



# **FULL-YEAR FINANCIAL STATEMENTS OF BANK OCHRONY ŚRODOWISKA S.A.**

FOR THE YEAR ENDED 31 DECEMBER 2023

Warsaw, 7 March 2024



## Contents

Full-year profit or loss of the Bank .....	5
Full-year statement of comprehensive income of the Bank .....	6
Full-year statement of financial position of the Bank.....	7
Full-year statement of changes in equity of the Bank.....	9
Full-year statement of cash flows of the Bank .....	10
Notes to the full-year financial statements.....	12
1. General information on Bank Ochrony Środowiska S.A.....	12
1.1. Bank Ochrony Środowiska S.A. ....	12
1.2. Composition of the Management Board and Supervisory Board of BOŚ S.A.....	12
2. Identification of the consolidated financial statements .....	15
3. Climate change.....	15
4. Statement of accounting policies .....	16
4.1. Basis of preparation and statement of compliance .....	16
4.2. Standards, interpretations and amendments to standards first applied in 2023 .....	17
4.3. Going concern .....	18
4.4. Segment reporting.....	19
4.5. Measurement of items denominated in foreign currencies.....	19
4.6. Interest income and expense .....	20
4.7. Fee and commission income and expense.....	20
4.8. Recognition of bancassurance income and expense .....	20
4.9. Hedge accounting .....	21
4.10. Investments in subsidiaries.....	22
4.11. Financial assets and liabilities.....	23
4.12. Non-current assets held for sale .....	28
4.13. Intangible assets .....	28
4.14. Property, plant and equipment.....	29
4.15. Leases .....	29
4.16. Income tax.....	30
4.17. Foreclosed assets.....	31
4.18. Prepayments, accruals and deferred income.....	31
4.19. Provisions for employee benefits .....	31
4.20. Provisions.....	32
4.21. Contingent liabilities and contingent assets.....	32
4.22. Equity.....	32
4.23. Cash and cash equivalents .....	33
4.24. New standards, interpretations and amendments thereto published and approved by the European Union but not yet effective and not yet applied by the Bank.....	33

4.25. New standards, interpretations and amendments thereto, which have been published and are not endorsed by the European Union.....	34
5. Corrections of prior period errors.....	34
6. Significant estimates and judgments.....	34
6.1. Financial assets.....	34
6.2. Fair value of financial instruments.....	36
6.3. Provision for retirement benefits.....	36
6.4. Taxation.....	37
6.5. Estimates of the impact of legal risk associated with foreign currency-linked mortgages.....	37
6.6. Provision for refund of loan costs in case of early repayment.....	38
7. Risk management.....	38
7.1. Credit risk.....	38
7.1.1. Methodology for recognising impairment of credit exposures.....	42
7.1.2. Amounts due from banks.....	45
7.1.3. Amounts due from clients.....	46
7.1.4. Debt securities.....	66
7.1.5. Concentration of exposures to industries and geographical markets, with assessment of the concentration risk.....	68
7.1.6. Concentration of exposure to particular entities and groups.....	70
7.1.7. Maximum exposure to credit risk.....	72
7.1.8. Forbearance practices.....	75
7.2. Financial risk in the bank book and the trading book, and risk limits.....	77
7.2.1. Liquidity risk.....	78
7.2.2. Interest rate risk.....	85
7.2.3. Currency risks.....	90
7.3. Capital management.....	94
7.4. Operational risk.....	97
7.5. Compliance risk.....	98
7.6. Model risk.....	99
8. Net interest income.....	101
9. Net fee and commission income.....	103
10. Dividend income.....	103
11. Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients).....	104
12. Gain (loss) on hedge accounting.....	104
13. Gain (loss) on foreign exchange transactions.....	104
14. Other income.....	105
15. Other expenses.....	106
16. Effect of legal risk of mortgage loans denominated in foreign currencies.....	107

17. Net impairment losses.....	107
18. Administrative expenses.....	108
19. Income tax expense.....	109
20. Earnings per share.....	110
21. Cash and balances at central bank.....	110
22. Amounts due from banks.....	110
23. Financial assets and liabilities held for trading.....	112
24. Investment securities.....	113
25. Amounts due from clients.....	117
26. Financial assets by maturity.....	124
27. Investments in subsidiaries.....	126
28. Intangible assets.....	127
29. Property, plant and equipment.....	128
30. Right of use – leases.....	131
31. Other assets.....	132
32. Amounts due to central bank and other banks.....	132
33. Amounts due to clients.....	133
34. Subordinated liabilities.....	134
35. Provisions.....	134
36. Deferred income tax.....	139
37. Lease liabilities.....	141
38. Other liabilities.....	143
39. Contingent assets and liabilities.....	143
40. Legal and administrative proceedings.....	144
41. Legal risk associated with residential mortgage-backed loans tied to foreign currency exchange rates.....	145
42. Common equity.....	149
43. Revaluation reserve.....	151
44. Retained earnings.....	152
45. Hedge accounting.....	152
46. Share-based payments.....	154
47. Notes to the statement of cash flows.....	156
48. Description of derivative financial instruments and foreign exchange transactions.....	158
49. Fair value of financial assets and liabilities.....	163
50. Allocation of financial instruments measured at fair value based on the fair value measurement method.....	165
51. Segment reporting.....	168
52. Related-party transactions.....	175
53. Seasonal or cyclical nature of the business.....	183

54. Disposal, liquidation and merger of companies.....	183
55. Dividends paid (aggregate or per share) separately for ordinary shares and other shares.....	183
56. Reform of benchmarks.....	183
57. Events after the reporting date.....	185

## Full-year profit or loss of the Bank

Continuing operations	Note	for the year ended	
		31 Dec 2023	31 Dec 2022
Interest and similar income, including:		1,582,903	1,198,582
<i>financial assets measured at amortised cost</i>		1,113,780	873,776
<i>assets measured at fair value through other comprehensive income</i>		444,307	307,489
<i>financial assets measured at fair value through profit or loss</i>		24,816	17,317
Interest expense and similar charges, including:		- 886,556	- 527,642
<i>financial liabilities measured at amortised cost</i>		- 886,556	- 527,642
<b>Net interest income</b>	8	<b>696,347</b>	<b>670,940</b>
Fee and commission income		83,753	82,766
Fee and commission expense		- 9,256	- 10,061
<b>Net fee and commission income</b>	9	<b>74,497</b>	<b>72,705</b>
Dividend income	10	8,118	6,924
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	11	10,294	- 2,658
Gain (loss) on hedge accounting	12	- 2,028	119
Gain (loss) on foreign exchange transactions	13	10,483	36,706
Gain (loss) on derecognition of financial instruments		1,038	2,070
Other income	14	18,721	16,608
Other expenses	15	- 35,311	- 24,946
Effect of legal risk of mortgage loans denominated in foreign currencies	16/41	- 284,411	- 144,306
Net impairment losses	17	- 61,498	- 100,634
Administrative expenses	18	- 384,178	- 384,403
Share of profit (loss) of equity-accounted entities		70,034	36,787
<b>Profit before tax</b>		<b>122,106</b>	<b>185,912</b>
Income tax expense	19	- 60,405	- 58,304
<b>Net profit</b>		<b>61,701</b>	<b>127,608</b>
Earnings per share attributable to owners of the parent during period (PLN)	20		
<i>basic</i>		0.66	1.37
<i>diluted</i>		0.66	1.37

There were no discontinued operations in 2023 and 2022.

The notes presented on the following pages are an integral part of these financial statements.

## Full-year statement of comprehensive income of the Bank

Continuing operations	for the year ended	
	31 Dec 2023	31 Dec 2022
<b>Net profit</b>	<b>61,701</b>	<b>127,608</b>
<b>Items that may be reclassified to profit or loss:</b>	<b>89,641</b>	<b>- 29,414</b>
Fair value of financial assets measured at fair value through other comprehensive income, gross	110,668	- 36,314
Deferred tax	- 21,027	6,900
<b>Items that will not be reclassified to profit or loss:</b>	<b>16,467</b>	<b>- 487</b>
Fair value of equity instruments carried at fair value through other comprehensive income, gross	21,205	- 23
Deferred tax	- 4,029	4
Remeasurement of employee benefit obligations	- 875	- 578
Deferred tax	166	110
<b>Other comprehensive income</b>	<b>106,108</b>	<b>- 29,901</b>
<b>Total comprehensive income</b>	<b>167,809</b>	<b>97,707</b>

The notes presented on the following pages are an integral part of these financial statements.



## Full-year statement of financial position of the Bank

Assets	Note	31 Dec 2023	31 Dec 2022
Cash and balances with central bank	21	584,082	575,865
Amounts due from banks	22	162,681	240,885
Financial assets held for trading, including:	23	113,345	222,944
<i>debt securities</i>		-	20,225
<i>derivative instruments</i>		113,345	202,719
Derivative hedging instruments	45	15,556	30,562
Investment securities:	24	9,484,770	9,008,118
<i>equity securities measured at fair value through other comprehensive income</i>		106,656	85,465
<i>debt securities measured at fair value through other comprehensive income</i>		6,885,521	6,915,813
<i>debt securities measured at amortised cost</i>		2,366,265	1,900,215
<i>debt securities measured at fair value through profit or loss</i>		126,328	106,625
Amounts due from clients, including:	25	10,819,261	11,173,579
<i>measured at amortised cost</i>		10,819,122	11,170,529
<i>measured at fair value through profit or loss</i>		139	3,050
Investments in subsidiaries	27	276,191	226,158
Intangible assets	28	115,815	118,251
Property, plant and equipment	29	48,477	45,987
Right of use – leases	30	47,211	61,199
Tax assets:		143,464	161,532
<i>current</i>		-	2,445
<i>deferred</i>	36	143,464	159,087
Other assets	31	58,599	50,158
<b>Total assets</b>		<b>21,869,452</b>	<b>21,915,238</b>

Liabilities	Note	31 Dec 2023	31 Dec 2022
Amounts due to central bank and other banks	32	75,146	141,143
Derivative financial instruments held for trading	23	76,653	147,922
Amounts due to clients	33	18,641,304	18,879,924
Subordinated liabilities	34	447,032	345,035
Provisions	35	228,388	159,357
Tax liabilities:		2,312	-
<i>current</i>		2,312	-
Lease liabilities	37	46,378	63,475
Other liabilities	38	222,434	216,386
<b>Total liabilities</b>		<b>19,739,647</b>	<b>19,953,242</b>

Equity	Note	31 Dec 2023	31 Dec 2022
<b>EQUITY ATTRIBUTABLE TO OWNERS OF PARENT</b>			
Common equity:	42	1,460,364	1,460,364
<i>Share capital</i>		929,477	929,477
<i>Treasury shares</i>		- 1,294	- 1,294
<i>Share premium</i>		532,181	532,181
Revaluation reserve	43	49,245	- 56,863
Retained earnings	44	620,196	558,495
<b>Total equity</b>		<b>2,129,805</b>	<b>1,961,996</b>
<b>Total equity and liabilities</b>		<b>21,869,452</b>	<b>21,915,238</b>

The notes presented on the following pages are an integral part of these financial statements.

## Full-year statement of changes in equity of the Bank

Item	Common equity			Revaluation reserve	Retained earnings			Total equity
	Share capital	Treasury shares	Share premium		Other statutory reserve funds	General risk fund	Undistributed profit (loss)	
<b>As at 1 Jan 2023</b>	<b>929,477</b>	<b>- 1,294</b>	<b>532,181</b>	<b>- 56,863</b>	<b>382,585</b>	<b>48,302</b>	<b>127,608</b>	<b>1,961,996</b>
Net profit	-	-	-	-	-	-	61,701	61,701
Other comprehensive income	-	-	-	106,108	-	-	-	106,108
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>106,108</b>	<b>-</b>	<b>-</b>	<b>61,701</b>	<b>167,809</b>
<b>Profit distribution, including:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>127,608</b>	<b>-</b>	<b>- 127,608</b>	<b>-</b>
Transfer of net profit to reserves	-	-	-	-	127,608	-	- 127,608	-
<b>As at 31 Dec 2023</b>	<b>929,477</b>	<b>- 1,294</b>	<b>532,181</b>	<b>49,245</b>	<b>510,193</b>	<b>48,302</b>	<b>61,701</b>	<b>2,129,805</b>
<b>As at 1 Jan 2022</b>	<b>929,477</b>	<b>- 1,294</b>	<b>532,181</b>	<b>- 26,962</b>	<b>333,871</b>	<b>48,302</b>	<b>48,714</b>	<b>1,864,289</b>
Net profit	-	-	-	-	-	-	127,608	127,608
Other comprehensive income	-	-	-	- 29,901	-	-	-	- 29,901
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>- 29,901</b>	<b>-</b>	<b>-</b>	<b>127,608</b>	<b>97,707</b>
<b>Profit distribution, including:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,714</b>	<b>-</b>	<b>- 48,714</b>	<b>-</b>
Transfer of net profit to reserves	-	-	-	-	48,714	-	- 48,714	-
<b>As at 31 Dec 2022</b>	<b>929,477</b>	<b>- 1,294</b>	<b>532,181</b>	<b>- 56,863</b>	<b>382,585</b>	<b>48,302</b>	<b>127,608</b>	<b>1,961,996</b>

The notes presented on the following pages are an integral part of these financial statements.

## Full-year statement of cash flows of the Bank

Indirect method	Note	for the year ended	
		31 Dec 2023	31 Dec 2022
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>			
<b>Profit before tax</b>		<b>122,106</b>	<b>185,912</b>
<b>Total adjustments:</b>		<b>-1,100,397</b>	<b>1,794,254</b>
Share in (profit) loss of equity-accounted subordinated entities		-70,034	-36,787
Amortisation and depreciation	18	59,828	50,589
Interest income on investing activities		-193,556	-109,969
Loss on investing activities		-	-29
Interest income on financing activities		38,920	27,022
Dividends received:	10	-8,118	-6,924
<i>on investment securities</i>		8,118	6,924
Change in:			
<i>amounts due from banks</i>		7,945	24,234
<i>securities held for trading</i>		20,225	-16,025
<i>assets and liabilities from measurement of derivative and hedging financial instruments</i>		33,111	-55,007
<i>investment securities</i>		-1,047,398	-51,562
<i>amounts due from clients</i>		354,318	342,478
<i>other assets and income tax</i>		-5,984	-20,294
<i>amounts due to central bank and other banks</i>		-65,997	-279,246
<i>amounts due to clients</i>		-238,620	1,867,778
<i>provisions</i>		68,156	70,366
<i>other liabilities and income tax</i>		6,048	56,273
Income tax paid		-67,359	-75,567
<b>Net cash flows from (used in) operating activities</b>		<b>-978,291</b>	<b>1,980,166</b>

<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>			
<b>Inflows</b>		<b>241,185</b>	<b>278,098</b>
Cash receipts from sale of property, plant and equipment		-	40
Interest income on securities measured at amortised cost		157,787	63,833
Cash receipts from redemption of securities measured at amortised cost		63,398	204,225
Dividends received		20,000	10,000
<b>Outflows</b>		<b>-539,302</b>	<b>-537,161</b>
Payments for acquisition of securities measured at amortised cost		-493,679	-475,938
Payments for acquisition of intangible assets	28	-30,028	-44,888
Payments for acquisition of property, plant and equipment	29	-15,595	-16,335
<b>Net cash flows from (used in) investing activities</b>		<b>-298,117</b>	<b>-259,063</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>			
<b>Inflows</b>		<b>100,000</b>	<b>-</b>
Interest received on bonds issued by the Bank, including:	34	100,000	-
<i>subordinated bonds</i>		100,000	-
<b>Outflows</b>		<b>-54,303</b>	<b>-66,022</b>
Redemption of bonds issued by the Bank			-32,500
Interest paid on bonds issued by the Bank, including:		-33,907	-14,901
<i>subordinated bonds</i>		-33,907	-14,901
Lease payments		-15,644	-17,120
Lease interest paid		-4,752	-1,501
<b>Net cash flows from (used in) financing activities</b>		<b>45,697</b>	<b>-66,022</b>
<b>TOTAL NET CASH FLOWS</b>		<b>-1,230,711</b>	<b>1,655,081</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>5,254,664</b>	<b>3,599,583</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>4,023,953</b>	<b>5,254,664</b>
Restricted cash and cash equivalents		611,254	618,966

The notes presented on the following pages are an integral part of these financial statements.

## Notes to the full-year financial statements

### 1. General information on Bank Ochrony Środowiska S.A.

#### 1.1. Bank Ochrony Środowiska S.A.

Bank Ochrony Środowiska S.A. (the 'Bank', 'BOŚ S.A.', the 'Company'), with its registered office at ul. Żelazna 32 in Warsaw, was established by Decision No. 42 of the Governor of the National Bank of Poland 15 September 1990, and a notarial deed of incorporation of 28 September 1990.

The Bank is entered in the National Court Register of the District Court for the Capital City of Warsaw, 13th Commercial Division, under No. KRS 0000015525, and has Industry Identification Number (REGON) 006239498.

According to the Polish Classification of Business Activities (PKD), the Bank's activities are classified as PKD 6419Z.

The Bank was established for an indefinite period.

The Bank's primary objective is to effectively manage the shareholders' equity and funds entrusted by its clients, ensuring the profitability of its business and the security of the funds entrusted.

The Bank's business consists in banking activities, including accumulating funds, granting credits, effecting cash settlements, performing other banking services as well as providing financial consulting and advisory services.

The Bank's mission: We provide comprehensive finance and support for initiatives driving the transition towards a greener future.

The Bank pursues its mission mainly by:

- providing banking services to retail and institutional clients, in particular those implementing environmentally-friendly projects or operating in the environmental protection and water management sectors, and to people who value eco-friendly lifestyles,
- participating in distribution of funds for environmental protection projects and sustainable development in Poland.

Since 24 January 1997, the Bank shares have been traded on the Warsaw Stock Exchange and listed in the finance/banking segment of the market.

On 7 March 2024, these full-year financial statements of BOŚ S.A. were authorised by the Management Board for issue on the Warsaw Stock Exchange on 8 March 2024.

#### 1.2. Composition of the Management Board and Supervisory Board of BOŚ S.A.

##### Management Board

As at 31 December 2023, the composition of the Management Board was as follows:

- Paweł Trętowski – member of the Supervisory Board delegated to temporarily act as Vice President of the Management Board responsible for managing the activities of the Management Board,
- Arkadiusz Garbarczyk – Vice President of the Management Board, First Deputy President of the Management Board,
- Sebastian Bodzenta – Vice President of the Management Board,
- Iwona Marciniak – Vice President of the Management Board.

As at 31 December 2022, the composition of the Management Board was as follows:

- Emil Ślężak – member of the Supervisory Board delegated to temporarily perform the duties of President of the Management Board,
- Arkadiusz Garbarczyk – Vice President of the Management Board, First Deputy President of the Management Board,
- Robert Kasprzak – Vice President of the Management Board,
- Jerzy Zań – Vice President of the Management Board.

In 2023, the following changes took place in the composition of the Management Board:

1. Effective 8 February 2023, Emil Ślężak was appointed by the Supervisory Board as Vice President of the Bank's Management Board responsible for managing the work of the Management Board. At the same time, the Supervisory Board passed a resolution to seek approval from the PFSA for the appointment of Emil Ślężak as the President of the Management Board of Bank Ochrony Środowiska S.A.;
2. On 18 April 2023, Robert Kasprzak tendered his resignation as Vice President of the Management Board of Bank Ochrony Środowiska S.A., with effect from 30 April 2023;
3. On 24 May 2023, the Supervisory Board passed a resolution to terminate the management contract with the Bank's Vice President Jerzy Zań by mutual agreement; An agreement was reached resulting in Jerzy Zań ceasing to serve as Vice President of the Bank's Management Board on the date of the General Meeting that approved the Report of the Bank and the Group for 2022, namely, on 23 June 2023;
4. On 23 June 2023, Emil Ślężak submitted a statement of resignation from the position of Management Board Vice President responsible for managing the work of the Management Board;
5. On 23 June 2023, the Supervisory Board:
  - delegated Iwona Marciniak, effective 24 June 2023, to temporarily serve as Management Board Vice President (until the date of completion of the qualification procedure for the position of Member of the Management Board of Bank Ochrony Środowiska S.A., but no longer than until 24 September 2023);
  - delegated Paweł Trętowski, effective 23 June 2023, to temporarily serve as Management Board Vice President responsible for managing the work of the Management Board (until the date of completion of the qualification procedure for the position of President of the Management Board of Bank Ochrony Środowiska S.A., but no longer than until 23 September 2023);
6. On 29 June 2023, the Supervisory Board appointed:
  - Iwona Marciniak as Vice President of the Bank's Management Board, effective 29 June 2023,
  - Sebastian Bodzenta as Vice President of the Bank's Management Board, effective 10 July 2023;
7. On 25 September 2023, delegated Paweł Trętowski, Member the Supervisory Board, to temporarily act as Vice President of the Management Board, and entrusted him with the management of the Management Board's activities until the date of completion of the recruitment procedure for the position of President of the Management Board of Bank Ochrony Środowiska S.A., but no longer than until 25 December 2023;
8. On 28 December 2023, delegated Paweł Trętowski, Member the Supervisory Board, to temporarily act as Vice President of the Management Board, and entrusted him with the management of the Management Board's activities until the date of completion of the recruitment procedure for the position of President of the Management Board of Bank Ochrony Środowiska S.A., but no longer than until 28 March 2024.

As at the date of these financial statements, the composition of the Management Board was as follows:

- Paweł Trętowski – member of the Supervisory Board delegated to temporarily act as Vice President of the Management Board responsible for managing the activities of the Management Board,
- Arkadiusz Garbarczyk – Vice President of the Management Board, First Deputy President of the Management Board,
- Sebastian Bodzenta – Vice President of the Management Board,
- Iwona Marciniak – Vice President of the Management Board.

## Supervisory Board

As at 31 December 2023, the composition of the Supervisory Board was as follows:

- Piotr Sadownik – Chairman of the Supervisory Board,
- Andrzej Matysiak – Secretary of the Supervisory Board,
- Piotr Bielarczyk – Member of the Supervisory Board,
- Wojciech Krawczyk – Member of the Supervisory Board,
- Marian Niemirski – Member of the Supervisory Board,
- Aleksandra Świdorska – Member of the Supervisory Board,
- Waldemar Trelka – Member of the Supervisory Board,
- Paweł Trętowski – Member of the Supervisory Board (as of 28 December 2022 delegated to temporarily perform the duties of Vice President of the Management Board responsible for managing the work of the Management Board, for a period not longer than until 28 March 2024).

As at 31 December 2022, the composition of the Supervisory Board was as follows:

- Piotr Sadownik – Chairman of the Supervisory Board,
- Iwona Marciniak – Deputy Chairwoman of the Supervisory Board,
- Andrzej Matysiak – Secretary of the Supervisory Board,
- Piotr Bielarczyk – Member of the Supervisory Board,
- Paweł Sałek – Member of the Supervisory Board,
- Emil Ślęzak – delegated to temporarily perform the duties of President of the Management Board,
- Aleksandra Świdorska – Member of the Supervisory Board,
- Tadeusz Wyrzykowski – Member of the Supervisory Board.

In 2023, the following changes took place in the composition of the Supervisory Board:

1. On 8 February 2023, Emil Ślęzak, then member of the Supervisory Board, submitted his resignation from the Board. This decision was made in connection with his appointment as Vice President of the Bank's Management Board, which took effect on the same date;
2. On 23 June 2023, the Annual General Meeting of BOŚ S.A. appointed the following persons to the Supervisory Board:
  - Wojciech Krawczyk,
  - Marian Niemirski,
  - Waldemar Trelka,
  - Paweł Trętowski;
3. On 23 June 2023, the Supervisory Board passed resolutions to:
  - delegate Iwona Marciniak, effective 24 June 2023, to temporarily serve as Management Board Vice President (until the date of completion of the qualification procedure for the position of Member of the Management Board of Bank Ochrony Środowiska S.A., but no longer than until 24 September 2023);
  - delegate Paweł Trętowski, effective 23 June 2023, to temporarily serve as Management Board Vice President responsible for managing the work of the Management Board (until the date of completion of the qualification procedure for the position of President of the Management Board of Bank Ochrony Środowiska S.A., but no longer than until 23 September 2023);
4. On 29 June 2023, the Supervisory Board of the Bank passed a resolution to appoint Iwona Marciniak as Vice President of the Management Board, with effect from 29 June 2023. As a result, Iwona Marciniak resigned from the Supervisory Board of BOŚ S.A. with effect from the same day;
5. On 6 September 2023, the Supervisory Board appointed Tadeusz Wyrzykowski as Deputy Chairman of the Supervisory Board;
6. On 21 September 2023, the Supervisory Board resolved to delegate Paweł Trętowski, with effect from 25 September 2023, to temporarily act as Vice President of the Management Board responsible for managing the Management Board's activities (until the date of completion of the recruitment procedure for the position of President of the Management Board of Bank Ochrony Środowiska S.A., but no longer than until 25 December 2023);
7. On 15 December 2023, the Supervisory Board resolved to delegate Paweł Trętowski, with effect from 28 December 2023, to temporarily act as Vice President of the Management Board, and entrusted him with the management of the Management Board's activities until the date of completion of the recruitment procedure



for the position of President of the Management Board of Bank Ochrony Środowiska S.A., but no longer than until 28 March 2024;

8. On 25 October 2023, Paweł Sałek resigned as a member of the Bank's Supervisory Board with effect as of that date.

Until the date of preparation of these financial statements, the composition of the Supervisory Board has not changed.

## 2. Identification of the consolidated financial statements

The Bank Ochrony Środowiska Group prepared consolidated financial statements for the year ended 31 December 2023. These statements were authorised by the Management Board on 7 March 2024 and issued on 8 March 2024.

## 3. Climate change

The mission of BOŚ as stated in the Bank's Strategy is to comprehensively finance and support the green transition. The Bank provides financing for pro-environmental projects that generate both business results and environmental benefits. The Bank undertakes to co-finance various projects that improve the environment, in particular environmental projects supported by the policies of the state authorities and the European Union, including measures to develop a low-carbon economy.

The Bank's business model is based on the pursuit of maximising green assets through such environmental objectives climate change mitigation, climate change adaptation, sustainable use and conservation of water and marine resources, transition to a closed loop economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems. The Bank has long established and consistently updated internal guidelines for classifying transactions within its green portfolio. The Bank concurrently adapts its procedures to align with regulations governing the reporting and classification of green assets, as outlined in the EU taxonomy.

It actively collaborates on financing eco-friendly initiatives with public and state institutions dedicated to environmental projects. Key partners include the National Fund for Environmental Protection and Water Management, various Regional Environmental Protection and Water Management Funds, Bank Gospodarstwa Krajowego, and European banks engaged in funding sustainable development. The Bank has extensive structures and specialised expert resources committed to environmental protection.

ESG risk management at the Bank, including climate-related risks, is conducted across all levels of the organisational structure, adhering to the established ESG Risk Management Policy and Principles. The process of identifying ESG risks for all institutional clients involves evaluating environmental initiatives, focusing on investments in environmental protection, pollution reduction, carbon dioxide emission levels, energy consumption, and the adoption of energy-efficient technologies. Any such risks identified are measured. Depending on the level of ESG risk posed by a client seeking financing, financing may be granted subject to the client taking actions to mitigate those risks, or financing may be declined based on an unacceptable level of ESG risk – regardless of the client's creditworthiness or the level of collateral provided to support the debt.

In line with the ESG Strategy adopted in December 2023, which builds on the 2021-2023 ESG Strategy, the Bank is implementing the Climate Policy. The Climate Policy outlines strategic actions for Bank Ochrony Środowiska S.A. aimed at combating and adapting to climate change, as well as achieving the Bank's emission reduction targets in line with the ESG Strategy. The policy's objectives are pursued through initiatives focused on reducing the bank's carbon footprint, supporting clients' climate transformations, curtailing financing for high-emission sectors and projects, managing climate change-related risks, and capitalising on potential opportunities and beneficial impacts of climate changes.

In accordance with its commitments, the Bank calculates annual greenhouse gas emissions related to its operations (carbon footprint). The Bank aspires to achieve climate neutrality, defined as net-zero emissions across Scopes 1 and 2 by 2030. For emissions that cannot be avoided, the Bank will undertake compensatory measures.

As a participant in the Science Based Targets initiative, the Bank commits to validating, announcing, and implementing decarbonisation targets that are scientifically grounded, including portfolio emissions in 2024. Emission calculations are independently verified annually. The results of these calculations are published, among other places, in non-financial reporting.

## 4. Statement of accounting policies

### 4.1. Basis of preparation and statement of compliance

The full-year financial statements of the Bank include:

- Statement of profit or loss for the 12 months ended 31 December 2023 and comparative data for the 12 months ended 31 December 2022,
- Statement of comprehensive income for the 12 months ended 31 December 2023 and comparative data for the 12 months ended 31 December 2022,
- Statement of financial position as at 31 December 2023 and comparative data as at 31 December 2022,
- Statement of changes in equity for the 12 months ended 31 December 2023 and comparative data for the 12 months ended 31 December 2022,
- Statement of cash flows for the 12 months ended 31 December 2023 and comparative figures for the 12 months ended 31 December 2022,
- Notes to the financial statements.

These full-year financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), effective as at the reporting date, i.e. 31 December 2023, using the same accounting policies for each period, and on a historical cost basis, except for the following items measured at fair value:

Recognition of changes in fair value through:	
Financial instruments held for trading	profit or loss
Fair value hedging derivatives	profit or loss
Amounts due from clients whose cash flows fail to meet the SPPI (solely payment of principal and interest) test	profit or loss
Investment debt securities held within a business model whose objective is achieved by collecting contractual cash flows or selling financial assets	other comprehensive income
Investment equity securities	other comprehensive income

IFRSs comprise the standards and interpretations adopted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

These full-year financial statements have been prepared in the Polish złoty (PLN), rounded to PLN thousand (PLN '000).

## 4.2. Standards, interpretations and amendments to standards first applied in 2023

The following amendments to existing standards issued by the International Accounting Standards Board (IASB) and endorsed for use in the European Union (EU) have been applied for the first time in the 2023 financial statements:

IFRS	Amendment	Date of entry into force in the EU / approval by the EU	Effect on the Bank
IFRS 17 <i>Insurance Contracts</i> , with subsequent amendments to IFRS 17	IFRS 17 defines a new approach to the recognition, measurement, presentation and disclosure of insurance contracts. The main objective of IFRS 17 is to ensure guarantee transparency and comparability of insurers' financial statements. To this end, the entity will disclose a range of quantitative and qualitative information to enable users of the financial statements to assess the impact of insurance contracts on the entity's financial position, financial performance and cash flows. IFRS 17 introduces a number of significant changes to the existing requirements of IFRS 4, including with respect to: the levels of aggregation on which calculations are made, the method of valuation of insurance liabilities, recognition of profit or loss over time, recognition of reinsurance, separation of the investment component, the presentation of individual items of the statement of financial position and the statement of profit or loss of reporting entities, including separate presentation of insurance income, costs of insurance services and finance income or costs.	1 January 2016 / 19 November 2021	The amendment had no material effect on the financial statements.
Amendments to IFRS 17 <i>Insurance Contracts</i> – Application of IFRS 17 and IFRS 9	The amendments apply to comparative data when applying IFRS 17 and IFRS 9 for the first time.	1 January 2023 / 8 September 2022	The amendment had no material effect on the financial statements.
Amendments to IAS 1 <i>Presentation of Financial Statements</i> – <i>Disclosures of Material Accounting Policies</i>	The amendments clarify the scope of disclosure of material accounting policies. According to the amendments, only accounting policies that have a material impact on the information in the financial statements should be disclosed.	1 January 2023 / 2 March 2022	The amendment had no material effect on the financial statements.
Amendments to IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	The amendments clarified the definition of accounting estimates as monetary amounts recognised in the financial statements that are subject to measurement uncertainty.	1 January 2023 / 2 March 2022	The amendment had no material effect on the financial statements.

<p>Amendments to IAS 12 <i>Income Taxes – Deferred Tax on Assets and Liabilities from a Single Transaction</i></p>	<p>The amendments clarify the accounting for deferred taxes on transactions in which companies recognise both an asset and a liability, possibly resulting in taxable and deductible temporary differences simultaneously. This includes transactions such as leases or decommissioning liabilities.</p> <p>Entities are required to recognise deferred tax related to such transactions (the exclusion from recognising deferred tax is not applicable).</p>	<p>1 January 2023 / 11 August 2022</p>	<p>The amendment had no material effect on the financial statements.</p>
<p>Amendments to IAS 12 <i>Income Taxes: International Tax Reform – Pillar Two Model Rules</i></p>	<p>Disclosures related to the application of the OECD Pillar II model rules, and the disclosure of the use of an exception from the standard when an entity does not recognise deferred tax assets and liabilities related to Pillar II income taxes, nor discloses information about these assets and liabilities.</p>	<p>1 January 2023 / 8 November 2023</p>	<p>The amendment had no material effect on the financial statements.</p>

### 4.3. Going concern

As a result of an accounting loss incurred in 2015, the Bank implemented a Recovery Programme pursuant to Article 142(1) of the Banking Law in the wording effective until 8 October 2016, in accordance with Article 381(4) of the Act of 10 June 2016 on the Bank Guarantee Fund, deposit guarantee scheme and forced restructuring.

On 17 July 2020, the Bank received a decision of the Polish Financial Supervision Authority in connection with the administrative proceedings initiated *ex officio* by the Polish Financial Supervision Authority (the 'PFSA') on 12 May 2020, whereby the Bank was ordered to prepare a group recovery plan for Bank Ochrony Środowiska S.A. pursuant to Article 141n.1 of the Banking Law of 29 August 1997. On 20 July 2020, the Bank received the second decision of the PFSA in connection with the administrative proceedings initiated *ex officio* by the PFSA on 12 May 2020 to limit the scope of the group recovery plan to entities of the BOŚ Group (i.e. Bank Ochrony Środowiska S.A., Dom Maklerski BOŚ S.A., BOŚ Leasing EKO-Profit S.A. and MS Wind sp. z o.o.).

The Bank prepared the Group Recovery Plan and submitted it to the PFSA in October 2020. In a letter dated 21 January 2021, in connection with the administrative proceedings to approve the Group Recovery Plan, the Polish Financial Supervision Authority instructed the Bank to supplement and amend the Group Recovery Plan, with the audited financial data as at 31 December 2020 to be used as the point of reference. In accordance with the PFSA's request, BOŚ corrected the Group Recovery Plan and submitted it to the authority. On 17 December 2021, the PFSA approved the Group Recovery Plan.

The approval of the plan by the PFSA marks the discharge of the reorganisation obligations under the Recovery Programme.

In 2021, the Bank prepared a Framework Strategy for BOŚ S.A. for 2021–2023 (the 'Strategy'), whose assumptions, directions and objectives are consistent with those of the Group Recovery Plan.

On 31 December 2021, the Bank decided to launch the Group Recovery Plan approved by the PFSA. The corrective actions taken under the Group Recovery Plan are designed to enable the Bank to achieve sustainable profitability. Notwithstanding the fact that the Group Recovery Plan is being implemented, the Bank is obliged to update it on a regular basis.

In April 2023, the Bank submitted an updated Group Recovery Plan to the Polish Financial Supervision Authority. This update was made in response to changes in the banking operational environment, most notably the increased costs associated with legal risks linked to foreign-currency mortgage loans. This increase followed the publication of an opinion on 16 February 2023, by the Advocate General of the Court of Justice of the European Union, which was unfavourable for the banking sector. According to this opinion, the provisions of Directive 93/13 do not prevent a court from interpreting national law in such a way that, if a consumer credit agreement is declared void from the outset due to unfair terms, the consumer may not only reclaim the payments made under the agreement along

with statutory interest for late payment from the time payment was demanded but may also claim additional compensation from the bank subsequent to such a declaration. In October 2023, following a directive from the Polish Financial Supervision Authority, the Bank submitted a further update to its Group Recovery Plan. This revision included updates to the macroeconomic assumptions and an assessment of the threshold values for the Non-Performing Loan (NPL) ratio within the loan portfolio quality sector. The Bank also outlined actions taken to improve the quality of its loan portfolio.

On 26 January 2024, the Polish Financial Supervision Authority approved the updated Group Recovery Plan of BOŚ S.A.

Throughout 2023, the Bank continued to implement the plan. As at 31 December 2023, all primary indicators of the Group Recovery Plan, both on a standalone and consolidated basis, remained at safe levels. The Bank exceeded two recovery plan profitability indices – 'monthly result for the current period' and 'quarterly result for the current period', both being supplementary indicators. These breaches were not significant in terms of the going concern assumption, as they were temporary and primarily driven by a high level of legal risk costs associated with disputes over foreign currency mortgage loans and credit impairments on amounts due from institutional clients in the fourth quarter of 2023. In the entire 2023, the Bank generated a positive financial result.

The Bank maintains its capital adequacy ratios above the levels recommended by the Polish Financial Supervision Authority (see Note 7.3 for details). The Bank's liquidity is adequate and exceeds the regulatory requirements (see Note 7.2.1 for details).

The armed conflict in Ukraine did not have a significant impact on the liquidity position and capital adequacy of the Bank. The Bank maintained its full operational capacity throughout 2023.

Taking into consideration the factors described above, there are no circumstances that would indicate a threat to the Bank's ability to continue as a going concern for at least 12 months after the reporting date as a result of deliberate or compulsory discontinuation or limitation of its current operations.

## 4.4. Segment reporting

An operating segment is a component of the Bank:

1. that engages in business activities from which it may earn revenues and incur expenses,
2. whose operating results are regularly reviewed by the entity's chief operating decision maker,
3. for which discrete financial information is available.

Segment reporting is prepared on the same basis as internal reporting.

In accordance with IFRS 8, the Bank identified the following operating segments:

1. institutional clients,
2. retail clients,
3. treasury and investments,
4. other (not allocated to the segments).

The Bank's activities are not geographically diversified. For a detailed description of the segment reporting policies, see Note 51.

## 4.5. Measurement of items denominated in foreign currencies

### Functional currency

Items of the financial statements are measured in the functional currency, which is the currency of the primary economic environment in which the Bank operates.

The functional currency of the Bank is the Polish złoty.

### Transactions and balances

**Full-year financial statements of BOŚ S.A.  
for the year ended 31 December 2023**

**(amounts in PLN thousand)**

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rate effective on the transaction date, and the result of such translation is recognised in profit or loss.

On-balance sheet assets and liabilities and off-balance-sheet liabilities in foreign currencies are translated at the exchange rate effective at the end of the reporting period.

Non-monetary assets and liabilities measured at fair value are translated at the exchange rate effective as at the measurement date.

Non-monetary assets and liabilities measured at cost are translated at the exchange rate effective on the date these items arise.

## 4.6. Interest income and expense

All interest income on financial instruments measured at amortised cost using the effective interest rate method and interest income on interest-bearing financial assets measured at fair value through other comprehensive income or through profit or loss is recognised in the statement of profit or loss.

The effective interest rate method is a method of calculating the amortised initial amount of financial assets or liabilities and of allocating interest income or interest expense over the relevant period. An effective interest rate is the rate at which the discounted future payments or cash inflows are equal to the current net carrying amount of the asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows taking into account all contractual terms of a given financial instrument (e.g. early repayment options that are not separated from the host contract), without taking into account possible future losses on outstanding facilities. This calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income on the net carrying amount of those assets is recognised at the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

## 4.7. Fee and commission income and expense

Fee and commission income and expenses on amounts due from clients are recognised as interest income using the effective interest rate method. Fees and commissions for the grant of a credit product, collected prior to its disbursement, are deferred until funds are disbursed to the client. Fees for the provision of syndicated loans are recognised as revenue once the syndicate is formed, if the Bank has retained no part of the credit risk for itself or has retained a part at the same effective interest rate as other members of the syndicate.

Other fee and commission income is recognised in principle when the promised goods or services are transferred to the client. In the case of fees and commissions for credit limits, income is recognised at the end of the availability period.

Fee and commission expenses are recognised on an accrual basis, i.e. when the services are received from the service provider, with costs of mandatory legal fees being recognised at the moment the obligation to pay arises.

## 4.8. Recognition of bancassurance income and expense

The Bank recognises and accounts for income and expenses from insurance products in accordance with economic substance of the products. In terms of economic content, the Bank classifies fees from the insurance products it offers into the following groups:

1. fees which are an integral part of the consideration for the financial instrument additionally offered,
2. fees received for the provision of insurance intermediation services.
3. fees which are consideration for performing additional activities after the sale of the insurance product.

The fees received or due to the Bank from the sale of an insurance product that is directly linked to a financial instrument constitute an integral part of the consideration for the financial instrument. These are accounted for over time as an integral part of the interest rate and are recognised as interest income in the statement of profit or loss.

A direct link exists in particular when at least one of the following two conditions is met:

1. a financial instrument is always offered by the Bank with an insurance product, i.e. both transactions are concluded at the same time or are concluded in a sequence in which each subsequent transaction follows from the previous one,
2. an insurance product is offered by the Bank exclusively with a financial instrument, i.e. the client cannot purchase from the Bank an insurance product identical in terms of its legal form, terms and economic content without buying a combined financial product.

If one of the conditions is not met, a detailed analysis of the economic content of the insurance product is carried out in order to determine whether the criteria for independence of insurance contracts from the financial instruments offered are met. The analysis of the direct link between an insurance product and a financial instrument may result in the fee being divided into components: part that constitutes an element of the amortised cost of the financial instrument, consideration due to the Bank for insurance intermediary services in the sale of the insurance product, and part that constitutes consideration for performing additional post-sale activities related to the insurance product.

The allocation of the fee received or receivable is made proportional to the involvement of the Bank's employees in activities related to the sale of the financial instrument, the provision of insurance intermediary services and additional post-sale insurance contract servicing.

The Bank recognises the consideration as fee and commission income at the time of sale or renewal of the insurance product.

The revenue from sale of insurance products is reduced by a provision for the Bank-estimated percentage of refunds made in periods after the sale of the insurance product (e.g. due to cancellation of the insurance by the client).

The amount of anticipated returns and the proportion of revenue distribution based on the economic content of the revenue are reviewed each time relevant information on significant changes in this respect becomes available, but not less frequently than at the reporting date.

Costs directly related to the sale of an insurance product with a financial instrument are accounted for in accordance with the principle of matching revenues with costs:

1. as a component of the amortised cost of a financial instrument if all revenue from the sale of the insurance product is accounted for using the effective interest rate method,
2. if the consideration has been split – in the proportion applied to split the revenue into revenue recognised under the amortised cost calculation and revenue recognised on a one-off basis or settled over time.

Fixed costs or costs not related directly to the sale of insurance products or financial instruments are recognised in profit or loss when incurred.

## 4.9. Hedge accounting

Hedge accounting is used to offset changes in the fair value of hedged items and hedging items.

Under the transitional provisions of IFRS 9, the Bank decided to continue to apply IAS 39 to hedge accounting.

The Bank may decide to apply the hedge-accounting requirements of IFRS 9 at a later date. In accordance with the hedge accounting principles contained in IFRS 9, it is necessary to apply the requirements of IFRS 9 in the event of implementation of subsequent fair value or cash flow hedge accounting at the Bank.

The Bank applies hedge accounting provided that all of the following criteria specified in IAS 39 are met:

1. at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge; the documentation identifies the hedging instrument, the hedged item, the nature of the hedged risk and the manner in which the Bank will assess the effectiveness of the hedging instrument in offsetting the threat of changes in the fair value of the hedged item;
2. the hedge is expected to be highly effective in offsetting changes in fair value, consistent with the risk management strategy originally documented for that particular hedging relationship;
3. the effectiveness of the hedge can be reliably measured, i.e. the fair value of the hedged item and the fair value of the hedging instrument can be reliably measured;
4. the hedge is continuously assessed and has been found to be highly effective in all reporting periods for which it has been established.

Hedge accounting is an integral part of the financial risk management process at BOŚ S.A.

Financial risk is managed as part of the risk management process in place at the Bank.

The Bank uses hedge accounting to hedge the fair value of financial instruments. Fair value hedge is a hedge against changes in the fair value of a recognised asset, liability or probable future liability or an identified portion of this recognised asset, liability or probable future liability, which can be attributed to a particular risk and can affect the profit or loss.

A fair value hedge that meets the conditions for hedge accounting in a given period is recognised by the Bank as follows:

1. changes in fair value of a hedging instrument (i.e. derivative instrument designed and qualified as fair value hedge) is recognised in profit or loss,
2. the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss,
3. interest on hedging derivatives is presented in the same line of the statement of profit or loss in which interest on the hedged instruments is presented, i.e. as interest income,
4. measurement of a hedged financial asset classified as measured at fair value through other comprehensive income arising from factors other than the hedged risks is recognised in revaluation reserve until the asset is disposed of or has matured.

The Bank discontinues to apply hedge accounting in the event of expiry, sale, termination or execution of the hedging instrument/hedged item, or when the hedging relationship no longer meets the criteria for hedge accounting. When hedge accounting ceases to be applied, the measurement of hedged items that are measured at amortised cost (without applying hedge accounting policies) attributable to the hedged risk recognised in the periods when the hedge was effective is taken to profit or loss.

The Bank does not apply cash flow hedge accounting.

## 4.10. Investments in subsidiaries

Investments in subsidiaries are recognised and measured using the equity method as specified in IAS 28, taking into account impairment losses. At the acquisition date, investments in subsidiaries are recognised at acquisition cost. After the acquisition date, the carrying amount of the investment is measured by recognising changes in the equity of subsidiaries. The Bank's financial result includes its share of the net financial results of its subsidiaries, with unrealised gains and losses from intercompany transactions being eliminated. The carrying amount of investments in subsidiaries is assessed for impairment.

As at 31 December 2023, the Bank Ochrony Środowiska Group included two direct subsidiaries, i.e., Dom Maklerski S.A. and BOŚ Leasing EKO-Profit S.A., and one indirect subsidiary, MS WIND sp. z o.o. (a direct subsidiary of BOŚ Leasing EKO-Profit S.A.).

All subsidiaries are wholly-owned by the Bank.



