED INCOME TAX

Changes in deferred income tax in the financial year:

Deferred tax assets	Deferred tax basis as at 31 December 2022	Deferred tax basis as at 31 December 2021	Charge arising from changes in asset in 2022
Outstanding interest accrued on liabilities, including CD interest and discount	731,293	379,956	66,754
Fair value measurement of derivative instruments and securities	3,474,963	2,102,834	260,703
Unrealized liabilities due to hedged items and hedging instruments	1,082	39,302	(7,262)
Allowances on expected credit losses of financial assets and provisions for contingent liabilities (non-deductible), which are probable to occur/documented	2,898,230	2,899,861	(310)
Revenue collected in advance and measured at amortised cost including the effective interest rate	389,392	220,849	32,023
Provision for retirement benefits and provision for restructuring	58,352	72,947	(2,774)
Other provisions for personnel costs	274,403	294,292	(3,779)
Provisions for non-personnel expenses	473,023	343,957	24,523
Impairment allowance on fixed and intangible assets	11,068	13,564	(474)
Impairment of subsidiaries and associates	73,097	64,983	1,542
Compensations paid	8,940	8,885	11
Impairment allowance on lease receivables	101,464	126,176	(4,696)
Impairment allowance on available for sale assets related to leasing operations	29,633	65,674	(6,848)
Surplus of the tax value of leased fixed assets over the book value of receivables	639,265	655,127	(3,013)
Initial payments to lease agreements	66,707	91,165	(4,647)
Deferred income from leasing operations	25,236	28,817	(680)
Lease liabilities	704,954	869,192	(31,205)
Impairment allowances on other assets	190,351	39,061	28,745
Valuation of securities measured through other comprehensive income	1,444,358	753,102	131,339
Other negative deductible temporary differences	93,839	83,807	1,906
Total:	**11,689,650**	**9,153,551**	**481,859**

Basis for assets recognised in profit or loss (in the current and preceding years) and charge arising from changes in asset*	10,245,292	8,400,448	350,520
Basis for assets recognised in correspondence with revaluation reserve and charge arising from changes in asset	1,444,358	753,103	131,339

*Unrecognised deferred tax asset is related to impairment allowances on loans and advances whose non-recoverability will not become probable in the future. The related unrecognised temporary differences amounted to PLN 26,340 thousand as at 31 December 2022 as compared to PLN 26,767 thousand as at 31 December 2021.

Deferred tax liability	Deferred tax basis as at 31 December 2022	Deferred tax basis as at 31 December 2021	Charge arising from changes in asset in 2022
Accrued revenue from interest on amounts due	(1,439,698)	(1,080,507)	(68,246)
Fair value measurement of derivative instruments and securities	(2,700,513)	(1,046,616)	(314,241)
Valuation of securities measured through other comprehensive income	(18,222)	(9,993)	(1,564)
Difference between accounting and tax depreciation of the Bank's own fixed assets	(429,950)	(358,111)	(13,649)
Net value of right of use (RoU)	(623,009)	(781,441)	30,102
R&D expenses	(54,550)	(34,525)	(3,805)
Subleasing agreements	(32,574)	(34,026)	276
Unrealized liabilities related to hedged items and hedging instruments	(1,234,680)	(1,123,168)	(21,187)
Deferred costs of leasing operations	(55,537)	(56,144)	115
Other positive taxable temporary differences	(14,413)	(15,336)	175
Total:	**(6,603,146)**	**(4,539,867)**	**(392,024)**

Basis for the provision recognised in profit or loss (in the current and preceding years) and chargé arising from changes in the provision	(6,578,280)	(4,522,101)	(390,676)
Basis for the provision charged to revaluation reserve and chargé arising from changes in the provision	(24,866)	(17,766)	(1,348)

	31.12.2022	**31.12.2021**
Deferred tax assets	**2,221,034**	**1,739,175**
Deferred tax liability	**(1,254,598)**	**(862,576)**
Net deferred tax asset	**966,436**	**876,599**

38. DISCONTINUED OPERATIONS

The Group did not discontinue any operations in 2022 or 2021.

39. SHARE-BASED PAYMENTS

The Bank has adopted the “Remuneration policy for individuals with a material impact on the risk profile of BNP Paribas S.A.".

The principles and assumptions contained in the Policy guarantee the existence of a rational, balanced and controllable remuneration policy, consistent with the accepted risk level, standards and values of the Bank and relevant laws and regulations, in particular the Minister of Finance, Funds and Regional Policy Regulation dated 8 June 2021 on the risk management system, internal control system and remuneration policy in banks and recommendations included in the CRD5 Directive.

Pursuant to the Remuneration policy for Individuals with a significant impact on the BNP Paribas S.A. Bank's risk profile applied in the Bank, from 2020 (excluding persons who have terminated their cooperation with the Bank) the applicable financial instrument in which part of the variable remuneration is paid is ordinary shares (change from phantom shares).

The 2021 variable remuneration convertible into a financial instrument was granted in actual shares of the Bank.

On 9 December 2021, the Supervisory Board approved a modified Remuneration Policy for persons with material impact on the risk profile of the Bank. The changes consisted mainly in adjusting the provisions of the Policy to the Ordinance of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system and internal control system and remuneration policy in banks and the guidelines contained in the CRD5 Directive and consisted, among others, in extending the deferral period.

Phantom share-based programme

As at 31 December 2019, there was a variable remuneration scheme in force, granted in the form of a financial instrument - phantom shares, which will be settled in subsequent periods.

The variable remuneration granted in form of phantom shares is paid as cash equivalent with a value corresponding to the number of shares granted. The payment shall be made after the expiry of the retention period.

Financial instruments (phantom shares) - programme amendments in 2022.

	31.12.2022		**31.12.2021**	
	Financial instrument		**Financial instrument**	
	units	value (PLN ‘000)	units	value (PLN ‘000)
Opening balance	**117,770**	**5,616**	**220,298**	**11,455**
granted in the period	(79 604)	(5 109)	(98,748)	(5 581)
current valuation*	-	2,390	-	-
expired	-	-	(3,780)	(258)
Closing balance	**38,166**	**2,897**	**117,770**	**5,616**

**change in the value of outstanding phantom shares according to the current phantom share exercise price.*

In 2022, payments in the amount of PLN 5,109 thousand were made due to exercising rights to deferred phantom shares (under the programme for 2017, 2018 and 2019).

The table below presents the terms of the Stock Purchase Plan in 2022.

Transaction type in line with IFRS 2	Share-based payments settled in cash
Plan issued on	21 June 2012 - the Resolution of the Supervisory Board approving the Remuneration Policy
The commencement date for granting phantom shares	1 March 2022
The end date for granting phantom shares	2 March 2022

Programme based on the Bank's shares

There is variable remuneration scheme in place for the Bank's employees with a significant impact on risk profile under the Bank's share-based programme. The variable remuneration is divided into a part granted in the form of a financial instrument (Bank shares) and the remaining part granted in cash.

The right to variable remuneration expressed in the form of the Bank's shares is granted by issuing subscription warrants in a number corresponding to the number of shares granted, one warrant entitles to acquire one share. The payment of the variable remuneration expressed in the form of the Bank's shares, i.e. taking up the Bank's shares through the exercise of rights from subscription warrants, takes place after the expiry of the retention period.

The Bank will grant the participants of the Incentive Scheme subscription warrants, which will result in the right to acquire a new Series M and Series N shares issued by the Bank under the conditional share capital increase. The rights to acquire Series M and Series N shares shall be granted taking into account the principles of dividing the variable remuneration into the non-deferred and deferred portions, as defined in the Remuneration Policy and the regulations adopted on its basis. Series M and Series N shares will constitute a component of variable remuneration for persons having a significant impact on the Bank's risk profile within the meaning of the Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021.

In order to implement the Incentive Programme, the Extraordinary General Meeting of the Bank also adopted resolutions on the issue of subscription warrants and conditional increase of the share capital through the issue of Series M shares and Series N shares, depriving the existing shareholders of the subscription right to warrants and to Series M and Series N shares, amending the Bank's Articles of Association and dematerialising and applying for the admission of Series M and Series N shares to trading on a regulated market.

The amount and the division into the non-deferred and deferred portions of variable remuneration for employees identified as MRT is determined in accordance with the Bank's Remuneration Policy and regulations adopted on its basis. The regulations contain information on the annual bonus levels assigned to particular appraisals:

1. the part constituting at least 50% is assigned in the form of the Bank's shares (which will be acquired by exercising rights from subscription warrants);
2. the part of variable remuneration not less than 40% of that remuneration is deferred. The deferral period is at least 5 years for Senior Management and a minimum of 4 years and a maximum of 5 years for employees other than Senior Management. The maximum deferral period of 5 years is applied in the case of an assignment of Variable Remuneration that exceeds a particularly high amount.

In order to ensure uniform and lawful conditions for the acquisition of the right to remuneration and its payment, remuneration shall be paid to persons having a material impact on the risk profile of the Bank taking into account the principles of suitability, proportionality and non-discrimination.

The Bank's rules include the possibility to withhold or limit the payment of variable remuneration where the Bank does not meet the combined buffer requirement:

1. The Bank shall be prohibited from paying assigned variable remuneration in excess of the maximum amount to be paid (the so-called MDA) in a situation where the Bank does not meet the combined buffer requirement within the meaning and under the rules set out in *Articles 55 and 56 of the Act on macro-prudential supervision*.
2. In the event when the Bank does not meet the combined buffer requirement, then before the MDA is calculated, the Bank:

- does not undertake commitments to pay variable remuneration or discretionary pension benefits;
- does not make variable remuneration payments if the obligation to pay them arose during the period in which the Bank did not meet the combined buffer requirement.

If the legal relationship between the Bank and a given person having a material impact on the Bank's risk profile ceases to exist or if the position is excluded from the list, the remuneration is paid provided that the requirements specified in the Remuneration Policy for persons having a material impact on the risk profile of BNP Paribas Bank Polska S.A. are met.

A person is entitled to variable remuneration, provided that he/she has not been charged and is not subject to criminal or disciplinary sanctions.

The number of shares granted in April 2022, as part of the non-deferred portion of the variable remuneration, was 74,368.

In 2022, for the variable remuneration granted for 2019, 2020 and 2021 and in connection with the forecast of the variable remuneration for 2022, which will be granted in 2023, in the part concerning shares to be issued in the future, the Bank has recognized in the capitals an amount of PLN 5,958 thousand. At the same time, an amount of PLN 13,601 thousand (recognised in the previous years) is presented in capital. The actuarial value of the shares issued in 2022 in the amount of PLN 4,558 thousand is included in the mentioned amounts.

Financial instruments (shares - deferred portion) changes in 2022 and 2021 determined in relation to the deferred part of the variable remuneration for 2019 and 2020.

	31.12.2022		31.12.2021	
	Financial instrument		Financial instrument	
	units	value (PLN '000)	units	value (PLN '000)
Opening balance	**108,851**	**7,403**	**68,910**	**4,638**
granted in the period	37,191	2,718	39,941	2,765
executed during the period	(24 282)	(1 634)	-	-
Closing balance	**121,760**	**8,487**	**108,851**	**7,403**

The table below presents the terms and conditions of the Share/Warrants Purchase Plan for 2022.

Type of transaction under IFRS 2	Share-based payments
Program announcement date	31 January 2020 – the Resolution of the Supervisory Board approving the Remuneration Policy.
The commencement date for granting of shares	1 March 2022
The end date for granting shares	2 March 2022

40. CONTINGENT LIABILITIES

The following table presents the value of liabilities granted and received by the Bank.

Contingent liabilities	31.12.2022	31.12.2021
Contingent commitments granted	**42,977,848**	**43,750,937**
Financial commitments	30,486,679	33,487,647
Guarantees	12,491,169	10,263,290
Contingent commitments received	**58,068,966**	**36,321,578**
Financial commitments	14,511,914	13,592,590
Guarantees	43,557,052	22,728,988

The amount of contingent liabilities granted as at 31 December 2022 equals PLN 18,279,953 thousand (PLN 18,813,999 thousand as at 31 December 2021), while the amount of contingent liabilities received by the Bank as at 31 December 2022 equals PLN 49,935,837 thousand (PLN 24,046,996 thousand as at 31 December 2021).

41. COLLATERALS

The Group had the following assets pledged as collaterals for payment of its own and third-party liabilities.

Assets of the Group pledged as collaterals

The table below presents the balance sheet value of financial assets that have been established as collateral for contracted liabilities or contingent liabilities.

Assets pledged as collaterals	31.12.2022	31.12.2021
Guaranteed amount protection fund – Bank Guarantee Fund (BFG)		
type of collateral	Treasury bonds	
nominal value of collateral	300,000	340,000
balance sheet value of collateral	284,894	336,429
maturity	22.09.2025	25.07.2026
type of collateral	Treasury bonds	
nominal value of collateral	160,000	-
balance sheet value of collateral	151,986	-
maturity	21.07.2033	-
Collateral for derivative transaction settlement		
type of collateral	call deposits (amounts due from other banks)	
nominal value of collateral	919,316	1,558,124
Collateral of SPV settlements for securitization		
type of collateral	receivables that are the subject to a securitization transaction	
nominal value of collateral	364,427	722,304
Collateral due to repo transactions		
Balance sheet value	-	92,809
fair value	-	90,629

Assets of the customer pledged as collaterals

The Group has not established collateral on customer assets that may be sold or pledged.

42. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Based on the methods used to determine fair value, the Bank classifies particular assets and liabilities into the following categories:

Level 1

Assets and liabilities measured on the basis of market quotations available on active markets for identical instruments.

Level 2

Assets and liabilities measured using valuation techniques based on directly or indirectly observed market quotations or other information based on market quotations.

Level 3

Assets and liabilities measured using valuation techniques where input data is not based on observable market data.

The Group periodically (at least quarterly) assigns individual assets and liabilities to particular levels of the fair value hierarchy. The basis for classification to particular levels of the valuation hierarchy is the input data used for the valuation, i.e. market quotes or other information. The lowest level of input data used for the valuation, having a significant impact on determining the fair value, determines the classification of an asset or liability to a particular hierarchy level.

If the input data is changed to data classified to another level, e.g. as a result of changes in the valuation methodology or changes in market data sources, the Group transfers the asset or liability to the appropriate level of measurement in the reporting period in which the change occurred.

During the third quarter of 2022, a review of the quotes available in the market was carried out with regard to their availability, reliability and liquidity. As a result of this review, the rules for assigning individual instruments to valuation levels were adjusted. The changes resulted in an expansion of the group of instruments assigned to level 2 to include instruments denominated in G7 currencies and instruments with longer time to maturity.

As of 31.12.2022, particular instruments were included in the following valuation levels:

1. the first level: Treasury bonds and bonds issued by European Investment Bank (fair value is determined directly by reference to published active market quotations), quoted shares;
2. the second level: bonds issued by PFR, interest rate options in EUR, USD and GBP, FX options maturing within 2 years, base interest rate and FX swaps denominated in G7 currencies maturing within 15 years, and base interest rate and FX swaps denominated in other currencies maturing within 10 years, FRA maturing within 2 years, FX Forward, NDF and FX swaps denominated in G7 currencies maturing within 10 years, FX Forward transactions, NDF and FX swaps denominated in other currencies maturing within 3 years, commodity swaps maturing within 1 year, interest rate swaps denominated in G7 currencies, interest rate swaps denominated in other currencies maturing within 10 years, structured instruments (whose fair value is determined using measurement techniques which are based on available, verifiable market data);
3. the third level: interest rate options in PLN, FX options maturing over 2 years, base interest rate and FX swaps denominated in G7 currencies maturing over 15 years, base interest rate and FX swaps denominated in other currencies maturing over 10 years, FRA contracts maturing over 2 years, FX Forward transactions, NDF and FX swaps denominated in G7 currencies maturing over 10 years, FX Forward transactions, NDF and FX swaps denominated in other currencies maturing over 3 years, commodity swaps maturing over 1 year, interest rate swaps denominated in currencies other than G7 currencies maturing over 10 years, structured instruments (whose fair value is determined using measurement techniques (models) which are not based on available, verifiable market data), derivatives for which significant Fair Value Correction or Credit Value Adjustment was created and corporate bonds other than CATALYST-listed ones, shares which are not listed on the WSE and other exchanges, subsidised loans (fair value determined using measurement techniques (models) which are not based on available, verifiable market data, i.e. in cases other than those described in 1 and 2.

The table below presents classification of assets and liabilities re-measured to fair value in the consolidated financial statements into three categories:

31.12.2022	Level 1	Level 2	Level 3	Total
Assets measured at fair value:	**17,384,793**	**2,992,523**	**1,526,741**	**21,904,057**
Derivative financial instruments	-	2,958,065	266,207	3,224,272
Hedging instruments	-	29,101	-	29,101
Securities measured at fair value through other comprehensive income	17,384,793	-	-	17,384,793
Securities measured at fair value through profit or loss	-	5,357	311,236	316,593
Loans and advances to customers measured at fair value through profit or loss	-	-	949,298	949,298
Liabilities measured at fair value:	**-**	**4,244,791**	**377,590**	**4,622,381**
Derivative financial instruments	-	2,885,339	262,516	3,147,855
Hedging instruments	-	1,359,452	115,074	1,474,526

31.12.2021	Level 1	Level 2	Level 3	Total
Assets measured at fair value:	**9,170,446**	**1,412,875**	**2,093,752**	**12,677,073**
Derivative financial instruments	-	1,347,410	554,509	1,901,919
Hedging instruments	-	65,465	-	65,465
Securities measured at fair value through other comprehensive income	9,143,353	-	-	9,143,353
Securities measured at fair value through profit or loss	27,093	-	320,216	347,309
Loans and advances to customers measured at fair value through profit or loss	-	-	1,219,027	1,219,027
Liabilities measured at fair value:	**-**	**2,525,860**	**520,144**	**3,046,004**
Derivative financial instruments	-	1,458,287	459,745	1,918,032
Hedging instruments	-	1,067,573	60,399	1,127,972

The fair value of level 2 and 3 financial instruments is determined using the measurement techniques (e.g. models).

The input data used for purposes of valuation of level 2 and 3 instruments include foreign exchange rates, yield curves, reference rates, changes in foreign exchange rates, reference rates, stock market indices and stock prices, swap points, basis spreads, stock market index values and futures prices.

In the case of derivative financial instruments classified to level 3, the unobservable parameters are correlations between stock exchange indices, correlations between exchange rates and stock exchange indices and implied volatilities of shares listed on the WSE and the WIG20 index.

As regards level 3 municipal bonds, the credit risk margin is a non-observable parameter which is replaceable with the market margin for instruments within similar characteristics. The effect of changes in the credit margin on changes in the fair value is considered immaterial.

The table presented below shows changes in the measurement of level 3 assets and liabilities as well as amounts charged to profit or loss and statement of comprehensive income.

31.12.2022	Derivative financial instruments – assets	Hedging instruments - assets	Financial assets measured at fair value	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Opening balance	**554,509**	**-**	**1,539,243**	**(459,745)**	**(60,399)**
Total gains/losses recognised in:	(288,302)	-	60,741	722,261	175,473
statement of profit or loss	(288,302)	-	60,741	722,261	175,473
Statement of comprehensive income	-	-	-	-	-
Purchase	-	-	5 134	-	-
Sale	-	-	-	-	-
Settlement/expiry	-	-	(344,583)	-	-
Closing balance	**266,207**	**-**	**1,260,534**	**262,516**	**115,074**
Unrealized gains/losses recognised in profit or loss related to assets and liabilities at the end of the period					
	(288,302)	**-**	**60,741**	**722,261**	**175,473**

31.12.2021	Derivative financial instruments – assets	Hedging instruments - assets	Financial assets measured at fair value	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Opening balance	**287,094**	**94,873**	**1,911,704**	**(348,105)**	**-**
Total gains/losses recognised in:	267,414	(94,873)	18,719	(111,640)	(60,399)
statement of profit or loss	267,414	(94,873)	18,719	(111,640)	(60,339)
Statement of comprehensive income	-	-	-	-	-
Purchase	-	-	3,431	-	-
Sale	-	-	(786)	-	-
Settlement/expiry	-	-	(393,825)	-	-
Closing balance	**554,509**	**-**	**1,539,243**	**(459,745)**	**(60,399)**
Unrealized gains/losses recognised in profit or loss related to assets and liabilities at the end of the period					
	267,414	**(94,873)**	**18,719**	**(111,640)**	**(60 339)**

The Group measures the fair value by discounting all contractual cash flows related to transactions, with the use of yield curves characteristic of each transaction group. Where no repayment schedule is agreed for a product, it is assumed that the fair value is equal to the carrying amount of the transaction, or, in case of revolving products, the curves derived from the liquidity profile of these products and the expected behavioural duration of these exposures are used.

The yield curve used for fair value measurement of liabilities (such as customer and interbank deposits) and receivables (such as loans to customers and interbank deposits) of the Bank comprises:
- the credit risk free yield curve;
- the cost of obtaining financing above the credit risk free yield curve;
- the market margin that reflects credit risk for receivables.

The yield curve for fair value measurement of loans is constructed through classification of loans into sub-portfolios depending on the product type and currency as well as customer segmentation. A margin is determined for each sub-portfolio taking into account credit risk. The margin is determined with the use of credit risk parameters of a given customer determined in the process of calculating the impairment of financial instruments.

The current credit risk margin and the current liquidity margin, the values of which are not quoted on an active market, are the non-observable parameters for all the categories.

The following table presents the book value and fair value of those financial assets and liabilities that are not reported in the Group's statement of financial position at their fair value, as well as the level of valuation classification.

31.12.2022	Book value	Fair value	Level
Financial assets			
Cash and balances at Central Bank	2,718,307	2,718,307	3
Amounts due from other banks	11,800,189	11,084,681	3
Loans and advances to customers measured at amortised cost	89,090,317	87,433,750	3
Securities measured at amortised cost	22,167,261	18,100,104	1.3
Other financial assets	678,836	678,836	3
Financial liabilities			
Amounts due to Central Bank	8,713	8,713	3
Amounts due to other banks	7,158,024	7,228,558	3
Amounts due to customers	120,021,043	118,941,666	3
Subordinated liabilities	4,416,887	4,393,165	3
Lease liabilities	718,892	718,892	3
Other financial liabilities	1,410,179	1,410,179	3
Amounts due to debt securities issued	364,633	364,633	3

31.12.2021	Book value	Fair value	Level
Financial assets			
Cash and balances at Central Bank	4,631,477	4,631,477	3
Amounts due from other banks	2,615,150	2,442,241	3
Loans and advances to customers measured at amortised cost	85,080,454	83,996,937	3
Securities measured at amortised cost	23,268,041	21,612,237	1.3
Other financial assets	369,108	369,108	3
Financial liabilities			
Amounts due to other banks	8,012,244	7,966,133	3
Amounts due to customers	101,092,941	100,330,112	3
Subordinated liabilities	4,334,572	4,591,245	3
Lease liabilities	860,004	860,004	3
Other financial liabilities	714,379	714,379	3
Amounts due to debt securities issued	722,628	722,628	3

a) Amounts due from banks and amounts due to banks

Amounts due from banks and amounts due to banks include interbank deposits and interbank settlements. The fair value of fixed and floating rate deposits/placements is based on discounted cash flows determined by reference to money market interest rates for items with similar credit risk and residual maturity.

b) Loans and advances to customers

The estimated fair value of loans and advances is the discounted value of future cash flows to be received, using the current market rates adjusted by financing cost and by actual or estimated credit risk margins.

