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Bank Polski

Separate financial statements of PKO Bank Polski S.A. for the year ended 31 December 2023

Bank Polski

SELECTED FINANCIAL DATA RELATING TO THE FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN million			EUR million		
	2023	2022	Change % (A-B)/B	2023	2022	Change % (D-E)/E
	A	B	C	D	E	F
Net interest income	17,215	11,224	53.4%	3,802	2,394	58.8%
Net fee and commission income	3,911	3,818	2.4%	864	814	6.3%
Net expected credit losses and net impairment allowances on non-financial assets	(1,220)	(1,209)	0.9%	(269)	(258)	4.3%
Administrative expenses	(6,678)	(6,925)	(3.6%)	(1,475)	(1,477)	(0.1%)
Profit before tax	**7,509**	**4,562**	**64.6%**	**1,658**	**973**	**70.4%**
Net profit	**4,868**	**3,258**	**49.4%**	**1,075**	**695**	**54.7%**
Earnings per share for the period - basic (in PLN/EUR)	3.89	2.61	49.0%	0.86	0.56	53.6%
Earnings per share for the period - diluted (in PLN/EUR)	3.89	2.61	49.0%	0.86	0.56	53.6%
Net comprehensive income	10,470	299	3,401.6%	2,312	64	3,512.5%
Total net cash flows	240	10,482	(97.7%)	53	2,236	(97.6%)

SELECTED FINANCIAL DATA	PLN million			EUR million		
	31.12.2023	31.12.2022	Change % (A-B)/B	31.12.2023	31.12.2022	Change % (D-E)/E
	A	B	C	D	E	F
Total assets	474,680	405,168	17.2%	109,172	86,392	26.4%
Total equity	42,954	34,084	26.0%	9,879	7,268	35.9%
Share capital	1,250	1,250	-	287	267	7.5%
Number of shares (in million)	1,250	1,250	-	1,250	1,250	-
Book value per share (in PLN/EUR)	34.36	27.27	26.0%	7.90	5.81	36.0%
Diluted number of shares (in million)	1,250	1,250	-	1,250	1,250	-
Diluted book value per share (in PLN/EUR)	34.36	27.27	26.0%	7.90	5.81	36.0%
Total Capital Ratio (%)	20.84	20.49	1.7%	20.84	20.49	1.7%
Tier 1	39,729	38,105	4.3%	9,137	8,125	12.5%
Tier 2	2,080	2,216	(6.1%)	478	473	1.1%

SELECTED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	2023	2022
arithmetic mean of the NBP exchange rates at the end of a month (income statement, statement of comprehensive income and cash flow statement items)	4.5284	4.6883
	31.12.2023	31.12.2022
NBP mid exchange rates at the date indicated (statement of financial position items)	4.3480	4.6899

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SEPARATE INCOME STATEMENT

INCOME STATEMENT	Note	2023	2022
Net interest income	15, 17	17,215	11,224
Interest and similar income		28,886	18,524
of which calculated under the effective interest rate method		28,338	17,972
Interest expense		(11,671)	(7,300)
Net fee and commission income	16 17	3,911	3,818
Fee and commission income		5,521	5,317
Fee and commission expense		(1,610)	(1,499)
Net other income		877	758
Dividend income	18	683	488
Gains/(losses) on financial transactions	19	112	356
Net foreign exchange gains/ (losses)	20	81	(108)
Gains/(losses) on derecognition of financial instruments	21	52	(11)
of which measured at amortized cost		22	13
Net other operating income and expense	22	(51)	33
Result on business activities		**22,003**	**15,800**
Net allowances for expected credit losses	23	**(1,120)**	**(1,120)**
Impairment of non-financial assets	24	(100)	(89)
The cost of legal risk of mortgage loans in convertible currencies	25	(5,430)	(1,914)
Administrative expenses	26	**(6,678)**	**(6,925)**
of which net regulatory charges		(572)	(1,826)
Tax on certain financial institutions	27	(1,166)	(1,190)
Profit before tax		**7,509**	**4,562**
Income tax expense	28	(2,641)	(1,304)
Net profit		**4,868**	**3,258**
Earnings per share	29		
– basic earnings per share for the period (PLN)		3.89	2.61
– diluted earnings per share for the period (PLN)		3.89	2.61
Weighted average number of ordinary shares during the period (in million)*		1,250	1,250

* In 2023 and 2022, there were no dilutive instruments. Therefore, the amount of diluted earnings per share is the same as the amount of basic earnings per share.

(IN PLN MILLION)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	2023	2022
Net profit		**4,868**	**3,258**
Other comprehensive income		5,602	(2,959)
Items which may be reclassified to profit or loss		5,605	(2,953)
Cash flow hedges (net)		**3,327**	**(1,326)**
Cash flow hedges (gross)	32	4,108	(1,637)
Deferred tax	28,32	(781)	311
Fair value of financial assets measured at fair value through other comprehensive income (net)		**2,280**	**(1,627)**
Remeasurement of fair value, gross		2,845	(2,036)
Gains /losses transferred to the profit or loss (on disposal)	21	(30)	24
Deferred tax	28	(535)	385
Currency translation differences on foreign operations		(2)	-
Items which cannot be reclassified to profit or loss		**(3)**	**(6)**
Actuarial gains and losses (net)		(3)	(6)
Actuarial gains and losses (gross)	44	(4)	(8)
Deferred tax	28	1	2
Total net comprehensive income		10,470	299

(IN PLN MILLION)

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SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	31.12.2023	31.12.2022
ASSETS		474,680	405,168
Cash and balances with the Central Bank	30	17,676	15,719
Amounts due from banks	31	16,900	19,442
Hedging derivatives	32	1,084	217
Other derivative instruments	32	8,752	13,745
Securities	33	191,439	130,986
Reverse repo transactions		372	7
Loans and advances to customers	34	223,670	208,918
Property, plant and equipment	39	2,731	2,505
Assets held for sale	40	139	10
Intangible assets	38	3,288	2,933
Investments in subsidiaries	41	3,440	3,560
Investments in associates and joint ventures	41	275	275
Current income tax receivable		-	47
- of the subsidiaries belonging to the Tax Group		-	47
Deferred tax assets	28	3,048	4,694
Other assets	42	1,866	2,110

		31.12.2023	31.12.2022
LIABILITIES AND EQUITY		474,680	405,168
Liabilities		**431,726**	**371,084**
Amounts due to Central bank		10	9
Amounts due to banks	35	3,250	2,928
Hedging derivatives	32	2,456	6,727
Other derivative instruments	32	9,902	14,002
Amounts due to customers	36	394,551	334,856
Loans and advances received	37	-	726
Liabilities in respect of debt securities in issue		3,421	-
Subordinated liabilities	37	2,774	2,781
Other liabilities	43	10,235	6,480
Current income tax liabilities		1,008	527
- of the Bank		991	379
- of the subsidiaries belonging to the Tax Group		16	148
Provisions	44	4,119	2,048
EQUITY	47	42,954	34,084
Share capital		1,250	1,250
Reserves and accumulated other comprehensive income		27,399	21,768
Unappropriated profits		9,437	7,808
Net profit or loss for the year		4,868	3,258

(IN PLN MILLION)

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SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 December 2023	Share capital	Reserves and accumulated other comprehensive income					Unappropriated profits	Net profit or loss for the period	Total equity
		Reserves							
		Supplementary capital	General banking risk fund	Other reserves	Accumulated other comprehensive income	Total reserves and accumulated other comprehensive income			
As at the beginning of the period	1,250	22,468	1,070	6,746	(8,516)	21,768	7,808	3,258	34,084
Transfer from retained earnings	-	-	-	-	-	-	3,258	(3,258)	-
Distribution of profit for 2022	-	-	-	1,629	-	1,629	(1,629)	-	-
Interim dividend	-	-	-	(1,600)	-	(1,600)	-	-	(1,600)
Comprehensive income	-	-	-	-	5,602	5,602	-	4,868	10,470
As at the end of the period	1,250	22,468	1,070	6,775	(2,914)	27,399	9,437	4,868	42,954

FOR THE YEAR ENDED 31 December 2022	Share capital	Reserves and accumulated other comprehensive income					Unappropriated profits	Net profit or loss for the period	Total equity
		Reserves							
		Supplementary capital	General banking risk fund	Other reserves	Accumulated other comprehensive income	Total reserves and accumulated other comprehensive income			
As at the beginning of the period	1,250	22,468	1,070	6,746	(5,557)	24,727	5,500	4,596	36,073
Transfer from retained earnings	-	-	-	-	-	-	4,596	(4,596)	-
Dividend	-	-	-	-	-	-	(2,288)	-	(2,288)
Comprehensive income	-	-	-	-	(2,959)	(2,959)	-	3,258	299
As at the end of the period	1,250	22,468	1,070	6,746	(8,516)	21,768	7,808	3,258	34,084

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FOR THE YEAR ENDED 31 December 2023	Accumulated other comprehensive income				
	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Currency translation differences on foreign operations	Total
As at the beginning of the period	(3,469)	(5,028)	(19)	-	(8,516)
Total comprehensive income	2,280	3,327	(3)	(2)	5,602
As at the end of the period	**(1,189)**	**(1,701)**	**(22)**	**(2)**	**(2,914)**

FOR THE YEAR ENDED 31 December 2022	Accumulated other comprehensive income			
	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Total
As at the beginning of the period	(1,842)	(3,702)	(13)	(5,557)
Total comprehensive income	(1,627)	(1,326)	(6)	(2,959)
As at the end of the period	**(3,469)**	**(5,028)**	**(19)**	**(8,516)**

(IN PLN MILLION)

Bank Polski

SEPARATE STATEMENT OF CASH FLOWS

	Note	2023	2022
Cash flows from operating activities			
Profit before tax		**7,509**	**4,562**
Income tax paid		**(1,699)**	**(1,311)**
Total adjustments:		**37,882**	**10,390**
Depreciation and amortization	26	980	909
(Gains)/losses on investing activities	69	(14)	(14)
Interest and dividends received	69	(6,935)	(4,189)
Interest paid	69	283	342
Change in:			
amounts due from banks	69	821	1,027
hedging derivatives		(5,139)	2,213
other derivative instruments		893	(304)
securities	69	(6,471)	(3,613)
loans and advances to customers	69	(15,232)	(3,911)
reverse repo transactions		(364)	(7)
non-current assets held for sale	69	(128)	8
other assets	69	244	(87)
accumulated allowances for expected credit losses	69	377	821
accumulated allowances on non-financial assets and other provisions	69	2,196	332
amounts due to the Central Bank		1	1
amounts due to banks		322	(834)
amounts due to customers		59,695	16,824
repo transactions		-	(49)
loan and advances received	69	(11)	803
liabilities in respect of debt securities in issue	69	(110)	-
subordinated liabilities		(7)	65
other liabilities	69	2,411	1,632
Other adjustments	69	4,070	(1,579)
Net cash from/used in operating activities		**43,692**	**13,641**

(IN PLN MILLION)

	Note	2023	2022
Cash flows from investing activities			
Inflows from investing activities		**784,911**	**91,385**
Redemption of securities measured at fair value through other comprehensive income		773,201	78,672
Interest received on securities measured at fair value through other comprehensive income		4,649	7,758
Redemption of securities measured at amortized cost		4,154	1,883
Interest received on securities measured at amortized cost		2,128	1,719
Proceeds from disposal of intangible assets, property, plant and equipment and assets held for sale		48	51
Other inflows from investing activities including dividends	69	731	1,302
Outflows on investing activities		**(830,641)**	**(86,453)**
Purchase of securities measured at fair value through other comprehensive income		(808,531)	(83,145)
Purchase of securities measured at amortized cost		(20,548)	(1,813)
Purchase of intangible assets and property, plant and equipment		(1,562)	(788)
Other outflows on investing activities	69	-	(707)
Net cash from/used in investing activities		**(45,730)**	**4,932**

	Note	2023	2022
Cash flows from financing activities			
Distribution of dividends		-	(2,288)
Proceeds from debt securities in issue		3,531	-
Repayment of loans and advances	69	(715)	(5,219)
Payment of lease liabilities	69	(255)	(242)
Repayment of interest on long-term liabilities	69	(283)	(342)
Net cash from financing activities		**2,278**	**(8,091)**
Total net cash flows		**240**	**10,482**
of which foreign exchange differences on cash and cash equivalents		(827)	105
Cash and cash equivalents at the beginning of the period		29,611	19,129
Cash and cash equivalents at the end of the period	69	29,851	29,611

GENERAL INFORMATION ABOUT THE BANK

1. BUSINESS ACTIVITIES OF THE BANK

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (**PKO BANK POLSKI S.A.** or **THE BANK**) was established by virtue of a decree signed on 7 February 1919 by the Head of State Józef Piłsudski, Prime Minister Ignacy Paderewski and Hubert Linde, post and telegraph minister and simultaneously the first president, as Pocztowa Kasa Oszczędnościowa. In 1950, the Bank began operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). Pursuant to the Decree of the Council of Ministers dated 18 January 2000, Powszechna Kasa Oszczędności (a state owned bank) was transformed into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its head office in Warsaw, ul. Puławska 15, 02-515 Warsaw, Poland.

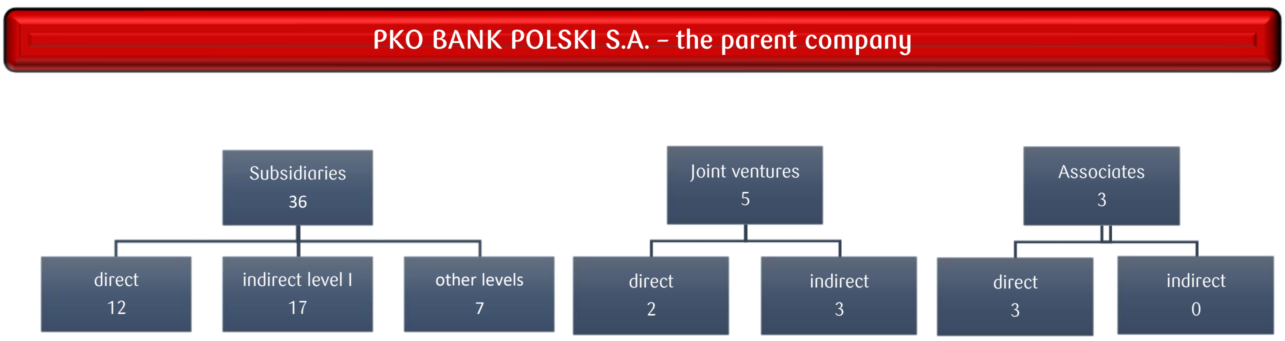
On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was registered and entered into the Commercial Register maintained by the District Court for the City of Warsaw, Commercial Court, 16th Registration Department. At present, the court with jurisdiction over the Bank's affairs is the District Court in Warsaw, 13th Commercial Division of the National Court Register. The Bank was registered under the number KRS 0000026438 and was assigned the statistical number REGON 016298263.

According to the Bulletin of the Warsaw Stock Exchange (Ceduła Giełdowa), the Bank is classified under the macro-sector "Finance", in the "Banks" sector.

PKO Bank Polski SA is a universal deposit and credit bank which serves natural persons, legal entities and other entities, both Polish and foreign. The Bank may hold and trade in cash in foreign currencies, as well as conduct foreign exchange and foreign currency transactions, open and maintain bank accounts in banks abroad, and deposit foreign currency in those accounts.

As at 31 December 2023, organizational entities comprising the Bank, through which the Bank conducts its operations, include: the Bank's head office in Warsaw, Biuro Maklerskie PKO Banku Polskiego S.A. (the Brokerage House), 10 specialist organizational entities, 10 regional retail branches, 7 regional corporate branches, 23 corporate centers and 882 branches. The Bank also conducts operating activities in the Federal Republic of Germany in the form of a branch (the German Branch), the Czech Republic (the Czech Branch), Slovakia (the Slovak Branch) and Romania (the Romanian Branch).

PKO Bank Polski SA is the parent entity of the PKO Bank Polski SA Group and a significant investor for associates and joint ventures of the Bank. Accordingly, PKO Bank Polski SA prepares consolidated financial statements of the Group, which include the financial data of these entities. The consolidated financial statements of the Capital Group are prepared and published at the same time as these separate financial statements of the Bank.



(IN PLN MILLION)

The PKO Bank Polski S.A. Group consists of the following subsidiaries:

No.	ENTITY NAME DIRECT SUBSIDIARIES	REGISTERED OFFICE	ACTIVITY	OWNERSHIP INTEREST (%) 31.12.2023	31.12.2022
1	PKO Bank Hipoteczny S.A.	Warsaw	banking activities	100	100
2	PKO Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	investment fund management	100	100
3	PKO Leasing S.A.	Łódź	leasing and lending	100	100
4	PKO BP BANKOWY PTE S.A.	Warsaw	pension fund management	100	100
5	PKO BP Finat sp. z o.o.	Warsaw	services, including transfer agent services and outsourcing of IT specialists	100	100
6	PKO Życie Towarzystwo Ubezpieczeń S.A.	Warsaw	life insurance	100	100
7	PKO Towarzystwo Ubezpieczeń S.A.	Warsaw	other personal insurance and property insurance	100	100
8	PKO Finance AB	Sollentuna, Sweden	financial services	100	100
9	KREDOBANK S.A.	Lviv, Ukraine	banking activities	100	100
10	Merkury - fiz an[1]	Warsaw	investing funds collected from fund participants	100	100
11	NEPTUN - fizan[1]	Warsaw		100	100
12	PKO VC - fizan[1]	Warsaw		100	100

[1] PKO Bank Polski S.A. holds investment certificates of the Fund; the percentage of the Fund's investment certificates held is presented in the item "Share in capital".

(IN PLN MILLION)

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No.	ENTITY NAME INDIRECT SUBSIDIARIES	REGISTERED OFFICE	ACTIVITY	OWNERSHIP INTEREST (%)* 31.12.2023	OWNERSHIP INTEREST (%)* 31.12.2022
	PKO Leasing S.A. GROUP				
1	PKO Agencja Ubezpieczeniowa sp. z o.o.	Warsaw	intermediation in concluding insurance agreements	100	100
	1.1 PKO Leasing Finanse sp. z o.o.	Warsaw	sale of post-lease assets	100	100
2	PKO Leasing Sverige AB	Stockholm, Sweden	leasing	100	100
3	Prime Car Management S.A.	Gdańsk	leasing, fleet management	100	100
	3.1 Futura Leasing S.A.	Gdańsk	sale of post-lease assets	100	100
	3.2 Masterlease sp. z o.o.	Gdańsk	leasing	100	100
	3.3 MasterRent24 sp. z o.o.	Gdańsk	short-term lease of cars	100	100
4	PKO Faktoring S.A.	Warsaw	factoring	100	100
5	Polish Lease Prime 1 DAC[1]	Dublin, Ireland	SPV established for securitization of lease receivables	-	-
	PKO Życie Towarzystwo Ubezpieczeń S.A. GROUP				
6	Ubezpieczeniowe Usługi Finansowe sp. z o.o.	Warsaw	services	100	100
	KREDOBANK S.A. GROUP				
7	"KREDOLEASING" sp. z o.o.	Lviv, Ukraine	leasing	100	100
	Merkury - fiz an				
8	"Zarząd Majątkiem Górczewska" sp. z o.o.	Warsaw	property management	100	100
9	Molina sp. z o.o.	Warsaw	general partner in partnerships limited by shares of a fund	100	100
10	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	buying and selling real estate on own account, real estate management	100	100
11	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A. w likwidacji (in liquidation)	Warsaw		100	100
12	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A. w likwidacji (in liquidation)	Warsaw		100	100
13	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A. w likwidacji (in liquidation)	Warsaw		100	100
	NEPTUN - fizan				
14	Qualia sp. z o.o.	Warsaw	after-sale services in respect of developer products	100	100
15	Sarnia Dolina sp. z o.o.	Warsaw	development activities	100	100
16	Bankowe Towarzystwo Kapitałowe S.A.	Warsaw	services	100	100
	16.1 „Inter-Risk Ukraina" spółka z dodatkową odpowiedzialnością[2]	Kyiv, Ukraine	debt collection	99.90	99.90
	16.2 Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.[3]	Kyiv, Ukraine	financial services	95.4676	95.4676
	16.2.1 Finansowa Kompania "Idea Kapitał" sp. z o.o.	Lviv, Ukraine	services	100	100
17	"Sopot Zdrój" sp. z o.o.	Sopot	property management	72.9769	72.9769

* share of direct parent in the entity's equity

1) In accordance with IFRS 10, PKO Leasing S.A. exercises control over the company, although it does not have a capital share In it.
2) Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. is the second shareholder of the company.
3) "Inter-Risk Ukraina" – a company with additional liability – is the second shareholder of the company.

(IN PLN MILLION)

The Group has the following associates and joint ventures:

No.	ENTITY NAME	REGISTERED OFFICE	ACTIVITY	OWNERSHIP INTEREST (%)*	
				31.12.2023	31.12.2022
	Joint ventures of PKO Bank Polski S.A.				
1	Operator Chmury Krajowej sp. z o.o.	Warsaw	cloud computing services	50	50
2	Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	Warsaw	financial services support activities, including handling transactions concluded using payment instruments	34	34
	1 EVO Payments International s.r.o.	Prague, the Czech Republic	financial services support activities	100	100
	Joint venture NEPTUN - fizan				
	2 “Centrum Obsługi Biznesu” sp. z o.o.	Poznań	property management	41.45	41.45
	Joint venture PKO VC - fizan				
	3 BSafer sp. z o.o.	Stalowa Wola	managing marketing consents	35.06	35.06
	Associates of PKO Bank Polski S.A.				
1	Bank Pocztowy S.A.	Bydgoszcz	banking activities	25.0001	25.0001
2	Poznański Fundusz Poręczeń Kredytowych sp. z o.o.	Poznań	guarantees	33.33	33.33
3	System Ochrony Banków Komercyjnych S.A.	Warsaw	manager of the security system referred to in Article 130e of the Banking Law	21.11	21.11

* share in equity of the entity exercising joint control / having a significant impact / the direct parent.

2. Changes in the Group companies

In 2023, the following events occurred in the structure of the Bank’s Group.

- In January 2023, the placing of Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A. w likwidacji (in liquidation) and Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A. w likwidacji (in liquidation) (entities from the Merkury fiz an portfolio) was entered in the National Court Register.
- In September 2023, the Bank's Management Board approved the merger of the investment funds NEPTUN - fiz an (the acquiring fund) and Mercury - fiz an (the acquired fund) by transferring the assets of the acquired fund to the existing acquiring fund and allocating investment certificates of the acquired fund to a participant of the acquiring fund in exchange for investment certificates of the acquired fund. This merger was effected on 30 January 2024. In the Bank's annual separate financial statements, Mercury - fiz an, in accordance with International Financial Reporting Standard (IFRS) No 5, is reported as an asset held for sale and in the Group's annual consolidated financial statements, the fund and its subsidiaries are included in the consolidation.
- “KREDOLEASING” sp. z o.o., a subsidiary of KREDOBANK S.A., commenced leasing activities. The company launched operations to a limited extent due to the war in Ukraine, where it is based.

3. INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Composition of the Bank's Supervisory Board as at 31 December 2023:

- Robert Pietryszyn – Chair of the Supervisory Board
- Wojciech Jasiński – Deputy Chair of the Supervisory Board
- Dominik Kaczmarski – Secretary of the Supervisory Board
- Mariusz Andrzejewski – Member of the Supervisory Board
- Andrzej Kisielewicz – Member of the Supervisory Board
- Rafał Kos – Member of the Supervisory Board
- Tomasz Kuczur – Member of the Supervisory Board
- Maciej Łopiński – Member of the Supervisory Board
- Bogdan Szafrański – Member of the Supervisory Board
- Agnieszka Winnik-Kalemba – Member of the Supervisory Board

With effect from 24 March 2023, Mr. Maciej Łopiński resigned as Chair of the Bank's Supervisory Board, while remaining a member of the Bank's Supervisory Board. The Minister of State Assets, acting as an Authorized Shareholder within the meaning of § 11(2) of the Bank's Articles of Association, in consideration of § 35(1) of the Bank's Articles of Association, in accordance with § 12(1) of the Bank's Articles of Association, appointed Mr. Robert Pietryszyn as Chair of the Bank's Supervisory Board as of 24 March 2023.

On 20 December 2023, Mr. Krzysztof Michalski resigned as a member of the Bank's Supervisory Board with immediate effect.

On 2 February 2024, the Extraordinary General Shareholders' Meeting (EGM) of the Bank recalled the following members from the Bank's Supervisory Board: Mr. Mariusz Andrzejewski, Mr. Wojciech Jasiński, Mr. Dominik Kaczmarski, Mr. Rafał Kos, Mr. Tomasz Kuczur, Mr. Maciej Łopiński, Mr. Robert Pietryszyn, Mr. Bogdan Szafrański. At the same time, the EGM appointed the following persons to the Bank's Supervisory Board:

- Mr. Maciej Cieślukowski,
- Ms. Hanna Kuzińska,
- Mr. Szymon Midera,
- Mr. Andrzej Oślizło,
- Mr. Marek Panfil,
- Mr. Marek Radzikowski,
- Mr. Paweł Waniowski,
- Ms. Katarzyna Zimnicka-Jankowska.

The State Treasury as the Eligible Shareholder, pursuant to the Bank’s Articles of Association, appointed:

- Ms. Katarzyna Zimnicka-Jankowska – for the position of the Chair of the Bank’s Supervisory Board
- Mr. Paweł Waniowski - for the position of the Deputy Chair of the Bank’s Supervisory Board.

Composition of the Bank's Management Board as at 31 December 2023:

- Dariusz Szwed – President of the Management Board
- Maciej Brzozowski – Vice-President of the Management Board
- Marcin Eckert – Vice-President of the Management Board
- Paweł Gruza – Vice-President of the Management Board
- Wojciech Iwanicki – Vice-President of the Management Board
- Andrzej Kopyrski – Vice-President of the Management Board
- Artur Kurcweil – Vice-President of the Management Board
- Piotr Mazur – Vice-President of the Management Board

On 6 April 2023, Mr. Paweł Gruza resigned, effective at the end of 12 April 2023, from heading the Bank's Management Board and from applying for the position of President of the Bank's Management Board. At the same time, Mr. Paweł Gruza did not resign from his membership of the Bank's Management Board or from his position as Vice-President of the Bank's Management Board.

With effect from 13 April 2023, Mr. Mieczysław Król resigned as a member of the Bank's Management Board.

The Bank's Supervisory Board dismissed Mr. Maks Kraczkowski from the Bank's Management Board with effect from 13 April 2023.

The Bank's Supervisory Board resolved to appoint Mr. Dariusz Szwed as Vice-President of the Bank's Management Board, effective 14 April 2023, for the current joint term of office of the Bank's Management Board, which commenced on 3 July 2020, and at the same time appointed Mr. Dariusz Szwed as President of the Bank's Management Board, subject to the approval of the Polish Financial Supervision Authority and as of the date of such approval. Until the approval by the Polish Financial Supervision Authority ("PFSA"), the Supervisory Board has entrusted Mr. Dariusz Szwed with directing the work of the Management Board.

On 31 August 2023, the PFSA unanimously approved the appointment of Dariusz Szwed as President of the Management Board of PKO Bank Polski.

On 7 February 2024, Mr. Dariusz Szwed resigned from the function of the President of the Bank's Management Board as well as from the membership in the Bank's Management Board effective as of 14 February 2024.

On 14 February 2024, the Supervisory Board resolved to recall the following members from the Bank's Management Board:

- Mr. Andrzej Kopyrski,
- Mr. Paweł Gruza,
- Mr. Maciej Brzozowski,
- Mr. Marcin Eckert,
- Mr. Wojciech Iwanicki,
- Mr. Artur Kurcweil.

The resolutions on the aforementioned recalls became effective upon adoption.

The Supervisory Board delegated the following members of the Supervisory Board:

- Mr. Szymon Midera to temporarily perform the duties of Vice-President of the Management Board from 15 February 2024, with assignment to manage the work of the Management Board,
- Mr. Maciej Cieślukowski to temporarily perform the duties of Vice-President of the Management Board from 14 February 2024,
- Mr. Marek Radzikowski to temporarily perform the duties of Vice-President of the Management Board from 14 February 2024.

4. Approval of the financial statements

These financial statements of the Bank (THE FINANCIAL STATEMENTS), subject to review by the Audit Committee was approved for publication by the Management Board on 5 March 2024 and adopted by the Bank's Supervisory Board on 6 March 2024.

5. Representation by the Management Board

The Management Board hereby represents that, to the best of their knowledge, the financial statements and the comparative data have been prepared in accordance with the applicable rules of accounting practice and give a true, fair and clear view of the Bank's financial position and results of operations.

6. Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) as at 31 December 2023, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on the stock exchange official listing market.

7. Going concern

The financial statements have been prepared on the basis of the assumption that the Bank will continue as a going concern for a period of at least 12 months from the date of approval for publication by the Management Board, i.e. from 5 March 2024. As at the date of signing these financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the Bank's ability to continue in operation as a going concern for 12 months following the publication date as a result of any intended or compulsory discontinuation or significant limitation of the Bank's existing operations.

The Bank's Management Board considered the impact of: current situation in Ukraine, legal risk of mortgage loans in convertible currencies and loan holidays introduced by the Act on crowdfunding for business ventures and assistance to borrowers and assessed that these factors do not cause significant uncertainty regarding the Bank's ability to continue as a going concern.

The external business environment covering the macroeconomic environment, the situation on the financial markets, the state of the Polish banking and non-banking sector, the regulatory and legal environment, as well as the factors that will affect future financial results are described in detail in the Management Board Report on the operations of the PKO Bank Polski S.A. Group (note 2 "External business conditions").

Disclosures concerning: the situation in Ukraine are presented in the note "Impact of the geopolitical situation in Ukraine on PKO Bank Polski S.A.", the legal risk of mortgage loans in convertible currencies in the notes "The costs of legal risk of mortgage loans in convertible currencies" and credit holidays in the note "Loans and advances to customers".

8. The basis for preparation of the financial statements

The financial statements cover the year ended 31 December 2023 and include comparative data for the year ended 31 December 2022. The financial data is presented in millions of Polish zlotys (PLN), unless otherwise indicated.

Annual consolidated financial statements of PKO Bank Polski S.A. Group from 1 January 2023 to 31 December 2023 will be published and approved on the same date as the separate financial statements of PKO Bank Polski S.A. The requirement for its preparation and publication is based on legal regulations.

These financial statements have been prepared on a fair value basis in respect of financial assets and liabilities measured at fair value through profit or loss, including derivatives and financial assets measured at fair value through other comprehensive income. The remaining financial assets are disclosed at amortized cost less allowances for expected credit losses. However the remaining financial liabilities are disclosed at amortized cost. Non-current assets are measured at acquisition cost less accumulated depreciation and impairment losses. Non-current assets (or groups of such assets) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

While preparing financial statements, the Bank makes estimates and assumptions, which have a direct influence on both the financial statements and enclosed supplementary information. The estimates and assumptions that are used by the Bank in determining the value of assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and considered appropriate in the given circumstances. Assumptions regarding the future and the available data are used for assessing the carrying amounts of assets and liabilities which cannot be clearly determined using other sources. In making estimates the Bank takes into consideration the reasons and sources of the uncertainties that are anticipated at the end of the reporting period. Actual results may differ from estimates.

Estimates and assumptions made by the Bank are subject to periodic reviews. Changes in estimates are recognized in the period to which they relate.

(IN PLN MILLION)

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies and estimates and judgments applied in the preparation of these financial statements are presented in this Chapter and in individual notes further in the financial statements. In all years presented, these accounting policies are applied consistently.

As a result of the entry into force on 1 January 2023 of the amendments to IAS 1 "Presentation of Financial Statements" concerning the introduction of disclosure requirements for significant accounting policies, the Bank, as a result of its analyses and reviews, has modified the information on accounting policies contained in the financial statements with a view to the relevance of the information for users of the financial statements. The Bank was guided by the assumption that information on accounting policies for immaterial transactions should not be disclosed unless the information is material given the nature of the related transactions, other events or conditions, even if the amounts are immaterial. In addition, the Bank has reviewed its accounting policy disclosures taking into account the fact that, in accordance with the interpretation of the amendments to IAS 1, specific information is more useful than disclosures that contain only standard information or duplications or summaries of the requirements of the IFRSs, and information on specific accounting policies is particularly relevant when it relates to an area where the Group exercises its own judgement.

9. FUNCTIONAL CURRENCY, PRESENTATION CURRENCY AND FOREIGN CURRENCIES

The financial statements are presented in Polish zlotys (PLN), which are the Bank's functional and presentation currency. Items of the statement of financial position of the German and Slovak Branches are translated into the presentation currency from the functional currency (EUR) and items of the statement of financial position of the Czech Branch are translated into the presentation currency from the functional currency (CZK) using the mid-exchange rate quoted by the NBP at the end of the reporting period. Items in the Branches' profit and loss are translated into the presentation currency using the mid-exchange rate quoted at the end of each month of the reporting period. The resulting exchange differences are recognized in other comprehensive income.

- ### TRANSACTIONS AND BALANCES IN FOREIGN CURRENCIES

At the end of each reporting period, the Bank translates:

- monetary items in foreign currencies – at the closing exchange rate, i.e. the mid-exchange rate quoted by the National Bank of Poland at the end of the reporting period;
- non-monetary items carried at historical cost in foreign currencies, such as tangible and financial fixed assets, intangible assets – at the average exchange rate quoted by the National Bank of Poland on the transaction date;
- non-monetary items measured at fair value in a foreign currency, such as equity instruments classified as financial assets, are translated using the average exchange rates quoted by the National Bank of Poland, effective on the date on which the fair value was determined.

EUR/PLN	2023	2022
Foreign exchange rates as at the end of the period	4.3480	4.6899
Arithmetic mean of exchange rates as at the last day of each month in the period	4.5284	4.6883
The highest exchange rate during the period	4.7170	4.8698
The lowest exchange rate during the period	4.3480	4.5756

CZK/PLN	2023	2022
Foreign exchange rates as at the end of the period	0.1759	0.1942
Arithmetic mean of exchange rates as at the last day of each month in the period	0.1889	0.1909
The highest exchange rate during the period	0.1999	0.1980
The lowest exchange rate during the period	0.1759	0.1851

10. Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are measured at cost less impairment losses.

11. General accounting policies for financial instruments

11.1. Accounting for transactions

Financial assets and financial liabilities, including forward transactions and regular-way transactions, which carry an obligation or a right to purchase or sell in the future an agreed number of specified financial instruments at a fixed price, are entered into the books of account under the date of the contract, irrespective of the settlement date provided in the contract.

11.2. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

11.3. Derecognition of financial instruments from the statement of financial position

Financial assets are derecognized by the Bank from the statement of financial position when contractual rights to the cash flows from the financial asset expire or when the Bank does not have justified prospects for recovering the given financial asset in full or in part, or when the financial asset is transferred by the Bank to another entity.

The Bank excludes financial assets from the statement of financial position when, among other things, they are subject to invalidation by a final court judgement, cancellation by prescription or they are uncollectible. When the said assets are derecognized, they are charged to the respective credit loss allowances or losses in respect of legal risk (in case of invalidation of CHF loans).

In the event that no allowances have been recognized, or if the amount of the allowance is less than the amount of the financial asset, the amount of the credit loss allowance is increased by the difference between the value of the asset and the amount of the allowance that has been recognized to date.

The Bank derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

11.4. The principles for classification of financial instruments

The Bank classifies financial assets into the following categories:

- measured at amortized cost;
- measured at fair value through other comprehensive income;
- measured at fair value through profit or loss.

The Bank classifies financial liabilities into the following categories:

- measured at amortized cost;
- measured at fair value through profit or loss.

Classification of financial assets as at the date of acquisition or origination depends on the business model adopted by the Bank for the purposes of managing a particular group of assets and on the characteristics of the contractual cash flows resulting from a single asset or group of assets. The Bank identifies the following business models:

- the "held to collect" cash flows model, in which financial assets originated or acquired are held in order to collect benefits from contractual cash flows – this model is typical for lending activities;
- the "held to collect and sell" cash flows model, in which financial assets originated or acquired are held to collect benefits from contractual cash flows, but they may also be sold (frequently and in transactions of a high volume) – this model is typical for liquidity management activities;

- the residual model – other than the “held to collect” or the “held to collect and sell” cash flows model.

- **BUSINESS MODEL**

The business model is determined by the Bank upon initial recognition of financial assets. The Bank determines the business model at the level of individual groups of assets, in the context of the business area in connection with which the financial assets originated or were acquired, and is based, among other things, on the following factors:

- the method for assessing and reporting the results of the financial assets portfolio;
- the method for managing the risk associated with such assets and the principles of remunerating the persons managing such portfolios.

In the “held to collect” business model, the Bank sets out the following classification criteria:

- insignificant sales (less than 5% of the portfolio), even if frequent,
- infrequent sales (no more than 1 transaction - understood as 1 sale) - occasional sales transactions during the year, even if of significant value,
- sales close to maturity (a period of no more than 5% of the remaining period to maturity).

In addition, the Bank uses the criterion of "incidental sales" in the event of an increase in the level of credit risk, a change in laws or regulations - the sales are made in order to maintain the assumed level of regulatory capital, in accordance with the principles described in the strategy for managing such portfolios.

- **ASSESSMENT OF CONTRACTUAL CASH FLOW CHARACTERISTICS**

The assessment of the contractual cash flow characteristics establishes, based on a test of contractual cash flows, whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding (hereinafter “SPPI”). Interest is defined as consideration for the time value of money, credit risk relating to the principal remaining to be repaid within a specified period and other essential risks and costs associated with granting financing, as well as the profit margin.

Contractual cash flow characteristics do not affect the classification of the financial asset if:

- their effect on the contractual cash flows from that asset could not be significant (de minimis characteristic); In order to confirm the de minimis characteristic, the Bank calculates the percentage change in cash flows for each reporting period separately, as well as cumulatively over the life of the financial instrument. A situation where the percentage change in cash flows does not exceed the materiality threshold of 5% does not constitute a breach of the SPPI test;
- they are not genuine, i.e. they affect the contractual cash flows from the instrument only in the case of occurrence of a very rare, unusual or very unlikely event (non-genuine characteristic).

In order to make such a determination, the potential impact of the contractual cash flow characteristics in each reporting period and throughout the whole life of the financial instrument is considered.

The SPPI test is performed for each financial asset in the “held to collect” or “held to collect and sell” models upon initial recognition (and for substantial modifications after subsequent recognition of a financial asset).

In the case of financial assets having characteristics associated with sustainable development (green loans, where a customer may benefit from a reduced margin upon presentation of an energy efficiency certificate), the cash flow changes are assessed taking into account the possible impact of the characteristic associated with sustainable development in every reporting period and cumulatively throughout the loan term. It is also considered whether the impact of this characteristic on contractual cash flows is associated with credit risk. If the interest is increased or decreased in consequence of an increase or a decrease in credit risk, which indicates a positive correlation between the credit margin and the credit risk level, the SPPI criteria are met.

The Bank analyses, among others, the following features of financial assets which result in the SPPI test being failed:

- leverage in the design of interest rate, understood as a multiplier higher than 1;
- a creditor's right to participate in the profit – contractual cash flows are not only the repayment of principal and interest on the outstanding principal;
- limitation of the debtor's liabilities (resulting in a non-recourse asset);
- early repayment and extension option contingent on a future economic event which does not relate to the agreement, particularly an event not related to a change in the borrower's credit risk level;
- covenants providing for an increase or decrease in interest rate in line with an increase or decrease in credit risk, which reflects a negative relation between the loan margin and the level of credit risk;
- interest rates unilaterally determined by the Bank (administered interest rates), if they do not approximate variable market rates.

If the qualitative assessment performed as part of the SPPI test is insufficient to determine whether the contractual cash flows are solely payments of principal and interest, a benchmark test (QUANTITATIVE ASSESSMENT) is performed to determine the difference between the (non-discounted) contractual cash flows and the (non-discounted) cash flows that would occur should the time value of money remain unchanged (the reference level of cash flows). The Bank performs benchmark tests mainly when there is a mismatch between the frequency of interest rate updates and the interest rate tenor, interest rate updates based on interest rate averaging or interest rate updates based on lagged values (e.g. the value applicable one month before the revaluation date). The materiality criterion for the difference in cash flows between the agreement being tested and the benchmark at a single scenario level was set at 5% for the sum of undiscounted cash flows over the agreement horizon and 5% for the sum of cash flows in the quarterly reporting periods.

11.5. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

Financial assets (debt financial assets) are measured at amortized cost, provided that both the following conditions are met:

- a financial asset is "held to collect";
- the terms and conditions of an agreement concerning the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding (the SPPI test is passed).

The Bank classifies amounts due from banks, loans and advances to customers and debt securities as financial assets measured at amortized cost.

The carrying amount of this category of assets is determined using the effective interest rate described in the note "Interest income and expenses", which is used to determine (calculate) the interest income generated by the asset in a given period, adjusting it for expected credit loss allowances.