## 4.11. Financial assets and liabilities

### Initial recognition

The Bank recognises a financial asset and a financial liability in its statement of financial position when it becomes party to the contractual provisions for that financial instrument. Financial assets are recognised when the Bank acquires the right to receive cash flows, and financial liabilities – when it is required to pay cash. At initial recognition, financial assets and liabilities are classified in the appropriate measurement category.

At initial recognition, financial assets and liabilities are measured at fair value, which, in the case of items not measured at fair value in subsequent periods, is increased or reduced by direct transaction costs.

### Derecognition of financial assets

The Bank ceases to recognise a financial asset in the statement of financial position when:

1. The contractual rights to receive the cash flows from the financial asset expire, or
2. The financial asset is transferred, and the transfer meets the conditions for derecognition. In particular, the conditions of the transfer result in the transfer of almost all the risks and rewards of ownership of the financial asset to a third party. If the Bank retains the right to cash flows, the conditions of the transfer require that all cash flows received from the debtor are immediately passed on to the third party without any obligation for the Bank to cover unrepaid amounts.

Derecognition of a financial asset most commonly occurs in cases of repayment of a loan or advance, sale without a repurchase agreement, significant modification, or cancellation of the loan agreement.

### Derecognition of financial liabilities

The Bank derecognises a financial liability from the statement of financial position when the liability is extinguished, either due to the performance of the obligation or through its redemption.

### Measurement of financial assets after initial recognition

After initial recognition, the Bank measures financial assets in accordance with the classification rules, at amortised cost or at fair value.

Amortised cost is the amount at which a financial asset or a financial liability is measured on initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any difference between the initial amount and the amount at maturity, calculated using the effective interest rate method, and minus any impairment losses. Penalty interest is recognised at amortised cost.

Fair value measurement involves determining the value that would be received to dispose of an asset or paid to transfer a liability in an arm's length transaction in the principal (or most advantageous) market at the measurement date in current market conditions (i.e. the exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

### Classification and measurement of financial assets

Under IFRS 9, financial assets are classified to the appropriate measurement model at initial recognition. Financial assets of the Bank are classified into the following measurement categories:

1. Financial assets measured at amortised cost,
2. Financial assets measured at fair value through other comprehensive income,
3. Financial assets measured at fair value through profit or loss,
4. Financial assets measured at fair value through profit or loss.

Classification into the measurement categories is based on:

1. the business model within which the financial assets are managed, and
2. The test of characteristics of contractual cash flows (the SPPI test – solely payments of principal and interest).

## Business models

The business models are defined by the Bank's key management. The business models identified by the Bank reflect its operating activity, i.e. the method of managing a specific group of assets and the purpose for which these assets were recognised or acquired. Individual identified business models are groups of assets that are jointly managed, assessed and reported.

When identifying business models for each group of financial assets, the Bank considers their qualitative aspects and quantitative criteria.

## Qualitative aspects

The qualitative aspects include analysis and assessment of:

1. the business objective for which the assets were recognised or acquired,
2. how performance of assets within a particular business model is evaluated and reported to the Bank's key management and presented in external reporting,
3. the reasons for decisions to sell financial assets,
4. solutions and organisational structures within which specific groups of assets are recognised or acquired,
5. the type of risk affecting performance of individual asset groups,
6. the manner in which the managers of particular groups of assets are remunerated, in particular whether the remuneration is based in part or in whole on the fair value of the managed assets.

## Quantitative criteria

The quantitative criteria used in the identification and periodic review of business models relate to the assessment of materiality and frequency of sale of assets held within particular models. It is assumed that in the HtC business model, the sale of financial assets is allowed in particular in the following cases:

1. if the assessment of the recoverability of cash flows deteriorates, in order to mitigate the effects of credit risk,
2. close to the contractual maturity,
3. occasional sale (even if the amount of assets sold is significant),
4. insignificant value of the assets sold.

If the quantitative criteria, such as significant and frequent sale of financial assets with no deteriorated credit risk assessment, are not met, it is necessary to reassign the entire portfolio of financial assets, from which the sale was effected, and thus to change the classification of this portfolio to the value category.

Following analyses, the Bank's financial assets were allocated to the following business models:

1. the Held to Collect (HtC) model  
a model whose objective is achieved by collecting contractual cash flows. Assets held within the HtC model are credit facilities and loans, receivables purchased as part of the factoring business, and debt securities acquired for investment purposes.,
2. the HtCS (Held to Collect or Sell) model  
a model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Assets held within the HtCS model are debt securities acquired to secure current liquidity needs and the yield profile.
3. Other business models  
Assets acquired within other business models are assets acquired trading purposes to generated profit from changes in their market value or to earn remuneration in the form of trading spread. These business models apply mainly to derivative financial instruments and securities.

## Cash flow characteristics

The Bank classifies financial asset components based on the cash flow characteristics inherent to that component as stipulated in contractual provisions. The assessment of cash flow characteristics aims to confirm whether the contractual cash flows represent solely the repayment of the principal amount and interest, where the principal amount is the fair value of the financial assets on the initial recognition date. Interest represents compensation for the time value of money, the credit risk associated with the unpaid principal amount, other risks, and costs (including liquidity risk, administrative expenses), as well as a fair profit margin.

As required by IFRS 9, financial assets held within the HtC and HtCS models are subject to the SPPI test. The SPPI test should be performed for each financial asset in the HtC and HtCS models at initial recognition and when the asset is materially modified.

The SPPI test includes, in particular, an analysis of the cash flow characteristics in relation to early repayment and rollover terms, changes in the currency of the financial asset, terms that increase the volatility of cash flows beyond the volatility resulting from changes in market interest rates (e.g. leverage), terms that limit the possibility of financial redress against specific assets of the debtor.

The table below presents the principles for classifying financial assets into the appropriate measurement category based on the business model and assessment of contractual cash flows:

### Classification of financial assets to measurement categories based on business models and the SPPI test

Business models	SPPI test	
	Cash flows are solely payments of the principal and interest	Cash flows are not solely payments of the principal and interest
HtC Model	measured at amortised cost	measurement at fair value through profit or loss
HtCS Model	measurement at fair value through other comprehensive income	measurement at fair value through profit or loss
Other business models	The SPPI test is not performed; obligatory measurement at fair value through profit or loss	

At Bank Ochrony Środowiska S.A., certain loan agreements have been identified where the interest rate is based on a multiplier formula (financial leverage). These are some of the preferential loans provided with support from the National Fund for Environmental Protection and Water Management. Accordingly, the loans were classified as measured at fair value through profit or loss. This is a legacy portfolio whose value is gradually diminishing over time. The Bank does not enter into new agreements with interest rates based on a multiplier formula.

### Financial assets by measurement category

1. financial assets measured at amortised cost  
This measurement category primarily includes amounts due from retail and institutional clients. It also includes receivables purchased as part of the factoring business, debt securities in the investment portfolio held to collect contractual cash flows and amounts due from banks, including buy-sell back transactions.
2. Financial assets measured at fair value through other comprehensive income  
This measurement category includes debt securities acquired to secure current liquidity needs and the yield profile, held to collect contractual cash flows and for sale, as well as investment equity securities.
3. Financial assets measured at fair value through profit or loss  
This measurement category includes derivative financial instruments and debt securities purchased for trading purposes.  
Credit facilities with interest rates structured as a multiplier of a benchmark rate, disclosed as amounts due from clients, constitute a separate item in this measurement category This item includes preferential loans granted with support from the public sector.
4. Financial assets measured at fair value through profit or loss.  
This measurement category includes corporate debt securities guaranteed by the State Treasury, bearing interest at a fixed rate, and secured by IRS (Interest Rate Swap) transactions.

### **Change of measurement category of a financial instrument**

A change of the financial assets measurement category can occur only as a result of a change of the business model. A change of business objectives related to a financial assets or a change in assignment of the asset to a given business line are not considered a change of the business model.

Change of a measurement category due to the business model change is recognised prospectively, i.e. as of its date.

Financial liabilities are not reclassified.

### **Modification of financial assets**

The Bank identifies a modification of a financial asset when there is a change in the contract under which the financial asset arose, affecting the amount and timing of cash flows. Cash flow changes resulting from the initial contract with the client are not recognised as modifications. A change in the contractual terms of repayment may be made for both credit risk management and commercial reasons.

The Bank distinguishes between substantial and non-substantial modifications of financial assets.

### **Quantitative criterion**

A substantial modification of financial assets based on quantitative criteria involves changes to the contractual repayment terms of a financial asset that result in:

- an increase in the exposure amount by 10% on the date of signing an amendment with the client,
- an extension of the tenor by:
  - 8 years for mortgage and investment loans,
  - 3 years for other loans and advances.

### **Qualitative criterion**

A substantial modification of financial assets based on qualitative criteria involves changes to the contract terms consisting in:

- addition of a feature that affects results of the SPPI test,
- a change in the currency of a facility not provided for in the initial contract terms,
- change of the debtor,
- change of the legal form or type of the financial instrument.

### **Substantial modification**

A substantial modification results in derecognition of the original asset from the statement of financial position, recognition in the statement of profit or loss of unsettled costs and commissions, and initial recognition of a financial asset resulting from the modification. A new effective interest rate is established for the modified asset.

### **Non-substantial modification**

A non-substantial modification does not result in derecognition of the existing financial assets in the statement of financial condition. Gain (loss) on a non-substantial modification is recognised in profit or loss.

### **Impairment of financial assets**

IFRS 9 introduced a new approach to estimating losses on financial assets measured at amortised cost and at fair value through other comprehensive income. This approach is based on the determination of expected credit losses.

Recognition of expected losses depends on the change in the level of risk since the initial recognition of a financial asset. The Bank identifies three key buckets of financial assets in the context of changes in the level of risk:

- Bucket 1 – includes exposures for which there has been no significant increase in credit risk since initial recognition. For such exposures, expected credit losses are recognised for the next 12 months or until the maturity date of the exposure if it falls in less than 12 months.
- Bucket 2 – includes exposures for which there has been a significant increase in the level of credit risk since initial recognition, but the event of default has not yet become probable. For such exposures, expected credit losses are recognised over the remaining life of the exposure.

- Bucket 3 – includes clients who have been identified as having an event of default (an impairment trigger has occurred). For such clients, expected credit losses are recognised over the remaining life of the exposure.

The Bank also identifies POCL (Purchased or Originated Credit Impaired) assets, i.e. financial assets that were credit-impaired at the date of initial recognition. For POCL exposures, expected credit losses are recognised over the remaining life of the exposure.

The Bank applies the definition of default at the client level. The definition of default is consistent with the requirements of the CRR, IFRS 9 and Recommendation R, and is applied consistently for the purposes of estimating expected credit losses and calculating capital requirements.

For the purposes of estimating loss allowances, the Bank uses its own estimates of risk parameters based on internal models consistent with IFRS 9. Expected credit losses are the product of individual estimated values of PD, LGD and EAD parameters for each exposure, and the final amount of expected losses is the sum of expected losses in individual periods (depending on the bucket – over the next 12 months or over the remaining life of the exposure), discounted using the effective interest rate. The parameters estimated in compliance with IFRS 9 are adjusted based on macroeconomic scenarios.

Measurement of allowances for expected credit losses, provisions for financial guarantees and financial commitments in the Polish and in foreign currencies (including currency exchange differences) is recognised as the Bank's expense or income arising from the allowances and provisions.

## **Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount is disclosed in the statement of financial position only when the Bank has a legally enforceable right to offset the recognised amounts and intends to settle on a net basis, or the realise the asset and the settle the liability simultaneously.

## **Financial liabilities**

### ***Financial liabilities measured at amortised cost***

Financial liabilities measured at amortised cost include agreements under which the Bank is obligated to disburse cash or other financial assets within a specified period. This group of financial liabilities primarily includes deposits from customers, borrowings, and issues of own debt securities.

### ***Financial liabilities measured at fair value***

Liabilities measured at fair value through profit or loss include derivative financial instruments.

### ***Financial guarantees***

A financial guarantee is a contract which obligates the Bank to make specified payments to compensate the beneficiary of the guarantee for losses incurred due to the debtor's failure to meet payment obligations by the date stipulated in the terms of the debt instrument.

Financial guarantees are valued at the higher of the expected credit loss allowance and the amount of consideration received including recognised amortisation.

### ***Commitment to disburse credit***

The Bank derecognises a financial liability when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires.

## **Equity investments**

Equity investments are classified as measured at fair value through other comprehensive income. Classification of equity investments into this measurement category is irrevocable. Gains or losses resulting from the difference between the selling price and the purchase price or from a change in the fair value of these investments are not recognised in the statement of profit or loss even if an investment is sold. Only dividend income is recognised in the statement of profit or loss.

Equity investments were classified as measured at fair value through other comprehensive income because of their investment nature and the way economic benefits are achieved through dividends received.

Equity instruments classified as measured at fair value through other comprehensive income are measured using the capital asset pricing model. The model uses financial forecasts of individual companies and market parameters such as cost of capital and beta coefficient calculated based on data from comparable companies as well as discount, liquidity premium and control premium.

### **Sell and buy-back transactions**

Securities sold under repurchase agreements (repo transactions, sell-buy-back transactions) are disclosed in the financial statements as securities if the entity retains substantially all risk and rewards incidental to ownership of such securities. A liability to a counterparty is recognised in amounts due to other banks or amounts due to clients, as appropriate.

Securities purchased under agreements to resell (reverse repo transactions, buy-sell-back transactions) are recognised as amounts due from banks or amounts due from clients, as appropriate. The difference between the selling price and the repurchase price is treated as interest and accounted for on a straight-line basis over the term of the agreement.

Securities lent to counterparties are not derecognised from the Bank's balance sheet.

Securities borrowed by the Bank are not recognised in the financial statements unless they are sold to third parties. In such a case, the purchase and sale transactions are recognised in the financial statements and the relevant gains and losses are taken to profit or loss on trading activities.

The obligation to return borrowed securities is recorded at fair value as amounts due to clients. The risk and rewards incidental to ownership of the securities are retained by the counterparty.

### **Trade payables and receivables and contract assets**

Trade receivables and contract assets are measured at the transaction price adjusted for expected credit losses over the entire lifetime of these assets.

Trade payables are measured at the amount required to be paid.

## **4.12. Non-current assets held for sale**

Non-current assets are classified as 'held for sale' and carried at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The Bank does not carry assets held for sale.

## **4.13. Intangible assets**

### **Licenses and software**

Purchased licenses and internally developed computer software are capitalised at the amount of the costs incurred to purchase and prepare the software for use. Capitalised costs are amortised over the estimated useful life of the software on a straight-line basis.

Expenses related to maintenance of computer programs are recognised as costs when incurred or as deferred costs.

Useful lives of intangible assets range from 1 to 15 years.

### **Expenditure on intangible assets**

The Bank recognises expenditure on intangible assets incurred in the development phase of projects carried out internally only if the Bank has the appropriate technical and financial means to complete the development and use of the asset, and has the possibility to reliably determine the expenditure incurred that can be directly attributed to the creation, production and adaptation of the asset for use in the manner intended by the management.

Capitalised costs are amortised on a straight-line basis upon completion of development work. Estimated useful lives of such assets are determined on a case-by-case basis.

### **Impairment testing**

Intangible assets are tested for impairment whenever there are events or circumstances indicating that the carrying amount may not be recoverable. The carrying amount is immediately reduced to the recoverable amount if the carrying amount exceeds the estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

## **4.14. Property, plant and equipment**

Property, plant and equipment are carried at historical cost less accumulated depreciation. Historical cost includes expenditure directly related to the acquisition of the assets.

Subsequent expenditure is included in the carrying amount of an item of property, plant and equipment or recognised as a separate item of property, plant and equipment (where appropriate) only when it is probable that future economic benefits associated with the item will flow to the Bank and its cost can be measured reliably. All other repair and maintenance expenses are charged to profit or loss in the accounting period in which they are incurred. Land is not depreciated.

Property, plant and equipment are depreciated on a straight-line basis over their useful lives, which for each class of property, plant and equipment are:

- 1. Buildings** – 40 years,
- 2. Leasehold improvements** – 2-12 years or less if the contract so requires,
- 3. Equipment and vehicles** – 3-20 years.

The residual value and useful lives of property, plant and equipment are also reviewed as at each reporting date.

Depreciable items of property, plant and equipment are tested for impairment whenever there are events or circumstances indicating that the carrying amount may not be recoverable. The carrying amount is immediately reduced to the recoverable amount if the carrying amount exceeds the estimated recoverable amount. The recoverable amount is the higher of the fair value of an item of property, plant and equipment less costs to sell and value in use.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds from sale with the respective carrying amounts and recognised in profit or loss.

Property, plant and equipment under construction include assets in the course of construction or assembly, and are measured at cost less any impairment losses. An item of property, plant and equipment under construction is not depreciated until the construction or assembly work is completed and the item is placed in use.

## **4.15. Leases**

The Bank classifies as leases all contracts under which it uses or leases out non-current assets for a specified period in exchange for consideration.

### **The Bank as the lessor**

As the lessor, the Bank classifies lease contracts as finance leases or operating leases.

The Bank classifies contracts that transfer substantially all risks and rewards incidental to ownership of the leased assets as finance leases. Other lease contracts are classified as operating leases.

### **The Bank as the lessee**

At the inception of the lease, the Bank, as the lessee, recognises a right-of-use asset and a lease liability.

The liability arises from the present value of future cash flows (lease payments under the lease contract) discounted using the interest rate of the lease.

The Bank applies exemptions from the requirements of IFRS 16 concerning:

1. use of low-value assets – the value of the asset does not exceed PLN 20 thousand,
2. short-term leases of up to 12 months.

For exempt contracts, the Bank does not recognise right-of-use assets and lease liabilities. Lease payments related to such contracts are recognised as expenses in the statement of profit or loss on a straight-line basis during the lease term.

When determining the lease term, the Bank determines the non-cancellable lease term, taking into account the period covered by the extension option, if the Bank assumes the option will be exercised, and by the termination option if the Bank assumes that it will not be exercised.

The Bank revises the lease term if there is a change in the non-cancellable period of the lease.

After the commencement date of the lease, the Bank measures the right-of-use asset at cost:

1. less any accumulated depreciation and impairment losses; and
2. adjusted for remeasurement of the lease liability.

After the commencement date, the Bank measures the lease liability by:

1. increasing the carrying amount to reflect interest expense on the lease liability;
2. reducing the carrying amount to reflect the lease payments made;
3. remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised fixed lease payments.

The Bank accounts for a lease modification as a separate lease if both:

1. the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
2. the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope.

For a lease modification that is not accounted for as a separate lease, the Bank remeasures the liability by discounting the updated lease payments using an updated discount rate and recognises the remeasurement by:

1. reducing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for modifications that decrease the scope of the lease;
2. making a corresponding adjustment to the right-of-use asset for other lease modifications.

## 4.16. Income tax

Income tax is recognised as current tax and deferred tax. Current income tax is recognised in the statement of profit or loss. Deferred income taxes, depending on the origin of the temporary differences, are recognised in the statement of profit or loss or in other comprehensive income.

### Current tax

Current income tax is calculated based on accounting gross profit adjusted for income that is not taxable income under tax regulations, taxable income that is not considered accounting income, expenses that do not qualify as tax deductible, and tax-deductible expenses that are not accounted for as costs, all in accordance with applicable tax laws. These items mainly include accrued interest income and expenses to be received and paid, expected credit loss allowance and provisions for financial obligations.

### Deferred tax

Deferred income tax is recognised in the amount of the difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The Bank recognises deferred tax liabilities and assets in the statement of financial position. Changes in deferred tax liabilities and assets are recognised in the profit or loss as part of mandatory charges, except for the effects of revaluation of financial assets measured at fair value through other comprehensive income.



The Bank recognises deferred tax liabilities and assets for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their tax bases, as well as for deductible tax losses that can be carried forward to offset future taxable income.

The tax base of assets is the amount that reduces the taxable income base when economic benefits are derived, either directly or indirectly, from them. If the economic benefits derived from recognising assets do not result in reducing the taxable income base, then the tax base of the assets equals their carrying amount. The tax base of a liability is its carrying amount reduced by amounts attributable to that liability which will reduce the taxable income base for corporate income tax purposes in the future. Deferred tax assets are recognised up to the amount of taxable profit anticipated from deductible temporary differences, which will reduce the future tax base for corporate income tax calculations, along with deductible tax losses.

Conversely, a deferred tax liability is recognised to cover future taxable profit arising from taxable temporary differences, leading to an increased tax base for future tax deductions.

In determining the deferred tax liability or asset, the tax rates expected to be in effect when the Bank realises (settles) the carrying amounts of the assets or liabilities are applied.

Deferred tax assets and liabilities relating to assets and liabilities whose income is accounted for in the Bank's equity are also recognised in the Bank's equity.

Deferred tax assets and liabilities are reported in the statement of financial position on a net basis, under the assumption that they will be settled with the same tax authorities.

## 4.17. Foreclosed assets

Foreclosed assets are initially recognised at their fair value. If the fair value of a foreclosed asset is higher than the amount of the debt, the difference constitutes an amount due to the borrower and is reimbursed to the account of the owner of the foreclosed asset, after deducting costs of the foreclosure, storage and valuation of the asset.

If the fair value of a foreclosed asset is lower than the amount of the debt, the difference constitutes an amount due from the borrower which may be subject to restructuring or collection.

There are no foreclosed assets in the Bank.

## 4.18. Prepayments, accruals and deferred income

Prepayments are costs incurred in the current financial year and relating to future periods. They are disclosed in the statement of financial position as other assets.

Accrued expenses are costs pertaining to the current period that will be incurred by the Bank in future periods. Accrued expenses and deferred income are disclosed in the statement of financial position as other liabilities.

## 4.19. Provisions for employee benefits

The Bank recognises provisions for retirement benefit obligations based on estimates of such obligations calculated using an actuarial model. The actuarial model applied by the entity to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, uses the projected unit credit method.

The projected unit credit method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The entire amount of actuarial gains and losses is recognised in other comprehensive income.

## 4.20. Provisions

Provisions are recognised when all of the following conditions are met:

1. as at the reporting date, the Bank has a present, legal or constructive obligation to spend funds resulting from past events, and legal opinions are used to determine the existence of this obligation,
2. when the probability of there being an expense to settle the claim is greater than the probability of there not being such an expense, and
3. when the amount of that expenditure can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation, taking into account the time value of money (if material) and the risks associated with the liability. When the amount of the expected expenditure is discounted, the increase in the provision due to the passage of time is recognised as interest expense.

## 4.21. Contingent liabilities and contingent assets

The Bank has contingent liabilities of a financial nature, which include revocable and irrevocable loan commitments and open import letters of credit.

Contingent liabilities of a guarantee nature include sureties, loan repayment guarantees, performance bonds, and letters of credit, which serve as security for the Bank's clients fulfilling their obligations to third parties.

Contingent assets comprise credit lines that have been approved but remain undrawn, and collateral received for the repayment of loans.

Contingent liabilities and assets are not presented in the Bank's statement of financial position.

The principles for recognising impairment allowances for contingent liabilities align with those for financial assets, as detailed in Note 4.11.

## 4.22. Equity

Equity is composed of capital and reserves created in accordance with the legal regulations, i.e. the respective acts and the Bank's Articles of Association.

### Common equity

Common equity comprises registered share capital and share premium.

The share capital is stated at par, in accordance with the Articles of Association and the entry in the National Court Register.

The share premium account is created from the excess proceeds from the issue of shares above par value remaining after covering the issue costs.

### Treasury shares

Amounts paid for repurchases of treasury shares are charged to equity and disclosed in the separate line item 'Treasury shares' in the statement of financial position.

### Revaluation reserve

The revaluation reserve includes changes in the value of financial assets classified for measurement at fair value through other comprehensive income, arising from their revaluation, and deferred tax on items included in the revaluation reserve. It also encompasses gains or losses associated with a hedging instrument (cash flow hedge accounting) attributable to the effective part of the hedge, as well as gains and losses related to the hedged item measured at fair value through other comprehensive income (fair value hedge accounting), arising from factors other than the hedged risk. Additionally, the reserve includes actuarial gains and losses on a defined benefit plan.

## Retained earnings

Retained earnings include undistributed profit or loss and other components of equity, i.e. other statutory reserve funds, other capital reserves and general risk fund.

Other components of equity are recognised in profit or loss and are used for the purposes specified in the Articles of Association or the applicable laws.

## 4.23. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise items maturing within three months of the acquisition date, including: cash in hand, unrestricted balances with central banks, Treasury bills and other eligible bills, amounts due from banks and short-term Treasury securities.

## 4.24. New standards, interpretations and amendments thereto published and approved by the European Union but not yet effective and not yet applied by the Bank.

Standards and interpretations, as well as amendments to standards and interpretations, issued by the IASB that have been approved for use in the EU but have not yet come into effect and have not been adopted for early application:

IFRS	Amendment	Date of entry into force in the EU / approval by the EU	Effect on the Bank
Amendments to IAS 1 <i>Presentation of Financial Statements – Classification of Liabilities as Current or Non-current</i>	The amendments relate to classification of liabilities in the statement of financial position as current or non-current. They specify that when classifying liabilities as current or non-current, the existence of a rollover of the liability should be considered as of the date of classification, regardless of the entity's intention to utilise it for more than 12 months. Additionally, they state that the classification should also consider the fulfilment, as of the date of assessment, of the conditions for such rollover if it is contingent.	1 January 2024 / 19 December 2023	The amendment will have no material effect on the financial statements.
Amendments to IAS 1 <i>Presentation of Financial Statements – Non-current Liabilities with Covenants</i>	Change in the presentation of non-current liabilities with covenants.	1 January 2024 / 19 December 2023	The amendment will have no material effect on the financial statements.
Amendments to IFRS 16 <i>Leases – Lease Liability in a Sale and Leaseback</i>	Change in the calculation of the lease liability in sale and leaseback transactions.	1 January 2024 / 20 November 2023	The amendment will have no material effect on the financial statements.

## 4.25. New standards, interpretations and amendments thereto, which have been published and are not endorsed by the European Union

The IFRS as endorsed by the EU currently do not significantly differ from the standards issued by the IASB, with the exception of the following new standards and amendments to standards, which have not yet been approved for use in the EU and have not been adopted for early application:

IFRS	Amendment	Date of entry into force in the EU / approval by the EU	Effect on the Bank
Amendments to IAS 21 <i>The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability</i>	Assessment whether a currency is exchangeable into another currency and, when it is not, determination of the exchange rate to use and the disclosures to provide.	1 January 2025 / Not specified	The amendment will have no material effect on the financial statements.
Amendments to IAS 7 <i>Statement of Cash Flows and Financial Instruments: Disclosures, Supplier Finance Arrangements</i>	Additional disclosures on supplier finance agreements	1 January 2024 / Not specified	The amendment will have no material effect on the financial statements.

## 5. Corrections of prior period errors

In the twelve months ended 31 December 2023, there were no corrections to prior period errors.

## 6. Significant estimates and judgments

The preparation of the Bank's financial statements requires judgments, estimates and assumptions that affect the reported income, expenses, assets, and liabilities and related notes, as well as disclosure of contingent liabilities. Uncertainties related to these assumptions and estimates may result in changes to carrying amounts of assets and liabilities in the future. They also require exercising professional judgment in the process of applying the adopted accounting policies.

The Bank made the assumptions and estimates concerning the future based on historical data and its knowledge as at the time of preparation of these financial statements. The estimates and assumptions are reviewed on an ongoing basis. The assumptions and estimates may change in the future due to market developments or other events beyond the Bank's control. Changes in assumptions and estimates are recognised in the period of the change or in the period of the change and future periods if the change in estimates and assumptions relate to the current period and future periods.

### 6.1. Financial assets

#### Impairment of amounts due from clients

The Bank reviews all credit exposures on a monthly basis to identify credit exposures threatened with impairment and measures the impairment of credit exposures. The measurement of impairment primarily relies on estimating the probability of default through historical analysis, assessing potential losses, and evaluating the macroeconomic environment in which the Bank operates.

The models used to estimate allowances for expected credit losses constructed in accordance with IFRS 9 consist of elements for which the Bank uses all available historical information and forecasts. When using these models, the Bank estimates the level of credit risk with the highest possible accuracy.

Expected credit losses are calculated using monthly granularity, as well as the PG, LGD and EAD parameters determined individually for each exposure, taking into account the exposure's expected duration.

The resulting amount of expected credit losses is the sum total of expected losses in each period (over the 12-month horizon for Bucket 1 or the remaining lifetime for Buckets 2 and 3 and the POCI assets) discounted using the effective interest rate.

The structure of the models used to estimate expected credit losses includes modelling for the following parameters:

- PD (probability of default) – estimated probability of default over a given time horizon (12-month or lifetime),
- LGD (loss given default) – part of the exposure that would not be recovered in case of default,
- EAD (exposure at default) – expected amount of exposure at the time of default.

In Q2 2023, the Bank changed its approach to incorporating macroeconomic forecasts into the model for estimating expected credit losses. A statistical methods-based approach was introduced, and the macroeconomic scenarios systemically employed in the PD (Probability of Default) model for the retail portfolio were updated. The impact of macroeconomic forecasts on the level of expected credit losses as of 31 December 2023 was an increase in the loss by PLN 3.5 million.

In Q3 2023, the Bank discontinued the model previously used for valuing wind farms. As of 31 August 2023, the valuation principles used for the corporate portfolio were applied to clients in the wind farm sector.

Furthermore, in Q4 2023, the Bank recalibrated the PD parameter for the retail portfolio and the LGD parameter for the corporate portfolio. The updated parameters were applied to estimate of expected credit losses from 31 December 2023. The impact of the recalibration of the PD parameter was immaterial, while the recalibration of LGD resulted in an increase in the Bank's expected credit loss by PLN 36.2 million as of 31 December 2023.

In December 2023, a sensitivity analysis was conducted on the non-performing loan portfolio to assess the impact of changes in portfolio parameters (LGD and PD) using the group approach. If recovery rates changed by +/- 10 percentage points, the estimated amount of loss allowances for the portfolio would decrease by PLN 22.8 million or increase by PLN 22.8 million, respectively. A simultaneous +/-10 percentage point change in the PD parameter would result in a decrease of PLN 20.6 million or an increase of PLN 25.1 million in the expected credit loss allowances, respectively.

In Q4, the Bank also carried out a sensitivity analysis for the individually measured loan portfolio, assessing all key parameters and probabilities utilised in the calculation of expected credit losses. The most substantial increase in impairment provisions, of PLN 41.9 million, was driven by a 10% reduction in the present value of cash flows in the recovery scenario. Increasing the probability of the recovery scenario by 10% will lead to an increase in impairment allowances for individually assessed exposures with value impairment, totalling PLN 32.9 million. Furthermore, extending the recovery period for collaterals considered in the recovery scenario by 12 months will result in a PLN 32.2 million increase in the amount of allowances.

### **SPPI test**

The SPPI test is an assessment of whether the cash flows arising from financial assets held in the HtC and HtCS models constitute only payments of principal and interest on the principal. This assessment (in addition to the business model) determines the classification of financial assets into the category of measurement at amortised cost or fair value through other comprehensive income. Therefore, this assessment is crucial for the adoption of a correct measurement principle for loan agreements and other financial contracts that are the core business of the Bank.

Under IFRS 9, the amount of principal amount is the fair value the financial assets at initial recognition. Interest represents consideration for the time value of money, a margin for the credit risk and other risks incurred in holding the principal, and a profit margin.

The SPPI test includes an analysis of concluded contracts/agreements to determine cash flow characteristics resulting from these contracts/agreements. The SPPI test is considered to permit classification into the amortised cost or fair value through other comprehensive income measurement categories if there are no identified characteristics of cash flows whose timing or formula for determining their value depends on factors other than those that meet the definition of principal and interest on principal. The characteristics that do not meet this definition include:

- leverage,
- making the consideration contingent on conditions unrelated to the time value of money or the risk incurred,
- early repayment options, but early repayment in an amount equal to the unpaid portion of principal and interest including reasonable early repayment consideration is deemed to satisfy the SPPI test.

The Bank conducts the SPPI test for all financial assets subject to this assessment, with the SPPI test being conducted at the product group level for assets originated under standard documentation, while for negotiated assets it is conducted on a contract-by-contract basis. The SPPI test resulted in the identification of a portion of loan agreements where the interest rate is based on a multiplier formula (leverage). These are some of the preferential loans provided with support from the National Fund for Environmental Protection and Water Management. Accordingly, the loans were classified as measured at fair value through profit or loss.

## Business model

Assessment of the business model is an important estimation due to the fact that, under IFRS 9, it is one of the elements determining the classification of financial assets to an appropriate measurement category. The Bank establishes business models within which financial assets are managed, based primarily on their business objectives and the manner in which financial results are achieved. Changes in the business model may occur only in case of material internal or external changes in the activities of the Bank, and will be determined by the management. Business models are expected to be changed rarely. Specifically, a change in business objective for a particular financial asset does not constitute a change in the business model.

## 6.2. Fair value of financial instruments

The value of financial instruments not listed in active markets is determined using valuation models accepted by the market. They take into account, among other things, the present value of future cash flows (discounted using a zero coupon curve with a margin), comparable transaction prices (if any), as well as reference to similar instruments quoted in active markets. In the rare cases where it is not possible to use such models and fair value cannot be determined reliably, financial instruments are carried at cost. For information on the sensitivity of financial instruments, see Note 49.

## 6.3. Provision for retirement benefits

Any employee who reaches retirement age is entitled to a retirement benefit.

Retirement benefits related to pre-retirement benefits or allowances and retirements as part of collective redundancies are not included in the calculation and if they occur in the future, the provision should be separately recalculated.

An employee who has acquired disability pension entitlements under social security due to permanent incapacity to work has a right to a disability benefit.

Both the retirement benefit and the disability benefit are calculated on the basis of the employee's remuneration, calculated as holiday pay, at the time when the benefit entitlement has been accrued.

Depending on the length of service at Bank Ochrony Środowiska S.A., the amount of retirement benefit is as follows:

- up to 10 years of service 100%,
- more than 10 years of service 200%,
- more than 15 years of service 250%.

The calculation was based on employees' salaries and wages as at 31 December 2023.

## 6.4. Taxation

The Polish law on corporate income tax, personal income tax, value added tax or social security contributions is subject to frequent changes, resulting in the lack of well-established practice, ambiguity and inconsistency. This situation gives rise to differences in the interpretation of tax legislation by public authorities and taxpayers. Tax settlements and other settlements (e.g. settlement of customs duties) may be subject to inspection by competent authorities for up to six years. The competent authorities have the power to impose significant penalties with interest. There is a risk that the authorities bodies will take a different stance from that of the Company with respect to the interpretation of the regulations, which could affect the amount of public charges disclosed in the financial statements.

The Bank recognises a deferred tax asset based on the assumption that taxable profit will be earned in the future to allow the asset to be utilised. If taxable profit deteriorates in the future, this assumption may prove unwarranted.

## 6.5. Estimates of the impact of legal risk associated with foreign currency-linked mortgages

Estimating the impact of legal risk of foreign currency-linked mortgages is uncertain due to the continuously evolving case law and the level of acceptance of the dedicated settlement programme by clients. Therefore, this estimate is uncertain and the amount may change in the future. The estimate is subject to periodic monitoring and updating.

The Bank accounts for the impact of legal risks associated with litigation concerning indexation clauses in CHF mortgage and housing loans, as well as the voluntary settlement programme offered to CHF borrowers, in accordance with:

- IFRS 9 *Financial Instruments* for active loans, including active loans covered by class action lawsuits and the voluntary settlement programme, and
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for repaid loans.

Mortgage and housing loans that are subject to litigation fall within the scope of IFRS 9. Under IFRS 9, these loans are measured at amortised cost using the effective interest rate.

Legal claims raised by borrowers, including claims of contract invalidity, impact the Bank's estimation of the expected loan term and the anticipated cash flows. In particular, the Bank considers the risk that, in the event of a court ruling declaring the contract invalid, it may be obligated to reimburse borrowers for any undue benefits received. Furthermore, potential settlements offered by the Bank to borrowers (including those who have not previously filed legal claims) may also impact the amount and timing of expected cash flows arising from these loans.

Therefore, according to the Bank's viewpoint, the appropriate approach to reflect the impact of legal risk on active loans and the expected impact of the voluntary settlement programme offered to borrowers is to update the cash flow estimates associated with the loans and reduce the gross carrying amount of these loans in accordance with IFRS 9 paragraph B5.4.6.

For repaid loans and loans for which the calculated cash flow adjustment is higher than the carrying amount, the Bank recognises provisions for litigation in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The Bank conducted a sensitivity analysis of the estimated impact of legal risk, considering changes in key parameters associated with the number of lawsuits and signed settlements with clients.

PLN million

MODEL SENSITIVITY	PARAMETER CHANGE		
	-25pp	BASE-CASE SCENARIO	+25pp
INCREASE IN THE NUMBER OF LAWSUITS	-49	690	41
PROBABILITY OF SETTLEMENT*	15	690	-66

\* In the -25% scenario, the minimum possible value of the parameter, that is 0%, was assumed.

Note 41, titled 'Legal risk of residential mortgage-backed loans linked to foreign exchange rates', provides an overview of the factors and circumstances that could significantly affect the provision for legal risk associated with the portfolio of mortgages tied to foreign currency exchange rates.

## 6.6. Provision for refund of loan costs in case of early repayment

The provision for reimbursement of loans in case of early repayment was recognised in accordance with IAS 37, taking into account assumptions regarding early repayment of consumer loans based on the loan portfolio as at 31 December 2023.

As of 31 December 2023, there were seven court proceedings pending against the Bank regarding the reimbursement of consumer credit costs due to early repayment. The provisions for refunds of commissions on early repayment of consumer loans made until 2019 amount to PLN 0.2 million.

In addition, the Bank recognises a provision for active loans. The provision relates to the difference between the estimated amount of commission reimbursement and the value of commissions received and accounted for using the effective interest rate method. The estimated amount of commission reimbursement is determined using the straight-line amortisation method, starting from the date of the loan and to the reporting date. As at 31 December 2023, the amount of the provision was PLN 2.3 million.

## 7. Risk management

### 7.1. Credit risk

#### Definition of credit risk

Credit risk is defined as the risk of potential loss due to default by a client or counterparty at a contractual date.

#### Credit risk management methods

The Bank pursued its credit risk management policy on an individual basis (credit transaction) and on a portfolio basis taking into account the level of risk appetite.

The risk appetite was determined within the limits set by prudent and stable risk management practices and was assumed to be moderate.

The credit risk management process at the Bank included in particular:

1. procedures for assessing the risk of a single transaction, establishing collateral and making credit decisions,
2. monitoring the level of risk, setting exposure limits, and stress-testing,
3. rating and scoring models applied to assess the risk of retail and institutional clients,
4. principles of responsibility in the credit risk assessment process,
5. portfolio-based assessment of credit risk,
6. rules for management of retail and mortgage-backed exposures,
7. rules for identifying impaired exposures and determining impairment losses,
8. rules of reporting to the Bank's management staff,
9. IT systems supporting the implementation of these tasks.



Credit risk at the transaction level was managed in accordance with the following rules:

1. each credit transaction required a comprehensive assessment of credit risk, reflected in an internal rating or scoring,
2. credit decisions were based on client's creditworthiness,
3. credit risk of potential and concluded credit transactions was measured at origination and was subsequently monitored,
4. the credit process ensured independence of the credit risk assessment functions from the sales function,
5. credit decisions were made by bodies authorised to do so,
6. terms of credit transactions offered to clients depended on the level of credit risk associated with a given client and/or transaction.

The financing of a single transaction was conditional on:

1. the borrower's ability to repay the requested facility in accordance with the schedule agreed upon with the Bank,
2. provision of collateral in the form and in the amount acceptable to the Bank in so far as internal regulations required,
3. fulfilment by the borrower of other criteria, such as, in particular, results of the client's relationship with the Bank to date and assessment of the client's credit history in the banking sector.

The Bank is scaling down financing for entities whose activities do not align with sustainable business practices that benefit the environment, local communities, consumers, and employees. This is achieved through the introduction of a catalogue specifying transactions BOŚ will not engage in, adhering to ESG principles.

The portfolio credit risk was managed using various methods of credit risk measurement and assessment, including:

1. credit risk appetite and portfolio limits on credit risk parameters,
2. cost of credit risk, expected credit loss, probability of default,
3. analysis of the population of loans granted over a given period of time (vintage analysis),
4. monitoring of limits based on parameters other than credit risk, affecting the level of credit risk of the portfolio.

The Bank had a Credit Risk Management Committee tasked with shaping the principles of credit risk management and monitoring within the framework established by the strategies, policies, or rules adopted by the Management Board or the Supervisory Board of the Bank.

The Committee operated in the following core areas:

1. credit risk management and credit process,
2. valuation of assets,
3. credit risk assessment models and methodologies.

In addition, the Supervisory Board was supported in its risk oversight functions by the Risk Committee. The Committee consisted of members of the Supervisory Board. The Committee's responsibilities included giving opinion on the Bank's comprehensive current and future risk appetite, reviewing the risk management strategy in the Bank's operations, supporting the Supervisory Board in implementing this strategy, and verifying the pricing of assets and liabilities offered to clients in line with the Bank's business model and risk strategy.

### **Processes established for risk management**

In 2023, the Bank continued efforts to improve the efficiency of its risk assessment processes, including optimisation of the credit monitoring, credit decision and credit application processes, and took steps to reduce the credit portfolio concentration level.

As part of its risk monitoring process, the Bank performed risk assessments prior to the origination and throughout the life of loan transactions.

The frequency and scope of risk monitoring depended on the level of the identified risk. The monitoring was carried out by a separate organisational unit within the credit risk assessment and management functions; the units responsibilities include monitoring of the loan portfolio and valuation of individually significant exposures.

The risk of untimely debt service or default as well as the risk of loss or decrease in the value of collateral were mitigated using an early warning system, managed by the risk monitoring unit.

If the Bank identified a situation that could jeopardise timely debt repayment, the Bank used reminders and carried out restructuring procedures using appropriate IT tools.

The Bank had in place a Policy for Management of Non-Performing Exposures, which defines steps to be taken to achieve reduction, within a prescribed time limit, of non-performing exposures and an action plan that supports the implementation of this policy.

In the process of risk assessment and monitoring, the Bank used information from internal databases and external sources, including from Biuro Informacji Kredytowej S.A. (credit bureau), Krajowy Rejestr Długów (debt register) and Centralna Baza Danych – Bankowy Rejestr (bank register).

The Bank assessed credit risk using rating and scoring models. The models were built, developed, monitored and supervised by the Risk Area, taking into account internal and external requirements. Significant models were subject to periodic validation at least annually, performed by an independent validation unit.

The Bank operated a multi-level credit decision-making system based on the principle that the higher the risk of a transaction resulting due to its complexity, the amount of exposure or the client's economic and financial standing, the higher the decision-making level at which the credit decision must be made. The decision-making levels with the highest authority were the Head Office Credit Committee and the Management Board of the Bank. Credit decisions were made upon prior verification of risk made by a risk assessment and management specialist, i.e. a risk expert from a separate organisational unit in the Bank's Head Office, independent from the sales functions.

In credit decisions on transactions concluded with members of the Bank's bodies or persons holding managerial positions at the Bank, or entities affiliated with them through equity or organisational links, the Bank was guided by the requirements of the Banking Law.

The Bank preferred collateralised transactions, with the proviso that in the retail segment the maximum amount of unsecured transactions was determined taking into account features of credit products, the impact of such transactions on the Bank's performance and the amount of potential losses.

The level of collateral depended on the level of risk generated by the transaction particular the type of transaction and its duration.

In determining the amount of the required collateral, the Bank was guided by the principle of prudent valuation.

When selecting the form of security, the Bank took into account:

1. adequate protection of the Bank's interests,
2. the amount of costs related to establishing the security,
3. the ability to quickly liquidate collateral.

In assessing, monitoring, verifying and updating the value of collateral, the Bank used external databases, including AMRON and Cenatorium Sp. z o.o.

## Risk assessment techniques

Clients and transactions were subject to a comprehensive credit risk assessment process incorporating the relevant supervisory requirements.

The Bank applied various risk assessment models, depending on the type of client and credit transaction.

The credit risk assessment model for retail clients (natural persons) seeking financing for non-business purposes included quantitative analysis (determination of the amount and stability of sources of funds for debt repayment) and qualitative analysis (assessment of characteristics of the client that had a material bearing on the client's willingness to repay the credit obligation in accordance with the agreed schedule, including scoring and assessment of the client's behaviour based on information from Biuro Informacji Kredytowej S.A.).

The credit risk assessment model for retail clients seeking financing for business purposes or for statutory activity (municipal borrowers) focused on two areas: assessment of the client and assessment of the transaction.

Client assessment involved quantitative and qualitative elements. The quantitative assessment focused on the key areas of the client's business activity with a bearing on profit generation capacity and financial liquidity. Depending on the type of client, the qualitative assessment included analysis of development plans, experience and skills of the managing personnel, and quality of relations with external stakeholders, including the Bank.

To the extent specified in the Bank's internal regulations, client assessment was made against the background of the economic situation in the client's industry, on the local market and in the country. In addition, for selected transactions, the assessment took into account the scale of the client's exposure to negative effects of movements in interest rates and foreign exchange rates as well as the client's policy of hedging against foreign exchange and interest rate risks.

The model for assessing the risk of local government units included analysis of the client based on assessment of key budget indicators, debt ratios as well as analysis of the credit transaction, including assessment of the projected debt ratios, the quality of collateral and the duration of the transaction.

Where financing was sought by an entity operating within a group of related parties, the Bank assessed the credit risk taking into account the economic and financial standing of the group.

Assessment of credit risk related to financing sought by institutional clients included an ESG risk analysis.

The transaction was assessed in particular on the basis of an assessment of the purpose of the financing, the length of the facility term and the value of the collateral. The Bank proposed financing structures that ensured risk sharing between borrowers and the Bank, mainly through involvement of the borrowers' own funds adequate to the scale of the risk.

## Credit risk assessment tools

In order to measure credit risk, the Bank uses various tools/applications in which the applicable rating/scoring models and creditworthiness assessment methodology have been implemented.