The fair value of loans and advances covered by the Law on Community Financing for Business Ventures and Borrower Assistance takes into account the impact of changes in repayment schedules resulting from the introduction of loan vacations.

c) Securities measured at amortised cost

The fair value of securities measured at amortised cost was determined by reference to the published quoted prices in an active market for quoted securities (first level of measurement or a second level in case of reduced liquidity). However, for unquoted securities, fair value was determined using valuation techniques not based on available market data (third level of measurement).

d) Liabilities due to subordinated loan

Liabilities include subordinated loans. The fair value of the floating rate loan is based on discounted cash flows determined by reference to money market interest rates for items with similar credit risk and residual maturity.

e) Liabilities due to customers

The fair value of fixed and floating rate deposits is based on discounted cash flows determined by reference to money market interest rates adjusted by the actual cost of securing funds over the past three months. For demand deposits, it is assumed that the fair value is equal to their carrying amount.

f) Lease liabilities

The fair value of lease liabilities was determined as equal to their balance sheet value.

g) Debt securities issued

The fair value of the securities issue was estimated using a model that discounts the future cash flows of the investment based on market interest rate curves adjusted for issuer credit risk.

Compensation of financial assets and liabilities

31.12.2022	Gross value presented in financial assets/liabilities	Net value presented in financial assets/liabilities	Offsetting value under concluded contracts	Cash collateral value	Net value
Financial assets					
Trading and hedging derivatives	3,253,373	3,253,373	(2,477,594)	(588,655)	187,125
Total	**3,253,373**	**3,253,373**	**(2,477,594)**	**(588,655)**	**187,125**
Financial liabilities					
Trading and hedging derivatives	4,622,381	4,622,381	(2,477,594)	(919,316)	1,225,471
Total	**4,622,381**	**4,622,381**	**(2,477,594)**	**(919,316)**	**1,225,471**

31.12.2021	Gross value presented in financial assets/liabilities	Net value presented in financial assets/liabilities	Offsetting value under concluded contracts	Cash collateral value	Net value
Financial assets					
Trading and hedging derivatives	1,967,384	1,967,384	(1,283,175)	(46,407)	637,801
Total	**1,967,384**	**1,967,384**	**(1,283,175)**	**(46,407)**	**637,801**
Financial liabilities					
Trading and hedging derivatives	3,046,005	3,046,005	(1,283,175)	(1,552,559)	210,271
Total	**3,046,005**	**3,046,005**	**(1,283,175)**	**(1,552,559)**	**210,271**

The possibility to compensate receivables and liabilities which are not due as well as settlement in the net amount in case of early settlement of the contract, result from the provisions of framework agreements / ISDA concluded with the customers.

43. LOAN PORTFOLIO SALE

In 2022 the Group concluded agreements regarding the sale of individual loans from SME, corporate and retail loan portfolio.

The gross book value of the portfolio measured at amortised cost sold amounted to PLN 387,666 thousand, while the amount of created impairment allowances was PLN 313,497 thousand.

The contractual price for the sale of these portfolios has been set at PLN 108,213 thousand. The net effect on the Bank's results from the sale of portfolios which amounted to PLN 34,044 thousand is presented in Net allowances on expected credit losses of financial assets and provisions on contingent liabilities.

44. SECURITIZATION

In December 2017, the Bank performed a securitization transaction on the portfolio of cash and car loans, using the BGZ Poland ABS1 DAC (SPV) subsidiary. The transaction is a traditional securitization involving the transfer of ownership of the securitized receivables to SPV (BGŻ Poland ABS1 DAC based in Ireland). The revolving period was 24 months and ended in December 2019. From January 2020, the transaction is amortised.

As a result of the securitization the Group obtained financing for its operations in exchange for giving away rights to future flows resulting from the securitized loan portfolio in the amount of PLN 2,300,471 thousand as of 22 November 2017 (the so-called cut-off date). The maximum term of the full redemption of bonds and loan repayment is 27 April 2032.

SPV issued bonds with a total value of PLN 2,180,850 thousand on the basis of securitized assets and received a loan of PLN 119,621 thousand, which was secured by a registered pledge on the rights to cash flows from securitized assets. At the end of December 2022, the value of bonds and loan amounted to PLN 384,417 thousand.

The main benefit of the performed transaction is a positive impact on capital adequacy ratios and improvement of liquidity and diversification of financing sources.

In the light of the provisions of IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Group recognises securitized assets in “Loans and advances to customers” as of 31 December 2022 at gross value of PLN 409,057 thousand.

The Bank acts as a servicing entity in the transaction.

Balance sheet values and fair values of financial assets covered by securitization and related liabilities	Balance sheet amount		Fair value	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Assets	409,057	775,591	357,691	706,029
Liabilities	384,417	761,924	384,417	761,924

45. CUSTODY OPERATIONS

The Bank conducts custody operations consisting in maintaining assets or client transactions settlement. These assets have not been disclosed in the financial statements as they do not belong to the Bank.

As at 31 December 2022, the Custody Services Office conducted 193 securities accounts for the clients. The fair value of the financial instruments of the customers of the Custody Services Office for this date was PLN 20,444,155 thousand.

In the reporting period, securities in public trading and securities in material form as well as securities traded abroad were stored by the Bank. As part of providing custody services to the clients, the Bank cooperated with several brokerage offices. The Bank acts as a depository for domestic investment funds.

46. THE SHAREHOLDER’S STRUCTURE OF BNP PARIBAS BANK POLSKA S.A.

As at 31 December 2022, the structure of the shareholders of BNP Paribas Bank Polska S.A., including those holding at least 5% of the total number of votes at the General Shareholders’ Meeting was as follows:

Shareholders	**Number of shares**	**Percentage interest in share capital**	**Number of votes at the General Shareholders’ Meeting**	**Percentage share in the total number of votes at the General Shareholders’ Meeting**
BNP Paribas, in total:	128,991,553	87.40%	128,991,553	87.40%
BNP Paribas directly	93,501,327	63.35%	93,501,327	63.35%
BNP Paribas Fortis SA/NV directly	35,490,226	24.05%	35,490,226	24.05%
Other shareholders	18,601,597	12.60%	18,601,597	12.60%
Total	**147,593,150**	**100.00%**	**147,593,150**	**100.00%**

The Bank’s share capital as at 31 December 2021 was PLN 147,519 thousand.

The share capital is divided into 147,593,150 shares with the par value of PLN 1.00, including: 15,088,100 A series shares, 7,807,300 B series shares, 247,329 C series shares, 3,220,932 D series shares, 10,640,643 E series shares, 6,132,460 F series shares, 8,000,000 G series shares, 5,002,000 H series shares, 28,099,554 I series shares, 10 800 000 K series shares, 2,500,000 J series shares, 49,880,600 L series shares and 174,232 M series shares.

Four B series registered shares in the Bank are preference shares with respect to payment of the full par value per share in the event of the Bank’s liquidation, once the creditors’ claims have been satisfied, with priority over payments per ordinary shares, which, after the rights attached to the preference shares have been exercised, may be insufficient to cover the total par value of those shares.

The total number of votes resulting from all the shares of the Bank is 147,593,150. The number of votes resulting from the allocated in 2022 Series M Shares is 74,368 votes, while the total number of votes resulting from the allocated Series M shares is 174,232.

The amount of the conditional share capital increase after the Series M Shares issue is PLN 401,768.

Changes in the shareholder structure in 2022

On 4 April 2022, the Bank's share capital was increased from PLN 147,518,782 to PLN 147,593,150 as a result of the subscription of 74,368 M series shares in exercise of the rights from the A2 series registered subscription warrants taken up earlier.

BNP Paribas Bank Polska shares held by the members of the Supervisory Board and Management Board

Summary of the holdings of Bank shares and share entitlements by members of the Bank's Management Board and Supervisory Board as at the date of submission of the report for the 3 quarters of 2022 (10 November 2022) and the report for 2022 (1 March 2023) is presented below.

The holdings of the individual members of the Management Board of the Bank's shares and share entitlements have not changed since the publication date of the previous report, i.e. 10 November 2022.

MEMBER OF THE BANK'S MANAGEMENT BOARD	SHARES*	SUBSCRIPTION WARRANTS	SHARES	SUBSCRIPTION WARRANTS**
	10.11.2022	10.11.2022	1.03.2023	1.03.2023
Przemysław Gdański	17,137	9,336	17,137	9,336
Jean-Charles Aranda	2,338	3,002	2,338	3,002
André Boulanger	3,129	7,081	3,129	7,081
Przemysław Furlepa	2,722	4,076	2,722	4,076
Wojciech Kembłowski	3,195	4,050	3,195	4,050
Kazimierz Łabno	1,862	2,285	1,862	2,285
Magdalena Nowicka	-	2,046	-	2,046
Volodymyr Radin	895	1,230	895	1,230
Agnieszka Wolska	-	614	-	614

* M series shares subscribed on 4 April 2022 in exercise of the rights attached to A2 series subscription warrants (A2 series registered subscription warrants were subscribed on 25 March 2021; one warrant entitled to subscribe for one M series ordinary bearer share of BNP Paribas Bank Polska S.A., with the issue price of PLN 1.00 per share); in the case of Mr Przemysław Gdański, the number of M series shares in the exercise of rights arising from A2 series warrants subscribed was 9,148, the number of subscribed series M shares in exercise of the rights arising from series A1 warrants was 7,489, the number of shares purchased on the WSE share market was 500
** A3 series subscription warrants taken up on 25.03.2022 - one A3 series warrant entitles to acquire one M series ordinary bearer share of BNP Paribas Bank Polska S.A., at the issue price of PLN 1.00 per share

The members of the Bank's Supervisory Board did not declare their ownership of the Bank's shares/privileges as at 31 December 2022 and as at the date of submission of this report, i.e. 1 March 2023, which has not changed since the publication of the report for the 3 quarters of 2022, i.e. 10 November 2022.

Investor commitment of BNP Paribas regarding the liquidity of the Bank's shares

In accordance with the commitment made by BNP Paribas S.A. - the Bank's main shareholder - to the Financial Supervision Authority, submitted on 14 September 2018, the number of the Bank's free float shares should be increased to at least 25% plus one share by the end of 2023 at the latest.

47. SUPPLEMENTARY CAPITAL AND OTHER CAPITALS

The following tables present changes in supplementary capital and other reserve capitals:

Supplementary capital	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**9,110,976**	**9,110,976**
Changes	-	-
Closing balance	**9,110,976**	**9,110,976**

Other reserve and revaluation capital	12 months to 31.12.2022	12 months to 31.12.2021
General banking risk fund	627,154	627,154
Revaluation reserve	(1,149,786)	(595,622)
Other reserve capital	2,514,944	2,318,961
Total	**1,992,312**	**2,350,493**

General banking risk fund created from net profit	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**627,154**	**627,154**
Distribution of retained earnings	-	-
Closing balance	**627,154**	**627,154**

Revaluation reserve	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**(595,622)**	**255,833**
Gain/loss on changes in fair value of financial assets measured through other comprehensive income	(599,039)	(969,416)
Net gain/loss on change in fair value of gross cash flow hedging derivatives	(83,987)	(85,303)
Actuarial valuation of employee benefits	(1,129)	3,540
Deferred income tax	129,991	199,724
Closing balance	**(1,149,786)**	**(595,622)**

Other reserve capital	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**2,318,961**	**1,581,828**
Distribution of retained earnings	190,025	731,060
Management stock options	5,958	6,073
Closing balance	**2,514,944**	**2,318,961**

Retained earnings	12 months to 31.12.2022	12 months to 31.12.2021
Opening balance	**(423,655)**	**(425,778)**
Distribution of the current period profit	(13,727)	2,035
other	7,225	88
Closing balance	**(430,157)**	**(423,655)**

Change in revaluation reserve on financial assets measured through other comprehensive income	2022		2021	
	Gross value	Deferred tax	Gross value	Deferred tax
Opening balance	**(743,134)**	**141,196**	**311,585**	**(59,201)**
gains/losses on financial assets measured at fair value through other comprehensive income recognised in equity	(686,312)	130,399	(1,052,443)	199,965
reclassification to financial result due to sale of financial assets measured at fair value through other comprehensive income	3,286	(624)	(2,276)	432
Closing balance	**(1,426,160)**	**270,971**	**(743,134)**	**141,196**

48. DIVIDENDS PAID

The Group did not pay any dividends for 2021. The Management Board of the Bank will not recommend dividend payment for 2022.

49. DISTRIBUTION OF RETAINED EARNINGS

Pursuant to the Resolution No. 6 of the General Shareholders' Meeting of BNP Paribas Bank Polska S.A. of 27 June 2022, the net profit for 2021, in the amount of PLN 184,526 thousand, was allocated to the reserve capital.

50. CASH AND CASH EQUIVALENTS

For the purpose of preparation of the statement of cash flows, the balance of cash and cash equivalents comprises the following balances with maturity shorter than three months.

Cash and cash equivalents	31.12.2022	31.12.2021
Cash and balances at Central Bank (Note 17)	2,718,307	4,631,477
Current accounts of banks and other receivables	9,057,717	234,061
Interbank deposits	1,441,247	647,278
Total cash and cash equivalents	**13,217,271**	**5,512,816**

51. ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

Differences between balance sheet changes of the value of items and changes in the balance of these items presented in operating activities.

Changes in amounts due from banks	31.12.2022	31.12.2021
Change arising from the balance sheet	(7,541,793)	(2,908,876)
Elimination of a change in cash and cash equivalents	7,974,387	1,666,345
Change in balance arising from interest	4,857	(1,180)
Total change in amounts due from banks	**437,452**	**(1,243,712)**

Change in amounts due from customers measured at amortised cost	31.12.2022	31.12.2021
Change arising from the balance sheet	(4,009,863)	(10,983,185)
Change in balance arising from interest	318,284	(100,787)
Total change in amounts due from customers measured at amortised cost	**(3,691,579)**	**(11,083,972)**

Change in amounts due to other banks (including Central Bank and cash)	31.12.2022	31.12.2021
Change arising from the balance sheet	(2,560,745)	(762,864)
Change in balance arising from interest	(1,337,398)	(1,461,637)
Long-term loans from other banks	2,193,566	2,396,352
Total change in amounts due to other banks	**(1,704,577)**	**171,851**

Change in amounts due to customers	31.12.2022	31.12.2021
Change arising from the balance sheet	18,928,102	11,041,937
Change in balance arising from interest	(288,973)	(22,486)
Total change in amounts due to customers	**18,639,129**	**11,019,451**

Cash flows from operating activities – other adjustments	12 months to 31.12.2022	12 months to 31.12.2021
FX differences from subordinated loans	66,025	21,317
Valuation of securities recognized in the statement of profit or loss	(5,340)	77,036
Allowance for securities	(672)	33,258
Other adjustments	50,531	52,589
Cash flows from operating activities – total other adjustments	**90,929**	**184,199**

52. RELATED PARTY TRANSACTIONS

BNP Paribas Bank Polska S.A. operates within the BNP Paribas Bank Polska S.A. Capital Group.

BNP Paribas Bank Polska S.A. is the parent in the BNP Paribas Bank Polska S.A. Capital Group.

The ultimate parent company is BNP Paribas S.A., based in Paris.

As of 30 December 2022, the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A. as the parent company, and its subsidiaries:

1. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O. in liquidation („ACTUS”).
2. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI”).
3. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING”).
4. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC”).
5. CAMPUS LESZNO SP. Z O.O.
6. BGZ POLAND ABS1 DAC („SPV”).

All transactions between the Bank and its related parties were entered into as part of daily operations and included mainly loans, deposits, transactions with reference to derivative instruments as well as income and expenses related to advisory and financial intermediation services.

Transactions with shareholders of BNP Paribas Bank Polska S.A. and related parties

31.12.2022	BNP Paribas S.A. located in Paris	BNP Paribas Fortis S.A.	Other entities from the Capital Group of BNP Paribas S.A	Key personnel	Total
Assets	**13,360,399**	**4,733**	**292,838**	**770**	**13,658,740**
Receivables on current accounts, loans and deposits	10,973,541	291	266,687	770	**11,241,289**
Derivative financial instruments	2,357,757	4,442	-	-	**2,362,199**
Derivative hedging instruments	29,101	-	-	-	**29,101**
Other assets	-	-	26,151	-	**26,151**
Liabilities	**11,752,445**	**48,670**	**1,872,514**	**2,478**	**13,676,107**
Loans received	4,234,652	-	522,921	-	**4,757,573**
Current accounts and deposits	765,040	48,670	1,068,439	2,478	**1,884,627**
Subordinated liabilities	4,136,961	-	279,926	-	**4,416,887**
Derivative financial instruments	1,141,266	-	-	-	**1,141,266**
Derivative hedging instruments	1,474,526	-	-	-	**1,474,526**
Lease liabilities	-	-	1,067	-	**1,067**
Other liabilities	-	-	161	-	**161**
Contingent liabilities					
Financial commitments granted	-	-	325,018	651	**325,669**
Guarantees granted	118,801	127,380	1,580,487	-	**1,826,668**
Commitments received	300,334	184,046	1,943,450	-	**2,427,830**
Derivative financial instruments (nominal value)	58,170,836	2,195,441	-	-	**60,366,277**
Derivative hedging instruments (nominal value)	15,708,485	-	-	-	**15,708,485**
Statement of profit or loss	**(456,756)**	**(647)**	**(74,639)**	**(27)**	**(532,069)**
12 months ended 31.12.2022					
Interest income	85,480	780	28,619	43	**114,922**
Interest expense	(404,925)	(1,427)	(55,821)	(70)	**(462,243)**
Fee and commission income	-	-	41,521	-	**41,521**
Net trading income	(1,531)	-	-	-	**(1,531)**
Other operating income	-	-	28,778	-	**28,778**
General administrative costs	(135,780)	-	(93,163)	-	**(228,943)**

31.12.2021	BNP Paribas S.A. located in Paris	BNP Paribas Fortis S.A.	Other entities from the Capital Group of BNP Paribas S.A	Key personnel	Total
Assets	**2,583,416**	**4,264**	**346,167**	**841**	**2,934,688**
Receivables on current accounts, loans and deposits	1,585,212	4,264	344,303	811	**1,934,590**
Derivative financial instruments	932 697	-	-	-	**932,697**
Derivative hedging instruments	65,465	-	-	-	**65,465**
Other assets	42	-	1,864	30	**1,936**
Liabilities	**12,383,493**	**29,944**	**1,802,173**	**2,684**	**14,218,294**
Loans received	4,180,119	-	763,972	-	**4,944,091**
Current accounts and deposits	1,978,727	29,944	761,579	2,684	**2,772,934**
Subordinated liabilities	4,058,054	-	276,518	-	**4,334,572**
Derivative financial instruments	1,038,620	-	-	-	**1,038,620**
Derivative hedging instruments	1,127,973	-	-	-	**1,127,973**
Lease liabilities	-	-	104	-	**104**
Contingent liabilities					
Financial commitments granted	-	-	295,448	633	**296,081**
Guarantees granted	105,365	200,134	1,448,341	-	**1,753,840**
Commitments received	812,994	304,155	1,774,204	-	**2,891,353**
Derivative financial instruments (nominal value)	60,082,978	-	-	-	**60,082,978**
Derivative hedging instruments (nominal value)	26,448,220	-	-	-	**26,448,220**
Statement of profit or loss	**(1,567,961)**	**53**	**(58,067)**	**10**	**(1,625,965)**
12 months ended 31.12.2021					
Interest income	-	6	120	10	**136**
Interest expense	(111,277)	(42)	(12,818)	-	**(124,137)**
Fee and commission income	591	89	8,766	-	**9,446**
Fee and commission expense	-	-	(49)	-	**(49)**
Net trading income	(1,372,390)	-	2	-	**(1,372,388)**
Other operating income	-	-	3,125	-	**3,125**
General administrative costs	(84,885)	-	(57,213)	-	**(142,098)**

Remuneration of the Management Board and Supervisory Board

Management Board	31.12.2022	31.12.2021
Short-term employee benefits	17,674	15,958
Long-term benefits	4,288	4,638
Benefits due to termination of employment	-	973
Post-employment benefits	4,462	4,340
Share-based payments*	1,405	1,513
Total	**27,829**	**27,422**

*includes a provision for deferred phantom shares and an amount in the Bank's capital linked to the Bank's shares taken up in the future (in accordance with the variable remuneration policy)
**value of shares issued based on actuarial valuation

Supervisory Board	31.12.2022	31.12.2021
Short-term employee benefits	1,629	1,457
Total	**1,629**	**1,457**

53. OPERATING SEGMENTS

Segment reporting

The Group has identified the following operating segments for reporting purposes and allocated income and expenses as well as assets and liabilities thereto: Retail and Business Banking, Small and Medium-Sized Enterprises (SME), Corporate Banking, Corporate and Institutional Banking (CIB) as well as Other Operations, including ALM Treasury and the Corporate Centre. Additionally, performance related to Agro customers, i.e. individual farmers and agro-food sector enterprises, as well as the Personal Finance segment has been presented. Although the aforesaid segment performance overlaps with that of the basic operating segments, it is additionally monitored separately for purposes of the Group's management reporting. The abovementioned segmentation reflects the principles of customer classification to each segment in line with the business model adopted by the Bank, which are based on such criteria as the entity, finances and type of business activity.

The Group's management performance is monitored by considering all items of the statement of profit or loss of the particular segment, to the level of gross profit, i.e. for each segment revenue, expenses and net impairment losses are reported. Management revenue takes into account cash flows between customer segments and the asset liability management unit, measured by reference to internal transfer prices of funds based on market prices and liquidity margins for each maturity and currency. Management expenses of the segments include direct operating expenses and expenses allocated using the allocation model adopted by the Group. Additionally, the management performance of the segments take into account amounts due to each business line for services between such lines.