Assets for which the schedule of future cash flows necessary for calculating the effective interest rate cannot be determined, are not measured at amortized cost. Financial assets recognized in this item are measured at amounts due, including interest on receivables, taking into account allowances for expected credit losses (see note "Net allowances for expected credit losses"). Commissions and fees connected with the arising of or decisive for the financial qualities of such assets should be settled over the period of life of the asset using the straight-line method, and are included in commission income.

If the schedule of future cash flows and, consequently, the effective interest rate, cannot be determined, the receivables are measured at the amount due.

11.6. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets (debt financial instruments) are measured at fair value through other comprehensive income if both the following conditions are met:

- the financial asset is held in accordance with the business model aimed at both receiving contractual cash flows and selling the asset; and

- the terms and conditions of an agreement concerning the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding (the SPPI test is passed).

The Bank classifies debt securities into the category of financial assets measured at fair value through other comprehensive income

For methods of determining fair value, see note "„Fair value hierarchy".

Financial assets measured at fair value through other comprehensive income are measured at fair value. The effects of changes in the fair value of such financial assets until derecognition or reclassification are recognized in other comprehensive income, except for income of a similar nature to interest income, net allowances for expected credit losses (see note „Net allowances for expected credit losses") and foreign exchange gains or losses, which are recognized in profit or loss.

The gain or loss recognized in other comprehensive income constitutes the difference between the fair value of a financial asset as at the measurement date and the value of the asset at amortized cost.

If a financial asset has been derecognized, accumulated gains and losses previously reported in other comprehensive income are reclassified from other comprehensive income to financial profit or loss in the form of a reclassification adjustment.

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

If financial assets do not satisfy any of the aforementioned criteria of measurement at amortized cost or at fair value through other comprehensive income, they are classified as financial assets measured at fair value through profit or loss.

In the financial statements, financial assets measured at fair value through profit or loss are presented as follows:

- held for trading - financial assets which:
  - are acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
  - on initial recognition are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
  - are a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).
- financial assets that are not held for trading and must be measured at fair value through profit or loss – financial assets that have not passed the test of contractual cash flow characteristics (irrespective of the business model); or financial assets classified to the residual model;
- financial assets designated to be measured at fair value through profit or loss at initial recognition (option to measure at fair value through profit or loss).

The Bank classifies derivatives, loans and advances to customers that do not meet the criteria of the SPPI test due to the presence of leverage in the interest rate structure, increasing the volatility of contractual cash flows, debt securities and equity securities into the category of financial asset measurement at fair value through profit or loss.

The gains and losses arising from disposal of financial instruments designated as financial assets measured at fair value through profit or loss and the effect of their measurement at fair value are recognized in profit or loss under the heading "Gains/(losses) on financial transactions".

Gains or losses on assets measured at fair value through profit or loss are recognized in profit or loss. Gains or losses on the measurement of the financial asset at fair value comprise the difference between the fair value of the asset and its value at amortized cost determined as at the measurement date.

Income similar to interest income on instruments measured at fair value through profit or loss are recognized in profit or loss under the heading "Interest income and expenses".

11.8. EQUITY INSTRUMENTS

Investments in equity instruments are measured at fair value through profit or loss.

11.9. RECLASSIFICATION OF FINANCIAL ASSETS

Financial assets may be reclassified only in the event of a change in the business model relating to an asset or a group of assets resulting from the commencement or discontinuation of a material part of operations. Such changes are very infrequent. Reclassification is presented prospectively, i.e. without changing the effects of fair value measurements, allowances or accrued interest recognized to date.

The Bank has not made any changes to the business model for financial assets in 2023.

11.10. MODIFICATIONS – CHANGES IN CONTRACTUAL CASH FLOWS

Modification – understood as a change in the contractual cash flows in respect of a financial asset based on an amendment to the contract, may be substantial or non-substantial. A change in the contractual cash flows resulting from execution of the terms of the contract is not a modification.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified based on an amendment to the agreement or by general legislation, and the renegotiation or modification does not result in the derecognition of that financial asset ("NON-SUBSTANTIAL MODIFICATION"), the gross carrying amount of the financial asset is recalculated and gain or loss arising from such modification is recognized in profit or loss (as income or interest expense).

An adjustment of the carrying amount of a financial asset resulting from the modification is recognized in interest income/ expenses over time using the effective interest rate method. The Bank accounts for, among other things, the adjustment to the carrying amount due to recognized credit holidays using the effective interest rate method.

In certain circumstances, renegotiation or modification of contractual cash flows associated with a financial asset may lead to derecognition of the financial asset. If an existing financial asset is derecognized due to its modification, and a modified asset is subsequently recognized, the modified asset is treated as a "new" financial asset ("A SUBSTANTIAL MODIFICATION"). The new asset is recognized at the fair value and a new effective interest rate applicable to the new asset is calculated. If the characteristics of a modified new financial asset (after signing an amendment) comply with the arm's length conditions, the carrying amount of that financial asset is equal to its fair value.

The assessment whether a given modification of financial assets is a substantial or a non-substantial modification depends on satisfaction of certain quantitative and qualitative criteria.

The following QUALITATIVE CRITERIA have been adopted:

- currency conversion;
- change of debtor, other than caused by the debtor's death;
- introducing or removing a contractual characteristic that adversely affects the test of cash flow characteristics (SPPI test) or removal of these features;

The occurrence of at least one of these criteria results in a substantial modification.

The QUANTITATIVE CRITERION consists of a 10% test analyzing the change in the contractual terms of a financial asset resulting in a difference between the amount of future cash flows arising from the changed financial asset discounted using the original effective interest rate and the amount of the future cash flows that would arise from the original financial asset discounted using the same interest rate. The other quantitative criterion is an increase in a debtor's exposure, which includes an increase in the capital and off-balance sheet liabilities granted of more than 10% in relation to the amount of capital and off-balance sheet liabilities prior to the increase for each individual exposure. The third criterion is the extension of the original term of cash loans, corporate loans serviced in branch by more than 1 year and by more than double the residual term; cash loans, business loans handled by collection units by more than 1 year; housing loans serviced in branch and handled by collection units by more than 4 years.

In the event of the occurrence of a quantitative criterion (a difference) of more than 10%, the modification is considered substantial, whereas a quantitative criterion of 10% or less means that the modification is considered non-substantial.

Derecognition of financial instruments measured at fair value through other comprehensive income or at amortized cost typically relates to a sale or a substantial modification of such assets.

11.11. Measurement of purchased or originated credit-impaired financial assets (POCI)

Purchased or originated credit-impaired assets ("POCI") assets comprise debt financial assets measured at amortized cost and measured at fair value through other comprehensive income, i.e. loans and debt securities.

In the Bank, POCI assets arise mainly as a result of a restructuring process, i.e. an extension of the agreement term and a significant modification of the agreement terms, resulting in the derecognition of the asset and the re-recognition of the "new" impaired asset.

Such assets are initially recognized at the net carrying amount (net of allowances), which corresponds to their fair value. Interest income on POCI assets is calculated based on the net carrying amount using the effective interest rate adjusted for credit risk recognized over the life of the asset. The credit-adjusted effective interest rate is calculated taking into account future cash flows adjusted for the effect of credit risk recognized over the life of the asset. The change in estimates of future recoveries in further reporting periods is recognized as a gain or loss on expected credit losses.

11.12. Measurement of financial liabilities

Liabilities in respect of a short position in securities are measured at fair value through profit or loss.

Other financial liabilities are measured at amortized cost using the effective interest rate method. In the case of financial liabilities for which it is not possible to estimate the schedule of future cash flows and the effective interest rate, they are measured at the amount due.

12. Environmental issues

Due to the nature of its business activities, the Bank's direct impact on the natural environment is limited to the consumption of natural resources. Indirect environmental impact involves the Bank's provision of financing the Bank's product offering. The Bank mitigates its direct impact on the environment and adjusts its lending policies addressed to the various sectors of the economy in order to also motivate its customers to mitigate their environmental impact.

The issues associated with the Bank's environmental impact and its pro-environmental initiatives are described in the Directors' Report of the PKO Bank Polski S.A. Group for 2023 in the following sections:

- 13.4 "Non-financial factors in the Bank's strategy",
- 13.5 "Key non-financial performance indicators",
- 13.7 "Material topics: management and risks", including: 13.7.6 "Environment", 13.7.7 "Climate" and 13.7.8 "Sustainable development".

From 2021 onwards, ESG risks have been included in the Bank's risk management strategy. For issues related to ESG risk management, see note "ESG RISK MANAGEMENT".

This note describes the impact of climate-related factors on the specific components of the Bank's financial statement, including in particular the impact of climate risk on the measurement of the expected credit losses and concentration of credit risk.

- **Sources of uncertainty of estimates, significant judgments and the ability to continue as a going concern**

The Bank is exposed to climate risk, including:

- physical risk (e.g. risk arising from more frequent/serious weather phenomena); and

- economic transformation and climate change risk (e.g. risk associated with transition to less polluting, low-emission economy, extremization of the seasons).

The climate risk may potentially affect the estimates and assessments of the Bank (including those used in the calculation of allowances for expected credit losses).

As detailed below, there were no material estimates or judgments associated with climate factors that would have a significant effect on the amounts recognized in these financial statements.

Climate-related issues do not present a threat to the Bank's ability to continue in operation as a going concern in the period of 12 months after the of approval of these financial statements by the Management Board for publication.

- **CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS AT FAIR VALUE**

The climate risk may affect the expected cash flows from loans granted and, therefore, expose the Bank to credit losses. The borrower-specific attributes, physical risk and transition risk may (individually or in combination) affect the expected cash flows, as well as the potential future economic scenarios which are taken into account in the measurement of expected credit losses.

The impact of climate-related risk factors on the expected credit losses will vary depending on the severity and duration of the anticipated climate threats, their direct and indirect impact on the borrower and the lender's loan portfolio, and the loan portfolio duration.

The impact of climate-related risk factors on the Bank's expected credit losses is potentially limited, as the Bank, in view of the relatively short-term duration of many bank loan portfolios, expects the most significant effects of climate change to appear in the mid- and long-term perspective. At the same time, it is important to monitor the rate and scale of such changes and their possible effect on the measurement of the allowances for expected credit losses. In the lending process for corporate Customers and SME Customers evaluated with the use of the rating method, the Bank each time assesses the impact of environmental, social and governance factors (ESG factors) on the Customer's creditworthiness, and identifies credit transactions with an increased financial leverage (levered transactions). The Bank also examines the impact of credit transactions on ESG and classifies them to four categories, from transactions with a positive impact on ESG to those with material negative impact. When assessing the ESG factors, the Bank takes into account such factors as the risk of climate change and its impact on the customer's operations, potential influence of the customer on climate, factors related to human capital or health and safety, and governance factors (including the corporate culture and internal audit).

In the fair value measurement of financial instruments classified to level 3 of fair value the Bank does not use unobservable data relating to climate risk:

- debt securities classified at level 3 – generally constitute financing of business entities from industries not exposed to significant climate risk (e.g. insurance companies, developers),
- granted loans classified as level 3 – they generally represent financing for households and their fair value is estimated by applying the discounted cash-flow method using an effective credit margin,
- not listed shares in other entities classified as level 3 – they do not include companies from sectors which are exposed to significant climate risk.

- **PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS**

Climate-related issues do not affect depreciation and amortization recognized by the Bank as at 31 December 2023 and 2022. Moreover, climate-related factors did not cause any indications of impairment of non-financial assets and did not affect their recoverable value as at 31 December 2023 and 2022.

- **INVENTORIES** – Climate-related issues do not affect the carrying amount of inventories held by the Bank as at 31 December 2023 and 2022.

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- **TAXES** – Climate-related issues do not affect deferred income tax assets recognized by the Bank as at 31 December 2023 and 2022.
- **PROVISIONS AND LITIGATION** – As at 31 December 2023 and at 31 December 2022, there were no proceedings involving any climate or environmental issues at the Bank. In 2023-2022, there were no administrative proceedings relating to violations of environmental regulations or the Bank's impact on climate that would lead to any fines being imposed on the Bank.

13. CHANGES IN ACCOUNTING POLICIES APPLICABLE FROM 1 JANUARY 2023 AND EXPLANATION OF THE DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS

The Bank has not changed its presentation in 2023 and therefore no changes have been made to the comparative figures for 2022. In 2023 the Bank implemented amendments to IAS 12 Income Taxes, whose impact was only of a presentational nature, i.e. the recognition of deferred tax on leasing transactions in, respectively, deferred tax assets and deferred tax liabilities (see note Income tax).

The Group made no other changes to accounting policies or presentation in 2023.

14. NEW STANDARDS AND INTERPRETATIONS AND THEIR AMENDMENTS

- **STANDARDS AND INTERPRETATIONS AND THEIR AMENDMENTS EFFECTIVE FROM 1 JANUARY 2023**

STANDARDS AND INTERPRETATIONS *	DESCRIPTION OF CHANGES AND IMPACT
IFRS 17 "INSURANCE CONTRACTS" (1.01.2023/ 19.11. 2021) AND AMENDMENTS TO IFRS 17 (1.01.2023/ 8.09.2022)	IFRS 17 replaced IFRS 4 "Insurance Contracts", which enabled entities to recognize insurance contracts according to the accounting principles based on the national standards. The aim of the new standard was to introduce new uniform rules for the measurement of insurance and reinsurance contracts, ensuring greater comparability of reporting between providers of insurance products, and to provide a number of new disclosures for the use of financial statement users. The Bank analyzed the products, i.e. performance guarantees, to identify links with the requirements of IFRS 17. The analysis confirmed that these products do not meet the definition of an insurance contract in accordance with IFRS 17, due to the fact that in this type of contracts there is no insurance risk, but credit risk related to failure to receive a refund from customers. Due to the above, the Bank recognizes and measures performance bonds in accordance with IFRS 9.
AMENDMENTS TO IAS 1 "PRESENTATION OF FINANCIAL STATEMENTS" AND IAS 8 "ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS" (1.01.2023/2.03.2022))	Amendments to IAS 1 contain guidelines on the application of the term "material" in disclosures of the accounting policies. Instead of significant accounting policies, the amendments require disclosure of material information about accounting policies, with explanations and examples of how an entity can identify material information about accounting policies. The amendments to IAS 8 introduce a new definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The introduction of the definition of accounting estimates and other amendments to IAS 8 are intended to help entities distinguish between changes in accounting policies and changes in accounting estimates. These amendments affect the scope of information presented in the Bank's annual financial statements for 2023. For details, see note "The basis for preparation of the financial statements"
AMENDMENTS TO IAS 1 - CLASSIFICATION OF LIABILITIES (1.01.2024/19.12.2023)	The changes relate to the classification of liabilities in the statement of financial position as short-term or long-term. They clarify that the classification of liabilities as short-term or long-term should take into

(IN PLN MILLION)

	account, as at the classification date, the existence of a debt extension, regardless of the entity's intention to use it for a period longer than 12 months, and should take into account the fulfillment of the conditions of such extension as at the date of assessment, if it is conditional. The Bank does not have any agreements containing the aforementioned provisions and therefore the Bank is not affected by the amendment.
AMENDMENTS TO IAS 12 "INCOME TAXES" (1.01.2023/11.08.2022)	Amendments to IAS 12 require that the entities recognize in the financial statements deferred tax assets and liabilities resulting from transactions, other than business combinations, in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendment is presentational in nature. For details, see note: "Income taxes"
AMENDMENTS TO IAS 12 "INCOME TAXES" (1.01.2023/8.11.2023)	The amendments apply to entities for which OECD Pillar 2 tax regulations apply, i.e. the introduction of global minimum taxation for the largest groups earning profits in different tax jurisdictions ("Pillar"). Among other things, the amendments introduce an exception to the requirements of IAS 12, whereby entities do not recognize and disclose deferred income tax assets and liabilities related to the Pillar. The application of the exception must be disclosed by entities. In addition, the amendments also introduce, among other things, a requirement for separate disclosure of current tax expense related to the Pillar. The provisions for a global minimum tax have not yet been implemented in Poland. From 2024 onwards, they will apply in tax jurisdictions where the Bank operates in the form of foreign branches (Germany, Czech Republic, Slovakia, Romania). The Bank is in the process of estimating the future impact on its separate financial statements.
AMENDMENT TO IFRS 16 "LEASES" (1.01.2024/20.11.2023)	The amendments clarify how a seller-lessee should measure sale and leaseback transactions that meet the requirements of IFRS 15 to recognize an asset as a sale. The amendments concern cases where the instalments payable under a leaseback agreement are variable, i.e. other than based on a rate or index. The amendments require the seller-lessee to measure the lease liability in such a way that it should not take into account the gains and losses associated with the retained right of use. A retrospective approach applies to these amendments. The Bank does not currently have sale and leaseback transactions with variable lease instalments other than those based on a rate or index, and therefore the Bank is not affected by the amendment.

*(the entry into force date in the EU / date of endorsement by the EU is provided in parentheses)

- **NEW STANDARDS AND INTERPRETATIONS, AND AMENDMENTS THERETO, WHICH HAVE BEEN PUBLISHED BUT HAVE NOT BEEN ENDORSED BY THE EUROPEAN UNION**

STANDARDS AND INTERPRETATIONS *	DESCRIPTION OF CHANGES AND IMPACT
AMENDMENTS TO IAS 7 "STATEMENT OF CASH FLOWS" AND AMENDMENTS TO IFRS 7 "FINANCIAL INSTRUMENTS: DISCLOSURES" (1.01.2024/ NO DATA)	The amendments require additional disclosures for reverse factoring agreements. Entities will be required to disclose information in financial statements to enable users of financial statements: • an assessment of how the aforementioned agreements affect the entity's liabilities and cash flows; and • understanding the impact of the aforementioned agreements on the entity's exposure to liquidity risk and the impact when the agreements expire. In addition, the amendments complement the current IFRS requirements by adding additional disclosure requirements to IAS 7 on, among other things: • terms and conditions of reverse factoring agreements; • disclosures at the beginning and end of the reporting period of the carrying amount of the aforementioned liabilities, the value of liabilities paid, the timing of payments. The IASB has decided that, in most cases, entities can present aggregated information on the above matters. The Bank does not currently have any reverse factoring transactions relating to the above amendments and therefore the Bank should not be affected by the amendment.

*(the entry into force date in the EU / date of endorsement by the EU is provided in parentheses)

SUPPLEMENTARY NOTES TO THE INCOME STATEMENT

15. INTEREST INCOME AND EXPENSE

ACCOUNTING POLICIES

Interest income and expenses comprise interest, including premiums and discounts in respect of financial instruments measured at amortized cost and instruments measured at fair value through other comprehensive income, as well as income similar in nature to interest on instruments measured at fair value through profit or loss, including interest income and expense on derivative hedging instruments. Interest income and expenses also include fees and commissions received and paid, which are deferred using the effective interest rate and which are taken into account in the measurement of the financial instrument, including costs of remuneration of agents and intermediaries for the sale of the financial instrument, costs of employee bonuses to the extent that relate directly to selling credit products.

The Bank consistently applies the method of presenting the total net interest income/(expense) on hedging instruments for all hedging strategies in the line "derivative hedging instruments" under "Net interest income" – the positive total amount for a period is presented in "Interest income" and the negative total amount is presented in "Interest expenses".

Interest income and expense are recognized using the effective interest rate method, except for:

- POCI financial assets. Interest income on these assets is calculated on the net carrying amount using the effective interest rate, adjusted for the credit risk recognized for the entire life of the asset, with the calculation of interest income being made based on the net carrying amount calculated using the previous month's net-to-gross ratio;

- non-POCI financial assets that subsequently became POCI assets. Interest income on these assets is calculated on the net carrying amount using the original effective interest rate from the moment of recognizing premises for impairment of the asset, with the calculation of interest income for stage 3 being made based on the net carrying amount calculated using the previous month's net-to-gross ratio.

Interest income also includes:

- the impact of the European Union Court of Justice's ruling on consumer rights to reduce the cost of loans repaid before maturity by deducting interest income, as the estimated difference between the outstanding commission at the effective interest rate at the date of the expected early repayment of the loan and the commission that would have been accounted for on a straight-line basis, according to which the Bank reimburses the commission. The estimates are based on historical early repayment periods and their probability;
- the effect of statutory credit holidays, introduced by the Act on crowdfunding for business ventures and assistance to borrowers, recognized in the second half of 2022 in correspondence with the gross carrying amount of mortgage loans granted in PLN (Note „Loans and advances to customers”).
- the impact of the amendment of the Act of 23 March 2017 on mortgage credit and supervision of mortgage credit intermediaries and agents (Journal of Laws of 2020, items 1027 and 2320 and of 2022, items 872 and 1488), concerning the reimbursement of the additional mortgage cost associated with waiting for the mortgage to be registered in the mortgage register, borne by the customer until the mortgage is registered in the mortgage register by deducting interest income, as the value of the estimated return of the margin for customers calculated until the date of registration of the mortgage in the mortgage register.

- **INCOME AND EXPENSES RESULTING FROM SALES OF INSURANCE PRODUCTS LINKED TO LOANS AND ADVANCES**

Due to the fact that the Bank offers insurance products along with loans and advances and it is impossible to purchase an insurance product from the Bank that is identical as to legal form, conditions and economic content without purchasing a loan or an advance, the payments received by the Bank for the insurance products sold are treated as an integral part of the remuneration for the financial instruments offered.

The remuneration received and payable to the Bank for offering insurance products for products directly linked to financial instruments is accounted for using the effective interest rate method and recognized in interest income and, in the part corresponding to the performance of the intermediation service, is recognized in commission income when the insurance product is sold or renewed.

Remuneration is divided into the commission portion and the interest portion based on the proportion of the fair value of the financial instrument and the fair value of the intermediation service to the sum of these two values, in accordance with the relative fair value model comprising a range of different parameters, including the average effective interest rate on the financial instrument, the average contractual and economic (actual) loan or lease term, the average insurance premium amount, the term of the insurance policy, the independent insurance agent’s commission.

The fair value of a financial instrument is measured according to the income-based approach, involving the conversion of future cash flows to their present value using a discount rate consisting of a risk-free rate determined in relation to the average yield on 5-year and 10-year bonds in the past year, the risk premium determined in relation to the annual costs of credit risk and exceeding the credit risk premium, which reflects all other factors that the market participants would take into account in the fair value measurement under the current circumstances.

On the other hand, measurement of the fair value of the insurance intermediation service is based on the market approach, which consists in referring to prices and other information on identical or similar comparable market transactions.

Costs directly attributable to selling insurance products are accounted for in the same manner as the revenue, i.e. as a component of the amortized cost of a financial instrument or on a one-off basis.

The Bank makes periodical estimations of the remuneration amount that will be recoverable in the future due to the early termination of the insurance contract based on historical data on premiums collected and refunds made. The provision for future returns, according to the relative fair value model, is allocated to the financial instrument and recognized as a deduction from its gross carrying amount and to the insurance service – recognized under provisions.

(IN PLN MILLION)

The Bank reviews the correctness of the adopted parameters used in the relative fair value model and the ratio of provisions for refunds whenever the Bank becomes aware of significant changes in this respect, at least once a year.

FINANCIAL INFORMATION

INTEREST AND SIMILAR INCOME	2023	2022
Loans and other amounts due from banks and the Central Bank[1]	**1,905**	**1,401**
Debt securities[2]:	**6,609**	**3,684**
measured at amortized cost	2,198	1,497
measured at fair value through other comprehensive income	4,371	2,158
measured at fair value through profit or loss	40	29
Loans and advances to customers[2]	**20,372**	**13,410**
measured at amortized cost	18,882	12,004
measured at fair value through other comprehensive income	982	883
measured at fair value through profit or loss	508	523
Amounts due to customers (excluding loans and advances received)	-	**29**
Total	**28,886**	**18,524**
of which: interest income on impaired financial instruments	528	368
Interest income calculated using the effective interest rate method on financial instruments measured:	28,338	17,972
at amortized cost	22,985	14,931
at fair value through other comprehensive income	5,353	3,041
Income similar to interest income on instruments measured at fair value through profit or loss	548	552
Total	**28,886**	**18,524**

[1] Under loans and other amounts due from banks, the Bank recognized interest income on funds in call accounts (central clearing through a clearing broker) of PLN 205 million as at 31 December 2023 (PLN 297 million as at 31 December 2022) and interest income on funds in the current account with the NBP of PLN 762 million (PLN 560 million as at 31 December 2022).

[2] The increase in interest income is mainly due to the higher level of market interest rates, increase in the securities portfolio and a change in the structure of the average volume of the loan portfolio (increase in the share of corporate and consumer loans at the expense of the share of housing loans in foreign currencies and PLN. The interest income from loans and advances to customers in the 12 months ended 31 December 2022 includes the effect of the Act on crowdfunding for business ventures and assistance for borrowers (so-called "credit holidays") in the amount of PLN 2,443 million (note "Loans and advances to customers").

INTEREST EXPENSE	2023	2022
Hedging derivatives[1]	(3,404)	(3,142)
Amounts due to banks	(86)	(134)
Interbank deposits	-	(6)
Loans and advances received	(39)	(198)
Leases	(30)	(14)
Amounts due to customers[2]	(7,705)	(3,642)
Issues of securities	(180)	-
Subordinated liabilities	(227)	(164)
Total	**(11,671)**	**(7,300)**

[1] The increase in interest expense related to hedging derivatives of PLN 262 million relates mainly to IRS transactions (payments made at a floating rate exceed those received at a fixed rate).

[2] The increase in costs by PLN 4,063 million is mainly related to an increase in average interest rates on deposits associated with increases in PLN interest rates following the MPC's decisions and changes in the term structure involving an increase in the share of term deposits bearing interest at higher rates.

	31.12.2023	31.12.2022
Interest on funds in the mandatory reserve account	5.75%	6.75%

During the course of a working day, the Bank may use funds from the mandatory reserve accounts for ongoing payments, on the basis of an instruction submitted to the National Bank of Poland (NBP). However, the Bank must ensure that the average monthly balance on this account complies with the requirements set in the mandatory reserve declaration.

16. FEE AND COMMISSION INCOME AND EXPENSES

ACCOUNTING POLICIES

The Bank recognizes fee and commission income that is not accounted for using the effective interest rate in such a manner so as to reflect the transfer of the goods or services promised to a customer in an amount reflecting the consideration to which – in accordance with the Bank's expectations – it will be entitled in return for the goods or services in accordance with the five stage model for recognizing revenue.

Fee and commission income includes one-off amounts charged by the Bank for services not related directly to the creation of financial assets, as well as amounts charged by the Bank for services performed, which are recognized on a straight-line basis. Fee and commission income also includes fees and commissions recognized on a straight-line basis, received on loans and advances granted with an unspecified schedule of future cash flows for which the effective interest rate cannot be determined.

Upon concluding a contract, the Bank assesses whether it will be capable of fulfilling the commitment to perform over time or at a point in time.

The accounting policies for recognizing commission income on sales of insurance products linked to loans and advances are described in note "Interest income and expenses".

The foreign exchange margin included in the exchange rates offered to the Bank's customers when providing foreign currency purchase/sale services is presented under commission income in the line "margin on foreign exchange transactions". The exchange rate margin in customer transactions is calculated as the difference between the exchange rate at which the foreign exchange transaction was executed (the buy/sell rate from the bank's table of exchange rates, the negotiated rate, the rate from Table C of the National Bank of Poland) and the averaged current day buy and sell rate from the bank's table of exchange rates, with the exception of exchange office transactions and spot foreign exchange transactions, for which the exchange rate margin is calculated as the difference between the rate at which the foreign exchange position is closed and the transaction rate determined upon conclusion of the transaction.

(IN PLN MILLION)

FINANCIAL INFORMATION

FEE AND COMMISSION INCOME	2023	2022
Loans and insurance	**1,032**	**965**
lending	803	758
offering insurance products	229	207
Investment funds, pension funds and brokerage activities	**370**	**407**
servicing investment funds and OFE (including management fees)	12	17
servicing and selling investment and insurance products	6	6
brokerage activities	352	384
Cards	**2,151**	**1,958**
Margins on foreign exchange transactions	**669**	**727**
Bank accounts and other	**1,299**	**1,260**
servicing bank accounts	945	951
cash operations	100	82
servicing foreign mass transactions	136	112
customer orders	54	63
fiduciary services	9	9
Other	55	43
Total, of which:	**5,521**	**5,317**
income from financial instruments not measured at fair value through profit or loss	5,416	5,208

FIDUCIARY ACTIVITIES

The Bank is a direct participant in the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The Parent Company maintains securities accounts and handles transactions on the domestic and foreign markets, provides fiduciary services and performs a depositary role for pension and investment funds. Assets held by the Parent Company as part of providing fiduciary services have not been disclosed in these financial statements since they do not meet the definition of the Parent Company's assets. Revenue from the provision of these services is recognized in commission income, line "fiduciary services".

FEE AND COMMISSION EXPENSE	2023	2022
Loans and insurance	**(109)**	**(88)**
commission paid to external entities for product sales	(30)	(22)
cost of construction project supervision and property appraisal	(41)	(27)
fees to Biuro Informacji Kredytowej	(23)	(22)
loan handling	(15)	(17)
Investment funds, pension funds and brokerage activities	**(30)**	**(29)**
Cards	**(1,271)**	**(1,234)**
Bank accounts and other	**(200)**	**(148)**
clearing services	(59)	(53)
commissions for operating services provided by banks	(12)	(13)
sending short text messages (SMS)	(55)	(50)
selling banking products	(1)	(1)
servicing foreign mass transactions	(22)	(22)
Other[1]	(51)	(9)
Total	**(1,610)**	**(1,499)**

[1] The item "other" includes costs for the guarantee agreement entered into by the Bank on 27 February 2023 (see the note "Contingent liabilities and off-balance sheet liabilities received and granted" for details).

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17. FEE AND COMMISSION INCOME BY SEGMENT

ACCOUNTING POLICIES: "Interest income and expense", "Fee and commission income and expense"

FINANCIAL INFORMATION

INTEREST INCOME BY SEGMENT	2023			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans and other amounts due from banks and the Central Bank	-	1,143	762	1,905
Debt securities	-	4,377	2,232	6,609
Loans and advances to customers	14,339	6,033	-	20,372
Total	14,339	11,553	2,994	28,886

INTEREST INCOME BY SEGMENT	2022			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans and other amounts due from banks and the Central Bank	-	841	560	1,401
Debt securities	-	2,019	1,665	3,684
Loans and advances to customers	9,349	4,061	-	13,410
Amounts due to customers (excluding loans and advances received)	-	29	-	29
Total	9,349	6,950	2,225	18,524

FEE AND COMMISSION INCOME BY SEGMENT	2023			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans and insurance	**691**	**341**	-	**1,032**
lending	462	341	-	803
offering insurance products	229	-	-	229
Investment funds, pension funds and brokerage activities	**249**	**121**	-	**370**
servicing investment funds and OFE (including management fees)	6	6	-	12
servicing and selling investment and insurance products	6	-	-	6
brokerage activities	237	115	-	352
Cards	**2,118**	**33**	-	**2,151**
Margins on foreign exchange transactions	**489**	**180**	-	**669**
Bank accounts and other	**994**	**305**	-	**1,299**
servicing bank accounts	797	148	-	945
cash operations	52	48	-	100
servicing foreign mass transactions	86	50	-	136
customer orders	16	38	-	54
fiduciary services	-	9	-	9
Other	43	12	-	55
Total	4,541	980	-	5,521

(IN PLN MILLION)

FEE AND COMMISSION INCOME BY SEGMENT	2022			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans and insurance	**673**	**292**	-	**965**
lending	466	292	-	758
offering insurance products	207	-	-	207
Investment funds, pension funds and brokerage activities	**283**	**124**	-	**407**
servicing investment funds and OFE (including management fees)	9	8	-	17
servicing and selling investment and insurance products	6	-	-	6
brokerage activities	268	116	-	384
Cards	**1,906**	**52**	-	**1,958**
Margins on foreign exchange transactions	**521**	**206**	-	**727**
Bank accounts and other	**970**	**290**	-	**1,260**
servicing bank accounts	801	150	-	951
cash operations	37	45	-	82
servicing foreign mass transactions	69	43	-	112
customer orders	27	36	-	63
fiduciary services	-	9	-	9
Other	36	7	-	43
Total	4,353	964	-	5,317

18. DIVIDEND INCOME

ACCOUNTING POLICIES:

Dividend income is recognized on the date when the shareholders' rights to its receipt is determined, if the Bank is entitled to dividend.

FINANCIAL INFORMATION

DIVIDEND INCOME	2023	2022
from subsidiaries	611	423
from associates and joint ventures	57	52
from financial assets held for trading	2	1
from financial instruments not held for trading, measured at fair value through profit or loss	13	12
Total	683	488

19. GAINS/(LOSSES) ON FINANCIAL TRANSACTIONS

ACCOUNTING POLICIES:

The net gain/(loss) on financial transactions includes gains and losses arising from disposal of financial instruments designated as financial assets / liabilities measured at fair value through profit or loss and the effect of their measurement at fair value. This item also includes the ineffective portion of cash flow hedges in the case of hedging strategies in which IRS contracts are the hedging instrument, as well as gains and losses on the hedging instrument and hedged item relating to the hedged risk (fair value hedges).

RELATED NOTES: Hedge accounting and other derivative instruments", "Securities", "Loans and advances to customers".

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FINANCIAL INFORMATION

GAINS/(LOSSES) ON FINANCIAL TRANSACTIONS	2023	2022
Financial instruments held for trading, of which:	**76**	**399**
Derivatives[1]	55	399
Equity instruments	4	(2)
Debt securities	16	2
Other	1	-
Financial instruments not held for trading, measured at fair value through profit or loss, of which:	**46**	**(26)**
Equity instruments	81	13
Debt securities	12	6
Loans and advances to customers	(47)	(45)
Hedge accounting	**(10)**	**(17)**
Total	112	356

[1] Of which due to share options and stock exchange indices PLN 86 million (in the corresponding period of 2022 - PLN 212 million) and IRS: PLN - 66 million (in the corresponding period of 2022 - PLN 145 million).

20. NET FOREIGN EXCHANGE GAINS/ (LOSSES)

ACCOUNTING POLICIES:

Net foreign exchange gains/(losses) comprise foreign exchange gains and losses, both realized and unrealized, resulting from valuation of assets and liabilities denominated in foreign currencies and from the fair value measurement of foreign currency derivatives (FX forward, FX swap, CIRS and foreign exchange options). In the case of the hedging strategies in which CIRS contracts are the hedging instrument, this item also includes the ineffective portion of cash flow hedges (for details, please see the note "Hedge accounting and other derivative instruments").

Allowances for expected credit losses in respect of loans, advances and other foreign currency-denominated receivables, which are recorded in PLN, are revalued when the measurement of the underlying foreign currency-denominated assets changes. The effect of such remeasurement due to foreign exchange differences is recognized in net foreign exchange gains/(losses).

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An increase in net foreign exchange gains/(losses) mainly from an improvement in the net income on currency derivatives.

	2023	2022
Net foreign exchange gains/ (losses)	81	(108)

21. GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS

ACCOUNTING POLICIES: Derecognition of financial instruments measured at fair value through other comprehensive income or at amortized cost typically relates to a sale or a substantial modification of such assets "Modifications – Changes in contractual cash flows".

RELATED NOTES: „Statement of comprehensive income"

FINANCIAL INFORMATION

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS	2023	2022
measured at fair value through other comprehensive income	30	(24)
measured at amortized cost	22	13
Total	52	(11)

(IN PLN MILLION)

22. OTHER OPERATING INCOME AND EXPENSES

ACCOUNTING POLICIES:

Other operating income comprises income not directly related to banking activities. Other operating income mainly includes gains on sale/scrapping of property, plant and equipment, intangible assets and assets for sale, irrecoverable receivables collected, legal damages, fines and penalties received, and income from lease/rental of properties. Other income also includes reversed provisions for legal claims, excluding legal claims relating to mortgage loans in foreign currencies and income in respect of the valuation and sale of CO_2 emission allowances.

Other operating expenses include mainly provisions for refunds to customers on early repayment of consumer and mortgage loans before the CJEU ruling (see note "Provisions"), losses on sale /scrapping of property, plant and equipment, intangible assets and assets repossessed for debt, and donations made.

Other operating expenses also include provisions recognized for legal claims, excluding legal claims relating to mortgage loans in foreign currencies and income and costs in respect of the valuation and sale of CO_2 emission allowances.

The Bank enters into purchase and sale transactions for commodity forward contracts for CO2 emission allowances. The result from the measurement at fair value and the result from the realization of these derivative transactions are presented in the result on financial transactions. These contracts are settled through the physical delivery of a commodity, i.e. the transfer of CO2 allowances between the account of the transferor and the account of the buyer in the EU Registry in exchange for a cash consideration. CO2 emission allowances purchased by the Bank, as a tradable commodity for resale, are included in inventory and are measured at fair value. The results of the valuation of these assets between the date of acquisition and the date of sale, as well as the result of their sale, are recognized in other operating income and expenses.

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OTHER OPERATING INCOME	2023	2022
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	17	17
Damages, compensation and penalties received	12	15
Ancillary income	32	33
Recovery of receivables expired, forgiven or written off	7	1
Reversal of provision for future payments	4	-
Reversal of provision recognized for legal claims excluding legal claims relating to repaid mortgage loans in convertible currencies	3	3
Income from sale of CO_2 emission allowances	17	43
Other[1]	65	76
Total	**157**	**188**

[1] including revenue from the sale of coins for collectors' purposes of PLN 4 million (PLN 10 million in 2022).

(IN PLN MILLION)

OTHER OPERATING EXPENSES	2023	2022
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(3)	(3)
Damages, compensation and penalties paid	(5)	(1)
Donations made	(27)	(51)
Sundry expenses	(19)	(15)
Recognition of provision for potential refunds of fees and commission to customers	-	(13)
Recognition of provision for future payments	(1)	(2)
Recognition of provision for legal claims excluding legal claims relating to repaid mortgage loans in convertible currencies	(15)	(7)
Costs from sale of CO_2 emission allowances	(44)	(25)
Other[1]	(94)	(38)
Total	**(208)**	**(155)**

[1] including costs of external services incurred in connection with debt collection in the amount of PLN 26 million (in 2022 - PLN 20 million), litigation costs, including legal representation, reimbursed to borrowers under settlements concerning loans granted in CHF in the amount of PLN 29 million (in 2022 - PLN 0 million).

23. NET ALLOWANCES FOR EXPECTED CREDIT LOSSES

ACCOUNTING POLICIES:

The allowance for expected credit losses is recognized in the financial statements in the following manner:

- Financial assets measured at amortized cost: the allowance reduces the gross carrying amount of the financial asset (adjusted for adjustments to the gross carrying amount for legal risk of mortgage loans in convertible currencies, statutory credit holidays and for potential reimbursements to customers for the expected early repayment of consumer and mortgage loans); changes in the allowances amount are recognized in the income statement;
- Off-balance sheet liabilities of a financial nature and financial guarantees: the allowance is presented as a provision under liabilities; changes in the provisions amount are recognized in the income statement;
- Financial instruments measured at fair value through other comprehensive income: the carrying amount of assets recognized at fair value is not additionally decreased by the allowances; however, each change in the measurement is divided into the impairment component, which is recognized in the income statement, and the component relating to other changes in the fair value measurement, which is recognized in other comprehensive income;

ESTIMATES AND JUDGMENTS:

The Bank reviews its loan portfolio for impairment at least quarterly. To determine whether an impairment should be recognized in the income statement, the Bank assesses whether there is any data indicating a measurable reduction in the estimated future cash flows relating to the loan portfolio. The methodology and assumptions used to determine the estimated cash flow amounts and the periods over which they will occur are reviewed on a regular basis.

- **MEASUREMENT AND ASSESSMENT OF CREDIT RISK: EXPECTED CREDIT LOSSES**

With regard to impairment, the Bank applies the concept of expected losses.

The impairment model is applicable to financial assets that are not measured at fair value through profit or loss, comprising:

- debt financial instruments comprising credit exposures and securities;
- other financial assets;
- off-balance sheet financial and guarantee liabilities.

Impairment allowances for exposure reflect 12-month or lifetime expected credit losses on such exposures for a given financial asset.

The time horizon of an expected loss depends on whether a significant increase in credit risk occurred since the moment of initial recognition. Based on this criterion, financial assets are allocated to 3 stages:

- **STAGE 1** – exposures in which the credit risk is not significantly higher than upon initial recognition and no evidence of impairment is found;
- **STAGE 2** – exposures in which the credit risk is significantly higher than upon initial recognition, but no evidence of impairment is found;
- **STAGE 3** –assets in respect of which evidence of impairment is recognized, including assets granted or purchased with evidence of impairment recognized (upon being granted or purchased).

- **SIGNIFICANT INCREASE IN CREDIT RISK**

A significant increase in credit risk is verified according to the likeliness of default and its changes with respect to the date of originating the loan.