The diversity of applications used is related to client segmentation and/or types of credit transactions.

## Description of individual concentration risks, methods of their assessment and monitoring

The Bank managed concentration risk in accordance with the rules set out in the Concentration Risk Management Policy.

The Bank identified, measured, monitored and reported the concentration risk on the following levels:

1. an individual client/transaction, and
2. the loan portfolio.

At the client and transaction level, the concentration risk was managed in compliance with the supervisory exposure limits, in particular those under Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 or the Banking Law, as well as by applying the principle that the risk assessment and monitoring process depends on the amount of credit exposure.

At the loan portfolio level, the concentration of exposures was managed by adhering to external limits, internal limits, or warning thresholds, as well as an acceptable level of credit risk appetite determined by a set of indicators that also considered ESG risk. The levels of internal limits were approved by the Bank's Management Board, and the risk appetite – also by the Supervisory Board.

In particular, the Bank applied the following limits:

- geographical limits – limit of exposure to other countries;
- product-specific limits – e.g. maximum LTV;
- limits for the portfolio of mortgage loans and loans financing real property – in compliance with the PFSA Recommendations,
- sector-specific limits,
- limits concerning the share of foreign currency loans in the Bank's portfolio,
- limits for the aggregate exposure to related entities/groups of related entities with respect to which the Bank's exposure exceeds 10% of Tier 1,
- limits for the aggregate exposure to related entities/groups of related entities, depending on the rating of the related entity/group of related entities,
- limits for credit exposures towards the Bank's subsidiaries,
- limit for transactions with derogation from the credit rules set out in internal procedures that result in increased credit risk.

In the concentration risk management process, the Bank used an early warning system for internal limits. The system was based on distinguishing three levels of limit utilisation and gradual implementation of measures mitigating the risk of exceeding the limit.

The utilisation of the limits was monitored and reported to the Bank's governing bodies on a regular basis, in accordance with the Bank's internal regulations.

### 7.1.1. Methodology for recognising impairment of credit exposures

At each reporting date, the Bank reviews credit exposures, which consists in identification of credit exposures threatened with impairment and exposures with regard to which a significant increase in credit risk has been reported since their initial recognition – taking into account reasonable and supportable information, including forward-looking information. Subsequently, it designates an allowance for expected credit losses based on the allocation of the exposure to Buckets depending on changes in credit quality.

Based on the amount and the risk profile, the Bank classifies credit exposures into exposures measured individually and exposures measured using the group method, and assesses them for any indications of impairment.

The Bank recognises credit exposures that have incurred impairment as those for which there are indicators of impairment resulting from one or more events affecting the expected cash flows from these exposures, provided that a reliable estimate is feasible.

The Bank considers a past due credit receivable to be material when both materiality thresholds are exceeded:

1. the total of all past due liabilities of a debtor exceeds the amount of PLN 400 for retail exposures or PLN 2,000 for non-retail exposures (absolute threshold), and
2. the share of the past due liability in the debtor's on-balance sheet exposure is greater than 1% (relative threshold).

The calculation of the number of days past due is performed at the obligor level and begins when a material past due situation occurs, i.e. when both the absolute and relative materiality thresholds are exceeded.

In particular, the Bank considers the following as evidence of impairment:

1. material delay in principal or interest payments exceeding 90 days,
2. deterioration of the economic and financial standing of the debtor during the facility term which causes reclassification of the debtor to rating grade 14 or worse, reflecting a threat to the repayment of the debt,
3. granting by the Bank to the client, for economic or legal reasons arising from the client's economic and financial distress, of a concession in the terms of financing (conclusion of a restructuring agreement),

4. deterioration of financial metrics, including liquidity and debt service capacity of the client,
5. granting credit holidays under public moratoria (on the basis of the Tarcza 4.0 government aid scheme),
6. disputing the receivables by the debtor through legal proceedings, except exposures to loans denominated in or indexed to foreign currencies for which the Bank has recognised a legal-risk provision,
7. declaration of bankruptcy, high probability of bankruptcy or other reorganisation affecting the debtor's financial condition and solvency,
8. delay of more than 30 days on a transaction restructured during the contingency period previously classified as impaired,
9. observed financial distress of the client,
10. other indicators defined in the EBA Guidelines on the application of the default definition set out in Article 178 of Regulation (EU) No. 575/2013, Recommendation R, as well as the occurrence of other events equivalent to the client entering insolvency, resulting in the inability to repay the debt on time.

Measurement of impairment of credit exposures using the case-by-case approach is based on the calculation of the present value of expected future cash flows discounted at the original effective interest rate. For loans with collateral, the present value of expected future cash flows includes the cash flows that may be obtained from enforcement of the collateral, less the costs of enforcement and sale of the collateral. If the present value of realisable cash flows declines, an allowance is recognised in the amount corresponding to the expected credit loss due to the debtor's failure to meet its obligations to the Bank.

The individual (case-by-case) approach to impairment assessment is applied to:

1. individually significant credit exposures:
  - a. which meet the criteria for recognition of individual impairment or which are quarantined; or
  - b. which are an exposure to a client to which the Bank has other credit exposures for which an indication of impairment has been identified (propagation of impairment); or
2. individually non-significant credit exposures for which an indication of impairment has been identified or exposures are quarantined, provided that at the time of recognition of impairment they were individually significant and met additional conditions specified by the Bank;
3. individual non-significant credit exposures with unique credit risk characteristics.

Impairment losses on amounts due from clients which are considered individually non-significant and for which evidence of impairment has been identified are calculated based on impairment measurement parameters estimated using statistical methods based on historical data for separate portfolios grouped for combined measurement of impairment according to similar credit risk characteristics. Historical loss trends are adjusted for non-recurring events.

As part of the collective measurement approach, the Bank applies a breakdown into the following seven homogeneous risk portfolios within the two client segments (retail and institutional):

1. retail mortgage loans (the portfolio is further segmented by level of LTV and loan currency),
2. retail cash loans,
3. retail mortgage-backed cash loans,
4. retail credit exposures to micro retail businesses (excluding mortgage loans),
5. other retail clients,
6. corporate clients, including financial institutions,
7. public finance clients.

Reversal of a loss, i.e. reclassification of a loan to unimpaired exposures, is possible after the evidence of impairment ceases to exist and after the lapse of a quarantine period in which no impairment evidence is identified.

For the exposures for which no evidence of impairment has been identified, the Bank recognises loss allowance using the collective measurement approach.

For the purposes of assessing whether there has been a significant increase in credit risk since initial recognition, the Bank compares the risk of default over the expected period of funding as at the reporting date and as at the date of initial recognition. The Bank considers that a significant increase in credit risk has been identified for a given

asset if either the quantitative criterion or the qualitative criteria are met. The occurrence of a specific criterion is verified at the exposure level.

### Quantitative criteria

The Bank uses relative and absolute measures to identify significant deterioration in credit quality. The reclassification of exposures to basket 2 for retail exposures is determined as the difference (absolute threshold) and the ratio (relative threshold):

1. of the current credit risk assessment defined as a lifetime PD in the time horizon from the reporting date to the maturity date, determined on the basis of risk characteristics applicable at the reporting date,
2. of the initial credit risk assessment defined as a lifetime PD in the time horizon from the reporting date to the maturity date, determined on the basis of risk characteristics applicable at the date of initial recognition.

The Bank determines a significant deterioration in credit risk by comparing the observed value of a relative change in risk assessment with its theoretical value, which is the threshold above which the Bank considers a significant deterioration in credit risk to have occurred.

The allocation threshold at the level of a single exposure is determined using a statistical model based, among other things, on information about credit risk assessment as at the date of initial recognition and the time since the date of initial recognition.

For corporate exposures, allocation to Bucket 2 is based on the assumption that the rating of the exposure remains stable over time (the Bank did not expect the rating to improve over time) and occurs as a result of a deterioration in the debtor's economic and financial standing during the facility term, which is reflected in rating grades 12 or 13, or allocation to rating grades 9-11 if the rating assigned at initial recognition was lower than 6.

### Qualitative criteria

The Bank classifies exposures to basket 2 if:

1. the past due period (above specified material thresholds) is more than 30 days as at the reporting date or such delay has been reported at least once on the last three reporting dates,
2. the exposure is in restructuring, the evidence of impairment has ceased to exist and the quarantine period, during which the evidence was not identified, has expired,
3. the exposure has the forborne status,
4. the past due period (without regard to materiality thresholds) is more than 90 days as of the reporting date,
5. there was no credit risk assessment of the exposure at initial recognition.

In addition to the above criteria, the Bank defined other specific qualitative criteria, such as criteria specific to clients in a given sector, criteria identified in the course of monitoring of institutional clients (exposures with higher risk, exposures on watch list), or exposures identified through multi-factor and holistic credit risk analysis.

In assessing whether an exposure qualifies as low credit risk, the Bank adheres to IFRS 9 paragraph 5.5.10. A credit exposure has a low risk of default if the borrower has a strong short-term capacity to meet its contractual obligations and adverse changes in economic and business conditions over the longer term may – but not necessarily will – reduce the borrower's ability to meet its contractual cash flow obligations.

The Bank applies the Low Credit Risk criterion for exposures to the State Treasury, National Bank of Poland, Bank Gospodarstwa Krajowego, central government institutions, clearing houses, the European Investment Bank and local government units that do not meet the qualitative criteria for classification to Bucket 2 and for which no evidence of impairment has been identified.

For the purposes of estimating impairment losses (expected credit losses), the Bank continues to use its own estimates of risk parameters based on internal models consistent with the requirements of IFRS 9 requirements (such as exposure lifetime estimates or forecasts of future macroeconomic conditions). The Bank has developed a parametrisation methodology and built models consistent with IFRS 9. Expected credit losses are calculated by multiplying individual estimates of PD, LGD, EAD, and CCF for each exposure. The final amount of expected losses is the aggregate of expected losses for individual periods – either over the next 12 months or over the remaining lifetime of the exposure, depending on the classification bucket – discounted using the effective interest rate. The parameters estimated in accordance with IFRS 9 are subsequently adjusted to reflect expectations regarding the macroeconomic situation. The Bank adjusts risk parameters to incorporate future macroeconomic information

(such as GDP, unemployment rate, WIBOR, exchange rates, and inflation) for portfolios where a dependency has been identified. Internally developed scenarios are used. Forecasts prepared by the Bank's economic analysts are the source of macroeconomic inputs.

The methodology and assumptions adopted by the Bank to estimate impairment are reviewed on a regular basis in order to reduce the difference between estimated and actual losses. Back-testing is performed to assess the adequacy of impairment losses determined using the collective assessment method and the case-by-case approach; results of back-testing are used to determine process improvement measures.

## 7.1.2. Amounts due from banks

Below are presented gross amounts due from banks by rating groups:

Item	31 Dec 2023	31 Dec 2022
AA+	58	-
AA	78,994	171,056
AA-	39,349	2,430
A+	22,457	9,353
A	1,971	29,776
A-	1,609	3,427
BBB+	3,559	9,382
	14,684	15,461
<b>Total</b>	<b>162,681</b>	<b>240,885</b>

Internal rating	Corresponding unified class according to external rating agencies	31 Dec 2023	Corresponding unified class according to external rating agencies	31 Dec 2022
A	AAA, AA+, AA, AA-		AAA, AA+, AA, AA-	
B	A+, A, A-		A+, A, A-	
C	BBB+, BBB, BBB-		BBB+, BBB, BBB-	
D	BB+, BB, BB-, B+, B, B-		BB+, BB, BB-, B+, B, B-	
E		14,682		14,667
F		2		794
<b>Total</b>		<b>14,684</b>		<b>15,461</b>

### 7.1.3. Amounts due from clients

Item	31 Dec 2023	31 Dec 2022
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT AMORTISED COST</b>		
Amounts due from clients without indications of impairment, including:	10,176,579	10,452,180
<i>exposures without significant credit risk increase since initial recognition (Bucket 1)</i>	8,915,035	9,385,350
<i>exposures with significant increase in risk since initial recognition (Bucket 2)</i>	1,261,544	1,066,830
Amounts due from clients with indication of impairment, impaired (Bucket 3)	1,421,288	1,684,487
Amounts due from clients that were credit-impaired at the date of initial recognition (POCI)	100,869	83,493
<b>Total amounts due from clients measured at amortised cost (gross)</b>	<b>11,698,736</b>	<b>12,220,160</b>
<b>Impairment losses on:</b>		
<i>amounts due from clients – (Bucket 1)</i>	- 117,170	- 94,294
<i>amounts due from clients – (Bucket 2)</i>	- 78,490	- 56,399
<i>amounts due from clients – (Bucket 3) with indication of impairment</i>	- 740,917	-945,289
amounts due from clients that were credit-impaired at the date of initial recognition (POCI)	18,452	6,440
<b>Total impairment losses</b>	<b>- 918,125</b>	<b>- 1,089,542</b>
<b>Total amounts due from clients measured at amortised cost (net)</b>	<b>10,780,611</b>	<b>11,130,618</b>
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
Fair value	139	3,050
<b>Total amounts due from clients measured at fair value through profit or loss</b>	<b>139</b>	<b>3,050</b>
Margin deposits	34,296	36,251
Other amounts due from clients	4,215	3,660
<b>Total amounts due from clients</b>	<b>10,819,261</b>	<b>11,173,579</b>



**Classification of amounts due from clients by measurement category, by segment:**

31 Dec 2023	Institutional clients	Retail clients	Retail clients – housing loans	Retail clients – other loans	Total
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT AMORTISED COST</b>					
Amounts due from clients without indications of impairment, including:	8,108,137	2,068,442	1,635,343	433,099	10,176,579
<i>exposures without significant credit risk increase since initial recognition (Bucket 1)</i>	6,933,330	1,981,705	1,572,908	408,797	8,915,035
<i>exposures with significant increase in risk since initial recognition (Bucket 2)</i>	1,174,807	86737	62435	24302	1,261,544
Amounts due from clients with indications of impairment and impaired (Bucket 3), including:	1,110,324	310,964	168,129	142,835	1,421,288
<i>individually assessed</i>	1,090,433	65,413	50,144	15,269	1,155,846
Amounts due from clients that were credit-impaired at the date of initial recognition (POCI)	100,145	724	700	24	100,869
<i>individually assessed</i>	40,706	500	500	-	41,206
<b>Total amounts due from clients measured at amortised cost (gross)</b>	<b>9,318,606</b>	<b>2,380,130</b>	<b>1,804,172</b>	<b>575,958</b>	<b>11,698,736</b>

31 Dec 2023	Institutional clients	Retail clients	Retail clients – housing loans	Retail clients – other loans	Total
<b>Impairment losses on:</b>					
amounts due from clients – (Bucket 1)	-102,897	-14,273	-5,371	-8,902	-117,170
amounts due from clients – (Bucket 2)	-73,651	-4,839	-2,383	-2,456	-78,490
amounts due from clients – (Bucket 3) with indication of impairment, including:	-521,033	-219,884	-101,249	-118,635	-740,917
<i>individually assessed</i>	-504,412	-34,491	-26,385	-8,106	-538,903
amounts due from clients that were credit-impaired at the date of initial recognition (POCI)	18,643	-191	-167	-24	18,452
<i>individually assessed</i>	-2,962	6	6	-	-2,956
<b>Total impairment losses</b>	<b>-678,938</b>	<b>-239,187</b>	<b>-109,170</b>	<b>-130,017</b>	<b>-918,125</b>
<b>Total amounts due from clients measured at amortised cost (net)</b>	<b>8,639,668</b>	<b>2,140,943</b>	<b>1,695,002</b>	<b>445,941</b>	<b>10,780,611</b>
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>					
Fair value	30	109	43	66	139
<b>Total amounts due from clients measured at fair value through profit or loss</b>	<b>30</b>	<b>109</b>	<b>43</b>	<b>66</b>	<b>139</b>
Margin deposits	34,296	-	-	-	34,296
Other amounts due from clients	4,215	-	-	-	4,215
<b>Total amounts due from clients</b>	<b>8,678,209</b>	<b>2,141,052</b>	<b>1,695,045</b>	<b>446,007</b>	<b>10,819,261</b>

31 Dec 2022	Institutional clients	Retail clients	Retail clients – housing loans	Retail clients – other loans	Total
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT AMORTISED COST</b>					
Amounts due from clients without indications of impairment, including:	7,966,127	2,486,053	2,051,794	434,259	10,452,180
<i>exposures without significant credit risk increase since initial recognition (Bucket 1)</i>	7,026,352	2,358,998	1,948,733	410,265	9,385,350
<i>exposures with significant increase in risk since initial recognition (Bucket 2)</i>	939,775	127,055	103,061	23,994	1,066,830
Amounts due from clients with indications of impairment and impaired (Bucket 3), including:	1,307,780	376,707	213,832	162,875	1,684,487
<i>individually assessed</i>	1,283,963	96,194	78,298	17,896	1,380,157
Amounts due from clients that were credit-impaired at the date of initial recognition (POCI)	82,745	748	718	30	83,493
<i>individually assessed</i>	82,619	497	497	-	83,116
<b>Total amounts due from clients measured at amortised cost (gross)</b>	<b>9,356,652</b>	<b>2,863,508</b>	<b>2,266,344</b>	<b>597,164</b>	<b>12,220,160</b>

31 Dec 2022	Institutional clients	Retail clients	Retail clients – housing loans	Retail clients – other loans	Total
<b>Impairment losses on:</b>					
amounts due from clients – (Bucket 1)	-83,927	-10,367	-4,516	-5,851	-94,294
amounts due from clients – (Bucket 2)	-50,048	-6,351	-3,609	-2,742	-56,399
amounts due from clients – (Bucket 3) with indication of impairment, including:	-687,938	-257,351	-125,741	-131,610	-945,289
<i>individually assessed</i>	-672,152	-52,025	-43,192	-8,833	-724,177
Amounts due from clients that were credit-impaired at the date of initial recognition (POCI)	6,843	-403	-373	-30	6,440
<i>individually assessed</i>	6873	-152	-152	-	6,721
<b>Total impairment losses</b>	<b>-815,070</b>	<b>-274,472</b>	<b>-134,239</b>	<b>-140,233</b>	<b>-1,089,542</b>
<b>Total amounts due from clients measured at amortised cost (net)</b>	<b>8,541,582</b>	<b>2,589,036</b>	<b>2,132,105</b>	<b>456,931</b>	<b>11,130,618</b>
<b>AMOUNTS DUE FROM CLIENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>					
Fair value	2,780	270	99	171	3,050
<b>Total amounts due from clients measured at fair value through profit or loss</b>	<b>2,780</b>	<b>270</b>	<b>99</b>	<b>171</b>	<b>3,050</b>
Margin deposits	36,251	-	-	-	36,251
Other amounts due from clients	3,660	-	-	-	3,660
<b>Total amounts due from clients</b>	<b>8,584,273</b>	<b>2,589,306</b>	<b>2,132,204</b>	<b>457,102</b>	<b>11,173,579</b>

## Amounts due from clients measured at amortised cost (gross) that are not past due and are not impaired

Amounts due from clients measured at amortised cost that are not past due (even by one day) are considered not impaired, provided there is no other evidence of impairment. These are amounts due from clients with good economic and financial standing, with regular repayments for which there has been no indication of impairment, and impairment has been recognised for incurred but unidentified losses.

General characteristics of the rating classes are presented below:

<b>Rating 1</b>	Highest credit quality
<b>Rating 2</b>	Very high credit quality
<b>Rating 3</b>	High credit quality
<b>Ratings 4-5</b>	Very good credit quality
<b>Ratings 6-7</b>	Good credit quality
<b>Ratings 8-9</b>	Satisfactory credit quality
<b>Ratings 10-11</b>	Average and poor credit quality
<b>Ratings 12-13</b>	Very poor credit quality
<b>Ratings 14-16</b>	No creditworthiness (credit quality does not exist).

Below are presented gross amounts due from clients measured at amortised cost that were not past due and for which no impairment was recognised, by client classes:

Item	Rating*	31 Dec 2023	31 Dec 2022
Amounts due from institutional clients	(1-3)	30,388	8,187
	(4-5)	257,525	210,397
	(6-7)	1,398,678	1,267,781
	(8-9)	2,619,766	2,873,039
	(10-11)	2,788,884	3,228,528
	(12-13)	616,120	373,631
	unrated	360,543	-
<b>Total amounts due from institutional clients</b>		<b>8,071,904</b>	<b>7,961,563</b>
Amounts due from retail clients	unrated	1,993,336	2,385,037
<b>Total amounts due from retail clients</b>		<b>1,993,336</b>	<b>2,385,037</b>
<b>Total</b>		<b>10,065,240</b>	<b>10,346,600</b>

The ratings are presented as at the reporting date.

\*\ The ratings are consistent with the Bank's internal classification, where '1' is the best rating and '16' is the worst rating.

### Amounts due from clients measured at amortised cost (gross) that are past due at the reporting date but not impaired, by client categories and days past due, with general description

Past-due exposures are considered to be the sum of amounts due from clients that are past due by one or more days, as applied in accordance with the definition in Note 7.1.1.

Gross amounts due from clients measured at amortised cost, excluding any material amounts past due by more than 90 days, and for which no impairment was recognised, are presented below by class of clients and the number of days past due:

31 Dec 2023 Days past due	Institutional clients	Retail clients	Total
from 1 to 30 days	95,564	56,459	152,023
from 31 to 60 days	-	11,703	11,703
from 61 to 90 days	-	4,877	4,877
over 90 days	-	2,067	2,067
<b>Total</b>	<b>95,564</b>	<b>75,106</b>	<b>170,670</b>

31 Dec 2022 Days past due	Institutional clients	Retail clients	Total
from 1 to 30 days	4,564	74,842	79,406
from 31 to 60 days	-	15,701	15,701
from 61 to 90 days	-	8,782	8,782
over 90 days	-	1,691	1,691
<b>Total</b>	<b>4,564</b>	<b>101,016</b>	<b>105,580</b>

### Amounts due from clients measured at amortised cost (gross) with recognised impairment, by client categories, with general description

Below are presented impaired amounts due from clients measured at amortised cost, by segment:

Item	31 Dec 2023	31 Dec 2022
Amounts due from institutional clients	1,151,137	1,390,525
Amounts due from retail clients	311,688	377,455
<b>Total</b>	<b>1,462,825</b>	<b>1,767,980</b>

### IFRS 9 model parameters

The following tables show the values of the input parameters of the IFRS 9 models used by the Bank in the process of calculating expected credit losses, for homogeneous portfolios, as required by Recommendation R of the Polish Financial Supervision Authority.

### Homogeneous portfolio of exposures – retail clients – MORTGAGES in 2023

	PD scale	Gross initial on-balance sheet exposures	Off-balance sheet exposures	EAD after credit risk mitigation and application of credit conversion factor	Average PD as % – acceptable range (0% to 100%)	Number of exposures	Average LGD as %	Average maturity	Expected credit loss (ECL)
Bucket 1	0.00 to <0.15%	65	-	64	0.12%	239	21.07%	112	-
	0.15% to <0.25%	34	-	34	0.19%	11	20.03%	4	-
	0.25% to <0.50%	142	-	141	0.35%	28	20.03%	6	-
	0.5% to <0.75%	191	-	190	0.64%	24	20.03%	8	-
	0.75% to <2.50%	1,325,437	1,673	1,322,694	1.03%	9,547	20.67%	165	2,711
	2.50% to <10.00%	207,931	6,024	208,505	4.02%	1,091	21.01%	198	1,673
	10.00% to <45.00%	22,202	-	21,788	14.47%	179	20.96%	165	614
	45.00% to <100.00%	-	-	-	0.00%	-	0.00%	-	-
Bucket 2	0.00 to <0.15%	130	-	128	0.00%	40	26.14%	120	8
	0.15% to <0.25%	-	-	-	0.00%	-	0.00%	-	-
	0.25% to <0.50%	-	-	-	0.00%	-	0.00%	-	-
	0.5% to <0.75%	7	-	7	0.65%	1	20.03%	10	-
	0.75% to <2.50%	35	-	32	1.49%	3	20.03%	17	-
	2.50% to <10.00%	1,854	-	1,799	8.21%	34	20.16%	68	16
	10.00% to <45.00%	51,431	2,140	49,451	21.54%	330	21.28%	192	1,315
	45.00% to <100.00%	8,859	-	8,267	68.35%	70	20.80%	173	1,047

	Time in default	EAD after credit risk mitigation and application of credit conversion factor	Number of exposures	Average LGD as %	Expected credit loss (ECL)
Bucket 3	up to 12 months	19,462	187	29.50%	5,822
	13 to 24 months	36,576	221	36.09%	13,565
	25 to 36 months	16,402	97	43.28%	7,349
	37 to 48 months	6,920	31	67.15%	4,724
	49 to 60 months	7,982	39	67.04%	5,695
	61 to 84 months	18,655	71	54.88%	13,910
	over 84 months	65,698	295	47.12%	53,618
POCI	up to 12 months	-	-	0.00%	-
	13 to 24 months	45	1	38.79%	17
	25 to 36 months	-	-	0.00%	-
	37 to 48 months	-	-	0.00%	-
	49 to 60 months	-	-	0.00%	-
	61 to 84 months	-	-	0.00%	-
	over 84 months	966	2	11.34%	461



### Homogeneous portfolio of exposures – retail clients – OTHER (net of MORTGAGES) in 2023

	PD scale	Gross initial on-balance sheet exposures	Off-balance sheet exposures	EAD after credit risk mitigation and application of credit conversion factor	Average PD as % – acceptable range (from 0% to 100%)	Number of exposures	Average LGD as %	Average maturity	Expected credit loss (ECL)
Bucket 1	0.00 to <0.15%	15,607	15,246	21,697	0.05%	2,963	47.29%	10	4
	0.15% to <0.25%	1,244	1,936	1,984	0.18%	371	47.70%	3	1
	0.25% to <0.50%	2,672	3,352	4,253	0.34%	1,053	47.31%	5	4
	0.5% to <0.75%	2,962	6,486	5,104	0.64%	832	47.49%	7	9
	0.75% to <2.50%	170,543	26,101	181,069	1.44%	12,150	41.52%	48	972
	2.50% to <10.00%	194,848	29,524	206,269	4.81%	7,292	51.32%	53	4,553
	10.00% to <45.00%	35,397	282	34,138	22.36%	820	53.14%	72	3,653
	45.00% to <100.00%	86	21	75	52.17%	6	47.29%	100	16
Bucket 2	0.00 to <0.15%	209	684	471	0.06%	52	47.29%	52	-
	0.15% to <0.25%	9	39	26	0.21%	10	47.29%	3	-
	0.25% to <0.50%	48	43	51	0.30%	23	47.29%	5	-
	0.5% to <0.75%	350	855	535	0.54%	31	47.01%	7	1
	0.75% to <2.50%	225	1,318	668	1.83%	142	46.21%	10	1
	2.50% to <10.00%	7,947	1,620	8,626	6.96%	481	45.50%	64	178
	10.00% to <45.00%	7,863	82	6,865	23.04%	470	40.38%	80	513
	45.00% to <100.00%	7,777	46	7,205	67.43%	149	48.73%	62	1,761

	Time in default	EAD after credit risk mitigation and application of credit conversion factor	Number of exposures	Average LGD as %	Expected credit loss (ECL)
Bucket 3	up to 12 months	15,302	662	63.42%	9,809
	13 to 24 months	23,140	1,012	70.21%	18,098
	25 to 36 months	26,931	1,274	81.06%	23,187
	37 to 48 months	29,784	683	59.53%	26,355
	49 to 60 months	9,093	334	88.14%	8,117
	61 to 84 months	11,160	287	74.36%	10,348
	over 84 months	32,816	563	63.87%	28,245
POCI	up to 12 months	-	-	0.00%	-
	13 to 24 months	-	-	0.00%	-
	25 to 36 months	-	-	0.00%	-
	37 to 48 months	-	-	0.00%	-
	49 to 60 months	-	-	0.00%	-
	61 to 84 months	-	-	0.00%	-
	Over 84 months	67	1	100.00%	67

### Homogeneous portfolio of exposures – institutional clients in 2023

	PD scale	Gross initial on-balance sheet exposures	Off-balance sheet exposures	EAD after credit risk mitigation and application of credit conversion factor	Average PD as % – acceptable range (from 0% to 100%)	Number of exposures	Average LGD as %	Average maturity	Expected credit loss (ECL)
Bucket 1	0.00 to <0.15%	1,034	-	1,032	0.07%	32	24.35%	1	-
	0.15% to <0.25%	2	40	22	0.22%	3	24.35%	1	-
	0.25% to <0.50%	9,010	21,998	16,716	0.40%	33	24.35%	3	8
	0.5% to <0.75%	616,265	154,107	659,107	0.73%	279	24.35%	38	420
	0.75% to <2.50%	378,754	321,559	538,847	1.43%	188	24.35%	6	1,243
	2.50% to <10.00%	4,075,713	2,367,308	5,218,240	6.23%	1,250	24.35%	41	59,089
	10.00% to <45.00%	1,317,644	479,412	1,544,878	12.03%	183	24.35%	88	34,991
	45.00% to <100.00%	201,248	8,000	205,248	85.29%	16	24.35%	106	1,024
Bucket 2	0.00 to <0.15%	-	-	-	0.00%	-	0.00%	-	-
	0.15% to <0.25%	-	-	-	0.00%	-	0.00%	-	-
	0.25% to <0.50%	709	1,297	930	0.42%	2	24.35%	1	1
	0.5% to <0.75%	2,088	7,170	3,493	0.72%	6	24.35%	3	4
	0.75% to <2.50%	53,173	35,982	74,634	1.75%	16	24.35%	2	232
	2.50% to <10.00%	157,840	171,301	269,872	6.50%	55	24.35%	10	1,711
	10.00% to <45.00%	519,062	124,662	566,196	24.68%	78	24.35%	30	14,934
	45.00% to <100.00%	784,274	24,144	780,586	74.50%	112	24.35%	83	56,770

	Time in default	EAD after credit risk mitigation and application of credit conversion factor	Number of exposures	Average LGD as %	Expected credit loss (ECL)
Bucket 3	up to 12 months	245,790	132	38.60%	96,954
	13 to 24 months	398,827	83	23.79%	142,413
	25 to 36 months	116,451	53	33.68%	53,554
	37 to 48 months	26,679	45	33.25%	13,667
	49 to 60 months	27,197	57	36.91%	13,542
	61 to 84 months	179,628	102	60.95%	135,113
	over 84 months	115,757	87	27.64%	65,790
POCI	up to 12 months	21,240	4	49.83%	10,583
	13 to 24 months	20,944	1	48.99%	10,261
	25 to 36 months	-	-	0.00%	-
	37 to 48 months	1,246	4	98.34%	1,236
	49 to 60 months	-	-	0.00%	-
	61 to 84 months	45,046	3	52.74%	28,573
	over 84 months	-	-	0.00%	-

### Homogeneous portfolio of exposures – retail clients – MORTGAGES in 2022

	PD scale	Gross initial on-balance sheet exposures	Off-balance sheet exposures	EAD after credit risk mitigation and application of credit conversion factor	Average PD as % – acceptable range (0% to 100%)	Number of exposures	Average LGD as %	Average maturity	Expected credit loss (ECL)
Bucket 1	0.00 to <0.15%	194	267	323	0.04%	83	20.18%	20	-
	0.15% to <0.25%	104	-	103	0.19%	28	20.03%	9	-
	0.25% to <0.50%	714,319	-	702,098	0.25%	5,356	21.23%	152	369
	0.5% to <0.75%	281	-	280	0.66%	22	20.03%	10	-
	0.75% to <2.50%	1,030,690	4,891	1,025,705	0.86%	5,851	21.29%	191	1,837
	2.50% to <10.00%	203,103	2,031	200,813	5.30%	851	21.74%	223	2,235
	10.00% to <45.00%	945	-	935	26.52%	11	21.74%	123	50
	45.00% to <100.00%	-	-	-	0.00%	-	0.00%	-	-
Bucket 2	0.00 to <0.15%	179	809	573	0.00%	31	26.12%	159	-
	0.15% to <0.25%	4	-	4	0.19%	1	20.03%	5	-
	0.25% to <0.50%	-	-	-	0.00%	-	0.00%	-	-
	0.5% to <0.75%	-	-	-	0.00%	-	0.00%	-	-
	0.75% to <2.50%	243	-	238	2.00%	8	20.03%	40	-
	2.50% to <10.00%	7,291	-	6,337	8.02%	72	21.75%	120	61
	10.00% to <45.00%	86,224	-	83,068	21.90%	495	21.30%	187	2,447
	45.00% to <100.00%	9,294	-	9,058	65.16%	53	21.82%	195	1,099

	Time in default	EAD after credit risk mitigation and application of credit conversion factor	Number of exposures	Average LGD as %	Expected credit loss (ECL)
Bucket 3	up to 12 months	52,149	289	75.04%	17,115
	13 to 24 months	24,583	170	61.53%	9,117
	25 to 36 months	8,845	43	54.02%	4,927
	37 to 48 months	10,435	47	40.57%	5,967
	49 to 60 months	14,017	49	23.49%	9,999
	61 to 84 months	27,559	92	2.42%	19,765
	over 84 months	79,657	288	0.00%	62,170
POCI	up to 12 months	-	-	0.00%	-
	13 to 24 months	-	-	0.00%	-
	25 to 36 months	-	-	0.00%	-
	37 to 48 months	-	-	0.00%	-
	49 to 60 months	-	-	0.00%	-
	61 to 84 months	-	-	0.00%	-
	over 84 months	1,025	2	0.00%	681

### Homogeneous portfolio of exposures – retail clients – OTHER (net of MORTGAGES) in 2022

	PD scale	Gross initial on-balance sheet exposures	Off-balance sheet exposures	EAD after credit risk mitigation and application of credit conversion factor	Average PD as % – acceptable range (from 0% to 100%)	Number of exposures	Average LGD as %	Average maturity	Expected credit loss (ECL)
Bucket 1	0.00 to <0.15%	10,283	54,367	33,228	0.03%	8,262	47.33%	28	4
	0.15% to <0.25%	1,817	3,117	2,858	0.19%	492	47.64%	4	2
	0.25% to <0.50%	12,003	3,958	13,370	0.30%	1,082	41.09%	25	14
	0.5% to <0.75%	5,927	1,828	6,693	0.66%	765	47.49%	7	18
	0.75% to <2.50%	310,920	11,008	311,436	1.91%	14,683	45.93%	48	2,647
	2.50% to <10.00%	50,330	548	49,422	5.86%	1,922	43.73%	63	1,215
	10.00% to <45.00%	21,132	100	20,303	20.20%	737	53.26%	63	1,977
	45.00% to <100.00%	9	-	8	52.19%	1	47.29%	142	2
Bucket 2	0.00 to <0.15%	208	1,298	677	0.01%	163	45.96%	62	-
	0.15% to <0.25%	29	8	31	0.19%	13	32.04%	3	-
	0.25% to <0.50%	50	14	32	0.38%	23	48.05%	7	-
	0.5% to <0.75%	24	1	13	0.66%	16	50.18%	4	-
	0.75% to <2.50%	200	7	170	1.46%	44	42.80%	12	1
	2.50% to <10.00%	1,432	101	1,371	7.19%	265	43.74%	65	28
	10.00% to <45.00%	10,668	72	10,256	27.17%	641	38.07%	76	740
	45.00% to <100.00%	6,006	4	5,644	74.62%	160	49.11%	71	1,772

	Time in default	EAD after credit risk mitigation and application of credit conversion factor	Number of exposures	Average LGD as %	Expected credit loss (ECL)
Bucket 3	up to 12 months	26,952	1,160	45.28%	17,316
	13 to 24 months	36,425	1,869	27.74%	29,860
	25 to 36 months	36,148	1,290	23.35%	31,045
	37 to 48 months	13,743	655	21.17%	11,778
	49 to 60 months	6,111	201	15.60%	4,814
	61 to 84 months	17,410	539	4.37%	16,795
	over 84 months	31,130	469	0.00%	25,131
POCI	up to 12 months	-	-	0.00%	-
	13 to 24 months	-	-	0.00%	-
	25 to 36 months	-	-	0.00%	-
	37 to 48 months	-	-	0.00%	-
	49 to 60 months	-	-	0.00%	-
	61 to 84 months	-	-	0.00%	-
	Over 84 months	73	1	0.00%	73



## Homogeneous portfolio of exposures – institutional clients in 2022

	PD scale	Gross initial on-balance sheet exposures	Off-balance sheet exposures	EAD after credit risk mitigation and application of credit conversion factor	Average PD as % – acceptable range (from 0% to 100%)	Number of exposures	Average LGD as %	Average maturity	Expected credit loss (ECL)
Bucket 1	0.00 to <0.15%	1,665	3,500	2,513	0.07%	25	19.12%	1	-
	0.15% to <0.25%	2,890	88	2,921	0.20%	5	19.12%	2	-
	0.25% to <0.50%	6,089	2,791	6,886	0.36%	37	19.12%	4	4
	0.5% to <0.75%	371,468	36,889	401,031	0.72%	323	19.12%	35	462
	0.75% to <2.50%	204,672	236,706	276,129	1.76%	173	19.12%	11	694
	2.50% to <10.00%	5,181,462	2,192,347	6,168,043	6.29%	1,290	19.12%	40	58,118
	10.00% to <45.00%	1,057,209	422,215	1,243,326	12.11%	179	19.12%	90	22,229
	45.00% to <100.00%	-	435	90	74.34%	4	19.12%	11	-
Bucket 2	0.00 to <0.15%	-	-	-	0.00%	-	0.00%	-	-
	0.15% to <0.25%	-	-	-	0.00%	-	0.00%	-	-
	0.25% to <0.50%	1,996	721	2,341	0.43%	2	19.12%	2	2
	0.5% to <0.75%	-	-	-	0.00%	-	0.00%	-	-
	0.75% to <2.50%	11,709	30,902	22,302	1.89%	14	19.12%	4	46
	2.50% to <10.00%	122,047	80,107	177,092	5.89%	33	19.12%	11	1,314
	10.00% to <45.00%	556,806	126,957	594,284	23.34%	78	19.12%	28	8,931
	45.00% to <100.00%	458,892	17,217	447,201	63.05%	51	19.12%	97	29,922

	Time in default	EAD after credit risk mitigation and application of credit conversion factor	Number of exposures	Average LGD as %	Expected credit loss (ECL)
Bucket 3	up to 12 months	472,162	133	70.78%	162,359
	13 to 24 months	157,474	63	51.33%	52,491
	25 to 36 months	59,135	53	46.05%	35,232
	37 to 48 months	78,489	55	43.77%	62,578
	49 to 60 months	113,834	69	41.56%	84,440
	61 to 84 months	217,833	68	20.40%	171,321
	over 84 months	208,859	63	0.00%	119,517
POCI	up to 12 months	116,592	7	70.06%	34,323
	13 to 24 months	175	1	54.27%	79
	25 to 36 months	1,246	4	44.68%	1,238
	37 to 48 months	-	-	0.00%	-
	49 to 60 months	-	-	0.00%	-
	61 to 84 months	21,547	2	28.99%	14,333
	over 84 months	-	-	0.00%	-

## Rating/scoring groups of amounts due from Bank clients (gross), by client segment

Item	Rating	31 Dec 2023	31 Dec 2022
Amounts due from institutional clients	(1-3)	30,388	8,187
	(4-5)	257,614	213,400
	(6-7)	1,400,719	1,270,345
	(8-9)	2,721,624	2,896,856
	(10-11)	2,888,564	3,347,705
	(12-13)	1,157,896	785,465
	(14-16)	500,667	830,562
	unrated	361,164	6,912
<b>Total amounts due from institutional clients</b>		<b>9,318,636</b>	<b>9,359,432</b>
Amounts due from retail clients	unrated	2,380,239	2,863,778
<b>Total amounts due from retail clients</b>		<b>2,380,239</b>	<b>2,863,778</b>
<b>Total</b>		<b>11,698,875</b>	<b>12,223,210</b>

The ratings are presented as at the reporting date.

\*\ The ratings are consistent with the Bank's internal classification, where '1' is the best rating and '16' is the worst rating.

### Description of collateral established for loans

The Bank accepted both physical assets as well as personal guarantees as collateral. The rules for setting collateral requirements stipulate that the collateral must be commensurate with the level of risk generated by a transaction.

The Bank preferred loan collateral:

1. that would enable the Bank to reduce the amount of allowances,
2. that would be readily marketable, with proceeds from sale potentially enabling the Bank to recover the entire amount of the claim.

When selecting the form of security, the Bank reviews the key criteria determining its effectiveness, including:

1. marketability of the collateral, i.e. the ability to sell the collateral without a significant decrease in its price and with reasonable promptness, i.e. in the period of time which does not expose the Bank to a change in the value of the collateral due to price movements typical for a given assets,
2. amount that reasonably recoverable in debt collection proceedings, taking into account legal, economic and other constraints which may affect the actual ability of the Bank to satisfy its claims,
3. access and ability to control the collateral during the term of the exposure.

The principle applied in the Bank was to establish a legal collateral, if required, before facility disbursement.

The Bank adjusted the value of the collateral using adjustment rates determined on a case-by-case basis for each type of collateral. As a general rule, the value of the collateral was monitored over the entire lending period.

In the case of mortgage-backed exposures, the Bank followed Recommendation S regarding the maximum LTV and required that borrowers provide equity contribution.

In the process of monitoring the value of real property, the Bank would carry out portfolio revaluation on a regular basis, using statistical methods.

In the case of real estate collateral, the valuation of collateral was prepared by an expert with the necessary qualifications and experience in property appraisal. The Bank verified valuations using data from such sources as the AMRON System (system of analysis and monitoring of real estate transactions) and the Cenatorium Database.

### Foreclosed assets

The Bank classifies repossessed collateral as 'foreclosed assets' and measures them according to the accounting policies detailed in Note 4.17 of the consolidated financial statements.

Prior to foreclosure, it is mandatory that the Bank has a plan how to use/dispose of the collateral assets once repossessed. A document specifying how the foreclosed asset is to be used/disposed of contains all the information that is relevant to make the foreclosure decision, and in particular:

1. information on costs expected to be incurred for possible caretaking, storage, insurance, taxes, etc.
2. information on the potential buyer, the negotiated price and the terms of payment – if the foreclosed asset is planned to be sold,
3. profitability of the transaction.

In most cases, buyers for such assets were already identified at the time of foreclosure and the transactions were profitable for the Bank. Upon sale, the amount of the debt was reduced by the amount of proceeds rather than by the amount estimated by the appraiser (usually prices obtained in transactions to sell foreclosed assets are lower than the assets' value determined by the appraiser).

One of the forms of recovering debts is their sale. Selling price of debt claims depend, among other things, on property collateral. Where sale of loans (with debt collateralised by property assets) is more profitable than foreclosure and subsequent sale, the Bank sells the debt claims together with the underlying collateral.

As at 31 December 2023 and 31 December 2022, the Bank did not hold any foreclosed assets.

## 7.1.4. Debt securities

### Securities by rating assigned to issuers

31 Dec 2023	State Treasury	NBP	Banks	Public finance	Other financial institutions	Total
1	-	-	-	-	50,069	50,069
6	4,349,151	-	-	-	-	4,349,151
7	-	-	866,705	-	-	866,705
none	-	3,296,458	-	32,690	783,041	4,112,189
<b>Total</b>	<b>4,349,151</b>	<b>3,296,458</b>	<b>866,705</b>	<b>32,690</b>	<b>833,110</b>	<b>9,378,114</b>

31 Dec 2022	State Treasury	NBP	Banks	Public finance	Other financial institutions	Total
1	-	-	-	-	49,927	49,927
6	3,538,951	-	-	-	-	3,538,951
7	-	-	488,940	-	-	488,940
none	-	4,465,127	-	65,878	334,055	4,865,060
<b>Total</b>	<b>3,538,951</b>	<b>4,465,127</b>	<b>488,940</b>	<b>65,878</b>	<b>383,982</b>	<b>8,942,878</b>

The tables present a unified rating scale, as specified below. If an issuer is rated by more than one agency, the highest rating is presented.

For municipal bonds for which there is no active market, internal ratings are assigned, in one of the following categories:

- 5** Very good credit quality
- 6-7** Good credit quality
- 8-9** Satisfactory credit quality
- 10** Average and poor credit quality

Risk classes for issuers of municipal bonds serviced by the Bank are assigned in accordance with the credit rating methodology for local government units applied by the Bank.

Public finance		
Internal rating	31 Dec 2023	31 Dec 2022
6	1,911	3,397
7	19,076	56,173
8	6,205	6,308
10	5,498	-
<b>Total</b>	<b>32,690</b>	<b>65,878</b>

## 7.1.5. Concentration of exposures to industries and geographical markets, with assessment of the concentration risk

An analysis of the sectoral allocation within the Bank's credit portfolio as at 31 December 2023 indicates substantial exposures: 'Real estate activities' accounted for 10.5%, 'Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems' represented 10.2% and 'Wholesale trade, except trade in motor vehicles' held 9.7%.