The Group's operations are conducted in Poland only. As no considerable differences in the risks, which might be affected by the geographical location of the Bank's branches, can be identified, no geographical disclosures have been presented.

The Group applies consistent, detailed principles to all identified segments. As regards the revenue, in addition to standard items, components of the net interest income of the segments have been identified, to include external and internal revenue and expenses. As regards operating expenses, the Group's indirect expenses are allocated to each segment in the Expense allocation (internal) item. Considering the profile of the Group's business, no material seasonal or cyclical phenomena are identified. The Group provides financial services, the demand for which is stable, and the effect of seasonality is immaterial.

Description of operating segments

Retail and Business Banking segment covers comprehensive services to retail customers, including private banking customers, as well as business clients (microenterprises), including:

- entrepreneurs whose annual net income for the preceding financial year is below PLN 4 million, conducting full financial reporting, whose credit exposure is lower than PLN 1.2 million,
- entrepreneurs conducting simplified financial reporting,
- housing communities and property managers,
- non-profit organisations,
- individual farmers, regardless of production volume, whose credit exposure is below PLN 3 million, individual farmers, regardless of production volume, whose credit exposure is between PLN 3 million and PLN 4 million, if the collateral on arable lands covers at least 50% of credit exposure,
- diocesan parishes of the Catholic Church,
- legal persons of churches and religious associations with income up to PLN 4 million.
- The scope of financial services offered by the Retail and Business Banking Segment includes maintenance of current and deposit accounts, acceptance of term deposits, granting mortgage loans, cash loans, mortgage advances, overdrafts, loans to microenterprises, issuing debit and credit cards, cross-border cash transfers, foreign exchange transactions, sale of insurance products as well as other services of lesser importance to the Group's income. Additionally, the performance of the Retail and Business Banking Segment includes: balances and performance of e-banking (Optima), performance of brokerage services and distribution and storage of investment fund units.
- The Retail and Business Banking customers are served by the Bank's Branches and alternative channels, i.e. online banking, mobile banking and telephone banking, e-banking channel (Optima), the Banking Premium channel and Wealth Management (respectively investing assets over PLN 100 thousand and in the minimum amount of PLN 1 million). Selected products are also sold by financial intermediaries active at the country and local level.

Personal Finance is responsible for development of product offering and management of financial services provided to consumers, with the following major products: cash loans, car loans, instalment loans and credit cards. The aforesaid products are distributed through the Retail and Business Banking branch network as well as external distribution channels.

SME Banking provides services to:

- Agro-SME clients preparing full financial reporting in relation to net sales revenues for the previous financial year from PLN 4 million to PLN 60 million and credit exposure below PLN 18 million, agro-producer groups with credit exposure below PLN 40 million and Agro clients from the Group of affiliated entities with net sales revenues between PLN 4 million and up to PLN 80 million and credit exposure below PLN 40 million, as well as agricultural producer groups and organisational units of the National Forest Holding "The State Forests", Agro customers, which are commercial companies owned by legal entities of the Catholic Church with revenues up to PLN 60 million and total credit exposure up to PLN 18 million, and Agro customers that are part of an international group of affiliated entities not serviced by the BNP Paribas Group, with net sales revenues between PLN 4 million and PLN 80 million and credit exposure up to PLN 40 million.
- Non-Agro Customers - a sub--segment that includes entities that maintain full financial reporting, with net sales revenues from the previous financial year ranging from PLN 4 million to PLN 60 million and whose credit exposure does not exceeding PLN 18 million, as well as local government units with a budget of up to PLN 100 million and credit exposure not exceeding PLN 18 million, along with their subsidiaries with revenues below PLN 60 million and credit exposure not exceeding PLN 18 million, legal entities of the Catholic Church with revenue up to PLN 60 million and total credit exposure up to PLN 18 million, legal entities of churches and religious associations other than the Catholic Church, with revenue between PLN 4 million and PLN 60 million, Non-Agro customers belonging to the international group of affiliated entities not serviced by the BNP Paribas Group, with net sales revenue between PLN 4 million and PLN 60 million and credit exposure up to PLN 18 million.
- Agro entrepreneurs (i.e. companies conducting production activities in agriculture) preparing full financial reporting, whose loan exposures were lower than PLN 40 million, as well as individual farmers if their loan exposure is in the range of PLN 4 million to PLN 40 million or in the range of 3 PLN million to 4 PLN million if the collateral on arable lands covers less than 50% of credit exposure;

Corporate Banking offers a wide variety of financial services to large and medium-sized enterprises with net sales revenues exceeding or equal to PLN 60 million or with credit exposure exceeding PLN 18 million (in the case of Agro entrepreneurs with credit exposure exceeding PLN 40 million), and to entities that are part of international capital groups.

Corporate Banking customers are divided into four basic groups:

- Polish corporations with annual net sales revenues from PLN 60 to 600 million or with a credit exposure greater than or equal to PLN 18 million (or in the case of economic entities operating in agriculture with a credit exposure greater than or equal to PLN 40 million),
- International clients (companies belonging to international capital groups),
- the largest Polish corporations with net sales revenues above PLN 600 million,
- public sector entities and financial institutions.

Distribution network for Corporate Banking is based on Regional Corporate Banking Centres located in Warsaw, Łódź, Gdańsk, Poznań, Wrocław, Katowice, Kraków and Lublin. As part of the Regional Corporate Banking Centers, there are Corporate Banking Centers located in the largest business centres in Poland, ensuring a wide geographical and sector coverage. After-sales service for the clients of the Corporate Banking segment is also carried out by the Telephone Business Service Center and in the online banking system.

The basic products and services provided to Corporate Customers include cash management and global trade finance services – comprehensive services related to import and export LCs, bank guarantees and documentary collection, supply chain and exports financing, acceptance of deposits (from overnight to term deposits), corporate finance services which involve provision of overdraft facilities, revolving and investment loans as well as agro-business loans), financial market products, to include foreign exchange and derivative transactions for the account of customers, lease and factoring products as well as specialised services such as financing real estate, structured finance services to mid-caps and investment banking and services related to public sector entities: organisation of municipal bond issues, forfaiting, dedicated cash management solutions.

The Corporate and Institutional Banking (CIB) Segment supports sales of products of the Group, dedicated to the largest Polish enterprises including services provided to key clients.

Other Banking Operations are performed mainly through the **ALM Treasury**, the main objective of which is ensuring an appropriate and stable level of funding to guarantee the security of the Bank's operations and compliance with the standards defined in the applicable laws.

The ALM Treasury assumes responsibility for liquidity management at the Group, setting internal and external reference prices, management of the interest rate risk inherent in the Group's statement of financial position as well as the operational and structural currency risk. The ALM Treasury focuses on both prudential (compliance with external and internal regulations) and optimisation aspects (financing cost management and generating profit on management of the Bank's items from the statement of financial position).

The Other Operations segment includes also direct costs of the support functions, which have been allocated to segments in the Expense allocation (internal) item, as well as results that may not be assigned to any of the aforementioned segments (to include equity investment, gains/losses on own accounts and customer accounts not allocated to a specific segment).

Once a year, customer resegmentation is carried out within the business areas. Customers are migrated between segments when they start to meet the criteria for assignment to a segment other than their current one. Resegmentation is aimed at correctly assigning a customer to a business line and ensuring the highest quality of service tailored to their individual needs.

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss for the period of 12 months ended 31.12.2022*								
Net interest income	1,509,469	339,434	914,890	75,260	653,953	**3,493,005**	510,539	712,463
external interest income	3,646,678	525,271	1,369,738	381,664	559,055	**6,482,405**	1,109,023	1,185,081
external interest expenses	(1,854,054)	(249,970)	(590,909)	(1,739)	(292,728)	**(2,989,400)**	(294,372)	(137,279)
internal interest income	1,998,872	433,302	1,108,902	2,520	(3,543,595)	-	449,287	-
internal interest expenses	(2,282,027)	(369,169)	(972,840)	(307,185)	3,931,221	-	(753,399)	(335,338)
Net fee and commission income	592,600	138,726	359,117	50,554	(4,083)	**1,136,915**	153,624	121,198
Dividend income	-	-	5,151	-	5,666	**10,817**	255	-
Net trading income	131,493	101,687	374,812	270,560	(123,851)	**754,701**	87,082	52
Result on investment activities	-	-	-	-	29,227	**29,227**	-	-
Result on hedge accounting	-	-	-	-	13,267	**13,267**	-	-
Other operating income and expenses	(39,330)	(4,598)	(11,651)	(656)	(27,594)	**(83,827)**	(1,919)	(20,177)
Result from derecognition of financial assets measured at amortized cost due to material modification	(2,159)	-	-	-	-	**(2,159)**	-	-
Result of allowance for expected credit losses of financial assets and provisions for contingent liabilities	(339,039)	51,037	30,540	(19,178)	1,630	**(275,010)**	(76,631)	(52,073)
Result on provisions for legal risk related to foreign currency loans	(740,000)	-	-	-	-	**(740,000)**	-	-
General administrative expenses	(1,234,176)	(146,583)	(348,251)	(102,583)	(795,112)	**(2,626,707)**	(19,030)	(286,197)
Depreciation and amortization	(102,988)	(2,205)	(44,070)	(13,596)	(248,892)	**(411,749)**	(276)	(14,137)
Expense allocation (internal)	(672,880)	(188,654)	(176,004)	17,085	1,020,453	-	-	(117,006)
Operating result	**(897,010)**	**288,844**	**1,104,534**	**277,446**	**524,664**	**1,298,480**	**653,644**	**344,123**
Tax on financial institutions	(218,647)	(31,487)	(103,864)	(18,834)	(53,721)	**(426,553)**	-	(49,785)
Gross profit	**(1,115,657)**	**257,357**	**1,000,670**	**258,612**	**470,943**	**871,927**	**653,644**	**294,338**
Income tax expenses	-	-	-	-	-	(430,430)	-	-
Net profit	**-**	**-**	**-**	**-**	**-**	**441,497**	**-**	**-**
Statement of financial position as at 31.12.2022*								
Segment assets	48,181,105	7,391,648	28,721,144	5,236,106	61,987,067	**151,517,069**	14,402,543	13,633,804
Segment liabilities	63,818,863	16,588,586	44,870,774	-	14,976,627	**140,254,848**	16,438,498	-

* As the figures have been rounded and presented in PLN '000, in some cases their total may not correspond to the exact grand total

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss for the period of 12 months ended 31.12.2021*								
Net interest income	1,747,299	241,610	558,026	52,213	541,794	**3,140,942**	394,912	630,639
external interest income	1,704,860	177,092	441,522	88,860	1,008,481	**3,420,814**	408,915	844,499
external interest expenses	(74,713)	(6,003)	(12,777)	(123)	(186,256)	**(279,872)**	(8,272)	(38,944)
internal interest income	638,985	130,002	268,613	(101)	(1,037,498)	**-**	110,151	-
internal interest expenses	(521,832)	(59,481)	(139,332)	(36,422)	757,067	**-**	(115,883)	(174,916)
Net fee and commission income	559,696	128,848	319,190	54,150	(12,898)	**1,048,986**	146,307	124,618
Dividend income	-	-	2,894	-	5,656	**8,550**	255	-
Net trading income	99,001	82,928	282,820	188,600	(19,855)	**633,493**	59,662	106
Result on investment activities	-	-	-	-	(5,132)	**(5,133)**	-	-
Result on hedge accounting	-	-	-	-	50,369	**50,369**	-	-
Other operating income and expenses	(18,034)	(4,687)	(7,968)	135	(37,396)	**(67,950)**	(1,830)	(21,811)
Result of allowance for expected credit losses of financial assets and provisions for contingent liabilities	(148,341)	(40,245)	(78,985)	2,250	(865)	**(266,185)**	(82,715)	(62,228)
Result on provisions for legal risk related to foreign currency loans	(1,045,304)	-	-	-	-	**(1,045,304)**	-	-
General administrative expenses	(1,037,540)	(123,991)	(240,351)	(82,856)	(659,237)	**(2,143,976)**	(17,326)	(279,631)
Depreciation and amortization	(103,515)	(2,904)	(27,851)	(8,806)	(256,478)	**(399,553)**	(563)	(19,965)
Expense allocation (internal)	(580,917)	(175,598)	(119,088)	8,147	867,455	**-**	-	(106,639)
Operating result	**(527,655)**	**105,961**	**688,687**	**213,833**	**473,413**	**954,239**	**498,702**	**265,089**
Tax on financial institutions	(171,619)	(26,771)	(83,591)	(17,160)	(38,970)	**(338,110)**	-	(41,517)
Gross profit	**(699,274)**	**79,190**	**605,096**	**196,673**	**434,443**	**616,129**	**498,702**	**223,572**
Income tax expenses	-	-	-	-	-	**(439,831)**	-	-
Net profit	**-**	**-**	**-**	**-**	**-**	**176,298**	**-**	**-**
Statement of financial position as at 31.12.2021*								
Segment assets	49,983,663	7,587,840	25,076,146	4,599,816	44,530,015	**131,777,481**	14,475,073	13,463,664
Segment liabilities	59,702,047	13,707,750	33,993,707	-	13,012,344	**120,415,850**	11,178,104	-

*As the figures have been rounded and presented in PLN ‘000, in some cases their total may not correspond to the exact grand total.

The comparative data have been restated due to the change in 2022 concerning the allocation of subsidiaries' activities to operating segments. The change in presentation relates primarily to the reclassification of a portion of "LEASING" company's liabilities from Retail Banking to Corporate and SME Banking in the amount of PLN 2.8 billion at the end of 2021.

54. LITIGATION AND CLAIMS

Legal risk

As of 31 December 2022, there were no proceedings in the court, arbitration tribunal or state administration authorities regarding liabilities or receivables of the Bank, the value of which would exceed 10% of the Bank's equity.

Court decision regarding calculation of the interchange fee

On 6 October 2015, the Court of Appeals issued a decision regarding calculation of the interchange fee by banks acting in agreement. Thus, the decision of the 1st instance (Regional) Court of 2013 was changed by dismissing the banks' appeals in whole, while upholding the appeal brought by the Office of Competition and Consumer Protection (UOKiK), which had questioned a considerable reduction in the fines by the 1st instance court. This denotes that the penalty imposed under the first decision of the President of UOKiK of 29 December 2006 was upheld. It involved a fine levied on 20 banks, including Bank BGŻ S.A. and Fortis Bank Polska S.A., for practices limiting competition by calculating interchange fees on Visa and MasterCard transactions in Poland in agreement.

The total fine levied on Bank BGŻ BNP Paribas S.A. (presently BNP Paribas Bank Polska S.A.) amounted to PLN 12.54 million and included:

- a fine for the practice of Bank Gospodarki Żywnościowej in the amount of PLN 9.65 million; and
- a fine for the practice of Fortis Bank Polska S.A. (FBP) in the amount of PLN 2.89 million.

The penalty was paid by the Bank on 19 October 2015. The Bank prepared a last resort appeal against the aforesaid court decision and brought it on 25 April 2016. On 25 October 2017, the Supreme Court overruled the judgment of the Court of Appeal and remitted the case. Acquisition of the core business of RBPL did not change the situation of the Bank as RBPL was not a party to this claim.

On 23 November 2020, the Court of Appeal quashed the judgment of the first instance court and remitted the case for re-examination. In November 2022, the first hearing was held.

Corporate claims against the Bank (interchange fee)

As of 31 December 2022 the Bank received:

- 33 requests for settlement from companies (merchants), due to interchange fees paid in relation to the use of payment cards, (two from companies which submitted their requests twice and, one from the company which submitted its request three times and one from a company which submitted two requests for different payment methods). The total amount of these claims was PLN 1,028.02 million, including PLN 1,018.05 million where the Bank had joint responsibility with other banks.
- 4 requests for mediation before the PFSA. The requests were sent to the Bank by the same entrepreneurs who had previously submitted requests for a settlement attempt. The total value of claims arising from the above applications amounts to PLN 40.29 million, of which PLN 37.79 million relates to joint liability with other banks.

Litigation and claims of investment fund participants in connection with the performance of the function of investment fund depositary

As of 31 December 2022, the Bank had received a total of 72 individual lawsuits and one collective lawsuit by investment fund participants, related to the performance of the function of investment fund depositary (including the performance of this function by Raiffeisen Bank Polska S.A.). The total amount of claims covered by the above-mentioned lawsuits is PLN 144 million. The vast majority of the lawsuits were filed by participants of the Retail Parks Fund Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in Liquidation (hereinafter RPF Fund) and participants of the EPEF Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and EPEF2 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The collective lawsuit was filed on behalf of 397 participants of the RPF Fund, and concerns claims in the total amount of PLN 96,220,800. The allegations raised by the plaintiffs in the lawsuits focus, in particular, on the improper performance by Raiffeisen Bank Polska S.A., and then the Bank, of its obligations to ensure that the value of an investment fund's net assets and the value of net assets per investment certificate are calculated in accordance with the law and the investment fund's statute, and the obligation to verify the compliance of an investment fund's operations with the law governing investment funds or with the statute. The Bank's position is that the claims of fund participants are unfounded. All legal proceedings are pending before courts of first instance. No verdict has yet been issued in any of the cases.

Proceedings regarding recognizing a standard contract as prohibited

On 22 September 2020, the Bank received a decision of the President of the Office of Competition and Consumer Protection (UOKiK) No. DZOIK 14/2020, in which the President of UOKiK:

- found certain provisions of the standard contract (the so-called anti-spreading annex) concerning the principles of determining currency exchange rates illegal and prohibited their application;
- obligated the Bank to inform all customers who are parties to the annex about the decision and its consequences and to post information about the decision and its content on its website;
- imposed a fine on the Bank in the amount of PLN 26.626 thousand payable to the Financial Education Fund.

The Bank appealed against the decision within the statutory deadline. The Bank has established a provision for the above penalty in full amount. The first hearing was set for 29 June 2022. The court requested the Bank to submit additional explanations and documents and adjourned the hearing until 21 September 2022, on which the court delivered his judgment and annulled the decision of UOKiK. The President of UOKiK filed an appeal against the judgment.

Proceedings on practices violating collective consumer interests - unauthorised transactions

On 8 July 2022, the UOKiK initiated proceedings related to the practices violating the collective interests of consumers. The UOKiK alleges that the Bank, upon receipt of a consumer complaint regarding an unauthorised transaction, did not automatically return funds to customers within the D+1 deadline, but instead conducted a preliminary investigation procedure to determine whether the incident could be classified as a security incident (fraud) or a transaction accepted/conducted by the customer. The second allegation of the UOKiK relates to the Bank providing inappropriate information to customers when rejecting complaints about the disputed transaction. When rejecting such complaints, the Bank explains that, according to its systems, the transaction is considered authorised, and thus, if the customer questions this the situation should be considered as customer negligence.

On 31 August 2022, the Bank replied to the UOKiK, using the following reasoning:

The Bank refunds the amounts of transactions that were unauthorised - the lack of authorisation is verified in the banking systems due to the provisions of the agreement concluded with the customer. The agreement specifies the procedure and factors required to authenticate and accept transactions in accordance with European and Polish law.

The Bank disagrees with the UOKiK's position that the questioning of any transaction by a customer automatically triggers an obligation to return it. Such a position is contrary to Article 72 of the PSD. This obligation should arise and be reviewed taking into account all provisions of the PSD, the Regulatory Technical Standards (RTS) and the Polish Payment Services Act, not only in terms of authentication, but also in terms of liability for the transaction or fraud disclosed by the customer.

According to the Bank, the UOKiK's position is the result of incorrect implementation of the PSD into Polish law. According to the PSD, the Bank should prove proper authentication, and not authorisation. Under Polish law, the Bank is obliged to demonstrate that authorisation has been carried out by the Client.

When rejecting complaints, the Bank correctly informs customers of the verification of the correct authentication of the transaction, which at this stage constitutes proof that the Client has performed it. Accordingly, the Bank informs the customer that if the customer still claims that such a transaction was not authorised, the transaction must be the result of fault or negligence on the part of the customer.

Proceedings for practices violating the collective interests of consumers - credit holidays

On 5 September 2022, the Bank received the UOKiK's decision to initiate proceedings against practices that violate the collective interests of consumers by limiting the possibility to apply for a mortgage loan withholding by limiting one application to 2 months, whereas the customer should be able to apply for all periods at the same time (up to 8 months).

In addition, the Bank disagreed with the allegations and has sent its reply to UOKiK, in which it pointed that BNP accepted and processed all individual applications applied by customers (for any number of months). Thus, there was no violation of the collective interests of consumers, as the Bank did not deprive customers of their rights, but only failed to fully automate the electronic application as of the effective date of the law. At the same time, the Bank informed UOKiK that it had changed the questioned practice by launching a new application form in Goonline e-banking on 8 September 2022, allowing customers to apply for any/all periods simultaneously (up to 8 months).

On 17 January 2023, the Bank received the Decision of the UOKiK, in which:

- it recognized the questioned practice as violating the collective interests of consumers;

- the practice was found to be abandoned;

- it ordered publication of the decision;

- it imposed a penalty on the Bank in the amount of PLN 2,720,515.50 (reduced by 50% (30% - for cessation of the practice, 20% as a result of initiating a meeting and expressing willingness to cooperate).

The Bank has appealed the decision to the SOKIK.

Litigation concerning CHF credit agreements in the banking sector

After the judgment of the Court of Justice of the European Union in the CHF-indexed mortgage case (C-260/18), the number of lawsuits related to CHF mortgages against banks is gradually increasing. According to the Association of Polish Banks (ZBP), the number of pending lawsuits related to CHF loan agreements at the end of October 2022 reached over 104 thousand compared to 77 thousand at the end of 2021. During the first nine months of 2022, over 27 thousand new claims related to foreign currency loans were issued against the banks. This resulted in an increase in provisions for these proceedings created by banks having CHF mortgage loan portfolios. The amount of these provisions created by listed banks in 2021 amounted to approximately PLN 7.8 billion, and in the third quarter of 2022 to PLN 7.3 billion, contributing to the total value of provisions created for this purpose in the amount of PLN 18.9 billion at the end of 2021 and PLN 27.2 billion at the end of the third quarter of 2022.

Proceedings instigated by the Bank’s customers being parties to CHF denominated loan agreements

The gross balance sheet value of mortgage and housing loans granted to individual customers in CHF as of 31 December 2022 amounted to PLN 4.09 billion, compared to PLN 4.53 billion at the end of 2021.