  - **MORTGAGE AND OTHER RETAIL EXPOSURES**

The Bank uses a model based on a marginal PD calculation, i.e. the probability of default in a given month, to assess a significant increase in credit risk for mortgage exposures and other retail exposures. This probability depends on the time that has passed from originating the exposure. This enables reflecting the differences in credit quality that are typical of exposures to natural persons over the lifetime of the exposure. The marginal PD curves were determined on the basis of historic data at the level of homogeneous portfolios, which are separated according to the type of product, the year of their origination, the loan currency and the credit quality at the time of origination. The marginal PD is attributed to individual exposures by scaling the curve at the level of the portfolio to the individual assessment of the exposure / Customer using application models (using data from loan applications) and behavioral models. The Bank identifies the premise of a significant increase in credit risk for a given exposure by comparing individual PD curves over the exposure horizon as at the date of initial recognition and as at the reporting date. Only the parts of the original and current PD curves which correspond to the period from the reporting date to the date of maturity of the exposure are compared as at each reporting date. The comparison is based on the average probability of default over the life of the loan in the period under review adjusted for current and forecast macroeconomic indicators.

The result of this comparison, referred to as α statistics, is referred to the threshold value above which an increase in credit risk is considered significant. The threshold value is determined on the basis of the historical relationship between the values of the α statistics and the default arising. In this process the following probabilities are minimized:

- classification into a set of credit exposures with a significant increase in the level of credit risk (based on the α statistic), for which no event of default took place during the audited period (type I error)
- non-classification into the set of credit exposures with a significant increase in the level of credit risk (based on the statistics) for which an event of default occurred during the audited period (type II error).

According to data that is applicable at the end of 2023, an increase in the PD parameter by at least 2.5 compared to the value at the time of its recognition in the Bank's accounts in respect of all exposures.

With respect to credit exposures for which the current risk of default does not exceed the level provided for in the price of the loan, the results of the comparison of the probability of default curves as at the date of initial recognition and as at the reporting date do not signify a significant increase in credit risk.

(IN PLN MILLION)

- **EXPOSURES TO INSTITUTIONAL CUSTOMERS**

In order to assess the significant increase in credit risk for institutional customers the Bank applies the model based on the Markov chains. Historical data is used to build matrices of probabilities of Customers migrating between individual categories of risk that are determined on the basis of the Bank's rating and scoring models. These migrations are determined within homogeneous portfolios, classified using, inter alia, customer and customer segment assessment methodologies.

An individual highest acceptable value of the probability of default is set for each category of risk and portfolio on the date of the initial recognition of the credit exposure, which, if exceeded, is identified as a significant increase in credit risk. This value is set on the basis of the average probability of default for categories of risk worse than that at initial recognition of the exposure, weighted by the probability of transition to those categories of risk in the given time horizon.

In accordance with the data as at the end of 2023, the minimum deterioration in the category of risk which constitutes a premise of a significant increase in credit risk compared to the current category of risk were as follows:

Risk category	PD range	Minimum range of the risk category deterioration indicating a significant increase in credit risk[1]
A-B	0.0 – 0.90%	2 categories
C	0.90 – 1.78%	2 categories
D	1.78 – 3.55%	2 categories
E	3.55-7.07%	2 categories
F	7.07-14.07%	1 category
G	14.07-99.99%	not applicable [2]

[1] average values (the ranges are determined separately for homogeneous groups of customers)
[2] deterioration of the risk category is a direct indication of impairment

The Bank uses all available qualitative and quantitative information to identify the remaining premises of a significant increase in credit risk, including:

- marking a credit exposure as POCI without any indication of impairment,
- restructuring measures introducing forbearance for a debtor in financial difficulties;
- delays in repayment of a material amount of principal or interest (understood as an amount exceeding PLN 400 for retail exposures or PLN 2,000 for other credit exposures and 1% of the debtor's total cumulative loan exposure to the Bank and the other entities of the Bank's Group) exceeding 30 days;
- identified early warning signals as part of the monitoring process, suggesting a material increase in credit risk (including changes in collateral, modifications of the terms of agreement with the customer, in particular relating to the schedule of loan utilization or repayment, reduction of the Bank's exposure to the customer);
- significant increase in the LTV ratio;
- quarantine for Stage 2 exposures, which have not shown premises for impairment in the previous 3 months.
- filing for consumer bankruptcy by any of the joint borrowers;
- transfer of the credit exposure for management on a general basis by the Bank's restructuring and debt collection units;
- use by the borrower of a mortgage loan from statutory support in loan repayment.

- **IMPAIRED LOANS AND DEFINITION OF DEFAULT**

The premise for the impairment of a credit exposure is, in particular:

- delays in repayment of a material amount of principal or interest (understood as an amount exceeding PLN 400 for retail exposures or PLN 2,000 for other credit exposures and 1% of the debtor's total cumulative loan exposure to the Bank and the other entities of the Bank's Group) exceeding 90 days;
- a deterioration in the debtor's economic and financial position during the loan term or a risk to the completion of the investment project financed, expressed by the classification into a rating class or risk category suggesting a material risk of default (rating H);
- the conclusion of a restructuring agreement or the application of relief in debt repayment, which is forced by economic or legal reasons arising from the customer's financial difficulties (until the claim is recognized as remedied);
- filing a motion for the debtor's bankruptcy, placing the debtor into liquidation or the opening of enforcement proceedings with respect to the debtor;
- declaration of consumer bankruptcy by any of the joint borrowers;
- information on death of all borrowers who are natural persons or entrepreneurs running individual business activity or a civil partnership (unless such business activity is continued by a successor);
- the occurrence of other events indicating the debtor's inability to repay his total liability under the agreement.

In accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms ("CRR"), the Bank defines a **STATE OF DEFAULT** if it assesses that the debtor is unable to repay the loan liability without resorting to exercising the collateral or if the exposure is overdue more than 90 days. The premises of default are identical to the premises for impairment of the exposure.

Both the process of assessing a material increase in credit risk and the process of calculating the expected loss are conducted monthly at the level of individual exposures. They use a dedicated computing environment that allows for the distribution of the results to the Bank's internal units.

The Bank has **SEPARATED THE PORTFOLIO OF FINANCIAL ASSETS WITH LOW CREDIT RISK** by classifying financial instruments for which the average long-term default rate does not exceed the probability of default specified by the rating agency for the worst class investment rating. This portfolio includes, in particular, exposures to banks, governments, local authority units and housing cooperatives and communities.

- **CALCULATION OF THE EXPECTED CREDIT LOSS**

The model for the calculation of the expected credit loss is based on applying detailed segmentation to the credit portfolio, taking into account the following characteristics at product and customer level:

- type of credit product;
- currency of the product;
- year of granting;
- assessment of risk of the customer's default;
- the customer's business segment;
- method of assessing the customer risk.

The Bank uses the calculated expected credit losses on an individual and on a portfolio basis.

The individual basis is used in respect of individually significant exposures. The expected credit loss from the exposure is determined as the difference between its gross carrying amount (in the case of an off-balance sheet credit exposure – the value of its balance sheet equivalent) and the present value of the expected future cash flows, established by taking into account the possible scenarios regarding the performance of the contract and the management of credit exposure, weighted by the probability of their realization.

The portfolio method is applied to exposures that are not individually significant and in the event of a failure to identify premises of impairment.

In the portfolio method, the expected loss is calculated as the product of the credit risk parameters: the probability of default (PD), the loss given default (LGD) and the value of the exposure at default (EAD); each of these parameters assumes the form of a vector representing the number of months covering the horizon of estimation of the credit loss.

The Bank sets this horizon for retail exposures without a repayment schedule on the basis of behavioral data from historical observations. The loss expected both in the entire duration of the exposure and in a period of 12 months is the sum of expected losses in the individual periods discounted using the effective interest rate. The Bank adjusts the parameter specifying the level of exposure at the time of default by the future repayments arising from the schedule and potential overpayments and underpayments to specify the value of the asset at the time of default in a given period.

In the calculations of expected credit losses the estimates concerning future **macroeconomic conditions** are taken into account. In terms of portfolio analysis, the impact of **macroeconomic scenarios** is taken into account in the amount of the individual risk parameters. The methodology for calculating the risk parameters includes the study of the dependencies of these parameters on the macroeconomic conditions based on historical data. Three macroeconomic scenarios based on the Bank's own projections are used for calculating the expected loss:

- a baseline scenario with a probability of 75%
- and two alternative scenarios, with a probability of 20% and 5%, respectively.

The scope of the projected indicators includes:

- GDP growth rate,
- unemployment rate,
- WIBOR 3M rate,
- SARON 3M rate,
- CHF/PLN exchange rate,
- property price index
- NBP reference rate.

The final expected loss is the weighted average probability of scenarios from expected losses corresponding to individual scenarios.

The Bank assures compliance of the macroeconomic scenarios used for the calculation of the risk parameters with macroeconomic scenarios used for the credit risk budgeting processes.

The **baseline scenario** uses the base macroeconomic projections. The projections are prepared on the basis of the quantitative models, taking into account adjustments for the presence of one-off events.

The **extreme scenarios** apply to cases of so-called internal shock, as a result of which the so-called external variables (foreign interest rates) do not change with respect to the baseline scenario. The extreme scenarios are developed on the basis of a statistical and econometric analysis, i.e. they do not reflect the events described, but the projected path. Two scenarios are identified, optimistic and pessimistic.

The share of the scenarios for the GDP path (**GDP growth rate**) that falls between the optimistic and the pessimistic scenario is referred to as the probability of the baseline scenario. Such an assumption is used to project GDP growth, using a potential rate of growth of the Polish economy that varies over time, calculated with the use of quarterly data provided by the Central Statistical Office.

The values of other macroeconomic variables used in the scenarios (rate of unemployment, property price index) are estimated after the extreme paths of GDP growth are defined.

The RATE OF UNEMPLOYMENT is calculated on the basis of the quantified dependence on the difference between GDP growth and the potential rate of economic growth. The result is adjusted for significant structural changes taking place in the Polish economy, which are not encompassed by the quantitative model, in particular:

- the ageing of the Polish population (and the appearance of unsatisfied demand for labor, which will limit the scale of increase in the rate of unemployment in a situation in an economic downturn);
- the Polish labor market is nearing full employment (restrictions of supply mean that there is increasingly less space for a further decline in the rate of unemployment);
- the inflow of immigrants (only partly included in the official statistics).

The level of the PROPERTY PRICE INDEX is set on the basis of changes in GDP, taking into account the conditions of supply and demand on the market based on the data and trends presented by the NBP in the publication "Information on housing prices and the situation on the residential and commercial property market in Poland" and the Bank's own analyses.

The projections for deposit RATES are mainly prepared on the basis of assumptions regarding central bank interest rates.

The CHF/PLN EXCHANGE RATE is a cross rate of the EUR/PLN and EUR/CHF exchange rates. Its projections are a combination of projections for these two rates. The EUR/PLN and EUR/CHF projections are prepared on the basis of a macroeconomic analysis (current and historical) based on econometric methods, as well as on a technical analysis of the financial markets.

In 2023, the macroeconomic model incorporates factors to reflect current domestic and global events: the impact of the current macroeconomic situation (high inflation) on customers' ability to settle their obligations, as well as the impact of Russia's invasion of Ukraine on fuel prices and, consequently, on the health of companies. Additional factors in the model include:

- taking into account the high level of interest rates on the quality of the credit portfolio and increases in energy prices on the situation of enterprises, using the historically observed portfolio quality dependency on the level of interest rates and energy prices,
- consideration of the effect of exchange rate volatility on the quality of the foreign currency housing loan portfolio, as a result of the escalation of hostilities in Ukraine.

In addition, due to the significant influx of refugees following Russia's invasion of Ukraine and the uncertainty of its impact on the labor market, the model in all portfolios does not take into account a decrease in unemployment as a factor improving the quality of the loan portfolio.

The applied approach to the impact of macroeconomic forecasts on risk parameters describes the situation simultaneously in all branches of the economy and may not take into account the problems of individual industries caused by the pandemic, which is why the Bank has conducted additional analyses of the loan portfolio. These analyses, carried out by risk experts, mainly included an assessment of the impact of specific macroeconomic conditions not taken into account in the portfolio approach and helped identify clients and industries particularly affected by the current economic situation. This is particularly the case in the construction, automotive, office and retail rental sectors, organic fertiliser production and energy-intensive industries. Exposures with highest PD values (D rating or worse) belonging to identified industries were marked with the indication of "significant increase in credit risk" and covered by increased write-downs. In 2023, as a result of the above measures, the Bank increased the write-downs for expected credit losses by PLN 272 million, which represents approx. 16% of the value of write-downs on the entire portfolio of corporate loans classified as Stage 2.

The tables below present projections of the key macroeconomic parameters and their assumed probabilities of materialization.

scenario as at 31.12.2023	Baseline			optimistic			pessimistic		
probability	75%			5%			20%		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
GDP growth y/y	3.9	3.8	3.2	9.4	8.8	4.7	(1.7)	(1.7)	1.3
Unemployment rate	2.7	2.7	2.5	2.4	2.5	2.7	4.3	4.4	3.0
Property price index	107.7	115.4	118.3	115.1	130.7	134.0	100.6	101.6	104.2
WIBOR 3M (%)	5.6	5.0	3.7	6.6	5.7	3.9	4.3	2.5	2.8
CHF/PLN	4.4	4.1	3.9	4.1	3.8	3.6	5.1	4.9	4.5

scenario as at 31.12.2022	Baseline			optimistic			pessimistic		
probability	75%			5%			20%		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
GDP growth y/y	(0.3)	2.8	2.9	5.2	8.2	6.2	(5.8)	(2.5)	(0.4)
Unemployment rate	3.9	4.7	3.9	2.9	3.4	3.1	4.3	5.3	4.3
Property price index	97.0	96.1	98.2	103.9	110.8	114.9	90.6	83.1	83.6
WIBOR 3M (%)	6.8	5.8	4.6	7.3	6.1	4.7	6.2	4.6	3.8
CHF/PLN	4.6	4.2	4.1	4.4	4.1	4.0	5.1	5.3	4.9

The table below presents the estimated sensitivity of the level of allowances for expected credit losses to macroeconomic conditions, calculated as the change in the level of allowances for expected credit losses in respect of not impaired exposures resulting from the materialization of particular macroeconomic scenarios as at 31 December 2023 and 31 December 2022.

estimated change in the level of allowances for expected credit losses for not impaired exposures due to the materialization of particular macroeconomic scenarios	31.12.2023		31.12.2022	
	optimistic	pessimistic	optimistic	pessimistic
in million	(690)	614	(290)	527

(IN PLN MILLION)

The table below presents the estimated sensitivity of the level of allowances for expected losses as a result of scenarios of deterioration or improvement in risk parameters as at 31 December 2023 and 31 December 2022.

ESTIMATED CHANGE IN THE LEVEL OF IMPAIRMENT ALLOWANCE RESULTING FROM MATERIALIZATION OF A SCENARIO OF THE RISK PARAMETERS, THE DETERIORATION OR IMPROVEMENT, OF WHICH:[1]	scenario +10%	scenario (10%)	scenario +10%	scenario (10%)
	31.12.2023		31.12.2022	
Changes in the present value of estimated cash flows for the portfolio assessed on an individual basis				
SECURITIES	-	-	(37)	49
Stage 1	-	-	-	12
Stage 3	-	-	(37)	37
LOANS AND ADVANCES TO CUSTOMERS	(71)	107	(92)	138
Stage 3	(71)	107	(92)	138
Changes in the probability of default				
SECURITIES	9	(9)	9	(9)
Stage 1	8	(8)	8	(8)
Stage 2	1	(1)	1	(1)
LOANS AND ADVANCES TO CUSTOMERS	233	(256)	201	(237)
Stage 1	116	(116)	101	(107)
Stage 2	117	(140)	100	(130)
Changes in recovery rates				
SECURITIES	(9)	9	(9)	9
Stage 1	(7)	7	(8)	8
Stage 2	(2)	2	(1)	1
LOANS AND ADVANCES TO CUSTOMERS	(570)	571	(546)	546
Stage 1	(168)	168	(163)	163
Stage 2	(215)	215	(215)	216
Stage 3	(187)	188	(167)	167

[1] "()" decrease in write-downs", "+" increase in write-downs

RELATED NOTES: "Amounts due from banks", "Securities", "Loans and advances to customers", "Other assets", "Provisions", "Credit risk – FINANCIAL INFORMATION".

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NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	2023	2022
Amounts due from banks	**(8)**	**(2)**
Debt securities	**(2)**	**27**
- measured at fair value through other comprehensive income	1	41
- measured at amortized cost	(3)	(14)
Loans and advances to customers	**(1,176)**	**(977)**
- measured at fair value through other comprehensive income	(26)	(20)
real estate loans	(26)	(20)
- measured at amortized cost	(1,150)	(957)
real estate loans	(120)	(71)
corporate loans	(344)	(290)
consumer loans	(686)	(596)
Other financial assets	**(7)**	**(13)**
Provisions for financial liabilities and guarantees granted	**73**	**(155)**
Total	**(1,120)**	**(1,120)**

(IN PLN MILLION)

24. IMPAIRMENT OF NON-FINANCIAL ASSETS

ESTIMATES AND JUDGMENTS:

At the end of each reporting period the Bank assesses whether there are any indications of impairment of any non-financial non-current assets, right-of-use assets (or cash-generating units).

If any such indications occur and annually in the case of intangible assets which are not amortized, as well as intangible assets not yet placed in service and goodwill, the Bank estimates the recoverable amount being the higher of the fair value less costs to sell or the value in use of a non-current asset (or a cash-generating unit), and, if the carrying amount of an asset exceeds its recoverable amount, the Bank recognizes an impairment loss in the income statement. In order to estimate these amounts it is necessary to adopt assumptions concerning, among other things, the projected future cash flows that the Bank may obtain from further use or sale of a given non-current asset (or a cash-generating unit). Adopting different assumptions concerning the valuation of future cash flows could affect the carrying amount of certain non-current assets.

RELATED NOTES: Intangible assets, Property, plant and equipment, Assets held for sale, Investments in subsidiaries, associates and joint ventures, Other assets

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IMPAIRMENT OF NON-FINANCIAL ASSETS	2023	2022
Property, plant and equipment[1]	(41)	(3)
Assets held for sale	(1)	-
Intangible assets	(1)	-
Investments in subsidiaries[2]	-	(52)
Other non-financial assets[3]	(57)	(34)
Total	**(100)**	**(89)**

[1] of which PLN 38 million in 2023 relates to the allowance recognized on the Bank's property.

[2] in 2022, the Bank has recognized an allowance for the Bank's investment in KREDOBANK S.A (for details, see note "Impact of the geopolitical situation in Ukraine on PKO Bank Polski S.A.)

[3] Other non-financial assets include, among others, allowances for customer-related costs recognized on customer receivables in the amount of PLN 32 million (in 2022 - PLN 21 million) and allowances for shortages and damages and other receivables in the amount of PLN 20 million (in 2022 - PLN 21 million).

CHANGE IN ACCUMULATED IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS	Opening balance	Impairment of non-financial assets	Other	Closing balance
2023				
Property, plant and equipment	(94)	(41)	7	(128)
Non-current assets held for sale	(1)	(1)	2	-
Intangible assets	(132)	(1)	-	(133)
Investments in subsidiaries	(882)	-	-	(882)
Investments in associates and joint ventures	(186)	-	-	(186)
Other non-financial assets	(268)	(57)	47	(278)
Total	**(1,563)**	**(100)**	**56**	**(1,607)**

(IN PLN MILLION)

CHANGE IN ACCUMULATED IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS	Opening balance	Impairment of non-financial assets	Other	Closing balance
2022				
Property, plant and equipment	(91)	(3)	-	(94)
Non-current assets held for sale	(1)	-	-	(1)
Intangible assets	(134)	-	2	(132)
Investments in subsidiaries	(830)	(52)	-	(882)
Investments in associates and joint ventures	(186)	-	-	(186)
Other non-financial assets	(264)	(34)	30	(268)
Total	**(1,506)**	**(89)**	**32**	**(1,563)**

25. COST OF LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES

ACCOUNTING POLICIES AND ESTIMATES AND JUDGMENTS:

In connection with the current legal disputes regarding loans in convertible currencies, the Bank has identified a risk that the cash flows on the portfolio of mortgage loans denominated in and indexed to foreign currencies planned on the basis of schedules may not be fully recoverable and/or a liability resulting in a future outflow of funds may arise. Following the revisions to cash flow estimates, the Bank reduces the gross carrying amount of mortgage loans denominated in and indexed to foreign currencies in accordance with the requirements of IFRS 9 Financial Instruments, paragraph B5.4.6, and/or recognises provisions for legal risk in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The cost of legal risk was estimated taking into account a number of assumptions which have a significant effect on the amount of the estimates recognized in the Bank's financial statements.

The Bank recognizes as the decrease of the gross carrying amount of mortgage loans the effect of legal risk related to potential litigation and settlements for the portfolio of mortgage loans in convertible currencies and existing legal claims related to loan exposures recognized as at the balance sheet date in the statement of financial position. If the estimated loss due to legal risk exceeds the gross value of the loan and for repaid loans, the Bank recognizes provisions for legal risk as a liability of the Bank, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. In accordance with IAS 37, the amount of the provision should reflect the most appropriate estimate of the expenditure required to meet the present obligation at the balance sheet date.

The costs of legal risk related to mortgage loans in convertible currencies were estimated using a statistical method taking into account the effect of customer characteristics as the sum of the products of:

- probabilities of specific outcomes of legal disputes and the amount of loss in the event of various dispute outcome scenarios, taking into account the current and expected number of court cases throughout the period of the Bank's exposure to such risk; and
- probability of the customer reaching a settlement and the amount of loss from the settlement.

In view of the judgment of the Court of Justice of the European Union (CJEU) in Case C-520/21 of 15 June 2023 concerning the possibility for consumers and banks to claim beyond the consideration provided under a loan agreement that has been declared invalid by the Court (for details see note "LEGAL CLAIMS") and the associated additional uncertainty regarding the choice of course of action by the bank's customers, the expected future number of disputes was statistically modelled with the introduction of expert elements reflecting the fact that the impact of the aforementioned non-recurring event will be observed only in subsequent periods.

The Bank also estimates the probabilities of adverse outcomes for the actual and potential claims. In the evaluation of such probabilities, the Bank uses the support of third party law firms. In the Bank's opinion, the level of estimated costs of legal risk is also affected by such factors as: duration of legal proceedings and high costs which must be incurred to initiate and conduct legal proceedings.

The Bank has also taken into account, as an impact on the probability of settlements, the tax preferences of customers falling within the scope of the Regulation of the Minister of Finance of 11 March 2022 on suspending the collection of income tax on certain types of income (revenue) related to a mortgage loan granted for residential purposes, as amended by the Regulation of 20 December 2022, which is in force until 31 December 2024.

Given the significant uncertainty as to the assumptions made, the methodology of assessing losses in respect of the legal risk is periodically reviewed in the subsequent reporting periods. Uncertainty of estimates relates both to the number of future lawsuits, the court decisions in this respect and to the expected number of settlements, which can be affected in particular by changes in the judicial decisions concerning mortgage loans denominated in or indexed to foreign currencies, a change in base interest rates or a change in the PLN/CHF exchange rate.

In its judgment in Case C-520/21, the CJEU indicated, among other things, that the EU rules preclude a judicial construction of national law whereby a credit institution is entitled to demand compensation from a consumer that goes beyond the reimbursement of the principal paid for the performance of that agreement and beyond the payment of statutory penalty interest from the date of the call for payment. In this respect, the model's parameters have been adjusted in line with the judgment.

In the judgment referred to above, the CJEU also indicated that, as regards analogous claims by consumers against banks, the provisions of the Directive do not preclude consumers from bringing such claims against banks, provided that the objectives of Directive 93/13 and the principle of proportionality are respected. In the Bank's opinion, on the grounds of national legislation and the principle of proportionality, the customers cannot make additional claims against the Bank, primarily because they have not provided the Bank with a financial service consisting in the provision of capital. Nor is it reasonable to conclude that the Bank has enriched itself at the expense of the customer and the consumer has been impoverished. With the funds obtained, the customer met its housing needs and the Bank bore the costs of raising the funds, making them available and servicing the loan over the years.

The Bank assesses that, at this stage, the likelihood of outcomes that are favorable to consumers, including a claim for additional compensation, generating a material adverse financial impact is difficult to estimate and, in addition, there are uncertainties as to how the level of such compensation to the customer should be calculated. This approach is supported by the fact that there have been no adverse court decisions for the Bank relating to this issue.

The Bank regularly, on a quarterly basis, monitors the model’s adequacy by comparing the actual key model parameters with the calculated values. In addition, new empirical data (more accurate or resulting from a longer observation) gradually modify or replace previous assumptions. The model is being adapted to the current settlement offer and changes made in this respect. During 2023, the Bank updated the probability of signing a settlement or filing a lawsuit based on empirical data.

At the end of 2023, there were 3,599 pending court proceedings relating to loans in CHF for which the customer's obligations to the Bank had been repaid before the date of the lawsuit (representing approximately 4% of borrowers with repaid loans). The Bank monitors the level of inflow of applications for repaid loans on an ongoing basis and models the level of expected loss for legal risk for these customers. Potential litigation settlement scenarios and their probability values for each litigation case are considered in the first instance. In doing so, the Bank has conservatively assumed the highest probabilities for the scenario that the loan agreement is declared invalid. To the indicated population of repaid customers, the Bank makes a settlement offer in each case. The expected levels of conversion from lawsuit to settlement are included in the legal risk provision calculation model and adjusted on an ongoing basis to reflect the current situation.

In 2023, the Bank recognized the cost of legal risk of PLN 5,430 million.

(IN PLN MILLION)

The Bank has analyzed the model's sensitivity to changes in key parameters:

ANALYSIS OF THE MODEL'S SENSITIVITY TO CHANGES IN KEY PARAMETERS	Increase/decrease of the cost of legal risk of mortgage loans in convertible currencies	
	31.12.2023	31.12.2022
1 p.p. decrease in the likelihood of the Bank winning in court (instead of a 1 p.p. increase in the probability of declaring an agreement invalid)	101	63
1 p.p. decrease in the number of settlements	25	22
1 p.p. increase in the number of lawsuits for the active portfolio (at the cost of inactive customers)	46	64
1 p.p. increase in the lawsuit to settlement conversion ratio	(71)	(26)
1 p.p. increase in the number of lawsuits for the repaid portfolio	34	35
extension of the period for accrual of statutory interest by 90 days	204	-

RELATED NOTES: "Loans and advances to customers", "Other assets", "Provisions", "Legal claims" and „Management of currency risk associated with mortgage loans for individuals".

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Starting from 4 October 2021, following a decision of 23 April 2021 of the Extraordinary General Meeting of PKO Bank Polski S.A., the Bank has been concluding settlements with consumers who concluded loan agreements or cash advance agreements with the Bank secured by mortgages and indexed to foreign currencies or denominated in foreign currencies (hereinafter: settlements with consumers).

pcs	31.12.2023	31.12.2022
Number of mediation applications registered	57,036	37,500
Total number of settlements concluded, including those concluded	36,822	20,396
- in mediation proceedings	35,154	19,786
- in court proceedings	1,668	610

In 2023, the Bank continued to encourage customers to join the program:

IMPACT OF LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES	Gross carrying amount of mortgage loans in convertible currencies net of the cost of legal risk of mortgage loans in convertible currencies	The accumulated cost of legal risk of mortgage loans in convertible currencies	Gross carrying amount of mortgage loans in convertible currencies including the cost of legal risk of mortgage loans in convertible currencies
as at 31.12.2023			
Loans and advances to customers/adjustment reducing the carrying amount of loans	14,944	8,306	6,638
- related to the portfolio of mortgage loans in CHF	13,096	8,306	4,790
Provisions		3,001	
Total		**11,307**	
as at 31.12.2022			
Loans and advances to customers/adjustment reducing the carrying amount of loans	19,015	7,378	11,637
- related to the portfolio of mortgage loans in CHF	16,731	7,378	9,353
Provisions		851	
Adjustment to the gross carrying amount of other assets		94	
Total		**8,323**	

(IN PLN MILLION)

Change in the accumulated cost of legal risk of mortgage loans in convertible currencies during the period	2023	2022
Carrying amount at the beginning of the period	**(8,323)**	**(7,023)**
revaluation of loss for the period	195	(864)
offset of settlements and judgments for the period against accumulated losses*	2,251	1,478
increase in adjustment to gross carrying amount of loans and advances to customers and other assets, increase in provisions for legal risk	(5,430)	(1,914)
Carrying amount at the end of the period	**(11,307)**	**(8,323)**

* The item also includes the effects of final judgments invalidating loan agreements, which for the year ended 31 December 2023 amount to PLN 717 million, including PLN 264 million in relation to the derecognition of receivables from the cost of use of capital (in the year ended 31 December 2022: PLN 151 million)

Revaluation of the loss in respect of the legal risk is associated with the effect of changes in foreign exchange rates on the part of the loss which is recognized in the convertible currency as adjustment to the gross carrying amount of loans.

26. ADMINISTRATIVE EXPENSES

ACCOUNTING POLICIES:

EMPLOYEE BENEFITS

Employee benefits comprise wages and salaries and social insurance (including provisions for retirement and disability benefits, which are discussed in detail in the note "Provisions"), as well as costs of the employee pension scheme constituting a defined contribution scheme and the program of variable remuneration components for persons occupying managerial positions, a portion of which is recorded as a liability in respect of share-based payments settled in cash, in accordance with IFRS 2 Share-based payments (the program of variable remuneration components is discussed in detail in the note "Remuneration of the PKO Bank Polski S.A. key management").

Moreover, as part of wages and salaries the Bank recognizes a provision for future liabilities in respect of compensation and severance bonuses paid out to employees with whom the employment relationship is terminated for reasons not related to the employees; and accruals related to costs attributable to the current period, which will be incurred in the following period, including bonuses and holiday pay, taking account of all unused holiday.

For additional information, see also the note "Provisions"

OVERHEADS – Overheads include the costs of maintaining fixed assets, IT and telecommunications services costs, costs of administration, promotion and advertising, property protection and training.

Lease payments under short-term and low-value leases are recognized in the income statement as an expense on a straight-line basis over the lease term.

DEPRECIATION AND AMORTIZATION - Costs of depreciation of property, plant and equipment, including right-of-use property, plant and equipment are recognized under the heading "Administrative expenses", item "Depreciation".

Depreciation of property, plant and equipment, amortization of intangible assets and depreciation of investment properties begins on the first day of the month following the month in which the asset has been placed in service, with the exception of right-of-use assets, for which depreciation begins in the same month in which they were placed in service, and ends no later than at the time when:

- the amount of depreciation or amortization charges becomes equal to the initial cost of the asset, or
- the lease period ends, or
- the asset is designated for scrapping, or
- the asset is sold; or
- the asset is found to be missing, or

- it is found – as a result of verification – that the expected residual value of the asset exceeds its (net) carrying amount, taking into account the expected residual value of the asset upon scrapping, i.e. the net amount that the Bank expects to obtain at the end of the useful life of the asset, net of its expected costs to sell.

For non-financial non-current assets it is assumed that the residual value is nil, unless there is an obligation by a third party to buy back the asset, or if there is an active market which will continue to exist at the end of the asset's period of use and it is possible to determine the value of the asset on this market.

Costs relating to the purchase or construction of buildings are allocated to significant parts of the building (components) when such components have different useful lives or when each of the components generates benefits for the Bank in a different manner. Each component of a building is depreciated separately. Intangible assets with indefinite useful lives, which are subject to an annual impairment test, are not amortized.

Costs of depreciation of property, plant and equipment, including right-of-use property, plant and equipment are recognized under the heading "Administrative expenses".

COSTS OF REGULATORY CHARGES – In this item, the Bank presents mainly the charges paid by the Bank, resulting from the legal regulations governing the Bank's activities, to other entities, i.e. the Polish Financial Supervision Authority (PFSA), the Bank Guarantee Fund (BGF), the Borrower Support Fund (BFWK) and also to the assistance fund operated by System Ochrony Banków Komercyjnych S.A. (SOBK). In this item, the Bank also recognizes other taxes other than income tax expense and tax on certain financial institutions, which is presented under a separate heading:

- **CONTRIBUTIONS AND PAYMENTS TO THE BGF –** According to IFRIC 21 "Levies" – fees paid by the Bank to the Bank Guarantee Fund are recognized in profit or loss upon the occurrence of the obligating event. The Bank makes contributions to the banks' guarantee fund (quarterly) and the banks' compulsory resolution (annually). Contributions to the guarantee fund and the mandatory restructuring fund are not tax-deductible.
- **FEES TO THE PFSA –** In accordance with IFRIC 21 "Levies", fees paid by the Bank to the Polish Financial Supervision Authority are recognized in profit or loss upon the occurrence of the obligating event. Both fees (to cover the cost of banking supervision and to cover the costs of supervision over the capital market) are paid once a year. Fees paid to the Polish Financial Supervision Authority are tax deductible.
- **FLAT-RATE INCOME TAX –** The Act of 23 October 2018 on amendments to, among other things, the acts on income taxes, introduced a possibility of an alternative to taxation with WHT, namely a 3% tax on certain interest paid to non-residents. Therefore, on 29 March 2019 the Bank filed a notification on the election of the 3% taxation option with the tax office in respect of:
    - interest on loans which is paid by the Bank to PKO Finance AB with its registered office in Sweden (pursuant to the Act, the election of the taxation option relates to the years 2014 -2022) and
    - interest on Eurobonds issued by the Bank before 1 January 2019.
- **OTHER TAXES AND FEES –** flat-rate income tax, property tax, payments made to the State Fund for the Rehabilitation of Disabled Persons, motor vehicle tax, excise duty, court and stamp duties, fees related to mediation at the PFSA, a contribution to finance the activities of the Financial Ombudsman and their Office, as well as municipal and administrative fees.

ESTIMATES AND JUDGMENTS:

In estimating useful lives of particular types of property, plant and equipment, intangible assets and investment properties, the following factors are considered:

- expected physical wear and tear estimated based on the average periods of use recorded to date, reflecting the rate of wear and tear, intensity of use etc.;
- technical or market obsolescence;
- legal and other limitations of the asset's use;
- expected usage of the asset;

(IN PLN MILLION)

- climate-related issues, i.e. the climate factors potentially affecting the useful lives of assets (e.g. ageing, legal limitations or unavailability of assets).

When the period of use of a given asset results from a contract term, the useful life of such an asset corresponds to the period defined in the contract. If the estimated useful life is shorter than the period defined in the contract, the estimated useful life is applied. The amortization/depreciation method and useful life are verified at least once a year.

Depreciation /amortization periods applied by the Bank:

Fixed assets	Useful lives
Buildings, premises, cooperative rights to premises (including investment real estate)	from 25 to 60 years
Leasehold improvements (buildings, premises)	from 1 to 11 years (or the lease term, if shorter)
Machines, technical devices, tools and instruments	from 2 to 15 years
Computer units	from 2 to 10 years
Vehicles	from 3 to 5 years
Intangible assets	**Useful lives**
Software	from 1 to 24 years
Other intangible assets	from 2 to 20 years

The impact of changes in the useful lives of depreciated assets classified as land and buildings is presented in the table below:

CHANGE IN THE USEFUL LIVES OF DEPRECIATED ASSETS CLASSIFIED AS LAND AND BUILDINGS	31.12.2023		31.12.2022	
	scenario +10 years	scenario -10 years	scenario +10 years	scenario -10 years
Depreciation costs	(27)	145	(29)	163

RELATED NOTES: Intangible assets, Property, plant and equipment; Provisions; Benefits for the PKO Bank Polski S.A. key management ., Leases.

FINANCIAL INFORMATION

ADMINISTRATIVE EXPENSES	2023	2022
Employee benefits	**(3,578)**	**(2,933)**
Overheads, of which:	**(1,548)**	**(1,257)**
rent	(109)	(89)
IT	(383)	(338)
Depreciation and amortization	**(980)**	**(909)**
property, plant and equipment, of which:	(473)	(467)
IT	(105)	(103)
right-of-use assets	(233)	(218)
intangible assets, of which:	(507)	(442)
IT	(504)	(439)
Costs of regulatory charges	**(572)**	**(1,826)**
Total	**(6,678)**	**(6,925)**

(IN PLN MILLION)

EMPLOYEE BENEFITS	2023	2022
Wages and salaries, including:	**(2,976)**	**(2,449)**
costs of contributions to the employee pension plan	(81)	(69)
Social security, of which:	**(504)**	**(411)**
contributions for disability and retirement benefits	(428)	(355)
Other employee benefits	**(98)**	**(73)**
Total	(3,578)	(2,933)

COSTS OF REGULATORY CHARGES	2023	2022
Contribution and payments to the Bank Guarantee Fund, of which:	**(262)**	**(382)**
to the Resolution Fund	(262)	(264)
to the Bank Guarantee Fund	-	(118)
Fees to PFSA	(48)	(41)
Fee for the assistance fund operated by SOBK	-	(956)
Borrower Support Fund	-	(307)
Flat rate income tax	-	(5)
Other taxes and fees	(262)	(135)
Total	(572)	(1,826)

- **FEE FOR THE ASSISTANCE FUND OPERATED BY SYSTEM OCHRONY BANKÓW KOMERCYJNYCH S.A.:**

On 14 June 2022, PKO Bank Polski S.A. and 7 other commercial banks, i.e. Alior Bank S.A., BNP Paribas Bank Polska S.A., ING Bank Śląski S.A., mBank S.A., Millennium Bank S.A., Bank Polska Kasa Opieki S.A. and Santander Bank Polska S.A. (the Participating Banks) formed a system for the protection of commercial banks, which is referred to in Chapter 10a of the Banking Law. The system is supervised by the PFSA.

The aim of the protection system is to ensure the liquidity and solvency of the Participating Banks on the terms and conditions and to the extent specified in the protection system agreement, as well as to support the resolution regime carried out by the Bank Guarantee Fund (BGF). The Participating Banks formed the company System Ochrony Banków Komercyjnych S.A. as the system's Management Entity. SOBK established an assistance fund to provide funds for the financing of the protection system's tasks. The fund is financed by contributions from participating banks.In total, the Bank paid PLN 956 million to the aid fund in 2022.

- **FEE FOR THE BORROWER SUPPORT FUND:**

The Act of 14 July 2022 on crowdfunding for businesses and support for borrowers introduced changes in the operation of the Borrower Support Fund (the "BSF"), which will offer support to borrowers of up to PLN 2,000 per month, payable over a period of up to 36 months. Repayment of the support will begin after two years in 144 equal and interest-free instalments. The customers who have repaid the first 100 instalments in time may be relieved from the obligation to repay a part of the support received. A customer can benefit from the support when one of the following conditions is met:

- at least one of the borrowers is unemployed;
- the monthly housing loan servicing costs exceed 50 per cent of the customer's monthly income;
- monthly income after deduction of the loan costs does not exceed PLN 1,552 per person in a one-person household or PLN 1,200 per person in a multi-person household in 2022.

From this, the Fund has been injected with additional funds of approximately PLN 1.4 billion until the end of 2022. In 2022, the Bank recognized a cost in respect of additional payments to the BSF of PLN 307 million.

(IN PLN MILLION)

27. TAX ON CERTAIN FINANCIAL INSTITUTIONS

ACCOUNTING POLICIES:

As of 1 February 2016, the Act of 15 January 2016 on tax on certain financial institutions came into force, which covered, among other things, banks. The tax is charged on the surplus of a Bank's total assets above PLN 4 billion, based on the trial balance as at the end of each month. Banks are entitled to reduce the tax base by deducting, among other things, own funds and the value of Treasury securities held. Additionally, banks reduce the tax base by the value of assets acquired from the NBP, constituting collateral of a refinancing loan granted by the NBP. As a result of the amendment to the Act on tax on certain financial institutions, effective from 7 May 2022, banks may reduce the tax base by the value of bonds purchased and loans or advances, respectively, issued or granted by the Bank Guarantee Fund or an asset management entity referred to in the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution. Act of 16 November 2022 amending the Act on tax on certain financial institutions and certain other acts expanded the catalogue of items by which a bank may reduce the tax base, including, in particular, the value of treasury securities covered by a statutory guarantee of the State Treasury (the amendments entered into force on 1 January 2023).

The tax rate for all taxpayers is 0.0366% per month, and the tax is paid monthly by the 25th day of the month following the month to which it relates.

The tax paid is not tax-deductible for corporate income tax purposes.

FINANCIAL INFORMATION

TAX ON CERTAIN FINANCIAL INSTITUTIONS	2023	2022
Total	**(1,166)**	**(1,190)**

The decrease in the value of the tax on certain financial institutions in 2023 compared to 2022, despite the increase in total assets, is attributable to the amendment of the Act on the tax on certain financial institutions effective from 1 January 2023 (Act of 16 November 2022).

28. INCOME TAX

ACCOUNTING POLICIES:

Corporate income tax is recognized as current tax and deferred tax. The current income tax is recognized in the income statement. Deferred income tax, depending on the source of temporary differences, is recorded in the income statement or in other comprehensive income.

- **CURRENT TAX**

Current income tax is calculated on the basis of gross accounting profit adjusted by non-taxable income, taxable income that does not constitute accounting income, non-tax deductible expenses and tax-deductible costs which are not accounting costs, in accordance with tax regulations.

The main categories permanently recognized as non-deductible costs include the tax on certain financial institutions, contributions and payments to the BGF and the Borrower Support Fund, allowances for expected credit losses on credit exposures and securities, as well as the State Fund for the Rehabilitation of the Disabled (PFRON).
In addition, the Bank does not recognize in the tax account the cost of legal risk of mortgage loans in convertible currencies subject to the inclusion in the discontinuation of the amounts of capital forgiven resulting from the settlements in accordance with the Regulation of the Minister of Finance of 11 March 2022 on suspending the collection of income tax on certain types of income (revenue) related to a mortgage loan granted for residential purposes, as amended by the Regulation of 20 December 2022, which is in force until 31 December 2024 (for details, see note: RECONCILIATION OF THE EFFECTIVE TAX RATE).