### Exposure by industry

Industry	Credit risk exposure	31 Dec 2023 % share in total
Real estate activities	1,222,766	10.5%
Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,198,756	10.2%
Wholesale trade, except trade in motor vehicles	1,132,149	9.7%
Public administration and defence; compulsory social security	775,566	6.6%
Construction of buildings	731,306	6.3%
Hospitality	390,303	3.3%
Activities of head offices; management consultancy	272,297	2.3%
Financial services, except insurance and pension funds	240,206	2.1%
Manufacture of food products	232,370	2.0%
Telecommunications	181,660	1.6%
Sports, entertainment and recreational activities	166,543	1.4%
Manufacture of chemicals and chemical products	151,527	1.3%
Manufacture of fabricated metal products, except machinery and equipment	146,637	1.3%
Manufacture of other non-metallic mineral products	145,944	1.2%
Other personal service activities	142,812	1.2%
Manufacture and processing of coke and refined petroleum products	121,653	1.0%
Crop and animal production, hunting and related service activities	121,579	1.0%
Warehousing and support activities for transportation	118,723	1.0%
Other sectors, including:	4,206,078	36.0%
<i>retail clients</i>	2,380,239	20.3%
<b>Total gross amounts due from clients</b>	<b>11,698,875</b>	<b>100.0%</b>
Impairment losses	- 918,125	
Margin deposits	34,296	
Other amounts due from clients	4,215	
<b>Total net amounts due from clients</b>	<b>10,819,261</b>	

Industry	Credit risk exposure	31 Dec 2022 % share in total
Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,551,592	12.7%
Real estate activities	1,340,371	11.0%
Wholesale trade, except trade in motor vehicles	1,079,932	8.8%
Construction of buildings	517,815	4.2%
Hospitality	503,201	4.1%
Activities of head offices; management consultancy	354,726	2.9%
Public administration and defence; compulsory social security	343,794	2.8%
Manufacture of food products	321,210	2.6%
Sports, entertainment and recreational activities	307,245	2.5%
Financial services, except insurance and pension funds	219,899	1.8%
Manufacture of chemicals and chemical products	198,277	1.6%
Manufacture of fabricated metal products, except machinery and equipment	164,428	1.3%
Manufacture of wood products and cork, excluding furniture; manufacture of products from straw and plaiting materials	149,743	1.2%
Crop and animal production, hunting and related service activities	136,730	1.1%
Manufacture of other non-metallic mineral products	131,589	1.1%
Other sectors, including:	4,902,658	40.1%
<i>retail clients</i>	2,863,778	23.4%
<b>Total gross amounts due from clients</b>	<b>12,223,210</b>	<b>100.0%</b>
Impairment losses	- 1,089,542	
Margin deposits	36,251	
Other amounts due from clients	3,660	
<b>Total net amounts due from clients</b>	<b>11,173,579</b>	

## 7.1.6. Concentration of exposure to particular entities and groups

As of 31 December 2023, there were three instances where the exposure to a single entity or a group of entities linked through equity or otherwise equalled or exceeded 10% of the Bank's Tier I capital. The total exposure amounted to PLN 616,043 thousand, representing 33.5% of the Bank's Tier I capital.

**The largest exposures to a single entity or a group of entities linked through equity or otherwise are presented below.**

No.	Exposure*\ 31 Dec 2023
1	227,513
2	195,607
3	192,922
4	-
<b>Total</b>	<b>616,043</b>

No.	Exposure*\ 31 Dec 2022
1	245,786
2	224,651
3	224,235
4	214,809
<b>Total</b>	<b>909,481</b>

\*\ Exposure to an entity includes: gross credit exposures, contingent liabilities (i.e. open credit lines and guarantees), debt securities issued by the entity and FX Spot, FX Forward and FX Swap transactions.



## Ten largest client exposures, with risks assessment

31 Dec 2023						
No.	Exposure	On-balance-sheet exposures*\	Credit facilities – principal	Securities	Off-balance sheet exposures**\	Balance-sheet equivalent of derivative transactions
1	225,917	-	-	225,917	-	-
2	195,597	121,653	129,850	-	70,116	3,829
3	178,886	123,337	123,079	-	55,549	-
4	160,757	-	-	160,757	-	-
5	141,252	141,252	140,574	-	-	-
6	140,134	- 24	-	-	140,158	-
7	137,137	136,782	121,439	-	355	-
8	132,248	132,248	132,453	-	-	-
9	125,363	123,878	123,734	-	1,486	-
10	123,606	64,025	64,283	-	59,582	-

  

31 Dec 2022						
No.	Exposure	On-balance-sheet exposures*\	Credit facilities – principal	Securities	Off-balance sheet exposures**\	Balance-sheet equivalent of derivative transactions
1	224,651	80,289	88,805	-	137,595	6,767
2	220,293	220,293	227,471	-	-	-
3	203,098	161,378	160,888	-	41,720	-
4	169,427	53,121	52,695	-	116,305	-
5	166,381	166,381	164,708	-	-	-
6	138,964	138,964	139,010	-	-	-
7	137,865	134,801	134,703	-	-	3,064
8	134,030	134,030	135,071	-	-	-
9	132,066	66,240	66,404	-	65,826	-
10	130,479	128,060	127,930	-	2,419	-

\*\ On-balance-sheet credit exposures include principal, interest, outstanding fees, discount and other amounts due.

\*\*\ Off-balance-sheet exposures include credit lines, guarantees, open import letters of credit, accepted bills of exchange, confirmed letters of credit and other commitments.

## 7.1.7. Maximum exposure to credit risk

The credit risk exposure under particular categories of financial assets is presented below.

Item	31 Dec 2023		
	Gross carrying amount	Impairment losses	Maximum credit risk exposure
<b>Amounts due from banks</b>	<b>163,134</b>	<b>- 453</b>	<b>162,681</b>
<b>Financial assets held for trading</b>	<b>113,345</b>	<b>-</b>	<b>113,345</b>
<i>derivative financial instruments</i>	113,345	-	113,345
<i>debt securities</i>	-	-	-
<b>Investment securities</b>	<b>9,485,058</b>	<b>- 288</b>	<b>9,484,770</b>
<i>equity securities measured at fair value through other comprehensive income</i>	106,656	-	106,656
<i>debt securities measured at fair value through other comprehensive income</i>	6,885,521	-	6,885,521
<i>debt securities measured at amortised cost</i>	2,366,553	- 288	2,366,265
<i>debt securities measured at fair value through profit or loss</i>	126,328	-	126,328
<b>Amounts due from clients</b>	<b>11,737,425</b>	<b>- 918,164</b>	<b>10,819,261</b>
Measured at amortised cost	11,698,736	- 918,125	10,780,611
<i>from institutional clients</i>	9,318,606	- 678,938	8,639,668
<i>from retail clients</i>	2,380,130	- 239,187	2,140,943
Measured at fair value through profit or loss	139	-	139
<i>from institutional clients</i>	30	-	30
<i>from retail clients</i>	109	-	109
Margin deposits	34,335	- 39	34,296
Other amounts due from clients	4,215	-	4,215
<b>Other financial assets*\</b>	<b>51,121</b>	<b>- 4,577</b>	<b>46,544</b>

\*\ Includes mainly sweeping of excess cash and amounts due from transactions in financial instruments.

Item	31 Dec 2022		
	Gross carrying amount	Impairment losses	Maximum credit risk exposure
<b>Amounts due from banks</b>	<b>241,380</b>	<b>- 495</b>	<b>240,885</b>
<b>Financial assets held for trading</b>	<b>222,944</b>	<b>-</b>	<b>222,944</b>
<i>derivative financial instruments</i>	202,719	-	202,719
<i>debt securities</i>	20,225	-	20,225
<b>Investment securities</b>	<b>9,008,300</b>	<b>- 182</b>	<b>9,008,118</b>
<i>equity securities measured at fair value through other comprehensive income</i>	85,465	-	85,465
<i>debt securities measured at fair value through other comprehensive income</i>	6,915,813	-	6,915,813
<i>debt securities measured at amortised cost</i>	1,900,397	- 182	1,900,215
<i>debt securities measured at fair value through profit or loss</i>	106,625	-	106,625
<b>Amounts due from clients</b>	<b>12,263,166</b>	<b>- 1,089,587</b>	<b>11,173,579</b>
Measured at amortised cost	12,220,160	- 1,089,542	11,130,618
<i>from institutional clients</i>	9,356,652	- 815,070	8,541,582
<i>from retail clients</i>	2,863,508	- 274,472	2,589,036
Measured at fair value through profit or loss	3,050	-	3,050
<i>from institutional clients</i>	2,780	-	2,780
<i>from retail clients</i>	270	-	270
Margin deposits	36,296	- 45	36,251
Other amounts due from clients	3,660	-	3,660
<b>Other financial assets*\</b>	<b>45,439</b>	<b>- 4,614</b>	<b>40,825</b>

\*\ Includes mainly sweeping of excess cash and amounts due from transactions in financial instruments.

## Credit risk exposures by category of contingent liabilities

Item	Maximum credit risk exposure	
	31 Dec 2023	31 Dec 2022
Contingent financial liabilities, including:	3,838,609	2,796,667
open lines of credit, including:	3,300,288	2,781,823
<i>revocable</i>	2,814,308	2,319,626
<i>irrevocable</i>	485,980	462,197
open import letters of credit	3,378	14,844
loan commitments, including:	534,943	-
<i>renewable</i>	12,739	-
<i>irrevocable</i>	522,204	-
Guarantees and sureties	534,943	466,518
Underwriting	9,800	
Foreign exchange and interest rate transactions*\	3,772,442	4,359,701

\*\ In 2023, the items included:

- foreign exchange and currency derivative transactions of PLN 879,325 thousand
- interest rate derivative transactions of PLN 2,635,117 thousand
- interest rate swap transactions of PLN 258,000 thousand

\*\ In 2022, the items included:

- foreign exchange and currency derivative transactions of PLN 1,122,098 thousand
- interest rate derivative transactions of PLN 2,979,603 thousand
- interest rate swap transactions of PLN 258,000 thousand

In accordance with the procedures in place at the Bank, contingent liabilities are subject to the same collateral and monitoring requirements as on-balance-sheet transactions.

The frequency of monitoring institutional clients (corporates) depends mainly on the size of credit exposure and the economic and financial standing of the client (rating).

Monitoring of institutional clients includes verification of:

1. rating of the client (including verification against selected external databases),
2. rating of the client's group,
3. assessment of the transaction (monitoring of collateral, contract terms (covenants) and project financed/co-financed by the Bank).

The frequency and scope of monitoring of institutional clients (micro-enterprises, housing communities) are dependent on the amount of exposure to the particular client.

Monitoring of micro-enterprises, housing communities includes:

1. monitoring of events subject to monitoring,
2. monitoring the economic and financial standing.

In the case of micro-enterprises, client verification against selected external databases is also performed.

## 7.1.8. Forbearance practices

The forbearance status is assigned to exposures where there has been a change in the contractual terms of the loan agreement, amounts due or investment measured at amortised cost if:

1. it results from the debtor's or the issuer's financial distress, or
2. where failure to amend the contractual terms would result in the exposure becoming non-performing, which would not have occurred had the debtor or the issuer not been in financial distress.

In particular, the following are considered forbearance facilities provided to clients:

1. payment holidays,
2. partial reduction of principal and / or partial waiver of incidental dues,
3. extension of the facility term,
4. reduced interest rate,
5. acceptance of non-performance of the contractual terms by the borrower the while the borrower fails to deliver financial projections,
6. the Bank's consent to sale or repossession of the collateral to repay the liability,
7. capitalisation of interest,
8. change of the debtor or the debt being taken over or acceded to by third parties.

If a forbearance agreement is properly performed, the debt becomes a performing exposure.

Restructuring is an indication of impairment.

For individually significant exposures the conclusion of a forbearance agreement due the debtor being in financial distress, the exposure must be tested for impairment to determine whether an impairment loss should be recognised.

For individually non-significant exposures the conclusion of a forbearance agreement due the debtor being in financial distress, an impairment loss must be recognised for the exposure.

Reversal of an impairment loss (i.e. reclassification to the portfolio of performing assets) is possible after the indicator of impairment ceased to exist and a 12-month quarantine period has elapsed. Restructured transactions for which the evidence of impairment ceased to exist, the quarantine period in which the evidence of impairment was not identified has passed, and in relation to which no impairment is recognised are allocated to Bucket 2. For such exposures, expected losses are recognised for the remaining life of the exposure.

Restructuring agreements are monitored on an ongoing basis for compliance with the contractual terms.

An exposure ceases to be classified as forborne (the forbearance status is removed) when all of the following conditions are met:

1. a loan agreement is considered a non-risk where the exposure was reclassified from the at-risk category, after assessment of the debtor's financial standing, which has confirmed sustainable improvement of the debtor's financial condition,
2. at least 24 months (trial period) have elapsed from the date when the exposure was considered as not being at risk, and during at least half of the trial period the debtor made regular payments of principal and interest, with delays not exceeding 30 days,
3. at the end of the trial period, none of the exposures to the debtor is past due for more than 30 days.

The accounting principles relating to financial assets subject to forbearance practices are no different from those applied to other assets of the BOŚ Group. The BOŚ Group measures loans and amounts due from clients at amortised cost using the effective interest rate method. Where the terms of a loan, an amount due or investment measured at amortised cost are renegotiated due to financial distress of the debtor or the issuer, such exposure is measured using the original effective interest rate determined prior to the provision of any forbearance facilities.

Below is presented the credit risk exposure to of individual forborne transactions (with respect to which forbearance facilities have been provided):

31 Dec 2023	Impaired receivables			Unimpaired receivables		
	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure
<b>Total amounts due from clients</b>	<b>974,324</b>	<b>- 445,484</b>	<b>528,840</b>	<b>66,923</b>	<b>21,382</b>	<b>88,305</b>
Amounts due from retail clients, including:	94,341	- 70,774	23,567	1,177	- 65	1,112
individually measured*\	38,022	- 21,639	16,383	-	-	-
Amounts due from institutional clients, including:	879,983	- 374,710	505,273	65,746	21,447	87,193
individually measured*\	871,183	- 366,745	504,438	-	-	-

31 Dec 2022	Impaired receivables			Unimpaired receivables		
	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure	Gross carrying amounts	Allowances for expected credit losses	Maximum credit risk exposure
<b>Total amounts due from clients</b>	<b>927,849</b>	<b>- 437,375</b>	<b>490,474</b>	<b>15,639</b>	<b>- 462</b>	<b>15,177</b>
Amounts due from retail clients, including:	122,609	- 87,386	35,223	2,073	- 106	1,967
individually measured*\	56,149	- 32,064	24,085	-	-	-
Amounts due from institutional clients, including:	805,240	- 349,989	455,251	13,566	- 356	13,210
individually measured*\	797,967	- 344,400	453,567	-	-	-

\*\ Amounts due from clients that show indications of impairment, yet for which no impairment has been identified due to the estimated cash flows, are measured using the collective measurement method.

## 7.2. Financial risk in the bank book and the trading book, and risk limits

The Bank's financial risk includes:

1. liquidity risk,
2. market risk, including:
  - a. interest rate risk (in the banking book and the trading book),
  - b. currency risk (mainly in the trading book; currency risk from the banking book is transferred to the trading book).

The key principles of financial risk management at Bank Ochrony Środowiska S.A. are set out in the Banking Risk Management Strategy. The strategy is an integral part of the Bank's development Strategy.

Risk management in the Bank is carried out based on the level of risk appetite and tolerance set by the Supervisory Board, along with a set of internal limits and warning thresholds. At BOŚ S.A., policies are in place for managing liquidity risk, interest rate risk in the banking book, and market risk in the trading book, which define the appetite and tolerance for each type of risk. Based on these, an early warning system has been established which focuses on identifying, measuring, monitoring, controlling and reporting the risks.

Transactions in the banking book represent the core business of the Bank, which means that they result from commercial operations, including raising financing and efficient management of financial liquidity. The banking book includes positions which are not included in the trading book, in particular:

- granted credit facilities and guarantees, as well as accepted deposits, including term deposits,
- liquidity- and interest-rate hedges of transactions carried in the banking book,
- purchase of securities for non-trading purposes.

In line with the Bank's strategy, the trading book business is complementary to the banking book business. The trading book contains transactions that were entered into by the Bank on its own account for trading purposes, i.e. to gain financial profits in short-term periods due to actual or expected differences between bid and offer prices in the market, as well as other movements of prices or price parities, including in particular interest rates and foreign exchange rates. Transactions held in the trading book are not sold for liquidity purposes. The purpose of the trading book is to ensure the highest quality of services for clients. To achieve these objectives, BOŚ S.A. maintains open positions within the established risk limits.

The objective of risk management in BOŚ S.A.'s operations is to maintain risk at an acceptable level of tolerance and appetite, thereby protecting shareholder value, ensuring the safety of clients' deposits, and achieving adequate operational efficiency. This includes maintaining the Bank's ability to adapt to changing market conditions, the competencies and commitment of the management and staff, and the quality of management information systems.

In 2023, the Bank monitored the economic and market situation associated with the geopolitical crisis and analysed its impact on financial risks, including the market and liquidity risks. Although the levels of individual risks have increased compared to the pre-crisis period, they have generally remained within the limits adopted by the Bank. In 2023, the main objectives, principles and organisation of the financial risk management process at the Bank did not change. In 2023, the high level of market interest rates did not significantly affect liquidity risk.

The level and profile of financial risk is monitored on a regular basis by the Financial Risk Department (2nd line of defence) and reported to: the Supervisory Board, the Risk Committee (at the Supervisory Board), the Management Board, the Assets and Liabilities Committee (the ALCO Committee) and the Liquidity and Market Risk ALCO Committee.

## Impact of the war in Ukraine on financial risk, including liquidity risk

The Bank closely monitored economic and market conditions, particularly the potential for sudden, large-scale external events that could indirectly have a significant impact on the Bank, especially in relation to financial risk. The monitored developments included the political and economic environment in Ukraine, terrorist incidents, and other abrupt changes such as macroeconomic fluctuations (e.g. depreciation of the Polish currency and rising interest rates). The Bank evaluates the impact of these developments on financial risks, including market risk and liquidity risk. This evaluation involves continuous monitoring of immediate effects, as well as assessing the potential consequences of these events for the Bank through stress testing procedures.

During 2023, the impact of Russia's aggression on Ukraine on the financial markets significantly weakened after a temporary strong increase in risk aversion in 2022. Concurrently, the recent rise in geopolitical risk in the Middle East resulted in a periodic increase in risk aversion towards the end of October 2023; however, so far, its impact on the financial markets has remained limited.

### 7.2.1. Liquidity risk

The purpose of liquidity management by the Bank is to maintain the ability to finance assets and pay liabilities in a timely manner and to maintain a sustainable structure of assets and liabilities, which ensures a safe liquidity profile in specific time bands, split into liquidity in PLN and the main foreign currencies, but mostly – for the total liquidity position.

The liquidity risk management strategy and processes are tailored to the Bank's business profile and scale. The liquidity risk management strategy is set out in the Liquidity Strategy of BOŚ S.A. approved by the Supervisory Board. The strategy defines the Bank's risk appetite, designates key directions and quantitative targets for selected volumes, and is an integral part of the Bank's Strategy. The liquidity risk tolerance, adjusted to the Bank's risk appetite through a system of internal limits and warning values, is set out in the Liquidity Management Policy approved by the Supervisory Board.

The structure and organisation of the liquidity risk management function includes all levels of the Bank's organisational structure and operates within the three lines of defence. A particular role in the liquidity risk management process is played by the Management Board of the Bank and the Committee of Assets and Liabilities Management.

The Bank's liquidity is analysed over the following time horizons:

1. intra-day liquidity – during the day;
2. current liquidity – in the period up to 7 days;
3. short-term liquidity – in the period up to 1 month;
4. medium-term liquidity – in the period of above 1 month to 12 months;
5. long-term-term liquidity – in the period of more than 12 months.

To measure the liquidity and intra-day, current and short-term liquidity risk, the Bank uses the following measures and tools:

1. the level of intraday liquidity – reflects the level of funds required to be maintained in the Bank's account with the National Bank of Poland to enable the Bank to pay its liabilities during the day, in both normal and stress situations,
2. liquid assets (excess liquidity) – a buffer for expected and unexpected outflows over a period of 30 days,
3. liquidity reserve – which measures the level of liquid assets less expected and unexpected outflows, determined for a period of 30 days,
4. net liquidity coverage ratio (%),
5. assessment of the stability of the deposit base,
6. short-term liquidity gap (for PLN, EUR, CHF and USD) – showing the level of mismatch in foreign currency funding structures; the gap consists primarily of flows from wholesale and derivatives transactions,



7. stress tests, including scenarios that account for ESG risks (allowing, among other things, verification of the ability to maintain liquidity over the time horizon defined by the Bank in various scenarios).

For the purpose of measuring liquidity as well as the medium- and long-term liquidity risk, the Bank sets and monitors:

1. the contractual and actual liquidity gap (which is supplemented by regular analyses of the stability of the deposit base, the concentration of the deposit base, the amount of loan prepayments and the level of deposit breakage),
2. the non-current assets to non-current liabilities ratio,
3. the coverage of loans used by clients to finance long-term needs with the most stable sources of funding (LKD),
4. the net stable funding ratio (NSFR),
5. stress test taking into account ESG risks (for a 12-month horizon),
6. the forecast of LCR, NSFR and liquid assets.

To evaluate the effectiveness of the liquidity risk management process, for most of the mentioned measures, limits or warning thresholds are established within a hierarchical framework of internal liquidity risk limits. These thresholds are set at various levels including the Supervisory Board, the Management Board, and the ALCO Committee. The limits and warning thresholds undergo regular reviews (at least annually) to ensure effective liquidity monitoring. The limits and warning values define the framework for the Bank's liquidity tolerance and are consistent with the Bank's risk appetite. The shaping of an appropriate liquidity risk profile is supported by taking into account the cost of liquidity under the Bank's transfer pricing system.

The measures and tools used by the Bank are reviewed on a regular basis and are regularly updated to better map the liquidity profile. The process of monitoring liquidity and liquidity risk in the Bank is supported by a dedicated IT system (used in particular to generate reports on contractual and actual liquidity gaps, on regulatory liquidity measures and on internal limits, and to prepare mandatory reports). At least once a year, the Bank prepares a review of the Internal Liquidity Adequacy Assessment Process (ILAAP), in compliance with the EBA/GL/2016/10 Guidelines on ICAAP and ILAAP information collected for SREP (Supervisory Review and Evaluation Process) purposes. The ALCO Committee gives its opinion on the review, and the document requires approval by the Management Board and the Supervisory Board of the Bank.

Liquidity risk reports are presented to all the Bank's units involved in the liquidity risk management process. The outcomes of the risk analysis, the degree of utilisation of regulatory standards, internal limits, and warning thresholds, as well as the results of stress tests, are presented in reports prepared for the ALCO Committee (weekly), for the Management Board and the ALCO Committee (monthly), and for the Supervisory Board and its Risk Committee (quarterly). The reports are part of the Management Information System, the purpose of which is to support the Bank's management, streamline the performance of its tasks and ensure the safety and stability of its operations.

### **Overall liquidity risk profile**

The Bank's primary source of funding continues to be the systematically built and diversified deposit base, consisting of stable deposits from retail customers, as well as corporate and public sector deposits. These are supplemented by loans received from international financial institutions, which also provide foreign currency liquidity financing through long-term bilateral interest rate swap agreements secured by debt securities and FX Swap transactions. The Bank monitors the risk of concentration of the deposit base on an ongoing basis.

The Bank retains its liquid assets predominantly in the form of highly liquid National Bank of Poland (NBP) bills, which comprised 40% of the liquid securities portfolio as at 31 December 2023. Furthermore, Treasury bonds constituted 57% of the liquid portfolio on the same date, further enhancing the low specific risk associated with these assets. The portfolio of these securities is supplemented with cash and funds held with the National Bank of Poland (above the declared obligatory reserves) and in nostro accounts with other banks. As of 31 December 2023, liquid assets amounted to PLN 8,177 million. Liquid assets constitute a buffer to secure liquidity in potential crisis situations, i.e. they can be pledged, liquidated under repo transactions or sold at any time without significant loss of

value. The Bank's ability to sell liquid assets (product liquidity risk) is monitored on a regular basis. The primary considerations in these analyses are issue size, market turnover, and bid/ask price volatility.

The Bank may access additional funding sources through a technical loan and a lombard loan from the NBP and, under exceptional circumstances, may apply for a refinancing facility from the NBP.

The Bank determines internal capital for liquidity risk, which is considered a significant constant risk, in accordance with the applicable internal capital estimation process. This capital is estimated on the basis of the cost of restoring regulatory and internal measures and liquidity limits under the conditions of stress test scenarios.

### Measures of liquidity risk

The Bank determines regulatory measures of liquidity in accordance with the following regulations: The CRR Regulation and Regulation 2019/876 on prudential requirements for credit institutions and investment undertakings (amending Regulation 575/2013 Regulation) and related delegated and implementing regulations as regards liquidity.

The currently applicable norms regarding short-term liquidity include the liquidity coverage requirement – LCR (the ratio of liquid assets to net outflows (i.e. the difference between net outflows and net inflows) for a 30-day period of extreme conditions). The LCR is calculated on an aggregated basis for all currencies (translated into PLN) and separately for significant currencies, i.e. for PLN and EUR. For the ratio in EUR, the Bank identifies a currency mismatch related to the method of financing long-term loans granted in this currency.

The Bank is also required to satisfy a stable funding requirement, which as of June 2021 is referred to as the net stable funding ratio (NSFR) requirement. It is calculated as the ratio of the institution's available stable funding to the amount of the stable funding required. In accordance with external norms, the NSFR ratio, as the LCR ratio, should be maintained at a minimum of 100%.

The Bank, in accordance with Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 regarding the reporting of additional liquidity monitoring metrics, prepares and submits ALMM reports to the NBP.

In accordance with EBA/GL/2017/01 Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013, the Bank presents quantitative and qualitative data on the net liquidity coverage ratio, the net stable funding ratio and the liquidity risk in the Information on BOŚ Group. Such disclosures comply with the instructions given by the European Banking Authority.

The Bank also performs an in-depth analysis of its long-term liquidity. Results of these analyses are used to manage the Bank's liquidity. At the same time, the process of preparing short- and long-term financial plans of the Bank includes assessment of liquidity, to ensure an adequate financing structure and compliance with the supervisory liquidity measures.

In 2023, the supervisory liquidity measures, i.e. LCR and NSFR, were calculated daily (i.e. every working day), and remained at a safe level, significantly above the regulatory requirements. As at 31 December 2023, these measures were as follows:

Metric	31 Dec 2023	31 Dec 2022	Supervisory limit
LCR	199%	177%	100%
NSFR	155%	149%	100%

The Bank has an Emergency Liquidity Action Plan in place, ensuring the uninterrupted continuation of operations and preservation of liquidity in the event of crisis situations.

As part of its risk management system, the Bank has in place an Emergency Liquidity Action Plan approved by the Management Board, which sets out potential sources of deterioration/loss of liquidity, rules of conduct and contingency powers. It is intended to estimate the survival horizon as well as the ability and costs of restoring stable

liquidity. This plan, apart from conducting scenario analysis of liquidity under contingency conditions (aligned with conducted stress tests), also encompasses measurable and non-measurable early warning indicators. These indicators facilitate systematic monitoring of the origins of potential liquidity crises. These indicators are monitored by the Bank on an ongoing basis. The contingency liquidity plan shall be regularly reviewed and updated so as to ensure that the Bank is operationally prepared to activate potential measures that can be taken in the event of a liquidity risk.

In addition to the Emergency Liquidity Action Plan, the Bank also conducts liquidity stress tests. The tests are conducted in accordance with the Liquidity Risk Stress Testing Programme, which comprises:

1. Sensitivity analyses (conducted no less frequently than once a year);
2. Scenario-based analyses/tests (conducted on a monthly basis);
3. Reverse stress tests (conducted no less frequently than once a year).

The objective of these tests is to assess the Bank's position in the event that highly unfavourable risk factors materialise. The specific type and extent of these risk factors are dynamically established, taking into account the current situation of the Bank and its clients and the prevailing market conditions. The tests cover both internal factors (client behavioural patterns) and external factors (market conditions). These factors are analysed within certain defined liquidity scenarios, which include at a minimum the occurrence of an internal crisis, an external crisis and a mixed crisis.

Stress tests encompass three fundamental types of scenarios:

1. internal crisis – its source is the loss of confidence in the Bank by market participants ('bank run'), reduced availability of financing, materialisation of concentration risk and downgrading of the Bank's rating,
2. external crisis – assumes materialisation of currency risk, rising interest rates, crisis in financial markets and possible second round effects,
3. mixed crisis – a combination of elements of both internal and external crises.

The Bank also prepares (once every quarter) intraday liquidity stress tests. The outcomes of the stress tests are presented to the Bank's management in quarterly reports related to liquidity risk. As part of the analysis, three intraday liquidity stress testing scenarios (internal, external, mixed) are prepared, along with a reverse stress test.

Additionally, for the purposes of monitoring liquidity indicators, further stress-testing scenarios are developed:

1. Addressing the Bank's sensitivity to long-term liquidity risk factors (such as market liquidity withdrawal, strategic changes in funding structure) as well as short-term internal or external shocks (effect of geopolitical risk);
2. Considering the ESG risk in terms of any negative financial impact on the Bank caused by current or future effects of ESG factors (environmental, social and governance issues) prepared in scenarios spanning up to 1 month and up to 12 months.

The stress tests carried out facilitate the identification of factors whose manifestation could lead to liquidity risk within the Bank and the formulation of requisite contingency measures in the event of crises.

Moreover, within the scope of the annual review of the Liquidity Risk Stress Testing Programme, the Bank undertakes analyses of sensitivity to individual liquidity risk drivers and conducts reverse stress tests. A comprehensive review of the Liquidity Risk Stress Testing Programme is performed annually. Conclusions from the tests are used in managing liquidity and liquidity risk and are the basis for building the structure of assets and liabilities.

In its analyses, the Bank also takes into account the possibility of unfavourable changes in foreign exchange rates, in particular CHF and EUR, potentially triggering increased liquidity needs.

Furthermore, the Bank undertakes testing of the Emergency Liquidity Action Plan and modifications to this Plan are implemented based on the outcomes of those tests. The outcomes of the Emergency Liquidity Action Plan tests are reported to and reviewed by both the Asset and Liability Management Committee and the Bank's Management Board.

The stress tests performed in 2023, as in 2022, demonstrated that the Bank had a stable liquidity position, with its liquid assets proving sufficient to withstand the stipulated scenarios over the tested periods. The tables below present the adjusted liquidity gap (carrying amounts) and contractual cash flows from financial liabilities (carrying amounts):

### Adjusted liquidity gap

31 Dec 2023*	1M	1-3M	3-6M	6-12M	1-5Y	Over 5Y	Total
Liquidity gap ratio	3.61	2.04	1.45	1.07	1.07	1.00	
<b>Total assets</b>	<b>7,364,343</b>	<b>439,772</b>	<b>542,550</b>	<b>892,296</b>	<b>7,295,605</b>	<b>5,334,886</b>	<b>21,869,452</b>
<i>of which amounts due from clients</i>	113,786	294,102	395,471	841,660	5,224,134	3,950,108	10,819,261
<b>Total equity and liabilities</b>	<b>2,039,005</b>	<b>1,795,468</b>	<b>1,925,998</b>	<b>2,902,461</b>	<b>6,735,561</b>	<b>6,470,959</b>	<b>21,869,452</b>
<i>of which amounts due to clients</i>	1,743,100	1,789,535	1,925,998	2,507,351	6,472,772	4,202,548	18,641,304
Gap	5,325,338	-1,355,696	-1,383,448	-2,010,165	560,044	-1,136,073	-
Accumulated gap	5,325,338	3,969,642	2,586,194	576,029	1,136,073	-	-

31 Dec 2022	1M	1-3M	3-6M	6-12M	1-5Y	Over 5Y	Total
Liquidity gap ratio	2.59	1.46	1.12	0.94	1.05	1.00	
<b>Total assets</b>	<b>7,033,703</b>	<b>484,377</b>	<b>532,416</b>	<b>980,217</b>	<b>7,876,711</b>	<b>5,007,814</b>	<b>21,915,238</b>
<i>of which amounts due from clients</i>	124,888	322,798	434,057	923,782	5,733,857	3,634,197	11,173,579
<b>Total equity and liabilities</b>	<b>2,717,463</b>	<b>2,434,531</b>	<b>2,027,765</b>	<b>2,387,585</b>	<b>6,468,564</b>	<b>5,879,330</b>	<b>21,915,238</b>
<i>of which amounts due to clients</i>	2,390,766	2,433,144	2,025,406	2,288,228	5,907,102	3,835,278	18,879,924
Gap	4,316,240	-1,950,154	-1,495,349	-1,407,368	1,408,147	-871,516	-
Accumulated gap	4,316,240	2,366,086	870,737	-536,632	871,516	-	-

\*/ In 2023, a new model for deposit base stability was implemented.

### Contractual cash flows from financial liabilities

31 Dec 2023	1M	1-3M	3-6M	6-12M	1-5Y	Over 5Y	Total
Amounts due to other banks	24,380	4,117	-	46,648	-	1	75,146
Amounts due to clients	11,768,089	3,433,335	1,473,256	1,124,094	684,172	158,358	18,641,304
Derivative financial instruments	2,713	1,816	-	4,426	34,401	33,297	76,653
Subordinated liabilities	-	-	-	344,036	-	102,996	447,032
Other financial liabilities	268,812	-	-	-	228,388	2,132,117	2,629,317
<b>Total</b>	<b>12,063,994</b>	<b>3,439,268</b>	<b>1,473,256</b>	<b>1,519,204</b>	<b>946,961</b>	<b>2,426,769</b>	<b>21,869,452</b>

31 Dec 2022	1M	1-3M	3-6M	6-12M	1-5Y	Over 5Y	Total
Amounts due to other banks	44,506	-	-	96,637	-	-	141,143
Amounts due to clients	12,319,411	3,764,787	1,166,365	864,739	535,093	229,529	18,879,924
Derivative financial instruments	2,330	1,387	2,359	2,720	57,070	82,056	147,922
Subordinated liabilities	-	-	-	-	345,035	-	345,035
Other financial liabilities	279,861	-	-	-	159,357	1,961,996	2,401,214
<b>Total</b>	<b>12,646,108</b>	<b>3,766,174</b>	<b>1,168,724</b>	<b>964,096</b>	<b>1,096,555</b>	<b>2,273,581</b>	<b>21,915,238</b>

### Cash flows from derivative instruments (gross settlements)

The table below presents the maturities of derivative instruments based on contractual terms as of 31 December 2023 and 31 December 2022 (undiscounted amounts):

31 Dec 2023	1M	1-3M	3-6M	6-12M	Over 1Y	Total
<b>Inflows, including:</b>	<b>714,536</b>	<b>161,621</b>	<b>32,353</b>	<b>38,299</b>	<b>176,893</b>	<b>1,123,702</b>
FX forward	25,654	59,865	10,156	8,696	-	104,371
FX Spot	238,409	-	-	-	-	238,409
FX Swap	443,649	92,896	-	-	-	536,545
IRS	6,824	8,860	22,197	29,603	176,893	244,377
<b>Outflows, including:</b>	<b>715,929</b>	<b>159,661</b>	<b>30,002</b>	<b>33,906</b>	<b>147,963</b>	<b>1,087,461</b>
FX forward	25,204	61,154	9,901	8,848	-	105,107
FX Spot	238,536	-	-	-	-	238,536
FX Swap	442,946	91,308	-	-	-	534,254
IRS	9,243	7,199	20,101	25,058	147,963	209,564

31 Dec 2022	1M	1-3M	3-6M	6-12M	Over 1Y	Total
<b>Inflows, including:</b>	<b>1,023,115</b>	<b>84,544</b>	<b>49,407</b>	<b>61,422</b>	<b>283,373</b>	<b>1,501,861</b>
FX forward	96,245	65,761	23,550	10,035	-	195,591
FX Spot	457,660	-	-	-	-	457,660
FX Swap	459,253	7,185	-	-	-	466,438
IRS	9,957	11,598	25,857	51,387	283,373	382,172
<b>Outflows, including:</b>	<b>1,024,936</b>	<b>81,291</b>	<b>45,485</b>	<b>48,199</b>	<b>233,319</b>	<b>1,433,230</b>
FX forward	95,013	64,628	22,115	8,663	-	190,419
FX Spot	458,072	-	-	-	-	458,072
FX Swap	460,006	7,323	-	-	-	467,329
IRS	11,845	9,340	23,370	39,536	233,319	317,410

## 7.2.2. Interest rate risk

Interest rate risk refers to the present or potential risk of a decrease in both Bank's income and economic value due to unfavourable fluctuations in interest rates, impacting interest rate-sensitive instruments. This risk is associated with factors such as mismatch risk, basis risk and option risk. The interest rate risk is primarily generated in the Bank, both in the banking book and the trading book.

### Interest rate risk in the banking book

The main purpose of interest rate risk management in the banking book is to seek stabilisation and optimisation of net interest income ('NII') while limiting the negative effect of market interest rate movements on economic value of equity ('EVE').

To achieve this, the Bank uses two tools: the investment portfolio held and derivative transactions entered into as part of hedge accounting. The investment portfolio, built in the banking book, should help to, among others, secure net interest income generated by the Bank's equity and to secure core deposits in current accounts insensitive to interest rate movements. On the other hand, this portfolio is a source of volatility of the revaluation reserve.

The Bank applies fair value hedge accounting. Its purpose is to secure the fair value of the fixed-rate Treasury bonds, which are part of the HtC&S bond portfolio and also serve as the Bank's liquidity buffer. IRS hedging transactions reduce the extent of capital fluctuations caused by movements in interest rates.

Monitoring of interest rate risk in the banking book is supported by a dedicated IT system which the Bank uses in particular to determine/perform:

1. repricing gap, presenting the values of assets, liabilities and on-balance-sheet items sensitive to interest rate movements at maturity or repricing,
2. simulation of net interest income – a dynamic analysis reflecting the projection of net interest income over a given period of time, based on the Bank's growth scenarios, as well as assumptions regarding market factors,
3. net present value (NPV) simulation, presenting values of all cash flows discounted at given market parameters; results of the NPV analysis are used to calculate EVE,
4. sensitivity analysis of EVE and NII to a 100 basis points change in credit spread,
5. price shocks for basis risk analysis, the purpose of which is to estimate the impact on the net interest income of varying changes in interest rates of products whose interest rates are based on different base rates,
6. unparallel mismatch risk analysis, which aims to estimate the impact on the economic value of equity of unparallel movements in the shape of the yield curve,
7. client option risk analysis, whose objective is to assess the impact of client options embedded in interest bearing products on the Bank's financial result,
8. stress tests, including reverse tests and the Supervisory Outlier Test – the objective is to determine how extreme changes in market factors affect the net interest income and the economic value of equity,
9. the level of internal capital for interest rate risk in the banking book.

### Measures of interest rate risk in the banking book

To manage interest rate risk in the banking book, the Bank employs two measures: the sensitivity of the net interest income (NII), both with and without consideration of changes in market value, to a +/- 200 basis points change in interest rates, and the sensitivity of the economic value of equity (EVE) to a +/- 200 basis points change in interest rates. Interest rate risk in the banking book is measured based on product characteristics, including capital flow schedules, interest rate reassessments, and embedded options, as stipulated in contracts with counterparties. For current products where the client may flexibly determine, among other things, the repayment schedule or use of funds, the Bank builds replicating portfolios that reflect the economic timing of capital flows.

In the replicating portfolios, the average maturity of deposits with undetermined maturity is 6 months, and the maximum maturity is 12 months. The Bank also takes into consideration client behaviour patterns, such as: early credit repayment levels or deposit breakage levels, which are estimated in accordance with internal regulations of the Bank. The assumptions are consistent with the EBA/GL/2022/14 Guidelines on the management of interest rate risk arising from non-trading book activities.

The table below provides a comparison of the NII and EVE measures as at 31 December 2023 and 31 December 2022:

	ΔNII		ΔEVE	
	-200 bps	+200 bps	-200 bps	+200 bps
31 Dec 2023	-46,290	45,835	159,359	-145,744
31 Dec 2022	-78,285	64,606	118,472	-112,632
<b>Change</b>	<b>31,995</b>	<b>-18,771</b>	<b>40,887</b>	<b>-33,112</b>

In 2023, both NII and EVE were within limit/at warning thresholds consistent with the risk appetite and risk tolerance approved by the Supervisory Board. Changes in the values of these measures have a certain cyclical nature, which is due to the regular approximation of the timing of the repricing of floating rate positions and the maturity of fixed rate positions. In 2023, the sensitivity of net interest income to a decrease in market interest rates significantly fell. The change was driven by several factors, including a rise in the balance of retail deposits by PLN 0.275 billion and a decrease in the balance of NBP monetary bills by PLN 1.17 billion. Additionally, the easing of monetary policy by the Monetary Policy Council, along with the Bank's decisions to lower interest rates on term deposits and savings accounts, contributed to the change. The increase in the sensitivity of the economic value of equity (EVE) to rising interest rates was, among other factors, due to the purchase of Treasury bonds with a 4-year duration for a total amount of PLN 0.495 billion.

In accordance with the EBA/GL/2022/14 Guidelines on the management of interest rate risk arising from non-trading book activities the Bank is obliged to carry out a Supervisory Outlier Test (SOT).

Results of (SOT) for the six standard shock scenarios specified in the Guidelines are presented in the table below.

	ΔEVE in a given SOT scenario					
	parallel shock up <sup>1</sup>	parallel shock down <sup>1</sup>	steepener shock <sup>2</sup>	flattener shock <sup>2</sup>	short rates shock up <sup>3</sup>	short rates shock down <sup>3</sup>
31 Dec 2023	-146,017	84,320	31,049	-89,171	-133,973	73,442
31 Dec 2022	-98,900	51,697	21,499	-64,830	-94,513	37,161
<b>Change</b>	<b>-47,117</b>	<b>32,623</b>	<b>9,550</b>	<b>-24,341</b>	<b>-39,460</b>	<b>36,281</b>

<sup>1</sup> sharper shock (decrease in short-term rates and increase in long-term rates),

<sup>2</sup> more moderate shock (increase in short-term rates and decrease in long-term rates),

<sup>3</sup> interest rate shocks in the short run are extinguished in longer tenors.

The results of the conducted SOT (stress testing) analysis indicate that, as at the end of 2023, similar to the situation at the end of 2022, the Bank was most vulnerable to a decline in the economic value of equity (EVE) in the scenario of a parallel upward shift in the interest rate curve (Parallel Up). The sensitivity of the economic value of the Bank's equity in the two most severe scenarios (i.e. Short Up and Parallel Up) increased relative to 2022. Across all scenarios, the sensitivity of the economic value of equity remains significantly below the supervisory warning levels and limits. This indicates a low level of exposure to interest rate risk.

Once a month, the Bank conducts stress testing analysis, examining the development of the interest rate risk in the banking and trading book in case of materialisation of extreme changes in risk factors. In the bank book, the Bank examines the impact of these scenarios on the following elements:

**1. sensitivity of the net interest income (NII):**

- scenarios of parallel shifts of interest rate curves within the range of [-500 bps, +500 bps],
- scenarios of exchange rate movements by ±5%, ±10% and ±25%,
- scenarios of cumulative changes in the parallel shifts of interest rate curves by ±100/200 bps and ±500 bps, and foreign exchange rates by ±5%, ±10% and ±25%,

**2. sensitivity of the economic value of equity (EVE):**

- scenarios of parallel shifts of interest rate curves within the range of [-500 bps, +500 bps],
- scenarios of exchange rate movements by ±5%, ±10% and ±25%,



- scenarios of cumulative changes in the parallel shifts of interest rate curves by  $\pm 200$  bps and  $\pm 500$  bps, and foreign exchange rates by  $\pm 5\%$ ,  $\pm 10\%$  and  $\pm 25\%$ ,
- 3. sensitivity of revaluation reserve in scenarios of interest rates movements within the range  $[-500$  bps,  $+500$  bps],
- 4. sensitivity of the present value of the bond portfolio in scenarios of interest rate movements within the range of  $[-500$  bps,  $+500$  bps] – by issuer (SP&NBP (excluding FVH), corporations, local governments) and by portfolio (H2C&S (excluding FVH), H2C).

The Bank also conducts reverse tests:

1. for the EVE – tests of the impact of changes in market factors, the purpose of which is to show when the sensitivity of the EVE falls below 20% of equity,
2. for the NII:
  - tests to show when the NII sensitivity falls below the appetite level,
  - tests designed to identify areas of vulnerability to risks arising from collateral and risk management strategies and behavioural responses of clients.

The stress test results as at 31 December 2023 indicate that, even under extremely adverse market conditions and with the Bank's heightened exposure to interest rate-sensitive instruments, the risk associated with the banking book remained within safe limits.

Given the nature of the Bank's business and the structure of its securities portfolio, the interest rate risk in the banking book is consistently significant. The Bank, as part of the ICAAP process, estimates internal capital for this risk. In compliance with supervisory and internal regulations, internal capital for interest rate risk in the banking book covers potential changes in both the economic value of equity and net interest income, which may result from adverse movements in interest rates and credit spreads. The level of internal capital is tailored to the structure and nature of the Bank's operations.

In order to hedge the interest rate risk of 10-year fixed-rate PLN 150 million BGK bonds (issued to the COVID-19 Fund and guaranteed by the State Treasury) held within the HtC&S business model, as of July 2020 the Bank applies the option of measurement at fair value through profit or loss (the FVPL option). The related IRS hedging transactions enable the Bank to change interest on the bonds accrued at a fixed interest rate into interest accrued at WIBOR 6M plus margin, which hedges the Bank's position against adverse effects of potential increase in market interest rates. Results of monitoring the banking book interest rate risk are presented in weekly reports prepared for the Liquidity and Market Risk ALCO Committee, in monthly reports prepared for the Assets and Liabilities Committee and the Management Board, and in quarterly reports prepared for the Risk Committee and the Supervisory Board (quarterly).

The Bank has implemented the new 2022 EBA guidelines concerning IRRBB (Interest Rate Risk in the Banking Book) and CSRBB (Credit Spread Risk in the Banking Book).

From 30 June 2023, the following are monitored:

- Expanded NII metric, that is, the sensitivity of net interest income accounting for changes in market value in response to a decrease/increase in interest rates by 200 bps, which, as at the end of December 2023, stood at PLN 8.7 million / PLN -3.7 million;
- SOT for NII, calculated in line with the most recent draft of the RTS, indicating -3.81% of RWA/Tier 1, thus falling below the EBA's latest maximum value recommendation of -5%;
- Sensitivity of EVE and NII to a 100 bps shift in credit spread, which, as at the end of December 2023, registered at PLN -122.2 million and PLN -44.6 million, respectively.

Additionally, the Bank factored credit spread risk into its assessment of interest rate risk appetite and tolerance within the banking book. This consideration extends to the calculation of internal capital as well.

## Interest rate risk in the trading book

The objective of interest rate risk management in the trading book is to achieve a financial result in this line of business in keeping with the financial plan, at an acceptable level of exposure of the Bank to the risk, and to minimise the adverse effects of holding interest rate-sensitive instruments in the trading book.