As of 31 December 2022 the Bank was the defendant in 3,470 (1,649 new cases in 2022) pending court proceedings (including validly closed cases, clients brought a total of 3,819 claims against the Bank), in which the Bank's customers demanded the annulment of mortgage loan agreements regarding foreign currency loans or loans denominated in CHF, or declaration that the contract is permanently ineffective. The claims are based in particular on a contravention of Article 69 of the Banking Act or on the occurrence of abusive clauses which cause the contract cannot be remained in force (article 353[1] of the Civil Code). The Bank is not a party to any collective claim regarding these loans. The total value of claims pursued in the currently pending cases as of 31 December 2022 was PLN 1 549.46 million (as of 31 December 2021 was PLN 858.03 million), and in legally binding cases PLN 150.36 million (PLN 41.36 million as of 31 December 2021).

As of 31 December 2022, the following judgments have been issued in 349 proceedings that have been legally concluded: 97 judgments in favour of the Bank, including 60 proceedings in case of which a court settlement agreement was concluded, and in 252 cases the courts ruled against the Bank by declaring the loan agreement invalid or permanently ineffective).

The Bank creates provisions on an ongoing basis for pending litigation involving denominated or foreign currency loans, taking into account the current status of judgments in cases against the Bank and the developing line of case law.

The total value of provisions created as at 31 December 2022 amounted to PLN 1,892.4 million (as at 31 December 2021 it amounted to PLN 1 290.4 million), with an impact on the Bank's income statement of PLN 740 million in 2022 (in 2021 it amounted to PLN 1,045.3 million).

The provision is created in accordance with IAS 37 ‘Provisions, contingent liabilities and contingent assets’. Provision for pending cases is calculated on an individual basis, while for future cases using the portfolio method. While calculating the provision, the Bank takes into account, inter alia, the number of certificates downloaded by clients for trial purposes, the estimated probability of clients filing cases, the estimated number of future claims, the number of claims filed, the probability of losing the case, and the Bank's estimated loss in the event of an unfavourable judgment. In addition, the Bank included in the provisioning model the estimated number of settlements to be signed with customers. The amount of the provision for the estimated settlements was PLN 397.7 million from the total balance of provisions.

It should be stressed that the Polish courts, despite contrary indications arising from CJEU rulings (C-19/20 and C-932/19), in the vast majority rule that credit agreements are invalid or ineffective. A number of Supreme Court judgments have been handed down in recent months (according to data at the end of December, there were 80 judgements, of which less than half concerned denominated loans); more than half of these already have written justifications, including 15 cases related to denominated loans.

The Bank estimates the probability of losing a case based on historical judgments, separately for the foreign currency and denominated loan portfolios. Due to the observed volatility in case law, the Bank, when estimating the probability of an adverse judgment, takes into account judgments made after 31 December 2020.

In estimating the loss in the event of a judgment declaring the loan invalid, the Bank assumes that the customer is obliged to return the principal paid without taking into account the remuneration for the use of the principal, the Bank is obliged to return the sum of the principal and interest instalments paid by the client, together with the statutory interest for late payment, cases in progress and the Bank writes down the loan exposure.

The accounting effect of signing a settlement agreement with a customer is the derecognition of a CHF loan, recognition of a new loan in PLN and the recognition of a result from the derecognition as well as the use of a provision for legal risk of CHF loans. In 2022, the Bank used PLN 150 million of the provision for legal risk of CHF loans in connection with the concluded settlements.

The accounting effect of the final judgment declaring the loan agreement invalid is the derecognition of CHF loan exposure as well as the utilization of the provision for legal risk of CHF loans. In 2022, the Bank used PLN 85 million of the provision for legal risk of CHF loans in connection with the receipt of final judgments declaring loan agreements invalid.

Should the assumed average loss change by +/- 5%, with all other significant assumptions unchanged, the amount of the provision would change by +/- PLN 78 million.

The Bank conducted a sensitivity analysis of the model used to estimate the number of lawsuits lost. A change in this estimate would have the following impact on the estimated loss due to legal risk related to CHF loans.

Parameter	Scenario	Impact on Bank's loss due to legal risk
Percentage of lawsuits lost	+5 p.p.	+PLN 66 million
	-5 p.p.	-PLN 80 million

The Bank conducted a sensitivity analysis of the model used to estimate the number of future lawsuits. A change in the number of future lawsuits would have the following impact on the estimated loss due to legal risk related to CHF loans.

Parameter	Scenario	Impact on Bank's loss due to legal risk
Percentage of lawsuits lost	+20%	+PLN 91 million
	-20%	- PLN 91 million

Additionally, if 1% of customers with CHF loans filed a lawsuit against the Bank, the loss due to legal risk would increase by approx. PLN 35 million.

When calculating the expected loss on legal risk related to CHF loans, the Bank takes into account the available historical data, including the content of judgments in concluded cases. The Bank monitors the number of collected certificates and the changing number of lawsuits in order to update the provision estimate accordingly.

The current line of jurisprudence in cases involving actions by borrowers is unfavourable to the banks, but it is important to note a number of still unclarified legal issues relating to foreign currency-linked loans, in particular relating to the effects of declaring a loan agreement invalid, including the banks' ability to demand remuneration for the use of capital. The above issues are important for assessing the risks associated with the proceedings in question.

The Bank monitors the courts' rulings on an ongoing basis and will adjust the level of reserves to the current case-law. At the same time, the Bank is aware that the assumptions made are subject to a subjective assessment of the current situation, which may change in the future. In determining the value of the provision, the Bank relies on all information available at the date of signing the Financial Statements.

Current case law of CJEU and of the Supreme Court on loans in CHF

There was one ruling before the CJEU in 2022 concerning the issues related to CHF loans. On 8 September 2022, the CJEU handed down a judgment in three joined cases concerning indexed and denominated loans granted in Poland (C-80/21 to C-82/21). The Court confirmed that:

- a national court may not replace an abusive contract term (in order to avoid the invalidity of the contract) **by an interpretation of the parties' statement of intent or by a provision of national law of a dispositive nature**.
- it is possible to declare only part of a contract term abusive, provided that that abusive part can be severed in a way which does not affect the substance of the rest of the contract term. If the deletion would amount to altering the content of the term by changing its essence, this is prohibited. It is for the national court to examine in this respect.
- the limitation period for a consumer's claims for reimbursement of sums unduly paid on the basis of an abusive contractual term starts to run from the time when the consumer became aware, or should have become aware, of the unfair nature of the contractual term. On the other hand, it is for the national court to determine that point in time, taking into account the circumstances of the particular case.

Pending at the CJEU is the preliminary question in Case C-520/21 of Millennium Bank, which concerns whether, in the event of the cancellation of a loan agreement, the parties have any claim for the use of the capital by the other party (including the entrepreneur as well as the consumer). The question relates to any possible claim by both parties (remuneration, compensation, reimbursement of expenses or valorisation of the benefit) when the court finds that the contract has collapsed. The hearing was held on 12 October 2022. The hearing was attended by representatives of the European Commission, the Polish government, the Financial Ombudsman, the Ombudsman, the Polish Financial Supervision Authority (among others).

In December 2022, the CJEU received another preliminary question relating to the ability of a bank to assert claims for the use of capital (the case was designated sig. C-756/22).

In an opinion C-520/21 issued on 16 February 2023, the Ombudsman General of the CJEU pointed out that Directive 93/13 does not specify what are the effects of declaring that a consumer contract becomes legally non-existent once unfair terms are removed from it. These effects are determined by member states on the basis of their national law in a manner consistent with the Union law.

With regard to the consumer's claims against the Bank, the Ombudsman General assumed that the provisions of Directive 93/13 do not preclude a judicial interpretation of national law, according to which, if a credit agreement concluded between a consumer and a bank is declared invalid from the outset because it contains fraudulent contractual terms, the consumer, in addition to a refund of the money paid under the agreement and the payment of statutory interest for late payment from the time of the demand for payment, may, following such a declaration, also claim additional benefits from the bank. It is for the national court to determine, in light of national law, whether consumers are entitled to assert such claims and, if so, to rule on their merits.

With regard to the bank's ability to assert claims of a similar nature against consumers, the Ombudsman General proposed that the Court should rule that the bank may not pursue claims against the consumer that go beyond the return of the loan principal transferred and the payment of statutory interest for delay from the time of the request for payment.

According to the Ombudsman General, the proposed solutions are in line with the purpose of the directive, i.e. to grant consumers a high level of protection.

The Ombudsman General's opinion does not prejudge the outcome and is not binding on the CJEU. The date of the CJEU's judgment is unknown.

Due to the fact that the Ombudsman's opinion is not binding, it does not prejudge the outcome, leaves wide scope for interpretation, the judgment of the CJEU is impossible to predict, as well as the application of this judgment by national courts, the opinion cannot be the basis for changing the level of provisions for legal risk related to mortgage loans in CHF in these financial statements.

Assuming that the future ruling of the CJEU will be entirely consistent with the theses of the above-mentioned opinion of the Ombudsman General and finds that banks do not have the right to remuneration for the use of capital, the Bank points out that the remuneration for the use of capital for the Bank is not a parameter used in the current model of the Bank's provisions and does not have a direct impact on the Bank's risk expressed by the level of provisions related to the effects of cancellation of loan agreements. However, in the previous models, the Bank did not take into account the remuneration for the client for the use by the Bank of the instalments repaid by him relating to loan, which was considered invalid. Estimating the amount of potential costs related to this risk requires specifying the assumptions on the basis of establishing a judical interpretation, and then the line of jurisprudence, and will be possible at the earliest after the CJEU has issued a ruling.

Currently, the theses of the resolution of the 7 judges of the Civil Chamber of the Supreme Court of 7 May 2021 in the case ref. III CZP 6/21 (resolution having the force of legal principle) are taken into account in judicial decisions. . In the ruling responding to a legal issue presented by the Financial Ombudsman, the Supreme Court indicated by reasoning the grounds that:

(1) the borrower may agree to the continued validity of terms which may be unfair, in which case they take effect from the date of conclusion of the contract,

(2) if the contract falls due to the unfair terms contained therein, each party has a claim for repayment of the performance made by that party (the so-called two-condition theory) ,

(3) the limitation period for the Bank's claims for reimbursement of the principal begins to run only from the moment when the agreement has become definitively ineffective (the basis for the performance has been lost).

(4) the agreement becomes permanently ineffective from the moment when the borrower, having been informed of all the consequences of the failure of the agreement, including the possible specific negative consequences of such a failure, makes a declaration to not keep the agreement in force. The borrower should be informed of the consequences of the failure of the agreement by the court in the course of the proceedings.

The meeting of the full bench of the Civil Chamber of the Supreme Court concerning the legal issues presented on 29 January 2021 by the First President of the Supreme Court in the case III CZP 11/21 (the current signature is III CZP 25/22) was postponed without a date, following the Supreme Court's formulation of preliminary questions to the CJEU. The preliminary questions are aimed to establish whether the Civil Chamber in its current composition can be regarded as an independent court and thus whether it has the capacity to pass a resolution on the legal questions posed at all.

The First President of the Supreme Court requested a resolution of the Civil Chamber on the following issues:

1. If it is concluded that a provision in an index-linked or denominated loan agreement, which relates to the method of determining the exchange rate of the foreign currency, constitutes an illicit contractual term and is not binding on the consumer, may it be assumed that that provision is replaced by another method of determining the exchange rate of the foreign currency which results from legal or customary rules?

If the answer to the above question is negative:

2. If it is not possible to establish a foreign currency exchange rate binding on the parties in a loan agreement indexed to such a currency, can the agreement be binding on the parties in its remaining scope?

3. If it is not possible to establish a foreign currency exchange rate in a loan agreement denominated in a foreign currency, can the parties remain bound by the agreement?

Irrespective of the answers to questions 1 to 3:

4. If a loan agreement is invalid or ineffective, and as a result of such agreement the Bank has disbursed to the borrower the whole or part of the amount of the loan and the borrower has made repayments on the loan, do separate claims for wrongful performance arise in favour of each of the parties, or does only one claim arise, equal to the difference in performance, in favour of the party whose total performance was higher?

5. If a loan agreement is invalid or ineffective as a result of the unlawful nature of certain of its terms, does the limitation period for the Bank's claim for repayment of the amount paid under the loan start to run from the moment at which those sums were paid?

6. If, in the case of the invalidity or ineffectiveness of a loan agreement, either party has a claim for repayment of the performance made under such agreement, may that party also claim remuneration for the use of its funds by the other party?

If the CJEU confirms the ability of the Civil Chamber of the Supreme Court to rule and the Supreme Court passes a resolution, the Bank will analyse the content of the resolution after its publication, including its impact on further case law and the value of the parameters used to determine the value of legal risk provisions. At this moment it is not possible to predict whether the resolution will be adopted and even more its impact on the provisions estimation.

On 28 April 2022, the Supreme Court (composed of 3 judges) adopted a resolution with a signature III CZP 40/22, according to which: "Contrary to the nature of the legal relationship of a loan indexed to a foreign currency are provisions in which the lender is authorised to unilaterally determine the exchange rate of the currency relevant for calculating the amount of the borrower's obligation and for determining the amount of the loan instalments, if objective and verifiable criteria for determining this rate do not arise from the content of the legal relationship. If the provisions meet the criteria for being considered prohibited contractual provisions, they are not invalid, but are not binding on the consumer within the meaning of Article 385(1) of the Civil Code." An analysis of the justification of the Supreme Court's resolution, indicates that when there occur the prerequisites for the application of the provision of Article 385(1) and Article 353(1) of the Civil Code, the court should apply the sanction of ineffectiveness of the contractual provision, without ruling it invalid on general principles. Although the ruling was issued in a case concerning indexed credit, it can also be applied to denominated and foreign currency loans.

On 20 May 2022, the Supreme Court issued its first ruling on a foreign currency loan granted by the Bank (II CSKP 713/22). According to the Supreme Court, a foreign currency loan exists only if the agreement unambiguously establishes the amount of the loan granted and actually disbursed to the borrower exclusively in a foreign currency and provides for repayment of instalments exclusively in the currency of the loan granted. According to the Court, the parties entered into a loan agreement denominated in CHF, and nothing in the agreement directly provided for the client's claim for payment of the amount of loan made available in CHF.

However, it should be noted that in another decision, the Supreme Court took a different stance (decision of 24 June 2022, I CSK 2822/22), stating that the features of a foreign currency loan are the expression of the amount of the loan granted in a foreign currency and the repayment of the loan instalments in that currency, while not indicating as a characteristic the making of the loan payment in a foreign currency. The above shows that there is no clear position of the Supreme Court in this regard.

As of the end of December 2022, 145 cassation appeals have been filed with the Supreme Court in cases of CHF loans granted by the Bank, 11 appeals have been accepted by the Supreme Court for examination and are awaiting substantive decision, as to 12 cassation appeals, the Supreme Court has issued a decision on refusal to accept for examination.

Individual settlements offered by the Bank

Since December 2021, the Bank is involved in individual negotiation processes with its customers with whom the Bank is in dispute or about whom there is a reasonable risk of entering into a dispute. The Bank took this parameter into account when updating the amount of the provision.

As at 31 December 2022, the Bank has made individual settlement proposals to 6,541 Customers and 1,514 Customers accepted the terms of the proposals presented. This resulted in 1,142 settlement agreements.

55. FINANCIAL RISK MANAGEMENT

55.1. Financial instrument strategy

The Group's core business focuses on financial products offered to customers: retail customers, entrepreneurs and enterprises, public sector and budget institutions as well as non-banking financial institutions. Short-term fixed rate deposits as well as current and savings accounts are the key items of the Group's liabilities. On the other hand, the Bank's assets comprise such credit products as mortgage loans, cash loans, credit cards, overdrafts, investment and revolving loans, subsidized loans, factoring facilities, leasing, guarantees, international trade finance transactions (e.g. letters of credit), the majority of which are medium- and long-term instruments bearing interest based on short-term market rates.

The Group uses financial market instruments in the first place to manage the liquidity, interest rate and currency risk inherent in its core business, considering the internal risk appetite as well as market trends in the medium and long term.

Additionally, the Group offers access to financial market instruments to its customers for purposes of hedging market (currency, interest rate or commodity) risk inherent with their core business.

55.2. Credit risk

Credit risk is inherent in the core financial operations of the Group, the scope of which includes both lending and providing funding with the use of capital market products. Consequently, credit risk is identified as the risk with the highest potential to affect the present and future profits and equity of BNP Paribas. Proof of the key nature of credit risk is its 77% share in the total economic capital estimated by the Group for purposes of covering major risks involved in the Bank's operations, in addition to its 89% share in the total value of regulatory capital.

Credit risk management is primarily aimed at implementation of the Group's strategy through a harmonious increase in the loan portfolio, accompanied by maintenance of the credit risk appetite at an acceptable level.

Credit risk management principles adopted by the Group include:

- each credit transaction requires comprehensive credit risk assessment expressed in internal rating or scoring;
- in-depth and careful financial analysis serves as the basis for regarding the customer's financial information and collateral-related data as reliable; prudential analyses performed by the Group always take into account a safety margin;
- as a rule, financing is provided based on the customer's ability to generate cash flows that ensure payment of liabilities to the Group;
- credit risk assessment is additionally verified by credit risk assessment personnel, independent of the business;
- pricing terms of a credit transaction have to take account of the risk involved in such a transaction;
- credit risk is diversified with regard to geographical regions, industries, products and customers;
- credit decisions may only be taken by competent employees;
- the Group enters credit transactions only with known customers and long-term relationships are the basis for cooperation with customers;
- the customer and the transactions made with the customer are monitored transparently from the perspective of the customer, in a manner strengthening the relationship between the Bank and the customer.

Concentration risk is the Bank's risk inherent to its statutory operations, which is appropriately defined and managed.

The Management Board assesses the concentration risk policy in terms of its application. In particular, it analyses the efficiency and adequacy of the principles applied in the context of the current and planned operations and risk management strategy. The adequacy of the concentration risk management is reviewed if any material changes are observed in the Group's environment or if the risk management strategy is modified.

The appropriate assessment of the concentration risk of the Group is highly dependent on correct identification of all key concentration risks. In justified cases, the Group identifies concentration risk when planning its new activities involving the development and launch of new products, services, expansion to new markets, considerable alterations of products and services or market changes.

Credit portfolio diversification is one of the key credit risk management tools. The Group avoids excessive credit concentration, as it increases the risk. Possible losses pose a considerable threat, and therefore the concentration level should be monitored, controlled and reported to the Group's management. Key concentration risk mitigation tools include risk identification and measurement mechanisms and exposure limits in individual Bank portfolio segments and in subsidiaries. These tools enable internal differentiation of the loan portfolio and mitigation of negative effects of adverse changes in the economy.

A significant concentration area (aspect) is the one whose share in the Group's balance sheet total is equal or higher than 10% or 5% of the net profit planned for a given year. In such cases, a given concentration area (aspect) is subject to analyses, reporting and management under the concentration risk management process.

High concentration of the Group's credit exposures to each entity or group of entities with equity or organizational relationships is one of the potential sources of credit risk. For purposes of its reduction, the Regulation No. 575/2013 specifies the Group's maximum exposure limit. Under Article 395 of the Regulation No. 575/2013: the institution does not assume any exposure to the client or related clients, the value of which, taking into account the effect of limiting credit risk in accordance with Articles 399-403, exceeds 25% of the value of its Tier 1 capital. If a client is an institution or if a group of related clients include at least one institution, the value does not exceed 25% of its Tier 1 capital or of the amount of EUR 150 million, depending on which one of these two amounts is higher, provided that the sum of the exposure to all related non-institutional customers, after taking into account the effect of credit risk mitigation under Articles 399-403, does not exceed 25% of the value of the institution's Tier 1 capital.

As at the end of 2022: consolidated limits specified in art. 395 of EU Regulation No. 575/2013 have been exceeded with regard to entities of the BNP Paribas S.A. Group. In accordance with the applicable regulations, the Bank provided information on the above-mentioned exceedances to the supervisory authorities and took steps to eliminate similar exceedances in the future.

In the case of the limit of exposure to entities outside the BNP Paribas S.A. Group, the limits were not exceeded, the largest exposure was 11.46% of Tier 1 capital on a consolidated basis.

Concentration risk tolerance in the Group is determined by a system of internal limits, including both assumed development directions and speed of the Group's business, an acceptable level of credit risk and liquidity, as well as external conditions, macroeconomic and sectoral perspective. Among others, internal limits for credit concentration risk are determined for:

- selected sectors / industries;
- exposures denominated in foreign currencies;
- customer segments (intra-bank customer segmentation);
- loans secured with a given type of collateral;
- geographical regions;
- average probability of default;
- exposures with a specified rating (the Group's internal rating scale);
- exposures with a specified debt-to-income ratio;
- exposures with a specified loan-to-value ratio.

Activities that limit Group's exposure to concentration risk may include systemic measures and one-off / specific decision and transactions. Systemic measures that limit concentration risk include:

- reduction of the scope of crediting of determined customer types through credit policy adjustment;
- reduction of limits charged with concentration risk;
- diversification of asset types on the level of the Group's statement of financial position;
- change of business strategy to ensure prevention of excessive concentration;
- diversification of accepted collateral types.

Systemic measures that limit concentration risk include:

- reduction of further transactions with a given customer or a group of related customers;
- sale of selected assets/loan portfolios;
- securitization of assets;
- establishing of new collateral types (e.g. credit derivatives, guarantees, sub-participation, and insurance contracts) for existing or new credit exposures.

A concentration analysis by industry focuses on all credit exposures of the Group to institutional customers. The Group defines industries based on Polish statistical classification of economic activities (NACE/PKD 2007). The Group's exposure to industries analysed at the end of 2022, similarly as at the end of December 2021, is concentrated in the following industries: Agriculture, Forestry, Hunting and Fishing, manufacturing. As at the end of December 2022, the share of manufacturing decreased by 1 p.p. to the level of 23% as compared to the end of 2021, while the share of agriculture, forestry and fishing decreased by 4 p.p. as compared to the end of 2021 to the level of 18% of industrial exposure.

The table below presents a comparison of the share of impaired loans in industries (gross balance sheet value) as at 31 December 2022 and 2021.