Pursuant to the principles governing the statute of limitations for tax liabilities, the correctness of income tax settlements may be audited within five years of the end of the year in which the deadline for the submission of the respective tax returns passed.

(IN PLN MILLION)

- **DEFERRED INCOME TAX**

Deferred tax is recognized in the amount of the difference between the tax base of assets and liabilities and their carrying amounts for the purpose of financial reporting.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or liability is settled, using tax rates (and tax laws) that prevail at the reporting date. those whose future use is certain at the reporting date.

Deferred tax assets and deferred tax liabilities are offset against each other if, and only if, the Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities and the deferred income tax is attributable to the same taxable entity and the same taxation authority.

The Bank took into account the right to recognize deferred tax assets in connection with the right to apply the tax preference in respect of the settlements covered by the Regulation of the Minister of Finance of 11 March 2022 on suspending the collection of income tax on certain types of income (revenues) associated with mortgage loans granted for housing purposes, as amended by the Regulation of 20 December 2022, which is effective until 31 December 2024, and from the entitlement to adjust tax revenues in connection with judgments invalidating loan agreements.

FINANCIAL INFORMATION

- **TAX EXPENSE**

	2023	2022
Income tax expense recognized in the income statement	**(2,641)**	**(1,304)**
Current income tax expense	(2,309)	(1,701)
Deferred income tax on temporary differences	(332)	397
Income tax expense recognized in other comprehensive income in respect of temporary differences	**(1,315)**	**698**
Total	**(3,956)**	**(606)**

- **RECONCILIATION OF THE EFFECTIVE TAX RATE**

RECONCILIATION OF THE EFFECTIVE TAX RATE	2023	2022
Profit or loss before tax	7,509	4,562
Tax at the statutory rate in force in Poland (19%)	(1,427)	(867)
Effect of permanent differences between profit before income tax and taxable income, including:	**(1,214)**	**(437)**
cost of the legal risk of mortgage loans in convertible currencies	(993)	(143)
tax on certain financial institutions	(222)	(226)
contributions and payments to the Bank Guarantee Fund	(50)	(72)
dividend income	130	92
non-deductible impairment losses on investments in subordinates	-	(10)
non-deductible allowances for expected credit losses on credit exposures	(14)	(25)
reversal of assets from reclassification of temporary differences to permanent differences	(37)	-
payment to the Borrower Support Fund	-	(58)
interest on foreign exchange gains in Sweden	-	4
other permanent differences	(28)	1
Income tax expense recognized in the income statement	(2,641)	(1,304)
Effective tax rate	**35.17**	**28.58**

(IN PLN MILLION)

- NET DEFERRED TAX ASSETS

DEFERRED TAX LIABILITIES AND ASSET 2023	31.12.2022	EFFECT OF CHANGES IAS 12	01.01. 2023 INCLUDING AMENDMENTS TO IAS 12	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	AS AT THE END OF THE PERIOD
Interest accrued on receivables (loans)	338	-	338	2	-	340
Interest on securities	216	-	216	10	-	226
Difference between carrying amount and tax base of property, plant and equipment and intangible assets, including leased assets*	208	163	371	45	-	416
Taxable income on the reversal of IBNR allowance, which was previously tax deductible, on implementation of IFRS 9	26	-	26	(13)	-	13
Deferred tax liabilities, gross	**788**	**163**	**951**	**44**	-	**995**
Interest accrued on liabilities	185	-	185	149	-	334
Valuation of derivative financial instruments	1,324	-	1,324	6	(781)	549
Valuation of securities	979	-	979	(85)	(539)	355
Provision for employee benefits	90	-	90	15	1	106
Allowances for expected credit losses	1,349	-	1,349	90	-	1,439
Fair value measurement of loans	169	-	169	32	4	205
Commissions to be settled in time using the straight-line valuation method and effective interest rate	987	-	987	(305)	-	682
Other deductible temporary differences	29	-	29	(9)	-	20
Provision for costs to be incurred	49	-	49	(1)	-	48
Effect legal risk of mortgage loans in convertible currencies	321	-	321	(212)	-	109
Difference between carrying amount and tax base of property, plant and equipment and intangible assets, including leased assets*	-	163	163	33	-	196
Deferred tax asset, gross	**5,482**	**163**	**5,645**	**(287)**	**(1,315)**	**4,043**
Total effect of temporary differences	4,694	4,694	4,694	(331)	(1,315)	3,048
Deferred tax assets (presented in the statement of financial position)	**4,694**	**4,694**	**4,694**	**(331)**	**(1,315)**	**3,048**

* The opening balance was adjusted due to the entry into force on 1 January 2023 of the amendments to IAS 12 "Income Taxes" introducing the requirement to recognize assets and liabilities for temporary differences in the financial statements also for transactions other than business combinations.

(IN PLN MILLION)

DEFERRED TAX LIABILITIES AND ASSET 2022	As at the beginning of the period	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	As at the end of the period
Interest accrued on receivables (loans)	220	118	-	338
Interest on securities	157	59	-	216
Difference between carrying amount and tax base of property, plant and equipment and intangible assets	191	17	-	208
Taxable income on the reversal of IBNR allowance, which was previously tax deductible, on implementation of IFRS 9	39	(13)	-	26
Deferred tax liabilities, gross	**607**	**181**	-	**788**
Interest accrued on liabilities	26	159	-	185
Valuation of derivative financial instruments	948	65	311	1,324
Valuation of securities	533	59	387	979
Provision for employee benefits	90	(2)	2	90
Allowances for expected credit losses	1,219	130	-	1,349
Fair value measurement of loans	160	11	(2)	169
Commissions to be settled in time using the straight-line valuation method and effective interest rate	824	163	-	987
Other deductible temporary differences	28	1	-	29
Provision for costs to be incurred	36	13	-	49
Effect legal risk of mortgage loans in convertible currencies	342	(21)	-	321
Deferred tax asset, gross	**4,206**	**578**	**698**	**5,482**
Total effect of temporary differences	**3,599**	**397**	**698**	**4,694**
Deferred tax assets (presented in the statement of financial position)	**3,599**	**397**	**698**	**4,694**

- **TAX GROUP**

Pursuant to the agreement dated 3 November 2021, PKO Bank Polski S.A., PKO Bank Hipoteczny S.A. and PKO Leasing S.A. have extended the operation of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PGK PKO Bank Polski S.A."), which was established pursuant to the agreement dated 5 November 2018, for a further three fiscal years (2022 - 2024). These agreements have been registered with the relevant head of the tax office.

A tax group is an institution of the tax law stipulated in the provisions of the Corporate Income Tax Act. Its creation means that the income of the Tax Group companies will be consolidated for corporate income tax purposes and that certain solutions will be available facilitating the application of specific regulations of the Corporate Income Tax Act, dedicated specifically to tax groups.

PKO Bank Polski S.A. is the parent of PGK PKO Banku Polskiego S.A. PGK PKO Banku Polskiego S.A. was established for three tax years. Current income tax settlements are presented broken down into receivables and liabilities of PKO Bank Polski S.A. and receivables and liabilities of subsidiaries included in the Tax Group.

- **TAX POLICY**

The Bank has a Tax Strategy for PKO Bank Polski S.A. in place, adopted by resolution of the Management Board No 392/C/2021 of 5 October 2021, approved by resolution of the Supervisory Board no. 154/2021 of 14 October 2021. On 17 December 2021, the Strategy was published on the Bank's website at: https://www.pkobp.pl/grupa-pko-banku-polskiego/pko-bank-polski/strategia-podatkowa/.

In the execution of its statutory annual obligations resulting from Article 27c of the Corporate Income Tax Act, the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Tax Group prepared in 2023 the Information on the tax strategy implemented in 2022, which is available on the Bank's website at https://www.pkobp.pl/grupa-pko-banku-polskiego/pko-bank-polski/strategia-podatkowa/ or: https://www.pkobp.pl/informacja-o-realizowanej-strategii-podatkowej/. On 19 December 2023, the Bank notified the head of the competent tax office of the address of the webpage on which the Information is available.

Corporate income tax paid on the income earned by PKO Bank Polski S.A. in the years 2023 and 2022 by tax jurisdiction:

CORPORATE INCOME TAX	2023	2022
PKO Bank Polski S.A	2,309	1,507
- Poland	2,294	1,507
- Germany	9	-
- Czech Republic	6	-

29. Earnings per share

	2023	2022
Profit attributable to ordinary shareholders (in PLN thousand)	4,868	3,258
Weighted average number of ordinary shares during the period (in million)	1,250	1,250
Earnings per share (in PLN per share)	3.89	2.61

In the years 2023 and 2022, there were no dilutive instruments.

SUPPLEMENTARY NOTES TO THE STATEMENT OF FINANCIAL POSITION – FINANCIAL INSTRUMENTS

30. Cash and balances with the Central Bank

Accounting policies:

Valuation and classification into categories is carried out in accordance with the principles for determining the business model and assessing the characteristics of contractual cash flows referred to in note "General accounting policies for financial instruments".

Financial information

CASH AND BALANCES WITH THE CENTRAL BANK	31.12.2023	31.12.2022
Current account with the Central Bank	9,679	7,690
Cash	4,245	4,078
Deposits with the Central Bank	3,752	3,951
Total	**17,676**	**15,719**

As at 31 December 2023, the value of the mandatory reserve was PLN 12,566 million (31 December 2022: PLN 11,482 million).

(IN PLN MILLION)

31. AMOUNTS DUE FROM BANKS

ACCOUNTING POLICIES

Classification into valuation categories is carried out in accordance with the principles for determining the business model and assessing the characteristics of contractual cash flows referred to in note "GENERAL ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS".

FINANCIAL INFORMATION

For more information on credit risk exposures, see note "CREDIT RISK – FINANCIAL INFORMATION".

AMOUNTS DUE FROM BANKS	31.12.2023	31.12.2022
Measured at amortized cost	**16,924**	**19,458**
Deposits with banks	11,736	13,098
Current accounts	571	865
Loans and advances granted	4,617	5,495
Gross carrying amount	**16,924**	**19,458**
Allowances for expected credit losses	(24)	(16)
Net carrying amount	**16,900**	**19,442**

AMOUNTS DUE FROM BANKS BY MATURITY	31.12.2023	31.12.2022
up to 1 month	12,213	13,819
1 to 3 months	40	100
3 months to 1 year	89	55
1 to 5 years	4,558	5,368
more than 5 years	-	100
Total	**16,900**	**19,442**

32. HEDGE ACCOUNTING AND OTHER DERIVATIVE INSTRUMENTS

ACCOUNTING POLICIES:

The Bank uses derivative financial instruments for risk management purposes related to the Bank's operations.

The Bank most often uses the following derivative instruments: IRS, CIRS, FX Swap, options, commodity swap, FRA, Forward and Futures. Derivative financial instruments are stated at fair value from the transaction date.

A derivative is presented under "Other hedging instruments" (if the instrument qualifies for hedge accounting) or "Other derivatives" (if the instrument does not qualify for hedge accounting) - as an asset if its fair value is positive or a liability if its fair value is negative.

For other derivatives (not designated for hedge accounting), the Bank recognizes changes in the fair value of the instruments and the gain or loss on the settlement of these instruments in either the net foreign exchange gain/(loss) on financial instruments, depending on the type of instrument.

The Bank applies hedge accounting to hedge its interest rate risk and foreign exchange risk. The hedging transactions are concluded to mitigate the risk of incurring losses as a result of unfavorable changes in foreign currency exchange rates and interest rates. Cash flows related to the transactions performed and the fair value of assets and liabilities held are hedged.

Interest rate risk includes in particular:

- the risk related to the repricing (change in interest rates) frequency and dates mismatch of the assets and liabilities, and of off-balance sheet items (repricing date mismatch risk);
- the risk following from the change in the angle of inclination and shape of the yield curve (yield curve risk);
- the risk resulting from an imperfect match between the reference rates used in respect of banking products and the changes in the market rates, or from imperfect transmission systems of changes in market interest rates on those products (base risk);
- risks resulting from options, including embedded options, e.g. restrictions on interests on loans (option risk).

The Bank's foreign exchange risk arises as a result of transactions performed as part of:

- core business activities;
- trading activities;
- contracts concluded which generate foreign exchange risk.

The Bank has a system of threshold values and limits attributed to particular interest rate and foreign exchange risks, aimed at determining the maximum allowable risk level which ensures that the strategic tolerance limits are not exceeded.

The Bank decided to further apply the provisions of IAS 39 and did not apply IFRS 9 to hedge accounting.

- **CASH FLOW HEDGES**

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge.

Amounts transferred directly to other comprehensive income are transferred to the income statement in the same period or periods in which the hedged planned transaction affects the income statement. Interest and foreign exchange gains/losses are presented in the income statement in "Net interest income" and "Net foreign exchange gains (losses)", respectively.

The Bank hedges both assets that generate interest income and liabilities that generate interest expense using IRS or CIRS transactions.

The Bank consistently applies the method of presenting the total net interest income/(expense) on hedging instruments for all hedging strategies in the line "derivative hedging instruments" under "Net interest income" – the positive total amount for a period is presented in "Interest income" and the negative total amount is presented in "Interest expenses".

The effectiveness tests comprise the measurement of hedging transactions net of interest accrued and foreign exchange gains (losses) on the nominal value of the hedging transactions (in the case of CIRS transactions).

Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. The tests are performed on a monthly basis.

The ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss:

a) if the hedging instrument is a CIRS, the ineffectiveness is recognized in net foreign exchange gains/(losses),

b) if the hedging instrument is an IRS, ineffectiveness is recognized in net gain/(loss) on financial instruments measured at fair value through profit or loss,

c) if the hedging instrument is a CIRS and an IRS, ineffectiveness is recognized in, respectively, foreign exchange gains/losses and in net gain/(loss) on financial instruments measured at fair value through profit or loss.

In the event of artificial inefficiency (efficiency outside the range [80%,125%]), its result is recognized in net foreign exchange gains/(losses). Artificial ineffectiveness arises from the construction of the retrospective test as a quotient of changes in the valuation of hedged and hedging instruments. Where valuation changes on one side of a hedging relationship (CIRS or IRS) are relatively small, the assessment of effectiveness may show artificial ineffectiveness, i.e. one that occurs despite the high compatibility of the terms of the hedged and hedging instruments.

- **FAIR VALUE HEDGES**

Changes in the fair value of a derivative hedging instrument designated as fair value hedge are recognized in "Net gain or loss on financial instruments" or "Net foreign exchange gains/(losses)", net of the interest component. The interest component is presented in the same line item as interest income on the hedged item, i.e. in "Net interest income".

The Bank hedges both assets that generate interest income and liabilities that generate interest expense using IRS or CIRS transactions. The Bank consistently applies the method of presenting the total net interest income/(expense) on hedging instruments for all hedging strategies in the line "derivative hedging instruments" under "Net interest income" – the positive total amount for a period is presented in "Interest income" and the negative total amount is presented in "Interest expenses".

A change in the fair value adjustment to the hedged item is recognized in "Net income from financial instruments".

The part of the fair value adjustment which is not hedged is recognized:

- for a hedged item which is a financial asset or a financial liability classified as measured at fair value through profit or loss – as income or costs, as appropriate, in gains/(losses) on financial transactions;
- for a hedged item which is a financial asset measured at fair value through other comprehensive income – in other comprehensive income, where the change in the fair value of financial instruments measured at fair value through other comprehensive is presented.

The effectiveness tests comprise the measurement of hedging transactions net of accrued interest.

Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. The tests are performed on a monthly basis.

The items securities, loans and advances to customers, investment in subsidiaries and amounts due to customers include an adjustment for fair value hedge accounting for securities, loans and advances to customers and amounts due to customers, investment in subsidiaries respectively, representing the hedged item.

ESTIMATES AND JUDGMENTS

The fair value of derivative instruments other than options is designated using the valuation models that base on discounted cash flows which may be obtained from a given financial instrument. The measurement techniques for financial instruments other than options are based on yield curves constructed on the basis of available market data (deposit rates on the interbank market, quotations of IRS transactions). Options are valued using option valuation models. The variables and assumptions used in a valuation include, where available, data derived from observable markets.

The fair value of derivative instruments accounts for DVA (debit value adjustment), and CVA (credit value adjustment). The process of calculating CVA and DVA adjustments covers the selection of the method for designating the counterparty's or the Bank's credit risk spread (e.g. the market based measurement based on liquid quotations of prices of debt instruments issued by the counterparty, the implied spread from Credit Default Swap contracts), estimating the probability of the counterparty's or the Bank's default and the recovery rate, as well as the calculation of CVA and DVA adjustments.

The Bank made simulations aimed at determining the possible impact of the changes in the yield curve on the measurement of the transactions.

(IN PLN MILLION)

ESTIMATED CHANGE IN VALUATION OF HEDGING DERIVATIVES OTHER THAN OPTIONS FOLLOWING A PARALLEL SHIFT IN YIELD CURVES:	31.12.2023		31.12.2022	
	+50bp scenario	-50bp scenario	+50bp scenario	-50bp scenario
IRS	(570)	580	(760)	774
CIRS	1	(1)	21	(21)
other instruments	(4)	4	(5)	5
Total	**(573)**	**583**	**(744)**	**758**

ESTIMATED CHANGE IN VALUATION OF DERIVATIVES OTHER THAN OPTIONS FOLLOWING A PARALLEL SHIFT IN YIELD CURVES:	31.12.2023		31.12.2022	
	+50bp scenario	-50bp scenario	+50bp scenario	-50bp scenario
IRS	(564)	573	(757)	771
CIRS	1	(1)	22	(22)
other instruments	(4)	4	(7)	7
Total	**(567)**	**576**	**(742)**	**756**

32.1. HEDGE ACCOUNTING – FINANCIAL INFORMATION

TYPES OF HEDGING STRATEGIES USED BY THE BANK

As at 31 December 2023, the Bank had active relationships as part of:

- 5 strategies for hedging cash flow volatility;
- 5 strategies for hedging fair value volatility.

In 2023, the Bank terminated the hedging relationship as part of the hedging strategy “Hedging fair value volatility of fixed-interest-rate security measured at fair value through other comprehensive income in convertible currencies resulting from interest rate risk, using IRS transactions”, due to failure to meet the prospective effectiveness test. The effect of discontinuing hedge accounting in the above relationships on profit or loss was PLN 8.3 million.

In 2023, the Bank implemented a new hedging strategy “Hedges against fluctuations in cash flows on variable interest PLN loans, resulting from interest rate risk, and hedging against fluctuations in cash flows on a fixed-rate financial liability in a convertible currency resulting from foreign currency risk, using a CIRS transaction”.

No changes were made to other hedging strategies in 2023. In 2022, the Bank introduced two new hedging strategies to hedge fair value volatility.

The table below summarizes the types of strategies applied by the Bank.

TYPE OF HEDGING STRATEGY	CASH FLOW HEDGES (STRATEGY NO: 1, 4,5,6,7,8,9, 15,19)
RISK HEDGED	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	float – float CIRSs fixed – float CIRSs
HEDGED ITEM	• the portfolio of floating interest loans in foreign currencies and • the portfolio of short-term negotiated deposits in PLN, including their future renewals. In designating the hedged item, the Group used the IAS39 AG 99C in the version adopted by the European Union, or • fixed interest rate financial liability denominated in foreign currency or • the portfolio of floating interest rate regular savings products in PLN or • a financial liability in foreign currencies
SOURCES OF HEDGE INEFFECTIVENESS	• margin on the hedging instrument • differences in discount on the hedged item and the hedging instrument • CVA/DVA adjustment of the hedging instrument
THE PERIOD IN WHICH CASH FLOWS ARE EXPECTED TO OCCUR AND AFFECT THE FINANCIAL RESULTS	January 2024 – February 2025
STRATEGY NO	STRATEGY NAME
1	Hedges against fluctuations in cash flows on variable interest CHF loans, resulting from interest rate risk and currency risk, and hedging against fluctuations in cash flows on negotiated deposits in PLN, resulting from interest rate risk, using CIRS transactions (inactive)
4	Hedges against fluctuations in cash flows on variable interest loans in convertible currencies, resulting from interest rate risk and currency risk, and hedging against fluctuations in cash flows on a fixed-rate financial liability in a convertible currency resulting from foreign currency risk, using CIRS transactions.
5	Hedges against fluctuations in cash flows on variable interest loans in convertible currencies other than CHF, resulting from interest rate risk and currency risk, and hedging against fluctuations in cash flows on negotiated deposits in PLN, resulting from interest rate risk, using CIRS transactions (inactive)
6	Hedges against fluctuations in cash flows on variable interest loans in convertible currencies, resulting from interest rate risk and currency risk, and hedging against fluctuations in cash flows on negotiated deposits in PLN, resulting from interest rate risk, using two transactions: IRS and CIRS-EP.
7	Hedges against fluctuations in cash flows on variable interest loans in convertible currencies, resulting from interest rate risk and currency risk, and hedging against fluctuations in cash flows on negotiated deposits in PLN, resulting from interest rate risk, using two transactions: CIRS and CIRS-EP. (inactive)

8	Hedges against fluctuations in cash flows on variable interest loans in convertible currencies, resulting from interest rate risk and currency risk, and hedging against fluctuations in cash flows on regular savings bank products in PLN, resulting from interest rate risk, using CIRS transactions (inactive)
9	Hedges against fluctuations in cash flows on variable interest loans in convertible currencies, resulting from interest rate risk and currency risk, and hedging against fluctuations in cash flows on regular savings bank products in PLN, resulting from interest rate risk, using two transactions: CIRS and CIRS-EP. (inactive)
15	Hedges against fluctuations in cash flows on variable interest PLN loans, resulting from interest rate risk, and hedging against fluctuations in cash flows on financial liabilities in a convertible currency resulting from foreign currency risk, using two CIRS transactions (inactive)
19	Hedges against fluctuations in cash flows on variable interest PLN loans, resulting from interest rate risk, and hedging against fluctuations in cash flows on a fixed-rate financial liability in a convertible currency resulting from foreign currency risk, using CIRS transactions.

TYPE OF HEDGING STRATEGY	CASH FLOW HEDGES (STRATEGY NO: 2,3,16)
RISK HEDGED	interest rate risk
HEDGING INSTRUMENT	fixed - float IRSs
HEDGED ITEM	the portfolio of loans in PLN or foreign currencies indexed to a floating interest rate
SOURCES OF HEDGE INEFFECTIVENESS	• change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge • differences in discount on the hedged item and the hedging instrument • CVA/DVA adjustment of the hedging instrument
THE PERIOD IN WHICH CASH FLOWS ARE EXPECTED TO OCCUR AND AFFECT THE FINANCIAL RESULTS:	January 2024 – June 2032
STRATEGY NO	**STRATEGY NAME**
2	Hedges against fluctuations in cash flows from variable interest loans in PLN, resulting from interest rate risk, using IRS transactions.
3	Hedges against fluctuations in cash flows from variable interest loans in convertible currencies, resulting from interest rate risk, using IRS transactions.
16	Hedges against fluctuations in cash flows on deposits in PLN, resulting from interest rate risk, using IRS transactions

TYPE OF HEDGING STRATEGY	FAIR VALUE VOLATILITY HEDGES (STRATEGY NO: 10,11,12,13,14,17,18)
RISK HEDGED	interest rate risk
HEDGING INSTRUMENT	fixed - float IRSs
HEDGED ITEM	interest rate risk component relating to a fixed interest rate loan or security in a foreign currency or in PLN, which corresponds to the market IRS rate interest rate risk component of a portfolio of financial liabilities replicated by a portfolio of fixed-rate instruments measured at amortized cost, corresponding to the market IRS ate
SOURCES OF HEDGE INEFFECTIVENESS	• change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge • CVA/DVA adjustment of the hedging instrument • difference between the present value of the floating leg of IRS and the present value of the nominal value of a security
STRATEGY NO	**STRATEGY NAME**
10	Hedges against fair value volatility of fixed-interest-rate loans in convertible currencies resulting from interest rate risk, using IRS transactions.
11	Hedges against fair value volatility of fixed-interest-rate security in convertible currencies measured at amortized cost, resulting from interest rate risk, using IRS transactions.
12	Hedges against fair value volatility of fixed-interest-rate security measured at fair value through other comprehensive income in convertible currencies resulting from interest rate risk, using IRS transactions.
13	Hedges against fair value volatility of fixed-interest-rate FVOCI security in PLN resulting from interest rate risk, using IRS transactions
14	Hedges against fluctuations in the fair value of shares in a foreign entity whose functional currency is a foreign currency, measured in the separate financial statements of PKO Bank Polski S.A. by the acquisition accounting method less impairment losses, resulting from exchange rate risk which will materialize upon a potential future disposal of the shares, using forward or NDF transactions (inactive)
17	Hedges against fluctuations in the fair value of a portfolio of financial liabilities in PLN measured at amortized cost, resulting from interest rate risk, using IRS transactions
18	Hedges against fluctuations in the fair value of a portfolio of financial liabilities in convertible currencies measured at amortized cost, resulting from interest rate risk, using IRS transactions

(IN PLN MILLION)

- CARRYING AMOUNT OF HEDGING INSTRUMENTS

CARRYING AMOUNT OF HEDGING INSTRUMENTS	31.12.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	384	2,436	64	6,595
interest rate risk – IRS	190	2,184	44	6,557
IRS PLN (strategy 2)	154	2,144	44	6,381
IRS EUR (strategy 3)	36	40	-	176
foreign exchange risk and interest rate risk – CIRS	194	252	20	38
CIRS CHF/USD (strategy 4)	-	46	-	33
CIRS – EP EUR/PLN (strategy 6)	194	-	20	5
CIRS PLN/EUR (strategy 19)	-	206	-	-
Fair value hedges	700	20	153	132
interest rate risk – IRS	700	20	153	132
IRS EUR (strategy 10,11,12,18)	92	19	75	91
IRS USD (strategy 12,18)	4	1	14	-
IRS PLN (strategy 13,17)	604		64	41
Total	1,084	2,456	217	6,727

- CASH FLOW HEDGES

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	2023	2022
Accumulated other comprehensive income at the beginning of the period, net	(5,028)	(3,702)
Impact on other comprehensive income during the period, gross	4,108	(1,637)
Gains/losses recognized in other comprehensive income during the period	1,085	(5,501)
Amounts transferred from other comprehensive income to the income statement, of which:	3,023	3,864
- net interest income	3,345	3,150
- net foreign exchange gains/ (losses)	(322)	714
Tax effect	(781)	311
Accumulated other comprehensive income at the end of the period, net	(1,701)	(5,028)

INEFFECTIVE PORTION OF CASH FLOW HEDGES	2023	2022
Ineffective portion of cash flow hedges recognized in the income statements, including in:	-	(6)
Net foreign exchange gains/ (losses)	2	(4)
CIRS CHF/USD (strategy 4)	2	-
CIRS PLN/CHF (strategy 15)	-	(4)
Gains/(losses) on financial transactions	(2)	(2)
IRS PLN (strategy 2)	(3)	-
IRS EUR (strategy 3)	1	(2)

(IN PLN MILLION)

- **Fair value hedges**

INTEREST RATE AND FOREIGN EXCHANGE RISK HEDGES	31.12.2023	31.12.2022
Fair value measurement of the hedging derivative instrument	**681**	**20**
Interest rate risk hedge – fixed - float IRSs	681	20
Fair value adjustment of the hedged instrument attributable to the hedged risk	**(461)**	**(51)**
Interest rate risk hedge	(461)	(51)
Securities	(21)	(30)
Loans and advances to customers	(2)	(8)
Fair value adjustment recognized in OCI	(26)	(69)
Amounts due to customers	(412)	56

FAIR VALUE ADJUSTMENT OF THE HEDGED INSTRUMENT ATTRIBUTABLE TO THE HEDGED RISK BY TYPE OF HEDGING INSTRUMENT	31.12.2023	31.12.2022
IRS EUR (strategy 10,11,12,18)	(41)	25
IRS USD (strategy 10,12)	(4)	(18)
IRS PLN (strategy 13,17)	(416)	(58)
Total	(461)	(51)

(IN PLN MILLION)

Bank Polski

- **NOMINAL VALUE OF HEDGING INSTRUMENTS BY MATURITY**

Strategy No	Hedging derivative 31.12.2023	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total	Change in the fair value since designation	Nominal-weighted average margin / Nominal-weighted average fixed interest rate
	Hedge type: Cash flow hedges								
	Hedged risk: interest rate risk								
2	PLN fixed - float IRSs	705	4,950	6,801	32,381	1,493	**46,330**	(2,045)	3.5513%
3	EUR fixed – float IRSs	-	630	130	4,944	222	**5,926**	(46)	2.0611%
	Risk hedged: foreign exchange and interest rate risks								
4	CIRS fixed USD/float CHF								
	fixed USD	153	-	307	-	-	**460**	(43)	0.4142%
	float CHF	164	-	328	-	-	**492**		-
19	Float PLN/fixed EUR CIRSs								
	float PLN	-	-	-	2,595	-	**2,595**	(226)	-
	fixed EUR	-	-	-	2,391	-	**2,391**		1.8935%
6	CIRS EP float PLN/fixed EUR								
	float PLN	-	109	-	2,348	-	**2,457**	213	-
	fixed EUR	-	109	-	2,174	-	**2,283**		6.8028%
	Hedge type: Fair value hedges								
	Hedged risk: interest rate risk								
13.17	PLN fixed – float IRSs	-	-	-	5,960	2,091	**8,051**	386	5.9261%
12.18	USD fixed – float IRSs	319	-	-	236	-	**555**	1	2.6551%
10,11,12,18	EUR fixed – float IRSs	-	152	696	3,404	548	**4,800**	9	2.2604%

(IN PLN MILLION)

Strategy No	Hedging derivative 31.12.2022	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total	Change in the fair value since designation	Nominal-weighted average margin / Nominal-weighted average fixed interest rate
	Hedge type: Cash flow hedges								
	Hedged risk: interest rate risk								
2.16	PLN fixed - float IRSs	-	1,501	29,674	43,498	2,287	**76,960**	(5,973)	3.1717%
3	EUR fixed – float IRSs	-	-	703	5,206	253	**6,162**	(115)	1.6952%
	Risk hedged: foreign exchange and interest rate risks								
4	CIRS fixed USD/float CHF								
	fixed USD	-	-	585	511	-	**1,096**	(21)	0.3871%
	float CHF	-	-	572	501	-	**1,073**		-
6	CIRS EP float PLN/fixed EUR								
	float PLN	-	-	-	2,457	-	**2,457**	31	-
	fixed EUR	-	-	-	2,462	-	**2,462**		8.0307%
	Hedge type: Fair value hedges								
	Hedged risk: interest rate risk								
13.17	PLN fixed - float IRSs	-	-	-	-	2,841	**2,841**	30	6.2990%
10.12	USD fixed – float IRSs	-	-	-	357	-	**357**	3	1.5128%
10,11,12,18	EUR fixed – float IRSs	-	-	469	3,508	591	**4,568**	(6)	1.5789%

(IN PLN MILLION)

- FINANCIAL INFORMATION ON HEDGED ITEMS (IN ORIGINAL CURRENCIES)

HEDGED ITEM 31.12.2023	CARRYING AMOUNT OF THE HEDGED ITEM	ITEM OF THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM	STRATEGY NO
Cash flow hedges				
Loans in PLN	46,330	Loans and advances to customers	2,058	2
Loans in EUR	838	Loans and advances to customers	7	3
Loans in CHF	105	Loans and advances to customers	43	4
Financial liability in USD	116	Amounts due to customers		
Loans in EUR	525	Loans and advances to customers	(175)	6
Negotiated deposits in PLN	2,457	Amounts due to customers		
Loans in PLN	2,595	Amounts due to customers	228	19
Financial liability in EUR	550	Liabilities in respect of debt securities in issue		
Fair value hedges				
Loans in EUR	11	Loans and advances to customers	(1)	10
Security in EUR	30	Securities measured at amortized cost	(5)	11
Security in EUR	62	Securities measured at fair value through other comprehensive income	(2)	12
Security in USD	81	Securities measured at fair value through other comprehensive income	-	12
Security in PLN	-	Securities measured at fair value through other comprehensive income	(15)	13
Portfolio of financial liabilities in PLN	8,051	Amounts due to customers	(402)	17
Portfolio of financial liabilities in EUR	1,001	Amounts due to customers	(2)	18
Portfolio of financial liabilities in USD	60	Amounts due to customers	(1)	18

(IN PLN MILLION)

HEDGED ITEM 31.12.2022	CARRYING AMOUNT OF THE HEDGED ITEM	ITEM OF THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM	STRATEGY NO
Cash flow hedges				
Loans in CHF	225	Loans and advances to customers	19	4
Financial liability in USD	249	Amounts due to customers		
Loans in PLN	76,959	Loans and advances to customers	6,013	2
Loans in EUR	525	Loans and advances to customers	56	6
Negotiated deposits in PLN	2,457	Amounts due to customers		
Loans in EUR	789	Loans and advances to customers	27	3
Fair value hedges				
Security in EUR	30	Securities measured at amortized cost	(6)	11
Security in EUR	202	Securities measured at fair value through other comprehensive income	(8)	12
Security in USD	81	Securities measured at fair value through other comprehensive income	(3)	12
Loans in EUR	13	Loans and advances to customers	(1)	10
Security in PLN	-	Securities measured at fair value through other comprehensive income	(21)	13
Shares in Kredobank S.A.	-	Investments in subsidiaries	-	14
Portfolio of financial liabilities in PLN	2,841	Amounts due to customers	(38)	17
Portfolio of financial liabilities in EUR	729	Amounts due to customers	20	18
Total			**6,058**	

32.2. OTHER DERIVATIVE INSTRUMENTS – FINANCIAL INFORMATION

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	31.12.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
IRS	4,402	5,157	8,275	8,101
CIRS	389	656	991	1,374
FX Swap	1,647	1,942	1,245	1,039
Options	952	1,051	842	926
Commodity swap[1]	167	157	1,380	1,384
FRA	31	30	24	24
Forward	930	695	577	799
Commodity Forward[2]	234	213	404	355
Other	-	1	7	-
Total	**8,752**	**9,902**	**13,745**	**14,002**

[1] The item includes valuation of gas market participation contracts: assets of PLN 84 million (PLN 1,229 million as at 31 December 2022) – and liabilities of PLN 81 million (PLN 1,237 million as at 31 December 2022).
[2] The item includes valuation of contracts for CO_2 emission allowances.

	31.12.2023	31.12.2022
CVA and CDA adjustments	3	153

(IN PLN MILLION)

NOMINAL AMOUNTS OF UNDERLYING INSTRUMENTS (BUY AND SELL TOGETHER) other derivative instruments						
31.12.2023	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	more than 5 years	Total
IRS	**5,294**	**21,658**	**86,536**	**211,662**	**41,798**	**366,948**
Purchase	2,647	10,829	43,268	105,831	20,899	183,474
Sale	2,647	10,829	43,268	105,831	20,899	183,474
CIRS	**8,546**	**-**	**14,297**	**6,726**	**2,044**	**31,613**
Purchase	4,273	-	7,007	3,368	1,022	15,670
Sale	4,273	-	7,290	3,358	1,022	15,943
FX Swap	**34,259**	**23,842**	**26,557**	**15,460**	**-**	**100,118**
Purchase of currencies	17,160	11,834	13,138	7,694	-	49,826
Sale of currencies	17,099	12,008	13,419	7,766	-	50,292
Options	**25,382**	**18,646**	**51,054**	**17,100**	**1,053**	**113,235**
Purchase	12,751	9,362	25,591	8,339	525	56,568
Sale	12,631	9,284	25,463	8,761	528	56,667
FRA	**-**	**-**	**32,463**	**10,079**	**-**	**42,542**
Purchase	-	-	16,697	5,191	-	21,888
Sale	-	-	15,766	4,888	-	20,654
Forward	**8,531**	**14,466**	**19,033**	**7,239**	**-**	**49,269**
Purchase of currencies	4,248	7,368	9,540	3,664	-	24,820
Sale of currencies	4,283	7,098	9,493	3,575	-	24,449
Other, including commodity swap, commodity forward and futures	**980**	**3,067**	**3,366**	**466**	**-**	**7,879**
Purchase	494	1,591	1,636	234	-	3,955
Sale	486	1,476	1,730	232	-	3,924
Total	82,992	81,679	233,306	268,732	44,895	711,604

(IN PLN MILLION)

NOMINAL AMOUNTS OF UNDERLYING INSTRUMENTS (BUY AND SELL TOGETHER) other derivative instruments						
31.12.2022	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	more than 5 years	Total
IRS	**6,730**	**16,972**	**88,148**	**236,010**	**53,496**	**401,356**
Purchase	3,365	8,486	44,074	118,005	26,748	200,678
Sale	3,365	8,486	44,074	118,005	26,748	200,678
CIRS	**14,124**	**-**	**2,870**	**31,020**	**2,168**	**50,182**
Purchase	7,025	-	1,435	15,362	1,084	24,906
Sale	7,099	-	1,435	15,658	1,084	25,276
FX Swap	**34,139**	**32,795**	**36,739**	**29,127**	**-**	**132,800**
Purchase of currencies	17,044	16,362	18,356	14,769	-	66,531
Sale of currencies	17,095	16,433	18,383	14,358	-	66,269
Options	**21,765**	**46,129**	**62,797**	**29,681**	**1,787**	**162,159**
Purchase	10,817	22,857	31,486	14,871	892	80,923
Sale	10,948	23,272	31,311	14,810	895	81,236
FRA	**-**	**-**	**38,913**	**1,910**	**-**	**40,823**
Purchase	-	-	20,016	932	-	20,948
Sale	-	-	18,897	978	-	19,875
Forwad	**7,494**	**25,761**	**30,225**	**6,528**	**-**	**70,008**
Purchase of currencies	3,753	12,891	15,151	3,124	-	34,919
Sale of currencies	3,741	12,870	15,074	3,404	-	35,089
Other, including commodity swap, commodity forward and futures	**1,091**	**2,171**	**6,877**	**251**	**-**	**10,390**
Purchase	546	1,108	3,431	126	-	5,211
Sale	545	1,063	3,446	125	-	5,179
Total	85,343	123,828	266,569	334,527	57,451	867,718

33. Securities

Accounting policies

Securities are classified and valued in accordance with the principles of selecting the business model and assessing the characteristics of contractual cash flows referred to in the note "General accounting policies for financial instruments".

The item "Securities" also includes an adjustment relating to fair value hedge accounting for securities representing hedged items (note "Hedge accounting and other derivative instruments").

(IN PLN MILLION)

Bank Polski

FINANCIAL INFORMATION

For more information on credit risk exposures, see note "CREDIT RISK – FINANCIAL INFORMATION".

SECURITIES	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2023					
Debt securities	574	342	104,421	85,755	191,092
NBP money bills	-	-	28,974	-	28,974
treasury bonds (in PLN)	472	-	49,756	58,803	109,031
treasury bonds (in foreign currencies)	1	295	3,738	-	4,034
corporate bonds (in PLN) secured with the State Treasury guarantees	9	-	10,180	13,619	23,808
municipal bonds (in PLN)	12	-	5,097	8,658	13,767
corporate bonds (in PLN)	52	47	2,609	2,413	5,121
corporate bonds (in foreign currencies)	-	-	4,067	2,262	6,329
mortgage covered bonds	28	-	-	-	28
Equity securities	32	336	-	-	368
shares in other entities - not listed	-	312	-	-	312
shares in other entities - listed	30	24	-	-	54
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	-	-	-	2
Total (excluding adjustment relating to fair value hedge accounting)	**606**	**678**	**104,421**	**85,755**	**191,460**
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other derivative instruments")	-	-	-	(21)	(21)
Total	**606**	**678**	**104,421**	**85,734**	**191,439**

[1] The item includes bonds of international financial organizations of PLN 3,658 million

(IN PLN MILLION)

SECURITIES	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2022					
Debt securities	171	366	62,286	67,821	130,644
treasury bonds (in PLN)	89	-	40,649	45,870	86,608
treasury bonds (in foreign currencies)	2	321	3,977	-	4,300
corporate bonds (in PLN) secured with the State Treasury guarantees	3	-	9,373	12,100	21,476
municipal bonds (in PLN)	14	-	5,046	6,182	11,242
corporate bonds (in PLN)	56	45	2,852	1,990	4,943
corporate bonds (in foreign currencies)	-	-	389	1,679	2,068
mortgage covered bonds	7	-	-	-	7
Equity securities	28	344	-	-	372
shares in other entities - not listed	-	324	-	-	324
shares in other entities - listed	27	20	-	-	47
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	1	-	-	-	1
Total (excluding adjustment relating to fair value hedge accounting)	**199**	**710**	**62,286**	**67,821**	**131,016**
Adjustment relating to fair value hedge accounting (note “Hedge accounting and other derivative instruments”)	-	-	-	(30)	(30)
Total	**199**	**710**	**62,286**	**67,791**	**130,986**

[1] The item includes bonds of international financial organizations of PLN 3,550 million

Treasury bonds (in foreign currencies)	31.12.2023	31.12.2022
- Polish Treasury bonds	1,279	2,136
- US Treasury bonds	2,757	2,164
Total	4,034	4,300

	31.12.2023	31.12.2022
allowance not reducing the fair value of securities measured at fair value through other comprehensive income	34	37

(IN PLN MILLION)

SECURITIES BY MATURITY (excluding adjustments relating to fair value hedge accounting)	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2023					
without a stated maturity – equity securities	32	336	-	-	368
up to 1 month	61	-	34,789	-	34,850
1 to 3 months	-	-	4,343	7	4,350
3 months to 1 year	256	-	10,621	14,067	24,944
1 to 5 years	212	255	38,527	39,890	78,884
more than 5 years	45	87	16,141	31,791	48,064
Total	**606**	**678**	**104,421**	**85,755**	**191,460**

SECURITIES BY MATURITY (excluding adjustments relating to fair value hedge accounting)	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2022					
without a stated maturity – equity securities	28	344	-	-	372
up to 1 month	20	-	3,142	1,513	4,675
1 to 3 months	-	-	223	7	230
3 months to 1 year	17	-	3,455	751	4,223
1 to 5 years	110	366	35,771	37,702	73,949
more than 5 years	24	-	19,695	27,848	47,567
Total	**199**	**710**	**62,286**	**67,821**	**131,016**

34. LOANS AND ADVANCES TO CUSTOMERS

ACCOUNTING POLICIES

Loans and advances to customers are classified in the individual measurement categories in accordance with the principles for selecting the business model and evaluating the characteristics of contractual cash flows referred to in the note "General accounting policies for financial instruments".