### Measures of interest rate risk in the trading book

In order to monitor the interest rate risk, the Bank uses:

1. the value at risk (VaR) model determined for the 99% confidence level based on daily volatility of interest rates for 250 business days preceding the date of analysis,
2. the basis point value (BPV), i.e. sensitivity of securities and derivative instruments generating the interest rate risk to a 1 basis point movement of interest rates,
3. system of limits/warning thresholds,
4. stress tests.

In 2023, there were no significant changes to the interest rate risk measurement techniques within the trading book. Only the approach to conducting stress test analyses was modified.

The Value at Risk (VaR) for interest rate in the trading book and the impact of the stress test scenario - parallel shifts in the IRS and BOND yield curves upwards/downwards by 500/300 bps on the Bank's annual result were as follows (maximum, minimum, average values, and as at the reporting date are provided):

Date	1-day VaR				+500/-300 bps stress tests**
	mean	max	min	as at*	as at
31 Dec 2023	147	261	40	44	-65
31 Dec 2022	551	1,093	128	181	-329

\* On 30 December 2022, a limit was set on the 1-day Value at Risk (VaR). To facilitate comparison, the 1-day VaR has been adjusted to the 10-day VaR scale.

\*\* In 2022, stress tests were conducted based on the scenario of parallel shifts in the Bond and IRS curves by  $\pm 200$  bps.

In order to verify the value-at-risk model, the Bank performs a back-testing analysis on a monthly basis, calculated by comparing the maximum losses from the VaR model with actual gains and losses and theoretical changes in profit or loss resulting from revaluation of positions. Results of monthly back-testing are presented in management reports.

The system of interest rate risk limits/warning thresholds in the trading book includes:

1. the limit/warning threshold for 1-day VaR,
2. the BPV warning threshold for instruments generating interest rate risk in the trading book, both intra-day and end-of-day,
3. maximum 1-day and 30-day (stop loss) limits, as well as annual loss (end loss) limits on assets within the trading portfolio.

The continuous monitoring and calculation of the utilisation levels of individual limits and warning thresholds are performed daily and throughout the day by the Asset and Liability Management Department as a critical element of the first line of defence. The monitoring of the limits and warning thresholds is carried out at the end of each business day by the Financial Risk Department, in line with the protocols of the second line of defence.

Once a month, the Bank conducts a stress testing analysis examining the development of the interest rate risk in the banking and trading book in case of materialisation of extreme changes in risk factors.

In the trading book, the Bank examines the impact of extreme adverse movements of market interest rates on the Bank's profit or loss using both the historical and parametric methods. The historical method considered the volatility of interest rates, taking into account various factors such as geopolitical crises that contribute to fluctuations in interest rates.

Stress testing analyses in the trading book are conducted both with and without the assumption of correlation between curve changes and market illiquidity (the inability to close an open position during the day). In parametric stress tests, it is assumed that interest rate curves will undergo a parallel shift, either upwards by 500 basis points or downwards by 300 basis points. Risk factor levels within historical scenarios are determined by analysing the time series of bond and IRS interest rate curve movements over a three-year period. This analysis takes into account statistically significant trends, volatility, and the Hurst exponent, which characterises the propagation of change variance.

Results of the analysis show that in the event of extremely adverse market conditions and the Bank's increased exposure to instruments sensitive to the interest rate risk both the Bank's banking and trading positions are maintained at a safe level.

The Bank also examines potential impact of a large-area flooding on the financial result of the trading book attributable to interest rate risk, as well as on the sensitivity of net interest income (NII) and the economic value of equity (EVE) (ESG stress tests). The findings from the climate risk stress tests reveal a negligible impact on the financial result of the trading book. In the case of the banking book, the realisation of this scenario would not lead to a breach of the established limits for net interest income (NII) and economic value of equity (EVE).

Results of monitoring the interest rate risk in the banking book and the trading book are reported: weekly to the Liquidity and Market Risk ALCO Committee, monthly to the ALCO Committee and the Management Board, and quarterly to the Risk Committee and the Supervisory Board (with the results of the stress tests). Additionally, results of the analysis of interest rate risk in the trading book are communicated to members of the Management Board and the ALCO Committee as part of daily reports.

The interest rate risk metrics in the trading book was monitored on an ongoing basis.

### Derivative financial instruments

The following tables set out the decomposition of derivatives into underlying instruments in order to present their sensitivity to movements of rate movements (notional amounts).

31 Dec 2023	1M	1-3M	3-6M	6-12M	Over 1Y	Total
<b>Assets</b>						
FX forward	25,654	59,865	10,156	8,696	-	104,371
FX Spot	238,409	-	-	-	-	238,409
FX Swap	443,649	92,896	-	-	-	536,545
IRS	634,940	616,880	476,049	100,601	1,064,647	2,893,117
Total assets	1,342,652	769,641	486,205	109,297	1,064,647	3,772,442
<b>Equity and liabilities</b>						
FX forward	25,204	61,154	9,901	8,848	-	105,107
FX Spot	238,536	-	-	-	-	238,536
FX Swap	442,946	91,308	-	-	-	534,254
IRS	566,676	476,139	305,608	85,000	1,459,694	2,893,117
Total equity and liabilities	1,273,362	628,601	315,509	93,848	1,459,694	3,771,014
<b>Total</b>	<b>69,290</b>	<b>141,040</b>	<b>170,696</b>	<b>15,449</b>	<b>-395,047</b>	

31 Dec 2022	1M	1-3M	3-6M	6-12M	Over 1Y	Total
<b>Assets</b>						
FX forward	96,245	65,761	23,550	10,035	-	195,591
FX Spot	457,660	-	-	-	-	457,660
FX Swap	459,253	7,185	-	-	-	466,438
IRS	655,348	618,430	556,774	188,467	1,218,585	3,237,604
Total assets	1,668,506	691,376	580,324	198,502	1,218,585	4,357,293
<b>Equity and liabilities</b>						
FX forward	95,013	64,628	22,115	8,663	-	190,419
FX Spot	458,072	-	-	-	-	458,072
FX Swap	460,006	7,323	-	-	-	467,329
IRS	499,055	576,396	313,157	219,301	1,629,695	3,237,604
Total equity and liabilities	1,512,146	648,347	335,272	227,964	1,629,695	4,353,424
<b>Total</b>	<b>156,360</b>	<b>43,029</b>	<b>245,052</b>	<b>-29,462</b>	<b>-411,110</b>	

### 7.2.3. Currency risks

Currency risk is understood as the risk of loss to the Bank due to changes in exchange rates. The risk is generated primarily in the trading book of the Bank.

The objective of the Bank's currency risk management policy for the banking book is to not maintain open individual positions. Foreign currency exposures arising in the banking book are transferred systematically to the trading book on the same day or on the following business day at the latest. A currency position resulting from transactions in the banking book which has not been transferred on a given day to the trading book is controlled with end-of-day limits of open currency positions in the banking book.

The Bank's main currency positions are denominated in PLN, USD, EUR and CHF.

#### Measures of currency risk

In order to monitor the currency risk of open foreign exchange positions (on- and off-balance-sheet) in the trading book of the Bank, the following measures are used:

1. the value at risk (VaR) model determined for the 99% confidence level based on daily volatility of foreign exchange rates for 250 business days preceding the date of analysis,
2. system of limits/warning thresholds,
3. stress testing.

The value of foreign exchange VaR in the trading book of the Bank and the impact of the stress test scenario – a 50%/30% increase/decrease in the exchange rates of all currencies in relation to PLN – on the Bank's profit or loss in annual periods are presented below (maximum, minimum, mean and as at the reporting date).

Date	1-day VaR				Stress tests – increase/decrease of foreign exchange rates by 50%/30% as at the date
	mean	max	min	as at*	
31 Dec 2023	108	317	8	199	-8,562
31 Dec 2022	341	1,357	12	207	-5,359

\* On 30 December 2022, a limit was set on the 1-day Value at Risk (VaR). To facilitate comparison, the 1-day VaR has been adjusted to the 10-day VaR scale.

\*\* The stress-testing scenario used in 2022 involved a 30% increase/decrease in foreign exchange rates.

In order to verify the value-at-risk model, the Bank performs a back-testing analysis on a monthly basis, calculated by comparing the maximum losses from the VaR model with actual gains and losses and theoretical changes in profit or loss resulting from revaluation of positions. Results of monthly back-testing are presented in management reports.

The system of limits/warning thresholds for foreign exchange risk in the trading book includes:

1. the limit/warning threshold for 1-day VaR,
2. the warning threshold for the total position separately for the trading book and the banking book,
3. 1-day and 30-day loss limits (stop loss) and annual loss limits (end loss) arising from foreign exchange transactions.

The monitoring of the limits/warning thresholds in the trading book is carried out every business day and intraday by the Asset and Liability Management Department as part of the first line of defence. The monitoring of the limits and warning thresholds is carried out at the end of each business day by the Financial Risk Department, in line with the protocols of the second line of defence. Analyses show that the Group's foreign exchange risk during the reporting period remained low. The Bank conducts a monthly stress-test analysis, examining the evolution of currency risk levels in the event of the materialisation of extreme changes in risk factors using both historical and parametric methods. The historical method took into account the volatility of foreign exchange rates caused by such factors as the geopolitical crisis.

The Bank performs parametric stress tests on the financial result of the trading portfolio from foreign exchange transactions, assuming a 30%/50% appreciation/depreciation of the zloty relative to all foreign currencies held by the Bank. Risk factor levels within historical scenarios are set determined based on an examination of the time series for exchange rate, taking into account statistically significant trends, volatility, and the Hurst exponent, which characterises the propagation of change variance. Stress testing analyses are conducted both with and without the assumption of correlation between interest changes and market illiquidity (the inability to close an open position during the day).

Results of the stress test analysis show that under extremely unfavourable market conditions and increased exposures, the Bank's foreign exchange risk remains at a safe level.

The Bank also examines potential impact of a large-area flooding on the financial result of the trading book attributable to interest rate risk (ESG stress tests). The results of climate risk stress tests indicate a minor impact of this risk on the performance of the trading book.

Results of monitoring the currency risk in the trading book are reported daily to members of the Management Board and the Alco Committee, weekly to the Liquidity and Market Risk ALCO Committee, monthly to the ALCO Committee and the Management Board, and quarterly to the Risk Committee and the Supervisory Board.

Despite the presence of geopolitical crises and other factors that contribute to exchange rate volatility, the level of currency risk did not experience a significant increase. The measures of currency risk were monitored on an ongoing basis and remained within the limits applied by the Bank.

Open foreign exchange positions as at 31 December 2023 and 31 December 2022 are presented below.

### Currency risk (net carrying amounts)

31 Dec 2023	PLN	EUR	USD	CHF	Other currencies	Total
<b>Assets</b>						
Cash and balances with central bank	481,206	102,206	360	122	188	584,082
Amounts due from banks	14,709	3,408	82,782	1,578	60,204	162,681
Financial assets held for trading, including:	112,725	620	-	-	-	113,345
<i>debt securities</i>	-	-	-	-	-	-
<i>derivative instruments</i>	112,725	620	-	-	-	113,345
Derivative hedging instruments	15,556	-	-	-	-	15,556
Investment securities, including:	9,484,605	138	27	-	-	9,484,770
<i>equity securities measured at fair value through other comprehensive income</i>	106,491	138	27	-	-	106,656
<i>debt securities measured at fair value through other comprehensive income</i>	6,885,521	-	-	-	-	6,885,521
<i>debt securities measured at amortised cost</i>	2,366,265	-	-	-	-	2,366,265
<i>debt securities measured at fair value through profit or loss</i>	126,328	-	-	-	-	126,328
Amounts due from clients	8,646,481	1,873,224	158,122	141,434	-	10,819,261
Investments in subsidiaries	276,191	-	-	-	-	276,191
Other assets* <sup>\</sup>	411,204	781	318	994	269	413,566
<b>Total assets</b>	<b>19,442,677</b>	<b>1,980,377</b>	<b>241,609</b>	<b>144,128</b>	<b>60,661</b>	<b>21,869,452</b>
<b>Off-balance sheet items constituting foreign currency item</b>		<b>198,854</b>	<b>95,274</b>	<b>116,204</b>	<b>19,999</b>	

\*<sup>\</sup> The item includes: intangible assets, property, plant and equipment, income tax assets, right-of-use assets – leases and other assets

<b>Liabilities</b>						
Amounts due to central bank and other banks	26,275	2,087	-	46,784	-	75,146
Derivative financial instruments held for trading	76,126	527	-	-	-	76,653
Amounts due to clients	16,721,109	1,549,776	264,328	46,070	60,021	18,641,304
Subordinated liabilities	447,032	-	-	-	-	447,032
Provisions	100	68,456	9,990	149,842	-	228,388
Other liabilities	255,796	9,058	5,890	193	187	271,124
<b>Total liabilities</b>	<b>17,526,438</b>	<b>1,629,904</b>	<b>280,208</b>	<b>242,889</b>	<b>60,208</b>	<b>19,739,647</b>
<b>Off-balance sheet items constituting foreign currency item</b>		<b>599,432</b>	<b>76,161</b>	<b>19,592</b>	<b>10,304</b>	
<b>On-balance sheet item</b>		<b>350,473</b>	<b>-38,599</b>	<b>-98,761</b>	<b>453</b>	

Off-balance sheet item		-400,578	19,113	96,612	9,695	
Bank's open currency position		-50,105	- 19,486	-2,149	10,148	
31 Dec 2022	PLN	EUR	USD	CHF	Other currencies	Total
<b>Assets</b>						
Cash and balances with central bank	483,783	91,241	519	218	104	575,865
Amounts due from banks	14,667	11,617	208,337	1,296	4,968	240,885
Financial assets held for trading, including:	222,636	308	-	-	-	222,944
debt securities	20,225	-	-	-	-	20,225
derivative instruments	202,411	308	-	-	-	202,719
Derivative hedging instruments	30,562	-	-	-	-	30,562
Investment securities, including:	9,007,943	148	27	-	-	9,008,118
<i>equity securities measured at fair value through other comprehensive income</i>	85,290	148	27	-	-	85,465
<i>debt securities measured at fair value through other comprehensive income</i>	6,915,813	-	-	-	-	6,915,813
<i>debt securities measured at amortised cost</i>	1,900,215	-	-	-	-	1,900,215
<i>debt securities measured at fair value through profit or loss</i>	106,625	-	-	-	-	106,625
Amounts due from clients	8,731,755	1,874,356	195,264	372,203	1	11,173,579
Investments in subsidiaries	226,158	-	-	-	-	226,158
Other assets*\	433,416	1,462	198	1,812	239	437,127
<b>Total assets</b>	<b>19,150,920</b>	<b>1,979,132</b>	<b>404,345</b>	<b>375,529</b>	<b>5,312</b>	<b>21,915,238</b>
<b>Off-balance sheet items constituting foreign currency item</b>		<b>215,719</b>	<b>395,854</b>	<b>24,573</b>	<b>80,552</b>	<b>-</b>
*\ The item includes: intangible assets, property, plant and equipment, income tax assets, right-of-use assets – leases and other assets.						
<b>Liabilities</b>						
Amounts due to central bank and other banks	42,646	1,902	-	96,595	-	141,143
Derivative financial instruments held for trading	147,552	370	-	-	-	147,922
Amounts due to clients	16,372,237	1,841,532	568,980	51,681	45,494	18,879,924
Subordinated liabilities	345,035	-	-	-	-	345,035
Provisions	40,893	2,151	7,632	108,681	-	159,357
Other liabilities	270,122	7,758	1,825	5	151	279,861
<b>Total liabilities</b>	<b>17,218,485</b>	<b>1,853,713</b>	<b>578,437</b>	<b>256,962</b>	<b>45,645</b>	<b>19,953,242</b>
<b>Off-balance sheet items constituting foreign currency item</b>		<b>329,412</b>	<b>237,824</b>	<b>177,346</b>	<b>39,936</b>	
<b>On-balance sheet item</b>		<b>125,419</b>	<b>-174,092</b>	<b>118,567</b>	<b>-40,333</b>	
<b>Off-balance sheet item</b>		<b>-113,694</b>	<b>158,030</b>	<b>-152,773</b>	<b>40,616</b>	
<b>Bank's open currency position</b>		<b>11,725</b>	<b>-16,062</b>	<b>-34,206</b>	<b>283</b>	

The off-balance-sheet foreign exchange position primarily arises from FX swap transactions that the Bank utilises to address liquidity mismatches in foreign currencies.

## 7.3. Capital management

### Capital adequacy

The objective of capital adequacy management is to:

1. maintain an optimal level and structure of own funds so that capital adequacy measures remain above the minimum level required by banking supervision and above the level accepted by the Bank, which enables safe operation while ensuring the achievement of its business objectives.
2. ensure that risks inherent in the Bank's operations are covered by equity;
3. provide an appropriate return on capital through efficient use of equity.

The principal measures of capital adequacy include:

1. Total capital ratio (TCR),
2. Tier 1 capital ratio,
3. Common equity Tier 1 capital ratio,
4. Leverage ratio,
5. Internal capital to equity ratio,
6. Minimum requirement for own funds and eligible liabilities (MREL) to the total risk exposure amount,
7. Minimum requirement for own funds and eligible liabilities (MREL) to the total exposure amount.

The capital adequacy management process consists in:

1. creating short-term and long-term capital plans, specifically:
  - defining capital objectives,
  - identifying sources of equity funding and their structure,
  - determining the preferred structure of the balance sheet and the factors influencing regulatory requirements and internal capital,
  - conducting stress tests to determine their impact on capital adequacy measures,
2. implementing the objectives of capital plans,
3. identifying and measuring significant types of risk in the Bank's operations,
4. setting internal limits for capital adequacy measures,
5. reporting (both internal and external) on the variables that affect the level of capital adequacy measures, enabling an assessment of their adequacy,
6. monitoring and forecasting capital adequacy metrics to determine the utilisation levels of supervisory and internal limits, as well as assessing the risk of needing to implement measures outlined in the emergency capital plan, capital conservation plan, or group recovery plan,
7. creating short-term and long-term capital plans, particularly focusing on contingency capital planning and a group recovery plan.

### Own funds

The amount of own funds was determined in accordance with Regulation (EU) 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms, as amended (the 'CRR').

The transitional period for mitigating the impact of implementing IFRS 9 on own funds, as referred to in Article 1(1)(9) of Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending the CRR, ended on 31 December 2022. The Bank does not apply the transitional arrangements concerning the reversal of the effects of implementing IFRS 9 on own funds, as referred to in Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, which amends the CRR and Regulation (EU) 2019/876 with regard to certain adjustments in response to the COVID-19 pandemic. Therefore, as of 1 January 2023, the Bank does not apply transitional arrangements.



## Regulatory requirements

The value of regulatory requirements for own funds has been determined in accordance with the CRR. The Bank calculates the regulatory requirement for own funds using standard methods (with a simplified standard method for counterparty credit risk) with respect to:

1. credit risk: the product of the fully-adjusted exposure value (covering both on-balance sheet items and off-balance liabilities), the credit conversion factor (for off-balance liabilities), the appropriate risk weight applied for the Basel class of the exposure, and other adjustments, in accordance with the CRR, and a value of 8%,
2. counterparty credit risk: the product of the balance-sheet equivalent and the appropriate risk weight applied for the Basel class of the exposure, and other adjustments, in accordance with the CRR, and a value of 8%,
3. operational risk,
4. market risk,
5. credit valuation adjustment (CVA) risk.

In 2023, the regulatory requirements constituted the internal capital as determined under Pillar I. The surcharge for non-performing exposures (NPE) / non-performing loans (NPL) in 2023 amounted to PLN 0.

## Total capital ratio, Tier 1 capital ratio and common equity Tier 1 capital ratio

In accordance with Article 92 of the CRR, the Bank is required to maintain the total capital ratio at a minimum of 8%. The Tier 1 capital ratio and Common equity Tier 1 capital ratio should amount at least to 6% and 4.5%, respectively.

Pursuant to the decision of the Polish Financial Supervision Authority dated 5 December 2022, the requirement to maintain an additional capital buffer to cover the risk associated with mortgage-secured foreign currency loans for households has been abolished for Bank Ochrony Środowiska S.A., both on a standalone and consolidated basis. Following the regulator's decision, the Bank has discontinued the additional capital requirement previously established to mitigate the risk associated with mortgage-secured foreign currency loans for households.

According to the CRR and the Act of 5 August 2015 on macro-prudential oversight of the financial system and crisis management in the financial system, financial institutions are required to maintain additional capital buffers for capital ratios. As of 1 January 2019, the capital conservation buffer is 2.5 percentage points and the countercyclical buffer is 0 percentage points. The Bank is not required to maintain the buffer defined for other systemically important institution. The systemic risk buffer was released by decision of the Minister of Finance dated 18 March 2020.

On 13 December 2023, the Polish Financial Supervision Authority recommended that own funds should be maintained, on a standalone basis, to cover the additional capital add-on to absorb potential losses resulting from the occurrence of stress conditions, at the level of 1.43 percentage point above the total capital ratio referred to in Article 92(1)(a-c) of Regulation no. 575/2013, increased by the additional own funds requirement referred to in Article 138.2.2 of the Banking Law and by the combined buffer requirement referred to in Article 55.4 of the Macroprudential Supervision Act. The additional add-on should consist entirely of Common Equity Tier 1 capital.

As a result, as of 31 December 2023, the minimum capital ratios recommended by the PFSA for the Bank were:

1. common equity Tier 1 capital ratio – 8.43%,
2. Tier 1 capital ratio – 9.93%,
3. for the total capital ratio TCR – 11.93%.

## Leverage

The risk of excessive leverage refers to the risk of disproportionate growth in on-balance sheet (asset side) and off-balance sheet exposures relative to Tier 1 capital. Managing the risk of excessive leverage involves identifying risk factors that expose the Bank to excessive asset exposure relative to its capital and determining their impact on the Bank's operations. To assess the risk of excessive leverage, the leverage ratio is calculated, defined as the relationship between Tier 1 capital and the total exposure measure.

In accordance with Article 92(1)(d) of the CRR, the leverage ratio limit is set at 3%.

## Internal capital – Pillar II

Internal capital is defined by the Bank as the estimated amount of capital required to cover all identified significant types of risk within the Bank's operations. This estimation takes into account changes in the economic environment and the expected level of risk. Internal capital is intended to cover the expected level of unexpected losses to which the Bank might be exposed in the future.

A significant risk refers to any risk that can substantially, negatively impact the Bank's capital and/or own funds. These include risks that are consistently significant and those deemed significant during periodic assessments for a specific timeframe.

The estimation of internal capital, along with periodic assessments of risk significance, is carried out quarterly, using methodologies outlined in the Bank's internal regulations.

### The Bank's capital adequacy levels were as follows:

Item	31 Dec 2023	31 Dec 2022
<b>AVAILABLE CAPITAL</b>		
Common equity Tier 1 capital	1,839,154	1,730,105
Tier 1 capital	1,839,154	1,730,105
Own funds	1,982,180	1,839,659
<b>RISK-WEIGHTED ASSETS</b>		
Total amount of risk-weighted assets	11,865,406	12,221,934
<i>Credit risk and counterparty credit risk</i>	10,400,318	11,042,179
<i>Operational risk</i>	1,364,505	1,077,010
<i>Market risk</i>	84,796	65,554
<i>CVA risk</i>	15,787	37,191
<b>CAPITAL RATIOS</b>		
Common equity Tier 1 capital ratio	15.50	14.16
Tier 1 capital ratio	15.50	14.16
Total capital ratio	16.71	15.05
<b>LEVERAGE RATIO</b>		
Exposure value	23,811,085	23,658,834
Leverage ratio	7.7	7.3
<b>INTERNAL CAPITAL</b>		
Internal capital	1,478,513	1,428,982
Internal capital to equity ratio	74.6	77.7

The capital adequacy ratio of the Bank as at 31 December 2023 was above the supervisory and internal limits.

## 7.4. Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk, taking into account operational risk events characterised by low frequency of occurrence but high losses; reputational and strategic risks are not part of operational risk.

The objective of operational risk management is to ensure safe and sustainable operations and development of the Bank by, among other things, mitigating and maintaining operational risk at an acceptable level within the operational risk limits adopted by the Bank, and by undertaking adequate actions in response to operational risk events.

The Bank operates an operational risk management system in which the responsibility for day-to-day operational risk management rests with all employees. This responsibility is especially pronounced for the directors of the Head Office organisational units, business centres, and Bank branches, in line with their respective responsibilities and tasks.

The Bank has a dedicated Head Office unit for operational risk management, which serves as the second level of operational risk management. This unit is responsible, among other things, for organising the operational risk management system within the Bank.

The Bank collects information on significant operational risk events in an operational risk event database, maintained in a dedicated IT application. This information is used to:

1. monitor the level of operational risk on an ongoing basis,
2. monitor activities of organisational units related to the operational risk events,
3. measure or estimate losses arising from operational risk,
4. generate reports on operational risk events, including reports for external institutions.

The Bank sets basic limits for operational risk, including in particular tolerance and appetite limits across the Bank, as well as a target operational risk profile. The degree of utilisation of the tolerance limits and appetite for operational risk is controlled by periodic monitoring of the amount of losses incurred due to operational risk events.

Operational risk is measured using quantitative, qualitative and mixed methods, including, but not limited to:

1. calculation of the capital requirement for operational risk in accordance with the standardised approach,
2. estimation and determination of internal capital for operational risk, as at 31 December 2023, the amount of internal capital was equal to the amount of capital requirements for operational risk,
3. calculation and monitoring of key risk indicators (KRI),
4. reviews of operational risk (self-assessment of potential operational risk),
5. stress tests.

At the Bank, stress tests for operational risk are carried out using three methods: sensitivity analysis, reverse analysis and scenario analysis. Stress tests are conducted once a year. As a result of the stress tests carried out so far, the amount of losses assumed in the scenarios, compared with the amount of available capital in the form of a tolerance limit and capital requirement for operational risk, confirmed – under most of the scenarios – the ability of the Bank to absorb operational risk losses through its operational risk capital requirement and through the operational risk tolerance limit. For scenarios where the hypothetical level of losses exceeds the level of capital maintained for operational risk, the Bank takes steps to mitigate the risks of such losses materialising.

As part of the systematic management of operational risk, the Bank designs internal regulations that incorporate a division of competencies. This division prevents the assignment of responsibilities that could lead to conflicts of interest and includes mechanisms to mitigate operational risk. In order to reduce its exposure to operational risk, the Bank uses the following instruments (methods, techniques and tools):

1. organisation of work to mitigate the occurrence of operational risk by, among other things, separating executive and control functions, setting decision and transaction limits, and managing access rights to premises and systems to reduce the possibility of unauthorised actions,
2. the HR policy,
3. internal control functions,
4. strategic internal limits for operational risk, i.e., tolerance and appetite limits,

5. periodic reviews of operational risk based on the self-assessment process,
6. risk maps built to identify the sources of potential threats and assessment of related risk levels,
7. operational risk stress testing,
8. threshold values of key risk indicators (KRI),
9. clauses in contracts with third parties that mitigate operational risk,
10. insurance of bank property with specialised firms,
11. documenting the methodological, process, organisational and IT solutions applied by the Bank,
12. automation of activities with the use of IT solutions and increasing the quality of operations through the use of specialised software,
13. continuity and contingency plans developed for the critical business processes of the Bank,
14. analysis of the adequacy of the calculated capital requirements for operational risk to the actual operational risk incurred by the Bank,
15. internal training for the Bank's employees aimed at raising their awareness and understanding of the role, impact and ways of conduct with respect to operational risk.

The level and profile of operational risk, the utilisation of operational risk limits, and the amount of losses from actual operational risk events are regularly monitored by the Head Office's operational risk management unit and reported to: the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board and the Operational Risk Committee.

In 2023, the Bank did not identify any significant operational risk events caused by external factors that would impact the stability and security of its operations.

## 7.5. Compliance risk

Compliance risk is defined as a risk of effects of failure to comply with laws, internal regulations and market standards.

The Bank maintains compliance with legal regulations, internal policies, and market standards through a comprehensive compliance risk management process. This process encompasses the identification, evaluation, control and monitoring of compliance risks, with regular reporting to the Bank's Management Board and Supervisory Board. It also includes the implementation of control mechanisms, their independent oversight, and the dissemination of the results from this independent monitoring.

The basic rules for ensuring compliance as part of the compliance risk management function and process are defined in the Compliance Policy of Bank Ochrony Środowiska S.A., prepared by the Management Board and approved by the Supervisory Board and the Compliance Risk Management Rules of Bank Ochrony Środowiska S.A.

The Bank has a separate, independent compliance function reporting directly to the President of the Management Board and responsible for performing its duties within the control function and tasks related to compliance risk management.

The compliance risk management process, carried out by the compliance function assisted by other organisational units of the first and second line of defence, includes:

1. identification of compliance risks, particularly at the stage of developing new products and internal regulations,
2. assessment of compliance risk,
3. control and monitoring of compliance risk,
4. reporting risk of non-compliance of the Bank's operations with applicable laws, internal regulations and market standards.

The Bank identifies the following key compliance areas:

1. implementing and monitoring compliance with laws and market standards,
2. implementing and monitoring compliance with ethical standards,
3. accepting/giving benefits or gifts,
4. advertising and marketing activities,

5. offering products, including in particular implementation of new products,
6. handling client complaints,
7. preventing and managing conflicts of interest,
8. preventing money laundering and terrorist financing (AML),
9. trading in financial instruments.

The compliance unit is responsible for overseeing the anonymous reporting system for violations of laws, ethical procedures and standards adhered to by Bank Ochrony Środowiska S.A.

The compliance risk management process, conducted by the compliance unit, also includes managing compliance risks related to the activities referred to in Article 70.2 of the Act on Trading in Financial Instruments.

The Bank oversees and manages the compliance risk related to its subsidiaries' activities, considering both the structure of the Group and the supervisory requirements for risk management. This oversight is executed through ownership supervision exercised by individuals who serve on the supervisory boards of these subsidiaries.

The approach to managing the compliance risk within the Group is defined by relevant internal regulations implemented by the subsidiaries.

## 7.6. Model risk

Model risk is defined by the Bank in accordance with regulatory requirements as the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models (Article 3.1, Section 11, CRD IV).

The process of identifying, assessing and monitoring model risk includes areas related to:

1. the risk of using incorrect and incomplete data,
2. the risk of erroneous assumptions of models, which are inadequate to the estimated process,
3. the methodological risks resulting from the use of inappropriate estimation methodologies and techniques in the model construction process,
4. the risk of insufficient monitoring, validation and update of models, also the risk of applying an incorrectly implemented but correct model.

Given the extensive use of models supporting core processes at BOŚ S.A., such as the credit process, capital management processes, and the management of credit, market, and financial risks, model risk is considered a consistently material risk within the Bank. Internal capital is estimated and established for model risk.

The Bank manages model risk in accordance with internal regulations, including the internal capital estimation and allocation rules, the model risk management policy, the model risk management methodology and the material model validation methodologies. The policy outlines the principles governing the processes related to the estimation, verification, and management of model risk levels. It also regulates aspects concerning the development, verification, implementation, validation, and monitoring of models used in the Bank. The model risk management is coordinated by the operational risk management unit and an independent model validation unit, both at the Head Office of the Bank, which report directly to Vice President of the Management Board in charge of risk management functions.

In order to quickly and accurately identify model risk, the Bank has in place a standardised, comprehensive model risk management process, which includes:

1. identification of new models,
2. model life cycle,
3. the principles of assessing the materiality of the Bank's models,
4. the principles of operation of model logs, which contain information regarding the models, sets of their parameters, changes to the models, their updates and reviews. The logs provide a baseline of information on model materiality, model monitoring and model validation and risk levels for material models,

5. the standards and principles of monitoring and reporting of model risk – material models are monitored on a quarterly basis, and non-material models – annually. In exceptional cases, due in particular to limited availability of the data or significant operational intensity of monitoring, models may be monitored less frequently (but not less frequently than once year for material models and not less frequently than once every three for non-material models). Model risk is reported on a quarterly basis. Implementation of the Policy is assessed on an annual basis and the assessment results are approved by the Supervisory Board,
6. the principles of model validation – models are validated by an independent Model Validation Office, at least once a year for material models. Certain types of material models may be validated less frequently than once year (but not less frequently than once every three years), if such frequency results directly from the nature of the model operation. Other models are validated on an ad-hoc basis when ordered by the Management Board or a relevant Committee, based on external or internal recommendations, or at the request of the model owner.

As at 31 December 2023, the Bank operated a total of 22 models, including eight material models and 14 non-material models.

Risks of the Bank's material models are assessed on a regular basis, in accordance with the standards adopted in internal regulations, taking into account the calculation of internal capital related to hedging the Bank against the model risk. Reporting on the status of model management and validation includes model risk assessment, risk tolerance level and the associated level of capital allocated to the model risk. Reports on validation for material models are presented and approved during meetings of the relevant Committees appointed by the Management Board.

## 8. Net interest income

Item	1 Jan–31 Dec 2023				1 Jan–31 Dec 2022			
	Interest income		Income similar to interest income	Total	Interest income		Income similar to interest income	Total
	Financial assets measured at amortised cost	Assets measured at fair value through other comprehensive income	Financial assets mandatorily measured at fair value through profit or loss		Financial assets measured at amortised cost	Assets measured at fair value through other comprehensive income	Financial assets mandatorily measured at fair value through profit or loss	
Amounts due from banks and the central bank	66,717	-	-	66,717	58,483	-	-	58,483
Amounts due from institutional clients	706,957	-	48	707,005	617,603	-	573	618,176
Amounts due from retail clients	213,767	-	331	214,098	124,357	-	70	124,427
Non-trading investment debt securities	126,339	444,307	-	570,646	73,333	307,489	-	380,822
Financial instruments held for trading	-	-	3,773	3,773	-	-	4,376	4,376
Hedging transactions	-	-	20,664	20,664	-	-	12,298	12,298
<b>Total</b>	<b>1,113,780</b>	<b>444,307</b>	<b>24,816</b>	<b>1,582,903</b>	<b>873,776</b>	<b>307,489</b>	<b>17,317</b>	<b>1,198,582</b>

Item	1 Jan–31 Dec 2023			1 Jan–31 Dec 2022		
	Financial liabilities measured at amortised cost	Financial liabilities measured at fair value through profit or loss	Total	Financial liabilities measured at amortised cost	Financial liabilities measured at fair value through profit or loss	Total
Bank accounts and deposits from banks	2,881	-	2,881	3,538	-	3,538
Bank accounts and deposits from institutional clients	370,628	-	370,628	255,293	-	255,293
Bank accounts and deposits from retail clients	454,147	-	454,147	233,216	-	233,216
Borrowings from clients	18,512	-	18,512	2,360	-	2,360
JESSICA lending support funds	1,304	-	1,304	885	-	885
Financial instruments – own debt securities	36,069	-	36,069	28,657	-	28,657
Hedging transactions	-	-	-	-	-	-
Lease liabilities	3,015	-	3,015	3,693	-	3,693
<b>Total</b>	<b>886,556</b>	<b>-</b>	<b>886,556</b>	<b>527,642</b>	<b>-</b>	<b>527,642</b>

The Business Crowdfunding and Borrowers Assistance Act of 7 July 2022 granted borrowers the right, in 2022 and 2023, to temporarily suspend repayment of up to eight instalments of a mortgage loan granted in Polish currency for their own housing needs. This temporary suspension is commonly referred to as loan repayment holidays. Given the high likelihood of borrowers exercising this right, the Bank adjusted the gross carrying amount of the loans for the instalments eligible for suspension during this period, in line with provision B5.4.6 of IFRS 9 *Financial Instruments*. As of 31 December 2022, the adjustment to the gross carrying amount of loans amounted to PLN 20,437 thousand and was recognised as a reduction in interest income. The right expired in 2023 and, consequently, the adjustment was reversed, resulting in an increase in interest income.

The interest income earned in 2023 includes interest accrued on impaired loans totalling PLN 98,226 thousand. In comparison, for 2022, the interest accrued on impaired loans was PLN 87,243 thousand.



## 9. Net fee and commission income

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
<b>Fee and commission income</b>		
Fees for maintaining client accounts, other domestic and international settlement transactions*	36,294	37,379
Commission fees on credit facilities	40,735	38,516
Commission fees on guarantees and letters of credit	6,717	6,865
Other fees*	7	6
<b>Total</b>	<b>83,753</b>	<b>82,766</b>
<b>Fee and commission expense</b>		
Payment card fees	6,849	7,790
Current account fees	589	1,014
ATM service charges	434	513
Fees on amounts due from clients	429	96
Other fees	955	648
<b>Total</b>	<b>9,256</b>	<b>10,061</b>

\* In 2023, fee and commission income from contracts with customers under IFRS 15 was PLN 36,301 thousand (2022: PLN 37,385 thousand).

## 10. Dividend income

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Securities measured at fair value through other comprehensive income	8,118	6,924
<b>Total</b>	<b>8,118</b>	<b>6,924</b>

Dividends received in 2023 from Kemipol Sp. z o.o., and in 2022, from Kemipol Sp. z o.o. in the amount of PLN 6,743 thousand, and from WODKAN Przedsiębiorstwo Wodociągów i Kanalizacji S.A. in the amount of PLN 181 thousand.

## 11. Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Securities held for trading	1,284	- 593
Derivative financial instruments	6,271	3,557
Amounts due from clients	- 332	- 63
Securities measured at fair value through profit or loss and related derivative financial instruments	3,071	- 5,559
<b>Total</b>	<b>10,294</b>	<b>- 2,658</b>

## 12. Gain (loss) on hedge accounting

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Gain (loss) on fair value measurement of fair value hedging transactions	- 14,320	13,495
Gain (loss) on measurement of hedged part of Treasury bonds covered by fair value hedge accounting	12,292	- 13,376
<b>Total</b>	<b>- 2,028</b>	<b>119</b>

## 13. Gain (loss) on foreign exchange transactions

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Realised gain (loss) on valuation transactions	14,341	63,518
Unrealised gain (loss) on valuation transactions	- 3,858	- 26,812
<b>Total</b>	<b>10,483</b>	<b>36,706</b>

## 14. Other income

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Reversal of provisions for liabilities, including:	2,558	6,238
<i>provisions for liabilities and claims</i>	1,194	2,724
<i>provision for refunds of commission fees due to early loan repayment</i>	38	617
<i>Provision for refunds of increased interest charged until court entry of mortgage security</i>	870	-
<i>other provisions</i>	456	2,897
Reversal of impairment losses on receivables	22	14
Recoveries of prescribed, cancelled or uncollectible receivables	7,858	4,404
Proceeds from sale or retirement of property, plant and equipment	17	39
Reimbursement of debt collection costs	919	1,222
Revenue from sale of goods and provision of services	1,001	1,031
Adjustment of interest on cancelled deposits from previous years	671	1,118
Income from damages, penalties and fines	14	53
Income from grant refinancing	1,213	324
Revenue from contracts/products earned by the Bank, subject to VAT	3,052	631
Income from adjustment of input VAT	-	239
Other	1,396	1,295
<b>Total</b>	<b>18,721</b>	<b>16,608</b>

## 15. Other expenses

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Retirement of property, plant and equipment and intangible assets	95	206
Donations	1,583	1,725
Recognised provisions for liabilities and claims, including:	10,541	4,379
<i>provision for refund of commission fees due to early loan repayment</i>	18	10
<i>provision for other liabilities and claims</i>	10,170	1,639
<i>Provision for refunds of increased interest charged until court entry of mortgage security</i>	353	2,710
<i>other provisions</i>	-	20
Costs of debt collection	2,588	2,923
Adjustment to interest and commission fees on loans earned in previous years	5,878	4,985
Costs of maintenance and administration of own leased premises	309	497
Costs of compensation	909	2,112
Fees for handling payment of benefits on securities	958	620
Costs of property appraisal reports	126	342
Costs of handling claims and disputes with clients	9,896	3,610
Costs of grant refinancing	767	-
Other	1,661	3,547
<b>Total</b>	<b>35,311</b>	<b>24,946</b>

The provision for refunds of increased interest charged until court entry of mortgage security was established due to an amendment to the Law on Mortgage Credit and Supervision of Mortgage Brokers and Agents. This amendment pertains to the reimbursement of mortgage loan costs paid to the Bank for the period before the mortgage is officially recorded in the mortgage register.

## 16. Effect of legal risk of mortgage loans denominated in foreign currencies

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Change in legal-risk adjustment to gross carrying amount of loans	-198,585	-44,075
Change in legal-risk provision	1,437	-95,855
Costs of voluntary settlements with clients or of contract cancellation in excess of the provision or adjustment to the gross carrying amount of loans	-87,263	-4,376
<b>Total</b>	<b>-284,411</b>	<b>- 144,306</b>

## 17. Net impairment losses

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Securities measured at fair value through other comprehensive income	- 13,513	2,091
Securities measured at amortised cost	- 106	- 18
Amounts due from banks	41	75
Amounts due from clients and off-balance-sheet liabilities, including:	- 47,920	- 102,782
on-balance-sheet receivables	- 35,560	- 97,658
<i>from retail clients</i>	10,098	65,760
<i>from institutional clients</i>	- 45,658	- 163,418
off-balance-sheet liabilities	- 12,360	- 5,124
<i>from retail clients</i>	- 553	402
<i>from institutional clients</i>	- 11,807	- 5,526
<b>Total</b>	<b>- 61,498</b>	<b>- 100,634</b>

### Net impairment losses on amounts due from clients:

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Individual assessment	- 6,361	- 183,260
Collective assessment	- 29,199	85,602
<b>Total</b>	<b>- 35,560</b>	<b>- 97,658</b>

## 18. Administrative expenses

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Employee benefits	193,276	168,990
Administrative expenses, including:	131,074	164,824
<i>material costs</i>	97,430	90,470
<i>taxes and charges</i>	8,817	5,725
<i>contribution and payments to BGF</i>	21,987	27,597
<i>contribution and payments to PFSA</i>	2,569	2,498
<i>contribution to Borrowers Support Fund*</i>	-	38,358
<i>contribution to cover operating expenses of Financial Ombudsman</i>	271	176
Amortisation and depreciation, including:	59,828	50,589
<i>depreciation of property, plant and equipment</i>	13,093	9,598
<i>amortisation of intangible assets</i>	32,464	26,430
<i>depreciation of rights-of-use assets</i>	14,271	14,561
<b>Total</b>	<b>384,178</b>	<b>384,403</b>

\* The Bank made an additional payment of PLN 38,358 thousand to the Borrower Support Fund, as mandated by the decision of the Borrower Support Fund Board issued under the Business Crowdfunding and Borrowers Assistance Act.

### Employee benefits

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Salaries and wages, including:	161,475	141,507
<i>retirement benefits</i>	537	379
Social security contributions	31,801	27,483
<b>Total</b>	<b>193,276</b>	<b>168,990</b>

The Bank does not fund pension benefits based on defined benefit plans, except for retirement severance payments made in accordance with the Employee Remuneration Rules of Bank Ochrony Środowiska S.A.

### Depreciation of right-of-use assets

Item	31 Dec 2023	31 Dec 2022
Properties	13,479	14,227
Vehicles	792	334
<b>Total</b>	<b>14,271</b>	<b>14,561</b>

## 19. Income tax expense

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Current tax	- 69,671	- 65,430
Deferred tax	9,266	7,126
<b>Total</b>	<b>- 60,405</b>	<b>- 58,304</b>
<b>Profit before tax</b>	<b>122,106</b>	<b>185,912</b>
Income tax at 19% tax rate	- 23,200	- 35,323
Permanent differences between profit before tax and tax base	- 37,205	- 22,975
decreasing:	45,898	172,219
<i>reversed impairment losses</i>	-	461
<i>dividends received</i>	1,542	1,316
<i>valuation of equity-accounted subsidiaries</i>	14,011	7,824
<i>release of provisions, including provisions for court proceedings and claims for legal risk related to foreign currency mortgage loans</i>	30,302	162,184
<i>other</i>	43	434
increasing:	- 86,889	- 200,794
<i>recognised impairment losses</i>	- 6,551	- 3,548
<i>provisions recognised for other liabilities, including provisions for legal proceedings and claims related to foreign currency mortgage loans</i>	- 56,079	- 39,394
<i>valuation of equity-accounted subsidiaries</i>	- 704	- 749
<i>contributions to BGF</i>	- 4,178	- 5,243
<i>other</i>	- 19,377	- 151,860
deductions from taxable income:	3,786	5,600
<i>donations, R&amp;D tax relief</i>	301	374
<i>waiver of tax collection on cancelled amounts of loans indexed to foreign currencies</i>	3,485	5,226
<b>Tax expense on profit or loss for current year</b>	<b>- 60,405</b>	<b>- 58,298</b>
<b>Current and deferred tax for previous years</b>	<b>-</b>	<b>- 6</b>
<b>Total tax expense</b>	<b>- 60,405</b>	<b>- 58,304</b>
<b>Effective tax rate</b>	<b>49%</b>	<b>31%</b>

For detailed information on deferred tax, see Note 36.

## 20. Earnings per share

Basic earnings/loss per share is calculated as the quotient of profit attributable to shareholders of the Bank and the weighted average number of ordinary shares during the year.

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Net profit	61,701	127,608
Weighted average number of ordinary shares (thousand)	92,910	92,910
<b>Basic earnings per share (PLN)</b>	<b>0.66</b>	<b>1.37</b>

Diluted earnings per share is equal to basic earnings (loss) per share in the periods presented.

## 21. Cash and balances at central bank

Item	31 Dec 2023	31 Dec 2022
Cash in hand	18,092	18,091
Cash and balances at central bank	565,990	557,774
<b>Total</b>	<b>584,082</b>	<b>575,865</b>

## 22. Amounts due from banks

Item	31 Dec 2023	31 Dec 2022
Deposits with other banks, recognised as cash equivalents	143,414	213,672
Amounts due from banks under derivative hedging transactions	4,559	12,546
Debt securities classified as amounts due from banks	15,135	15,162
Other amounts due from banks	26	-
<b>Total gross</b>	<b>163,134</b>	<b>241,380</b>
Impairment losses on debt securities classified as amounts due from banks	- 453	- 495
<b>Total net</b>	<b>162,681</b>	<b>240,885</b>

For information on amounts due from banks by maturity, see Note 26.