	Exposure*		Share of impaired loans	
Industry	31.12.2022	31.12.2021	31.12.2022	31.12.2021
AGRICULTURE, FORESTRY AND FISHING	9,293,333	10,465,499	7.7%	7.4%
MINING AND QUARRYING	79,683	37,820	2.3%	10.6%
MANUFACTURING	12,365,311	11,796,094	2.5%	2.9%
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	1,092,049	1,625,848	0.3%	0.3%
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	190,385	178,067	1.8%	1.9%
CONSTRUCTION	3,293,737	2,523,808	5.5%	7.0%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	8,110,750	7,210,738	4.1%	4.9%
TRANSPORTATION AND STORAGE	2,546,054	2,091,731	2.3%	3.1%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	280,128	257,179	20.6%	19.3%
INFORMATION AND COMMUNICATION ACTIVITIES	2,686,342	1,066,367	1.8%	1.3%
FINANCIAL AND INSURANCE ACTIVITIES	1,689,167	971,971	3.7%	7.6%
REAL ESTATE ACTIVITIES	5,761,289	5,134,198	2.3%	2.2%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	3,119,349	3,140,265	1.6%	1.4%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	1,083,990	1,038,545	3.8%	4.6%
PUBLIC ADMINISTRATION AND DEFENCE, COMPULSORY SOCIAL SECURITY	54,892	82,711	0.0%	0.0%
EDUCATION	76,405	86,123	8.6%	9.9%
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	847,363	755,823	2.8%	2.5%
ARTS, ENTERTAINMENT AND RECREATION ACTIVITIES	18,741	17,343	8.7%	18.5%
OTHER ACTIVITIES	114,436	108,059	4.0%	5.1%
Total	**52,703,402**	**48,588,189**	**3.9%**	**4.3%**

*Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

The Group manages the risk of collateral concentration. For this purpose, Group Bank introduced limits for the involvement of particular types of collateral, ensuring their appropriate diversification. As at the end of 2022, as well as at the end of 2021, the limits were not exceeded.

In the case of an individually assessed exposures as at 31 December 2022, the Group expects to recover, due to established collaterals, the amount of PLN 229,608 thousand, which is 22% of the total exposure assessed individually with recognised impairment (PLN 325,251 thousand and 29% as at 31 December 2021).

Maximum exposure on credit risk

The table below presents the Group's maximum exposure to credit risk for financial instruments both recognised and not recognised in the financial statements. The maximum exposure was presented in its gross value, before considering the impact of collateral and other credit quality improvement instruments.

	31.12.2022	
Assets	Maximum exposure on credit risk – no collaterals included	Maximum exposure on credit risk – collaterals included
Cash and balances at Central Bank	2,718,316	2,718,307
Amounts due from other banks	11,801,694	11,800,189
Derivative financial instruments	3,224,272	3,224,272
Adjustment of the hedged item fair value	33,025	33,025
Loans and advances to customers measured at amortised cost	92,096,240	89,090,317
Loans and advances to customers measured at fair value through profit or loss	949,298	949,298
Securities measured at amortised cost	22,212,240	22,167,261
Securities measured at fair value through profit or loss	316,593	316,593
Securities measured at fair value through other comprehensive income	17,384,793	17,384,793
Deferred tax assets	966,436	966,436
Other financial assets	736,305	678,836
Total assets	**152,439,212**	**149,329,327**
Total contingent liabilities	**11,234,325**	**11,234,325**
Total exposure on credit risk	**163,673,537**	**160,563,652**

	31.12.2021	
Assets	Maximum exposure on credit risk – no collaterals included	Maximum exposure on credit risk – collaterals included
Cash and balances at Central Bank	4,631,760	4,631,477
Amounts due from other banks	2,620,593	2,615,150
Derivative financial instruments	1,901,919	1,901,919
Adjustment of the hedged item fair value	65,465	65,465
Loans and advances to customers measured at amortised cost	88,042,967	85,080,454
Loans and advances to customers measured at fair value through profit or loss	1,219,027	1,219,027
Securities measured at amortised cost	23,313,693	23,268,041
Securities measured at fair value through profit or loss	347,309	347,309
Securities measured at fair value through other comprehensive income	9,143,353	9,143,353
Deferred tax assets	876,599	876,599
Other financial assets	428,012	369,108
Total assets	**132,590,697**	**129,517,902**
Total contingent liabilities	**8,692,582**	**8,692,582**
Total exposure on credit risk	**141,283,279**	**138,210,484**

Exposure to credit risk by credit quality ratings

The table below presents significant credit risk exposures to which the expected credit loss model was applied. The breakdown was based on the rating scale presented below:

31.12.2022

Gross loans and advances measured at amortised cost, for which impairment allowance is estimated as*:

Rating	12-month expected credit loss - exposures without impairment	Expected credit loss during the exposure period - exposures without impairment	Expected credit loss during the exposure period - exposures with impairment	Expected credit loss during the exposure period - POCI exposures	Gross portfolio value for a given rating category	Net portfolio value for a given rating category
1	-	-	-	-	-	-
2	1,432	1	-	-	1,433	1,432
3	1,738,867	1,239	-	-	1,740,106	1,738,991
4	2,624,762	15,649	3,459	-	2,643,869	2,638,300
5	11,347,860	222,729	440	9	11,571,031	11,544,772
6	17,593,287	1,142,143	20,525	1,667	18,757,629	18,630,558
7	10,691,893	1,679,506	11,583	19,514	12,402,472	12,223,067
8	807,550	1,583,441	6,044	3,946	2,400,848	2,290,997
9	19,241	870,816	7,700	868	898,622	791,030
10	11,879	544,413	396,041	8,674	960,999	600,857
11 to 12	-	4,403	1,305,432	91,632	1,401,420	589,208
Total	**44,836,771**	**6,064,340**	**1,751,224**	**126,310**	**52,778,429**	**51,049,212**

31.12.2021

Gross loans and advances measured at amortised cost, for which impairment allowance is estimated as*:

Rating	12-month expected credit loss - exposures without impairment	Expected credit loss during the exposure period - exposures without impairment	Expected credit loss during the exposure period - exposures with impairment	Expected credit loss during the exposure period - POCI exposures	Gross portfolio value for a given rating category	Net portfolio value for a given rating category
1	195	-	-	-	195	194
2	98,886	1	-	-	98,887	98,885
3	1,466,557	4	-	-	1,466,562	1,466,312
4	2,297,422	6,304	-	-	2,303,727	2,302,935
5	7,176,396	167,297	3,004	-	7,346,687	7,334,970
6	15,174,790	596,215	14,714	2,685	15,788,415	15,705,802
7	12,194,008	968,435	28,946	3,751	13,194,945	13,010,523
8	2,639,331	1,568,413	15,521	8,754	4,231,991	4,093,222
9	76,160	695,160	31,663	3,488	806,463	727,064
10	24,004	468,670	422,523	11,388	926,535	623,119
11 to 12	1,311	8,777	1,198,702	133,959	1,342,707	619,425
Total	**41,149,060**	**4,479,276**	**1,715,073**	**164,025**	**47,507,114**	**45,982,451**

*Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

For large enterprises and clients from the SME segment that prepare full financial reporting, the Group determines internal rating classes in accordance with the adopted credit policy. The rating classes are based on the risk model dedicated to this part of the loan portfolio and are the basis for estimating the amount of the provision in accordance with IFRS 9. The Group's customers are assigned ratings from 1 (clients for whom the Group identifies the lowest credit risk) to 12 (clients for whom the Bank identifies the highest credit risk). In order to assign ratings, the annual financial data provided by the client and the general quality assessment of its market situation are used.

The structure of overdue receivables

The purpose of repayment overdue analysis is to indicate the level of potential credit loss (in respect of receivables without impairment). The higher delinquency in repayment, the more likely it is to identify an objective impairment trigger in the future. An increase in the delay in repayment above zero days increases the chance of identifying impairment trigger, but does not itself constitute grounds for giving this trigger. In the case of exposures overdue below 91 days, the impairment trigger may, however, be identified based on additional information about the economic and financial situation of the client.

The structure of the loan portfolio (measured at amortised cost and measured at fair value through profit or loss) divided into impaired exposures and not impaired exposures along with the level of arrears in repayment are presented in the tables below.

	31.12.2022					
Structure of overdue loan portfolio (net balance sheet value)*	not impaired				impaired	Total
	0 days	1-30 days	31-60 days	61-90 days		
Mortgage loans and advances	25,983,101	96,966	9,857	4,490	198,927	26,293,341
Cash loans	8,789,784	84,523	11,527	4,447	143,937	9,034,218
Car loans	1,673,748	5,688	1,029	694	12,214	1,693,373
Credit cards	871,162	10,190	2,002	690	20,429	904,473
Investment loans	22,821,582	1,431,021	11,874	1,599	337,492	24,603,568
Limits in current accounts	11,104,687	134,661	15,271	1,409	156,574	11,412,602
Corporate revolving loans	9,110,133	722,720	29,731	7,511	301,573	10,171,668
Leases	5,193,511	127,812	9,015	5,509	89,234	5,425,081
Other	461,516	13,837	1,932	2,716	21,290	501,291
Total	**86,009,224**	**2,627,418**	**92,238**	**29,065**	**1,281,670**	**90,039,615**

	31.12.2021					
Structure of overdue loan portfolio (net balance sheet value)	not impaired				impaired	Total
	0 days	1-30 days	31-60 days	61-90 days		
Mortgage loans and advances	26,290,199	22,813	5,965	782	269,685	26,589,444
Cash loans	8,497,311	60,781	9,149	3,176	175,663	8,746,080
Car loans	1,736,309	4,433	1,650	442	12,836	1,755,670
Credit cards	1,005,430	8,466	1,560	438	22,489	1,038,383
Investment loans	20,942,964	312572	10,756	655	374,149	21,641,096
Limits in current accounts	10,398,990	73,858	6,663	1,068	160,716	10,641,295
Corporate revolving loans	9,779,339	88,918	5,106	1,459	308,431	10,183,253
Leases	4,506,032	127,264	88,526	2,445	98,789	4,823,056
Other	834,864	11,155	13,824	8	21,353	881,204
Total	**83,991,438**	**710,260**	**143,199**	**10,473**	**1,444,111**	**86,299,481**

* Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

With regard to the mortgage loan portfolio, the Bank defines the DTI (debt to income) ratio as the ratio of monthly credit charges, financial charges, which are permanent and irrevocable in nature, and the instalment of the requested Loan (taking into account the interest rate risk buffer) to the amount of average monthly net income. In accordance with the credit policy for mortgage loans, the Bank sets the maximum DTI levels at 0.65 or 0.50, depending on the customer's income and follows the requirements of Recommendation S. The Bank monitors the level of DTI/DSTI ratios during annual credit policy reviews, as well as in dedicated ad hoc analyses.

The Bank has noted rising DTI/DSTI ratios as a result of rising interest rates and increasing instalments for mortgages. In 2022, credit policy changes were introduced to limit the availability of mortgages with DTI ratios exceeding 50% for selected customer groups. At the same time, business offerings were restricted resulting in a significant reduction in loan production.

At the end of 2022, the Bank does not observe increased credit risk for new loan production as well as the existing mortgage loan portfolio. Both Vintage ratios and NPL (non-performing loan) levels in the mortgage segment are stable, at the levels no higher than those observed in the Polish banking market.

Impairment allowances

Impairment allowances reflect the expected credit loss calculated using the three-step approach required by IFRS 9, as described in Note 3.

Collaterals

Description of collateral held or other mechanisms that improve the credit quality

The Group assesses the creditworthiness of each client on an individual basis. The value of collateral obtained, if it is deemed necessary by the Group due to the granting of a loan, is subject to valuation by the Group. The Group accepts various forms of collateral for loans, while the main categories include:
- real estate mortgage;
- insurance of real estate being the subject of a mortgage;
- life insurance of the borrower;
- registered pledge.

Impact of collaterals on the valuation of exposure with impairment identified (loans measured at amortised cost and at fair value through profit or loss)*:

31.12.2022	Gross value with impairment	Collateral value	Net value with impairment
Loans and advances to:			
Other financial institutions	1,927	36	229
Retail customers	997,436	511,432	373,750
Corporates:	1,930,385	1,441,764	817,843
including retail farmers	630,609	567,607	309,707
Public sector entities	796	766	377
Lease receivables	152,383	-	89,471
Total gross loans and advances	**3,082,927**	**1,953,998**	**1,281,670**
Allowances (negative value)	(1,801,257)		
Total net loans and advances	**1,281,670**		

31.12.2021	Gross value with impairment	Collateral value	Net value with impairment
Loans and advances to:			
Other financial institutions	1,616	-	294
Retail customers	1,127,360	594,143	505,491
Corporates:	1,949,635	1,424,520	835,308
including retail farmers	702,602	636,185	423,209
Lease receivables	204,827	-	103,018
Total gross loans and advances	**3,283,438**	**2,018,663**	**1,444,111**
Allowances (negative value)	(1,839,327)		
Total net loans and advances	**1,444,111**		

* Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

In the period covered by the present financial statements, there were no significant changes in the quality of collateral as a result of deterioration or changes in the Group's collateral policy.

Mortgage loans denominated in foreign currencies

Mortgage loans to individual customers account for ca. 29% of the loan portfolio of non-financial sector of the Group (gross carrying amount), with 15% being loans in foreign currencies a major part of which (99%) are denominated in CHF (the Swiss franc). The total gross carrying amount of mortgage loans in foreign currencies is PLN 4,127,187 thousand.

The Group performs revaluation of the residential property pledged as collateral for loans on an annual basis, on the following assumptions:

- where the debt is below PLN 12 million at the revaluation date – the property is revalued using a statistical method;
- where the debt is more than PLN 12 million at the revaluation date – the property is revalued on a case-by-case basis.

The revalued amount is the basis for calculation of the current LTV for a single exposure and the average LTV for the entire portfolio as the average weighted by the gross carrying amount of individual LTVs.

The total on-balance sheet exposure and the average LTVs for mortgage loans in foreign currencies considering impairment and delinquency in days is presented below.

days past due	gross balance sheet value	average LTV weighted with gross balance sheet value
0-30 days	3,866,848	80.30%
31-60 days	6,309	96.77%
61-90 days	11,057	62.26%
over 90 days	239,973	91.40%
Total	**4,124,187**	**80.92%**

impairment identified	gross balance sheet value	average LTV weighted with gross balance sheet value
NO	3,816,519	80.13%
YES	307,668	90.66%
Total	**4,124,187**	**80.92%**

The average current LTV for the entire foreign currency mortgage loan portfolio was at the level of 81%, while the average current LTV for mortgage loans in the Polish currency is 63%.

Exposure structure and average current LTV by loan granting year (mortgage loans in foreign currencies) are presented in the table below:

date of agreement	number of loans granted	gross balance sheet value	average LTV weighted with gross book value	gross balance sheet value*
2005 and before	2,076	276,463	44.55%	264,790
2006	4,285	949,391	59.07%	906,610
2007	3,799	1,281,205	82.90%	1,198,441
2008	4,579	1,387,675	99.99%	1,263,136
2009	559	122,520	69.13%	115,609
2010 and beyond	263	106,933	111.26%	67,933
Total	**15,561**	**4,124,187**	**80.92%**	**3,816,519**

* non-impaired loans

Forbearance practices

The Group treats its exposures as forborne if the obligor is provided with a forbearance due to economic reasons (financial difficulties), including any forbearance granted for exposures with identified impairment triggers. In case the forbearance is granted for a customer with a material economic loss, the Bank classifies such a customer as default.

A facility is understood as the occurrence of at least one of the following events:

- a change to the repayment schedule, especially extending the loan maturity date;
- cancellation of overdue amounts (e.g. capitalization of an overdue amount, which can be repaid at a later date);
- redemption of principal, interest or fees;
- consolidation of loans into one new product, if the amounts of payments of the consolidated loan are lower than the sum of payments of these loans separately before the consolidation occurred;
- decrease of the base interest rate or margin;
- originating a new loan to repay the existing debt;
- conversion of an existing credit,
- amendment or waiver of significant provisions of the agreement (e.g. a condition of the agreement that was breached as a result of financial difficulties),
- additional collateral presented by the Borrower (if present together with another event meeting the definition of a facility) or sale of the collateral agreed with the Bank, with the proceeds from the repayment of the collateral being used to repay the Bank's loan obligation.

Only in the period of customer's financial difficulties or, in the period when, due to changes on the market, such difficulties may occur, i.e.:

- the exposure is subject to debt collection; or
- the exposure is not subject to debt collection but there is evidence (provided by the customer or obtained in the decision-making process) that the customer is facing financial difficulties or may be facing them in the near future.

A material economic loss is defined by the Bank as the drop of present value of expected cash flows, resulting from forbearance granted, equal or higher than 1%. The drop of the present value is calculated in accordance with the below formula:

$$\frac{NPV_0 - NPV_1}{NPV_0}$$

where:

NPV0 – the present value of expected cash flows (including interest and fees / commissions) prior to the introduction of changes in loan terms, discounted with the original effective interest rate,

NPV1 – the present value of expected cash flows (including interest and fees / commissions), after the introduction of changes in the loan terms, discounted using the original effective interest rate. In the case of consolidation of many loans for the original interest rate for the purpose of assessing the significance of economic loss, the average EIR weighted with the gross balance sheet exposure at the moment of granting the facility is assumed.

The change in the present value of expected cash flows shall be calculated at the level of single exposure.
In justified cases resulting from complex restructuring measures for a given client (e.g. priority repayment of loans with a collateral of a low value), it is permissible to calculate NPV at the level of a client.

The "forborne" status is no longer assigned if the following conditions have been satisfied:

- exposure reclassified to performing portfolio as a result of the analysis of financial situation (in case of corporate portfolio), which proved that the customer does not meet the criteria for being classified to the impaired portfolio;
- the exposure has not been considered impaired for 24 months in a row;
- none of the exposures to the customer are past due by more than 30 days;
- the obligor has been making regular and considerable payments for at least a half of the trial period.

	31.12.2022			
Forborne exposures	Total portfolio	including forbearance exposures	including change of terms	including refinancing
Loans and advances for:	**93,045,538**	**1,408,241**	**1,345,495**	**62,746**
Non-banking financial institutions	852,935	17	17	-
Retail customers	38,845,108	589,367	576,374	12,993
Corporate customers	47,761,242	793,427	743,674	49,753
including retail farmers	7,671,915	332,111	329,900	2,211
Public sector institutions	58,956	-	-	-
Lease receivables	5,527,297	25,430	25,430	-
Expected credit losses on loans and receivables for	**(3,005,923)**	**(500,814)**	**(482,098)**	**(18,716)**
Non-banking financial institutions	(3,333)	(14)	(14)	-
Retail customers	(1,178,889)	(198,261)	(194,407)	(3,854)
Corporate customers	(1,709,720)	(292,701)	(277,839)	(14,862)
including retail farmers	(483,836)	(105,382)	(105,194)	(188)
Public sector institutions	(922)	-	-	-
Lease receivables	(113,059)	(9,838)	(9,838)	-
Total loans and advances (net)	**90,039,615**	**907,427**	**863,397**	**44,030**

	31.12.2021			
Forborne exposures	Total portfolio	including forbearance exposures	including change of terms	including refinancing
Loans and advances for:	**89,261,994**	**1,467,746**	**1,404,311**	**63,435**
Non-banking financial institutions	796,517	-	-	-
Retail customers	38,820,174	569,119	551,405	17,714
Corporate customers	44,571,465	869,455	823,734	45,721
including retail farmers	8,823,433	383,741	380,732	3,009
Public sector institutions	84,487	-	-	-
Lease receivables	4,989,351	29,172	29,172	-
Expected credit losses on loans and receivables for	**(2,962,513)**	**(438,438)**	**(420,751)**	**(17,687)**
Non-banking financial institutions	(2,075)	-	-	-
Retail customers	(935,977)	(188,839)	(184,177)	(4,662)
Corporate customers	(1,860,797)	(238,627)	(225,602)	(13,025)
including retail farmers	(389,619)	(59,306)	(58,948)	(358)
Public sector institutions	(1,542)	-	-	-
Lease receivables	(162,122)	(10,972)	(10,972)	-
Total loans and advances (net)	**86,299,481**	**1,029,308**	**983,560**	**45,748**

In 2022, the Bank no longer participated in any assistance programs, under non-statutory moratoria, related to the COVID-19 pandemic due to their official cessation after 31 March 2021. Statutory moratoria, on the other hand, are executed on the basis of a statement that the customer has lost his job or other main source of income. The Bank also continues to monitor the behaviour of exposures supported by moratoria, both those statutory and non-statutory ones.

The data in the tables below are based on balance sheet value and present the amounts recognized in the Group's books as at 31 December 2022 and 31 December 2021.

31.12.2022

Loans and advances to customers subject to a moratorium	Number of clients granted with moratoriums	Value of loans and advances covered by ongoing and expired moratoriums	including regulatory moratorium	including ongoing moratorium	
				not impaired	impaired
Gross balance sheet value	**30,057**	**4,147,470**	**199,613**	**-**	**-**
Non-banking financial institutions	23,416	2,502,997	199,163	-	-
Corporates	5,161	1,474,297	450	-	-
including retail farmers:	1,229	376,905	145	-	-
Public sector institutions	2	1,000	-	-	-
Lease receivables	1,478	169,176	-	-	-
Allowance	x	**(384,328)**	**(56,596)**	**-**	**-**
Non-banking financial institutions	x	(220,677)	(56,448)	-	-
Corporates	x	(153,550)	(148)	-	-
including retail farmers:	x	(45,345)	(57)	-	-
Public sector institutions	x	(423)	-	-	-
Lease receivables	x	(9,678)	-	-	-
Total net loans and advances to customers subject to the moratorium	**30,057**	**3,763,142**	**143,017**	**-**	**-**

31.12.2021

Loans and advances to customers subject to a moratorium	Number of clients granted with moratoriums	Value of loans and advances covered by ongoing and expired moratoriums	including regulatory moratorium	including ongoing moratorium	
				not impaired	impaired
Gross balance sheet value	**37,232**	**5,709,313**	**255,747**	**126**	**12,704**
Non-banking financial institutions	28,547	2,960,346	255,374	126	12,486
Corporates	6,546	2,213,339	373	-	218
including retail farmers	1,411	460,274	218	-	218
Public sector institutions	2	1,041	-	-	
Lease receivables	2,137	534,587	-	-	
Allowance	x				
Non-banking financial institutions	x	(207,870)	(71,904)	(10)	(3,647)
Corporates	x	(153,253)	(19)	-	(19)
including retail farmers:	x	(35,025)	(19)	-	(19)
Public sector institutions	x	(201)	-	-	
Lease receivables	x	(35,151)	-	-	
Total net loans and advances to customers subject to the moratorium	**37 232**	**5,312,838**	**183,824**	**116**	**9,038**

31.12.2021

Gross balance sheet value	Total	Residual maturity of the ongoing moratoria: up to 3 months	3 – 6 months
Retail customers	12,612	12,612	-
Corporate clients:	218	218	-
including retail farmers:	218	218	-
Total gross loans and advances to customers subject to the moratorium	**12,830**	**12,830**	**-**

31.12.2022

Newly granted loans and advances to customers covered by public guarantee programs	Number of clients who have used the public guarantee	Value	Including: residual maturity of the public guarantee: up to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
Gross balance sheet value	**6,551**	**2,549,438**	**329,528**	**1,067,556**	**568,423**	**365,582**	**218,349**
Non-banking financial institutions	8	981	195	-	31	335	420
Corporate clients:	6,543	2,548,457	329,333	1,067,556	568,392	365,247	217,929
including retail farmers:	582	127,207	1,346	6,048	32,987	86,826	-
Allowance	**x**	**(59,216)**	**(7,100)**	**(18,907)**	**(5,245)**	**(19,572)**	**(8,392)**
Non-banking financial institutions	x	(21)	(6)	-	-	(6)	(9)
Corporate clients:	x	(59,195)	(7,094)	(18,907)	(5,245)	(19,566)	(8,383)
including retail farmers:	x	(716)	(7)	(43)	(80)	(586)	-
Total net newly granted loans and advances to customers covered by public guarantee programs	**6,551**	**2,490,222**	**322,428**	**1,048,649**	**563,178**	**346,010**	**209,957**

31.12.2021

Newly granted loans and advances to customers covered by public guarantee programs	Number of clients who have used the public guarantee	Value	Including: residual maturity of the public guarantee: up to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
Gross balance sheet value	**5,306**	**2,519,663**	**173,596**	**997,446**	**997,298**	**150,263**	**201,060**
Corporate clients:	5,306	2,519,663	173,596	997,446	997,298	150,263	201,060
including retail farmers:	245	60,173	216	1,508	8,040	50,409	-
Allowance	**x**	**(24,226)**	**(1,329)**	**(9,160)**	**(7,869)**	**(2,372)**	**(3,496)**
Corporate clients:	x	(24,226)	(1,329)	(9,160)	(7,869)	(2,372)	(3,496)
including retail farmers:	x	(260)	(10)	(1)	(144)	(105)	-
Total net newly granted loans and advances to customers covered by public guarantee programs	**5,306**	**2,495,437**	**172,267**	**988,286**	**989,429**	**147,891**	**197,564**

As at 31 December 2022, the value of expired moratoriums amounted to PLN 4 147 470 thousand (PLN 5 696,483 thousand as at 31 December 2021).