Loans and advances to customers include receivables in respect of loans and advances granted. The category of loans and advances to customers measured at fair value through profit or loss includes the following products: cash loans, credit cards and revolving loans, whose contractual formula for interest calculation includes a multiplier.

The Bank adjusts the gross carrying amount of housing loans measured at amortized cost by recognizing the effect of:

- legal risk related to potential litigation for the portfolio of mortgage loans in convertible currencies and existing legal claims related to loan exposures recognized as at the balance sheet date in the statement of financial position (see "Cost of legal risk of mortgage loans in convertible currencies")

- the so-called statutory credit holidays, recognized in the second half of 2022.

THE STATUTORY CREDIT HOLIDAYS were introduced by the Act of 7 July 2022 on the crowdfunding of business ventures and on assistance for borrowers of 14 July 2022 (hereinafter: the "Act"), containing a package of assistance for mortgage borrowers. According to the Act, statutory credit holidays applied to mortgage loans granted in Polish zloty and provided the possibility to suspend loan repayment for up to 8 months between 2022 and 2023 – two months in each of Q3 and Q4 of 2022 and one month in each of the four quarters of 2023. The loan repayment suspension could be used by the customer if the agreement was concluded before 1 July 2022 and the loan term ended after 31 December 2022. Credit holidays could only be used for one loan. The repayment schedule of loan instalments was extended by the number of credit holiday months used.

The Bank believes that the entitlement of customers to benefit from the suspension of loan repayments was a statutory cash flow modification that occurs on the date the Act has been signed by the President, i.e. 14 July 2022.

Accordingly, in the second half of 2022, the Bank adjusted the gross carrying amount of mortgage loans by deducting interest income. The value of the adjustment was determined as the difference between the present value of the estimated cash flows resulting from the loan agreements, taking into account the suspension of instalment payments, and the present gross carrying amount of the loan portfolio. The loss calculation was based on the assumption that approximately 63% of customers holding a PLN-denominated mortgage loan would choose to benefit from credit holidays (customer participation rate).

By the end of December 2023, 229 thousand of the Bank's customers applied for a suspension of mortgage repayment, representing 53% of the total number of loans and 62% of the gross carrying amount of total loans eligible for credit holidays. The total number of suspensions applied for as at 31 December 2023 was 1,609 thousand, representing 46% of the maximum number of instalments to be suspended for all eligible customers.

In the fourth quarter of 2023, the Bank estimated the actual level of the credit holiday loss, taking into account, among other things, empirical data on the participation rate of customers' use of credit holidays and early repayments made by customers throughout the period of the statutory credit holiday program.

Based on the outcome of the aforementioned analysis, in the fourth quarter of 2023 the Bank has partially reversed the credit holiday loss and reduced, proportionally, the amortization of this loss to date. The total effect recognized in the Bank's accounting books on this account amounted to PLN 83 million (including a reduction in the loss recognized in July 2022 of PLN 103 million and a proportional reduction in amortization to date of PLN 20 million) - which translated into an increase in net interest income and a decrease in the adjustment of the gross carrying amount of loans. The realized loss on statutory credit holidays, excluding the effect of amortization, was, in the opinion of the Bank, PLN 2,340 million compared to PLN 2,443 million recognized in July 2022.

Work is currently underway in the Polish Parliament to agree amendments to the Act of 7 July 2022 on the crowdfunding of business ventures and on assistance for borrowers, which would provide borrowers with the opportunity to take advantage of the statutory credit holidays also in 2024. Should the amended legislation come into force, depending on the solutions adopted, it could have a significant impact on the Bank's financial performance in 2024. In line with established practice, the Bank believes that the customers' entitlement to benefit from the suspension of loan repayments for subsequent periods will be a statutory cash flow modification that will take place on the day the President signs the amendments to the Act.

At the same time, since fair value is the price that would be received for the sale of an asset in a transaction between independent, knowledgeable and willing market participants, carried out under normal conditions as at the valuation date, i.e. 31 December 2023, the Bank has included the effect of credit holidays in the valuation of the loan portfolio measured at fair value through other comprehensive income. As at 31 December 2023, given the status of the legislative process and the statements in the public sphere by legislative process participants and market supervisors, the Bank's calculation was based on the expert assumption that market participants assumed a 40% probability of the Act coming into force as published in the draft. The percentage of customers who will suspend instalment repayments included in the estimate, assumed by market participants, was set by experts at 79%. The fair value adjustment on this account amounted to PLN 40.1 million and was estimated according to the assumptions valid as at the valuation date.

(IN PLN MILLION)

In addition, the Bank adjusts the gross carrying amount of housing and consumer loans measured at amortized cost by recognizing the impact of potential commission reimbursements to customers for the expected early repayment of active consumer and mortgage loans in the future.

The item "Loans and advances to customers" also includes an adjustment relating to fair value hedge accounting for loans representing hedged items (see the note "Hedge accounting and other derivative instruments").

ESTIMATES AND JUDGMENTS: Net expected credit losses, Cost of legal risk of mortgage loans in convertible currencies

FINANCIAL INFORMATION

For more information on credit risk exposures, see note "CREDIT RISK – FINANCIAL INFORMATION".

LOANS AND ADVANCES TO CUSTOMERS	31.12.2023	31.12.2022
real estate	94,248	89,672
consumer	31,361	29,677
business	98,063	89,577
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	**223,672**	**208,926**
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other derivative instruments")	(2)	(8)
Total	**223,670**	**208,918**

LOANS AND ADVANCES TO CUSTOMERS 31.12.2023	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
retail and private banking	**2,777**	**10,751**	**106,899**	**120,427**
real estate	1	10,751	78,314	89,066
consumer	2,776	-	28,585	31,361
companies and enterprises	**54**	-	**16,660**	**16,714**
real estate	-	-	5,056	5,056
business	54	-	11,604	11,658
corporate	**27**	-	**86,504**	**86,531**
real estate	-	-	126	126
business	27	-	86,378	86,405
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	**2,858**	**10,751**	**210,063**	**223,672**
Adjustment relating to fair value hedge accounting note "Hedge accounting and other derivative instruments"	-	-	(2)	(2)
Total	**2,858**	**10,751**	**210,061**	**223,670**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS 31.12.2022	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
retail and private banking	**3,480**	**11,895**	**98,475**	**113,850**
real estate	4	11,895	72,274	84,173
consumer	3,476	-	26,201	29,677
companies and enterprises	**44**	-	**17,011**	**17,055**
real estate	-	-	5,381	5,381
business	44	-	11,630	11,674
corporate	**41**	-	**77,980**	**78,021**
real estate	-	-	118	118
business	41	-	77,862	77,903
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	**3,565**	**11,895**	**193,466**	**208,926**
Adjustment relating to fair value hedge accounting note "Hedge accounting and other derivative instruments"	-	-	(8)	(8)
Total	**3,565**	**11,895**	**193,458**	**208,918**

LOANS AND ADVANCES TO CUSTOMERS BY MATURITY (excluding adjustments relating to fair value hedge accounting)	not held for trading, mandatorily measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2023				
up to 1 month	724	87	9,297	10,108
1 to 3 months	376	45	6,931	7,352
3 months to 1 year	1,442	201	36,185	37,828
1 to 5 years	315	1,228	80,266	81,809
more than 5 years	1	9,190	77,384	86,575
Total	**2,858**	**10,751**	**210,063**	**223,672**

LOANS AND ADVANCES TO CUSTOMERS BY MATURITY (excluding adjustments relating to fair value hedge accounting)	not held for trading, mandatorily measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2022				
up to 1 month	730	94	8,724	9,548
1 to 3 months	453	50	6,915	7,418
3 months to 1 year	1,733	210	30,724	32,667
1 to 5 years	603	1,301	76,137	78,041
more than 5 years	46	10,240	70,966	81,252
Total	**3,565**	**11,895**	**193,466**	**208,926**

(IN PLN MILLION)

35. AMOUNTS DUE TO BANKS

ACCOUNTING POLICIES: Valuation and classification into categories is carried out in accordance with the principles for determining the business model and assessing the characteristics of contractual cash flows referred to in note "GENERAL ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS".

FINANCIAL INFORMATION

AMOUNTS DUE TO BANKS	31.12.2023	31.12.2022
Measured at fair value through profit or loss:	**25**	**2**
Liabilities in respect of a short position in securities	25	2
Measured at amortized cost	**3,225**	**2,926**
Deposits from banks	1,120	1,936
Current accounts	2,068	974
Other monetary market deposits	37	16
Total	**3,250**	**2,928**

AMOUNTS DUE TO BANKS BY MATURITY	31.12.2023	31.12.2022
Measured at fair value through profit or loss:	**25**	**2**
up to 1 month	25	2
Measured at amortized cost:	**3,225**	**2,926**
up to 1 month	3,220	2,880
1 to 3 months	-	31
3 months to 1 year	5	15
Total	**3,250**	**2,928**

36. AMOUNTS DUE TO CUSTOMERS

ACCOUNTING POLICIES:

Valuation and classification into categories is carried out in accordance with the principles for determining the business model and assessing the characteristics of contractual cash flows referred to in note "GENERAL ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS". The item "Amounts due to customers" also includes an adjustment relating to fair value hedge accounting for amounts due to customers representing hedged items (note "HEDGE ACCOUNTING AND OTHER DERIVATIVE INSTRUMENTS").

FINANCIAL INFORMATION

AMOUNTS DUE TO CUSTOMERS 31.12.2023	Amounts due to households	Amounts due to business entities	Amounts due to public sector	Total
Measured at fair value through profit or loss (liabilities in respect of a short position in securities)	-	**277**	-	**277**
Measured at amortized cost	**304,152**	**74,193**	**15,517**	**393,862**
Cash on current accounts and overnight deposits of which	199,638	53,436	14,551	267,625
savings accounts and other interest-bearing assets	49,650	17,840	9,956	77,446
Term deposits	104,013	20,105	927	125,045
Other liabilities	501	652	39	1,192
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	**304,152**	**74,470**	**15,517**	**394,139**
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other derivative instruments")	412	-	-	412
Total	**304,564**	**74,470**	**15,517**	**394,551**

(IN PLN MILLION)

AMOUNTS DUE TO CUSTOMERS 31.12.2022	Amounts due to households	Amounts due to business entities	Amounts due to public sector	Total
Measured at fair value through profit or loss (liabilities in respect of a short position in securities)	-	5	-	5
Measured at amortized cost	**260,729**	**56,990**	**17,188**	**334,907**
Cash on current accounts and overnight deposits of which	178,629	38,931	16,224	233,784
savings accounts and other interest-bearing assets	41,877	12,452	11,615	65,944
Term deposits	81,600	17,481	913	99,994
Other liabilities	500	578	51	1,129
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	**260,729**	**56,995**	**17,188**	**334,912**
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other derivative instruments")	(56)	-	-	(56)
Total	**260,673**	**56,995**	**17,188**	**334,856**

AMOUNTS DUE TO CUSTOMERS BY MATURITY (excluding adjustment relating to fair value hedge accounting)	31.12.2023	31.12.2022
Measured at fair value through profit or loss:	**277**	**5**
up to 1 month	277	5
Measured at amortized cost:	**393,862**	**334,907**
up to 1 month	305,187	268,980
1 to 3 months	35,541	29,026
3 months to 1 year	38,915	10,177
1 to 5 years	8,509	21,385
more than 5 years	5,710	5,339
Total	**394,139**	**334,912**

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	31.12.2023	31.12.2022
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	394,139	334,912
retail and private banking	273,811	232,858
corporate	68,472	55,115
companies and enterprises	51,856	46,939
Adjustment relating to fair value hedge accounting (note "Hedge accounting and other derivative instruments")	412	(56)
Total	**394,551**	**334,856**

(IN PLN MILLION)

Bank Polski

37. FINANCING RECEIVED

ACCOUNTING POLICIES: Valuation and classification into categories is carried out in accordance with the principles for determining the business model and assessing the characteristics of contractual cash flows referred to in note "GENERAL ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS".

FINANCIAL INFORMATION

FINANCING RECEIVED	31.12.2023	31.12.2022
Loans and advances received from international financial organizations	-	**726**
Liabilities in respect of debt securities in issue – bonds issued by PKO Bank Polski S.A.	3,421	-
Subordinated liabilities	**2,774**	**2,781**
Total	6,195	3,507

37.1. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED BY MATURITY	31.12.2023	31.12.2022
3 months to 1 year	-	726
Total	-	726

Date of receipt of loans and advances by the Bank from international financial institutions	Value (nominal)	Currency	Maturity	Carrying amount at 31.12.2023	Carrying amount at 31.12.2022
25.09.2013	75	EUR	25.09.2023	-	70
23.10.2018	646	PLN	23.10.2023	-	656
Total				-	726

In 2023 and 2022, PKO Bank Polski S.A. did not receive any loans or advances from banks or other financial institutions.

37.2. LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE

LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE BY MATURITY	31.12.2023	31.12.2022
Measured at amortized cost:		
1 to 5 years	3,421	-
Total	3,421	-

On 8 August 2022, the Management Board of the Bank approved the establishment of a program for the issue of Eurobonds by the Bank as the issuer (the Euro Medium Term Notes Program – the "EMTN Program") of up to EUR 4 billion. Under the EMTN Program, it will be possible to issue unsecured Eurobonds in any currency, including those in respect of which obligations may be classified as eligible liabilities or as the Bank's own funds. Bonds issued under the EMTN Program will be registered with the international central securities depository (ICSD) operated by Euroclear Bank SA/NV or Clearstream Banking société anonyme. The Bank may apply for admission of individual series of Eurobonds to trading on a regulated market operated by the Luxembourg Stock Exchange, the Warsaw Stock Exchange.

On 16 December 2022, the Moody's Investors Service rating agency assigned a (P)Baa3 rating to the EMTN Program, for the unsecured bonds designated as Senior Non Preferred.

On 20 December 2022, the Prospectus for the EMTN Program was approved by the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg. On 20 January 2023, the CSSF approved the first Supplement to the prospectus for the EMTN Program.

(IN PLN MILLION)

On 1 February 2023, the Bank, as part of its inaugural EMTN issue allowing it to cover the senior portion of the requirement (being the difference between the MREL requirements denominated on a consolidated basis and the MREL on a stand-alone basis), issued 3-year Senior Preferred Notes with a total value of EUR 750 million, with the possibility of early redemption two years after the issue. The coupon of the issue is fixed, at 5.625%, payable annually until the early redemption date, and variable thereafter, with quarterly payments. Moody's Investors Service has assigned a rating of A3 to the issue. The bonds were admitted to trading on a regulated market on the Luxembourg Stock Exchange and the Warsaw Stock Exchange.

37.3. Subordinated liabilities

Type of liability	Type of interest rate	Notional amount	Currency	Period	Carrying amount	
					31.12.2023	31.12.2022
Subordinated bonds	6M WIBOR +0.0155	1,700	PLN	28.08.2017 - 28.08.2027	1,748	1,752
Subordinated bonds	6M WIBOR +0.0150	1,000	PLN	05.03.2018 - 06.03.2028	1,026	1,029
TOTAL					2,774	2,781

The subordinated bonds were designated for increasing the Bank's supplementary funds upon the approval of the Polish Financial Supervision Authority (Tier 2). Due to unfavorable market circumstances, a decision was made on 1 August 2022 to abandon the early redemption of the series OP0827 subordinated bonds issued by the Bank on 28 August 2017.

OTHER SUPPLEMENTARY NOTES TO THE STATEMENT OF FINANCIAL POSITION AND CONTINGENT LIABILITIES

38. Intangible assets

Accounting policies:

Software - Acquired computer software licenses are recognized in the amount of costs incurred on the purchase and preparation of the software for use, taking into consideration accumulated amortization and impairment losses.

Goodwill – The Bank recognizes (since the legal merger with a subsidiary) goodwill related to the acquisition of this entity as intangible assets. Goodwill was recognized in the amount of excess of consideration paid over the value of the identifiable assets acquired and liabilities assumed, measured at fair value as at the acquisition date. Subsequent to the initial recognition goodwill is measured at the amount initially recognized less any accumulated impairment losses.

Customer relations – As a result of the settlement of purchase transactions, customer relations were identified which are amortized using the reducing balance method based on the rate of economic benefits consumption arising from their use.

Other intangible assets – Other intangible assets acquired by the Bank are recognized at the cost of purchase or manufacture, less accumulated amortization and impairment losses.

Development costs – The costs of completed development projects are classified as intangible assets in connection with the expected economic benefits to be obtained and meeting specific terms and conditions, i.e. if there is a possibility and intention to complete and use the internally generated intangible asset, there are appropriate technical and financial resources to complete the development and to use the asset and it is possible to reliably measure the expenditure incurred during its development which can be directly attributed to generating the intangible asset.

Capital expenditure – The carrying amount of property, plant and equipment items is increased by additional capital expenditure incurred during their use, provided that they satisfy the criteria for classification to fixed assets.

Right-of-use assets are presented in the same items in which the underlying assets would be presented, if they were owned by the Bank.

(IN PLN MILLION)

The Bank uses cloud-based software. In each case, the Bank assesses the possession of real control over this asset, including the fulfilment of the following conditions: having a contractual right to take ownership of the software during the period of use in the cloud without incurring significant penalties, i.e.:

- the possibility of purchasing from a software supplier without incurring significant costs, and
- the ability to use the software independently without significantly reducing the usefulness or value of the software,
- the possibility of running the software on own hardware or entering into an agreement with another party not related to the supplier to use the software.

Based on the above criteria, the Bank classifies part of the software as an intangible asset and part as a service, with the costs recognized in operating expenses.

RELATED NOTES:

- Useful lives – note "Administrative expenses";
- Impairment losses – note "Net impairment losses on non-financial assets"

FINANCIAL INFORMATION

INTANGIBLE ASSETS	Software	Goodwill	Future profit on concluded insurance contracts	Customer relations	Other, including capital expenditure	of which: software	Total
2023							
Gross carrying amount at the beginning of the period	**6,074**	**872**	**-**	**87**	**659**	**602**	**7,692**
Purchase	-	-	-	-	796	796	796
Transfers from capital expenditure	812	-	-	-	(813)	(814)	(1)
Scrapping and sale	(19)	-	-	-	-	-	(19)
Other	26	-	-	(1)	44	44	69
Gross carrying amount at the end of the period	**6,893**	**872**	**-**	**86**	**686**	**628**	**8,537**
Accumulated amortization as at the beginning of the period	**(4,490)**	**-**	**-**	**(84)**	**(53)**	**-**	**(4,627)**
Amortization charge for the period	(504)	-	-	(2)	(1)	-	(507)
Scrapping and sale	18	-	-	-	-	-	18
Other	(1)	-	-	1	-	-	-
Accumulated amortization as at the end of the period	**(4,977)**	**-**	**-**	**(85)**	**(54)**	**-**	**(5,116)**
Impairment losses as at the beginning of the period	**(15)**	**(117)**	**-**	**-**	**-**	**-**	**(132)**
Recognized during the period	(1)	-	-	-	-	-	(1)
Impairment losses as at the end of the period	**(16)**	**(117)**	**-**	**-**	**-**	**-**	**(133)**
Carrying amount as at the beginning of the period, net	**1,569**	**755**	**-**	**3**	**606**	**602**	**2,933**
Carrying amount as at the end of the period, net	**1,900**	**755**	**-**	**1**	**632**	**628**	**3,288**

(IN PLN MILLION)

INTANGIBLE ASSETS	Software	Goodwill	Future profit on concluded insurance contracts	Customer relations	Other, including capital expenditure	of which: software	Total
2022							
Gross carrying amount at the beginning of the period	5,611	872	-	87	642	585	7,212
Purchase	-	-	-	-	429	429	429
Transfers from capital expenditure	454	-	-	-	(454)	(454)	-
Other	9	-	-	-	42	42	51
Gross carrying amount at the end of the period	6,074	872	-	87	659	602	7,692
Accumulated amortization as at the beginning of the period	(4,048)	-	-	(82)	(52)	-	(4,182)
Amortization charge for the period	(439)	-	-	(2)	(1)	-	(442)
Other	(3)	-	-	-	-	-	(3)
Accumulated amortization as at the end of the period	(4,490)	-	-	(84)	(53)	-	(4,627)
Impairment losses as at the beginning of the period	(15)	(117)	-	-	(2)	(2)	(134)
Other	-	-	-	-	2	2	2
Impairment losses as at the end of the period	(15)	(117)	-	-	-	-	(132)
Carrying amount as at the beginning of the period, net	1,548	755	-	5	588	583	2,896
Carrying amount as at the end of the period, net	1,569	755	-	3	606	602	2,933

From the Bank's perspective, expenditure incurred on the Integrated Information System (IIS) is a significant item of intangible assets. The total capital expenditure incurred on the IIS in 2007–2023 was PLN 1,272 million (PLN 1,392 million in 2006-2022).

The net carrying amount of the Integrated Information System (IIS) as at 31 December 2023 was PLN 624 million (PLN 651 million as at 31 December 2022). The expected useful life of the system is 24 years. As at 31 December 2023, its remaining useful life is 7 years.

- **GOODWILL**

Net goodwill	31.12.2023	31.12.2022
Nordea Bank Polska S.A.	747	747
Assets taken over from CFP sp. z o.o.	8	8
TOTAL	755	755

The Bank performs impairment tests of goodwill on acquisition of Nordea Bank Polska S.A. based on a discounted dividend model, by comparing the carrying amount of cash-generating units ('CGUs") with their recoverable value.

The residual value of a retail CGU has been calculated by extrapolating the cash flow projections beyond the projection period using the growth rate adopted at a level of 3.7%. Cash flow projections used in the impairment test covered a period of 10 years and are based on the assumptions included in the financial plan of the Bank for 2024. A discount rate of 12.48%, taking into account the risk-free rate and risk premium, was used for the discounting of the future cash flows.

At the time of the acquisition, two cash-generating units ("CGUs") were distinguished to which the goodwill arising from the acquisition of Nordea Bank Polska SA was allocated – retail and corporate CGUs, corresponding to the operating segments. The Bank recognized an impairment loss on the goodwill attributable to the corporate CGU of PLN 117 million on 30 June 2020.Goodwill of Nordea Bank Polska S.A. of PLN 747 million belongs to the retail segment.

As at 31 December 2023, the Bank performed an impairment test in respect of goodwill on the acquisition of Nordea Bank Polska S.A. assigned to the retail CGU (see note "Intangible assets, property, plant and equipment"). The test did not identify impairment.

39. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES:

PROPERTY, PLANT AND EQUIPMENT – are measured at the cost of purchase or manufacture, less accumulated depreciation and impairment losses.

INVESTMENT PROPERTIES – are measured according to the accounting policies applied to property, plant and equipment.

CAPITAL EXPENDITURE – The carrying amount of property, plant and equipment items is increased by additional capital expenditure incurred during their use, provided that they satisfy the criteria for classification to fixed assets.

Right-of-use assets are presented in the same items in which the underlying assets would be presented, if they were owned by the Bank.

RELATED NOTES:

- Useful lives – note "Administrative expenses";
- Impairment losses – note "Net impairment losses on non-financial assets"

(IN PLN MILLION)

FINANCIAL INFORMATION

PROPERTY, PLANT AND EQUIPMENT	Land and buildings	Machinery and equipment, including computer hardware	Fixed assets under construction	Other, including vehicles	Total
2023					
Gross carrying amount at the beginning of the period	**3,827**	**1,620**	**155**	**674**	**6,276**
Purchase, including modifications	414	-	338	14	**766**
Transfers from capital expenditure	38	137	(205)	30	-
Scrapping and sale	(37)	(55)	-	(25)	**(117)**
Other	(47)	(5)	(2)	4	**(50)**
Gross carrying amount at the end of the period	**4,195**	**1,697**	**286**	**697**	**6,875**
Accumulated amortization as at the beginning of the period	**(1,941)**	**(1,254)**	**-**	**(482)**	**(3,677)**
Amortization charge for the period	(288)	(136)	-	(49)	**(473)**
Scrapping and sale	28	55	-	25	**108**
Other	22	6	-	(2)	**26**
Accumulated amortization as at the end of the period	**(2,179)**	**(1,329)**	**-**	**(508)**	**(4,016)**
Impairment losses as at the beginning of the period	**(93)**	**(1)**	**-**	**-**	**(94)**
Recognized during the period	(38)	(4)	-	-	**(42)**
Reversed during the period	1	-	-	-	**1**
Other	6	1	-	-	**7**
Impairment losses as at the end of the period	**(124)**	**(4)**	**-**	**-**	**(128)**
Carrying amount as at the beginning of the period, net	**1,793**	**365**	**155**	**192**	**2,505**
Carrying amount as at the end of the period, net	**1,892**	**364**	**286**	**189**	**2,731**

(IN PLN MILLION)

PROPERTY, PLANT AND EQUIPMENT	Land and buildings	Machinery and equipment, including computer hardware	Fixed assets under construction	Other, including vehicles	Total
2022					
Gross carrying amount at the beginning of the period	3,672	1,560	217	641	6,090
Purchase, including modifications	153	12	172	22	**359**
Transfers from capital expenditure	49	142	(233)	42	-
Scrapping and sale	(30)	(89)	-	(24)	**(143)**
Other	(17)	(5)	(1)	(7)	**(30)**
Gross carrying amount at the end of the period	3,827	1,620	155	674	6,276
Accumulated amortization as at the beginning of the period	(1,685)	(1,215)	-	(460)	(3,360)
Amortization charge for the period	(284)	(133)	-	(50)	**(467)**
Scrapping and sale	17	89	-	23	**129**
Other	11	5	-	5	**21**
Accumulated amortization as at the end of the period	(1,941)	(1,254)	-	(482)	(3,677)
Impairment losses as at the beginning of the period	(90)	(1)	-	-	(91)
Recognized during the period	(3)	-	-	-	**(3)**
Impairment losses as at the end of the period	(93)	(1)	-	-	(94)
Carrying amount as at the beginning of the period, net	1,897	344	217	181	2,639
Carrying amount as at the end of the period, net	1,793	365	155	192	2,505

The Bank identifies investment properties with a net carrying amount of PLN 1.5 million as at 31 December 2023 (PLN 332 thousand as at 31 December 2022).

The result from the rental of investment properties is presented in the note "Other operating income and expenses". The Bank presents rental income from investment properties under the heading "Other operating income", in the line "Ancillary income".

Repairs and maintenance costs incurred in connection with the operation of an investment property that generated rental income during the period are presented by the Bank under "Other operating expenses", in the line "Ancillary expenses".

40. ASSETS HELD FOR SALE

ACCOUNTING POLICIES:

Assets held for sale are recognized at the lower of their carrying amount and fair value less costs to sell. Impairment losses on assets held for sale are recognized in the income statement for the period in which the losses were recognized.

RELATED NOTES: Useful lives – nota "Administrative expenses" and impairment losses – note "Net impairment allowances on non-financial assets"

FINANCIAL INFORMATION

ASSETS HELD FOR SALE	31.12.2023	31.12.2022
Land and buildings	19	11
Investments in subsidiaries, associates and joint ventures*	120	-
Total gross	**139**	**11**
Impairment losses	-	(1)
Total	**139**	**10**

*in 2023, the Bank reclassified the investment in Mercury fiz-an as assets held for sale (see note "Changes in the Group companies".

(IN PLN MILLION)

Assets held for sale - CHANGES IN IMPAIRMENT LOSSES	31.12.2023	31.12.2022
As at the beginning of the period	(1)	(1)
Recognized during the period	(2)	-
Reversed during the period	1	-
Other	2	-
As at the end of the period	-	(1)

41. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

FINANCIAL INFORMATION

31.12.2023	Gross carrying amount	Impairment	Net carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA	1,650	-	1,650
KREDOBANK S.A.	1,072	(845)	227
PKO Leasing SA	496	-	496
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
PKO VC - fizan[1]	200	-	200
PKO BP BANKOWY PTE SA	151	(37)	114
NEPTUN - fizan[1]	132	-	132
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
PKO BP Finat sp. z o.o.	21	-	21
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	197	-	197
Operator Chmury Krajowej sp. z o.o.	78	-	78
ASSOCIATES			
Bank Pocztowy S.A.	184	(184)	-
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	2	(2)	-
Total	4,783	(1,068)	3,715

[1] The Bank holds investment certificates of the Fund which allow it to control the Fund in accordance with IFRS.

(IN PLN MILLION)

31.12.2022	Gross carrying amount	Impairment	Net carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA	1,650	-	1,650
KREDOBANK S.A.	1,072	(845)	227
PKO Leasing SA	496	-	496
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
PKO VC - fizan[1]	200	-	200
PKO BP BANKOWY PTE SA	151	(37)	114
NEPTUN - fizan[1]	132	-	132
Merkury - fiz an[1]	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
PKO BP Finat sp. z o.o.	21	-	21
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	197	-	197
Operator Chmury Krajowej sp. z o.o.	78	-	78
ASSOCIATES			
Bank Pocztowy S.A.	184	(184)	-
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	2	(2)	-
Total	4,903	(1,068)	3,835

[1] The Bank holds investment certificates of the Fund which allow it to control the Fund in accordance with IFRS.

In 2022, the Bank recognized an additional impairment loss on its investment in KREDOBANK SA of PLN 52 million (see note: Impact of the geopolitical situation in Ukraine on PKO Bank Polski S.A.)

The impairment test performed as at 31 December 2023 and 31 December 2022 did not identify a need to change the existing impairment loss and the carrying amount of Bank Pocztowy recognized in the Bank's books as at 31 December 2023 and 31 December 2022 was the same as previously, i.e. PLN 0.

42. OTHER ASSETS

ACCOUNTING POLICIES:

Valuation and classification of other financial assets into categories is carried out in accordance with the principles for determining the business model and assessing the characteristics of contractual cash flows referred to in note "GENERAL ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS".

OTHER FINANCIAL ASSETS recognized in this item are stated at amounts due, comprising also potential interest on such assets, taking into consideration provisions for expected credit losses.

OTHER NON-FINANCIAL ASSETS are measured in accordance with the valuation principles applicable to specific categories of assets recognized in this item.

(IN PLN MILLION)

FINANCIAL INFORMATION

For more information on other financial assets in terms of credit risk exposure, see note "CREDIT RISK – FINANCIAL INFORMATION".

OTHER ASSETS	31.12.2023	31.12.2022
Other financial assets	**1,309**	**1,654**
Settlements in respect of card transactions	480	620
Settlement of financial instruments	143	134
Receivables in respect of cash settlements	407	340
Receivables and settlements in respect of trading in securities	28	24
Dividends receivable and contributions to subsidiaries	30	-
Sale of foreign currencies	-	118
Trade receivables	149	97
Other	72	321
Other non-financial assets	**557**	**456**
Inventories	19	19
Receivables from subsidiaries belonging to the Tax Group	34	-
Assets for sale	59	31
Prepayments and deferred costs	111	81
Receivables from the State Budget in respect of flat-rate income tax	-	12
Receivables from customers for whom the agreements have been legally declared invalid in respect of the principal originally disbursed to these customers.	217	186
Other	117	127
Total	1,866	2,110

- ### OTHER NON-FINANCIAL ASSETS

OTHER NON-FINANCIAL ASSETS	31.12.2023	31.12.2022
Gross amount	835	724
Impairment losses	(278)	(268)
Net carrying amount	557	456

Other non-financial assets – CHANGES IN IMPAIRMENT LOSSES	2023	2022
As at the beginning of the period	(268)	(264)
Recognized during the period	(69)	(58)
Derecognition of assets and settlements	52	36
Reversed during the period	12	24
Other	(5)	(6)
As at the end of the period	(278)	(268)

- ### MANAGEMENT OF FORECLOSED COLLATERAL – ITEM "ASSETS FOR SALE"

Foreclosed collaterals as a result of restructuring or debt collection activities are either designated for sale or used by the Bank for internal purposes. Details of the foreclosed assets are analyzed in order to determine whether they can be used by the Bank for internal purposes. All of the assets foreclosed as a result of restructuring and debt collection activities in the years ended 31 December 2023 and 31 December 2022, respectively, were designated as held for sale. Activities undertaken by the Bank are aimed at selling assets as soon as possible. The primary procedure for the sale of assets is an open tender. In justified cases, the sale follows a different procedure depending on the specifics of the sold property.

(IN PLN MILLION)

43. OTHER LIABILITIES

ACCOUNTING POLICIES:

Valuation and classification of other liabilities into categories is carried out in accordance with the principles referred to in note "GENERAL ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS".

Other financial liabilities included in this item are measured at amounts due which cover potential interest on the liabilities, and the accrual for future payments in reliably estimated, justified amounts necessary to meet the present obligation as at the end of the reporting period.

Other non-financial liabilities are measured in accordance with the measurement policies binding for particular types of liabilities recognized in this item.

FINANCIAL INFORMATION

OTHER LIABILITIES	31.12.2023	31.12.2022
Other financial liabilities	**5,689**	**4,176**
Costs to be paid	611	538
Interbank settlements	1,011	868
Liabilities arising from investing activities and internal operations	395	134
Amounts due to suppliers	93	71
Liabilities and settlements in respect of trading in securities	744	354
Settlement of financial instruments	69	41
Liabilities in respect of foreign exchange activities	721	761
Costs of financial support to a subsidiary	-	190
Liabilities in respect of payment cards	979	314
Lease liabilities	1,034	864
Other	32	41
Other non-financial liabilities	**4,546**	**2,304**
Deferred income	669	596
Dividend payable to shareholders	1,600	-
Liabilities from subsidiaries belonging to the Tax Group	18	83
Liability in respect of tax on certain financial institutions	105	100
Liabilities in respect of a contribution to the Bank Guarantee Fund maintained in the form of payment obligations	818	818
to the Resolution Fund	432	432
to the Bank Guarantee Fund	386	386
Liabilities under the public law	992	460
Commitments relating to the reimbursement of principal and interest instalments paid by customers on invalidated mortgage loan agreements in convertible currencies	165	132
Other	179	115
Total	**10,235**	**6,480**

The item "Liabilities in respect of contributions to the Bank Guarantee Fund" includes an obligation to pay contributions to the BGF (see note "Assets pledged to secure liabilities and financial assets transferred").

44. PROVISIONS

ACCOUNTING POLICIES:

- **PROVISIONS FOR FINANCIAL LIABILITIES AND GUARANTEES GRANTED**

The provision for financial liabilities and guarantees is established at the amount of the expected credit losses (for details please see the note "Net expected credit losses").

In the portfolio analysis, when determining provisions, portfolio parameters estimated using statistical methods are used, based on historical observations of exposures with the same characteristics, the parameters which define a marginal probability of evidence of impairment, the average utilization of an off-balance sheet liability and the level of anticipated loss in the event of impairment in subsequent months in the period from the reporting date to the horizon of the calculation of the anticipated loss.

With regard to exposures which are material on an individual basis, and are subject to assessment, the provision is determined on a case by case basis – as the difference between the expected amount of the balance sheet exposure which will arise as a result of an off-balance sheet liability at the date of overdue amounts arising treated as evidence of impairment, and the present value of the expected future cash flows obtained from the exposure.

- **PROVISIONS FOR LEGAL CLAIMS, EXCLUDING LEGAL CLAIMS RELATING TO MORTGAGE LOANS IN CONVERTIBLE CURRENCIES**

The provisions for legal claims include disputes with counterparties, customers and external institutions (e.g. UOKiK), and are created based on an evaluation of the probability of a court case being lost by the Bank and the expected amount of payment (litigation pending has been discussed in the detail in the note "Legal claims").

Provisions for legal claims are recognized in the amount of expected outflow of economic benefits.

- **PROVISIONS FOR POTENTIAL LEGAL CLAIMS AGAINST THE BANK RELATING TO MORTGAGE LOANS IN CONVERTIBLE CURRENCIES**

The provisions are described in the note "Cost of the legal risk of mortgage loans in convertible currencies".

- **PROVISIONS FOR REFUNDS OF COSTS TO THE CUSTOMERS ON EARLY REPAYMENT OF CONSUMER LOANS**

The amount of the provision for refunds of costs to customers on early repayment of consumer loans is affected by the percentage of prepaid consumer loans, expected amount of consumer claims referring to refunds of loan costs prepaid before the balance sheet data and the average amount of the refund. The expected amount of consumer claims and the average amount of the refund are based on the historical data relating to the number of claims filed and the average amounts of the refunds to customers.

- **PROVISION FOR PENSIONS AND OTHER DEFINED POST-EMPLOYMENT BENEFITS**

The provision for retirement and disability benefits resulting from the Labor Code is recognized individually for each employee on the basis of an actuarial valuation. The provision for employee benefits is determined on the basis of the Group's internal regulations.

Valuation of the provision for employee benefits is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The provision was recognized on the basis of a list of persons with all necessary employee information, in particular the length of their service, age and gender. The provisions calculated are equal to discounted future payments, taking into account staff turnover.

- **PROVISION FOR ACCRUED HOLIDAY ENTITLEMENTS**

The provision for accrued holiday entitlements is recognized at the amount of expected inflows of cash, excluding discounting, based on the number of days of holiday remaining to be utilized by the Bank's employees and average monthly salary.

- **OTHER PROVISIONS**

Other provisions mainly include provisions for potential claims on the sale of impaired loans portfolios, details of which have been presented in the note "Sale of impaired loan portfolios".

(IN PLN MILLION)

Provisions for future payments are measured at reliably estimated, justified amounts necessary to meet the present obligation as at the end of the reporting period. All provisions are recognized in the profit and loss account, excluding actuarial gains and losses recognized in other comprehensive income.

If the effect of the time value of money is material, the amount of the provision is determined by discounting the estimated future cash flows to their present value, using the discount rate before tax which reflects the current market assessments of the time value of money and the potential risk related to a given obligation.

ESTIMATES AND JUDGMENTS:

The Bank updated its estimates of provisions for pensions and other liabilities in respect of defined post-employment benefit plans as at 31 December 2023 using an external independent actuary's calculations. The provisions calculated are equal to discounted future payments, taking into account staff turnover.

COMPONENTS AFFECTING THE PROVISION AMOUNT:	31.12.2023	31.12.2022
financial discount rate adopted	5.20	6.80
weighted average ratio of employee mobility	9.33	9.46
average remaining period of service in years	7.45	7.40
10-year average assumed annual increase in the basis calculation of retirement benefits	2.83	3.55

The impact of the increase/decrease in the financial discount rate and of the planned increases of 1 p.p. in the provision base on the decrease/increase in the value of the provision for retirement and other defined benefit post-employment plans as at 31 December 2023 and as at 31 December 2022 is presented in the tables below:

ESTIMATED CHANGE IN PROVISION for pensions and other liabilities in respect of defined post-employment benefits	31.12.2023		31.12.2022	
	+1pp scenario	-1pp scenario	+1pp scenario	-1pp scenario
Discount rate	(4)	5	(4)	5
Planned increases in base amounts	6	(5)	6	(4)

The Bank performed a sensitivity analysis of the provision for reimbursement for customers on early repayments of consumer and mortgage loans before the balance sheet date as at 31 December 2023 and 31 December 2022 due to changes in the number of claims and average value of a refund.