### Change in gross carrying amount of amounts due from banks:

Item	Gross carrying amount of amounts due from banks				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
<b>At beginning of period 1 Jan 2023</b>	<b>226,218</b>	<b>15,162</b>	-	-	<b>241,380</b>
Increase due to origination and purchase	29,595	-	-	-	29,595
Change in gross carrying amount of existing portfolio	- 82,167	- 27	-	-	- 82,194
Decrease due to derecognition	- 25,647	-	-	-	- 25,647
<b>At end of period 31 Dec 2023</b>	<b>147,999</b>	<b>15,135</b>	-	-	<b>163,134</b>

Item	Gross carrying amount of amounts due from banks				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
<b>At beginning of period 1 Jan 2022</b>	<b>375,943</b>	<b>15,078</b>	-	-	<b>391,021</b>
Increase due to origination and purchase	111,719	-	-	-	111,719
Change in gross carrying amount of existing portfolio	- 147,351	84	-	-	- 147,267
Decrease due to derecognition	- 114,093	-	-	-	- 114,093
<b>At end of period 31 Dec 2022</b>	<b>226,218</b>	<b>15,162</b>	-	-	<b>241,380</b>

### Change in impairment losses on amounts due from banks:

Item	Impairment loss on amounts due from other banks				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
<b>At beginning of period 1 Jan 2023</b>	-	<b>495</b>	-	-	<b>495</b>
Changes due to change in credit risk	-	- 42	-	-	- 42
<b>At end of period 31 Dec 2023</b>	-	<b>453</b>	-	-	<b>453</b>

Item	Impairment loss on amounts due from other banks				Total
	Bucket 1	Bucket 2	Bucket 3	POCI	
<b>At beginning of period 1 Jan 2022</b>	-	<b>569</b>	-	-	<b>569</b>
Changes due to change in credit risk	-	-74	-	-	-74
<b>At end of period 31 Dec 2022</b>	-	<b>495</b>	-	-	<b>495</b>

## 23. Financial assets and liabilities held for trading

Assets	31 Dec 2023	31 Dec 2022
Derivative financial instruments, including:	<b>113,345</b>	<b>202,719</b>
<i>foreign exchange and currency derivative transactions</i>	4,526	6,638
<i>interest rate derivative transactions</i>	108,819	196,081
Securities held for trading	-	20,225
<b>Total financial assets held for trading</b>	<b>113,345</b>	<b>222,944</b>

Liabilities	31 Dec 2023	31 Dec 2022
Derivative financial instruments, including:	<b>76,653</b>	<b>147,922</b>
<i>foreign exchange and currency derivative transactions</i>	3,041	3,213
<i>interest rate derivative transactions</i>	73,612	144,709
<b>Total financial liabilities held for trading</b>	<b>76,653</b>	<b>147,922</b>

## 24. Investment securities

Item	31 Dec 2023				31 Dec 2022			
	measured at fair value through other comprehensive income	measured at amortised cost	measured at fair value through profit or loss	Total	measured at fair value through other comprehensive income	measured at amortised cost	measured at fair value through profit or loss	Total
<b>Debt securities:</b>	<b>6,885,521</b>	<b>2,366,265</b>	<b>126,328</b>	<b>9,378,114</b>	<b>6,915,813</b>	<b>1,900,215</b>	<b>106,625</b>	<b>8,922,653</b>
<i>Treasury bonds</i>	2,470,032	1,879,119	-	4,349,151	1,827,141	1,691,585	-	3,518,726
<i>NBP money market bills – recognised as cash equivalents</i>	3,296,458	-	-	3,296,458	4,465,127	-	-	4,465,127
<i>municipal bonds</i>	32,690	-	-	32,690	65,878	-	-	65,878
<i>bonds of other banks</i>	518,656	221,721	126,328	866,705	294,800	87,515	106,625	488,940
<i>bonds of other financial institutions</i>	567,685	265,425	-	833,110	262,867	121,115	-	383,982
<b>Equity securities:</b>	<b>106,656</b>	<b>-</b>	<b>-</b>	<b>106,656</b>	<b>85,465</b>	<b>-</b>	<b>-</b>	<b>85,465</b>
<i>Listed</i>	39,780	-	-	39,780	18,543	-	-	18,543
<i>unlisted</i>	66,876	-	-	66,876	66,922	-	-	66,922
<b>Total</b>	<b>6,992,177</b>	<b>2,366,265</b>	<b>126,328</b>	<b>9,484,770</b>	<b>7,001,278</b>	<b>1,900,215</b>	<b>106,625</b>	<b>9,008,118</b>

For information on investment securities by maturity, see Note 26.

Change in gross carrying amount of investment securities:

Item	Debt securities measured at fair value through other comprehensive income	Debt securities measured at amortised cost	Debt securities measured at fair value through profit or loss	Equity securities measured at fair value through other comprehensive income	Total
<b>At beginning of period 1 Jan 2023</b>	<b>6,915,813</b>	<b>1,900,397</b>	<b>106,625</b>	<b>85,465</b>	<b>9,008,300</b>
Increase due to origination and purchase	216,468,122	493,678	-	-	216,961,800
Change in gross carrying amount of existing portfolio	134,117	35,876	19,703	21,191	210,887
Decrease due to derecognition	- 216,632,531	- 63,398	-	-	- 216,695,929
<b>At end of period 31 Dec 2023</b>	<b>6,885,521</b>	<b>2,366,553</b>	<b>126,328</b>	<b>106,656</b>	<b>9,485,058</b>

Item	Debt securities measured at fair value through other comprehensive income	Debt securities measured at amortised cost	Debt securities measured at fair value through profit or loss	Equity securities measured at fair value through other comprehensive income	Total
<b>At beginning of period 1 Jan 2022</b>	<b>5,311,853</b>	<b>1,582,530</b>	<b>129,229</b>	<b>85,483</b>	<b>7,109,095</b>
Increase due to origination and purchase	198,072,199	475,938	-	-	198,548,137
Change in gross carrying amount of existing portfolio	- 35,338	46,154	- 22,604	- 18	- 11,806
Decrease due to derecognition	- 196,432,901	- 204,225	-	-	- 196,637,126
<b>At end of period 31 Dec 2022</b>	<b>6,915,813</b>	<b>1,900,397</b>	<b>106,625</b>	<b>85,465</b>	<b>9,008,300</b>

### Change in impairment losses on investment securities:

Item	Change in impairment losses on debt securities		
	Debt securities measured at fair value through other comprehensive income	Debt securities measured at amortised cost	Total
<b>At beginning of period 1 Jan 2023</b>	<b>635</b>	<b>182</b>	<b>817</b>
Increase due to origination and purchase	14,917	48	14,965
Changes due to change in credit risk	8,147	- 5	8,142
Decrease due to derecognition	- 9,523	63	- 9,460
<b>At end of period 31 Dec 2023</b>	<b>14,176</b>	<b>288</b>	<b>14,464</b>

Item	Change in impairment losses on debt securities		
	Debt securities measured at fair value through other comprehensive income	Debt securities measured at amortised cost	Total
<b>At beginning of period 1 Jan 2022</b>	<b>2,754</b>	<b>164</b>	<b>2,918</b>
Increase due to origination and purchase	4,398	49	4,447
Changes due to change in credit risk	- 31	- 18	- 49
Decrease due to derecognition	- 6,486	- 13	- 6,499
<b>At end of period 31 Dec 2022</b>	<b>635</b>	<b>182</b>	<b>817</b>

Investment securities pledged as security (at gross carrying amount):

Item	31 Dec 2023		31 Dec 2022	
	measured at fair value through other comprehensive income	measured at amortised cost	measured at fair value through other comprehensive income	measured at amortised cost
<b>Security for loans received from banks and International Financial Organisations</b>	<b>110,138</b>	<b>615,681</b>	<b>118,820</b>	<b>755,217</b>
<i>over 1 year</i>	110,138	615,681	118,820	755,217
<b>Security for Guaranteed Funds Protection Fund</b>	<b>-</b>	<b>47,018</b>	<b>-</b>	<b>46,843</b>
<i>over 1 year</i>	-	47,018	-	46,843
<b>Security for liabilities in the form of contributions to Guarantee Fund</b>	<b>6,906</b>	<b>22,968</b>	<b>6,517</b>	<b>22,990</b>
<i>over 1 year</i>	6,906	22,968	6,517	22,990
<b>Security for liabilities in the form of contributions to Forced Restructuring Fund</b>	<b>9,866</b>	<b>32,093</b>	<b>9,309</b>	<b>32,086</b>
<i>over 1 year</i>	9,866	32,093	9,309	32,086
<b>Collateral in repo transactions</b>	<b>55,350</b>	<b>-</b>	<b>93,648</b>	<b>15,974</b>
<i>up to 1 year</i>	-	-	93,648	15,974
<i>over 1 year</i>	55,350	-	-	-
<b>Total</b>	<b>182,260</b>	<b>717,760</b>	<b>228,294</b>	<b>873,110</b>

## 25. Amounts due from clients

Item	31 Dec 2023			31 Dec 2022		
	Gross amounts due from clients	Impairment losses	Net amounts due from clients	Gross amounts due from clients	Impairment losses	Net amounts due from clients
<b>Measured at amortised cost</b>	<b>11,698,736</b>	<b>918,125</b>	<b>10,780,611</b>	<b>12,220,160</b>	<b>1,089,542</b>	<b>11,130,618</b>
<b>Amounts due from retail clients</b>	<b>2,380,130</b>	<b>239,187</b>	<b>2,140,943</b>	<b>2,863,508</b>	<b>274,472</b>	<b>2,589,036</b>
<i>overdraft facilities</i>	4,465	2,743	1,722	4,342	3,597	745
<i>cash loans</i>	337,391	93,731	243,660	330,189	98,897	231,292
<i>housing loans</i>	1,804,172	109,170	1,695,002	2,266,344	134,239	2,132,105
<i>other credit facilities</i>	234,102	33,543	200,559	262,633	37,739	224,894
<b>Amounts due from institutional clients</b>	<b>9,318,606</b>	<b>678,938</b>	<b>8,639,668</b>	<b>9,356,652</b>	<b>815,070</b>	<b>8,541,582</b>
<i>working capital facilities</i>	953,311	51,649	901,662	859,701	63,439	796,262
<i>term facilities</i>	6,897,915	579,707	6,318,208	7,570,246	731,916	6,838,330
<i>factoring receivables</i>	502,412	38,008	464,404	558,555	6,356	552,199
<i>purchased receivables</i>	76,253	3,389	72,864	92,826	903	91,923
<i>commercial paper</i>	888,715	6,185	882,530	275,324	12,456	262,868
<b>Measurement at fair value through profit or loss</b>	<b>-</b>	<b>-</b>	<b>139</b>	<b>-</b>	<b>-</b>	<b>3,050</b>
<b>Amounts due from retail clients</b>	<b>-</b>	<b>-</b>	<b>109</b>	<b>-</b>	<b>-</b>	<b>270</b>
<i>overdraft facilities</i>	-	-	-	-	-	9
<i>housing loans</i>	-	-	43	-	-	99
<i>other credit facilities</i>	-	-	66	-	-	162
<b>Amounts due from institutional clients</b>	<b>-</b>	<b>-</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>2,780</b>
<i>term facilities</i>	-	-	30	-	-	2,780
<b>Total</b>	<b>-</b>	<b>-</b>	<b>10,780,750</b>	<b>-</b>	<b>-</b>	<b>11,133,668</b>

Margin deposits	34,335	39	34,296	36,296	45	36,251
Other amounts due from clients	4,215	-	4,215	3,660	-	3,660
<b>Total amounts due from clients</b>	-	-	<b>10,819,261</b>	-	-	<b>11,173,579</b>

Amounts due from clients included preferential loans with subsidised interest from NFOŚiFW and WFOŚiGW; in the reporting period, the amounts were as follows (nominal values):

Item	31 Dec 2023	31 Dec 2022
<b>Preferential loans with subsidies, including:</b>	<b>24,715</b>	<b>35,928</b>
<i>measured at amortised cost</i>	24,614	33,126
<i>measured at fair value through profit or loss</i>	101	2,802

#### Effect of legal risk of foreign currency mortgage loans

Item	Gross carrying amount of amounts due from foreign currency real estate loans before legal-risk costs	Effect of legal risk of foreign currency mortgage loans	Gross carrying amount of amounts due from foreign currency real estate loans after legal-risk costs*
			31 Dec 2023
Amounts due from foreign currency real estate loans – adjustment reducing the carrying amount	1,082,585	528,689	553,896
Provision for legal risk of foreign currency mortgage loans		164,000	
<b>Total</b>		<b>692,689</b>	



Item	Gross carrying amount of amounts due from foreign currency real estate loans before legal-risk costs	Effect of legal risk of foreign currency mortgage loans	Gross carrying amount of amounts due from foreign currency real estate loans after legal-risk costs*
	31 Dec 2022		
Amounts due from foreign currency real estate loans – adjustment reducing the carrying amount	1,332,819	398,308	934,512
Provision for legal risk of foreign currency mortgage loans		116,456	
<b>Total</b>		<b>514,764</b>	

\* Includes changes in the gross carrying amount disclosed in Note 16 'Effect of legal risk of mortgage loans denominated in foreign currencies'

### Change in gross carrying amount of and impairment losses on amounts due from clients

Item	Gross carrying amount of amounts due from retail clients					Gross carrying amount of amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
<b>At beginning of period 1 Jan 2023</b>	<b>2,358,998</b>	<b>127,055</b>	<b>376,707</b>	<b>748</b>	<b>2,863,508</b>	<b>7,026,352</b>	<b>939,775</b>	<b>1,307,780</b>	<b>82,745</b>	<b>9,356,652</b>
Increase due to origination and purchase	184,512	18,966	-	53	203,531	2,544,136	84,372	-	34,621	2,663,129
Change in gross carrying amount of existing portfolio	- 415,245	- 14,196	- 19,190	- 77	- 448,708	- 321,703	- 78,326	- 55,890	- 4,759	- 460,678
Change in gross carrying amount due to derecognition	- 165,552	- 5,711	- 72,269	-	- 243,532	- 1,591,229	- 264,648	- 366,827	- 12,462	- 2,235,166
<i>including: change in gross carrying amount due to financial instruments that were written off in the statement of financial position</i>	- 1	- 4	- 43,310	-	- 43,315	-	-	- 209,565	- 12,462	- 222,027
Change in gross carrying amount due to reallocation of financial asset between buckets	13,600	- 39,274	25,674	-	-	- 717,115	491,854	225,261	-	-
Reallocation to Bucket 1	63,397	- 59,032	- 4,365	-	-	220,596	- 213,781	- 6,815	-	-
Reallocation to Bucket 2	- 27,732	36,509	- 8,777	-	-	- 754,031	762,742	- 8,711	-	-
Reallocation to Bucket 3	- 22,065	- 16,751	38,816	-	-	- 183,680	- 57,107	240,787	-	-
Other changes	5,392	- 103	42	-	5,331	- 7,111	1,780	-	-	- 5,331
<b>At end of period 31 Dec 2023</b>	<b>1,981,705</b>	<b>86,737</b>	<b>310,964</b>	<b>724</b>	<b>2,380,130</b>	<b>6,933,330</b>	<b>1,174,807</b>	<b>1,110,324</b>	<b>100,145</b>	<b>9,318,606</b>

Item	Allowances for amounts due from retail clients					Allowances for amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
<b>At beginning of period 1 Jan 2023</b>	<b>10,367</b>	<b>6,351</b>	<b>257,351</b>	<b>403</b>	<b>274,472</b>	<b>83,927</b>	<b>50,048</b>	<b>687,938</b>	<b>- 6,843</b>	<b>815,070</b>
Increase due to origination and purchase	6,819	745	-	-	7,564	32,462	4,044	-	19,251	55,757
Changes due to change in credit risk	- 5,103	- 1,550	26,764	- 212	19,899	2,448	34,357	151,510	- 18,589	169,726
Decrease due to derecognition	- 1,211	- 340	- 61,233	-	- 62,784	- 15,466	- 18,891	- 314,760	- 12,462	- 361,579
<i>including: change in impairment losses on financial instruments written-off in the statement of financial position</i>	- 1	- 4	- 43,310	-	- 43,315	-	-	- 209,565	- 12,462	- 222,027
Change in impairment losses due to reallocations of financial assets between Buckets	3,368	- 355	- 3,013	-	-	- 333	3,988	- 3,655	-	-
Reallocation to Bucket 1	4,415	- 2,380	- 2,035	-	-	14,520	- 12,438	- 2,082	-	-
Reallocation to Bucket 2	- 485	4,261	- 3,776	-	-	- 12,473	18,312	- 5,839	-	-
Reallocation to Bucket 3	- 562	- 2,236	2,798	-	-	- 2,380	- 1,886	4,266	-	-
Other changes	33	- 12	15	-	36	- 141	105	-	-	- 36
<b>At end of period 31 Dec 2023</b>	<b>14,273</b>	<b>4,839</b>	<b>219,884</b>	<b>191</b>	<b>239,187</b>	<b>102,897</b>	<b>73,651</b>	<b>521,033</b>	<b>- 18,643</b>	<b>678,938</b>

Item	Gross carrying amount of amounts due from retail clients					Gross carrying amount of amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
<b>At beginning of period 1 Jan 2022</b>	<b>2,673,144</b>	<b>158,503</b>	<b>401,253</b>	<b>1,660</b>	<b>3,234,560</b>	<b>6,950,879</b>	<b>1,138,263</b>	<b>1,241,772</b>	<b>9,583</b>	<b>9,340,497</b>
Increase due to origination and purchase	112,349	11	-	262	112,622	1,682,406	34,600	-	73,504	1,790,510
Change in gross carrying amount of existing portfolio	- 232,364	- 5,166	12,748	- 99	- 224,881	- 43,820	- 18,376	- 104,937	- 339	- 167,472
Change in gross carrying amount due to derecognition	- 209,529	- 8,902	- 39,287	- 1,075	- 258,793	- 1,096,291	- 229,890	- 280,699	- 3	- 1,606,883
<i>including: change in gross carrying amount due to financial instruments that were written off in the statement of financial position</i>	-	- 5	- 4,767	-	- 4,772	-	-	- 154,270	-	- 154,270
Change in gross carrying amount due to reallocation of financial asset between buckets	17,002	- 17,586	584	-	-	- 466,822	15,178	451,644	-	-
Reallocation to Bucket 1	129,739	- 57,105	- 72,634	-	-	258,238	- 258,238	-	-	-
Reallocation to Bucket 2	- 81,172	88,229	- 7,057	-	-	- 505,330	511,236	- 5,906	-	-
Reallocation to Bucket 3	- 31,565	- 48,710	80,275	-	-	- 219,730	- 237,820	457,550	-	-
Other changes	- 1,604	195	1,409	-	-	-	-	-	-	-
<b>At end of period 31 Dec 2022</b>	<b>2,358,998</b>	<b>127,055</b>	<b>376,707</b>	<b>748</b>	<b>2,863,508</b>	<b>7,026,352</b>	<b>939,775</b>	<b>1,307,780</b>	<b>82,745</b>	<b>9,356,652</b>

Item	Allowances for amounts due from retail clients					Allowances for amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
<b>At beginning of period 1 Jan 2022</b>	<b>18,403</b>	<b>15,674</b>	<b>281,990</b>	<b>32</b>	<b>316,099</b>	<b>70,058</b>	<b>65,405</b>	<b>655,956</b>	<b>999</b>	<b>792,418</b>
Increase due to origination and purchase	1,629	1	-	262	1,892	20,463	395	-	- 9,071	11,787
Changes due to change in credit risk	- 55,312	- 1,603	41,671	107	- 15,137	- 4,894	20,780	169,707	1,207	186,800
Decrease due to derecognition	- 1,554	- 610	- 26,220	2	- 28,382	- 6,806	- 13,699	- 155,452	22	- 175,935
<i>including: change in impairment losses on financial instruments written-off in the statement of financial position</i>	-	- 5	- 4,767	-	- 4,772	-	-	- 154,270	-	- 154,270
Change in impairment losses due to reallocations of financial assets between Buckets	47,204	- 7,101	- 40,103	-	-	5,112	- 22,837	17,725	-	-
Reallocation to Bucket 1	48,713	- 6,067	- 42,646	-	-	14,371	- 14,371	-	-	-
Reallocation to Bucket 2	- 720	5,039	- 4,319	-	-	- 6,862	6,883	- 21	-	-
Reallocation to Bucket 3	- 789	- 6,073	6,862	-	-	- 2,397	- 15,349	17,746	-	-
Other changes	- 3	- 10	13	-	-	- 6	4	2	-	-
<b>At end of period 31 Dec 2022</b>	<b>10,367</b>	<b>6,351</b>	<b>257,351</b>	<b>403</b>	<b>274,472</b>	<b>83,927</b>	<b>50,048</b>	<b>687,938</b>	<b>- 6,843</b>	<b>815,070</b>

## 26. Financial assets by maturity

31 Dec 2023	up to 1 month	over 1 month to 3 months	over 3 months up to 6 months	over 6 months to 12 months	over 1 year to 5 years	over 5 years	undefined maturity date	Total
Amounts due from banks (Note 22)	147,544	-	137	-	15,000	-	-	162,681
Securities held for trading (Note 23)	-	-	-	-	-	-	-	-
Securities measured at fair value through other comprehensive income (Note 24)	3,327,377	424,829	530,799	77,831	2,504,864	19,821	106,656	6,992,177
Securities measured at amortised cost (Note 24)	452,659	-	50,100	48,004	1,733,330	82,172	-	2,366,265
Securities measured at fair value through profit or loss (Note 24)	-	-	-	-	-	126,328	-	126,328
Amounts due from clients (Note 25)	509,707	299,679	535,105	1,437,724	4,281,531	3,755,515	-	10,819,261
<b>Total</b>	<b>4,437,287</b>	<b>724,508</b>	<b>1,116,141</b>	<b>1,563,559</b>	<b>8,534,725</b>	<b>3,983,836</b>	<b>106,656</b>	<b>20,466,712</b>

31 Dec 2022	up to 1 month	over 1 month to 3 months	over 3 months up to 6 months	over 6 months to 12 months	over 1 year to 5 years	over 5 years	undefined maturity date	Total
Amounts due from banks (Note 22)	225,720	-	165	-	15,000	-	-	<b>240,885</b>
Securities held for trading (Note 23)	-	-	-	-	20,225	-	-	<b>20,225</b>
Securities measured at fair value through other comprehensive income (Note 24)	4,507,029	513	1,118	263,778	2,143,375	-	85,465	<b>7,001,278</b>
Securities measured at amortised cost (Note 24)	-	-	-	50,873	1,766,992	82,350	-	<b>1,900,215</b>
Securities measured at fair value through profit or loss (Note 24)	-	-	-	-	-	106,625	-	<b>106,625</b>
Amounts due from clients (Note 25)	409,456	399,270	876,571	1,366,408	4,497,794	3,624,080	-	<b>11,173,579</b>
<b>Total</b>	<b>5,142,205</b>	<b>399,783</b>	<b>877,854</b>	<b>1,681,059</b>	<b>8,443,386</b>	<b>3,813,055</b>	<b>85,465</b>	<b>20,442,807</b>

## 27. Investments in subsidiaries

Investments in subsidiaries are measured using the equity method.

Item	31 Dec 2023	31 Dec 2022
Dom Maklerski BOŚ S.A.	212,295	161,712
BOŚ Leasing - EKO Profit S.A.*\	63,896	64,446
<b>Total</b>	<b>276,191</b>	<b>226,158</b>

\*\ Valuation of BOŚ Leasing – EKO Profit includes valuation of an indirect subsidiary MS WIND sp. z o.o. (a direct subsidiary of BOŚ Leasing – Eko Profit S.A.).

### Change in carrying amount of investments in subsidiaries

Item	Dom Maklerski BOŚ S.A.	BOŚ Leasing – EKO Profit S.A.	Total
<b>Carrying amount as at 1 January 2023 measured using equity method</b>	<b>161,712</b>	<b>64,446</b>	<b>226,158</b>
Changes due to measurement of equity-accounted investments	70,583	- 549	70,034
Other		-1	-1
Decrease due to dividend payment	-20,000		-20,000
<b>Carrying amount as at 31 December 2023 measured using equity method</b>	<b>212,295</b>	<b>63,896</b>	<b>276,191</b>

Item	Dom Maklerski BOŚ S.A.	BOŚ Leasing – EKO Profit S.A.	Total
<b>Carrying amount as at 1 January 2022 measured using equity method</b>	<b>138,461</b>	<b>60,910</b>	<b>199,371</b>
Changes due to measurement of equity-accounted investments	33,251	3,536	36,787
Decrease due to dividend payment	-10,000	-	-10,000
<b>Carrying amount as at 31 December 2022 measured using equity method</b>	<b>161,712</b>	<b>64,446</b>	<b>226,158</b>



## 28. Intangible assets

Item	31 Dec 2023	31 Dec 2022
Licenses and software, including:	85,473	81,159
<i>internally produced software</i>	3,811	1,336
Intangible assets under development	30,342	37,092
<b>Total</b>	<b>115,815</b>	<b>118,251</b>

Intangible assets fully amortised, in continuous use:

31 December 2023 167,618

31 December 2022 144,464

With respect to intangible assets that are not yet available for use, i.e. their development has not been completed, the Bank monitors the assets for potential indications of impairment on an ongoing basis. Following the review of expenditure on intangible assets under development, no indicators of impairment were identified as at 31 December 2023 and 31 December 2022.

### Change in intangible assets

Item	Licences and software	Intangible assets under development	Total
<b>As at 1 January 2023</b>			
Gross carrying amount	383,229	37,092	420,321
Amortisation	-302,070	-	-302,070
<b>Net carrying amount</b>	<b>81,159</b>	<b>37,092</b>	<b>118,251</b>
<b>Period ended 31 December 2023</b>			
Net carrying amount at beginning of year	81,159	37,092	118,251
Increase	36,778	30,028	66,806
<i>purchase</i>	-	30,028	30,028
<i>transfer from intangible assets under development</i>	36,778	-	36,778
Decrease	-	-36,778	-36,778
<i>transfer to licences and software</i>	-	-36,778	-36,778
Amortisation charge	-32,464	-	-32,464
<b>Net carrying amount as at 31 December 2023</b>	<b>85,473</b>	<b>30,342</b>	<b>115,815</b>
<b>As at 31 December 2023</b>			
Gross carrying amount	420,007	30,342	450,349
Amortisation	-334,534	-	-334,534
<b>Net carrying amount as at 31 Dec 2023</b>	<b>85,473</b>	<b>30,342</b>	<b>115,815</b>

Item	Licences and software	Intangible assets under development	Total
<b>As at 1 January 2022</b>			
Gross carrying amount	357,516	17,917	375,433
Amortisation	-275,640	-	-275,640
<b>Net carrying amount</b>	<b>81,876</b>	<b>17,917</b>	<b>99,793</b>
<b>Period ended 31 December 2022</b>			
Net carrying amount at beginning of year	81,876	17,917	99,793
Increase	25,713	32,147	57,860
<i>purchase</i>	12,741	32,147	44,888
<i>transfer from intangible assets under development</i>	12,972	-	12,972
Decrease	-	-12,972	-12,972
<i>transfer to licences and software</i>	-	-12,972	-12,972
Amortisation charge	-26,430	-	-26,430
<b>Net carrying amount as at 31 December 2022</b>	<b>81,159</b>	<b>37,092</b>	<b>118,251</b>
<b>As at 31 December 2022</b>			
Gross carrying amount	383,229	37,092	420,321
Amortisation	-302,070	-	-302,070
<b>Net carrying amount as at 31 Dec 2022</b>	<b>81,159</b>	<b>37,092</b>	<b>118,251</b>

## 29. Property, plant and equipment

Item	31 Dec 2023	31 Dec 2022
Property, plant and equipment, including:	44,514	44,500
<i>land</i>	182	182
<i>buildings and premises</i>	4,117	4,328
<i>leasehold improvements</i>	3,875	3,867
<i>computer hardware and technical equipment</i>	34,008	34,043
<i>other property, plant and equipment</i>	2,332	2,080
Property, plant and equipment under construction	3,963	1,487
<b>Total</b>	<b>48,477</b>	<b>45,987</b>

As at 31 December 2023 and 31 December 2022, no assets were withdrawn from active use and classified as held for sale.

### Change in property, plant and equipment

Item	Land and buildings	Leasehold improvements	Technical equipment, vehicles and other equipment	Property, plant and equipment under construction	Advance payments	Total
<b>As at 1 January 2023</b>						
Gross carrying amount	8,624	27,819	89,532	1,487	-	127,462
Depreciation	- 4,114	- 23,952	- 53,409	-	-	- 81,475
<b>Net carrying amount</b>	<b>4,510</b>	<b>3,867</b>	<b>36,123</b>	<b>1,487</b>	<b>-</b>	<b>45,987</b>

<b>Period ended 31 December 2023</b>						
Net carrying amount at beginning of year	4,510	3,867	36,123	1,487	-	45,987
Increase:	-	1,532	11,587	4,905	-	18,024
<i>Purchases</i>	-	-	10,690	4,905	-	15,595
<i>reclassification from investments</i>	-	1,532	897	-	-	2,429
Decrease:	-	- 1,931	- 8,783	- 2,429	-	- 13,143
<i>retirement/sale</i>	-	- 1,931	- 8,783	-	-	- 10,714
<i>reclassification from investments</i>	-	-	-	- 2,429	-	- 2,429
Depreciation charge	- 211	- 1,524	- 11,358	-	-	- 13,093
Reversal of depreciation charge due to retirement/sale	-	1,931	8,771	-	-	10,702
<b>Net carrying amount as at 31 December 2023</b>	<b>4,299</b>	<b>3,875</b>	<b>36,340</b>	<b>3,963</b>	<b>-</b>	<b>48,477</b>

As at 31 December 2023						
Gross carrying amount	8,624	27,420	92,336	3,963	-	132,343
Depreciation	- 4,325	- 23,545	- 55,996	-	-	- 83,866
<b>Net carrying amount</b>	<b>4,299</b>	<b>3,875</b>	<b>36,340</b>	<b>3,963</b>	<b>-</b>	<b>48,477</b>

In the presented periods there were no temporarily unused assets with significant carrying amount.

Item	Land and buildings	Leasehold improvements	Technical equipment, vehicles and other equipment	Property, plant and equipment under construction	Advance payments	Total
<b>As at 1 January 2022</b>						
Gross carrying amount	8,624	26,433	81,362	1,194	-	117,613
Depreciation	- 3,903	- 23,486	- 50,902	-	-	- 78,291
<b>Net carrying amount</b>	<b>4,721</b>	<b>2,947</b>	<b>30,460</b>	<b>1,194</b>	<b>-</b>	<b>39,322</b>
<b>Period ended 31 December 2022</b>						
Net carrying amount at beginning of year	4,721	2,947	30,460	1,194	-	39,322
Increase:	-	2,231	13,811	8,364	-	24,406
<i>purchases</i>	-	2,231	5,740	8,364	-	16,335
<i>reclassification from investments</i>	-	-	8,071	-	-	8,071
Decrease:	-	- 845	- 5,641	- 8,071	-	- 14,557
<i>retirement/sale</i>	-	- 845	- 5,641	-	-	- 6,486
<i>reclassification from investments</i>	-	-	-	- 8,071	-	- 8,071
Depreciation charge	- 211	- 1,302	- 8,086	-	-	- 9,599
Reversal of depreciation charge due to retirement/sale	-	836	5,579	-	-	6,415
<b>Net carrying amount as at 31 December 2022</b>	<b>4,510</b>	<b>3,867</b>	<b>36,123</b>	<b>1,487</b>	<b>-</b>	<b>45,987</b>
<b>As at 31 December 2022</b>						
Gross carrying amount	8,624	27,819	89,532	1,487	-	127,462
Depreciation	- 4,114	- 23,952	- 53,409	-	-	- 81,475
<b>Net carrying amount</b>	<b>4,510</b>	<b>3,867</b>	<b>36,123</b>	<b>1,487</b>	<b>-</b>	<b>45,987</b>

## 30. Right of use – leases

Item	31 Dec 2023	31 Dec 2022
Properties	45,587	58,071
Vehicles	1,624	3,128
<b>Total</b>	<b>47,211</b>	<b>61,199</b>

### Change in right-of-use assets – leases

Change in right-of-use asset	Real property and land	Vehicles	Total
<b>As at 1 January 2023</b>			
Gross carrying amount	108,935	3,688	112,623
Depreciation	- 50,864	- 560	- 51,424
<b>Net carrying amount</b>	<b>58,071</b>	<b>3,128</b>	<b>61,199</b>
Net carrying amount at beginning of year	58,071	3,128	61,199
Increase	995	453	1,448
Decrease	-	- 1,165	- 1,165
Depreciation charge	- 13,479	- 792	- 14,271
<b>Gross carrying amount as at 31 December 2023</b>	<b>45,587</b>	<b>1,624</b>	<b>47,211</b>
<b>As at 31 December 2023</b>			
Gross carrying amount	109,930	2,976	112,906
Depreciation	- 64,343	- 1,352	- 65,695
<b>Net carrying amount</b>	<b>45,587</b>	<b>1,624</b>	<b>47,211</b>

Change in right-of-use asset	Real property and land	Vehicles	Total
<b>As at 1 January 2022</b>			
Gross carrying amount	109,160	374	109,534
Depreciation	- 36,637	- 226	- 36,863
<b>Net carrying amount</b>	<b>72,523</b>	<b>148</b>	<b>72,671</b>
Net carrying amount at beginning of year	72,523	148	72,671
Increase	318	3,314	3,632
Decrease	- 543		- 543
Depreciation charge	- 14,227	- 334	- 14,561
<b>Gross carrying amount as at 31 December 2022</b>	<b>58,071</b>	<b>3,128</b>	<b>61,199</b>
<b>As at 31 December 2022</b>			
Gross carrying amount	108,935	3,688	112,623
Depreciation	- 50,864	- 560	- 51,424
<b>Net carrying amount</b>	<b>58,071</b>	<b>3,128</b>	<b>61,199</b>

## 31. Other assets

Item	31 Dec 2023	31 Dec 2022
Financial assets, including:	29,828	30,784
<i>Sweeping of excess cash</i>	2,924	4,981
<i>Payment card settlements</i>	7,010	7,642
<i>Assorted debtors</i>	11,885	3,448
<i>Accrued income</i>	8,009	14,713
Prepaid expenses	8,236	5,662
Public charges	339	164
Receivables under cancelled foreign currency loan agreements	20,190	13,543
Other assets	6	5
<b>Total</b>	<b>58,599</b>	<b>50,158</b>

## 32. Amounts due to central bank and other banks

Item	31 Dec 2023	31 Dec 2022
Deposits from other banks	28,362	44,548
Repurchase transactions	46,784	96,595
<b>Total</b>	<b>75,146</b>	<b>141,143</b>

### Amounts due to central bank and other banks, by maturity:

Item	31 Dec 2023	31 Dec 2022
up to 1 month	24,380	44,506
over 1 month to 3 months	4,117	-
over 6 months to 12 months	46,648	96,637
over 5 years	1	-
<b>Total</b>	<b>75,146</b>	<b>141,143</b>

### 33. Amounts due to clients

Item	31 Dec 2023	31 Dec 2022
Retail clients	9,485,310	9,138,745
<i>current/checking accounts</i>	3,441,081	3,288,571
<i>term deposits</i>	6,044,229	5,850,174
Institutional clients	8,457,566	8,978,603
<i>current/checking accounts</i>	5,878,400	6,678,344
<i>term deposits</i>	2,579,166	2,300,259
Other clients	215,099	124,710
Borrowings from international financial institutions	439,283	589,675
Lending support funds	44,046	48,191
<b>Total</b>	<b>18,641,304</b>	<b>18,879,924</b>

#### Amounts due to clients, by maturity:

Item	31 Dec 2023	31 Dec 2022
up to 1 month	11,768,089	12,319,411
over 1 month to 3 months	3,433,335	3,764,787
over 3 months to 6 months	1,473,256	1,166,365
over 6 months to 12 months	1,124,094	864,739
from 1 to 5 years	684,172	535,093
over 5 years	158,358	229,529
<b>Total</b>	<b>18,641,304</b>	<b>18,879,924</b>

## 34. Subordinated liabilities

Series	Currency	Interest rate	Maturity	Nominal value	Amount outstanding	Nominal value	Amount outstanding
				31 Dec 2023		31 Dec 2022	
AA1	PLN	6M WIBOR + margin (six-month coupons)	7 years (with early repayment option after 5 years)	34,214	35,843	34,214	35,927
AA2	PLN	6M WIBOR + margin (six-month coupons)	7 years (with early repayment option after 5 years)	65,786	66,876	65,786	67,077
P	PLN	6M WIBOR + margin (six-month coupons)	10 years (with early repayment option after 5 years)	150,000	156,584	150,000	156,945
RI	PLN	6M WIBOR + margin (six-month coupons)	10 years (with early repayment option after 5 years)	83,000	84,733	83,000	85,086
AB	PLN	6M WIBOR + margin (six-month coupons)	7 years (with early repayment option after 5 years)	100,000	102,996	-	-
<b>Total</b>				<b>433,000</b>	<b>447,032</b>	<b>333,000</b>	<b>345,035</b>

In 2023 and 2022, the Bank made all principal and interest payments on time and did not breach any other contractual provisions regarding its payment obligations.

## 35. Provisions

Item	31 Dec 2023	31 Dec 2022
Provisions for contingent liabilities, including:	47,529	35,168
<i>open lines of credit</i>	33,404	21,734
<i>guarantees</i>	14,125	13,434
Provision for employee benefits – retirement and disability benefits	4,553	3,483
Provision for legal risk related to foreign currency mortgage loans	164,000	116,457
Provision for refund of commission fees due to early loan repayment	171	260
Provision for refunds of increased interest charged until court entry of mortgage security	1,880	2,710
Provision for other liabilities and claims	10,255	1,279
<b>Total</b>	<b>228,388</b>	<b>159,357</b>



## Change in provisions

Item	31 Dec 2023	31 Dec 2022
<b>Provisions for contingent liabilities</b>		
<b>At beginning of period</b>	<b>35,168</b>	<b>30,046</b>
<i>recognition of provisions for impairment of off-balance-sheet liabilities</i>	94,373	83,709
<i>reversal of provisions for impairment of off-balance-sheet liabilities</i>	- 82,012	- 78,585
<i>other</i>	-	- 2
<b>At end of period</b>	<b>47,529</b>	<b>35,168</b>
<b>Provisions for employee benefits</b>		
<b>At beginning of period</b>	<b>3,483</b>	<b>3,086</b>
<i>recognition of provisions</i>	1,412	956
<i>use of provisions</i>	- 342	- 559
<b>At end of period</b>	<b>4,553</b>	<b>3,483</b>
<b>Provision for legal risk related to foreign currency mortgage loans</b>		
<b>At beginning of period</b>	<b>116,457</b>	<b>51,965</b>
<i>recognition of provisions</i>	95,676	95,855
<i>exchange differences on measurement of provisions</i>	- 2,049	26,520
<i>use of provisions</i>	51,029	- 57,883
<i>reversal</i>	- 97,113	-
<b>At end of period</b>	<b>164,000</b>	<b>116,457</b>
<b>Provision for refund of commission fees due to early loan repayment</b>		
<b>At beginning of period</b>	<b>260</b>	<b>952</b>
<i>recognition of provisions</i>	18	10
<i>use of provisions</i>	- 69	- 85
<i>reversal of provisions</i>	- 38	- 617
<b>At end of period</b>	<b>171</b>	<b>260</b>
<b>Provision for refunds of increased interest charged until court entry of mortgage security</b>		
<b>At beginning of period</b>	<b>2,710</b>	-
<i>recognition of provisions</i>	354	2,710
<i>use of provisions</i>	- 314	-
<i>reversal of provisions</i>	- 870	-
<b>At end of period</b>	<b>1,880</b>	<b>2,710</b>

<b>Provision for other liabilities and claims</b>		
<b>At beginning of period</b>	<b>1,279</b>	<b>2,364</b>
<i>recognition of provisions</i>	10,170	29,998
<i>use of provisions</i>	-	- 28,359
<i>reversal of provisions</i>	- 1,194	- 2,724
<b>At end of period</b>	<b>10,255</b>	<b>1,279</b>
<b>Total provisions at end of period</b>	<b>228,388</b>	<b>159,357</b>

**Present value of future retirement and disability benefit obligations to employees in employment as at 31 December 2023:**

<b>Item</b>	<b>31 Dec 2023</b>	<b>31 Dec 2022</b>
<b>Wage growth rate</b>	<b>4.5% (4.5% in 2023)</b>	<b>4.5% (4.5% in 2022)</b>
Interest rate for future obligations due to:		
<i>retirement and disability benefits</i>	5.0%	6.8%
Cost of benefits:		
Current service cost	347	282
Net interest expense	190	96
<b>Components of defined benefit plan costs recognised in profit or loss</b>	<b>537</b>	<b>378</b>
Increase (decrease) in net defined benefit obligation:		
Actuarial gains and losses due to changes in financial assumptions	875	578
<b>Components of defined benefit plan costs recognised in other comprehensive income</b>	<b>875</b>	<b>578</b>
<b>Total</b>	<b>1,412</b>	<b>956</b>

## Defined benefit obligations

Item	31 Dec 2023	31 Dec 2022
<b>AMOUNTS RECOGNISED IN COMPREHENSIVE INCOME WITH RESPECT TO THE DEFINED BENEFIT PLANS:</b>		
<b>At beginning of period</b>	<b>3,483</b>	<b>3,086</b>
Current service cost	347	282
Interest expense	190	96
(Gains) losses on revaluation:		
Actuarial gains and losses due to changes in financial assumptions	875	578
Benefits paid	- 342	- 559
<b>At end of period</b>	<b>4,553</b>	<b>3,483</b>

The calculation of the present value of future retirement and disability benefit obligations relates to the current population of Bank employees and does not take account of any future employees of the Bank. It consists in determining the employees' entitlement to a specified part of the severance benefit in the year following the calculation date using the projected unit credit method of calculating the actuarial present value of future obligations. The present value of an employee's entitlement to a certain part of the future severance benefit was calculated on the assumption that the employee would continue to be employed by the Bank until the benefit is paid, and was discounted at the moment of calculation.

The vested portion of the benefit entitlement is the quotient of the current length of service of the employee and the length of service required to receive the retirement or disability benefit.

Disability benefits are calculated as the sum of the products of the probabilities of becoming disabled in future years for a person of a certain age and the vested portion of the benefit in each year, over the entire projected period, and are discounted at the time of valuation. The vested portion of the disability benefit in each year is calculated by dividing the current length of service by the length of service in that future year.

The present value of the vested entitlements is calculated assuming an increase in the base amount of severance benefit until payment at the rate of salary increase.

As at 31 December 2023, the discount rate of 5.0% was used to estimate employee benefit obligations. Using the discount rate of 4.5%, employee benefit obligations would amount to PLN 4,697 thousand as at 31 December 2023, and at the discount rate of 5.5% the obligations would amount to PLN 4,416 thousand.

The Bank estimates that the outflow of economic benefits resulting from the provision will occur in the presented periods:

Item	31 Dec 2023	31 Dec 2022
up to 1 year	601	873
from 1 to 5 years	1,432	961
from 5 to 10 years	1,403	971
from 10 to 20 years	1,065	650
over 20 years	52	28
<b>Total</b>	<b>4,553</b>	<b>3,483</b>

**Provisions for court proceedings, legal risk related to foreign currency mortgage loans, claims and reimbursement of commission fees are recognised at the amount of expected outflows of economic benefits in the presented periods:**

Item	1 Jan–31 Dec 2023		1 Jan–31 Dec 2022	
	Amount	Expected outflow of benefits	Amount	Expected outflow of benefits
Provision for other liabilities and claims	10,255		1,279	
	138	up to 1 year	494	up to 1 year
	10,117	over 1 year	785	over 1 year
Provision for legal risk related to foreign currency mortgage loans	164,000		116,457	
	61,078	up to 1 year	14,023	up to 1 year
	102,922	over 1 year	102,434	over 1 year
Provision for refund of commission fees due to early loan repayment	171		260	
	57	up to 1 year	87	up to 1 year
	114	over 1 year	173	over 1 year
Provision for refunds of increased interest charged until court entry of mortgage security	1,880		2,710	
	627	up to 1 year	903	up to 1 year
	1,253	over 1 year	1,807	over 1 year
<b>Total</b>	<b>176,306</b>		<b>120,706</b>	

Total amount of claims under pending proceedings in the periods presented:

Item	31 Dec 2023	31 Dec 2022
The Bank as respondent	661,430	358,979
The Bank as claimant	173,180	98,984

In the opinion of the Management Board, materialisation of the risks arising from the proceedings, except for those provisioned for, is probable but not likely. All risks arising from proceedings pending before a court or public administration authority are adequately provisioned for.

As at 31 December 2023, the Bank was not involved in any material proceedings pending before any court, arbitration body or public administration authority where the amount of the Bank's liabilities or claims would represent at least 10% of the Bank's equity.

### Litigation against the Bank concerning loans denominated in or tied to foreign currencies

For information on litigation related to loans denominated in or tied to foreign currencies, see Note 41 'Legal risk of residential mortgage-backed loans linked to foreign exchange rates'.

## 36. Deferred income tax

Deferred income tax is calculated on all temporary differences using an income tax rate of 19%.