Due to the ongoing war in Ukraine and the economic sanctions issued against Russia and Belarus, the Bank analysed credit exposures directly related to these countries and, based on this, did not identify any significant exposures in both the corporate and individual client portfolios.

At the same time, the Bank monitors the situation of clients on an ongoing basis with a view to safeguarding the credit portfolio and maintaining its high quality. Preventive measures taken in the first quarter of 2022 are being continued. As part of these activities, institutional clients whose business activities are:

1) related to the economies of the above countries and thus may be exposed to the effects of war and imposed sanctions;
2) particularly sensitive to inflation;

3) vulnerable to the Russian gas embargo.

For the purpose of selecting the war-exposed loan portfolio, the Bank considers the following factors (among others):

1) exports/imports to/from countries at risk;
2) capital or organizational relations with citizens of Russia or Belarus;
3) transportation services provided in countries at risk or logistic channels passing through countries at risk;
4) production carried out in countries at risk;
5) investments in fixed assets and capital investments in risk countries;
6) existence of commercial contracts in risk countries (especially construction contracts);
7) employment of workers from Russia, Ukraine or Belarus;
8) distribution of Russian and Belarusian goods or services (risk of boycott of goods).

In the case of inflation, based on information provided by the Department of Economic and Sectoral Analysis, the Bank made a selection of particularly sensitive industries. The shares of energy and material prices in operating costs (as the main drivers of inflation) and gross margin were taken into account. A threshold of increased risk was defined for each of these factors. Information on the possibility of passing on price increases to customers was also included in the sensitivity assessment.

The group of customers selected on this basis was subjected to further detailed analysis to identify activities with higher risk levels. The risk assessment is updated on a semi-annual basis.

Country risk

Within credit risk, the Bank additionally distinguishes country risk, which covers all risks related to conclusion of financial agreements with foreign parties, assuming that it is possible that economic, social or political events will have an adverse effect on creditworthiness of the Bank’s obligors in that country or where intervention of a foreign government could prevent the obligor (which could also be the government itself) from discharging his liabilities.

The Bank’s policy concerning country risk has been conservative. Country limits have been reviewed periodically and the limit level modified to precisely match the anticipated business needs and risk appetite of the Bank.

As at the end of 2022, 53% of the Bank's exposure to countries other than Poland were transactions related to the Bank's foreign lending activities, treasury transactions (including placement and derivative transactions) accounted for 34% while the remaining part, i.e. 13% was related to foreign trade transactions (letters of credit and guarantees). France accounted for 57%, Luxembourg for 16%, the Netherlands and Austria for 7% both, Italy for 5% and Belgium for 3% of the exposure. The remaining exposure was concentrated in Mexico, the Great Britain and Germany.

The Bank had no material credit exposures in Russia, Ukraine and Belarus.

55.3. Counterparty risk

Counterparty risk is the credit risk concerning the counterparty transactions in case of which the amount of liability may change in time depending on market parameters. Therefore, the counterparty risk is related to transactions on instruments whose value may change over time depending on such factors as interest rates or foreign exchange rates. The varying exposure may affect the customer’s solvency and is of crucial importance to the customer’s ability to discharge its liabilities when the transaction is settled. The Bank’s customers may enter into financial market transactions. The exposure is determined by the Bank on the basis of the current measurement of contracts as well as the potential future changes in the exposure, depending on the transaction type, customer type and the settlement dates.

At the end of December 2022, the counterparty risk was calculated for the following types of transactions: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.

Counterparty credit risk, for transactions which generate counterparty risk, is assessed using the same methodology as the one applied to loans. This denotes that in the credit process, these transactions are subject to limits, the value of which results directly from assessment of customer creditworthiness. However, the assessment also takes into account the specific nature of transactions, in particular their changing value in time or direct dependence on market parameters.

The principles applicable to foreign exchange transactions, derivative transactions as well as credit limit granting, use and monitoring for transactions subject to counterparty risk limits have been laid down in dedicated procedures. According to the policy in place at the Bank, all transactions are entered into considering individual limits and knowledge of the customer. The Bank diversifies availability of products, which are offered to customers depending on their knowledge and experience. The Bank has transparent rules applicable to hedging the counterparty credit risk exposure in place.

At the end of December 2022, the Bank's exposure to the counterparty risk due to concluded derivative transactions was PLN 2.4 billion. Corporate and financial clients constituted 70% of the exposure, while the remaining 30% were banks.

In connection with COVID-19 pandemic as well as the war in Ukraine and the economic sanctions issued against Russia and Belarus, the Bank observes increased volatility in market risk parameters, which translates into fluctuations in counterparty risk exposure. The Bank assesses counterparty risk on an ongoing basis by conducting reviews of the portfolio of clients in case of whom this risk exists.

The Bank maintains the application of its basic principle of "Know Your Customer". Due to the non-standard situation, some clients may be asked for additional information related to the change in business. The Bank also takes into account the higher volatility of the above parameters in risk assessment when entering into new transactions.
The Bank have not observed significant changes in the materialisation of counterparty risk.

55.4. Market risk (interest rate risk in the trading book and currency risk)

Market risk management organization

The operations of BNP Paribas Bank Polska S.A. are recorded in the trading and in the banking book. In relation to market risk, covering interest risk in the trading book and the currency risk, the Bank is sensitive for changes in market interest rates, foreign exchange rates, security prices and implied volatility of option instruments leading to changes in the result on measurement of the financial instruments present value. The risk of adverse changes in the value, driven by the aforesaid factors, is recognised by the Bank as market risk. The risk is monitored and managed with the use of the defined and specially designed tools and measures.

In order to reflect the characteristics of financial market transactions appropriately, i.e. the intentions of the parties entering into the transactions, the major risks and the accounting treatment, the Bank allocates all on- and off-balance sheet items to the banking or trading book. Detailed allocation criteria are established in the documents ("policies" and "methodologies") adopted by resolutions of the Management Board of the Bank and defining the purpose of keeping each book, the profile and types of risks assumed by the Bank, the measurement and mitigation methods as well as the authorizations and place of each organizational unit of the Bank in the risk generation, measurement, mitigation and reporting process.

The process of concluding transactions and their recording, as well as risk level supervision and adoption of risk limits is performed by independent units. In line with the long-term strategy adopted by the Bank, as well as with its financial plan, the Supervisory Board determines the Bank's risk tolerance, i.e. an acceptable risk level and profile, which is subsequently allocated by the Risk Management Committee. The Financial Markets Division takes responsibility for daily operational management of the risk inherent in trading book in line with the defined market risk limits, including limits related to interest rate in the trading book and the currency risk, which is managed at a centralized level for the entire Bank. The Integrated Risk Management Department are in charge of measuring and reporting risk and limit overrides. Additionally, the Integrated Risk Management Department ensures that financial instruments are measured properly. The management result is calculated by the Financial Market Transactions Monitoring Unit, while transactions are recorded and settled by the Financial Market Transactions Processing Department. The system of limit override acceptance is hierarchical. It depends on the period of such override and its scale, and is managed by the Division head or Members of the Bank's Management Board exercising supervision of the Risk Function and the function responsible for the risk override. Irrespective of the process, all limit overrides are reported immediately after they occur and discussed at monthly Risk Management Committee meetings.

Interest rate risk in the trading book

The Bank's trading activities are supplementary, as they support sales of financial products to corporate customers, non-banking financial customers (directly) and retail customers (through structured products, which are officially classified into the banking book). The Bank opens its own positions, thus generating income on short-term changes in price parameters (foreign currency rates or interest rates), while maintaining the exposure within the adopted risk limits. The Bank offers commodity instruments but does not maintain open position in commodity market.

As part of the interest rate risk exposure, which is the key exposure in the trading portfolio, the Bank could enter into IRS, OIS, CIRS, FRA and basis swap transactions and purchase and sale of foreign currency options on interest options. The interest rate risk was also determined by positions resulting from FX swap and FX Forward transactions. In 2022, as part of internal risk limits, the Bank maintained an open option position in order to optimize the result, i.e. generate additional benefits due to the lack of immediate closing of customer positions by reverse transactions on the interbank market. The priority of the Bank is to hedge the interest rate risk and currency risk.

Sensitivity of items to shifts in the yield curve and the value at risk (VaR – which is a measure that estimates the potential loss arising from a change in the market value of a portfolio under specified assumptions about market parameters, over a specified period of time and with specified probability) are the key measures of the interest rate risk in the trading portfolio. Additionally, the Bank conducts sensitivity analyses, where the changes in interest rates are more considerable than those typically observed (stress tests).

In 2022, the interest rate risk for PLN items, measured by sensitivity to shifts in the yield curve in the trading portfolio, was lower (PLN 4 thousand on average) than in 2021 (PLN 25 thousand).

The following table presents the interest rate risk in the trading book based on BPV (Basis Point Value, in PLN ‘000):

	31.12.2022		31.12.2021	
BPV*	**PLN**	**EUR**	**PLN**	**EUR**
31.12.	(2)	(18)	10	(14)
average	(4)	(37)	25	(38)
max	80	35	107	209
min	(139)	(87)	(40)	(87)

* a measure of the sensitivity of instrument measurement to a shift in interest rate curves by 1 basis point

Interest rate risk exposure in the trading book measured by sensitivity to a 1 basis point movement in interest rate curves and currency risk in 2022 was maintained at a relatively low level as a result of the war in Ukraine, crisis situation triggered by COVID-19 pandemic and increasing uncertainty about future market behaviour. In contrast, the exposure measured with the use of the external VaR limit increased slightly as compared to the previous year and averaged 19% of the granted limit (compared to 13% a year earlier). The risk was mainly due to the open interest rate position, with an average utilization of the VaR for this risk was at the level of 23% of the granted limit.

Currency risk

The Bank, while measuring the currency risk, limits the maximum allowable open currency position at the individual currency level and for all currencies combined, and applies the value at risk method (VaR). For purposes of currency risk monitoring, it is assumed that VaR is determined with a 99% confidence level and that a position is maintained for one day. The VaR methodology is validated on an annual basis by means of an analysis which involves a comparison of the forecast figures and those determined on the basis of actual changes in foreign exchange rates, assuming that the currency position is maintained (back-testing). The comparative period covers the last 250 business days. The VaR model was back-tested in 2022 and the verification results indicate that there is no necessity to make any adjustments.

Foreign currency transactions used for management of the Bank’s currency position were characterized by a stable exposure and a low risk. The risk resulting from foreign currency transactions with customers was offset on the inter-bank market. The level of risk exposure was maintained at a low level, i.e. around 24% of the utilisation of the available VaR limit and, as in the previous year, this risk did not make a significant contribution to the overall risk level. The Bank maintained a small open position in foreign exchange options to ensure the serviceability of customer transactions, for which the exposure was limited through a set of additional dedicated limits for the Greek gamma and vega ratios.

The following table presents currency risk of the Bank expressed as FX VaR (in PLN ’000):

	31.12.2022	31.12.2021
FX VaR*		
average	596	354
max	2,739	1,725
min	58	71

* The Bank uses a historical exponential method which assumes the confidence level 99% and that positions are held for 1 day

The table below presents the currency structure of assets and liabilities in their balance sheet value expressed in PLN ‘000:

	31.12.2022		31.12.2021	
Currency position items	**Assets**	**Liabilities**	**Assets**	**Liabilities**
USD	1,454,668	5,520,888	682,340	4,168,644
GBP	153,577	544,393	104,132	353,637
CHF	4,650,940	3,073,266	4,441,901	2,160,507
EUR	26,228,054	22,628,163	12,920,246	17,434,157
Other convertible currencies	161,335	324,576	99,178	270,054
PLN	118,868,495	119,425,783	113,529,684	107,390,482
Total	**151,517,069**	**151,517,069**	**131,777,481**	**131,777,481**

55.5. Interest rate risk in the banking portfolio (ALM Treasury)

The banking book of BNP Paribas Bank Polska S.A. Capital Group is composed of two parts: the first one is the ALM portfolio as part of which structural interest rate, currency and liquidity risks resulting from the structure of the statement of financial position determined by the core lending, deposit and investing operations of the Group, are managed. On the other hand, the Treasury portfolio is subject to daily and short-term liquidity management. It is also used by the Group for purposes of performing its investing activities as well as concluding hedging transactions on the financial market.

The ALM portfolio comprises accounts, deposits and loans, strategic items (long-term investments, own debt issues and long-term loans), financial market transactions hedging the portfolio (derivative instruments) and zero-interest items (to include equity, tangible assets, intangible assets, taxes and provisions and profit for the period), transferred under management of ALM Treasury through the Fund Transfer Pricing (FTP) system.

The Treasury portfolio includes liquid securities (liquidity buffer), interbank deposits and placements, nostro and loro accounts as well as financial market transactions hedging the market risk of the portfolio (derivative instruments).

The Group’s policy in respect of the banking book – ALM and Treasury portfolios managed collectively – is to earn additional, stable revenue in excess of the product margin, without any threat to the stability of funds deposited by customers, equity and profit. The above mentioned objective is accomplished by the Group by maintaining or matching its natural exposure generated by the core lending and deposit operations, in line with the adopted risk limits which guarantee limited sensitivity of the Group’s profit to changes in market factors, in addition to bringing the exposure into line with financial market trends forecast in the medium and long term.

Competitive conditions of the local financial market and customer expectations are the main factors shaping the Group’s product policy, in particular the application of variable interest rates for medium- and long-term credit products, and financing of these assets with short deposits and interest-free accounts.

The real interest rate gap, net interest income sensitivity and economic capital sensitivity are the key measures of the market risk in the banking book, which comprises the ALM portfolio and the Treasury portfolio.

The major assumptions adopted for measurement of interest rate risk in banking book are as follows:

a) individual assets, liabilities and off-balance sheet transactions are analysed at their nominal value which is used as the basis for calculation of interest;

b) items and transactions based on floating reference rates, such as WIBOR, NBP rediscount rate etc. are taken into account for purposes of determining the gap at the nearest repricing date for a given contract;

c) items based on floating reference rates scaled with a multiplier are taken into account for purposes of determining the gap at the nearest repricing date for a given contract at nominal value scaled with a multiplier and the nominal amount scaled with a value (1 – multiplier) is considered at the maturity date or proportionally at the principal payment dates;

d) fixed rate items and transactions are taken into account for purposes of determining the gap at the principal payment dates, at the amounts of the principal paid at a given date or at the full amount at the maturity date for items in case of which the principal is not repaid (e.g. term deposits). Items and transactions with unspecified maturity, repricing date or non-interest bearing are taken into account in line with the profile determined as a result of modelling, which is aimed to ensure the best possible reflection of the changes in interest and principal cash flows resulting from customer behaviours and in response to external factors, in particular the market interest rates.

e) for the portfolio of impaired loans - for net values (decreased by the created reserves) - the average contractual maturity for unimpaired exposures (IFRS stage 1 and 2) increased by two years is applied,

f) economic capital is calculated based on positions at internal prices.

As part of interest rate risk management in the banking portfolio, the Group distinguishes structural elements consisting of interest-free current accounts and the Group’s capital as well as other commercial items. In terms of structural elements, the Group secures a significant portion of them by long-term positions (bonds, interest rate exchange transactions). Regarding other commercial items, the Group plans to reduce interest rate risk.

For interest rate risk models, the Group uses the provisions of the 'W' Recommendation regarding verification of the model's operation, qualitative criteria, minimum model acceptance criteria and ongoing control of the model's accuracy.

Replication portfolio models for accounts with no specific maturity dates are behavioural models built on the basis of the historical variability of deposit account balances and the analysis of the closing ratios for the modelled position. As part of modelling, the portfolio is divided into the stable parts and a variable part, which is assigned the symbol ON in interest rate analyses. The stable part is divided into a part that is insensitive to interest rate changes (the structural part) and a part sensitive to interest rate changes (the unstructured part). A long-term interest rate repricing profile is determined for the structural part, while for the non-structural part it depends on the current macroeconomic situation and forecasts of the behaviour of interest rates for individual currencies.
As regards loans with a fixed interest rate, prepayment ratios are determined in accordance with the applicable models at the Group. Prepayments are analysed separately for individual types of loans (cash, car), due to the different characteristics of these products. Factors included in the prepayment analysis: loan age, seasonality, financial incentive for the customer to prepay the loan.

The following tables present the Bank's real interest rate gap as at 31 December 2022 and 31 December 2021 (PLN '000)* on a consolidated basis:

31.12.2022

Interest rate gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	2,718,242	-	-	-	-	2,718,242
Amounts due from other banks	11,572,083	60,000	77,500		-	11,709,583
Loans and advances to customers	31,736,714	29,231,501	17,966,783	9,755,175	1,313,848	90,004,021
Investment securities	10,046,000	190,700	3,105,909	13,322,460	13,722,315	40,387,384
Other assets	1,871,428	209,155	232,439	1,286,825	592,228	4,192,076
Total assets	**57,944,467**	**29,691,357**	**21,382,631**	**24,364,460**	**15,628,390**	**149,011,305**
Amounts due to banks	(7,358,940)	(3,862,460)	(530,541)	(311,334)	(13,920)	(12,077,196)
Amounts due to customers	(47,627,284)	(13,265,387)	(23,941,192)	(22,274,193)	(11,854,695)	(118,962,751)
Other amounts due	(307,534)	(76,883)	-		-	(384,417)
Capital	748,669	(288,288)	(1,297,295)	(6,918,907)	(3,459,453)	(11,215,274)
Other liabilities	(6,008,401)	(107,127)	(3,890)	(10,195)	(630)	(6,130,244)
Total liabilities:	**(60,553,490)**	**(17,600,145)**	**(25,772,919)**	**(29,514,629)**	**(15,328,699)**	**(148,769,882)**
Net off-balance sheet liabilities	(3,294,687)	(6,851,631)	1,197,001	5,138,881	3,807,269	(3,167)
Interest rate gap	**(5,903,710)**	**5,239,580**	**(3,193,287)**	**(11,288)**	**4,106,961**	**238,256**

31.12.2021

Interest rate gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	4,631,410	-	-	-	-	4,631,410
Amounts due from other banks	2,524,490	69,000	10,000		-	2,603,490
Loans and advances to customers	33,833,230	35,615,101	9,837,748	5,925,633	1,141,102	86,352,815
Investment securities	1,550,400	77,990	1,607,950	10,891,497	18,397,040	32,524,878
Other assets	1,336,708	172,230	240,729	1,337,100	696,816	3,783,583
Total assets	**43,876,239**	**35,934,322**	**11,696,427**	**18,154,230**	**20,234,958**	**129,896,175**
Amounts due to banks	(8,152,774)	(3,397,907)	(481,466)	(167,966)	(7,100)	(12,207,213)
Amounts due to customers	(31,541,248)	(7,394,623)	(20,312,153)	(29,683,473)	(11,975,070)	(100,906,567)
Other amounts due	(415,356)	(178,675)	(30,790)		(137,103)	(761,924)
Capital	(259,987)	(268,257)	(1,207,156)	(6,438,163)	(3,219,081)	(11,392,644)
Other liabilities	(4,409,723)	(28,894)	(6,502)	(5,411)	(6,763)	(4,457,293)
Total liabilities:	**(44,779,087)**	**(11,268,356)**	**(22,038,067)**	**(36,295,013)**	**(15,345,118)**	**(129,725,641)**
Net off-balance sheet liabilities	(6,146,153)	(6,107,753)	(7,079,780)	15,151,152	4,050,232	(132,303)
Interest rate gap	**(7,049,002)**	**18,558,213**	**(17,421,420)**	**(2,989,632)**	**8,940,073**	**38,232**

* Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

Estimated decreases or increases in the net interest income for the banking portfolio between 1 and 3 years, resulting from changes in market interest rates, are the measure of its sensitivity. For management and risk control purposes, the Group calculates sensitivity to a number of different market parameter change scenarios: immediate shifts and shifts in time, parallel and non-parallel shifts, in normal and stress conditions, varying depending on the currency, market and instrument.