ESTIMATED CHANGE IN PROVISION	Change in the number of claims		Change in the average amount of reimbursement	
	-10%	10%	-10%	10%
31.12.2023	(1)	1	(1)	1
31.12.2022	(1)	1	(1)	1

(IN PLN MILLION)

Bank Polski

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FOR THE YEAR ENDED 31.12.2023	Provisions for financial liabilities and guarantees granted[1]	Provisions for legal claims, excluding legal claims relating to repaid mortgage loans in convertible currencies	Provisions for legal claims against the bank relating to mortgage loans in convertible currencies	Provisions for refunds of costs to customers on early repayment of consumer and mortgage loans	Provisions for pensions and other defined post-employment benefits	Restructuring	Provision for accrued holiday entitlements	Other provisions, including provisions for employee disputed claims	Total
As at the beginning of the period	**829**	**97**	**851**	**17**	**64**	**35**	**97**	**58**	**2,048**
Increases, including increases of existing provisions	-	15	2,384	-	13	-	25	27	2,464
Utilized amounts	-	(2)	(234)	(9)	(6)	(6)	(6)	(39)	(302)
Unused provisions reversed during the period	(73)	(3)	-	-	(2)	-	-	(4)	(82)
Other changes and reclassifications	(8)	-	-	-	-	-	(1)	-	(9)
As at the end of the period	748	107	3,001	8	69	29	115	42	4,119
Short-term provisions	592	-	-	8	13	29	115	-	757
Long-term provisions	156	107	3,001	-	56	-	-	42	3,362

[1] See note "Credit risk – financial information"

(IN PLN MILLION)

FOR THE YEAR ENDED 31.12.2022	Provisions for financial liabilities and guarantees granted	Provisions for legal claims, excluding legal claims relating to mortgage loans in convertible currencies	Provisions for legal claims against the bank relating to mortgage loans in convertible currencies	Provisions for refunds of costs to customers on early repayment of consumer and mortgage loans	Provisions for pensions and other defined post-employment benefits	Restructuring	Provision for accrued holiday entitlements	Other provisions, including provisions for employee disputed claims	Total
As at the beginning of the period	**672**	**99**	**595**	**15**	**55**	**47**	**91**	**42**	**1,616**
Increases, including increases of existing provisions	155	7	383	13	15	-	25	50	648
Utilized amounts	-	(7)	(127)	(12)	(5)	(12)	(8)	(34)	(205)
Unused provisions reversed during the period	-	(3)	-	-	(1)	-	(11)	-	(15)
Other changes and reclassifications	2	1	-	1	-	-	-	-	4
As at the end of the period	829	97	851	17	64	35	97	58	2,048
Short-term provisions	684	-	-	17	10	35	97	-	843
Long-term provisions	145	97	851	-	54	-	-	58	1,205

(IN PLN MILLION)

Provisions for disability and retirement benefits(actuarial provision)	2023	2022
Liability at the beginning of the period	61	52
Current service cost	2	3
Interest expense	4	2
Actuarial (gains) and losses recognized in other comprehensive income	4	8
Benefits paid	(4)	(4)
Liability at the end of the period (net)	67	61

Breakdown of actuarial gains and losses (actuarial provision)	Total amount of provisions	
	2023	2022
Change in financial assumptions	7	(10)
Change in demographic assumptions	1	-
Other changes	(4)	18
Total actuarial (gains) and losses	4	8

45. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES RECEIVED AND GRANTED

ACCOUNTING POLICIES:

For the principles of recognizing provisions for off-balance sheet commitments granted, see the note "Provisions"

Upon initial recognition financial guarantee agreements are stated at fair value. In subsequent periods, as at the balance sheet date, financial guarantees are measured at the higher of:

- allowances for expected credit losses; or
- the amount of commission recognized initially, less accumulated amortization in accordance with IFRS 15.

FINANCIAL INFORMATION

- **SECURITIES PROGRAMS COVERED WITH UNDERWRITING AGREEMENTS (MAXIMUM BANK'S COMMITMENT TO TAKE UP SECURITIES)**

As at 31 December 2023 and 31 December 2022, no underwriting agreements have been entered into.

CONTRACTUAL COMMITMENTS

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING	31.12.2023	31.12.2022
intangible assets	71	76
property, plant and equipment	32	-
Total	103	76

(IN PLN MILLION)

- **FINANCIAL LIABILITIES AND GUARANTEES GRANTED**

For more information on credit risk exposures, see note "CREDIT RISK – FINANCIAL INFORMATION".

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2023	Total	Provisions per IFRS 9	Net carrying amount
Credit lines and limits	**82,295**	**(639)**	**81,656**
real estate	6,807	(20)	6,787
business	64,767	(497)	64,270
consumer	10,721	(122)	10,599
Other	**3,884**	**-**	**3,884**
Total financial commitments granted, including:	**86,179**	**(639)**	**85,540**
irrevocable commitments granted	38,419	(392)	38,027
POCI	2	-	2
guarantees in domestic and foreign trading	12,241	(106)	12,135
to financial entities	4,416	-	4,416
to non-financial entities	7,751	(106)	7,645
to state budget entities	74	-	74
domestic corporate bonds	1,000	-	1,000
to financial entities	1,000	-	1,000
domestic municipal bonds (state budget entities)	243	-	243
letters of credit to non-financial entities	1,277	(3)	1,274
to financial entities	30	-	30
to non-financial entities	1,247	(3)	1,244
payment guarantees to financial entities	116	-	116
Total guarantees and sureties granted, including:	**14,877**	**(109)**	**14,768**
irrevocable commitments granted	8,194	(94)	8,100
performance guarantee	3,592	(57)	3,535
POCI	452	(2)	450
Total financial and guarantee commitments granted	**101,056**	**(748)**	**100,308**

(IN PLN MILLION)

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2022	Total	Provisions per IFRS 9	Net carrying amount
Credit lines and limits	**75,496**	**(586)**	**74,910**
real estate	3,646	(21)	3,625
business	61,242	(412)	60,830
consumer	10,608	(153)	10,455
Other	**2,825**	-	**2,825**
Total financial commitments granted, including:	78,321	(586)	77,735
irrevocable commitments granted	39,391	(301)	39,090
POCI	5	(1)	4
Guarantees and sureties granted			
guarantees in domestic and foreign trading	12,634	(236)	12,398
to financial entities	4,839	-	4,839
to non-financial entities	7,724	(236)	7,488
to state budget entities	71	-	71
domestic corporate bonds	2,000	-	2,000
to financial entities	2,000	-	2,000
domestic municipal bonds (state budget entities)	315	-	315
letters of credit	1,514	(7)	1,507
to non-financial entities	1,514	(7)	1,507
payment guarantees to financial entities	76	-	76
Total guarantees and sureties granted, including:	16,539	(243)	16,296
irrevocable commitments granted	8,897	(234)	8,663
performance guarantee	3,640	(203)	3,437
POCI	284	(5)	279
Total financial and guarantee commitments granted	94,860	(829)	94,031

- NOMINAL VALUE OF COMMITMENTS GRANTED BY MATURITY

COMMITMENTS GRANTED BY MATURITY AS AT 31.12.2023	up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Total
commitments granted - financial	16,070	4,568	30,364	23,234	11,943	86,179
commitments granted - guarantees and sureties	878	1,406	3,598	5,741	3,254	14,877
Total	16,948	5,974	33,962	28,975	15,197	101,056

COMMITMENTS GRANTED BY MATURITY AS AT 31.12.2022	up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Total
commitments granted - financial	15,343	4,639	27,638	22,375	8,326	78,321
commitments granted - guarantees and sureties	496	934	6,136	5,344	3,629	16,539
Total	15,839	5,573	33,774	27,719	11,955	94,860

(IN PLN MILLION)

- **OFF-BALANCE SHEET LIABILITIES RECEIVED**

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	31.12.2023	31.12.2022
Financial	132	109
Guarantees	18,134	8,579
Total	**18,266**	**8,688**

The increase in off-balance sheet guarantee liabilities received is due, among other things, to the guarantee agreement entered into by the Group on 27 February 2023, providing unfunded credit protection in respect of a portfolio of selected corporate credit receivables of the Bank, in accordance with the CRR. The total value of the Bank's debt portfolio covered by this guarantee is over PLN 12,292 million, and the portfolio consists of the bond portfolio of PLN 1,515 million ("Portfolio A") and the portfolio of other receivables of PLN 10,777 million ("Portfolio B"). The coverage ratio is 100% for Portfolio A and 80% for Portfolio B, therefore the total Guarantee amount is PLN 10,137 million. The maximum time of coverage under the Guarantee is 60 months, however the Bank is entitled to terminate the Guarantee prior to the expiry of this period.

46. LEGAL CLAIMS

As at 31 December 2023, the total value of the subject matter of litigation in court proceedings (trials) pending in which PKO Bank Polski S.A. is a defendant amounted to PLN 13,061 million (as at 31 December 2022: PLN 8,212 million), and the total value of the subject matter of litigation in court proceedings (trials) pending in which the Bank was a claimant as at 31 December 2023 was PLN 4,063 million (as at 31 December 2022: PLN 2,225 million).

- **LITIGATION AGAINST THE BANK RELATING TO MORTGAGE LOANS IN CONVERTIBLE CURRENCIES**

As at 31 December 2023, 30,498 on court proceedings were pending against the Bank (as at 31 December 2022: 19,522) relating to mortgage loans granted in previous years in foreign currency with a total value in dispute of PLN 11,948 million (as at 31 December 2022: PLN 7,725 million), including one group proceeding with 72 loan agreements. The subject matter of the Bank's clients' actions is mainly claims for declaration of invalidity of an agreement or for payment of amounts paid by the client to the Bank in performance of an invalid agreement. Customers allege abusive provisions or that the agreements are contrary to the law. None of the clauses used by the Bank in the agreements was entered in the register of prohibited contractual clauses. The number of lawsuits filed by customers against the Bank is significantly influenced by the intensive advertising campaign of law firms, which encourages borrowers to commission to them – for a fee – conducting cases against banks.

The Bank monitors the status of court rulings in cases indexed or denominated in foreign currencies on an ongoing basis with respect to the shaping and possible changes in rulings.

As at 31 December 2023, 2,696 final rulings have been issued by the courts in cases against the Bank (including 2,653 rulings after 3 October 2019). 138 of these rulings (including in 97 rulings issued after 3 October 2019) are favorable for the Bank.

On 29 January 2021, in connection with the discrepancies in the interpretation of legal provisions in the jurisprudence of the Supreme Court and common courts and in order to ensure the uniformity of jurisprudence, the First President of the Supreme Court submitted a request for the full panel of the Civil Chamber of the Supreme Court to resolve the following legal issues concerning the subject of loans denominated and indexed in foreign currencies (legal basis: Article 83 § 1 of the Act of 8 December 2017 on the Supreme Court):

1. If a provision of an indexed or denominated loan agreement relating to the method of determining the foreign currency exchange rate is found to constitute an illicit contractual provision and is not binding on the consumer – is it then possible to assume that another method of determining the foreign currency exchange rate resulting from law or custom takes its place?

If the above question is answered in the negative:

2. In the event that it is impossible to establish a foreign currency exchange rate binding on the parties in a loan agreement indexed to such a currency, can the remainder of the agreement still be binding for the parties?

3. If it is not possible to establish a binding rate for a foreign currency in a loan agreement denominated in a foreign currency, can the remainder of the agreement still be binding for the parties?

Notwithstanding the content of the answers to questions 1 to 3:

4. In the event of the invalidity or ineffectiveness of a loan agreement, in the performance of which the bank disbursed to the borrower all or part of the amount of the loan and the borrower made repayments of the loan, do separate claims for wrongful performance arise for each of the parties, or does only a single claim arise, equal to the difference in performance, for the party whose total performance was higher?
5. Where a loan agreement is invalid or ineffective as a result of the unlawful nature of certain of its terms, does the limitation period for the bank's claim for repayment of the sums paid under the loan begin to run from the time at which those sums were paid?
6. If, in the case of the invalidity or ineffectiveness of a loan agreement, either party has a claim for repayment of a performance made in performance of that agreement, may that party also claim a fee for the use of its funds by the other party?

A session of the full composition of the Civil Chamber for the examination of the aforementioned application was held on 11 May 2021. Before passing its resolution, the Supreme Court decided to consult five public institutions. Their opinions were prepared and sent to the Supreme Court. On 2 September 2021, the Supreme Court decided to apply to the CJEU for preliminary rulings on questions relating to the judicial system, which do not directly concern the issue of foreign currency loans. In its order of 9 January 2024 in Case C-658/22, the CJEU refused to answer the Supreme Court's questions, finding that the Supreme Court's request for a preliminary ruling was manifestly inadmissible.

In 2021, two resolutions of the Supreme Court and one ruling of the Court of Justice of the European Union were issued, which are significant from the perspective of the claims of Swiss franc borrowers. On 7 May 2021, the Supreme Court, represented by 7 judges of the Civil Chamber, passed the following resolution in case III CZP 6/21:

1) A prohibited contractual clause (Article 385^1 § 1 of the Civil Code) is, from the beginning, by operation of law, ineffective in favor of the consumer, who may however subsequently grant an informed and voluntary consent for such a clause and thus make it effective retrospectively.
2) If a loan agreement cannot be binding without the ineffective clause, the consumer and the lender are entitled to bring separate claims for repayment of the benefits provided in the performance of the agreement (Article 410 § 1 in conjunction with Article 405 of the Civil Code). The lender may claim repayment of the benefit from the moment the loan agreement became permanently ineffective.

The resolution has the force of a legal rule, which means that an ordinary panel of the Supreme Court may not withdraw from the interpretation presented in an earlier resolution that has the force of a legal rule. If any panel of the Supreme Court intends to withdraw from a legal rule, it must present the legal issue for resolution to the full panel of the Chamber. In its justification for the said resolution, the Supreme Court referred to an earlier opinion (resolution III CZP 11/20 dated 16 February 2021) that the period of limitation of claims resulting from a loan agreement which is invalid due to the elimination of abusive clauses commences after the consumer has expressed informed consent not to be bound by the abusive clauses. The Supreme Court decided that since a consumer has the right to remedy an abusive contractual clause and express his/her willingness to be bound by it, the lender cannot be certain whether the agreement is effective until the consumer makes such a decision, and the agreement is ineffective (suspended) until such time. The lender's claims may not arise before such ineffectiveness (suspension) ceases to exist (which generally occurs as a result of the borrower's statement), and therefore the period of limitation commences at that moment.

Taking into account the content of the Supreme Court's resolution III CZP 6/21 and the non-uniform decisions of the common courts made against it, the Bank has filed lawsuits against customers whose agreements have been validly annulled, or whose lawsuits calls for payment based on the premise of invalidity derived from abusiveness were served on the Bank before 31 December 2020, for reimbursement of amounts disbursed in connection with the conclusion of an agreement whose validity has been questioned.

In its ruling of 15 June 2023 in Case C-520/21, the CJEU ruled that if a loan agreement containing unfair terms is declared invalid, Directive 93/13: (i) does not preclude a judicial construction of national law whereby a consumer is entitled to claim compensation from a credit institution that goes beyond reimbursement of the monthly instalments and fees paid for performance of that agreement and beyond payment of the statutory interest for late payment from the date of the call for payment, provided that the objectives of Directive 93/13 and the principle of proportionality are complied with, and that (ii) precludes a judicial construction of national law whereby a credit institution is entitled to demand compensation from a consumer that goes beyond the reimbursement of the principal paid for the performance of that agreement and beyond the payment of statutory penalty interest from the date of the call for payment.

In the Bank's opinion, on the grounds of national legislation and the principle of proportionality, the customers cannot make additional claims against the Bank, primarily because they have not provided the Bank with a financial service consisting in the provision of capital. Nor is it reasonable to conclude that the Bank has enriched itself at the expense of the customer and the consumer has been impoverished. With the funds obtained, the customer met its housing needs and the Bank bore the costs of raising the funds, making them available and servicing the loan over the years. Even if it were to be considered that there were legal grounds for the customers' claims, the customer's claims would not necessarily be upheld and the courts may exercise their jurisdiction to dismiss the action when it constitutes an abuse of rights. At present, there is no case law on such customer claims.

With regard to the banks' ability to pursue claims beyond the reimbursement of the capital paid in nominal terms, the CJEU also expressed its position in two orders issued at the end of 2023 and the beginning of 2024. In an order of 11 December 2023, the CJEU ruled that a banking institution is not entitled to demand from a consumer the reimbursement of amounts other than the capital paid for the performance of that agreement and statutory default interest from the time of the demand for payment. In this ruling, the CJEU, as in judgment C-520/21, did not explicitly rule out adjustment, leaving the possibility for banks to pursue this claim open. However, by another decision, issued in Case C-488/23 of 12 January 2024, the CJEU definitively determined that Banks are not able to claim adjustment from customers if the invalidity of the agreement is a consequence of the removal of abusive clauses from the agreement. The CJEU thus ruled that banks may not demand compensation from consumers consisting of a judicial adjustment of the payment corresponding to that capital, in the event of a substantial change in the purchasing power of the currency concerned after the transfer of that capital to the consumer. In the Bank's view, the CJEU's order goes beyond the framework of Directive 93/13, which does not apply to non-contractual obligations, and is in clear contradiction with the principles of social justice by favoring a specific group of borrowers over the rest of society.

- **LITIGATION AGAINST THE BANK CONCERNING MORTGAGE LOANS BEARING INTEREST AT A FLOATING RATE**

As at 31 December 2023, 128 court proceedings were pending against the Bank (as at 31 December 2022: 5 lawsuits), in which customers challenge that the mortgage agreement was based on a floating interest rate structure and the rules for setting the WIBOR benchmark rate. The Bank disputes the validity of the claims raised in these cases.

- **LITIGATION AGAINST THE BANK CONCERNING THE FREE CREDIT SANCTION**

As at 31 December 2023, there were 1,159 court proceedings pending against the Bank relating to the free credit sanction, with a total value in dispute of PLN 20.7 million. These proceedings are initiated by customers or entities that have acquired receivables from them and relate to the provisions of cash loan agreements. The Bank disputes the validity of the claims raised in these cases. The case law to date is largely in favor of the Bank.

- **ACTIVITIES OF THE GROUP UNDERTAKEN IN CONNECTION WITH A PROPOSAL OF THE CHAIR OF THE POLISH FINANCIAL SUPERVISION AUTHORITY AND THE EXPECTED MEETING OF THE SUPREME COURT REGARDING LOANS GRANTED IN FOREIGN CURRENCIES**

In December 2020, the Chair of the Polish Financial Supervision Authority (hereinafter: the PFSA Chair) made a proposal aimed at providing a systemic solution to the problem of housing loans in Swiss francs. In accordance with this solution, the banks would voluntarily offer settlement agreements to their customers. Under such agreements, the customers would repay their loans to the bank as if they had been originally granted in PLN with interest at WIBOR plus a historical margin applied to such loans.

The Bank has analyzed the benefits and risks associated with the possible approaches to the issue of foreign currency housing loans. In the Bank's opinion, for both the Bank and its customers it is better to reach a compromise and conclude a settlement agreement than engage in long legal disputes whose outcome is uncertain.

On 23 April 2021, the Extraordinary General Shareholders' Meeting approved the possibility of offering settlement agreements to the customers. Subsequently, by a resolution dated 27 May 2021, the Supervisory Board approved the terms and conditions for offering settlement agreements proposed by the PFSA Chair. The process of amicable resolution of disputes concerning the validity of housing loan agreements was launched on 4 October 2021. The settlements are offered during mediation proceedings conducted by the Mediation Centre of the PFSA Court of Arbitration, during court proceedings and during proceedings initiated by a motion for settlement (see note: COST OF LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES).

- **PROCEEDINGS BEFORE THE PRESIDENT OF THE OFFICE OF COMPETITION AND CONSUMER PROTECTION (UOKiK)**

The following proceedings are pending against the Bank, initiated ex officio by the President of the Office of Competition and Consumer:

- **PROCEEDINGS REGARDING MODIFICATION CLAUSES**

Proceedings initiated on 12 March 2019 on the acknowledgement that the provisions of the template agreement are inadmissible. The proceedings are related to modification clauses which specify the circumstances in which the Bank is entitled to amend the terms and conditions of the agreement, including the amount of fees and commission. In the opinion of the President of UOKiK the modification clauses applied by the Bank give the Bank unilateral unlimited and arbitrary possibilities of modifying the execution of the agreement. Consequently, the President of UOKiK is of the opinion that the clauses applied by the Bank shape the rights and obligations of the consumers in a way that is contrary to good practice and are a gross violation of their interests, which justifies the conclusion that they are abusive. In a letter of 31 May 2019, the Bank commented on the allegations of the President of UOKiK, indicating that they are unfounded. The Bank pointed out, among other things, that the contested clauses are specific and they precisely define the circumstances entitling the Bank to change the template. By order of 7 June 2022, UOKiK summoned the Bank to provide a range of information regarding the disputed clauses, the Bank's turnover and the revenue generated from changes in fees and commissions based on the disputed clauses. The UOKiK summons was implemented on 11 July and 30 September 2022. By subsequent orders, the President of UOKiK extended the deadline for the completion of the proceedings. The current deadline indicated by the President of UOKiK is 29 March 2024. As at 31 December 2023, the Group had not set up a provision for these proceedings.

- **PROCEEDINGS REGARDING UNAUTHORIZED TRANSACTIONS**

Proceedings initiated by decision of the President of UOKiK of 2 February 2024. The proceedings concern an allegation of PKO BP's practices violating the collective interests of consumers consisting of:

- providing consumers - in responses to reports of unauthorised payment transactions - with information that the Bank has established the consumer's responsibility for the transaction reported, based on ascertaining that the authentication process performed was correct and referencing the provisions of the General Terms and Conditions of keeping bank accounts and providing services to individual customers by PKO Bank Polski S.A. regarding gross negligence and intent, without specifying to the consumer the factual basis for gross negligence or intent, and thus the presumption of gross negligence or intent without proving it, which misleads consumers about the entrepreneur's obligations under Article 45(2) of the Act on payment services with respect to the burden of proving gross negligence on the part of the consumer and the further pursuit of claims in this regard, which may constitute an unfair market practice and harm the collective interests of consumers,
- making a refund to a consumer who is a customer of the Bank of the amount of a payment transaction reported by that consumer as unauthorised, pending the Bank's investigation of the complaint, and thereafter, if the Bank finds, during the complaint procedure, that the transaction was authorised by the consumer or that the consumer is liable for an unauthorised payment transaction, withdrawing the conditional return and deducting that amount from the consumer's current account or credit card account, except where there is a simultaneous return of that amount to the consumer under the so-called chargeback mechanism, which may breach Article 46(1) of the Act on payment services and harm the collective interests of consumers.

- Proceedings initiated by the President of UOKIK on 26 July 2017 concerning using practices which violate the collective interests of consumers have been concluded. The Bank was charged with collecting higher instalments on loans and advances denominated in foreign currencies than those arising from the information on foreign exchange risk presented to the consumers before concluding agreements and transferring potential foreign exchange risk to the consumers. By decision of 27 November 2023, the President of the UOKiK discontinued the proceedings.

- **PROCEEDINGS BEFORE THE COURT OF COMPETITION AND CONSUMER PROTECTION**

Two proceedings involving the Bank are pending before the Court of Competition and Consumer Protection:

- **PROCEEDINGS ON SPREAD CLAUSES**

The proceedings were initiated by the Bank's appeal (submitted on 13 November 2020) against the decision of the President of UOKiK dated 16 October 2020. In the said decision, the President of UOKiK declared the provisions of the template agreement "Amendment to the housing loan/mortgage loan agreement" in the section "Appendix to the Amendment 'Rules for determining foreign exchange spreads at PKO BP S.A.'" as inadmissible provisions and prohibited their use. In addition, the President of UOKiK ordered that all consumers being parties to the assessed amendments about the decision to declare them inadmissible and its consequences be informed no later than within nine months from the effective date of the decision and ordered that a declaration be published whose text was indicated in the decision on the Bank's website not later than 1 month from the effective date of the decision and to keep it there for 4 months. Furthermore, the President of UOKiK imposed a fine on the Bank of PLN 41 million, payable to the Financial Education Fund. In its appeal against that decision, the Bank requested that the decision be amended by finding that there had been no breach of the ban on the use of prohibited contractual clauses, or by discontinuing the proceedings. It was also requested that the decision be annulled or amended by waiving or substantially reducing the fine. The appeal raised a number of substantive and procedural grounds of appeal. The Bank's main arguments consist in pointing out that the decision of the President of UOKiK is a manifestation of unlawful and groundless interference with the Bank's pricing policy, pointing out that there are no substantive grounds for the intervention of the President of UOKiK, i.e. there are no grounds for concluding that the Bank applied prohibited contractual provisions, and pointing out that the penalty imposed on the Bank is abnormally high. In response to the appeal, the President of UOKiK sustained the position expressed in the decision appealed against. In a judgment of 10 October 2023, the Court of Competition and Consumer Protection overturned the decision of the UOKiK in its entirety. The ruling was appealed by the President of the UOKiK and the public prosecutor. At 31 December 2023, the Bank recognizes a provision for these proceedings of PLN 41 million (31 December 2022: PLN 41 million).

- **PROCEEDINGS RELATED TO RESTRICTIVE PRACTICES ON THE MARKET OF PAYMENTS WITH PAYMENT CARDS IN POLAND**

The Bank is a party to proceedings initiated by the President of UOKiK on the basis of a decision dated 23 April 2001 upon the request of the Polish Trade and Distribution Organization – Employers Association (Polska Organizacja Handlu i Dystrybucji – Związek Pracodawców) against operators of the Visa and Europay payment systems and banks issuing Visa and Europay/ Eurocard/ Mastercard banking cards.

The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed "interchange" fees for transactions made using the Visa and Europay/Eurocard/Mastercard cards as well as limiting access to this market for external entities. On 29 December 2006, the UOKiK recognized practices involving the joint determination of interchange fees as restrictive of competition and ordered them to be abandoned, at the same time imposing, inter alia, a fine of PLN 16.6 million on the Bank. The Bank appealed against the decision of the President of UOKiK to the Court for Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów - SOKiK). In its ruling dated 21 November 2013, SOKiK reduced the penalty imposed on the Bank to PLN 10.4 million. The parties to the proceedings appealed against the ruling. The Court of Appeal in Warsaw in its ruling dated 6 October 2015 reinstated the initial amount of the imposed fines set in the decision of the UOKiK, i.e. the fine of PLN 16.6 million (the fine imposed on PKO Bank Polski S.A.) and the fine of PLN 4.8 million (the fine imposed on Nordea Bank Polska S.A., and PKO Bank Polski S.A. is a legal successor of Nordea Bank Polska SA through a merger under Article 492 § 1(1) of the Commercial Companies Code). The Bank paid the fine in October 2015. As a result of a cassation appeal brought by the Bank, the Supreme Court in a ruling dated 25 October 2017 annulled the contested ruling of the Court of Appeal in Warsaw and submitted the case for re-examination. The fine paid by the Bank was reimbursed to the Bank on 21 March 2018. On 23 November 2020, the Court of Appeal in Warsaw issued a ruling in which it revoked the ruling of the District Court in Warsaw dated 21 November 2013 and submitted it for re-examination. The case is currently proceeding at first instance before the Warsaw District Court. At 31 December 2023, the Bank recognizes a provision for these proceedings of PLN 21 million (31 December 2022: PLN 21 million).

- **PROCEEDINGS BEFORE THE POLISH FINANCIAL SUPERVISION AUTHORITY**

- Administrative proceedings initiated ex officio by the Polish Financial Supervision Authority (PFSA) are pending against the Bank. According to the PFSA's letters, irregularities have been identified which indicate that the Bank (as an insurance agent) has breached the legislation on the organization and supervision of agency activities at the insurance agent's premises, to the extent related to the fulfilment of the obligation of professional development by natural persons performing agency activities on behalf of the Bank. In the course of the proceedings, the Bank took steps to rectify the irregularities in the area of supervision of the performance of agency activities by natural persons acting on behalf of the Bank, including with regard to compliance with the fulfilment of continuing professional development obligations by such individuals in subsequent years. The proceedings have been extended several times, most recently by an order of 30 November 2023 for an additional period of three months. Formally, the PFSA has not formulated the specific allegations underlying the proceedings. As at 31 December 2023, the Bank has not recognized a provision for this.

- By letter of 20 March 2023, the PFSA notified the Bank of the initiation of administrative proceedings to impose a monetary penalty on the Bank pursuant to Article 73(1)(11) in conjunction with paragraph 3(10) of the Act of 5 July 2018 on the National Cyber Security System (hereinafter: the "UKSC"), for failure to ensure that a security audit of the IT system used to provide the key service was carried out within the deadline referred to in Article 15(1) of the UKSC. The Bank conducted the audit in the period from 15 November 2021 to 25 February 2022. In its decision of 21 July 2023, the PFSA imposed a penalty of PLN 45,000 on the Bank for breach of Article 15(1) of the UKSC by failing to ensure that a security audit of the IT system used to provide the key service was conducted at least once every 2 years. According to the PFSA, the audit should have been conducted by 21 October 2021. As at 31 December 2023, the Bank has not recognized a provision for this.
- The PFSA is conducting proceedings to impose an administrative penalty on the Bank, which conducts brokerage activities through an organizationally separate unit - the Brokerage Office - in connection with a suspected failure to comply with its obligations in the area of anti-money laundering and terrorist financing (hereinafter: "AML"). The Bank responded to the PFSA's request for written explanations regarding the scale of benefits achieved or losses avoided by the Bank in connection with violations of the AML Act, losses incurred by third parties in connection with violations of the AML Act, possible administrative penalties imposed under the provisions of the AML Act. In addition, the PFSA forwarded to the Bank's attention a letter addressed to the General Inspectorate of Financial Information (GIIF) requesting information on the Bank's violations of the AML Act to date.

  On 29 December 2023, the PFSA communicated a notice that, due to the need for an in-depth analysis of the evidence collected, the administrative proceedings are scheduled to be completed by 29 February 2024. As at 31 December 2023, the Bank has not recognized a provision for this.
- The PFSA is conducting proceedings to impose a monetary penalty on the Bank pursuant to Article 176i(1)(4) of the Act of 29 July 2005 on trading in financial instruments, in connection with the Bank's suspected breach of the management and control requirements set out in Article 16 of the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 2016 No 171, p. 1 as amended). By letter dated 19 January 2024, the PFSA informed that the administrative proceedings are expected to be completed in March 2024. As at 31 December 2023, the Bank has not recognized a provision for this.

- **CLAIMS FOR DAMAGES IN RESPECT OF THE INTERCHANGE FEE**

The Bank was served eight summons to participate, as an outside intervener on the defendant's side, in cases relating to the interchange fees. Other banks are defendants in the case and, in some cases, also card organizations. At present, the claims vis-à-vis the sued banks total PLN 898 million and are pursued as damages for differences in interchange fees resulting from applying practices that restrict competition. Since these proceedings are not pending against the Bank, their value was not included in the total value of the cases against the Bank.

If the courts find the claims justified, the defendants may claim recourse in separate court proceedings from other banks, including from PKO Bank Polski S.A. As at 31 December 2023, the Bank joined eight proceedings as an outside intervener. Four of these proceedings resulted in final judgments in favor of the defendants dismissing the plaintiffs' claims. In another proceedings there was a non-final judgment dismissing the plaintiffs' claims. The claims were dismissed as the statute of limitations was upheld.

- **RE-PRIVATIZATION CLAIMS RELATING TO PROPERTIES USED BY THE BANK**

As at the date of the financial statements, there are two proceedings to which the Bank is a party. In one proceeding, the Bank filed a cassation appeal against an unfavorable final judgment dismissing the Bank's claims, which was accepted for consideration.

The second proceeding, concerning the annulment of the decision refusing to grant the applicant temporary ownership of the Bank's property, is pending before the Supreme Administrative Court, as the other party has filed a cassation appeal.

The probability of serious claims arising against the Bank as a result of the aforesaid proceedings is low.

47. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

ACCOUNTING POLICIES:

Equity constitutes capital and reserves created in accordance with the legal regulations.

The classification to particular components discussed below results from the Polish Commercial Companies Code, the Banking Law and the requirements of IAS 1.

Equity components:

- Share capital is the capital of the parent, stated at the nominal value in accordance with the Articles of Association and entry in the Register of Businesses.
- Supplementary capital is created according to the Articles of Association of the Group entities, from annual write-downs from net profit, made until this capital reaches at least one third of the share capital and is intended to cover balance sheet losses that may arise in connection with the Bank's Group operations. Supplementary capital may also be used for other purposes, in particular for increasing the share capital.
- General banking risk fund at PKO Bank Polski S.A. is created from net profit in accordance with the Banking Law, and it is to cover unidentified risks of the Bank's operations.
- Other reserves are created from the appropriation of net profit. Other reserves are intended to cover any potential balance-sheet losses or for other purposes, in particular for the payment of dividends, interim dividends or the purchase of own shares for cancellation.
- Non-controlling interests represent the part of capital in a subsidiary, which cannot be directly or indirectly assigned to the parent company.
- Accumulated other comprehensive income includes the effects of the measurement of financial assets at fair value through other comprehensive income, allowances for expected credit losses on these assets, the effective portion of cash flow hedges and hedges of net investment in foreign operation in hedge accounting, as well as actuarial gains and losses. Deferred tax on those items is recognized in other comprehensive income. Moreover, the item includes the share of the parent in the total other comprehensive income of associates and joint ventures and foreign exchange differences on translation to Polish currency of the net financial result of the foreign operation at an exchange rate constituting the arithmetic mean of the average foreign exchange rates as at the day ending each of the months in the financial year, as published by the National Bank of Poland.

(IN PLN MILLION)

FINANCIAL INFORMATION

- ### SHAREHOLDING STRUCTURE OF THE BANK

According to the information available as at 31 December 2023, the Bank's shareholding structure is as follows:

ENTITY NAME	number of shares	% of votes	Notional amount of 1 share	Ownership interest (%)
As at 31 December 2023				
State Treasury	367,918,980	29.43%	PLN 1	29.43%
Nationale Nederlanden Otwarty Fundusz Emerytalny[1]	115,594,152	9.25%	PLN 1	9.25%
Allianz Polska Otwarty Fundusz Emerytalny[1]	101,787,594	8.14%	PLN 1	8.14%
Other shareholders[2]	664,699,274	53.18%	PLN 1	53.18%
Total	**1,250,000,000**	**100%**	---	**100%**
As at 31 December 2022				
State Treasury	367,918,980	29.43%	PLN 1	29.43%
Nationale Nederlanden Otwarty Fundusz Emerytalny[1]	108,266,112	8.66%	PLN 1	8.66%
Allianz Polska Otwarty Fundusz Emerytalny[1]	106,567,559	8.53%	PLN 1	8.53%
Other shareholders[2]	667,247,349	53.38%	PLN 1	53.38%
Total	**1,250,000,000**	**100%**	---	**100%**

[1] Calculation of shareholdings as at the end of the year published by PTE in bi-annual and annual information about the structure of fund assets and quotation from the WSE Statistic Bulletin.

[2] Including Bank Gospodarstwa Krajowego, which as at 31 December 2023 and 31 December 2022 held 24,487,297 shares carrying 1.96% of the votes at the GSM.

All shares of PKO Bank Polski S.A. carry the same rights and obligations. No shares are preference shares, in particular with respect to voting rights (one share carries one vote) or dividend. The Articles of Association of PKO Bank Polski S.A. limit the voting right of shareholders holding more than 10% of the total number of votes at the General Shareholders' Meeting and prohibit these shareholders from exercising more than 10% of the total number of votes at the General Shareholders' Meeting. The above restriction does not apply to:

- those shareholders who on the date of passing the resolution of the General Shareholders' Meeting introducing the limitation of the voting rights had rights from the shares representing more than 10% of the total number of votes in the Bank (i.e. the State Treasury and BGK);
- shareholders who have rights from A-series registered shares (the State Treasury);
- shareholders acting jointly with the shareholders referred to in the second bullet point based on agreements concluded concerning the joint execution of voting rights on shares. Moreover, limitations to the voting rights of the shareholders expire at the moment when the share of the State Treasury in the Bank's share capital drops below 5%.

In accordance with § 6 (2) of the PKO Bank Polski S.A.'s Articles of Association, the conversion of A-series registered shares into bearer shares and the transfer of these shares requires the approval of the Council of Ministers in the form of a resolution. Conversion into bearer shares or transfer of A-series registered shares, after obtaining the aforementioned approval, results in the expiry of the aforementioned restrictions in respect of shares subject to conversion into bearer shares or transfer, to the extent to which this approval was given.

Pursuant to Art. 13 (1) (26) of the Act dated 16 December 2016 on the rules for managing the State property, the shares of PKO Bank Polski S.A. owned by the State Treasury may not be sold (excluding statutory exceptions).

The Bank's shares are listed on the Warsaw Stock Exchange.

(IN PLN MILLION)

- **STRUCTURE OF PKO BANK POLSKI S.A.'S SHARE CAPITAL:**

Series	Type of shares	Number of shares	Notional amount of 1 share	Nominal value of the series
A Series	ordinary registered shares	312,500,000	PLN 1	312,500,000
A Series	ordinary bearer shares	197,500,000	PLN 1	197,500,000
B Series	ordinary bearer shares	105,000,000	PLN 1	105,000,000
C Series	ordinary bearer shares	385,000,000	PLN 1	385,000,000
D Series	ordinary bearer shares	250,000,000	PLN 1	250,000,000
Total	- - -	1,250,000,000	- - -	1,250,000,000

In 2023 and in 2022, there were no changes in the amount of the share capital of PKO Bank Polski S.A. Shares of PKO Bank Polski S.A. issued are not preference shares and are fully paid up.

FAIR VALUE OF FINANCIAL INSTRUMENTS

48. FAIR VALUE HIERARCHY

ACCOUNTING POLICIES

Depending on the classification of financial assets and liabilities to a specific level of the hierarchy, different methods of fair value measurement are used.

- **LEVEL 1: PRICES QUOTED ON ACTIVE MARKETS**

Financial assets and liabilities whose fair value is stated directly at prices listed (not adjusted) on active markets for identical assets and liabilities. In this category, the Bank classifies financial and equity instruments for which there is an active market and for which the fair value is determined with reference to the market value, which is a bid price:

- debt securities valued using fixing from the Bondspot platform or Bloomberg or Reuters information services;
- debt and equity securities which are traded on regulated markets, including in the Biuro Maklerskie PKO BP portfolio;
- derivative instruments, which are traded on a regulated market.

- **LEVEL 2: VALUATION TECHNIQUES BASED ON OBSERVABLE MARKET DATA**

Financial assets and liabilities whose fair value is determined using valuation models where all significant entry data are observable on the market directly (as prices) or indirectly (based on prices). In this category, the Bank classifies financial instruments for which there is no active market:

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	VALUATION METHOD (TECHNIQUE)	OBSERVABLE INPUTS
CIRS, IRS, FRA	Discounted cash flow valuation model	Yield curves built on market data: money market rates, FRA, IRS, OIS, basis swap
FX FORWARDS AND FX SWAPS	Discounted cash flow valuation model	Yield curves built on market data: exchange rates, swap points, basis swaps
FOREIGN EXCHANGE OPTIONS	Valuation models specific for particular type of a foreign exchange option.	Yield curves built on market data: exchange rates, swap points, basis swaps; volatility surfaces for relevant currency pairs

INTEREST RATE OPTIONS	Valuation model for the respective foreign exchange option type	Yield curves built on market data: money market rates, FRA, IRS, OIS, basis swap, caplet/floorlet volatility surfaces for relevant tenors
EQUITY OPTIONS	Valuation model for the respective equity option type	Yield curves built on market data: money market rates, FRA, IRS, OIS, basis swap; volatility surfaces determined using a local volatility model based on prices and volatilities of the relevant underlying instruments
COMMODITY SWAPS, COMMODITY FORWARDS	Discounted cash flow valuation model	Yield curves built on market data: money market rates, FRA, IRS, OIS, basis swap; forward curves for relevant commodities constructed based on futures prices and forward exchange rates (i.e. determined based on exchange rates, swap points)
COMMODITY OPTIONS	Valuation model for the respective commodity option type	Yield curves built on market data: money market rates, IRS; volatility surfaces for relevant commodities
EQUITY SWAPS	Discounted cash flow valuation model	Yield curves built on market data: money market rates, FRA, IRS, OIS, basis swap; forward curves for relevant underlying instruments based on futures prices
MUNICIPAL BONDS (IN PLN) **CORPORATE BONDS**	Yield curve and risk margin model.	Yield curves are built based on market rates, money market data, IRS transactions market.
NBP MONEY BILLS	Yield curve method	Yield curves built on money market and OIS transaction market data.

- **LEVEL 3: OTHER VALUATION TECHNIQUES**

Financial assets and liabilities whose fair value is determined using valuation models for which input data is not based on observable market data (unobservable input data). In this category, the Bank classified financial instruments, which are measured using internal valuation models:

The fair value of equity and debt securities classified as financial assets is determined by the organizational units of the Head Office responsible for them, including the Treasury Products Department and the Brokerage Office. In their internal regulations, these units specify the detailed measurement methods, including determination of the data sources used for measurement purposes and the method of performing the calculation.

The Credit Risk Department develops the assumptions of the fair value model for financial assets arising from loans and advances granted or other financing agreements being the substitute of loans. The Assets and Liabilities Management Committee approves the fair value model for loan exposures.