### Balance of deferred income tax

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
<b>At beginning of period</b>	<b>159,087</b>	<b>144,947</b>
<b>Change, including:</b>		
<i>impairment losses on receivables</i>	- 16,613	11,538
<i>provisions for the Compromise and Settlement Programme</i>	13,386	-
<i>valuation of assets</i>	- 22,541	10,742
<i>deferred expenses</i>	9,815	16,413
<i>interest received on securities previously purchased by the Bank</i>	2	16,575
<i>other differences</i>	40	- 3,926
<i>commission fees accounted for using effective tax rate</i>	5,258	- 12,490
<i>non-depreciated property, plant and equipment covered by investment tax relief</i>	740	- 1,030
<i>provisions for material, labour and other costs</i>	26	1,960
<i>accrued income</i>	- 5,985	- 25,891
<i>IBNR recognised as tax-deductible</i>	249	249
<b>At end of period</b>	<b>143,464</b>	<b>159,087</b>

### Deferred tax recognised in revaluation reserve:

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
At beginning of period	13,338	6,325
Change due to measurement of assets	- 24,889	7,013
At end of period	- 11,551	13,338

### Deferred tax liabilities and assets are allocated to the following items:

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
<b>Deferred tax liabilities arising from:</b>		
<i>accrued income</i>	58,944	52,959
<i>increase on valuation of assets</i>	44,729	49,603
<i>non-depreciated property, plant and equipment covered by investment tax relief</i>	12,561	13,301
<i>paid commission fees to be accounted for using effective tax rate</i>	3,322	2,864
<i>IBNR recognised as tax-deductible in previous years</i>	249	497
<b>Total</b>	<b>119,805</b>	<b>119,224</b>

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
<b>Deferred tax assets due to:</b>		
<i>impairment losses</i>	123,454	140,067
<i>provisions for the Compromise and Settlement Programme</i>	13,386	-
<i>received commission fees to be accounted for using effective tax rate</i>	14,026	8,310
<i>provisions for material, labour and other costs</i>	8,528	8,502
<i>deferred expenses</i>	42,520	32,705
<i>interest received on securities previously purchased by the Bank</i>	22,976	22,973
<i>decrease on valuation of assets</i>	35,258	62,673
<i>other temporary differences</i>	3,121	3,081
<b>Total</b>	<b>263,269</b>	<b>278,311</b>

The Bank performed a sensitivity analysis of recoverability of deferred tax assets. As at 31 December 2023, deferred tax assets amounted to PLN 263,269 thousand. The most significant components included provisions for impairment of credit exposures totalling PLN 123,454 thousand and accrued expenses of PLN 42,520 thousand, primarily consisting of accrued interest payable on deposits held at the Bank and on securities.

## Change in deferred tax in the period

Item	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
<b>At beginning of period</b>	<b>159,087</b>	<b>144,947</b>
change in deductible temporary differences	- 581	- 39,973
change in taxable temporary differences	- 15,042	54,113
<b>Total change, including:</b>	<b>- 15,623</b>	<b>14,140</b>
change in revaluation reserve	- 24,890	7,014
change recognised in profit or loss	9,266	3,815
<b>At end of period</b>	<b>143,464</b>	<b>159,087</b>

## 37. Lease liabilities

As a lessee, the Bank recognises a lease in the statement of financial position as a right-of-use asset and a corresponding liability on the date on which the leased asset is available for use. Each lease payment is allocated between the reduction of the liability and the finance cost. The finance cost is recognised in the statement of profit or loss over the lease term. The right-of-use asset is depreciated using the straight-line method. Lease liabilities were measured at the present value of future lease payments, discounted using the Company's incremental borrowing rate as at 1 January 2019 of 5.00%. For contracts concluded in September 2020 and later for up to five years, the rate is 5.25%, and for contracts concluded for terms of over five to nine years the rate is 5.75%.

As a lessee, the Bank leases vehicles and real property.

Leases are typically for terms ranging from 1 to 10 years. Lease terms are negotiated individually.

The lease contracts do not impose any obligations, but the leased assets cannot be used as collateral for borrowings.

### Maturity of lease liabilities

Item	31 Dec 2023		
	Properties and land	Vehicles	Total
up to 1 year	436	60	496
from 1 to 5 years	6,438	1,836	8,274
over 5 years	37,608	-	37,608
<b>Total</b>	<b>44,482</b>	<b>1,896</b>	<b>46,378</b>

Item	31 Dec 2022		
	Properties and land	Vehicles	Total
up to 1 year	813	54	867
from 1 to 5 years	11,535	3,267	14,802
over 5 years	47,806	-	47,806
<b>Total</b>	<b>60,154</b>	<b>3,321</b>	<b>63,475</b>

Liabilities arising from property lease contracts relate to commercial properties used by the Bank as part of its business activities.

For contracts denominated in the euro, the amount of monthly consideration is the PLN equivalent (calculated at the mid-rate quoted by the National Bank of Poland) of total fees and charges for the leased space, determined as the product of the net price, expressed in EUR per square metre, and the area actually leased, plus VAT.

For contracts denominated in the Polish zloty, the amount of monthly consideration is the total of fees and charges for the leased space, determined as the product of the net price per square metre, and the area actually leased, plus VAT.

Monthly consideration is value-adjusted by the rates and on the dates specified in the lease contracts. The contracts denominated in EUR are value-adjusted using the indices applicable in the European Union. The contracts denominated in PLN are value-adjusted using the consumer price index for the previous period announced by the President of Statistics Poland.

The contracts do not contain options to purchase the property.

Contracts are concluded for a definite period; some of the contracts are not terminable, but some stipulate early termination or expiry if a party to the contract is dissolved, in which case a period of notice of 6 or 12 months applies. Some of the contracts may be extended on their current terms and conditions based on a declaration of will of the lessor made in writing six months before the expiry of the contract.

The Bank applied the exemptions allowed under IFRS 16 for:

1. leases of low-value assets,
2. short-term leases of up to 12 months.

Low-value lease contracts are contracts where the value of the underlying asset is low, i.e. does not exceed PLN 20 thousand.

Payments under the exempt contracts are recognised as an expense in the statement of profit or loss on a straight-line basis.

#### Future minimum lease payments under IFRS 16-exempt contracts:

As at 31 December 2023:

Item	Properties	Vehicles	Total
low-value leases	95	-	95
Short-term leases	718	-	718
<b>Total</b>	<b>813</b>	<b>-</b>	<b>813</b>

As at 31 December 2022:

Item	Properties	Vehicles	Total
low-value leases	436	10	446
short-term leases	1,085	-	1,085
<b>Total</b>	<b>1,521</b>	<b>10</b>	<b>1,531</b>



## 38. Other liabilities

Item	31 Dec 2023	31 Dec 2022
Interbank settlements	84,140	73,651
Accrued expenses and deferred income	36,082	38,380
Public charges	13,384	11,395
Trade liabilities	74,250	80,301
Deferred commissions	8,561	7,567
Payment card settlements	1,293	829
Provision for refund of commission fees due to early loan repayment	2,286	2,648
Other	2,438	1,615
<b>Total</b>	<b>222,434</b>	<b>216,386</b>

## 39. Contingent assets and liabilities

Item	31 Dec 2023	31 Dec 2022
<b>Contingent liabilities:</b>	<b>3,848,409</b>	<b>3,263,185</b>
Financial assets, including:	3,303,666	2,796,667
open lines of credit, including:	3,300,288	2,781,823
<i>revocable</i>	2,814,308	2,319,626
<i>irrevocable</i>	485,980	462,197
open import letters of credit	3,378	14,844
guarantees, including:	534,943	466,518
<i>credit repayment sureties and guarantees</i>	12,739	12,739
<i>performance bonds</i>	522,204	453,779
underwriting	9,800	-
<b>Contingent assets:</b>	<b>2,374,886</b>	<b>2,164,961</b>
Financial assets, including:	143,484	154,767
<i>open lines of credit</i>	143,484	154,767
Guarantees	2,231,402	2,010,194
<b>Total contingent assets and contingent liabilities</b>	<b>6,223,295</b>	<b>5,428,146</b>

## 40. Legal and administrative proceedings

### 'Free credit' sanction – consumer loans

Over the last two years, the Bank has noted an increase in complaints and legal actions regarding consumer loans, where borrowers claim infringements of the Consumer Credit Act of 12 May 2011, leading to the imposition of 'free credit' sanctions.

Consumers argue that the Bank has not adequately fulfilled its obligations to provide information about variable loan interest rates, misstated credit costs, and challenged the validity of interest charged on financed preparation fees and other loan-related charges.

Successfully asserting violations of the Consumer Credit Act and accessing 'free credit' sanctions do not render the consumer credit agreement void, but they do result in a loss of interest income for the Bank.

As at 31 December 2023, there are 19 ongoing court cases concerning 'free credit' sanctions, with the disputed amounts totalling PLN 442.07 thousand. Four non-final court decisions were issued, including one unfavourable to the Bank and three favourable to the Bank.

### Investment certificates

Between 2015 and 2017, the Bank acted as a broker for the distribution of investment certificates from several investment funds. These funds were subject to regulation and oversight by the relevant authorities, in accordance with applicable laws. Due to the financial circumstances and legal status of certain investment funds, some purchasers of investment certificates have lodged compensation claims against the Bank. As at 31 December 2023, the Bank was named as a defendant in 41 cases by purchasers of investment certificates. The total of the disputed amounts was PLN 18.01 million. The Bank continuously monitors the funds' capacity to redeem certificates and updates its assessment of legal risks associated with adverse court rulings and the obligation to enforce judgments. Based on this assessment, a provision of PLN 9.5 million was recognised.

### Proceedings by UOKiK

On 13 February 2024, the Bank received a notification from the President of the Office of Competition and Consumer Protection (UOKiK) dated 8 February 2024, initiating proceedings regarding practices that infringe upon the collective interests of consumers. The President of UOKiK has levelled the following accusations against the Bank:

1. The Bank allegedly failed to reimburse the amount of an unauthorised payment transaction or to restore the affected account to its pre-transaction state by no later than D+1 (i.e. by the end of the next business day following the consumer's report of the unauthorised transaction). This was despite there being no valid reasons to withhold such actions, such as when the Bank has reasonable and properly documented grounds to suspect fraud by the consumer and has reported this suspicion to law enforcement, or when the notification of the unauthorised transaction was received from the consumer more than 13 months after the account was debited.
2. The Bank is also accused of misleading consumers in its responses to reports of unauthorised payment transactions by suggesting that the mere authentication of a transaction by the Bank is equivalent to its authorisation, thus absolving the Bank of liability. This involves the use of individual authentication data in a way that might misleadingly indicate that authentication alone constitutes authorisation. In other words, the President of UOKiK accuses the Bank of misleading consumers by implying in its responses that authenticating a transaction is the same as authorising it.

According to the President of UOKiK, the Bank's practice described in point 1 above may violate Article 46(1) of the Payment Services Act of 19 August 2011 and infringe upon the collective interests of consumers. Consequently, this could constitute a practice that breaches the collective interests of consumers as specified in Articles 24(1) and 24(2) of the Act on Competition and Consumer Protection.

In the view of the President of UOKiK, the practice described in point 2 may mislead consumers about the Bank's obligations under Article 46(1) of the Payment Services Act. It may also misrepresent the distribution of the burden of proof in demonstrating that a payment transaction was authorised (i.e. shifting the burden of proof onto the consumer). This could constitute an unfair market practice as outlined in Article 5(1), 5(2)(1) and 5(3)(3) in conjunction

with Article 4(2) of the Act of 23 August 2007 on Counteracting Unfair Market Practices, infringing upon the collective interests of consumers. Consequently, this could represent a practice that breaches the collective interests of consumers as specified in Articles 24(1) and 24(2)(3) of the Act on Competition and Consumer Protection.

The Bank does not know the timeline for the conclusion of the proceedings, nor can it predict the outcome or decision that will result from these proceedings.

This issue impacts a substantial segment of the banking sector and has been addressed in submissions by the Polish Bank Association to UOKiK.

### **Proceedings by PFSA**

On 27 April 2023, the Polish Financial Supervision Authority initiated administrative proceedings to impose an administrative penalty on Bank Ochrony Środowiska S.A. under Articles 147(4)(a), 147(5), 147(11) and 147(13) of the Anti-Money Laundering and Terrorist Financing Act as a result of an audit. At this stage, it is not possible to determine the possible financial impact of the proceedings.

## **41. Legal risk associated with residential mortgage-backed loans tied to foreign currency exchange rates**

Since the ruling issued by the Court of Justice of the European Union ('CJEU') on 3 October 2019 in Case C-260/18 Kamil Dziubak, Justyna Dziubak v Raiffeisen Bank International AG, Vienna, conducting business in Poland in the form of a branch under the name Raiffeisen Bank International AG Branch in Poland, there has been a growing number of lawsuits concerning loan agreements indexed to foreign exchange rates. This surge can be attributed to the CJEU's recent rulings, which generally favour consumers, and a shift in judgments by Polish courts that now lean to the disadvantage of banks.

Most of the court judgments issued following the CJEU ruling of 3 October 2019 are not in favour of banks. The jurisprudence of national courts concerning claims derived from credit agreements deemed void due to links with foreign exchange rates remains inconsistent. The complexity of the legal issues involved has led national courts to refer additional preliminary questions to the CJEU. In December 2023, the CJEU delivered several key decisions that will influence the jurisprudence of national courts in this domain.

The Bank monitors both domestic case law and the CJEU's rulings on an ongoing basis when assessing the legal risks of foreign currency-indexed loans and takes into account in its analyses that the CJEU judgments and rulings by Polish courts to the disadvantage of banks result in a growing number of court proceedings and increase in the value of claims sought.

On 7 May 2021, the Supreme Court, sitting in a panel of seven judges, adopted a resolution having the effect of a legal rule in response to questions posed by the Financial Ombudsman, stating that if a credit agreement is found invalid, each party is entitled to a separate claim for reimbursement of the performance obligation rendered. The Supreme Court also indicated that the agreement may be deemed definitively ineffective only if the consumer is duly informed of the effects of the agreement's invalidity and does not agree to be bound by the provision deemed abusive. The stance of the Supreme Court concurs with the CJEU's decision in case C-140/22 from 7 December 2023.

Importantly for the banking sector, the CJEU's ruling in case C-756/22 on 11 December 2023 is critical. The CJEU ruled that Articles 6(1) and 7(1) of Directive 93/13 should be interpreted to preclude national court interpretations that allow a banking institution to demand repayment from a consumer of amounts other than the principal paid, in scenarios where a mortgage contract is deemed entirely void due to unfair terms that invalidate the contract's continuation.

Additionally, in relation to the statute of limitations for claims arising from credit agreements declared invalid due to foreign exchange rate links, the CJEU's verdict in case C-28/22 on 14 December 2023 is pivotal. It stipulates that the limitation periods must be symmetrical for both parties. Based on this ruling, claims from banks and customers should be reconciled and are not considered expired. In 2021, BOŚ SA, together with a group of other banks, initiated a project to create a voluntary settlement offer for clients. This agreement stipulates that loans originally denominated in foreign currencies be recalculated as if they had been issued in Polish złoty from the outset, applying an interest rate based on the WIBOR plus an appropriate margin.

Having obtained the approval of the Extraordinary General Meeting (Resolution No. 4/2021 of 8 December 2021), on 31 January 2022 the Bank implemented the BOŚ S.A. Compromise and Settlement Programme based on a framework communicated by the President of the PFSA. In light of the adverse rulings by the CJEU, several changes were made in 2023 to the settlement offers extended to clients, including a reduction in the fixed interest rate and an increase in the proportion of loan principal that the Bank agrees to cancel beyond standard forgiveness terms. These changes were designed to enhance the Bank's offer and increase clients' willingness to enter into settlements. This initiative succeeded in maintaining the pace at which new settlements were executed. By 31 December 2023, a total of 645 settlements had been concluded under the Programme, with an additional 89 client applications currently being processed.

As at 31 December 2023, there were a total of 1,630 ongoing court cases against the Bank concerning foreign currency-denominated credits and loans (primarily in CHF, as well as USD and EUR), with the disputed amount totalling PLN 615.58 million. The claims filed in lawsuits related to credit agreements and loans associated with foreign currency exchange rates typically seek to have the loan agreement declared null and void and to secure a refund of paid credit instalments and other related charges.

### **Recognition of legal risk of residential mortgage-backed loans tied to foreign currency exchange rates**

The annulment of a foreign currency loan agreement results in the mutual restitution of benefits provided by the parties to the contract. Reaching a settlement with a customer on terms proposed by the Bank leads to a reduction in the amount of the loan remaining to be repaid. Regarding the loans on the Bank's balance sheet, a decrease in expected cash flows is recorded in both instances. Consequently, in line with paragraph B5.4.6 of IFRS 9 *Financial Instruments*, an adjustment to the gross carrying amount of the foreign currency loan is recognised. If the estimated liability to a client exceeds the gross carrying amount of the loan as at the reporting date, a provision is recognised in accordance with IAS 37. The Bank also recognises a provision in accordance with IAS 37 for loans repaid as at the reporting date.

The adjustment to the gross carrying amount of foreign currency loans in accordance with paragraph B5.4.6 of IFRS 9 *Financial Instruments* and the provision recognised in accordance with IAS 37 are estimated based on the assumed scenarios of settlement and cancellation of loan agreements.

The out-of-court settlements scenario is based on the assumption that existing loans denominated in or tied to a foreign currency would be converted into loans denominated in PLN. It is further proposed that any repaid instalments of loans tied to foreign currencies would be settled as if the loans had been PLN-denominated products since the outset, i.e. based on repayment schedules with interest accruing at WIBOR rates plus margin. As a result of such conversion, the value of the existing portfolio of loans denominated in or tied to foreign currencies will decrease, which is reflected in the amount of the provision.

In connection with court cases the Bank also estimates the value of the provision resulting from the filed lawsuits and lawsuits that are expected to be filed in the future. The amount of the provision is estimated based on the likelihood that an adverse court judgement will be made against the Bank and its expected financial impact. The scenarios of unfavourable outcomes are based on legal opinions and the Bank's experience to date. The adopted scenarios encompass declaration of invalidity of the agreement or conclusion of a court settlement.

The provision calculation model incorporates assumptions regarding the anticipated increase in the number of lawsuits filed by clients over a five-year period. The number of court cases increased in 2023. In June and December 2023, the Court of Justice of the European Union (CJEU) issued rulings in cases C-520/21, C-140/22 and C-756/22 that were unfavourable to the banking sector. These decisions restricted banks' claims to the repayment of nominal amount of the principal.

The Compromise and Settlement Programme, in operation since February 2022, has had a positive impact on the trend of new lawsuits over the life of the Programme. Additionally, promotional campaigns are conducted to inform the Bank's clients about the Programme and the potential benefits of reaching a settlement.

If a loan agreement is cancelled or a settlement is reached with the client, it results in derecognition of the corresponding receivable from the Bank's balance sheet. The costs incurred by the Bank, including the

derecognition of the receivable balance and any payments made to the client, are offset against the adjustment to the gross carrying amount of the loan or the provision recognised in accordance with IAS 37. Costs in excess of the amount of the adjustment or the provision are recognised in the statement of profit or loss. As at the reporting date, the loan principal amount disbursed by the Bank but not yet repaid is recognised as a receivable under 'Other assets'. When a settlement agreement is reached with a client to convert the loan currency to PLN and determine the outstanding amount of the loan, the Bank recognises the new loan agreement under amounts due from clients (housing loans).

#### Adjustment to gross carrying amount of loans and estimates of legal risk

Value of clients' debt on outstanding principal of loans tied to foreign currencies	31 Dec 2023	31 Dec 2022
CHF	616,560	773,402
EUR	416,637	508,081
USD	27,123	36,053
<b>Total</b>	<b>1,060,320</b>	<b>1,317,536</b>

Adjustment to gross carrying amount of foreign currency-linked mortgage loans and legal-risk provision	31 Dec 2023	31 Dec 2022
Provisions:		
CHF	149,450	108,681
EUR	11,932	1,279
USD	2,618	6,497
	<b>164,000</b>	<b>116,457</b>
WBB adjustment:		
CHF	471,191	381,502
EUR	49,349	11,637
USD	8,149	5,168
	<b>528,689</b>	<b>398,308</b>
<b>Total</b>	<b>692,689</b>	<b>514,764</b>

### Changes in adjustment to gross carrying amount of loans and legal-risk provision

31 Dec 2023	Total	Adjustment to gross carrying amount	Provision
<b>At beginning of period</b>	<b>514,764</b>	<b>398,307</b>	<b>116,457</b>
Change following conclusion of settlement under Settlement Programme	-23,864	-23,188	-676
Change following dispute resolution	16,133	-35,572	51,705
Change (recognition/reversal)	197,148	198,585	-1,437
Exchange differences	-11,492	-9,443	-2,049
<b>At end of period</b>	<b>692,689</b>	<b>528,689</b>	<b>164,000</b>

31 Dec 2022	Total	Adjustment to gross carrying amount	Provision
<b>At beginning of period</b>	<b>408,146</b>	<b>356,181</b>	<b>51,965</b>
Change following conclusion of settlement under Settlement Programme	-27,303	-	-27,303
Change following dispute resolution	-34,449	-3,869	-30,580
Change (recognition/reversal)	139,930	44,075	95,855
Exchange differences	28,440	1,920	26,520
<b>At end of period</b>	<b>514,764</b>	<b>398,307</b>	<b>116,457</b>

Costs of voluntary settlements with clients or of contract cancellation in excess of the provision or adjustment to the gross carrying amount of loans	1 Jan–31 Dec 2023	1 Jan–31 Dec 2022
Costs arising from conclusion of settlement agreements under Settlement Programme	9,963	478
Costs arising from conclusion of lawsuits	72,938	3,898
Loss allowance for amounts due under cancelled foreign currency loan agreements	4,362	-
<b>Total</b>	<b>87,263</b>	<b>4,376</b>

## 42. Common equity

### Registered share capital

As at 31 December 2023, the share capital stood at PLN 929,477 thousand, remaining unchanged from the amount recorded on 31 December 2022.

Series/issue	Type of shares	Type of preference	Number of shares	Par value of series/issue, PLN thousand	Method of payment for shares	Date of registration	Dividend right as of
A	○	ordinary	236,700	2,367	cash	9 Jan 1991	1 Jan 1992
B	○	ordinary	1,263,300	12,633	cash	11 Mar 1992	1 Jan 1993
C	○	ordinary	477,600	4,776	cash	30 Dec 1992	1 Jan 1993
C	○	ordinary	22,400	224	in-kind contribution	30 Dec 1992	1 Jan 1993
D	○	ordinary	1,300,000	13,000	cash	30 Dec 1993	1 Jan 1994
E	○	ordinary	647,300	6,473	cash	30 Jun 1994	1 Jan 1995
E	○	ordinary	15,500	155	in-kind contribution	30 Jun 1994	1 Jan 1995
E	○	ordinary	37,200	372	in-kind contribution	30 Jun 1994	1 Jan 1995
F	○	ordinary	1,500,000	15,000	cash	30 Dec 1994	1 Jan 1995
G	○	ordinary	1,260,000	12,600	cash	30 Jun 1995	1 Jan 1996
H	○	ordinary	670,000	6,700	cash	30 Jun 1995	1 Jan 1996
I	○	ordinary	70,000	700	cash	30 Jun 1995	1 Jan 1996
J	○	ordinary	1,055,000	10,550	cash	21 Jun 1996	1 Jan 1996
K	○	ordinary	945,000	9,450	cash	21 Jun 1996	1 Jan 1996
L	○	ordinary	1,200,000	12,000	cash	29 Nov 1996	1 Jan 1996
M	○	ordinary	2,500,000	25,000	cash	7 May 1998	1 Jan 1997
N	○	ordinary	1,853,000	18,530	cash	13 Jun 2007	1 Jan 2007
O	○	ordinary	1,320,245	13,202	in-kind contribution	25 Jun 2010	1 Jan 2010
P	○	ordinary	6,500,000	65,000	cash	15 Jun 2012	1 Jan 2011
U	○	ordinary	40,000,000	400,000	cash	12 Jul 2017	1 Jan 2016
V	○	ordinary	30,074,426	300,744	cash	4 Jul 2018	1 Jan 2018
<b>Total number of shares</b>			<b>92,947,671</b>				
<b>Total par value of share capital</b>				<b>929,477</b>			
<b>Total share capital</b>				<b>929,477</b>			

Par value of share is PLN 10.

As at 31 December 2023, the total number of voting rights attached to all shares issued by the Bank was 92,947,671 and did not change relative to 31 December 2022.

Each share carries the right to one vote at the General Meeting.

## Shareholders holding directly and indirectly 5% or more of total voting rights in the Bank.

Shareholder	31 Dec 2023		31 Dec 2022	
	Number of voting rights (shares)	% voting interest (ownership interest)	Number of voting rights (shares)	% voting interest (ownership interest)
Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej (National Fund for Environmental Protection and Water Management)	53,951,960	58.05	53,951,960	58.05
Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Fund for Investments of Polish Enterprises Closed-End Fund for Non-Public Assets)	8,000,000	8.61	8,000,000	8.61
Dyrekcja Generalna Lasów Państwowych (Directorate General of State Forests)	5,148,000	5.54	5,148,000	5.54

Other shareholders hold in total 27.8% of shares in the Bank's share capital.

As at the date of these full-year financial statements, no changes in the ownership structure of major holdings were known.

### Treasury shares

As at 31 December 2023, the Bank held 37,775 treasury shares, representing 0.04% of the share capital and 0.04% of total voting in the Bank, including:

In accordance with the Commercial Companies Code, the Bank may not exercise voting rights attached to its own shares.

### Share premium

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

As at 31 December 2023 and 31 December 2022, the share premium was PLN 532,851 thousand.



## 43. Revaluation reserve

Item	31 Dec 2023	31 Dec 2022
Remeasurement of financial assets measured at fair value through other comprehensive income	59,007	-72,867
Remeasurement of employee benefit obligations	1,789	2,665
Deferred income tax	- 11,551	13,339
<b>Total revaluation reserve</b>	<b>49,245</b>	<b>- 56,863</b>

### Change in revaluation reserve

Item	
<b>As at 1 January 2023</b>	<b>-56,863</b>
Increase due to:	4,684,107
<i>measurement of investment securities</i>	4,684,107
Decrease due to:	-4,553,109
<i>measurement of investment securities</i>	-4,552,233
<i>remeasurement of employee benefit obligations</i>	-876
Deferred income tax	-24,890
<b>As at 31 December 2023</b>	<b>49,245</b>

<b>As at 1 January 2022</b>	<b>-26,962</b>
Increase due to:	856,987
<i>measurement of investment securities</i>	856,987
Decrease due to:	-893,902
<i>measurement of investment securities</i>	-893,324
<i>remeasurement of employee benefit obligations</i>	-578
Deferred income tax	7,014
<b>As at 31 December 2022</b>	<b>-56,863</b>

## 44. Retained earnings

Retained earnings comprise: other statutory reserve funds, general risk fund and undistributed profit or loss.

Item	31 Dec 2023	31 Dec 2022
<b>Other statutory reserve funds</b>	<b>510,193</b>	<b>382,585</b>
<i>statutory</i>	44,000	44,000
<i>created pursuant to the Articles of Association above the statutory minimum</i>	461,868	334,260
<i>other</i>	4,325	4,325
<b>General risk fund</b>	<b>48,302</b>	<b>48,302</b>
<b>Undistributed profit (loss)</b>	<b>61,701</b>	<b>127,608</b>
<i>net profit (loss) for current period</i>	61,701	127,608
<b>Total retained earnings</b>	<b>620,196</b>	<b>558,495</b>

Statutory reserve funds are created from annual profit appropriations of at least 8% of net profit, until such time as the balance of the funds equals at least one third of the share capital. A portion of the of the reserve funds, equal to one-third of the share capital, may be used exclusively for offsetting losses disclosed in the financial statements.

Other reserves are created by appropriating net profit for the year, irrespective of the statutory reserve funds and are earmarked for offsetting specific losses and expenses.

The General Meeting makes decisions concerning the use of the statutory reserve funds and other reserves.

The general risk fund designated for unidentified risks in the Bank's business is created by appropriating net profit for the year, in accordance with the applicable provisions of the banking law.

## 45. Hedge accounting

### Hedge accounting policies

Hedge accounting is an integral part of the financial risk management process. Financial risk is managed as part of the risk management process in place at the Bank.

The Bank hedges the interest rate risk in the banking book. The Bank uses fair value hedges to hedge the fair value of fixed-rate Treasury bonds.

### Cash flow hedge accounting

As at 31 December 2023, the Bank did not apply cash flow hedge accounting.

### Fair value hedge accounting

During the hedging period, the Bank hedges the volatility of fair value of fixed-rate bonds, resulting from movements of market interest rates. The hedged item is part of the Treasury bonds held in the HtCS business model. The hedging instrument is an Interest Rate Swap (IRS), under which the Bank makes a payment based on a fixed interest rate and receives a coupon based on a variable rate (6M WIBOR).

By establishing a hedging relationship, the netting effect of changes in the fair value of the hedging instrument and the hedged item is obtained in profit or loss. Only one type of risk (i.e. the risk of interest rate volatility) is hedged. The spread between quote prices of the Treasury bonds and the IRS transactions is not hedged.

The hedge is expected to be highly effective in offsetting fair value changes resulting from the hedged risk. The effectiveness of the hedge is verified by using prospective and retrospective hedge effectiveness tests:

- the retrospective prospective effectiveness test, which aims to confirm the high probability of sufficient flows from the hedged item, as estimated in the prospective effectiveness test,
- the test based on the hypothetical derivative method, which involves presenting the hedged item as a hypothetical derivative.

Effectiveness testing involves comparing the changes in the fair value of the hedging instrument and the hypothetical derivative. The test yields a positive result if the Hedge Effectiveness Ratio (HER) falls within the range of 80-125%. The tests are performed on a monthly basis. The Bank does not identify any significant sources of ineffectiveness the fair value hedging.

Changes in the fair value of the hedged item resulting from movements of market interest rates are recognised in the statement of profit or loss. Changes in the fair value of the bonds not attributable to changes in the hedged risk are recognised in revaluation reserve. Changes in the measurement of the hedging instrument are recognised in the statement of profit or loss.

As at 31 December 2023, the Bank had one fair value hedge relationship – a hedge established on 20 October 2015.

The hedged item within the hedging relationship established in 2015 includes PLN 240 million of State Treasury bonds DS0725, maturing in July 2025.

As at 31 December 2023, an amount of PLN 3,188 thousand resulting from changes in fair value of the bonds due to movements of interest rates and changes in the fair value of the IRS transactions was recognised in the statement of profit or loss. The amount of PLN -1,854 thousand was recognised in the revaluation reserve. It represented the sum of the impact of the bonds on equity as at the date the hedge relationship was established (PLN -2,812 thousand) and the change in the fair value of the bonds resulting from the unhedged part of the risk (spread between the quoted prices of the bonds and the IRS transactions).

Item	31 Dec 2023			31 Dec 2022		
	carrying amount	nominal value	fair value*\	carrying amount	nominal value	fair value*\
<b>Hedging instruments</b>						
Interest Rate Swap (IRS) – positive valuation	15,556	258,000	10,762	30,562	258,000	25,090
<b>Hedged items</b>						
Treasury bonds – positive valuation	236,786	240,000	-7,574	223,428	240,000	-19,866
<b>Total effect on profit or loss</b>			<b>3,188</b>			<b>5,224</b>

\*\ for the hedged bonds it is an adjustment to the fair value

## 46. Share-based payments

### Management Remuneration Policy

To comply with the requirements set forth in the Regulation of the Minister of Finance, Development Funds and Regional Policy dated 8 June 2021 regarding the risk management system, internal control system, and remuneration policy in banks, as well as in accordance with the provisions of Directive 2013/36/EU of the European Parliament and of the Council dated 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, Bank Ochrony Środowiska S.A. has implemented a Remuneration Policy. This policy, approved by the Supervisory Board, applies specifically to managerial positions that have a significant impact on the Bank's risk profile.

The Remuneration and Appointments Committee of the Supervisory Board gives its opinion on the Remuneration Policy, gives its opinion and drafts rules of compensation of members of the Management Board, gives its opinion on the amount of variable remuneration for managers who have a significant impact on the Bank's risk profile, gives its opinion on and monitors the amount of variable remuneration for managers at the Bank responsible for second-level risk management, management of the compliance function and management of the internal audit function.

In compliance with the disclosure obligation outlined in Recommendation No. 30.1 of the PFSA Recommendation Z and the Compensation Policy, the Bank hereby reports that the ratio of the average total gross remuneration of the Management Board members to the average total gross remuneration of other employees of the Bank in 2023 was 6.32. This ratio remained below the established threshold, as required.

The maximum amount of variable remuneration for each managing person may not exceed 100% of the person's fixed remuneration. The General Meeting of Bank Ochrony Środowiska S.A. has the authority to grant its consent to increase the maximum level of variable remuneration up to 200% of the fixed remuneration, in accordance with the procedure outlined in Article 25.3.4.b) and 25.3.4.c) of the Regulation of the Minister of Finance, Funds and Regional Policy. The increase in the maximum amount of variable remuneration referred to in the preceding sentence does not apply to members of the Management Board.

In 2023, two revisions were made to the Remuneration Policy, specifically incorporating the following changes:

1. Provisions governing severance payments and benefits of a similar nature were added to bring the policy in line with the requirements of the EBA/GL/2021/04 guidelines;
2. Provisions were added to clarify the scope of information provided to the Bank's shareholders as part of the Report on the Assessment of the Remuneration Policy;
3. The provisions on the powers and duties of the Remuneration and Nominations Committee in the formulation and implementation of the policy were supplemented;
4. Provisions were added designating the Internal Audit Department as responsible for conducting a periodic (at least once a year) independent review of the group's implemented remuneration policies and rules, and specifying the scope of this review;
5. A provision was included to ensure that the Table of Minimum Monthly Salary Rates and bonus regulations specific to certain areas/units are made publicly available to employees;
6. The provision regarding the annual discretionary award was removed, as this component is no longer applicable given that all Bank employees are now included in the bonus system;
7. A provision was added to ensure that decisions to withhold, limit, or deny variable compensation to employees in managerial positions are based on the results of the suitability assessment;
8. A provision was added which mandates that the Bank's HR Department annually review the Bank's remuneration policy. This includes assessing the document's adequacy and its compliance with generally applicable laws and the Bank's internal regulations.

During the reporting period, the variable remuneration of individuals in managerial positions that significantly impact the Bank's risk profile was also settled, specifically:

1. Upon the lapse of the retention period, the phantom shares awarded to members of the Management Board as the second tranche of deferred variable remuneration for 2019 and the third tranche of deferred variable remuneration for 2018 and the non-deferred portion of variable remuneration for 2021, in the total gross amount

of PLN 619.53 thousand (67,457 phantom shares at the value per phantom share equalling the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period, i.e. PLN 9.1840) were converted into cash and paid out;

2. the third (of three) tranche of deferred variable remuneration for the 2019 performance year was granted and settled after the reporting period; the total cost amounted to PLN 127.4 thousand gross, including payments in the form of phantom shares constituting a short-term benefit paid after the lapse of the retention period, i.e. after a period of six months from the date of award of the variable component of remuneration, at the value per phantom share equal to the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period – 7,070 shares, and the amount of PLN 48.4 thousand gross was paid in cash as a short-term benefit;
3. the first (out of five) tranches of deferred variable remuneration for the 2021 performance year was settled; the total anticipated cost is projected to reach PLN 93.7 thousand gross. This includes disbursements in the form of phantom shares, recognised as short-term benefits, payable upon the expiry of the retention period – that is, six months subsequent to the award date of the variable remuneration component. The value per phantom share (5,271 shares) was determined by the arithmetic mean of the closing prices from the first five trading sessions post-retention period, and a total of PLN 47 thousand gross was disbursed in cash as a short-term benefit;
4. after the reporting period, i.e. at the conclusion of the retention period, phantom shares were converted to cash and disbursed to two members of the Management Board (including one former member). The gross total amounted to PLN 32.9 thousand, involving 2,945 phantom shares. The value per share was calculated based on the arithmetic average of the closing prices from the first five trading sessions post-retention period, which was PLN 11.1720 per share.
5. The members of the Management Board were granted variable remuneration for their performance in 2022, with a total amount of PLN 1,651.8 thousand being accrued. Of the accrued variable remuneration, 60% was settled in 2022. However, 40% of the accrued variable remuneration (amounting to PLN 660.7 thousand gross) was deferred and will be paid out over a period of five years. 50% of the non-deferred remuneration settled in 2022 was paid in cash, totalling PLN 495.6 thousand gross. The remaining 50% was allocated in phantom shares as a short-term benefit, which will be paid out after the end of the retention period. The payment for these shares (56,003 shares) will be calculated based on the arithmetic average of the closing prices from the first five trading sessions following the end of the retention period;
6. after the reporting period, i.e. at the conclusion of the retention period, phantom shares were converted to cash and disbursed to two members of the Management Board (including one former member). The gross total amounted to PLN 371 thousand, involving 33,205 phantom shares. The value per share was calculated based on the arithmetic average of the closing prices from the first five trading sessions post-retention period, which was PLN 11.1720 per share.
7. Variable compensation totalling PLN 2,326.5 thousand gross was accrued and paid to 33 individuals in managerial roles identified as having a significant impact on the Bank's risk profile (excluding members of the Management Board). This compensation was awarded based on the fulfilment of all required conditions for variable pay and the absence of any significant irregularities or issues in the performance of their assigned duties.
8. A total of 4 individuals holding managerial positions, excluding members of the Management Board, who were identified as having a significant impact on the Bank's risk profile, received a total cash award of PLN 17 thousand gross for the implementation of individual projects in 2022.

In accordance with the provisions of Chapter IV, paragraph 14, subsection 4, of the Bank Ochrony Środowiska S.A. Remuneration Policy (excluding members of the Management Board), the variable compensation accrued and paid in 2023 was exempt from the deferral mechanism and did not involve partial payments in shares.

The amount of variable remuneration for 2023 has not yet been determined and awarded.

## 47. Notes to the statement of cash flows

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include the following highly liquid balances with maturities of less than three months.

Item	31 Dec 2023	31 Dec 2022
Cash and balances with central bank (Note 21)	584,082	575,865
Deposits with other banks, recognised as cash equivalents (Note 22)	143,413	213,672
Investment securities (Note 24)	3,296,458	4,465,127
<b>Total</b>	<b>4,023,953</b>	<b>5,254,664</b>

The balance of cash and cash equivalents includes the obligatory reserve maintained with the NBP.

In accordance with Par. 12 of NBP Resolution No. 40/2015, the Bank may use the funds held in the obligatory reserve for current cash settlements.

The amount of the obligatory reserve declared to be maintained in December 2023 was PLN 611,254 thousand (December 2022: PLN 618,966 thousand). The Bank is required to maintain the average cash balance per month above the declared obligatory reserve.

### Reconciliation of differences between changes in the statement of financial position and changes of the corresponding items disclosed in the statement of cash flows from operating activities

Item	for the year ended	
	31 Dec 2023	31 Dec 2022
Change in amounts due from banks	78,204	149,567
Change in deposits with other banks, recognised as cash equivalents	- 70,259	- 125,333
<b>Total change in deposits with other banks and amounts due from banks</b>	<b>7,945</b>	<b>24,234</b>
Change in investment securities	- 476,652	- 1,899,187
Change in investment securities recognised in cash and cash equivalents	- 1,168,669	1,566,113
Redemption of held-to-maturity securities	- 63,398	- 204,225
Purchase of securities measured at amortised cost	493,679	475,938
Interest income on securities measured at amortised cost	- 157,787	- 63,833
Transfer of interest on securities measured at amortised cost to interest on investing activities	193,556	109,969
Remeasurement of financial assets measured at fair value through other comprehensive income	131,873	- 36,337

<b>Total change in investment securities</b>	<b>- 1,047,398</b>	<b>- 51,562</b>
Change in investments in subsidiaries	- 50,033	- 26,787
Valuation of shares using the equity method	70,034	36,787
Other changes	- 1	-
Dividends received	- 20,000	- 10,000
<b>Total change in investments in subsidiaries</b>		
Change in other assets and income tax	9,627	- 34,495
Deferred income tax expense disclosed in the statement of profit or loss	9,266	7,126
Deferred income tax on measurement of investment securities and employee benefits	- 24,890	7,014
Non-monetary changes in intangible assets, property, plant and equipment and right-of-use assets – leases	12	61
Other changes	1	-
<b>Total change in other assets and income tax</b>	<b>- 5,984</b>	<b>-20,294</b>
Change in provisions	69,031	70,944
Effect of actuarial valuation on revaluation reserve	- 875	- 578
<b>Total change in provisions</b>	<b>68,156</b>	<b>70,366</b>
Change in other liabilities and income tax	8,360	46,136
Current income tax expense	- 69,671	- 65,430
Income tax paid	67,359	75,567
<b>Total change in other liabilities and income tax</b>	<b>6,048</b>	<b>56,273</b>
Change in liabilities arising from issue of bank securities	101,997	- 24,072
Proceeds from bond issue – subordinated liabilities	- 100,000	-
Redemption of bonds, including:	-	32,500
<i>subordinated bonds</i>	-	32,500
Interest paid on bonds issued by the Bank, including:	33,907	14,901
<i>on subordinated bonds</i>	33,907	14,901
Interest accrued on bonds issued by the Bank, including:	- 35,904	- 23,329
<i>subordinated bonds</i>	- 35,904	- 23,329
<b>Total change in liabilities arising from issue of bank securities</b>	<b>-</b>	<b>-</b>

## 48. Description of derivative financial instruments and foreign exchange transactions

### Foreign exchange and currency derivative transactions:

Instrument	31 Dec 2023		31 Dec 2022		31 Dec 2023		31 Dec 2022	
	FX Swap		FX Forward		FX Spot			
Description of the instrument	A transaction that obligates the parties to a contract to enter into an initial exchange of currencies on a specified date and at a specified exchange rate and a forward (final) exchange rate for that currency on a specified date in the future (other than the first leg settlement) and at a rate agreed upon at the date of the transaction (usually different from the initial exchange rate). The currency that one counterparty is required to pay to the other as a result of the final exchange is the same currency that the counterparty received in the initial exchange.		A forward transaction to exchange a specified amount of currency for another currency on a specified date, at a fixed forward rate. This is a forward outright contract. All terms and conditions of the transaction are determined on the date of its execution.		A transaction to exchange a specific amount of currency for another currency, at a rate agreed upon at the time of the transaction. Typically, the transaction is settled within two business days of the execution date.			
Purpose of acquisition or issue	for trading/liquidity		for trading		for trading			
Number of transactions	24	36	29	74	76	91		
Notional amount (PLN thousand)	493,065	360,035	105,107	191,527	238,353	457,812		
Fair value (PLN thousand)	2,035	-875	-425	4,732	-125	-432		
- positive	3,141	135	1,164	6,244	221	259		
- negative	-1,106	-1,010	-1,589	-1,512	-346	-691		



Future income / payments	Variable		Variable		Variable	
Average maturity	18 Jan 2024	7 Jan 2023	21 Mar 2024	16 Feb 2023	2 Jan 2024	3 Jan 2023
Early settlement	None		At client's request		None	
Exchange or conversion into another asset/ liability	None		None		None	
Other terms	None		None		None	
Type of risk associated with the derivative instrument	Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk	

**Interest rate derivative transactions:**

Instrument	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
	Interest rate swaps (IRS)		Interest rate swaps (IRS hedging PLN)		Interest rate swaps (IRS hedging EUR)		Forward transactions in bonds	
Description of the instrument	A transaction that obligates both parties to exchange periodic interest payments on a specified notional amount over an agreed period of time. Interest payments are made in the same currency and calculated at a fixed rate for each party involved (one rate may be fixed while the other is variable, or both may be variable but based on different indices). This category also includes IRS transactions whose notional amount changes over time – amortised swaps.		A transaction that obligates both parties to exchange periodic interest payments on a specified notional amount over an agreed period of time. Interest payments are made in the same currency and calculated at a fixed rate for each party involved (one rate may be fixed while the other is variable, or both may be variable but based on different indices).		A transaction that obligates both parties to exchange periodic interest payments on a specified notional amount over an agreed period of time. Interest payments are made in the same currency and calculated at a fixed rate for each party involved (one rate may be fixed while the other is variable, or both may be variable but based on different indices).		A forward transaction to buy/sell a specified amount of a security on a specified date at a fixed forward price. All terms and conditions of the transaction are determined on the date of its execution.	
Purpose of acquisition or issue	for trading		as hedge (fair value hedge accounting)		as hedge (cash flow hedge accounting)		for trading	
Number of transactions	126	135	2	2	-	-	2	-
Notional amount (PLN thousand)	2,635,117	2,979,603	258,000	258,000	-	-	40,000	-

Fair value (PLN thousand)	35,165	51,372	15,556	30,562	-	-	44,062	-
- positive	108,777	196,081	15,556	30,562	-	-	42	-
- negative	-73,612	-144,709	-	-	-	-	-	-
Future income / payments	Variable		Variable		Variable		Variable	
Average maturity	20 Feb 2028	24 Feb 2027	25 Jul 2025	25 Jul 2025	-	-	2 Jan 2024	-
Early settlement	Generally none, but possible in transactions with non-banking clients in cases specified in contracts. Possible, rarely used.		None		None		None	
Exchange or conversion into another asset/ liability	None		None		None		None	
Other terms	None		None		None		None	
Type of risk	Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk		Operational risk, market risk, counterparty risk	

#### Foreign exchange and currency derivative transactions:

Item	31 Dec 2023	31 Dec 2022
Notional value	836,525	1,009,374
<b>Total foreign exchange and currency derivative transactions:</b>		
<i>assets</i>	4,526	6,638
<i>liabilities</i>	-3,041	-3,213

#### Interest rate derivative transactions:

Item	31 Dec 2023	31 Dec 2022
Notional value	2,933,117	3,237,603
<b>Total interest rate derivative transactions:</b>		
<i>assets</i>	124,375	226,643
<i>liabilities</i>	-73,612	-144,709

#### Total derivative financial instruments:

Item	31 Dec 2023	31 Dec 2022
Notional value	3,769,642	4,246,977
<b>Total derivative financial instruments:</b>		
<i>assets</i>	128,901	233,281
<i>liabilities</i>	-76,653	-147,922

#### Offsetting financial assets and financial liabilities

The Bank does not offset its financial instruments in financial assets and liabilities recognised in the financial statements.

## 49. Fair value of financial assets and liabilities

The carrying amount and the fair value of financial assets and liabilities other than measured at fair value disclosed in the financial statements are presented below.