Annual net interest income sensitivity to an immediate shift of market rates by 100 bps (in PLN '000) assuming the most probable change in the product structure, especially in the corporate segment, is presented in the below tables:

Immediate shift in market rates by 100 bps:	31.12.2022	31.12.2021
increase	261,059	204,081
decrease	(194,206)	(196,869)

Sensitivity of interest result by currency:

Immediate shift in market rates by 100 bps:	PLN	EUR	USD	CHF
increase	155,263	86,301	27,535	(7,874)
decrease	(88,410)	(86,301)	(27,535)	7,874

The economic sensitivity of capital to a sudden parallel shift of market rates by +/- 200 basis points in PLN '000 and as percentage of own funds:

Immediate shift in market rates by 200 bps:	In PLN thousand	%
increase	(411,737)	-2.77%
decrease	(380,884)	-2.56%

In terms of base risk, the Group analyses positions based on different types of rates with the same interest rate repricing date. The largest potential change in the Group's net interest income may result from a change in the spread between Wibor 1M rates and the NBP reference rate. If the market rate changes by 50 bps compared to the reference rate, the change in the result will be PLN 3,796 thousand.

The COVID-19 pandemic and war in Ukraine did not fundamentally affect the method of managing the interest rate risk in the banking portfolio.

Impact of IBOR Reform on BNP Paribas Bank Polska S.A.

In 2021 BNP Paribas Bank Polska S.A. (the "Bank") completed a project related to the implementation of IBOR Reform and adjustment to the requirements of the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (the "BMR Regulation").

The project concerned the liquidation of LIBOR rates for EUR, GBP, CHF, JPY and USD (ON, SW, 2M, 1Y) at the end of 2021 and LIBOR USD rate (1M, 3M, 6M) on 30.06.2023.

As at 31 December 2022 the Bank held:

- USD LIBOR-based financial assets of USD 51.7 million, of which USD 42.9 million maturing beyond 30.06.2023,
- USD LIBOR based financial liabilities of USD 0.3 million maturing in full before 30.06.2023,

The Bank did not hold any CHF LIBOR-based financial assets or liabilities, neither GBP LIBOR-based financial assets nor liabilities.

As at 31 December 2022 the Bank also held interest rate swaps (IRS) under fair value hedge accounting based on USD LIBOR for USD 70.0 million, of which USD 55.0 million matures beyond 30.09.2023. As at 31.12.2022, the Bank did not have hedging relationships based on CHF LIBOR and GBP LIBOR or currency interest rate swaps (CIRS), which require LIBOR to be swapped for alternative rates.

The Bank has a Contingency Plan for the continuity of benchmarks used in financial contracts and instruments, uses so-called "fallback clauses" to regulate the establishment of substitute (alternative) indicators to those currently in use, and has developed appropriate changes to the IT systems that allow for a multi-variant use of indicators in the event of cessation of the development of a given reference indicator.

In the case of hedging instruments, the Bank, as recommended by the PFSA, has joined the ISDA IBOR Fallbacks Supplement and Protocol and is actively working with its counterparties to introduce the rules in line with this methodology.

In connection with the planned reform of reference indices leading to the replacement of the WIBOR interest rate reference index with a new reference index, a National Working Group ("NWG") has been established to prepare a schedule of activities for the smooth and safe implementation of the changes in this respect. The work of the NWG is supervised and coordinated by the Steering Committee. The NWG Steering Committee has selected the WIRON index as an alternative interest rate benchmark. The input data for WIRON is information representing ON (overnight) transactions. The administrator of WIRON within the meaning of the BMR Regulation (Regulation of the European Parliament and of the Council (EU)) is the WSE Benchmark, registered with the European Securities and Markets Authority. The NWG Steering Committee has approved a Roadmap for the process of replacing the WIBOR benchmarks with the WIRON index. The document sets out the basic assumptions for the work of the NWG. Further activities of the NWG Steering Committee are related, among other things, to the development of recommendations on standards for the use of WIRON in banking, leasing and factoring products and financial instruments. According to the adopted assumptions, it is assumed that WIRON will be used universally and that the Bank is ready to stop calculating and publishing WIBID and WIBOR Reference Rates in 2025.

The Bank has established a team responsible for adapting its operations to the changes associated with the replacement of the WIBOR interest rate reference index. The work of the team is supervised and coordinated by a dedicated Steering Committee. As part of the team, persons delegated to participate in the work of the NWG have been identified and are responsible for carrying out the relevant changes at the Bank within documentation, communication, IT systems. As envisaged, the Bank's adjustment in this respect will take into account the decisions and recommendations of the NWG.

As at 31.12.2022. The Bank has identified:

- WIBOR-based financial assets for an amount of PLN 53,544.1 million,
- WIBOR and WIBID-based financial liabilities in the amount of PLN 11,884.4 million.

The Bank also held interest rate swaps (CIRS/IRS) based on WIBOR in the amount of PLN 10,732.5 million, of which PLN 8,637.5 million under fair value hedge accounting.

In 2022, the Bank had no WIRON-based products in its offering.

The Bank assumes that the replacement of the WIBOR interest rate reference index with a new reference index will be carried out in an orderly manner, in accordance with the formal requirements of the BMR Regulation, and will include all instances of the reference index used in the contracts and financial instruments indicated in the BMR Regulation. In the Bank's view, it is of utmost importance to establish an appropriate method for determining the spread adjustment and applying the method to take into account of the effects of a change in the reference index. In the Bank's view, all of the above-mentioned aspects would ensure that a number of risks associated with the planned reform are limited. A hasty and disorderly implementation of the reform may cause:

- the lack of a transition period to allow an efficient derivatives market to take shape for the new indicator,
- high uncertainty regarding the valuation of on-balance sheet and off-balance sheet items,
- early closure of IRS contracts by central clearing houses in the case of absence of valuation options,
- abrupt and difficult to manage changes in financial institutions' interest rate risk exposures,
- questioning of flows arising from the application of spread adjustments that do not ensure economic equivalence in settlements between parties.

The Bank assesses that the potential risks that may materialise during the implementation of the reform related to the replacement of the WIBOR interest rate with the new reference rate may consequently lead to significant systemic disruptions in the functioning of the entire national economy.

At present, it is not possible to identify any rationale for ending the publication of the EURIBOR index. Thus, the flows resulting from this index are exchanged between the counterparties under the current rules.

55.6. Liquidity risk

Risk management process organisation

The comprehensive liquidity management system on a consolidated level covers both immediate (intraday), mainly concerning the Bank, and future (current, short-term as well as structural medium- and long-term) liquidity. On a consolidated level, risk is managed by building the statement of financial position and the financing structure reflected in the Group’s financial statements including both balance and off-balance sheet items to ensure liquidity at any time, taking into consideration the profile of the Bank’s business, customer characteristics and behaviours as well as needs that may arise as a result of changes in the financial market. Additionally, the risk identification and measurement methods used by the Bank enable it to forecast future liquidity levels, also in stress conditions.

The Group ensures separation and independence of its operations, risk management, control and reporting functions. In particular, transactions with contracting parties and customers are entered into by the business, confirmed and processed by Operations, immediate (intraday) and future liquidity is managed by ALM Treasury, daily supervision of the risk level and compliance with risk limits is the responsibility of the Risk Function, while supervisory liquidity measures are reported independently by the Finance Division. Analogous liquidity reporting and management, although to a lesser extent and detail due to the nature of the company, is carried out at Leasing. The impact of Leasing on the Group's overall liquidity profile is insignificant.

The liquidity risk limits adopted by the Group reduce its exposure to this type of risk. Risk is monitored and controlled based on documents adopted by resolutions of the Bank’s Management Board (risk measurement and monitoring policy and methodologies), developed in compliance with the guidelines formulated in Recommendation “P” of the Polish Financial Supervision Authority and European Commission Delegated Regulation 2018/60 of 13 July 2018 amending Commission Delegated Regulation (EU) 2015/61 of 10 October 2014. The Bank has an internal transfer pricing system in place, which reflects accurately the real financing cost for each asset and liability type, and the transfer pricing structure stimulates optimization of the statement of financial position, including diversification of the sources of funding, from the perspective of liquidity risk. LTD limits for each business line are an important additional component of that system, as they facilitate maintenance of a secure level of assets relative to liabilities, which is appropriate considering the characteristics of each line. Risk monitoring and control for Leasing is supervised by the ALCO Committee for the leasing company, where the managing director of the Bank's Asset and Liability Management Division is a member and supervises the liquidity management process.

The level of liquidity risk appetite is determined by the Supervisory Board of the Bank and the risk management policy based on that appetite, including definition of general liquidity risk measures for the Bank, is approved by the Management Board, whereas specific risk limits and their monitoring are the responsibility of ALCO. The Bank’s Management Board and Supervisory Board supervise the effectiveness of the liquidity risk management process both for the Bank and for the Group, based on periodic information and current reports.

In compliance with the requirements of the Recommendation “P”, the Bank conducts numerous analyses verifying its ability to maintain liquidity in crisis situations. Stress tests cover comprehensive scenarios considering internal and system factors and combining different variants with possible interactions. Stress test results are taken into account in determining liquidity limits. The Bank has a comprehensive emergency plan in place. It comprises various scenarios along with action plans for liquidity crisis situations in the Bank and in the banking system as a whole. Stress test results are correlated with the emergency plan and reaching defined warning levels triggers the emergency plan.

Risk measures

The Group uses external and internal risk measures. The internal measures include, among others: an analysis of trends and volatility of each source of funding relative to the loan portfolio (LTD) and lease portfolio, the contractual liquidity gap and the liquidity gap realigned based on behavioural factors along with mismatch structure limits defined on its basis, an analysis of surplus liquidity and the available sources of funding, an analysis of stability and concentration of the deposit base as well as a review of the structure of funds placed with the Bank by the major depositors by volume and maturity. Additionally, sales plans (covering loans and deposits) are monitored, by each business line, and simulation analyses are performed. Furthermore, the Bank analyses the costs of the deposit base with a view to optimizing the liquidity buffer and the use of such tools as the liquidity margin or pricing policy. BNP Leasing is financed by raising financing on the wholesale market.

The external measures include supervisory long- and short-term liquidity ratios: the liquidity coverage ratio (LCR), as defined in European Commission Delegated Regulation 2018/60 of 13 July 2018 amending Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, and the net stable funding ratio (NSFR) determined in the Regulation No. 2019/876 of 20 May 2019 amending the Regulation (EU) No. 575/2013 of the European Parliament and of the Council and developed in line with the Commission Implementing Regulation (EU) No. 680/2014 and the Basel document on the NSFR.

The on-going supervision includes early warning tools, such as monthly reviews of additional liquidity requirements defined in the Commission Implementing Regulation (EU) No. 2016/313. In addition, the Bank conducts daily analyses of various liquidity indicators with warning levels defined in the Emergency Liquidity Plan. Theses allow, when warning levels are reached, to introduce remedial actions and restore the Bank's safety in terms of liquidity..

Liquidity risk profile

In 2022 the Group’s financial liquidity was maintained at a safe level. The Bank’s funds were sufficient for payment of all its liabilities upon maturity. The portfolio of the most liquid securities was maintained at a level, which was sufficient to offset a potential outflow of funds placed with the Group by the major depositors in whole.

2022 was a year of continuation of the COVID-19 pandemic situation, but already to a much lesser extent. The war in Ukraine started at the beginning of the year, which required additional activities on the liquidity management side in the Bank. The activities of the ALMT Division focused on special monitoring of the Bank's liquidity situation in terms of customers' needs and access to cash. The Bank maintained on its portfolio the government bond purchased and bonds issued by Bank Gospodarstwa Krajowego to support pandemic relief efforts. Internal models and internal transfer prices were adjusted on an ongoing basis. The ALMT division coordinated with the business lines through regularly held meetings and consultations discussing the liquidity situation and the behaviour of customers.

As at the end of 2022 the Group's surplus of 30 day liquidity was at the level of PLN 34,375 billion:

	31.12.2022	31.12.2021
Cash at Central Bank (over the reserve requirement)	(4,016,670)	(491,888)
Cash at other banks	10,638,082	2,427,855
Highly-liquid securities	27,753,342	28,223,645
Surplus liquidity up to 30 days	**34,374,754**	**30,159,612**

Surplus liquidity has increased compared to the end of 2021 mainly due to an increase in funds in other banks placed within 30 days.

	31.12.2022	31.12.2021	limit
Liquidity Coverage Ratio	170%	146%	**100%**

In 2022 the Bank continued to optimise its funding sources with the aim of reducing unnecessary, yet costly and unstable excess funding. In 2022 the Bank maintained the level of medium and long-term borrowings from the BNPP Group and its subsidiaries, including a subordinated loan from the BNP Group to meet the MREL requirement. The Bank raised new financing of PLN 450 million from the EBRD as financing under the MREL requirement to be used to finance green projects. Lease financing is covered by medium- and long-term lines from the Group and development banks such as the EIB.

The Bank's sources of funding remained highly stable throughout 2022 at a similar level as in the previous year

	31.12.2022		31.12.2021	
	balance	stable (%)	balance	stable (%)
long-term loans from the Group	9,708,263	100%	9,272,955	100%
other long-term loans	1,067,566	100%	507,087	100%
securitization liabilities	384,417	100%	761,925	100%
retail	61,004,974	93%	56,293,236	93%
corporates	58,098,372	78%	44,556,433	82%
banks and other unstable sources	1,741,184	0.00%	2,598,201	0.00%
Total	**132,004,776**	**85.8%**	**113,989,837**	**87.2%**

Inflows and outflows – expected under the agreements concluded by the Bank is presented as contractual liquidity gap*

	31.12.2022					
Contractual liquidity gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Loans and advances to customers	13,999,226	2,576,185	10,925,487	34,718,733	26,447,824	88,667,455
Debt securities	8,500,000	1,700	1,105,914	16,432,455	14,347,315	40,387,384
Interbank deposits	11,373,064	60,000	77,500	-	-	11,510,564
Cash and balances at Central Bank	2,783,709	-	-	-	-	2,783,709
Fixed assets	-	-	-	-	1,059,703	1,059,703
Other assets	1,080,486	-	-	-	1,517,533	2,598,019
Off-balance sheet liabilities, including: derivatives	16,634,202	6,514,981	10,845,664	21,712,927	1,316,691	57,024,465
Liabilities						
Retail deposits	47,606,507	6,942,979	6,136,082	319,405	-	61,004,974
Corporate deposits	53,919,998	2,687,623	1,331,949	146,055	12,747	58,098,372
Interbank deposits	1,731,184	-	-	-	-	1,731,184
Loans from financial institutions	256,078	328,384	1,421,861	4,531,526	209,243	6,747,092
Equity and subordinated liabilities	313,712	-	47,703	1,476,458	13,722,334	15,560,207
Other equity and liabilities	4,232,733	-	-	-	-	4,232,733
Off-balance sheet liabilities, including: derivatives	16,615,317	6,491,816	10,758,931	21,799,715	1,351,877	57,017,656
Total receivables	**54,370,688**	**9,152,866**	**22,954,566**	**72,864,115**	**44,689,066**	**204,031,300**
Total liabilities	**124,675,529**	**16,450,803**	**19,696,526**	**28,273,159**	**15,296,201**	**204,392,217**
Liquidity gap	**(70,304,841)**	**(7,297,936)**	**3,258,040**	**44,590,955**	**29,392,865**	**(360,917)**

* Financial data have been rounded and presented in PLN ‘000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

	31.12.2021					
Contractual liquidity gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Loans and advances to customers	14,137,303	2,527,420	10,684,632	32,774,797	26,453,516	86,577,669
Debt securities	-	-	880,150	12,622,687	19,022,040	13,502,837
Interbank deposits	2,351,007	69,000	10,000	-	-	2,430,007
Cash and balances at Central Bank	2,584,646	-	-	-	2,079,746	4,664,392
Fixed assets	-	-	-	-	2,446,968	2,446,968
Other assets	1,312,260	-	-	-	269,983	1,582,243
Off-balance sheet liabilities, including: derivatives	12,804,974	7,603,928	11,549,988	22,210,695	2,104,088	56,273,673
Liabilities						
Retail deposits	52,989,326	1,930,056	1,321,014	52,787	53	56,293,236
Corporate deposits	42,985,027	778,536	532,831	243,898	16,141	44,556,433
Interbank deposits	2,563,201	20,000	15,000	-	-	2,598,201
Loans from financial institutions	253,778	392,427	1,657,069	3,591,693	319,860	6,214,826
Equity and subordinated liabilities	577,946	-	-	899,940	14,794,638	16,272,524
Other equity and liabilities	5,271,601	-	10,974	-	-	5,282,574
Off-balance sheet liabilities, including: derivatives	12,873,870	7,664,647	11,533,690	22,235,755	2,116,816	56,424,778
Total receivables	**33,190,190**	**10,200,348**	**23,124,770**	**67,608,180**	**52,376,341**	**186,499,829**
Total liabilities	**117,514,749**	**10,785,666**	**15,070,578**	**27,024,073**	**17,247,507**	**187,642,572**
Liquidity gap	**(84,324,559)**	**(585,317)**	**8,054,191**	**40,584,107**	**35,128,834**	**(1,142,743)**

* Financial data have been rounded and presented in PLN ‘000, and therefore, in some cases, the totals may not correspond exactly to the total sum..

Compared to 2021, the value of the contractual gap up to 1m has decreased, due to changes in the Bank’s customers' deposit products: in an environment of significantly higher interest rates, the Bank's customers are more willing to set up term deposits than to keep funds in current accounts. However, the stability of customer funds is still very high (88% of the total balance, better than last year) with an average maturity of the stable parts of more than five years. At the end of 2022, off-balance-sheet liabilities outside derivatives amounted to PLN 13,004 billion.

The Group’s liquidity position continued to improve throughout the year. Due to significant increases in interest rates, despite the expiring Covid-19 pandemic, interest on loans fell sharply from the second quarter onwards. The outbreak of the war in Ukraine had no impact on the Bank's overall liquidity situation and was only manifested during the first month of the conflict by increased demand for cash, both at branches and ATMs, not only of the Bank but of the entire Euronet network. Due to the sharp increase in NBP interest rates during the year, there was a significant reduction in the Bank's lending, particularly in mortgages. Inflationary concerns, wage pressures as well as significant increases in energy prices are also holding back loan production in the corporate segment.

The primary source of financing continues to be funds raised from non-bank customers.

55.7. Operational risk

The Bank's operational risk is defined in accordance with the requirements of the Polish Financial Supervision Authority included in Recommendation M as the risk of incurring a loss through the fault of inappropriate or unreliable internal processes, people, technical systems or as a result of external factors. It comprises legal but not strategic risk. The Bank also recognizes as operational risk events and losses which may result from the materialization of compliance risk[1]. Operational risk as such is inherent in any banking operations. The Bank identifies the risk as permanently significant.

Operational risk is managed with a view to reducing the losses and costs resulting from the aforesaid risk, ensuring top quality of the services provided by the Group in addition to security and compliance of the Group's operations with the applicable laws and standards.

Operational risk management strategy and policy

Operational risk management consists in employment of measures aimed at operational risk identification, analysis, monitoring, control, reporting and mitigating. Such measures take into account the structures, processes, resources and scopes of responsibilities for the said processes at various organizational levels, within the three lines of defence. The operational risk management strategy has been described in the Operational risk management strategy and internal control at BNP Paribas Bank Polska S.A., which was approved by the Management Board of the Bank and accepted by the Supervisory Board. The Operational Risk Policy of BNP Paribas Bank Polska S.A., adopted by the Risk Management Committee of the Bank, constitutes organizational framework and standards for operational risk management. It addresses all aspects of the Bank's operations in addition to defining the Bank's objectives and the methods of their achievement as regards the quality of operational risk management as well as compliance with legal requirements set out in the recommendations and resolutions issued by national financial supervision authorities. The Bank's operational risk management objectives include, in particular, compliance with high operational risk management that guarantee security of customer deposits, the Bank's equity, stability of its financial performance as well as maintenance of the operational risk level within the range of the operational risk appetite and tolerance defined by the Bank. When developing the operational risk management system, the Bank complies with the applicable legal requirements, in particular, with the recommendations and resolutions of the national financial supervision authorities and the standards adopted by the BNP Paribas Group.

According to the Policy, operational risk management instruments include, among others:

- the identification and assessment of operational risk, including through the collection of information on operational events, the assessment of risks in processes and products, the self-assessment of operational risk and control, the assessment of operational risk for contracts with external suppliers (outsourcing) and the determination of key risk indicators;
- setting operational risk appetite and limits on a Bank-wide and individual business area level; operational risk analysis, including operational risk scenario analysis and its monitoring and ongoing control;
- reporting on operational risk.

The Bank's Management Board periodically assesses the implementation of the operational risk strategy and, if necessary, orders necessary adjustments to improve the operational risk management processes. To this end, the Bank's Management Board is regularly informed of the scale and types of operational risk to which the Bank is exposed, its effects and operational risk management methods. In particular, both the Bank's Management Board and the Supervisory Board are regularly informed of the development of the operational risk appetite measures set out in the Operational Risk Management Strategy.

As part of the implementation of the Operational risk management and internal control strategy, the Bank in 2022 undertook and continued to undertake a number of measures to mitigate operational risk, strengthening the control mechanisms and processes over this type of risk. In particular, processes and tools to prevent and combat fraud against the Bank were strengthened, including, inter alia, the fight against credit fraud and phishing. In addition, a fraud risk mitigation programme was implemented at the Bank. The Bank monitored its exposure to legal risk on an ongoing basis, including the risk arising from pending litigation concerning CHF-denominated loans, in order to respond adequately to changes in the level of risk. Following the outbreak of war in Ukraine, the Bank monitored potential risks to the Bank on an ongoing basis, including those relating to security and ensuring business continuity. The Bank's Management Board and the Risk Committee of the Supervisory Board are informed about the effectiveness of the solutions implemented by the Bank in this respect.

[1] Compliance risk means the risk of the consequences of non-compliance with laws, internal regulations and market standards in the Bank's processes.

Internal environment

The Bank precisely defines the division of responsibilities for operational risk management, which is adapted to the organisational structure. As part of the second line of defence, comprehensive supervision of the organisation of operational risk management standards and methods is exercised by the Operational Risk, Internal Control and Anti-Fraud Division operating within the Risk area. The Division's responsibilities include, inter alia, issues relating to operational risk management, combating fraud against the Bank and the supervision of internal control, including the control of personal data protection processes.

The definition and implementation of the Bank's insurance strategy, as a method of risk mitigation, is the responsibility of the Property and Administration Department, while business continuity management is the responsibility of the Security and Business Continuity Management Division.

As part of legal risk management, the Legal Division monitors, identifies and analyses changes in law and their impact on the Group's operations, and is involved in judicial and administrative proceedings that affect the Group. The ongoing monitoring of compliance risk and the development and improvement of adequate techniques for its control are handled by the Compliance Department.

Risk management

The Bank places a strong focus on identification and assessment of the factors that trigger its present exposure to operational risk in relation to banking products. It is the Bank's objective to reduce the operational risk level through improvement of its internal processes as well as mitigating the risk inherent in the process of launching new products and services and outsourcing operations to third parties.