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	VALUATION METHOD (TECHNIQUE)	UNOBSERVABLE INPUT
FINANCIAL INSTRUMENTS NOT HELD FOR TRADING, MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
LOANS AND ADVANCES TO CUSTOMERS	Discounted cash flow method.	Effective margin on loans.
C-SERIES PREFERENCE SHARES OF VISA INC.	Estimation of the fair value based on the current market value of the listed ordinary shares of Visa Inc., including a discount which takes into account the limited liquidity of C-series shares and the terms and conditions of conversion of C-series shares into ordinary shares.	Discount taking into account the limited liquidity of C-series shares and the terms of converting the C-series shares into ordinary shares.
CORPORATE BONDS	Yield curve and risk margin model. Yield curves are built based on market rates, money market data and IRS transactions market data.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sectors).
SHARES IN BIURO INFORMACJI KREDYTOWEJ S.A.	Estimation of the fair value based on the present value of projected results of the company	Projected results of the company. Discount rate.
SHARES IN POLSKI STANDARD PŁATNOŚCI SP. Z O.O.	Estimation of the fair value based on the present value of projected results of the company	Projected results of the company. Discount rate.
SHARES IN SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION	Market value of the shares estimated by the company.	Market value estimated by the company. Discount rate.
SHARES IN KRAJOWA IZBA ROZLICZENIOWA SA	Estimation of the fair value based on the present value of projected results of the company	Projected results of the company. Discount rate.
SHARES IN WAŁBRZYSKA SPECJALNA STREFA EKONOMICZNA “INVEST-PARK” SP Z O.O.	Fair value determined by an appraiser using the net adjusted assets method.	Value of the company’s net assets.
SHARES IN WIELKOPOLSKIA GILDIA ROLNO OGRODNICZA SA	Fair value determined by an appraiser using the net adjusted assets method.	Value of the company’s net assets.
FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		
CORPORATE BONDS	Yield curve and risk margin model. Yield curves are built based on market rates, money market data and IRS transactions market data.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sectors).
LOANS AND ADVANCES TO CUSTOMERS	Discounted cash flow method.	Effective margin on loans.

(IN PLN MILLION)

FINANCIAL INFORMATION

ASSETS MEASURED AT FAIR VALUE 31.12.2023	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	1,084	-	1,084	-
Other derivative instruments	8,752	2	8,750	-
Securities	**105,705**	**96,913**	**8,166**	**626**
held for trading	**606**	**606**	-	-
debt securities	574	574	-	-
shares in other entities - listed	30	30	-	-
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	2	-	-
not held for trading, measured at fair value through profit or loss	**678**	**320**	**1**	**357**
debt securities	342	296	-	46
shares in other entities - listed	24	24	-	-
shares in other entities - not listed	312	-	1	311
measured at fair value through other comprehensive income	**104,421**	**95,987**	**8,165**	**269**
debt securities	104,421	95,987	8,165	269
Loans and advances to customers	**13,609**	-	-	**13,609**
not held for trading, measured at fair value through profit or loss	**2,858**	-	-	**2,858**
real estate loans	1	-	-	1
corporate loans	81	-	-	81
consumer loans	2,776	-	-	2,776
measured at fair value through other comprehensive income	**10,751**	-	-	**10,751**
real estate loans	10,751	-	-	10,751
Total financial assets measured at fair value	**129,150**	**96,915**	**18,000**	**14,235**

LIABILITIES MEASURED AT FAIR VALUE 31.12.2023	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	2,456	-	2,456	-
Other derivative instruments	9,902	-	9,902	-
Liabilities in respect of a short position in securities	302	302	-	-
Total financial liabilities measured at fair value	**12,660**	**302**	**12,358**	**-**

(IN PLN MILLION)

ASSETS MEASURED AT FAIR VALUE 31.12.2022	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	217	-	217	-
Other derivative instruments	13,745	1	13,744	-
Securities	**63,195**	**49,614**	**12,578**	**1,003**
held for trading	**199**	**199**	**-**	**-**
debt securities	171	171	-	-
shares in other entities - listed	27	27	-	-
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	1	1	-	-
not held for trading, measured at fair value through profit or loss	**710**	**341**	**1**	**368**
debt securities	366	321	-	45
shares in other entities - listed	20	20	-	-
shares in other entities - not listed	324	-	1	323
measured at fair value through other comprehensive income	**62,286**	**49,074**	**12,577**	**635**
debt securities	62,286	49,074	12,577	635
Loans and advances to customers	**15,460**	**-**	**-**	**15,460**
not held for trading, measured at fair value through profit or loss	**3,565**	**-**	**-**	**3,565**
real estate loans	4	-	-	4
corporate loans	85	-	-	85
consumer loans	3,476	-	-	3,476
measured at fair value through other comprehensive income	**11,895**	**-**	**-**	**11,895**
real estate loans	11,895	-	-	11,895
Total financial assets measured at fair value	**92,617**	**49,615**	**26,539**	**16,463**

LIABILITIES MEASURED AT FAIR VALUE 31.12.2022	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	6,727	-	6,727	-
Other derivative instruments	14,002	-	14,002	-
Liabilities in respect of a short position in securities	7	7	-	-
Total financial liabilities measured at fair value	**20,736**	**7**	**20,729**	**-**

(IN PLN MILLION)

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	31.12.2023 Fair value in		31.12.2022 Fair value in	
	positive scenario	negative scenario	positive scenario	negative scenario
Shares in Visa Inc.[1]	86	77	145	133
Other equity investments[2]	238	215	189	171
Corporate bonds[3]	326	325	681	679
Loans and advances to customers[4]	14,212	12,924	16,145	14,682

[1] scenario assuming a discount rate in respect of the future conditions of converting C-series shares to ordinary shares at a level of 0%/100% respectively
[2] scenario assuming a change in the discount rate of +/- 5%
[3] scenario assuming a change in the credit spread of +/-10%
[4] scenario assuming a change in the company's value of +/- 0.5p.p.

RECONCILIATION OF CHANGES DURING THE REPORTING PERIOD TO FAIR VALUE AT LEVEL 3	2023	2022
Opening balance at the beginning of the period	**16,463**	**19,215**
Increase in exposure to equity instruments	62	11
Decrease in exposure to equity instruments	(75)	(3)
Decrease in exposure to corporate bonds	(295)	(65)
Increase in exposure to loans and advances to customers	950	2,051
Decrease in exposure to loans and advances to customers	(2,638)	(4,598)
Reclassification from "measured at amortized cost" to "measured at fair value through other comprehensive income"	75	81
Reclassification from "measured at fair value through profit or loss" to "measured at amortized cost"	(176)	(207)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	(77)	50
Change in the valuation recognized in OCI	20	(55)
Other, including exchange difference	(74)	(17)
Closing balance	**14,235**	**16,463**

49. Financial assets and financial liabilities not presented at fair value in the statement of financial position

The Bank holds financial instruments which are not presented at fair value in the statement of financial position.

For many financial instruments, the market values are unattainable hence the presented fair values are estimated with the use of an array of measurement techniques.

All model calculations include certain simplifying assumptions and therefore are sensitive to those assumptions. For certain categories of financial instruments, it has been assumed that their carrying amount equals approximately their fair values, which is due to the lack of expected material differences between their carrying amount and fair value resulting from the features of these categories (such as short-term nature, high correlation with market parameters, the unique nature of the instrument).

ITEM	MAJOR METHODS AND ASSUMPTIONS USED WHEN ESTIMATING FAIR VALUES OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE
AMOUNTS DUE FROM AND TO BANKS	• interbank placements and deposits – the model based on expected cash flows discounted using the current interbank market rates; • interbank deposits and placements with maturities of up to 7 days or with variable interest, loans or advances granted and received on the interbank market with variable interest (with interest rate changes occurring every 3 months or less) – fair value equals the carrying amount.
SECURITIES	• treasury bonds – market quotations; • corporate bonds in PLN secured with the State Treasury guarantees - discounted cash flow method, calculated using yield curves, prices available from Bloomberg (BVAL – Bloomberg Valuation Service) and Refinitiv Eikon • corporate and municipal bonds – discounted cash flow method, calculated using yield curves and credit margins
LOANS AND ADVANCES TO CUSTOMERS	• not impaired: the model based on estimating the present value of future cash flows by discounting cash flows using current interest rates; the model takes into account the credit risk margin and adjusted maturities derived from the loan agreements. The current level of margins was determined for transactions concluded in the last quarter ending on the balance sheet date involving instruments with a similar credit risk profile. The current margin for loans in PLN adjusted for the cost of foreign currency acquisition in basis-swap transactions was applied to loans in foreign currencies. • impaired: fair values approximate carrying amounts; • loans and advances to customers: a part of the housing loan portfolio (the “old” housing loan portfolio), loans with no specific repayment schedule, loans due as at the moment of valuation – fair values are equal to carrying amounts;
AMOUNTS DUE TO CUSTOMERS	• deposits and other amounts due to customers other than banks, with fixed maturities: the model of expected cash flows discounted using current interest rates appropriate for the individual deposit products. The fair value is calculated for each deposit and liability, and then the fair values for the entire deposit portfolio are grouped by product type and by customer segment. • amounts due to customers: liabilities with no specific repayment schedule, other specific products for which no active market exists – fair values are equal to carrying amounts.
LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE	• The model of expected cash flows discounted using the current interbank market rates and market quotations
SUBORDINATED LIABILITIES	The model of expected cash flows discounted based on yield curves
CASH AND BALANCES WITH THE CENTRAL BANK AND AMOUNTS DUE TO THE CENTRAL BANK	Fair values are equal to carrying amounts.
OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES	Fair values are equal to carrying amounts.

(IN PLN MILLION)

31.12.2023	carrying amount	Level 1	Level 2	Level 3
Cash and balances with the Central Bank	17,676	4,245	13,431	-
Amounts due from banks	16,900	-	16,898	-
Securities (excluding adjustments relating to fair value hedge accounting)	**85,755**	**68,543**	**10,936**	**2,285**
treasury bonds (in PLN)	58,803	55,675	-	-
corporate bonds (in PLN) secured with the State Treasury guarantees	13,619	12,868	-	-
municipal bonds (in PLN)	8,658	-	8,803	-
corporate bonds (in PLN)	2,413	-	-	2,285
corporate bonds (in foreign currencies)	2,262	-	2,133	-
Reverse repo transactions	372	-	372	-
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	**210,063**	**-**	**-**	**213,070**
housing loans*	83,496	-	-	83,371
corporate loans	97,982	-	-	100,325
consumer loans	28,585	-	-	29,374
Other financial assets	1,309	-	-	1,309
Amounts due to Central bank	10	-	10	-
Amounts due to banks	3,250	-	3,250	-
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	**393,862**	**-**	**-**	**394,232**
amounts due to households	304,152	-	-	304,523
amounts due to business entities	74,193	-	-	74,193
amounts due to public sector	15,517	-	-	15,516
Liabilities in respect of debt securities in issue	3,421	-	3,482	-
Subordinated liabilities	2,774	-	2,804	-
Other financial liabilities	5,689	-	-	5,689

* the fair value measurement takes into account the effect of the credit holidays described in note "Loans and advances to customers"

(IN PLN MILLION)

31.12.2022	carrying amount	Level 1	Level 2	Level 3
Cash and balances with the Central Bank	15,719	4,078	11,641	-
Amounts due from banks	19,442	-	19,440	-
Securities (excluding adjustments relating to fair value hedge accounting)	**67,821**	**49,183**	**7,779**	**1,710**
treasury bonds (in PLN)	45,870	38,773	-	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12,100	10,410	-	-
municipal bonds (in PLN)	6,182	-	6,332	-
corporate bonds (in PLN)	1,990	-	-	1,710
corporate bonds (in foreign currencies)	1,679	-	1,447	-
Reverse repo transactions	7	-	7	-
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	**193,466**	-	-	**196,253**
real estate loans	77,773	-	-	78,069
corporate loans	89,492	-	-	91,398
consumer loans	26,201	-	-	26,786
Other financial assets	1,654	-	-	1,654
Amounts due to Central bank	9	-	9	-
Amounts due to banks	2,926	-	2,926	-
Amounts due to customers	**334,907**	-	-	**334,006**
amounts due to households	260,729	-	-	259,829
amounts due to business entities	56,990	-	-	56,989
amounts due to public sector	17,188	-	-	17,188
Loans and advances received	726	-	-	726
Subordinated liabilities	2,781	-	2,603	-
Other financial liabilities	4,176	-	-	4,176

RISK MANAGEMENT IN THE BANK

50. RISK MANAGEMENT IN THE BANK

Risk management is one of the most important internal processes in Bank.

It is aimed at ensuring (in the changing environment) the profitability of business activities while ensuring an appropriate level of control and keeping the risk level within the risk tolerances adopted by the Bank, in a changing macroeconomic environment. The level of risk is an important part of the planning processes.

The Bank identifies risks in its operations and analyses the impact of each type of risk on its business. All the risks are managed; some of them have a material effect on the profitability and capital needed to cover them. The following risks are considered material for the Bank: credit risk, risk of foreign currency mortgage loans for households, currency risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk. The Bank assesses the materiality of all the identified risks on a regular basis, at least annually.

A detailed description of the management policies for material risks is presented in the "Report on capital adequacy and other information subject to publication by the PKO Bank Polski SA Group".

RISK MANAGEMENT OBJECTIVE

The objective of the risk management is to strive to maintain the level of risk within the accepted tolerances in order to:

- protect shareholder value;
- protect customer deposits;
- support the Bank in conducting efficient operations.

The risk management objectives are achieved, in particular, by providing appropriate information on the risk, so that decisions are made in full awareness of the particular risks involved.

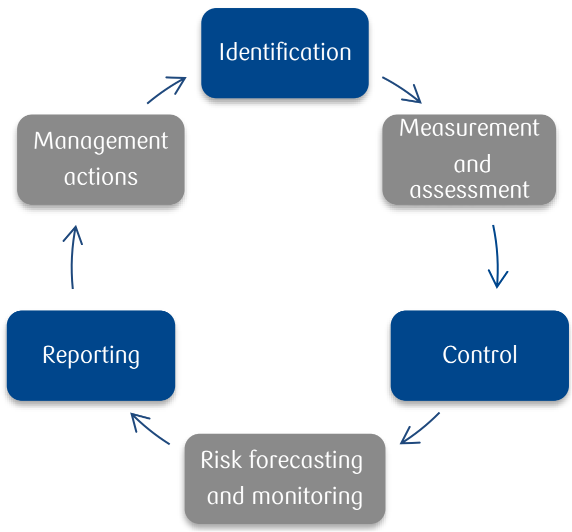
MAIN PRINCIPLES OF RISK MANAGEMENT

Risk management at the Bank is based, in particular, on the following principles:

- the risk management covers all the risks identified;
- the risk management process is appropriate from the perspective of the scale of operations and materiality, scale and complexity of a given risk, and adjusted on an on-going basis to take account of the new risks and their sources;
- risk management methods (especially models and their assumptions) and risk measurement or assessment systems are tailored to the scale and complexity of individual risks, the current and planned operations of the Bank and its operating environment, and are periodically verified and validated;
- the risk management division remains organizationally independent of business activities;
- risk management is integrated into the planning and controlling systems;
- the level of risk is monitored and controlled on an on-going basis;
- the risk management process supports the implementation of the Bank's strategy in compliance with the Risk Management Strategy, in particular with respect to the level of risk tolerance.

RISK MANAGEMENT PROCESS

The process of risk management in the Bank consists of the following stages:



- **RISK IDENTIFICATION:**

Risk identification consists of recognizing the existing and potential sources of risk and estimating the significance of its potential impact on the Bank's operations. As part of risk identification, the risks considered to be material in the Bank's operations are identified.

- **RISK MEASUREMENT AND ASSESSMENT:**

Risk measurement and assessment are aimed at determining the scale of threats connected with the risks arising. Risk measurement covers determining the risk assessment measures adequate to the type and significance of the risk, and data availability. Quantitative and qualitative risk measurement results are the basis for the risk assessment aimed at identifying the scale or scope of risk.

As part of risk measurement, the Bank carries out:

- specific stress tests which are conducted separately for individual risk types and are used to assess sensitivity of a given risk to unfavorable market conditions,
- comprehensive stress tests conducted jointly for the concentration risk and risks regarded as material, used to determine sensitivity of the capital adequacy measures and Bank's results to the occurrence of a negative scenario of changes in the environment and the functioning of the Bank.

The stress-tests are conducted by the Bank based on assumptions which ensure a sound assessment of the risk, in particular taking into account the Recommendations of the Polish Financial Supervision Authority.

- **RISK CONTROL:**

Risk control involves the determination of risk control mechanisms adjusted to the scale and complexity of the Bank's activities, especially in the form of strategic tolerance limits for the individual types of risk. Strategic risk tolerance limits are subject to regular monitoring, and if they are exceeded, the Bank takes management actions.

- **RISK FORECASTING AND MONITORING:**

Risk forecasting involves foreseeing future risk levels, taking into account the assumed business development projections, and internal and external events. Risk level forecasts are assessed by the Bank (so-called "reverse stress tests") in order to verify their accuracy.

Risk monitoring involves observing deviations from the forecasts or the adopted benchmarks (e.g. limits, thresholds, plans, prior period measurements, recommendations and instructions issued by external supervisory and regulatory authority). Risk monitoring and forecasting frequency is adequate to the materiality and variability of specific risks.

- **RISK REPORTING:**

Risk reporting consists in informing about the results of the risk identification, measurement, assessment and forecasting, causes of changes in the risks, actions taken and recommended. The scope, frequency and form of the reporting are adjusted to the managerial level of the recipients. If potential liquidity problems arise, the Supervisory Board is immediately informed about significant changes in the risk level, and in particular, about threats and remedial actions taken, and of their impact on the Bank's liquidity level.

- **MANAGEMENT ACTIONS:**

Management actions consist of determining the desired risk level favorable for building the structure of assets and liabilities. Management actions may result, in particular, in:

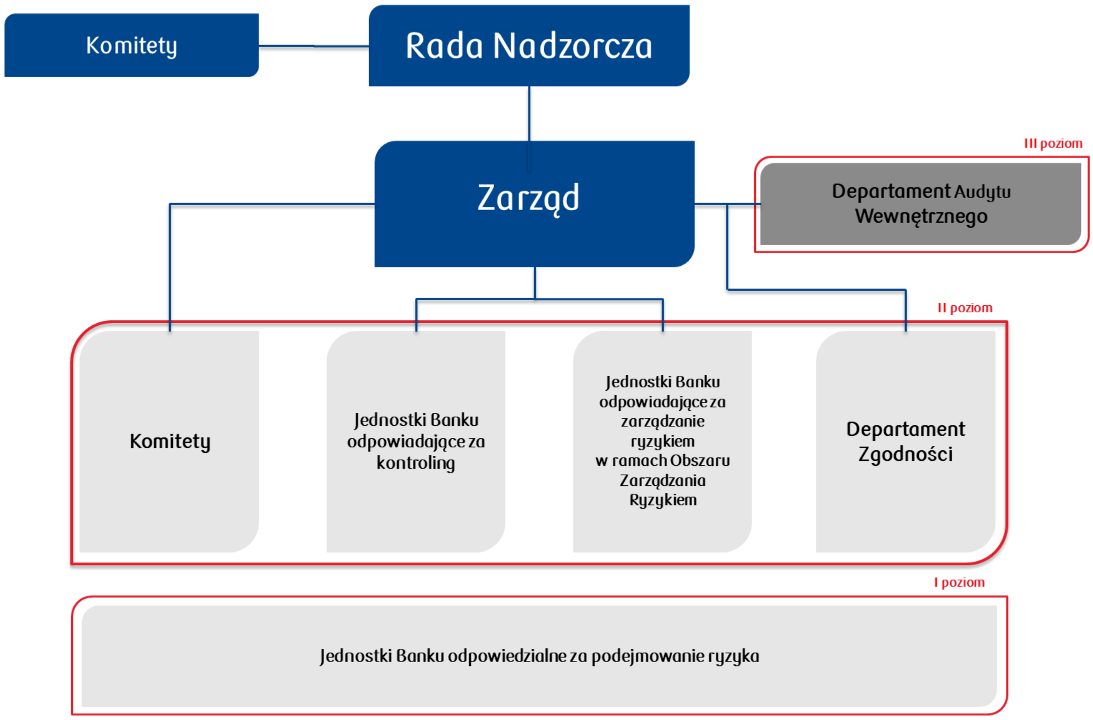
- acceptance of the risk – determining the acceptable risk level, taking into account business needs and developing management actions in the event that the level is exceeded;
- reduction of the risk – mitigation of the impact of the risk factors or effects of its materialization (e.g. By reducing or diversifying the risk exposure, determining limits, utilizing collaterals);
- transfer of the risk – transferring responsibility for covering potential losses (e.g. by transferring the risk to another entity with the use of legal instruments, such as insurance contracts, security services agreements for a building, accepting guarantees);
- risk avoidance – resignation from the risk-generating activity or elimination of the probability of materialization of the risk factor, including in particular determination of zero tolerance to risk.

ORGANIZATION OF RISK MANAGEMENT AT PKO BANK POLSKI S.A.

Risk management in the Bank takes place in all of the Bank's organizational units.

The organization of risk management in PKO Bank Polski SA is presented in the diagram below:

Organizacja zarządzania ryzykiem bankowym



The Supervisory Board supervises and evaluates the risk management process, in particular, on the basis of regular reports on the risk, taking into account the adequacy and effectiveness of the risk management system and information about the implementation of the risk management strategy, also at the level of limits which limit the risk and conclusion from stress tests, and if necessary, orders the verification of the process.

The Supervisory Board is supported by the following committees: the Supervisory Board for Nominations and Remuneration Committee, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

In respect of risk management, the Management Board of PKO Bank Polski SA is responsible for strategic risk management, including supervising and monitoring actions taken by the Bank in respect of risk management. The Management Board makes major decisions affecting the risk profile of the Bank and adopts internal regulations concerning risk management. It ensures operation of the risk management system, monitors and assesses its functioning, and transfers the respective information to the Supervisory Board. In its risk management activities, the Management Board is supported by the following committees:

- the Risk Committee;
- Asset and Liability Management Committee (KZAP),
- Bank's Credit Committee (KKB),
- Operational Risk Committee (KRO);
- Sustainable Development Committee (KZR).

The risk management process is carried out at three independent but complementary levels:

THE FIRST LEVEL – is formed of organizational structures responsible for product management, selling products and servicing customers, and of other structures which perform operational tasks that generate risk, which function based on internal regulations. This function is performed by all of the Bank's units. The Bank's units implement appropriate risk controls, including in particular limits, designed by them and located at the second level. They also ensure that they are met by means of appropriate controls.

THE SECOND LEVEL – covers compliance units and involves the identification, measurement, evaluation and/or control, monitoring and reporting of significant types of risks, and of the threats and irregularities identified; the tasks are performed by dedicated organizational structures acting on the basis of the applicable internal regulations of the Bank; the objective of these structures is to ensure that the tasks performed as part of the first level are properly governed in the internal regulations of the Bank and that they effectively limit the risk, support risk measurement, assessment and analysis and contribute to operational effectiveness. The function is performed, in particular, by the Risk Management Division, the Compliance Department and relevant committees. The second level supports actions taken to eliminate unfavorable deviations from the financial plan, with respect to the amounts impacting the quantitative strategic risk tolerance limits specified in the financial plan. These tasks are performed in particular in the Bank's units responsible for controlling.

THE THIRD LEVEL – consists of the internal audit function which performs independent audits of individual components of the Bank's management system, including the risk management system, and the internal control system; the internal audit operates independently of the first and second levels and may support their actions by way of consultation, but without the possibility to impact the decisions taken. The function is performed in accordance with the Bank's internal regulations concerning the operation of the internal control system.

The independence of the levels consists of ensuring organizational separation at the following levels:

- the function of the second level with regard to creating system solutions is independent of the function of the first level;
- the function of the third level is independent of the functions of the first and second levels.

51. SPECIFIC RISK MANAGEMENT MEASURES UNDERTAKEN BY THE BANK IN 2023

During the twelve months ended 31 December 2023:

- The Bank monitored the situation of its customers and adjusted its credit policy with a view to securing a good quality loan portfolio. As part of the measurement of credit exposures, the Bank specifically took into account information on customers' economic ties with counterparties in Ukraine, Belarus and Russia. For specific actions taken by the Bank in the risk management division in relation to the situation in Ukraine, see note "IMPACT OF THE GEOPOLITICAL SITUATION IN UKRAINE ON BANK POLSKI SA GROUP".
- In terms of interest rate risk, the Monetary Policy Council cut interest rates twice in the third quarter of 2023, in particular the reference rate dropped to 5.75% at the end of 2023. The associated decline in market rates has translated into an increase in the valuation in the portfolio of debt instruments and derivatives that hedge the volatility of interest income. At the same time, the customers' interest in mortgage loans temporarily based on fixed interest rates, in particular the "Safe 2% Loan", continues, affecting the interest income sensitivity measures of the Bank.
- The Bank maintained a safe level of liquidity, allowing for a quick and effective response to potential threats. The Group structured its sources of funding accordingly by adjusting its deposit offering (in particular deposit interest rates) to meet current needs and by raising maturing funds raised from the financial market through long-term issuance,
- The tasks aimed at expanding the IT systems that enable the collection of ESG data, in particular on environmental risks, and preparing for the systemic disclosure of this data were carried out (see note ESG RISK MANAGEMENT).

52. CREDIT RISK MANAGEMENT

- ### DEFINITION

Credit risk is defined as the risk losses being incurred as a result of a customer's default on its liabilities towards the Bank or the risk of a decrease in the economic value of amounts due to the Bank as a result of a deterioration in a customer's ability to repay the customers' liabilities.

- ### RISK MANAGEMENT OBJECTIVE

The objective of credit risk management is to minimize losses on the loan portfolio as well as to minimize the risk of occurrence of loans at risk of impairment, while maintaining the expected level of profitability and value of the loan portfolio.

The Bank follows mainly the following principles of credit risk management:

- every loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring;
- credit risk relating to loan transactions is measured at the stage of examining a loan application and on a regular basis, as part of the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers and links between the Bank's customers;
- credit risk assessment of exposures is separated from the sales function by ensuring an appropriate organizational structure, independence in developing and validating tools supporting an assessment of credit risk and independence of decisions approving deviations from the suggestions resulting from using these tools;
- terms and conditions of a loan transactions offered to a customer depend on the assessment of credit risk level generated by the transaction;
- lending decisions are taken only by persons or bodies authorized to do so or are generated automatically on the basis of risk models approved by the Bank's Credit Committee;
- terms and conditions of a loan transactions offered to a customer depend on the assessment of credit risk level generated by the transaction;
- credit risk is diversified, in particular, in terms of geographical areas, industries, products and customers;
- an expected credit risk level is secured by collateral received by the Bank, risk margins from customers and impairment allowances (provisions) for expected credit losses;
- an incentive system contributes to compliance with the credit risk management policies and principles adopted by the Bank.

The aforementioned principles are implemented by the Bank through the use of advanced credit risk management methods, both at the level of individual credit exposures and of the entire loan portfolio of the Bank. The methods are verified and developed to ensure compliance with the requirements of the internal rating-based method (IRB), i.e. an advanced credit risk measurement method which may be used to calculate the capital requirements for credit risk, subject to approval by the Polish Financial Supervision Authority.

The credit decision limits depend primarily on: the amount of the exposure to a given customer, the amount of an individual lending transaction and the credit risk assessment.

- **MEASUREMENT AND ASSESSMENT OF CREDIT RISK: CREDIT RISK MEASUREMENT AND ASSESSMENT METHODS**

In order to assess the level of credit risk and profitability of its loan portfolios, the Bank uses different credit risk measurement and valuation methods, including:

- probability of default (PD);
- loss given default (LGD);
- credit conversion factor (CCF);
- expected credit loss (ECL);
- credit value at risk (CVaR);
- the share and structure of impaired credit exposures;
- coverage ratio of impaired loans;
- cost of credit risk;
- stress testing.

The Bank systematically expands the scope of credit risk measures adopted, taking into account the requirements of the IRB method, and extends the use of risk measures to cover the entire loan portfolio of the Bank.

The portfolio credit risk measurement methods allow, among other things, to reflect the credit risk in the price of products, determine the best conditions of financing availability and determine the level of impairment allowances.

The Bank performs analyses and stress-tests relating to the impact of the potential changes in the macroeconomic environment on the quality of the Bank's loan portfolio, and the results of such analyses and stress tests are presented in reports to the Bank's governing bodies. Such information enables identification and implementation of the measures mitigating the negative effects of the impact of unfavorable market conditions on the Bank's profit or loss.

The credit risk assessment process at the Bank takes into account the requirements of the Polish Financial Supervision Authority as laid down in the PFSA Recommendations.

The description of performing the estimates of expected credit losses is disclosed in the Note "Allowances for expected credit losses".

- **MEASUREMENT AND ASSESSMENT OF CREDIT RISK: RATING AND SCORING METHODS**

An assessment of the risk of individual loan transactions is performed by the Bank using the scoring and rating methods. The functioning of these methods is supported by specialist IT applications. The risk assessment method is defined in the Bank's internal regulations whose main aim is to ensure a uniform and objective evaluation of credit risk during the lending process.

The Bank evaluates the credit risk of retail customers in two dimensions: qualitative and quantitative borrowing capacity assessment. A quantitative creditworthiness assessment consists of examining a customer's financial position, and the qualitative risk assessment involves scoring and assessing a customer's credit history obtained from the Bank's internal records and external databases.

In the case of some corporate customers in the small- and medium-sized enterprises segment who meet certain criteria, the Bank assesses credit risk using the scoring method. Such assessment refers to low-value, non-complex loan transactions and it is performed in two dimensions: a customer's borrowing capacity and his creditworthiness. An assessment of the borrowing capacity consists of examining a customer's economic and financial position, and the assessment of creditworthiness involves scoring and evaluating the customer's credit history obtained from the Bank's internal records and external databases.

In other cases, the rating method is used for institutional customers.

An assessment of the credit risk associated with financing institutional customers is performed by the Bank in two dimensions: the customer and the transaction. The measures involved include an evaluation of a customer's creditworthiness, i.e. the rating, and an assessment of the transaction risk, i.e. the customer's ability to repay the amounts due at the amounts and dates specified.

Rating models for institutional customers are developed using the Bank's internal data, thus ensuring that they are tailored to the risk profiles of the Bank's customers. Models are based on a statistical dependence analysis between the default and a customer's risk scoring. The scoring includes an evaluation of financial ratios, qualitative factors and behavioral factors. A customer's risk assessment depends on the size of the assessed enterprise. In addition, the Bank applies a model for the assessment of credited entrepreneurs in the formula of specialized lending, which allows an adequate credit risk assessment of large projects involving real estate financing (e.g. office space, retail space, industrial space) and infrastructure projects (e.g. telecommunication, industrial or public utility infrastructure).

Rating models are implemented within the IT tool which supports the assessment of the Bank's credit risk associated with the financing of institutional customers.

In order to examine the correctness of the operation of the methods applied by the Bank, credit risk assessment methodologies relating to individual loan exposures are subject to periodical reviews.

The credit risk assessment process in the Bank takes into account the requirements of the Polish Financial Supervision Authority as defined in Recommendation S concerning best practices for the management of mortgage-secured loan exposures and Recommendation T concerning best practices for the management of retail credit exposures.

In the lending process for corporate Customers and SME Customers evaluated with the use of the rating method, the Bank each time assesses the impact of environmental, social and governance factors (ESG factors) on the Customer's creditworthiness, and identifies credit transactions with an increased financial leverage (levered transactions). The Bank also examines the impact of credit transactions on ESG and classifies them to four categories, from transactions with a positive impact on ESG to those with material negative impact. When assessing the ESG factors, the Bank takes into account such factors as the risk of climate change and its impact on the Customer's operations, potential influence of the Client on climate, factors related to human capital or health and safety, and governance factors (including the corporate culture and internal audit).

Information on rating and scoring assessments is widely used in the Bank to manage credit risk, in the system of credit decision authorizations, to determine the amounts triggering the credit risk assessment services and in the credit risk measurement and reporting system.

- **MEASUREMENT AND ASSESSMENT OF CREDIT RISK: CREDIT RISK FORECASTING AND MONITORING**

Credit risk forecasting and monitoring involves preparing risk level forecasts and monitoring deviations from the forecasts or the adopted benchmarks (e.g. limits, thresholds, plans, prior period measurements, recommendations and instructions issued by external supervisory and regulatory authority), and performing (specific and comprehensive) stress tests. Risk level forecasts are subject to regular backtesting.

Credit risk is monitored at the level of individual customers, groups of related customers, credit transactions and their collateral, and at portfolio level.

Credit risk monitoring at the individual loan transaction level is governed, in particular, by the Bank's internal regulations concerning:

- assessment of the credit risk related to customer financing;
- methods of assessing customers;
- identification of groups of related entities;
- evaluation of collateral and inspection of investments;
- recognition of allowances for expected credit losses;
- Early Warning System;
- operating procedures.

In order to accelerate the response to the warning signals noted reflecting an increased credit risk level, the Bank uses and develops an IT application, Early Warning System (EWS).

Credit risk monitoring at the portfolio level consists of:

- supervising the level of the portfolio credit risk on the basis of the adopted tools used for measuring credit risk, taking into consideration the identified sources of credit risk and analyzing the effects and actions taken as part of system management;
- recommending preventive measures in the event of identifying an increased level of credit risk.

- **REPORTING OF CREDIT RISK**

Credit risk reporting includes periodical reporting of the loan portfolio risk exposure.

Monthly and quarterly credit risk reports are prepared in the Bank. Credit risk reporting should ensure the fullest possible information on credit risk, in particular regarding the effectiveness of the credit risk management policy, identification of sources and factors of credit risk, measurement of the cost of credit risk, monitoring of compliance with limits and taking corrective and preventive action.

- **MANAGEMENT ACTIONS RELATING TO CREDIT RISK**

The purpose of management actions is to shape and optimize the credit risk management system and credit risk level at the Bank.

The credit risk management actions include particularly:

- issuing internal regulations governing the credit risk management system;
- issuing recommendations, guidelines for conduct, explanations and interpretations of internal regulations;
- taking decisions regarding the acceptable level of credit risk, including lending decisions;
- developing and improving credit risk control tools and mechanisms which make it possible to maintain the credit risk level within the limits acceptable to the Bank;
- developing and monitoring the operation of credit risk management controls;
- developing and improving credit risk assessment methods and models;
- developing and improving IT tools used in credit risk management;
- planning actions and issuing recommendations.

In managing credit risk, the Bank uses in particular the following tools and risk control mechanisms:

- strategic limits of tolerance to credit risk and concentration risk which set the maximum level of these risks the Bank is ready to accept. These limits take into account, among other things, the requirements of the CRR Regulation, the Polish Banking Law or the relevant recommendations of the PFSA.
- internal limits of tolerance to credit risk or concentration risk including:
    - limits determining the level of tolerance to portfolio credit risk and concentration risk;
    - industry-related limits, which reduce the risk level related to financing institutional customers conducting business activities in industries characterized by a high level of credit risk;
    - competence limits, which set the maximum level of competences to make lending decision with respect to customers, including customers of entities belonging to the Bank's Group;
- verification of the quality of the lending processes;
- branch rating, which is set for independent branches selling lending products to corporate and individual customersand rating of agencies that sell cash loan products to individual customers;
- threshold amounts which trigger involvement of risk analysts in the credit risk assessment.

Credit risk management tools from the customer and transaction level include:

- minimum transaction requirements determined for a given type of transaction (e.g. maximum loan amount, required collateral);
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of qualitative assessment with the use of a scoring system, or the customer's rating class above which a lending transaction can be concluded with a customer;
- minimum credit margins – credit risk margins relating to a lending transaction concluded by the Bank with a given customer, where the interest rate offered to the customer should not be lower than the reference rate plus credit risk margin.

- **USE OF CREDIT RISK MITIGATION TECHNIQUES – COLLATERAL**

Collateral management policy plays a significant role in establishing minimum transaction terms. The Bank's collateral management policy is designed to properly protect it against credit risk to which the Bank is exposed, including first of all by establishing collateral that is as liquid as possible. Collateral may be considered liquid if it is possible to be sold without a significant decrease in its price and at a time which does not expose the Bank to a change in the collateral value due to price fluctuations typical of a given asset.

The Bank strives to diversify collateral in terms of its forms and assets used as collateral.

The Bank evaluates collateral from the perspective of the actual possibility of using it to satisfy its claims.

In addition, when assessing collateral, the Group takes into account the following factors:

- the economic, financial and economic or social and financial position of entities which provide personal guarantees;
- the condition and market value of the assets accepted as collateral and their vulnerability to depreciation in the period of maintaining the collateral (the impact of the technological wear and tear of a collateralized asset on its value),
- potential economic benefits to the Bank resulting from a specific method of securing receivables, including, in particular, the possibility of reducing allowances for expected credit losses;
- the method of establishing collateral, including the typical duration and complexity of formalities, as well as the necessary costs (the costs of maintaining collateral and the enforcement against the collateral), using the Bank's internal regulations concerning the assessment of collateral;
- the complexity, time-consuming nature and economic and legal conditions of the effective realization of collateral, in the context of enforcement restrictions and the applicable principles for the distribution of the sums obtained from individual enforcement or in the course of bankruptcy proceedings, the ranking of claims;
- the type of collateral depends on the level of risk of a given customer or transaction.

When granting loans intended to finance housing and commercial funding properties, a mortgage is an obligatory type of collateral.

Until effective protection is established (depending on the type and amount of a loan), the Bank may accept temporary collateral in a different form.

With regard to consumer loans, usually personal guarantees (a civil law surety/guarantee, a bill of exchange) are used or collateral is established on the customer's bank account, car or securities.

The collateral for loans intended for the financing of small- and medium-sized enterprises as well as corporate customers is established, among other things: on receivables from business operations, bank accounts, movables, real estate or securities.

See also the information in the note **"COLLATERAL"**.

53. CREDIT RISK – FINANCIAL INFORMATION

53.1. FINANCIAL ASSETS BY STAGE

- **AMOUNTS DUE FROM BANKS**

As at 31 December 2023 and 31 December 2022 all amounts due from banks were classified as Stage 1.