Item	Carrying amount 31 Dec 2023	Fair value 31 Dec 2023	Carrying amount 31 Dec 2022	Fair value 31 Dec 2022
<b>FINANCIAL ASSETS</b>				
<b>Amounts due from banks</b>	<b>162,681</b>	<b>163,942</b>	<b>240,885</b>	<b>242,439</b>
<b>Amounts due from clients including:</b>	<b>10,819,261</b>	<b>10,843,421</b>	<b>11,173,579</b>	<b>11,207,309</b>
amounts due in PLN	8,647,732	8,663,993	8,731,755	8,795,118
amounts due in foreign currencies	2,171,529	2,179,428	2,441,824	2,412,191
<b>Investment securities – measured at amortised cost</b>	<b>2,366,265</b>	<b>2,354,967</b>	<b>1,900,215</b>	<b>1,626,239</b>
Debt securities, including:	2,366,265	2,354,967	1,900,215	1,626,239
<i>Treasury securities</i>	1,879,119	1,891,197	1,691,585	1,465,902
<i>other</i>	487,146	463,770	208,630	160,337
<b>FINANCIAL LIABILITIES</b>				
<b>Amounts due to central bank and other banks</b>	<b>75,146</b>	<b>75,146</b>	<b>141,143</b>	<b>141,143</b>
<b>Amounts due to clients, including:</b>	<b>18,641,304</b>	<b>18,391,685</b>	<b>18,879,924</b>	<b>18,460,439</b>
<i>institutional clients</i>	8,501,612	8,502,334	9,026,794	9,025,834
<i>retail clients</i>	9,485,310	9,511,214	9,138,745	9,114,063
<i>other clients</i>	215,099	215,099	124,710	124,710
<i>international financial institutions</i>	439,283	163,038	589,675	195,832
<b>Subordinated liabilities</b>	<b>447,032</b>	<b>507,541</b>	<b>345,035</b>	<b>335,736</b>

### Amounts due from banks

Amounts due from banks include interbank deposits, nostro accounts and loans and advances. Fair value of interbank deposits, due to their short-term nature (fixed-rate interbank deposits up to six months) is equal to their carrying amount. Bonds issued by banks were measured at fair value, after accounting for a change in the credit spread calculated on the basis of comparable issues by similar banks.

### **Amounts due from clients**

Amounts due from clients are disclosed net of impairment allowances. Amounts due from clients in the balance sheet are chiefly measured at amortised cost using the effective interest rate (99% of the carrying amount of credit facilities).

The fair value of credit facilities is assumed to be their value resulting from currently estimated future principal and interest cash flows (separately for facilities denominated in foreign currencies and for facilities denominated in PLN) calculated using the effective interest rate for each facility (except for facilities with an undetermined schedule or non-performing loans, for which the fair value is assumed to be the same as carrying amount) and discounted at the average effective interest rate of the facilities granted over the last twelve months. For mortgage loans, account was taken of prepayments. In the case of facilities in foreign currencies, which the Bank ceased to grant, an average effective interest rate on the corresponding facilities denominated in PLN was applied, adjusted for the difference between the rates in specific currencies and PLN.

### **Investment securities measured at amortised cost**

Investment securities measured at amortised cost include Treasury bonds held within the HtC business model. The fair value of the bonds is assumed to be the current valuation derived from quoted market prices plus accrued interest.

### **Amounts due to central bank and other banks**

Amounts due to the central bank as well as liabilities arising from repo transactions are disclosed at carrying amount. Liabilities arising from repo transactions were recognised at carrying amount due to the lack of available market data necessary to calculate the fair value of basic repo transactions of the Bank with the counterparty.

Interbank deposits, due to short maturities, were disclosed at carrying amounts, and the borrowings (principal and interest) were discounted using the average effective interest rate.

### **Amounts due to clients**

Amounts due to clients disclosed in the statement of financial position are measured at amortised cost, using the effective interest rate method. The fair value of amounts due to clients is assumed to be their value resulting from discounting principal and interest for all deposits at the weighted average interest rate that was in effect for deposits accepted in December 2023. In the absence of payment schedules for current accounts, they were recognised at the carrying amount.

Amounts due to international financial institutions (principal and interest) were discounted using the average effective interest rate (for EUR) or the interest rate of the most recent transaction executed in a given currency (for PLN).

### **Liabilities arising from issue of securities**

Liabilities arising from issue of securities are measured at fair value taking into account change in credit spread for PLN-denominated bonds, determined based on the latest issue carried out by the Bank.

### **Subordinated liabilities**

Subordinated liabilities were measured at fair value, with the change in the credit spread determined on the basis of the latest issue made by the Bank.

## 50. Allocation of financial instruments measured at fair value based on the fair value measurement method

Under IFRS 13, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When estimating fair value, the Bank takes into account the adjustment for counterparty credit risk.

As at 31 December 2023 and 31 December 2022, the Bank allocated financial assets and liabilities measured at fair value into three categories (levels) based on the measurement method:

- Level 1: mark-to-market valuation** directly from available quotations of instruments on the market. This applies to quoted equity and debt securities and NBP bills (quotations based on the reference rate),
- Level 2: mark-to-model valuation approach**, with model parameterisation based on active market quotations for the type of instruments concerned or prices obtained in transactions concluded close to the reporting date on normal market terms. Fair value is also determined by reference to other, similar instruments, by analysing discounted cash flow and with other valuation methods commonly used by market participants, and in the case of financial instruments to which no valuation method can be applied – at cost. This applies to unlisted bank securities, equity securities and derivatives (including forward transactions for securities), except where they meet the criteria for allocation to Level 3. Due to the above, the fair value of these securities is based on the valuation model developed by the Company and using comparable values for businesses listed on the Warsaw Stock Exchange,
- Level 3: mark-to-model valuation approach**, with model parameterisation based on active market quotes for a given type of instruments and the model parameters based on estimated risk factors. This applies to municipal securities (measured using the discounted cash flows method, with credit spreads used in the valuation determined on the basis of internal ratings), securities of other banks (prices are determined based on the margins of securities quoted in the market at the time of price determination, issued by selected issuers), unlisted equity securities and illiquid equity securities (measured using the discounted cash flows method).

### Financial instruments by fair-value hierarchy level:

31 Dec 2023	Level 1	Level 2	Level 3	Total
<b>Financial assets held for trading</b>	-	113,345	-	113,345
Debt securities	-	-	-	-
Derivative financial instruments	-	113,345	-	113,345
<b>Derivative hedging instruments</b>	-	15,556	-	15,556
<b>Investment securities measured at fair value through other comprehensive income</b>	5,785,032	126,328	1,207,145	7,118,505
<i>debt securities</i>	5,766,490	126,328	1,119,031	7,011,849
<i>equity securities</i>	18,542	-	88,114	106,656
<b>Amounts due from banks</b>	-	-	163,942	163,942
<b>Amounts due from clients</b>	-	-	10,843,421	10,843,421
<b>Investment securities measured at amortised cost</b>	2,354,967	-	-	2,354,967
<b>Total</b>	<b>8,139,999</b>	<b>255,229</b>	<b>12,214,508</b>	<b>20,609,736</b>

31 Dec 2023	Level 1	Level 2	Level 3	Total
<b>Financial liabilities held for trading</b>	-	76,653	-	76,653
Derivative financial instruments	-	76,653	-	76,653
<b>Amounts due to other banks</b>	-	-	75,146	75,146
<b>Amounts due to clients</b>	-	-	18,391,685	18,391,685
<b>Subordinated liabilities</b>	-	-	507,541	507,541
<b>Total</b>	-	76,653	18,974,372	19,051,025

Changes in securities measured at fair value through other comprehensive income				Level 3
<b>At beginning of period 1 Jan 2023</b>				690,466
Purchase				836,000
Sale and redemption				-375,291
Total gains and losses				34,733
<i>in profit or loss</i>				-42,869
<i>in other comprehensive income</i>				77,602
<b>At end of period 31 Dec 2023</b>				1,185,908

31 Dec 2022	Level 1	Level 2	Level 3	Total
<b>Financial assets held for trading</b>	20,225	202,719	-	222,944
Debt securities	20,225	-	-	20,225
Derivative financial instruments	-	202,719	-	202,719
<b>Derivative hedging instruments</b>	-	30,562	-	30,562
<b>Investment securities measured at fair value through other comprehensive income</b>	6,310,813	106,624	690,466	7,107,903
<i>debt securities</i>	6,292,270	106,624	623,544	7,022,438
<i>equity securities</i>	18,543	-	66,922	85,465
<b>Amounts due from banks</b>	-	-	242,439	242,439
<b>Amounts due from clients</b>	-	-	11,207,309	11,207,309
<b>Investment securities measured at amortised cost</b>	1,626,239	-	-	1,626,239
<b>Total</b>	7,957,277	339,905	12,140,214	20,437,396



31 Dec 2022	Level 1	Level 2	Level 3	Total
<b>Financial liabilities held for trading</b>	-	147,922	-	147,922
Derivative financial instruments	-	147,922	-	147,922
<b>Amounts due to other banks</b>	-	-	141,143	141,143
<b>Amounts due to clients</b>	-	-	18,460,439	18,460,439
<b>Subordinated liabilities</b>	-	-	335,736	335,736
<b>Total</b>	-	147,922	18,937,318	19,085,240

Changes in securities measured at fair value through other comprehensive income				Level 3
<b>At beginning of period 1 Jan 2022</b>				1,017,347
Purchase				-
Sale and redemption				-302,468
Total gains and losses				-24,413
<i>in profit or loss</i>				-18,804
<i>in other comprehensive income</i>				-5,609
<b>At end of period 31 Dec 2022</b>				690,466

Financial instruments may be reallocated between Level 1 and Level 2 based on the availability of quotations from an active market at the reporting date.

An instrument is reallocated from Level 2 to Level 3 when valuation changes from an observable factor to an unobservable factor or when a new unobservable risk factor is applied to the valuation that simultaneously results in a significant effect on the valuation of the instrument.

An instrument is reallocated Level 3 to Level 2 when valuation changes from an unobservable factor to an observable factor or when the effect of the unobservable factor on the valuation of the instrument ceases to be significant. Reallocations between the measurement methods take place on the date and as at the end of the reporting period.

In the period from 1 January to 31 December 2023, there were no reallocations of instruments between the levels. Measurement of Level 3 instruments does not affect the statement of profit or loss.

The fair value measurement of Level 3 instruments is disclosed in other comprehensive income. Net profit (loss) includes accrued interest, interest paid, discount or premium, foreign exchange differences and reversed provisions (in the case of equity securities).

As at 31 December 2023, the sensitivity of the valuation of municipal instruments allocated to Level 3 to a +/- 1 basis point change in the credit spread (unobservable model parameter) was PLN 5.5 thousand (31 December 2022: PLN 14 thousand).

## 51. Segment reporting

In accordance with IFRS 8, operating segments are determined on the basis of internal reports on components of an enterprise that are subject to periodic reviews by the management responsible for taking operational decisions. IFRS 8 defines an operating segment as a component of an entity:

1. that engages in business activities from which it may earn revenues and incur expenses,
2. whose operating results are regularly reviewed by the entity's chief operating decision maker,
3. for which discrete financial information is available.

The following is the policy for segment reporting applied in the periods ended 31 December 2023 and 31 December 2022, by the following lines of business:

1. institutional clients,
2. retail clients,
3. treasury and investments,
4. other (not allocated to the segments).

The Institutional Client business line encompasses transactions conducted with corporate clients, small and medium-sized enterprises (SMEs), and strategic clients through Business Centres, branches and the Bank's Head Office. The Retail Client business primarily serves individuals, micro-enterprises, housing communities and non-governmental organisations (NGOs) without credit facilities.

The Treasury and Investments business line includes transactions on the interbank market as well as transaction in debt securities, derivatives and equity investments. Treasury and investment activities include management of the Bank's liquidity, foreign exchange and interest rate risks and fund transfer pricing settlements with other business divisions (segments).

The brokerage business provides services to both retail and institutional clients.

Other activities (not allocated to segments) include items of the statement of profit or loss that are not allocated to any of the business areas listed in items 1-4, in particular income and expenses related to unclassified clients.

The financial data of BOŚ Leasing-EKO Profit S.A. and MS Wind Sp. z o.o. are classified into the institutional client segment.

To enhance presentation clarity, interest income and similar revenues generated by the treasury and investment business area are allocated to the institutional client division and the retail client division. This allocation reflects the tertiary nature of the treasury and investment business in relation to these two divisions, allowing for a more accurate representation of revenue distribution across the different business segments. The allocation is determined based on keys that consider the scale of credit and deposit activities in each division. Starting from the fourth quarter of 2022, there has been a change in the key used for allocating the results of treasury and investment activities from transfer settlements to the business divisions. Previously, the key was based on the 'balance of business line assets'. However, it has now been modified to 'balance of business line assets and liabilities'.

The results of the operating segments for the corresponding period of the previous year have been restated to ensure comparability.

The treasury and investment products include financial instruments, current and term deposits, interbank deposits and deposits from ALM clients, loans from other banks and loans granted to banks, debt and equity securities, and derivatives.

Brokerage activities mainly involve purchase and sale of securities for the banking book and for the trading book, maintaining securities accounts, fee-based management of third parties' securities portfolios, and offering securities the primary market or through initial public offerings.

Assets and liabilities of the areas specified in items 1-2 above have been separated on the basis of the Bank's lending and deposit base.

Net interest income includes transfer settlements between the Institutional client segment, the retail client segment, and the treasury and investment business. Transfer measurement of funds is based on reference rates and additional funding rates, taking into account currency, stability of funds and maturities, which are referenced to the yield curve. All relevant assets and interest-bearing liabilities, as well as off-balance sheet items that generate demand for liquidity are subject to transfer rates measurement. Measurement is performed on a monthly basis and is based on the (daily) average of individual interest-rate transactions allocated to a given division separately for each currency.

The operating result of the institutional client segment and the retail client segment is determined by subtracting administrative costs directly related to the segments' transactions or units and costs and loss allowances allocated to the segments, including cross-settlements for serving clients of the institutional client division by the Bank's operating branches (focused on services for clients of the retail division), from the result of banking activities within these divisions.

Segment's net finance income (costs) comprises:

1. Net interest income, i.e. the sum of the difference between interest income on credit facilities and municipal bonds from clients and cost of funds received from ALM (treasury and investment activity) and income from the transfer of funds to ALM less interest expenses paid to the Bank's clients.
2. Net fee and commission income, i.e. the difference between fee and commission income and expenses allocated to a given transaction and allocated to the business area. The net result includes income and expenses both recognised on a one-off basis and accounted for on a straight-line basis, while transaction-related income and expenses accounted for at the effective interest rate are recognised in net interest income.
3. Gain (loss) on foreign exchange transactions, i.e. income on negotiated FX transactions (forwards and spots) and income on foreign exchange according to the Bank's exchange rate table. The item includes gain (loss) on derivative transactions.
4. Net other income and expenses
5. Effect of legal risk of mortgage loans denominated in foreign currencies, relating to recognised / reversed provisions for pending and future court cases, as well as the settlements programme related to the judgment of the Court of Justice of the European Union (ECJ) in case C-260/18.
6. Net impairment losses and measurement of receivables at fair value through profit or loss, i.e. gain (loss) on changes in impairment losses on loans, municipal and corporate bonds, and gain (loss) on loans, municipal and corporate bonds measured at fair value allocated to a given business area. The result includes changes in the portfolio of impaired foreign currency loans due to exchange rate fluctuations.

The financial result of the treasury and investment business area is the sum of the results of the treasury and equity investment business areas of the Bank, which include:

1. Interest income – calculated as the sum of interest income on transactions with external clients and the result of transfer pricing settlements between funds and other segments. External interest income and expense relate to transactions on the interbank market (deposits and loans), as well as debt securities purchased and issued. The result on transfer pricing settlements of funds is the difference between income from financing of assets of other segments and transfer costs for deposits received from other segments.
2. Gain (loss) on foreign exchange transactions includes gain (loss) on foreign exchange trading transactions, remeasurement of the provision for foreign-currency loans, and changes in the measurement of active currency forward hedges. This item includes gain (loss) of foreign exchange transactions not allocated to other segments.
3. Gain (loss) on hedge accounting includes gain (loss) on cash-flow hedging transactions and fair-value hedging transactions.
4. Gain (loss) on financial instruments measured at fair value through profit or loss, gain (loss) on transactions in the trading book and on transactions in financial instruments, including FX swaps.
5. Gain (loss) on investment securities – gain (loss) on shares and debt securities and on measurement of financial instruments.
6. Dividend income.

7. Difference in value of impairment allowances, gain (loss) on shares and exposures to financial institutions allocated to the treasury and investment business area.

Below are presented the financial results of the Bank for the periods ended 31 December 2023 and 31 December 2022 attributable to the reportable segments.

No.	Selected items of the statement of profit and loss for the 12 months ended 31 December 2023	INSTITUTIONAL CLIENTS	RETAIL CLIENTS	TREASURY AND INVESTMENTS	OTHER (NOT ALLOCATED TO SEGMENTS)	Total
<b>I.</b>	<b>Net interest income</b>	<b>287,324</b>	<b>207,130</b>	<b>201,893</b>	<b>-</b>	<b>696,347</b>
1.	Interest and similar income, including:	1,267,405	853,436	- 537,938	-	1,582,903
	<i>transactions with external clients</i>	743,124	213,165	626,614	-	1,582,903
	<i>transactions with other segments</i>	524,281	640,271	- 1,164,552	-	-
2.	Interest expense and similar charges, including:	- 980,081	- 646,306	739,831	-	- 886,556
	<i>transactions with external clients</i>	- 363,033	- 454,114	- 69,409	-	- 886,556
	<i>transactions with other segments</i>	- 617,048	- 192,192	809,240	-	-
<b>II.</b>	<b>Net fee and commission income</b>	<b>63,825</b>	<b>11,246</b>	<b>-</b>	<b>- 574</b>	<b>74,497</b>
III.	Dividend income	-	-	8,118	-	8,118
IV.	Gain (loss) on financial instruments measured at fair value through profit or loss	5,227	- 164	5,231	-	10,294
V.	Gain (loss) on hedge accounting	-	-	- 2,028	-	- 2,028
VI.	Gain (loss) on investment securities	-	-	-	-	-
VII.	Gain (loss) on foreign exchange transactions	14,079	3,525	- 7,121	-	10,483
VIII.	Gain (loss) on derecognition of financial instruments	1,038	-	-	-	1,038
<b>IX.</b>	<b>Net banking income</b>	<b>371,493</b>	<b>221,737</b>	<b>206,093</b>	<b>- 574</b>	<b>798,749</b>
X.	Net other income and expenses	4,201	- 8,985	-	- 11,806	- 16,590

XI.	Effect of legal risk of mortgage loans denominated in foreign currencies	-	- 284,411	-	-	- 284,411
XII.	Net impairment losses	- 64,861	9,360	- 5,997	-	- 61,498
<b>XIII.</b>	<b>Net finance income (costs)</b>	<b>310,833</b>	<b>- 62,299</b>	<b>200,096</b>	<b>- 12,380</b>	<b>436,250</b>
1.	Direct costs	- 29,068	- 27,360	- 2,845	-	- 59,273
	<b>Profit (loss) after direct costs</b>	<b>281,765</b>	<b>- 89,659</b>	<b>197,251</b>	<b>- 12,380</b>	<b>376,977</b>
2.	Indirect costs and mutual services	- 114,733	- 97,771	- 18,930	-	- 231,434
	<b>Profit (loss) after direct and indirect costs</b>	<b>167,032</b>	<b>- 187,430</b>	<b>178,321</b>	<b>- 12,380</b>	<b>145,543</b>
3.	Amortisation and depreciation	- 29,198	- 27,816	- 2,814	-	- 59,828
4.	Other costs (taxes, BGF, PFSA)	- 17,325	- 15,193	- 1,125	-	- 33,643
<b>XIV.</b>	<b>Share of profit (loss) of equity-accounted entities</b>	<b>70,034</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,034</b>
<b>XV.</b>	<b>PROFIT (LOSS) BEFORE TAX</b>	<b>190,543</b>	<b>- 230,439</b>	<b>174,382</b>	<b>- 12,380</b>	<b>122,106</b>
XVI.	Allocated profit (loss) of ALM	68,699	144,030	- 212,729	-	-
<b>XVII.</b>	<b>Gross profit (loss) after ALM allocation</b>	<b>259,242</b>	<b>- 86,409</b>	<b>- 38,347</b>	<b>- 12,380</b>	<b>122,106</b>
XVIII.	Income tax expense					- 60,405
<b>XIX.</b>	<b>NET PROFIT (LOSS)</b>					<b>61,701</b>
	<b>Segment assets</b>	<b>8,672,388</b>	<b>2,141,052</b>	<b>10,849,734</b>	<b>206,278</b>	<b>21,869,452</b>
	<i>including amounts due from banks and clients</i>	8,639,698	2,141,052	196,977	4,215	10,981,942
	<b>Segment liabilities</b>	<b>8,457,566</b>	<b>9,485,310</b>	<b>3,211,965</b>	<b>714,611</b>	<b>21,869,452</b>
	<i>of which amounts due to banks and clients</i>	8,457,566	9,485,310	558,475	215,099	18,716,450
	<b>Expenditure on property, plant and equipment and intangible assets</b>	<b>22,850</b>	<b>20,187</b>	<b>3,087</b>	<b>-</b>	<b>46,124</b>

No.	Selected items of the statement of profit and loss for the 12 months ended 31 December 2022	INSTITUTIONAL CLIENTS	RETAIL CLIENTS	TREASURY AND INVESTMENTS	OTHER (NOT ALLOCATED TO SEGMENTS)	Total
<b>I.</b>	<b>Net interest income</b>	<b>280,518</b>	<b>201,714</b>	<b>188,708</b>	<b>-</b>	<b>670,940</b>
1.	Interest and similar income, including:	1,036,091	577,792	- 415,301	-	1,198,582
	<i>transactions with external clients</i>	645,039	125,775	427,768	-	1,198,582
	<i>transactions with other segments</i>	391,052	452,017	- 843,069	-	-
2.	Interest expense and similar charges, including:	- 755,573	- 376,078	604,009	-	- 527,642
	<i>transactions with external clients</i>	- 248,011	- 233,284	- 46,347	-	- 527,642
	<i>transactions with other segments</i>	- 507,562	- 142,794	650,356	-	-
<b>II.</b>	<b>Net fee and commission income</b>	<b>63,022</b>	<b>10,175</b>	<b>-</b>	<b>- 492</b>	<b>72,705</b>
III.	Dividend income	181	-	6,743	-	6,924
IV.	Gain (loss) on financial instruments measured at fair value through profit or loss	- 18	- 31	- 2,609	-	- 2,658
V.	Gain (loss) on hedge accounting	-	-	119	-	119
VI.	Gain (loss) on investment securities	-	-	-	-	-
VII.	Gain (loss) on foreign exchange transactions	16,486	3,710	16,510	-	36,706
VIII.	Gain (loss) on derecognition of financial instruments	2,079	- 9	-	-	2,070
<b>IX.</b>	<b>Net banking income</b>	<b>362,268</b>	<b>215,559</b>	<b>209,471</b>	<b>- 492</b>	<b>786,806</b>
X.	Net other income and expenses	422	390	-	- 9,150	- 8,338

XI.	Effect of legal risk of mortgage loans denominated in foreign currencies	-	- 144,306	-	-	- 144,306
XII.	Net impairment losses	- 168,949	66,137	2,164	14	- 100,634
<b>XIII.</b>	<b>Net finance income (costs)</b>	<b>193,741</b>	<b>137,780</b>	<b>211,635</b>	<b>- 9,628</b>	<b>533,528</b>
1.	Direct costs	- 33,697	- 24,159	- 2,522	-	- 60,378
	<b>Profit (loss) after direct costs</b>	<b>160,044</b>	<b>113,621</b>	<b>209,113</b>	<b>- 9,628</b>	<b>473,150</b>
2.	Indirect costs and mutual services	- 91,905	- 90,163	- 17,013	-	- 199,081
	<b>Profit (loss) after direct and indirect costs</b>	<b>68,139</b>	<b>23,458</b>	<b>192,100</b>	<b>- 9,628</b>	<b>274,069</b>
3.	Amortisation and depreciation	- 23,933	- 24,369	- 2,287	-	- 50,589
4.	Other costs (taxes, BGF, PFSA)	- 41,436	- 32,122	- 797	-	- 74,355
<b>XIV.</b>	<b>Share of profit (loss) of equity-accounted entities</b>	<b>36,787</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,787</b>
<b>XV.</b>	<b>PROFIT (LOSS) BEFORE TAX</b>	<b>39,557</b>	<b>- 33,033</b>	<b>189,016</b>	<b>- 9,628</b>	<b>185,912</b>
XVI.	Allocated profit (loss) of ALM	48,145	142,163	- 190,308	-	-
<b>XVII.</b>	<b>Gross profit (loss) after ALM allocation</b>	<b>87,702</b>	<b>109,130</b>	<b>- 1,292</b>	<b>- 9,628</b>	<b>185,912</b>
XVIII.	Income tax expense					- 58,304
<b>XIX.</b>	<b>NET PROFIT (LOSS)</b>					<b>127,608</b>
	<b>Segment assets</b>	<b>8,610,239</b>	<b>2,589,306</b>	<b>10,500,343</b>	<b>215,350</b>	<b>21,915,238</b>
	<i>including amounts due from banks and clients</i>	8,544,362	2,589,306	277,136	3,660	11,414,464
	<b>Segment liabilities</b>	<b>8,978,603</b>	<b>9,138,745</b>	<b>3,233,962</b>	<b>563,928</b>	<b>21,915,238</b>
	<i>of which amounts due to banks and clients</i>	8,978,603	9,138,745	779,009	124,710	19,021,067
	<b>Expenditure on property, plant and equipment and intangible assets</b>	<b>30,912</b>	<b>27,649</b>	<b>3,661</b>	<b>-</b>	<b>62,222</b>



## 52. Related-party transactions

As at 31 December 2023, Bank Ochrony Środowiska S.A. was the parent of Dom Maklerski BOŚ S.A., BOŚ Leasing–EKO Profit S.A., as well as MS Wind Sp. z o.o.

The National Fund for Environmental Protection and Water Management (NFOŚiGW) was the parent of the Bank.

The key management personnel are also considered to be related parties.

### **Transaction with the National Fund for Environmental Protection and Water Management, i.e. the main shareholder of the Bank**

As at 31 December 2023, the amount of funds provided by the NFOŚiGW for preferential loans under the Prosumpt programme for the financing of purchase and installation of renewable energy sources was PLN 3,390 thousand (31 December 2022: PLN 7,169 thousand).

NFOŚiGW is a party related to the State Treasury. The Bank enters into transactions with entities related to the State Treasury, mainly with entities operating in the public finance sector.

### **Related-party transactions**

The process for making credit decisions concerning subsidiaries is detailed in the 'Rules for granting credits, cash loans, bank guarantees, sureties, and other off-balance sheet liabilities by Bank Ochrony Środowiska S.A. to subsidiaries and affiliates of the Bank, Bank shareholders, entities financially or organisationally linked to shareholders, Bank employees, employees of the parent, members of the Management Board and Supervisory Board of the parent, and at their request'.

The Bank provides standard financial services to its managerial staff, members of the Supervisory Board, and their immediate family members. These services include managing bank accounts, accepting deposits, providing credit and other financial services.

When extending credit, cash loans, guarantees and sureties to members of the Bank's governing bodies, managerial staff and organisations financially or organisationally linked to them, the Bank ensures that the terms, including interest rates, are no more favourable than those offered to other clients under similar contractual arrangements involving managing bank accounts and issuing credits, loans, guarantees and sureties.

### **Dom Maklerski BOŚ S.A.**

The Bank's branches maintain current accounts of Dom Maklerski BOŚ S.A. Transactions in current accounts are primarily payments and cash withdrawals by the company's clients. The bank accounts of Dom Maklerski BOŚ S.A., holding both client and proprietary funds, earn interest based on the WIBID rate.

In 2023, the Bank continued its revolving credit facility agreement with Dom Maklerski BOŚ S.A.

The above transactions are temporary in nature and were executed due to the Bank's internal needs and on market terms.

### **BOŚ Leasing - EKO Profit S.A.**

The Bank maintains current accounts and fixed-term deposit accounts of BOŚ Leasing - EKO Profit S.A.

In 2023, the Bank was a party to rental contracts with the company concerning:

1. in Warsaw – a contract for sublease of office space from the Bank, at Al. Jana Pawła II 12, concluded on 31 October 2019, extended by Annex 2 of 1 March 2021 for a period until 29 February 2024;
2. in Toruń –
  - a. lease contract of 20 May 2022 concluded in Toruń for the period from 1 June 2022 to 1 June 2025;
  - b. sublease contract of 7 November 2022 for part of office space leased under contract a), between BOŚ Leasing–EKO Profit S.A. and BOŚ S.A. The contract was concluded for an indefinite period;
  - c. sublease contract of 7 November 2022 for office space in 15 Business Centres of BOŚ SA, concluded between BOŚ S.A. and BOŚ Leasing–EKO Profit S.A. The contract was concluded for an indefinite period.

Rental payments under contracts b) and c) offset each other.

3. in Katowice – lease contract of 9 June 2022 concluded in Katowice for the period from 9 June 2022 to 30 June 2027.

In 2023, BOŚ Leasing - EKO Profit S.A. did not enter into agreements with the Bank for the purchase of lease receivables with recourse. In 2023, the Bank and BLEP S.A. executed one non-recourse lease receivables purchase agreement.

The transactions and lease agreements mentioned above were executed on an arm's length basis, for the Bank's internal needs.

**MS Wind Sp. z o. o.**

The Bank maintains current accounts and term deposit accounts for MS Wind Sp. z o.o. In 2023, the Bank continued its loan agreements with MS Wind Sp. z o.o. to finance project execution and entered into an Interest Rate Swap (IRS) transaction with the company.

The above transactions are temporary in nature and were executed due to the Bank's internal needs and on market terms.

Data on transactions with the subsidiaries are presented in the tables below.

As at 31 December 2023:

Item	Amounts due from clients	Investments in subsidiaries	Other assets	Financial liabilities held for trading	Amounts due to clients	Subordinated liabilities	Provisions	Other liabilities	Contingent liabilities
<b>SUBSIDIARIES</b>									
Dom Maklerski BOŚ S.A.	74,929	212,295	-	-	1,896,354	- 152	347	339	34,069
BOŚ Leasing – EKO Profit S.A.	215,679	66,034	-	- 124	24,344	-	1,787	308	16,954
<b>INDIRECT SUBSIDIARIES</b>									
MS Wind Sp. z o.o.	17,073	-	-	22	9,608	-	-	-	-
<b>Total</b>	<b>307,681</b>	<b>278,329</b>	<b>-</b>	<b>- 146</b>	<b>1,930,306</b>	<b>- 152</b>	<b>2,134</b>	<b>647</b>	<b>51,023</b>

As at 31 December 2022:

Item	Amounts due from clients	Investments in subsidiaries	Other assets	Financial liabilities held for trading	Amounts due to clients	Subordinated liabilities	Provisions	Other liabilities	Contingent liabilities
<b>SUBSIDIARIES</b>									
Dom Maklerski BOŚ S.A.	69,893	161,712	1	-	2,298,188	-	287	392	40,180
BOŚ Leasing – EKO Profit S.A.	177,528	64,446	-	336	17,610	-	643	546	84,115
<b>INDIRECT SUBSIDIARIES</b>									
MS Wind Sp. z o.o.	18,569	-	-	266	8,620	-	-	-	-
<b>Total</b>	<b>265,990</b>	<b>226,158</b>	<b>1</b>	<b>602</b>	<b>2,324,418</b>	<b>-</b>	<b>930</b>	<b>938</b>	<b>124,295</b>

Full-year financial statements of BOŚ S.A.  
for the year ended 31 December 2023

(amounts in PLN thousand)

**Income and expenses for the 12 months ended 31 December 2023:**

Item	Interest and similar income	Interest expense and similar charges	Fee and commission income	Fee and commission expense	Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	Other income	Other expenses	Net impairment losses	Administrative expenses	Share of profit (loss) of equity-accounted entities
<b>SUBSIDIARIES</b>										
Dom Maklerski BOŚ S.A.	4,027	- 126,809	1,144	- 292	-	10	-	- 910	- 11	70,583
BOŚ Leasing - EKO Profit S.A.	16,940	- 485	74	-	68	484	-	- 14,380	- 80	1,589
<b>INDIRECT SUBSIDIARIES</b>										
MS Wind Sp. z o.o.	1,589	- 47	38	-	36	-	-	2	-	-
<b>Total</b>	<b>22,556</b>	<b>- 127,341</b>	<b>1,256</b>	<b>- 292</b>	<b>104</b>	<b>494</b>	<b>-</b>	<b>- 15,288</b>	<b>- 91</b>	<b>72,172</b>

Income and expenses for the 12 months ended 31 December 2022:

Item	Interest and similar income	Interest expense and similar charges	Fee and commission income	Fee and commission expense	Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	Other income	Other expenses	Net impairment losses	Administrative expenses	Share of profit (loss) of equity-accounted entities
<b>SUBSIDIARIES</b>										
Dom Maklerski BOŚ S.A.	4,678	- 91,002	1,580	-	-	2	- 1	- 137	- 12	33,251
BOŚ Leasing - EKO Profit S.A.	10,057	- 366	45	-	- 342	417	-	- 572	- 12	3,536
<b>INDIRECT SUBSIDIARIES</b>										
MS Wind Sp. z o.o.	1,413	- 9	39	-	- 523	-	-	65	-	-
<b>Total</b>	<b>16,148</b>	<b>- 91,377</b>	<b>1,664</b>	<b>-</b>	<b>- 865</b>	<b>419</b>	<b>- 1</b>	<b>- 644</b>	<b>- 24</b>	<b>36,787</b>

## Loans to and deposits from members of the Management Board and the Supervisory Board of the Bank

As part of the operating activities, transactions with members of the management body and the key management personnel comprise mainly loans and deposits. The balances of individual items of the statement of financial position as at 31 December 2023 and 31 December 2022 as well as income and expenses for the 12 months ended 31 December 2023 and 31 December 2022 are presented below:

### Key management personnel

Item	31 Dec 2023	31 Dec 2022
Loans	7	246
Commitments under granted line of credit	8	-
Deposits	244	959
<b>Total</b>	<b>259</b>	<b>1,205</b>

Item	31 Dec 2023	31 Dec 2022
Interest expense on deposits	5	3
Interest income on loans	-	3

The credit and deposit products were provided to the key management personnel on the same terms as those offered by the Bank to the general public.

## Remuneration of the key management personnel of the Bank

Supervisory Board	Remuneration		For serving on governing bodies of subordinated entities	
	paid for 2023	paid for 2022	paid for 2023	paid for 2022
Wojciech Krawczyk <sup>1</sup>	84	-	-	-
Marian Niemirski <sup>1</sup>	84	-	-	-
Waldemar Trelka <sup>1</sup>	84	-	-	-
Paweł Trętowski <sup>2</sup>	1	-	-	-
Andrzej Matysiak <sup>8</sup>	184	154	-	-
Paweł Sałek <sup>3</sup>	133	156	-	-
Piotr Bielarczyk <sup>9</sup>	163	72	-	-
Tadeusz Wyrzykowski <sup>9</sup>	168	72	-	-
Aleksandra Świderska <sup>9</sup>	163	72	-	-
Iwona Marciniak <sup>4</sup>	90	83	-	-
Piotr Sadownik <sup>9</sup>	233	80	-	-
Zbigniew Dynak <sup>5</sup>	-	72	-	-
Emil Ślężak <sup>6</sup>	-	187	-	-
Janina Goss <sup>7</sup>	-	136	-	-
Ireneusz Purgacz <sup>5</sup>	-	82	-	-
Piotr Wróbel <sup>5</sup>	-	73	-	-
Marcin Jastrzębski <sup>5</sup>	-	73	-	-
Leszek Banaszak <sup>5</sup>	-	72	-	-
Robert Czarnecki <sup>5</sup>	-	73	-	-
<b>Total <sup>10</sup></b>	<b>1,387</b>	<b>1,457</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Member of the Supervisory Board until 23 June 2023

<sup>2</sup> Member of the Supervisory Board from 23 June 2023, and delegated to the Management Board as of 23 June 2023

<sup>3</sup> Member of the Supervisory Board until 25 October 2023 (resigned)

<sup>4</sup> Member of the Supervisory Board from 30 June 2022, delegated to the Management Board as of 24 June 2023, resigned as of 29 June 2023 due to her appointment as Vice President of the Management Board

<sup>5</sup> Member of the Supervisory Board until 30 June 2022

<sup>6</sup> Member of the Supervisory Board until 23 November 2022, delegated to the Management Board until 8 February 2023, when he tendered his resignation

<sup>7</sup> Member of the Supervisory Board until 10 December 2022 (resigned)

<sup>8</sup> Member of the Supervisory Board from 23 June 2021

<sup>9</sup> Member of the Supervisory Board from 30 June 2022.

<sup>10</sup> All payments were short-term employee benefits.

The total amount of remuneration paid to members of the Supervisory Board in 2023 included remuneration of Supervisory Board members, reimbursement of overpaid social security contributions and PPK contributions paid by BOŚ S.A.

Management Board	Remuneration		For serving on governing bodies of subordinated entities	
	paid for 2023	paid for 2022	paid for 2023	paid for 2022
Paweł Trętowski <sup>1</sup>	331	-	-	-
Iwona Marciniak <sup>2</sup>	268	-	-	-
Wojciech Hann <sup>3</sup>	359	716	-	-
Marzena Koczut <sup>4</sup>	105	296	-	-
Bogusław Białowąs <sup>5</sup>	83	91	-	-
Arkadiusz Garbarczyk	963	800	-	-
Emil Ślężak <sup>6</sup>	475	68	-	-
Jerzy Zań <sup>7</sup>	769	617	-	-
Robert Kasprzak <sup>8</sup>	348	605	-	-
Sebastian Bodzenta <sup>9</sup>	249	-	-	-
<b>Total</b>	<b>3,950</b>	<b>3,193</b>	<b>-</b>	<b>-</b>

including:				
– short-term employee benefits	2,376	3,193	-	-
– long-term employee benefits	-	-	-	-
– post-employment benefits	826	91	-	-
– termination benefits	129	-	-	-
– share-based payments (phantom shares)	619	-	-	-

<sup>1</sup> Member of the Management Board from 23 June to 23 September 2023; from 25 September to 25 December 2023; from 28 December 2023

<sup>2</sup> Member of the Management Board from 24 June 2023, delegated to the Management Board; appointed to the Management Board as of 29 June 2023

<sup>3</sup> Member of the Management Board until 23 November 2022

<sup>4</sup> Member of the Management Board until 23 May 2022

<sup>5</sup> Member of the Management Board until 17 June 2020

<sup>6</sup> Member of the Supervisory Board from 23 November 2022 to 8 February 2023, delegated to the Management Board; on 8 February 2023 tendered his resignation from the Supervisory Board

<sup>7</sup> Member of the Management Board until 30 April 2023

<sup>8</sup> Member of the Management Board from 15 February 2021

<sup>9</sup> Member of the Management Board from 10 July 2023.

The total amount of remuneration paid to members of the Management Board of the Bank in 2023 included remuneration under management services contracts, post-employment benefits and contributions to the Employee Capital Plan paid by BOŚ S.A.



## 53. Seasonal or cyclical nature of the business

In 2023 and 2022, the Bank's operations do not involve any significant events or factors subject to seasonal or cyclical variations.

## 54. Disposal, liquidation and merger of companies

The Bank did not divest, liquidate or merge any subsidiaries in 2023 and 2022.

## 55. Dividends paid (aggregate or per share) separately for ordinary shares and other shares

No dividend was paid or declared in 2023 and 2022.

## 56. Reform of benchmarks

Following the discontinuation of the LIBOR USD rate by the Financial Conduct Authority as of 30 June 2023, the Bank opted to adopt the CME Term SOFR as the benchmark rate for USD-denominated credit agreements. The CME Term SOFR, a forward-looking benchmark interest rate for the US dollar, has been incorporated into the Bank's lending products for the SME/CORPORATE segment clients.

The index is administered by CME Group Benchmark Administration Limited (Administrator's website: [www.cmegroup.com](http://www.cmegroup.com)). The CME Term SOFR was endorsed by the Alternative Reference Rates Committee (ARRC) on 29 July 2021 as a replacement for LIBOR USD. In the context of the BMR Regulation, the benchmark is administered by an entity from a third country (namely, a firm based in the United States of America). The application of this benchmark is permitted under the transitional provisions outlined in Article 51(5) of the Benchmarks Regulation (BMR) – Regulation (EU) 2016/1011 of the European Parliament and of the Council dated 8 June 2016. This regulation governs the use of indices as benchmarks in financial instruments and contracts, or for measuring the performance of investment funds, and it amends Directives 2008/48/EC and 2014/17/EU as well as Regulation (EU) No 596/2014, as amended.

The Bank's existing USD-denominated loan agreements accrue interest based on USD synthetic LIBOR. Legally, the 'synthetic' benchmark is the same as the previous LIBOR benchmark. It is calculated using a new methodology, but it remains classified as a LIBOR benchmark. The synthetic USD LIBOR benchmark is determined based on the CME Term SOFR benchmark, adjusted by an appropriate ISDA spread. The synthetic benchmark will be published until 30 September 2024. The Bank is transitioning existing credit agreements from the USD LIBOR benchmark to the corresponding CME Term SOFR benchmark.

Members of the BMR Project continue to be actively engaged in the activities of the National Working Group on Benchmark Reform (NGR), which was established in July 2022. The NGR Group, apart from having a broad representation of financial institutions, also includes representatives from various entities and organisations. These include the Polish Financial Supervision Authority, the Ministry of Finance, the National Bank of Poland, the Bank Guarantee Fund, the Polish Bank Association and WSE Benchmark.

The goal of the National Working Group is to prepare and facilitate the effective implementation of the Risk-Free Rate (RFR) reference index in the Polish financial market.

In September 2022, the Steering Committee of the National Working Group (NGR SC) made the decision to select WIRON as the index to replace WIBOR in the Polish financial market.

The Bank has planned and is executing project work in line with the NGR Roadmap and the recommendations approved by the NGR Steering Committee. These guidelines provide a framework for the implementation of the WIRON benchmark in both new contracts and the existing portfolio.

The Bank maintains a continuous monitoring process to stay informed about the market developments and updates related to the benchmark reform and the reform's impact on the Bank.

The Bank is currently implementing the necessary changes for the new benchmarks, including IT infrastructure adjustments and updates to internal regulations and contractual documentation.

Item	31 Dec 2023	31 Dec 2022
<b>Assets based on the WIBOR rate</b>		
Mortgage loans	1,224,861	1,328,089
Consumer loans	268,797	259,518
Other credit products	6,814,291	6,722,497
Debt securities	2,533,882	1,984,273
<b>Liabilities based on the WIBOR rate</b>		
Issue of debt securities	447,032	345,035
Deposits	238,317	1,412,446
<b>Liabilities based on the WIBID rate</b>		
Deposits	3,068,177	2,441,566
<b>Derivative instruments (notional amount)</b>		
IRS	2,223,220	2,500,712
<b>Assets based on the LIBOR rate</b>		
Mortgage loans	16,742	27,907
Other credit products	121,247	167,310

## Interest rate risk

Interest rate risk can arise from mismatches in the repricing dates between the replacement index and the contract index, as well as mismatches in the index conversion dates across various agreements and contracts, such as loans and IRS contracts. Furthermore, there is a potential risk that the interbank derivatives market may not provide sufficient hedging options for mitigating the underlying interest rate risk inherent in credit-related on-balance sheet transactions. The Bank actively monitors the magnitude of sensitivity of its exposure to the risk and implements appropriate measures in line with its interest rate risk management principles.

The risks mentioned above have no impact on the interest rate risk management strategy.

## Legal risk

Regarding legal (including judicial) risks, it is important to consider the treatment of loans linked to the BMR index in the event that a specific index is discontinued. Two distinct situations should be distinguished: one where a specific index ceases to be published without a designated replacement and the other where a replacement index is specified in accordance with applicable law (similar to CHF LIBOR).

1. In the first situation, the legal risk (and potential litigation risk) pertains to the determination of the interest rate on the loan, specifically the calculation of interest amount for the client. If the contract between the Bank and the client specifies the method of determining the alternative benchmark, there is a risk the risk arises from the potential for that the client rejects the benchmark chosen by the Bank, leading to a dispute regarding the

interpretation of the contractual provisions. If the contract does not specify an alternative benchmark, uncertainty arises regarding the method of determining the interest rate on the loan.

2. In the second situation, the legal risk is significantly lower because the 'new' BMR will automatically become part of the contract by operation of law, reducing the likelihood of potential claims by clients.

### **Hedge accounting**

The Bank uses hedge accounting to hedge the fair value of fixed-rate bonds with WIBOR-based Interest Rate Swap instruments (see Note 45 'Hedge accounting' for details). As a result of the BMR ratio reform, the reference rate for the hedging instrument will change.

## **57. Events after the reporting date**

The Management Board of BOŚ S.A. convened an Extraordinary General Meeting for 11 March 2024, with the agenda addressing proposed changes in the composition of the Supervisory Board.

## Signatures of Members of the Management Board

Date	Name and surname	Position held	Signature
7 March 2024	Paweł Trętowski	Member of the Supervisory Board delegated to temporarily serve as Management Board Vice President responsible for managing the work of the Management Board	Signed with qualified e-signature
7 March 2024	Arkadiusz Garbarczyk	Vice President of the Management Board, First Deputy President of the Management Board	Signed with qualified e-signature
7 March 2024	Sebastian Bodzenta	Vice President of the Management Board	Signed with qualified e-signature
7 March 2024	Iwona Marciniak	Vice President of the Management Board	Signed with qualified e-signature

Signature of the person in charge of bookkeeping:

7 March 2024	Andrzej Kowalczyk	Director of the Accounting Department	Signed with qualified e-signature
--------------	-------------------	---------------------------------------	-----------------------------------