In accordance with the Operational Risk Management Policy of BNP Paribas Bank Polska S.A., the operational risk analysis is aimed at acquiring an understanding of the interdependence between the risk generating factors and operational event types, and it is performed primarily with the objective to define the operational risk profile.

The operational risk profile is an assessment of the level of significance of this risk, understood as the scale and structure of operational risk exposures, determining the exposure levels to this risk (i.e. operational losses), expressed in the structural dimensions selected by the Bank and the scale dimensions. Periodic assessment and review of the Bank's operational risk profile is based on an analysis of the Bank's current risk parameters, changes and risks occurring in the Bank's environment, implementation of the business strategy, as well as the adequacy of the organizational structure and the effectiveness of the risk management and internal control system. The analysis of the operational risk profile considers the Bank's subsidiaries.

Internal control system

The purpose of internal control is effective risk control, including risk prevention or early detection. The role of the internal control system is to achieve general and specific objectives of the internal control system, which should be considered at the design stage of control mechanisms. The principles of the internal control system are described in the "Policy on internal control at BNP Paribas Bank Polska S.A." document, approved by the Bank's Management Board. This document describes the main principles, organizational framework and standards for the functioning of the control environment at the Bank, complying with the PFSA requirements provided in Recommendation H and the Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system and the internal control system, the remuneration policy in banks. Detailed internal regulations concerning specific areas of the Bank's activity are adapted to the specifics of the Bank's operations. The appropriate organizational units of the Bank, in accordance with the scope of the tasks assigned to them, are responsible for developing detailed regulations relating to the area of internal control.

The internal control system at the Bank is based on the 3 defence lines model, which consists of:

- 1st defence line, which consists of organizational units from particular areas of banking and support areas,
- 2nd defence line, which consists of organizational units responsible for risk management, regardless of the risk management related to the first line of defence, and the compliance unit,
- 3rd defence line, which is independent and objective internal audit unit.

The Bank ensures internal control through independent monitoring of compliance with control mechanisms, including on-going verification and testing.

Monitoring and reporting

The Bank periodically monitors the efficiency of the operational risk management system and its appropriateness for its current risk profile. The organization of the operational risk management system is reviewed as part of periodic control exercised by the Internal Audit Division, which is not directly involved in the operational risk management process but provides professional and unbiased opinions supporting achievement of the Bank's objectives. The operational risk management system is overseen, and its appropriateness and efficiency are assessed by the Supervisory Board.

Capital requirements due to operational risk

The Bank estimates its regulatory capital necessary to cover operational risk in accordance with the applicable regulations. Calculation of the requirements at individual level is performed using the standard approach (STA). With regard to the Bank's subsidiaries, on a consolidated basis, the requirements relating to these entities are determined according to the Basic Indicator Approach (BIA).

Subsidiaries

In accordance with supervisory regulations, the Bank supervises the operational risk related to the activities of its subsidiaries, covering them with the Operational Risk Management Strategy and periodically assessing the consistency of the operational risk management strategies and policies of entities within the Group. Operational risk management in subsidiaries is carried out within dedicated units/persons appointed for this purpose. The manner and methods of operational risk management in subsidiaries are organised adequately to the scope of activity of an entity and its business profile, in accordance with the rules in force in the Group.

Risks arising from the impact of the pandemic

In terms of operational risk management, the Bank monitors the risks associated with the existing COVID-19 pandemic emergency, being ready to take appropriate countermeasures to ensure the safety of both the Bank's employees and customers and to ensure the uninterrupted execution of processes related to its operations.

Risks arising from the war in Ukraine

In terms of operational risk management, the Bank continuously analyses the risks related to the consequences of the hostilities in Ukraine (including, in particular, cyber or physical attacks targeting payment or banking infrastructure that may result in business continuity disruptions), and takes appropriate measures to ensure the security of both the Bank's employees and customers and to ensure the uninterrupted execution of business-related processes.

56. CAPITAL ADEQUACY MANAGEMENT

Own funds and capital ratios

Capital adequacy management is aimed to ensure the Capital Group's compliance with macro-prudential regulations defining capital requirements related to the risks incurred by the Bank, quantified in the form of the capital ratio.

Since 1 January 2014, banks have been subject to new principles applicable to calculation of capital ratios, following the implementation of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on macro-prudential requirements for credit institutions and investment firms, as amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 (CRR2) in relation to leverage ratio, net stable funding ratio, own funds and eligible liabilities requirements, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements.

On 27 June 2020, Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, amending Regulations (EU) No 272/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic, entered into force, allowing, inter alia, a reduction in risk weights for some SME loans, a temporary partial exclusion from the calculation of Common Equity Tier 1 items of the amount of unrealised profits or losses measured at fair value through other comprehensive income in relation to the COVID-19 pandemic.

As at 31 December 2022, the adjustment related to the temporary partial exclusion from the calculation of common equity tier 1 items of the amount of unrealised profits or losses measured at fair value through other comprehensive income in relation to pandemic COVID-19 amounted to PLN 373,716 thousand.

On 23 December 2020, Commission Delegated Regulation (EU) 2020/2176 of 12 November 2020, amending Delegated Regulations (EU) No 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items, entered into force.

As at 30 December 2022, the adjustment to Tier 1 capital related to other intangible assets amounted to PLN 388,016 thousand.

The capital ratios, capital requirements and equity have been calculated in accordance with the aforesaid Regulation with the use of national options.

Pursuant to the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial sector (Journal of Laws 2015, item 1513, as amended), an additional buffer of 2.5% was introduced starting from 1 January 2019.

The Financial Supervision Authority, in a release dated 8 November 2021, announced that, based on the provisions of the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial system and after taking into account the opinion of the Financial Stability Committee, it confirmed the identification of ten banks as other systemically important institutions (O-SII).

As a result of the review, the Commission concluded that there are no reasons justifying the repeal or amendment of its previous decision of 4 October 2016, as amended by the Commission decision of 19 December 2017, concerning imposition of a buffer for another systemically important institution on the Bank (on a consolidated and separate basis) in the amount of 0.25% of the total risk exposure amount calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013.

The Polish Financial Supervision Authority, by letter dated 23 December 2022, recommended that the risks inherent in the Bank's activities be mitigated by the Bank through maintenance of own funds to cover the additional capital charge to absorb potential losses arising from the occurrence of stressed conditions, at 0.80 p.p. at the individual level and 0.77 p.p. at the consolidated level over the total capital ratio referred to in Article 92(1)(c) of Regulation (EU) No 575/2013, plus the additional own funds requirement referred to in Article 138(2)(2) of the Banking Act and the combined buffer requirement referred to in Article 55(4) of the Macroprudential Supervision Act. The additional surcharge should consist entirely of Common Equity Tier 1 capital.

The level of Tier I capital ratio and the total capital ratio (TCR) on consolidated basis, were above the requirements for the Capital Group as at 31 December 2022.

At the same time, the Capital Group meets the legal requirements under the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector.

31.12.2022	The minimum supervisory separate solvency ratios of the Bank	Separate capital adequacy ratios of the Bank
CET I	8.02%	11.28%
Tier I	9.52%	11.28%
Total Capital Ratio	11.52%	15.55%
31.12.2021		
CET I	7.25%	12.33%
Tier I	8.75%	12.33%
Total Capital Ratio	10.75%	16.91%

Requirement of a minimum level of own funds and eligible liabilities (MREL)

On 3 June 2022, the Bank received an announcement from the Bank Guarantee Fund ("BFG") regarding the joint decision of the resolution authorities, i.e. the Single Resolution Board (“SRB”), Central Bank of Hungary, Finanstilsynet, Bank of England and BFG, on the minimum level of own funds and eligible liabilities ("MREL").

The joint decision indicates that the Group's restructuring plan envisages a Single Point of Entry (SPE) strategy for the mandatory restructuring. The Group's preferred tool for mandatory restructuring is the open bank bail-in tool.

The MREL target requirement set by the Fund, in consultation with the SRB, for BNP Paribas Bank Polska S.A. is:

- 15.99% of TREA, the total risk exposure amount (TREA) calculated in accordance with Article 92(3) and (4) of Regulation (EU) No 575/2013 (hereinafter MREL-TREA), and
- 5.91% of TEM, the total exposure measure (TEM) calculated in accordance with Articles 429 and 429a of Regulation (EU) No 575/2013 (hereinafter MREL-TEM)

at the individual level.

The Bank is required to meet the MREL requirement by 31 December 2023.

At the same time, on 3 June 2022, the Fund, in consultation with the SRB, has set interim targets for the Bank to meet by the end of each calendar year during the period of reaching the MREL target:

- in relation to TREA these are: 11.99% at the time of communicating to the Bank the agreement and joint decision on MREL and 13.99 % at the end of 2022,
- in relation to TEM these are: 3.00% at the time of communicating to the Bank the agreement and joint decision on MREL and 4.46% at the end of 2022.

On 22 September 2022, the Fund announced an update to the Methodology for the determination of MREL and, in particular, an update to the pathway to the target minimum level of own funds and eligible liabilities expressed as a percentage of total risk exposure (MREL-TREA). The Fund has adopted new assumptions for the determination of the interim MREL-TREA requirement for entities for which the mandatory restructuring plans or group mandatory restructuring plans ("plans") assume the use of the mandatory restructuring facility. For the current planning cycle, the Fund will determine the MREL-TREA interim requirement that entities should meet by 31 December 2022, based on the same formula as for the MREL-TREA interim requirement that entities are required to meet as of 1 January this year.

The Fund has indicated that it will apply the revised rules for determining the interim MREL requirement in accordance with the timetable for adopting reviews and updates of TREAs and group TREAs. For domestic entities that are subsidiaries in cross-border groups, for which the adoption of plans and the setting of minimum levels of own funds and eligible liabilities are made by way of a joint decision, it may be that the adoption of joint decisions incorporating the revised path to the MREL-TREA target level will occur after 1 January 2023.

In such cases, pending the adoption of new joint decisions taking into account the updated MREL-TREA interim requirements, the Fund will take into account the fact of pending changes to the MREL-TREA interim level when monitoring compliance with the MREL-TREA interim requirement.

In the context of the above, the Bank has assumed that the MREL-TREA requirement was 11.99% at the end of 2022 until a new joint decision of the resolution authorities, i.e. the Single Resolution Board (SRB), the Central Bank of Hungary, Finanstilsynet, the Bank of England and the BFG, on the level of the minimum level of own funds and eligible liabilities ("MREL") is obtained.

The entire MREL requirement should be met in the form of own funds and liabilities meeting the criteria set out in Article 98 of the Act on the BGF, which transposes Article 45f(2) of the BRRD2. According to the decision, the part of MREL corresponding to the recapitalisation amount (RCA) will be met in the form of AT1, T2 instruments and other subordinated eligible liabilities acquired directly or indirectly by the parent company.

The Bank definitely complies with the defined MREL-TREA and MREL-TEM requirements as at 31 December 2022.

Commercial Bank Protection Scheme

A group of 8 commercial banks ("Participating Banks"): BNP Paribas Bank Polska S.A. (the "Bank"), ING Bank Śląski S.A., Alior Bank S.A., Bank Millennium S.A., Bank Polska Kasa Opieki S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Santander Bank Polska S.A. decided to establish the Commercial Bank Protection Scheme ("CBPS"). On 14 June 2022, the Participating Banks established a joint stock company as the management entity of the Protection System (the "Management Unit"). The establishment of the Management Unit received approval from the Polish Financial Supervision Authority and approval for concentration from the President of the Competition and Consumer Protection Office. On 1 August 2022, the company was registered with the National Court Register.

The share capital of the Management Unit is PLN 1,000,000. The Bank subscribed for 9,441 shares in the Management Unit, with a total nominal value of PLN 94,410, representing 9.4% of its share capital. Investments in the CBPS are measured by the Bank at fair value through profit and loss and recognises under securities at fair value through profit and loss.

The purpose of the protection scheme is:
a) to ensure the liquidity and solvency of Participating Banks under the terms and conditions and to the extent set out in the protection scheme agreement; and
b) to promote:
(i) the compulsory restructuring by the Bank Guarantee Fund ("BFG") of a bank that is a joint stock company; and
(ii) the acquisition of a bank that is a joint stock company pursuant to Article 146b(1) of the Banking Law.

Other national banks may join the CBPS, provided that they meet the conditions set out in the applicable legislation and in the protection scheme agreement.

An Assistance Fund was established in the Management Unit to provide resources to finance the tasks of the Protection Scheme. The Assistance Fund is created from the contributions of the Participating Banks in the amount of 0.4% of the guaranteed funds of the respective bank covered by the mandatory deposit guarantee scheme referred to in Article 2(34) of the Bank Guarantee Fund, Deposit Guarantee Scheme and Forced Restructuring Act of 10 June 2016 (the "BFG Act").

Based on the level of the Bank's guaranteed funds at the end of the first quarter of 2022, which amounted to PLN 47,004,279 thousand, the Bank has paid into the Assistance Fund the amount of PLN 188,017 thousand on 5 August 2022, which has been charged to the Bank's results (general administrative costs) in the second quarter of 2022.

On the basis of an unanimously adopted resolution of the General Meeting of the Management Unit, the Bank paid the amount of PLN 18,513 thousand into the Assistance Fund on 15 September 2022, which was charged to the Bank's results (general administrative expenses) in the third quarter of 2022.

Pursuant to the provision of Article 287(2) et seq. of the BFG Act, the BFG Council may decide to reduce the level of funds of the deposit guarantee scheme in banks, taking into account, inter alia, the amount of funds collected by the protection scheme. In addition, in accordance with the provision of Article 15(1h)(5) of the Corporate Income Tax Act of 15 February 1992, the contributions of the participants of the protection system to the Assistance Fund are tax deductible.

The liability of each Participating Bank, including BNP Paribas Bank Polska S.A., for obligations related to its participation in the protection scheme is limited to the amount of contributions that the respective Participating Bank is obliged to make in order to acquire shares in the Management Unit and contributions that the respective Participating Bank is obliged to make to the Assistance Fund.

Each Participant Bank will be able to terminate the protection scheme agreement by giving 24 months' notice. Upon termination, the agreement will continue to apply to the remaining Participating Banks.

57. MAJOR EVENTS IN BNP PARIBAS BANK POLSKA S.A. IN 2022

4.01.2022	**Extraordinary General Meeting of Shareholders** - adoption of resolutions, inter alia, on: • adoption by the Bank of the principles contained in the "Code of Best Practices for WSE Listed Companies 2021" • adoption of the Policy for Appointment and Dismissal of the Members of the Bank's Supervisory Board and the Policy for Adequacy Assessment of the Members of the Bank's Supervisory Board • amendments to the Bank's Statutes and adoption of the By-laws of the General Meeting
18.01.2022	**Rating of the Bank by Fitch Ratings Agency** • Long-Term Issuer Default Rating (IDR) at „A+” with stable perspective • Viability Rating (VR) at „bbb-” • Shareholder Support Rating (SSR) at „a+”
28.01.2022	**Resolution of the Extraordinary Meeting of Shareholders of BFN ACTUS Sp. z o.o. to dissolve the company by way of liquidation** From 1 February 2022, the company changed its name to Bank Real Estate Fund Actus Sp. z o.o. in liquidation.
11.02.2022	**Imposition by the Financial Supervision Commission (KNF) of additional capital charge recommended under Pillar II (P2G)** KNF recommended the Bank to maintain at the individual and consolidated level own funds to cover the additional capital charge (P2G) of 0.61 p.p. in order to absorb potential losses resulting from stress events.
1.03.2022	**Entry into the National Court Register of the part of the amendments to the Statutes of BNP Paribas Bank Polska S.A.** adopted by the Extraordinary General Meeting of the Bank on 4 January 2022.
1.03.2022	**Liquidation of the subsidiary BNP Paribas Solution Sp. z o.o.** The Extraordinary Meeting of Shareholders of BNP Paribas Solutions Sp. z.o.o. adopted a resolution to open liquidation of the company.
21.03.2022	**Strategy of BNP Paribas Bank Polska S.A. for 2022-2025** The Bank's Management Board announced the main objectives of the development strategy of the Bank and the BNP Paribas Bank Polska S.A. Group for 2022-25, adopted by the Bank's Supervisory Board on 21 March 2022. Key financial goals 2025: • return on equity ratio (ROE): ~12% • costs to income ratio: max. 48% • share of sustainable financing: 10%
4.04.2022	**Issue of series M shares as part of conditional share capital increase and change in the value of share capital of BNP Paribas Bank Polska S.A.** In accordance with the statements of the National Securities Depository S.A. (No. 513/2021 of 31 March 2021 and No. 311/2022 of 31 March 2022) and a resolution of the Management Board of the Warsaw Stock Exchange S.A. (No. 348/2021 of 31 March 2021), on 4 April 2022, on the basis of the settlement orders referred to in § 6 of the Detailed Rules of Operation of the NDS, 74,368 series M ordinary bearer shares of the Bank were registered with the NDS and admitted to trading by the WSE with a nominal value of PLN 1 each and series M shares were recorded on the eligible persons' securities accounts. Series M shares were subscribed for in exercise of the rights from previously subscribed A2 series registered subscription warrants, each of which entitled to subscribe for one series M share. At the same time, **the Bank's share capital was increase**d from PLN 147,518,782 **to PLN 147,593,150** which is divided into 147,593,150 shares with a nominal value of PLN 1.

14.04.2022	**Determination by the Bank Guarantee Fund (BFG) for BNP Paribas Bank Polska S.A. of the amount of the annual contribution to the banks' forced restructuring fund for the year 2022 in the amount of PLN 125,919 thousand.**
19.05.2022	**Entry into the National Court Register of a part of the amendments to the Articles of Association of BNP Paribas Bank Polska S.A.** adopted by the Extraordinary General Meeting of the Bank on 17 June 2021.
23.05.2022	**Decisions of the Financial Supervision Commission to approve the inclusion of net profit for 2021,** at stand-alone (PLN 184,526 thousand) and consolidated level (PLN 176,298 thousand), **in Tier 1 capital.**
3.06.2022	**Determination by the BFG of the minimum level of own funds and eligible liabilities (MREL) for the Bank** on an individual level: • 15.99% of the total risk exposure amount (TREA) and • 5.91% of the total exposure measure (TEM). This requirement should be achieved by 31 December 2023. MREL interim targets: in relation to TREA are: 11.99% as of receipt of the BFG letter and 13.99% at the end of 2022, and in relation to TEM are: 3.00% as of receipt of the BFG letter and 4.46% at the end of 2022.
7.06.2022	**Consent to participate in the establishment of the Commercial Bank Protection Scheme (CBPS) referred to in Article 4(1)(9a) of the Act of 29 August 1997 - Banking Law**
27.06.2022	**Annual General Shareholders' Meeting**
15.07.2022	**Adoption of the Regulation on crowdfunding for business ventures and assistance to borrowers** The regulation enabled mortgage borrowers with PLN mortgages to suspend loan instalment payments with interest for a period of four months in the current and the following year (two months in Q3 and Q4,2022 and one month in each quarter of 2023). The Bank recognised PLN 895 million of loan holiday costs in the 2022 interest result.
29.07.2022	**Entry in the National Court Register of the amendments to the Statute of BNP Paribas Bank Polska S.A.** regarding the Bank's share capital increase up to PLN 147,593,150 as a result of the acquisition of series M shares by the eligible persons.
5.08.2022	**Rating action taken by Fitch Ratings** A Fitch Ratings has placed the Bank's Viability Rating (VR) (bbb-) on Rating Watch Negative. This rating action has no impact on the Bank's other ratings.
9.09.2022	**Entry in the National Court Register of the amendments to the Articles of Association of BNP Paribas Bank Polska S.A.** adopted at the Annual General Meeting of the Bank on 27 June 2022 concerning the conditional increase in the Bank's share capital through the issue of up to 1,200,000 Series N ordinary bearer shares.
24.11.2022	**Authorized deletion of BNP Paribas Solutions Sp. z o.o. from the National Court Register, finalizing the liquidation process.**
16.12.2022	**Rating action taken by Fitch Ratings** The agency affirmed the Bank's Long-Term Issuer Default Rating (IDR) at "A+" with a stable outlook and Shareholder Support Rating (SSR) at "a+". The Viability Rating (VR) was affirmed at "bbb-" and removed from the Rating Watch Negative.
27.12.2022	**Determination by KNF of the Pillar II capital charge (P2G)** KNF recommended the Bank to maintain own funds to cover the additional capital charge (P2G) - of 0.77 p.p. at the consolidated level and 0.80 p.p. at the individual level - to absorb potential losses arising from stress events..

58. SUBSEQUENT EVENTS

17.01.2023 **Extraordinary General Meeting of Shareholders** - adoption of resolutions on, inter alia:

- assessment the collective adequacy of the Bank's Supervisory Board in connection with the change in the composition of the Supervisory Board,
- Mr. Grégory Raison was appointed as a member of the Bank's Supervisory Board, effective from 17 January 2023, until the end of the current five-year joint term of office of the members of the Bank's Supervisory Board,
- approval of the Policy for the assessment of the adequacy of the members of the Bank's Supervisory Board,
- amendments to the Bank's Statutes.

On January 17, 2023, the Bank received the Decision of UOKiK on the fine imposed on the Bank in connection with practices infringing collective consumer interests in the field of credit holidays, details are presented in Note 54.

On February 16, 2023, the opinion of the Advocate General of the CJEU was issued on whether, in the event of cancellation of the loan agreement, the parties are entitled to any claim for the use of capital by the other party (entrepreneur and consumer), details are presented in Note 54.

28.02.2023	**Przemysław Gdański** *President of the Management Board*	*qualified electronic signature*
28.02.2023	**Jean-Charles Aranda** *Vice-President of the Management Board*	*qualified electronic signature*
28.02.2023	**André Boulanger** *Vice-President of the Management Board*	*qualified electronic signature*
28.02.2023	**Przemysław Furlepa** *Vice-President of the Management Board*	*qualified electronic signature*
28.02.2023	**Wojciech Kembłowski** *Vice-President of the Management Board*	*qualified electronic signature*
28.02.2023	**Kazimierz Łabno** *Vice-President of the Management Board*	*qualified electronic signature*
28.02.2023	**Magdalena Nowicka** *Vice-President of the Management Board*	*qualified electronic signature*
28.02.2023	**Volodymyr Radin** *Vice-President of the Management Board*	*qualified electronic signature*
28.02.2023	**Agnieszka Wolska** *Vice-President of the Management Board*	*qualified electronic signature*

Warsaw, 28 February 2023