(IN PLN MILLION)

- **SECURITIES**

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount	**104,105**	**304**	**12**	**104,421**	**-**
NBP money bills	28,974	-	-	28,974	-
treasury bonds (in PLN)	49,756	-	-	49,756	-
treasury bonds (in foreign currencies)	3,738	-	-	3,738	-
corporate bonds (in PLN) secured with the State Treasury guarantees	10,180	-	-	10,180	-
municipal bonds (in PLN)	4,823	274	-	5,097	-
corporate bonds (in PLN)	2,567	30	12	2,609	-
corporate bonds (in foreign currencies)	4,067	-	-	4,067	-
Net carrying amount	**104,105**	**304**	**12**	**104,421**	**-**
NBP money bills	28,974	-	-	28,974	-
treasury bonds (in PLN)	49,756	-	-	49,756	-
treasury bonds (in foreign currencies)	3,738	-	-	3,738	-
corporate bonds (in PLN) secured with the State Treasury guarantees	10,180	-	-	10,180	-
municipal bonds (in PLN)	4,823	274	-	5,097	-
corporate bonds (in PLN)	2,567	30	12	2,609	-
corporate bonds (in foreign currencies)	4,067	-	-	4,067	-
Measurement method: at amortized cost					
Gross carrying amount	**85,428**	**399**	**-**	**85,827**	**-**
treasury bonds (in PLN)	58,806	-	-	58,806	-
corporate bonds (in PLN) secured with the State Treasury guarantees	13,622	-	-	13,622	-
municipal bonds (in PLN)	8,536	159	-	8,695	-
corporate bonds (in PLN)	2,319	109	-	2,428	-
corporate bonds (in foreign currencies)	2,145	131	-	2,276	-
Allowances for expected credit losses	**(54)**	**(18)**	**-**	**(72)**	**-**
treasury bonds (in PLN)	(3)	-	-	(3)	-
corporate bonds (in PLN) secured with the State Treasury guarantees	(3)	-	-	(3)	-
municipal bonds (in PLN)	(35)	(2)	-	(37)	-
corporate bonds (in PLN)	(4)	(11)	-	(15)	-
corporate bonds (in foreign currencies)	(9)	(5)	-	(14)	-
Net carrying amount	**85,374**	**381**	**-**	**85,755**	**-**
treasury bonds (in PLN)	58,803	-	-	58,803	-
corporate bonds (in PLN) secured with the State Treasury guarantees	13,619	-	-	13,619	-
municipal bonds (in PLN)	8,501	157	-	8,658	-
corporate bonds (in PLN)	2,315	98	-	2,413	-
corporate bonds (in foreign currencies)	2,136	126	-	2,262	-
Total securities					
Gross carrying amount	189,533	703	12	190,248	-
Allowances for expected credit losses	(54)	(18)	-	(72)	-
Net carrying amount	189,479	685	12	190,176	-

(IN PLN MILLION)

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount	**61,908**	**2**	**374**	**62,284**	**359**
treasury bonds (in PLN)	40,649	-	-	40,649	-
treasury bonds (in foreign currencies)	3,977	-	-	3,977	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9,373	-	-	9,373	-
municipal bonds (in PLN)	5,044	2	-	5,046	-
corporate bonds (in PLN)	2,476	-	374	2,850	359
corporate bonds (in foreign currencies)	389	-	-	389	-
Allowances for expected credit losses	**-**	**-**	**2**	**2**	**2**
corporate bonds (in PLN)	-	-	2	2	2
Net carrying amount	**61,908**	**2**	**376**	**62,286**	**361**
treasury bonds (in PLN)	40,649	-	-	40,649	-
treasury bonds (in foreign currencies)	3,977	-	-	3,977	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9,373	-	-	9,373	-
municipal bonds (in PLN)	5,044	2	-	5,046	-
corporate bonds (in PLN)	2,476	-	376	2,852	361
corporate bonds (in foreign currencies)	389	-	-	389	-
Measurement method: at amortized cost					
Gross carrying amount	**67,555**	**336**	**-**	**67,891**	**-**
treasury bonds (in PLN)	45,875	-	-	45,875	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12,108	-	-	12,108	-
municipal bonds (in PLN)	6,206	-	-	6,206	-
corporate bonds (in PLN)	1,818	195	-	2,013	-
corporate bonds (in foreign currencies)	1,548	141	-	1,689	-
Allowances for expected credit losses	**(45)**	**(25)**	**-**	**(70)**	**-**
treasury bonds (in PLN)	(5)	-	-	(5)	-
corporate bonds (in PLN) secured with the State Treasury guarantees	(8)	-	-	(8)	-
municipal bonds (in PLN)	(24)	-	-	(24)	-
corporate bonds (in PLN)	(4)	(19)	-	(23)	-
corporate bonds (in foreign currencies)	(4)	(6)	-	(10)	-
Net carrying amount	**67,510**	**311**	**-**	**67,821**	**-**
treasury bonds (in PLN)	45,870	-	-	45,870	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12,100	-	-	12,100	-
municipal bonds (in PLN)	6,182	-	-	6,182	-
corporate bonds (in PLN)	1,814	176	-	1,990	-
corporate bonds (in foreign currencies)	1,544	135	-	1,679	-
Total securities					
Gross carrying amount	129,463	338	374	130,175	359
Allowances for expected credit losses	(45)	(25)	2	(68)	2
Net carrying amount	129,418	313	376	130,107	361

(IN PLN MILLION)

- LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustment relating to fair value hedge accounting) 31.12.2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount	**10,132**	**591**	**28**	**10,751**	**1**
real estate loans	10,132	591	28	10,751	1
Net carrying amount	**10,132**	**591**	**28**	**10,751**	**1**
real estate loans	10,132	591	28	10,751	1
Measurement method: at amortized cost					
Gross carrying amount	**179,472**	**31,947**	**7,449**	**218,868**	**304**
real estate loans	72,201	11,889	1,516	85,606	79
corporate loans	81,933	16,644	3,559	102,136	155
consumer loans	25,338	3,414	2,374	31,126	70
Allowances for expected credit losses	**(989)**	**(3,329)**	**(4,487)**	**(8,805)**	**56**
real estate loans	(71)	(951)	(1,088)	(2,110)	(5)
corporate loans	(481)	(1,675)	(1,998)	(4,154)	4
consumer loans	(437)	(703)	(1,401)	(2,541)	57
Net carrying amount	**178,483**	**28,618**	**2,962**	**210,063**	**360**
real estate loans	72,130	10,938	428	83,496	74
corporate loans	81,452	14,969	1,561	97,982	159
consumer loans	24,901	2,711	973	28,585	127
Loans and advances to customers, total					
Gross carrying amount	189,604	32,538	7,477	229,619	305
Allowances for expected credit losses	(989)	(3,329)	(4,487)	(8,805)	56
Net carrying amount	188,615	29,209	2,990	220,814	361

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustment relating to fair value hedge accounting) 31.12.2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount	**11,372**	**502**	**21**	**11,895**	**1**
real estate loans	11,372	502	21	11,895	1
Net carrying amount	**11,372**	**502**	**21**	**11,895**	**1**
real estate loans	11,372	502	21	11,895	1
Measurement method: at amortized cost					
Gross carrying amount	**168,347**	**25,972**	**7,496**	**201,815**	**195**
real estate loans	68,579	9,542	1,727	79,848	90
corporate loans	76,267	13,447	4,009	93,723	55
consumer loans	23,501	2,983	1,760	28,244	50
Allowances for expected credit losses	**(855)**	**(2,853)**	**(4,641)**	**(8,349)**	**20**
real estate loans	(90)	(710)	(1,275)	(2,075)	(15)
corporate loans	(418)	(1,542)	(2,271)	(4,231)	(1)
consumer loans	(347)	(601)	(1,095)	(2,043)	36
Net carrying amount	**167,492**	**23,119**	**2,855**	**193,466**	**215**
real estate loans	68,489	8,832	452	77,773	75
corporate loans	75,849	11,905	1,738	89,492	54
consumer loans	23,154	2,382	665	26,201	86
Loans and advances to customers, total					
Gross carrying amount	179,719	26,474	7,517	213,710	196
Allowances for expected credit losses	(855)	(2,853)	(4,641)	(8,349)	20
Net carrying amount	178,864	23,621	2,876	205,361	216

- **OTHER FINANCIAL ASSETS**

OTHER FINANCIAL ASSETS	Stage 1	Stage 2	Stage 3	Total	of which POCI
31.12.2023					
Gross amount	1,306	-	137	1,443	-
Allowances for expected credit losses	-	-	(134)	(134)	-
Net carrying amount	1,306	-	3	1,309	-

OTHER FINANCIAL ASSETS	Stage 1	Stage 2	Stage 3	Total	of which POCI
31.12.2022					
Gross amount	1,653	-	145	1,798	-
Allowances for expected credit losses	-	-	(144)	(144)	-
Net carrying amount	1,653	-	1	1,654	-

(IN PLN MILLION)

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- **FINANCIAL LIABILITIES AND GUARANTEES GRANTED**

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2023	STAGE 1		STAGE 2		STAGE 3		Total	Provisions per IFRS 9	Net carrying amount
	Notional amount	Provision	Notional amount	Provision	Notional amount	Provision			
Credit lines and limits	**74,447**	**(137)**	**7,737**	**(474)**	**111**	**(28)**	**82,295**	**(639)**	**81,656**
real estate	6,631	(11)	170	(6)	6	(3)	6,807	(20)	6,787
business	58,651	(101)	6,028	(376)	88	(20)	64,767	(497)	64,270
consumer	9,165	(25)	1,539	(92)	17	(5)	10,721	(122)	10,599
Other	**3,884**	-	-	-	-	-	**3,884**	-	**3,884**
Total financial commitments granted, including:	**78,331**	**(137)**	**7,737**	**(474)**	**111**	**(28)**	**86,179**	**(639)**	**85,540**
irrevocable commitments granted	33,968	(70)	4,418	(314)	33	(8)	38,419	(392)	38,027
POCI	-	-	1	-	1	-	2	-	2
Guarantees and sureties granted									
guarantees in domestic and foreign trading	9,784	(18)	1,674	(59)	783	(29)	12,241	(106)	12,135
to financial entities	4,272	-	144	-	-	-	4,416	-	4,416
to non-financial entities	5,438	(18)	1,530	(59)	783	(29)	7,751	(106)	7,645
to state budget entities	74	-	-	-	-	-	74	-	74
domestic corporate bonds	1,000	-	-	-	-	-	1,000	-	1,000
to financial entities	1,000	-	-	-	-	-	1,000	-	1,000
domestic municipal bonds (state budget entities)	243	-	-	-	-	-	243	-	243
letters of credit	1,175	-	102	(3)	-	-	1,277	(3)	1,274
to financial entities	30	-	-	-	-	-	30	-	30
to non-financial entities	1,145	-	102	(3)	-	-	1,247	(3)	1,244
payment guarantees to financial entities	114	-	2	-	-	-	116	-	116
Total guarantees and sureties granted, including:	**12,316**	**(18)**	**1,778**	**(62)**	**783**	**(29)**	**14,877**	**(109)**	**14,768**
irrevocable commitments granted	5,976	(7)	1,469	(58)	749	(29)	8,194	(94)	8,100
performance guarantee	2,682	(4)	711	(43)	199	(10)	3,592	(57)	3,535
POCI	-	-	-	-	452	(2)	452	(2)	450
Total financial and guarantee commitments granted	**90,647**	**(155)**	**9,515**	**(536)**	**894**	**(57)**	**101,056**	**(748)**	**100,308**

(IN PLN MILLION)

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2022	STAGE 1		STAGE 2		STAGE 3		Total	Provisions per IFRS 9	Net carrying amount
	Notional amount	Provision	Notional amount	Provision	Notional amount	Provision			
Credit lines and limits	**68,144**	**(135)**	**7,220**	**(406)**	**132**	**(45)**	**75,496**	**(586)**	**74,910**
real estate	3,531	(13)	107	(5)	8	(3)	3,646	(21)	3,625
business	55,832	(96)	5,310	(281)	100	(35)	61,242	(412)	60,830
consumer	8,781	(26)	1,803	(120)	24	(7)	10,608	(153)	10,455
Other	**2,824**	-	-	-	**1**	-	**2,825**	-	**2,825**
Total financial commitments granted, including:	70,968	(135)	7,220	(406)	133	(45)	78,321	(586)	77,735
irrevocable commitments granted	35,862	(60)	3,429	(211)	100	(30)	39,391	(301)	39,090
POCI	-	-	1	-	4	(1)	5	(1)	4
Guarantees and sureties granted									
guarantees in domestic and foreign trading	10,598	(5)	1,357	(72)	679	(159)	12,634	(236)	12,398
to financial entities	4,839	-	-	-	-	-	4,839	-	4,839
to non-financial entities	5,688	(5)	1,357	(72)	679	(159)	7,724	(236)	7,488
to state budget entities	71	-	-	-	-	-	71	-	71
domestic corporate bonds	2,000	-	-	-	-	-	2,000	-	2,000
to financial entities	2,000	-	-	-	-	-	2,000	-	2,000
domestic municipal bonds (state budget entities)	315	-	-	-	-	-	315	-	315
Letters of credit	1,343	(1)	171	(6)	-	-	1,514	(7)	1,507
to non-financial entities	1,343	(1)	171	(6)	-	-	1,514	(7)	1,507
payment guarantees to financial entities	76	-	-	-	-	-	76	-	76
Total guarantees and sureties granted, including:	14,332	(6)	1,528	(78)	679	(159)	16,539	(243)	16,296
irrevocable commitments granted	6,988	(5)	1,262	(71)	647	(158)	8,897	(234)	8,663
performance guarantee	2,499	(2)	860	(54)	281	(147)	3,640	(203)	3,437
POCI	-	-	-	-	284	(5)	284	(5)	279
Total financial and guarantee commitments granted	85,300	(141)	8,748	(484)	812	(204)	94,860	(829)	94,031

(IN PLN MILLION)

53.2. CHANGE IN THE GROSS CARRYING AMOUNT

- SECURITIES

SECURITIES - CHANGE IN THE GROSS CARRYING AMOUNT DURING THE PERIOD (excluding adjustment relating to fair value hedge accounting) 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount at the beginning of the period	**61,908**	**2**	**374**	**62,284**	**359**
Transfer from stage 2 and 3 to stage 1	2	(2)	-	-	-
Transfer from stage 1 and 3 to stage 2	(304)	304	-	-	-
Granting or purchase of financial instruments	808,530	1	-	808,531	-
Derecognition, including sale	(772,802)	(27)	(372)	(773,201)	(369)
Non-substantial modifications	2	-	-	2	-
Write-off	-	-	(1)	(1)	-
Other changes[1]	6,769	26	11	6,806	10
Gross carrying amount at the end of the period	**104,105**	**304**	**12**	**104,421**	**-**

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement, discount, premium

SECURITIES - CHANGE IN THE GROSS CARRYING AMOUNT DURING THE PERIOD (excluding adjustment relating to fair value hedge accounting) 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount at the beginning of the period	**57,252**	**44**	**397**	**57,693**	**380**
Transfer from stage 2 and 3 to stage 1	44	(44)	-	-	-
Transfer from stage 1 and 3 to stage 2	(2)	2	-	-	-
Granting or purchase of financial instruments	83,144	-	1	83,145	-
Derecognition, including sale	(78,669)	-	(3)	(78,672)	-
Non-substantial modifications	(7)	-	-	(7)	-
Other changes[1]	146	-	(21)	125	(21)
Gross carrying amount at the end of the period	**61,908**	**2**	**374**	**62,284**	**359**

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement, discount, premium

SECURITIES - CHANGE IN THE GROSS CARRYING AMOUNT DURING THE PERIOD (excluding adjustment relating to fair value hedge accounting) 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Gross carrying amount at the beginning of the period	**67,555**	**336**	**-**	**67,891**	**-**
Transfer from stage 2 and 3 to stage 1	70	(70)	-	-	-
Transfer from stage 1 and 3 to stage 2	(161)	161	-	-	-
Granting or purchase of financial instruments	20,548	-	-	20,548	-
Derecognition, including sale	(4,606)	(43)	-	(4,649)	-
Non-substantial modifications	(1)	-	-	(1)	-
Other changes[1]	2,023	15	-	2,038	-
Gross carrying amount at the end of the period	**85,428**	**399**	**-**	**85,827**	**-**

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement, discount, premium

(IN PLN MILLION)

SECURITIES - CHANGE IN THE GROSS CARRYING AMOUNT DURING THE PERIOD (excluding adjustment relating to fair value hedge accounting) 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Gross carrying amount at the beginning of the period	**71,709**	**402**	**-**	**72,111**	**-**
Transfer from stage 2 and 3 to stage 1	56	(56)	-	-	-
Transfer from stage 1 and 3 to stage 2	(6)	6	-	-	-
Granting or purchase of financial instruments	1,813	1	-	1,814	-
Derecognition, including sale	(7,728)	(30)	-	(7,758)	-
Other changes[1]	1,711	13	-	1,724	-
Gross carrying amount at the end of the period	**67,555**	**336**	**-**	**67,891**	**-**

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement, discount, premium

- **Loans and advances to customers**

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Real estate loans					
Gross carrying amount at the beginning of the period	**11,372**	**502**	**21**	**11,895**	**1**
Transfer from stage 2 and 3 to stage 1	197	(197)	(1)	(1)	-
Transfer from stage 1 and 3 to stage 2	(283)	288	(5)	-	-
Transfer from stage 1 and 2 to stage 3	(6)	(17)	24	1	-
Granting or purchase of financial instruments	32	2	-	34	-
Utilization of limit or disbursement of tranches	212	14	3	229	-
Repayments	(1,384)	(15)	(3)	(1,402)	-
Non-substantial modifications	(7)	-	-	(7)	-
Derecognition, including sale	(24)	(1)	(1)	(26)	(1)
Write-off	-	-	(3)	(3)	-
Category change	74	1	-	75	-
Other changes[1]	(51)	14	(7)	(44)	1
Gross carrying amount at the end of the period	**10,132**	**591**	**28**	**10,751**	**1**

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Real estate loans					
Gross carrying amount at the beginning of the period	**12,323**	**1,189**	**19**	**13,531**	**1**
Transfer from stage 2 and 3 to stage 1	845	(843)	(2)	-	-
Transfer from stage 1 and 3 to stage 2	(333)	337	(4)	-	-
Transfer from stage 1 and 2 to stage 3	(6)	(13)	19	-	-
Granting or purchase of financial instruments	1,061	36	1	1,098	1
Utilization of limit or disbursement of tranches	166	5	1	172	-
Repayments	(1,855)	(30)	(3)	(1,888)	-
Non-substantial modifications	5	1	-	6	-
Derecognition, including sale	(1,059)	(37)	(3)	(1,099)	(2)
Write-off	-	-	(2)	(2)	-
Category change	80	1	-	81	-
Other changes[1]	145	(144)	(5)	(4)	1
Gross carrying amount at the end of the period	**11,372**	**502**	**21**	**11,895**	**1**

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Real estate loans					
Gross carrying amount at the beginning of the period	**68,579**	**9,542**	**1,727**	**79,848**	**90**
Transfer from stage 2 and 3 to stage 1	1,839	(1,828)	(11)	-	-
Transfer from stage 1 and 3 to stage 2	(6,122)	6,214	(92)	-	-
Transfer from stage 1 and 2 to stage 3	(61)	(255)	316	-	-
Granting or purchase of financial instruments	2,116	99	14	2,229	25
Utilization of limit or disbursement of tranches	16,594	92	185	16,871	6
Repayments	(7,642)	(2,936)	(184)	(10,762)	(21)
Non-substantial modifications	34	(2)	-	32	-
Derecognition, including sale	(1,080)	(56)	(33)	(1,169)	(33)
Write-off	-	-	(300)	(300)	(2)
Other changes[1]	(2,056)	1,019	(106)	(1,143)	14
Gross carrying amount at the end of the period	**72,201**	**11,889**	**1,516**	**85,606**	**79**

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Real estate loans					
Gross carrying amount at the beginning of the period	**70,656**	**11,822**	**1,892**	**84,370**	**79**
Transfer from stage 2 and 3 to stage 1	5,741	(5,713)	(28)	-	-
Transfer from stage 1 and 3 to stage 2	(4,861)	4,986	(125)	-	-
Transfer from stage 1 and 2 to stage 3	(83)	(215)	298	-	-
Granting or purchase of financial instruments	5,546	249	37	5,832	34
Utilization of limit or disbursement of tranches	8,457	338	148	8,943	9
Repayments	(12,632)	(1,350)	(259)	(14,241)	(13)
Non-substantial modifications	50	5	-	55	-
Derecognition, including sale	(4,432)	(188)	(43)	(4,663)	(41)
Write-off	-	-	(200)	(200)	(1)
Other changes[1]	137	(392)	7	(248)	23
Gross carrying amount at the end of the period	**68,579**	**9,542**	**1,727**	**79,848**	**90**

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Corporate loans					
Gross carrying amount at the beginning of the period	**76,267**	**13,447**	**4,009**	**93,723**	**55**
Transfer from stage 2 and 3 to stage 1	1,304	(1,293)	(11)	-	-
Transfer from stage 1 and 3 to stage 2	(5,373)	5,686	(313)	-	-
Transfer from stage 1 and 2 to stage 3	(290)	(190)	480	-	-
Granting or purchase of financial instruments	17,026	2,850	239	20,115	23
Utilization of limit or disbursement of tranches	19,164	2,810	405	22,379	4
Repayments	(27,397)	(2,285)	(617)	(30,299)	(25)
Non-substantial modifications	1,136	88	(2)	1,222	1
Derecognition, including sale	(1,324)	(1,077)	(156)	(2,557)	(152)
Write-off	-	-	(626)	(626)	2
Category change	8	5	-	13	-
Other changes[1]	1,412	(3,397)	151	(1,834)	247
Gross carrying amount at the end of the period	**81,933**	**16,644**	**3,559**	**102,136**	**155**

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Corporate loans					
Gross carrying amount at the beginning of the period	**65,344**	**13,969**	**4,502**	**83,815**	**45**
Transfer from stage 2 and 3 to stage 1	3,032	(3,015)	(17)	-	-
Transfer from stage 1 and 3 to stage 2	(4,954)	5,020	(66)	-	-
Transfer from stage 1 and 2 to stage 3	(155)	(197)	352	-	-
Granting or purchase of financial instruments	17,489	910	255	18,654	59
Utilization of limit or disbursement of tranches	19,446	2,434	329	22,209	3
Repayments	(27,419)	(2,109)	(918)	(30,446)	(27)
Non-substantial modifications	(19)	(7)	(11)	(37)	1
Derecognition, including sale	(2,878)	(107)	(103)	(3,088)	(92)
Write-off	-	-	(466)	(466)	3
Category change	6	3	-	9	-
Other changes[1]	6,375	(3,454)	152	3,073	63
Gross carrying amount at the end of the period	**76,267**	**13,447**	**4,009**	**93,723**	**55**

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Consumer loans					
Gross carrying amount at the beginning of the period	**23,501**	**2,983**	**1,760**	**28,244**	**50**
Transfer from stage 2 and 3 to stage 1	776	(752)	(24)	-	-
Transfer from stage 1 and 3 to stage 2	(1,818)	1,866	(48)	-	-
Transfer from stage 1 and 2 to stage 3	(510)	(462)	972	-	-
Granting or purchase of financial instruments	12,880	480	177	13,537	40
Utilization of limit or disbursement of tranches	1,099	162	318	1,579	6
Repayments	(10,928)	(553)	(268)	(11,749)	(21)
Non-substantial modifications	(8)	(2)	(2)	(12)	-
Derecognition, including sale	(8)	(35)	(80)	(123)	(80)
Write-off	-	-	(489)	(489)	(6)
Category change	184	11	(48)	147	3
Other changes[1]	170	(284)	106	(8)	78
Gross carrying amount at the end of the period	**25,338**	**3,414**	**2,374**	**31,126**	**70**

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Consumer loans					
Gross carrying amount at the beginning of the period	**22,334**	**3,142**	**1,583**	**27,059**	**45**
Transfer from stage 2 and 3 to stage 1	1,161	(1,136)	(25)	-	-
Transfer from stage 1 and 3 to stage 2	(1,518)	1,580	(62)	-	-
Transfer from stage 1 and 2 to stage 3	(360)	(355)	715	-	-
Granting or purchase of financial instruments	10,299	482	131	10,912	23
Utilization of limit or disbursement of tranches	986	190	214	1,390	2
Repayments	(10,162)	(460)	(213)	(10,835)	(21)
Non-substantial modifications	(10)	(2)	(1)	(13)	-
Derecognition, including sale	(26)	(39)	(58)	(123)	(52)
Write-off	-	-	(587)	(587)	(4)
Category change	219	21	(34)	206	3
Other changes[1]	578	(440)	97	235	54
Gross carrying amount at the end of the period	23,501	2,983	1,760	28,244	50

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

- **OTHER FINANCIAL ASSETS:**

OTHER FINANCIAL ASSETS – CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Gross carrying amount at the beginning of the period	**1,653**	-	**145**	**1,798**	-
Transfer from stage 1 and 2 to stage 3	(2)	-	2	-	-
Granting or purchase of financial instruments	1,306	-	60	1,366	-
Repayments	(1,651)	-	(50)	(1,701)	-
Write-off	-	-	(16)	(16)	-
Other changes[1]	-	-	(4)	(4)	-
Gross carrying amount at the end of the period	1,306	-	137	1,443	-

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

OTHER FINANCIAL ASSETS – CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Gross carrying amount at the beginning of the period	**1,824**	-	**135**	**1,959**	-
Transfer from stage 1 and 2 to stage 3	(12)	-	12	-	-
Granting or purchase of financial instruments	1,654	-	-	1,654	-
Repayments	(1,812)	-	-	(1,812)	-
Write-off	-	-	(2)	(2)	-
Other changes[1]	(1)	-	-	(1)	-
Gross carrying amount at the end of the period	1,653	-	145	1,798	-

[1] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

(IN PLN MILLION)

53.3. CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES

- SECURITIES

SECURITIES – CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: measured at fair value through other comprehensive income					
As at the beginning of the period	-	-	2	2	2
Transfer from stage 1 and 3 to stage 2	5	(5)	-	-	-
Increase due to recognition and purchase	(6)	-	-	(6)	-
Changes in credit risk (net)[1]	13	(5)	(1)	7	(1)
Write-off	-	-	1	1	-
Other adjustments[2]	(12)	10	(2)	(4)	(1)
As at the end of the period	-	-	-	-	-

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest.

SECURITIES – CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: measured at fair value through other comprehensive income					
As at the beginning of the period	-	-	(52)	(52)	(52)
Increase due to recognition and purchase	(12)	-	-	(12)	-
Changes in credit risk (net)[1]	11	1	41	53	41
Other adjustments[2]	1	(1)	13	13	13
As at the end of the period	-	-	2	2	2

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest.

SECURITIES – CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: at amortized cost					
As at the beginning of the period	(45)	(25)	-	(70)	-
Transfer from stage 1 and 3 to stage 2	3	(3)	-	-	-
Increase due to recognition and purchase	(16)	-	-	(16)	-
Changes in credit risk (net)[1]	7	6	-	13	-
Other adjustments[2]	(3)	4	-	1	-
As at the end of the period	(54)	(18)	-	(72)	-

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest.

(IN PLN MILLION)

SECURITIES – CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: at amortized cost					
As at the beginning of the period	**(30)**	**(26)**	**-**	**(56)**	**-**
Transfer from stage 1 and 3 to stage 2	1	(1)	-	-	-
Increase due to recognition and purchase	(8)	-	-	(8)	-
Changes in credit risk (net)[1]	(7)	1	-	(6)	-
Other adjustments[2]	(1)	1	-	-	-
As at the end of the period	**(45)**	**(25)**	**-**	**(70)**	**-**

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest.

- **LOANS AND ADVANCES TO CUSTOMERS**

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: measured at fair value through other comprehensive income					
Real estate loans					
As at the beginning of the period	-	-	-	-	-
Transfer from stage 2 and 3 to stage 1	(1)	1	-	-	-
Transfer from stage 1 and 3 to stage 2	34	(35)	1	-	-
Transfer from stage 1 and 2 to stage 3	2	8	(10)	-	-
Changes in credit risk (net)[1]	1	(19)	(8)	(26)	-
Write-off	-	-	3	3	-
Other adjustments[2]	(36)	45	14	23	-
As at the end of the period	-	-	-	-	-

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: measured at fair value through other comprehensive income					
Real estate loans					
As at the beginning of the period	-	-	-	-	-
Transfer from stage 2 and 3 to stage 1	(2)	2	-	-	-
Transfer from stage 1 and 3 to stage 2	26	(27)	1	-	-
Transfer from stage 1 and 2 to stage 3	2	6	(8)	-	-
Increase due to recognition and purchase	(2)	(1)	(1)	(4)	(1)
Changes in credit risk (net)[1]	(5)	(8)	(7)	(20)	(1)
Decrease due to derecognition	2	1	1	4	1
Write-off	-	-	2	2	-
Other adjustments[2]	(21)	27	12	18	1
As at the end of the period	-	-	-	-	-

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest.

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: at amortized cost					
Real estate loans					
As at the beginning of the period	**(90)**	**(710)**	**(1,275)**	**(2,075)**	**(15)**
Transfer from stage 2 and 3 to stage 1	(5)	5	-	-	-
Transfer from stage 1 and 3 to stage 2	344	(358)	14	-	-
Transfer from stage 1 and 2 to stage 3	23	110	(133)	-	-
Increase due to recognition and purchase	(20)	(8)	(17)	(45)	(24)
Changes in credit risk (net)[1]	21	(253)	112	(120)	(4)
Decrease due to derecognition	22	9	14	45	20
Write-off	-	-	300	300	2
Other adjustments[2]	(366)	254	(103)	(215)	16
As at the end of the period	(71)	(951)	(1,088)	(2,110)	(5)

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: at amortized cost					
Real estate loans					
As at the beginning of the period	(50)	(572)	(1,291)	(1,913)	(18)
Transfer from stage 2 and 3 to stage 1	(17)	17	-	-	-
Transfer from stage 1 and 3 to stage 2	236	(249)	13	-	-
Transfer from stage 1 and 2 to stage 3	30	101	(131)	-	-
Increase due to recognition and purchase	(16)	(7)	(24)	(47)	(23)
Changes in credit risk (net)[1]	(30)	(127)	84	(73)	(9)
Decrease due to derecognition	23	7	21	51	20
Changes due to modification without derecognition (net)	(1)	-	(1)	(2)	-
Write-off	-	-	200	200	1
Other adjustments[2]	(265)	120	(146)	(291)	14
As at the end of the period	(90)	(710)	(1,275)	(2,075)	(15)

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: at amortized cost					
Corporate loans					
As at the beginning of the period	(418)	(1,542)	(2,271)	(4,231)	(1)
Transfer from stage 2 and 3 to stage 1	(18)	18	-	-	-
Transfer from stage 1 and 3 to stage 2	485	(509)	24	-	-
Transfer from stage 1 and 2 to stage 3	68	80	(148)	-	-
Increase due to recognition and purchase	(209)	(196)	(191)	(596)	(139)
Changes in credit risk (net)[1]	134	(115)	49	68	(5)
Decrease due to derecognition	24	136	42	202	41
Changes due to modification without derecognition (net)	(8)	(12)	2	(18)	-
Write-off	-	-	626	626	(2)
Other adjustments[2]	(539)	465	(131)	(205)	110
As at the end of the period	(481)	(1,675)	(1,998)	(4,154)	4

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: at amortized cost					
Corporate loans					
As at the beginning of the period	(346)	(911)	(2,767)	(4,024)	(12)
Transfer from stage 2 and 3 to stage 1	(28)	28	-	-	-
Transfer from stage 1 and 3 to stage 2	516	(524)	8	-	-
Transfer from stage 1 and 2 to stage 3	49	74	(123)	-	-
Increase due to recognition and purchase	(228)	(48)	(108)	(384)	(63)
Changes in credit risk (net)[1]	184	(580)	438	42	(7)
Decrease due to derecognition	10	5	36	51	35
Changes due to modification without derecognition (net)	(3)	(2)	6	1	(1)
Write-off	-	-	466	466	(3)
Other adjustments[2]	(572)	416	(227)	(383)	50
As at the end of the period	(418)	(1,542)	(2,271)	(4,231)	(1)

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: at amortized cost					
Consumer loans					
As at the beginning of the period	(347)	(601)	(1,095)	(2,043)	36
Transfer from stage 2 and 3 to stage 1	(14)	14	-	-	-
Transfer from stage 1 and 3 to stage 2	376	(383)	7	-	-
Transfer from stage 1 and 2 to stage 3	289	237	(526)	-	-
Increase due to recognition and purchase	(189)	(16)	(113)	(318)	(58)
Changes in credit risk (net)[1]	95	(89)	(436)	(430)	(4)
Decrease due to derecognition	1	6	39	46	39
Changes due to modification without derecognition (net)	(1)	(3)	-	(4)	-
Update of the applied estimation method (net)	6	1	13	20	5
Write-off	-	-	489	489	6
Other adjustments[2]	(653)	131	221	(301)	33
As at the end of the period	(437)	(703)	(1,401)	(2,541)	57

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: at amortized cost					
Consumer loans					
As at the beginning of the period	(218)	(520)	(981)	(1,719)	28
Transfer from stage 2 and 3 to stage 1	(24)	24	-	-	-
Transfer from stage 1 and 3 to stage 2	295	(305)	10	-	-
Transfer from stage 1 and 2 to stage 3	208	198	(406)	-	-
Increase due to recognition and purchase	(110)	(12)	(60)	(182)	(36)
Changes in credit risk (net)[1]	(16)	(68)	(373)	(457)	(6)
Decrease due to derecognition	1	4	28	33	27
Changes due to modification without derecognition (net)	(2)	(3)	(1)	(6)	-
Update of the applied estimation method (net)	6	1	9	16	5
Write-off	-	-	587	587	4
Other adjustments[2]	(487)	80	92	(315)	14
As at the end of the period	(347)	(601)	(1,095)	(2,043)	36

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest, measurement.

- **OTHER FINANCIAL ASSETS:**

OTHER FINANCIAL ASSETS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES IN THE PERIOD – Stage 3	2023	2022
As at the beginning of the period	(144)	(134)
Increase due to recognition and purchase	(1)	-
Changes in credit risk (net)[1]	(6)	(13)
Write-off	16	2
Other adjustments[2]	1	1
As at the end of the period	(134)	(144)

[1] Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.
[2] Other changes comprise the effect of foreign exchange rate changes, interest

(IN PLN MILLION)

53.4. OTHER DISCLOSURES

MAXIMUM EXPOSURE TO CREDIT RISK - FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	31.12.2023	31.12.2022
Hedging derivatives	1,084	217
Other derivative instruments	8,752	13,745
Securities:	1,284	909
held for trading	606	199
not held for trading, measured at fair value through profit or loss	678	710
Loans and advances to customers not held for trading, measured at fair value through profit or loss	2,858	3,565
real estate loans	1	4
corporate loans	81	85
consumer loans	2,776	3,476
Total	13,978	18,436

FINANCIAL ASSETS SUBJECT TO MODIFICATION	2023		2022	
Financial assets subject to modification during the period:	Stage 2	Stage 3	Stage 2	Stage 3
valuation amount at amortized cost before modification	434	123	655	222
gain (loss) on modification	2	-	3	(2)
Financial assets subject to modification since initial recognition:	31.12.2023		31.12.2022	
gross carrying amount of financial assets subject to modification for which expected losses were calculated over the lifetime and which are classified as Stage 1 after modification	49		305	

The table below presents the outstanding amounts of financial assets to be repaid, which were written down during the reporting period and which are still subject to debt recovery activities.

RECEIVABLES WRITTEN OFF	2023		2022	
	Partly written off	Entirely written off	Partly written off	Entirely written off
Loans and advances to customers	141	318	96	159
real estate loans	16	87	15	21
corporate loans	20	208	11	115
consumer loans	105	23	70	23
Total	141	318	96	159

The Bank adopted the following criteria for writing off receivables:

- the receivable has fully matured and, in particular, is the consequence of a loan, advance, contractual overdraft, guarantee or warranty of loan, advance or bond repayment;
- in accordance with IAS and IFRS the allowance for expected credit losses:
  - covers 100% of the gross carrying amount of the asset; or
  - exceeds 90% of the gross carrying amount of the asset and: actions have been or are still being taken in respect of the receivable which did not lead to its recovery, and the assessment of the probability of recovering the receivable (which, in particular, accounts for the decisions of the bailiff or the receiver) transferability of collateral, level of satisfaction, record in the land and mortgage register indicate that the entire receivable will not be recovered, or that the repayments of the receivable did not cover interest accrued on a current basis over the past 12 calendar months.

(IN PLN MILLION)

PAST DUE FINANCIAL ASSETS SUBJECT TO IMPAIRMENT OR IMPAIRED (net)	up to 30 days	30 to 90 days	over 90 days	TOTAL
31.12.2023				
Stage 1	**1,008**	**8**	**-**	**1,016**
Loans and advances to customers:	1,008	8	-	1,016
real estate loans	101	2	-	103
corporate loans	564	6	-	570
consumer loans	343	-	-	343
Stage 2	**1,106**	**270**	**132**	**1,508**
Loans and advances to customers:	1,106	270	132	1,508
real estate loans	431	146	119	696
corporate loans	417	47	3	467
consumer loans	258	77	10	345
Stage 3	**295**	**143**	**1,272**	**1,710**
Loans and advances to customers:	295	143	1,272	1,710
real estate loans	31	36	223	290
corporate loans	199	39	491	729
consumer loans	65	68	558	691
Total	**2,409**	**421**	**1,404**	**4,234**

PAST DUE FINANCIAL ASSETS SUBJECT TO IMPAIRMENT OR IMPAIRED (net)	up to 30 days	30 to 90 days	over 90 days	TOTAL
31.12.2022				
Stage 1	**991**	**4**	**-**	**995**
Loans and advances to customers:	991	4	-	995
real estate loans	151	2	-	153
corporate loans	527	1	-	528
consumer loans	313	1	-	314
Stage 2	**1,034**	**225**	**50**	**1,309**
Loans and advances to customers:	1,034	225	50	1,309
real estate loans	441	113	34	588
corporate loans	402	38	4	444
consumer loans	191	74	12	277
Stage 3	**174**	**112**	**993**	**1,279**
Loans and advances to customers:	174	112	993	1,279
real estate loans	28	32	225	285
corporate loans	94	23	469	586
consumer loans	52	57	299	408
Total	**2,199**	**341**	**1,043**	**3,583**

To specify whether a loan is overdue, the Bank takes into account the minimum levels of matured amounts exceeding PLN 400 for retail exposures or PLN 2,000 for other credit exposures and 1% with reference to the debtor's entire credit exposure in the balance sheet of the Bank and other entities belonging to the Bank's Group.

(IN PLN MILLION)

Loans and advances to customers were secured by the following collateral established for the Bank: mortgages, registered pledges, transfer of ownership, restrictions on a deposit account, insurance of the credit exposure, as well as guarantees and sureties.

- **QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR LOANS AND ADVANCES TO CUSTOMERS**

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2023	Gross carrying amount				
	Stage 1	Stage 2	Stage 3	TOTAL	of which POCI
REAL ESTATE LOANS	**82,333**	**12,480**	**1,544**	**96,357**	**80**
0.00 - 0.02%	1,048	28	-	1,076	-
0.02 - 0.07%	26,393	198	-	26,591	1
0.07 - 0.11%	15,424	236	-	15,660	-
0.11 - 0.18%	14,812	228	-	15,040	-
0.18 - 0.45%	13,062	3,012	-	16,074	2
0.45 - 1.78%	5,058	5,344	-	10,402	7
1.78 - 99.99%	459	3,411	-	3,870	10
100%	-	-	1,544	1,544	59
no internal rating	6,077	23	-	6,100	1
CORPORATE LOANS	**81,933**	**16,644**	**3,559**	**102,136**	**155**
0.00 - 0.45%	36,174	118	-	36,292	1
0.45 - 0.90%	10,622	330	-	10,952	-
0.90 - 1.78%	9,502	1,137	-	10,639	-
1.78 - 3.55%	13,029	3,912	-	16,941	-
3.55 - 7.07%	8,165	6,475	-	14,640	-
7.07 - 14.07%	3,941	3,309	-	7,250	-
14.07 - 99.99%	184	1,335	-	1,519	3
100%	-	-	3,559	3,559	151
no internal rating	316	28	-	344	-
CONSUMER LOANS	**25,338**	**3,414**	**2,374**	**31,126**	**70**
0.00 - 0.45%	4,869	43	-	4,912	-
0.45 - 0.90%	6,844	148	-	6,992	-
0.90 - 1.78%	6,388	392	-	6,780	-
1.78 - 3.55%	3,898	603	-	4,501	1
3.55 - 7.07%	1,750	552	-	2,302	1
7.07 - 14.07%	735	517	-	1,252	1
14.07 - 99.99%	175	1,106	-	1,281	2
100%	-	-	2,374	2,374	64
no internal rating	679	53	-	732	1
Total	**189,604**	**32,538**	**7,477**	**229,619**	**305**

(IN PLN MILLION)

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2022	Gross carrying amount				
	Stage 1	Stage 2	Stage 3	TOTAL	of which POCI
REAL ESTATE LOANS	**79,951**	**10,044**	**1,748**	**91,743**	**91**
0.00 - 0.02%	1,173	1	-	1,174	-
0.02 - 0.07%	25,872	120	-	25,992	-
0.07 - 0.11%	14,567	106	-	14,673	-
0.11 - 0.18%	13,695	209	-	13,904	1
0.18 - 0.45%	14,283	1,907	-	16,190	5
0.45 - 1.78%	5,486	4,165	-	9,651	8
1.78 - 99.99%	526	3,564	-	4,090	13
100%	-	-	1,766	1,766	62
no internal rating	4,349	(28)	(18)	4,303	2
CORPORATE LOANS	**76,267**	**13,447**	**4,009**	**93,723**	**55**
0.00 - 0.45%	35,380	313	-	35,693	-
0.45 - 0.90%	8,939	344	-	9,283	-
0.90 - 1.78%	10,527	643	-	11,170	-
1.78 - 3.55%	9,842	3,006	-	12,848	-
3.55 - 7.07%	7,875	4,542	-	12,417	-
7.07 - 14.07%	3,170	3,378	-	6,548	-
14.07 - 99.99%	164	1,186	-	1,350	-
100%	-	-	4,009	4,009	55
no internal rating	370	35	-	405	-
CONSUMER LOANS	**23,501**	**2,983**	**1,760**	**28,244**	**50**
0.00 - 0.45%	5,069	51	-	5,120	-
0.45 - 0.90%	6,315	103	-	6,418	-
0.90 - 1.78%	5,354	311	-	5,665	-
1.78 - 3.55%	3,384	484	-	3,868	-
3.55 - 7.07%	1,804	526	-	2,330	1
7.07 - 14.07%	795	506	-	1,301	1
14.07 - 99.99%	225	949	-	1,174	2
100%	-	-	1,760	1,760	45
no internal rating	555	53	-	608	1
Total	**179,719**	**26,474**	**7,517**	**213,710**	**196**

(IN PLN MILLION)

- **QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR OFF-BALANCE SHEET LIABILITIES**

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2023	Gross carrying amount				
	Stage 1	Stage 2	Stage 3	TOTAL	of which POCI
OFF-BALANCE SHEET LIABILITIES					
0.00 - 0.45%	24,207	107	-	24,314	-
0.45 - 0.90%	9,751	272	-	10,023	-
0.90 - 1.78%	10,292	808	-	11,100	-
1.78 - 3.55%	10,527	1,692	-	12,219	-
3.55 - 7.07%	6,378	2,913	-	9,291	-
7.07 - 14.07%	2,715	2,414	-	5,129	-
14.07 - 99.99%	38	206	-	244	-
100%	-	-	894	894	454
no internal rating	26,739	1,103	-	27,842	-
Total	90,647	9,515	894	101,056	454

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2022	Gross carrying amount				
	Stage 1	Stage 2	Stage 3	TOTAL	of which POCI
OFF-BALANCE SHEET LIABILITIES					
0.00 - 0.45%	23,859	1,294	-	25,153	-
0.45 - 0.90%	12,667	98	-	12,765	-
0.90 - 1.78%	10,593	819	-	11,412	-
1.78 - 3.55%	8,598	1,401	-	9,999	-
3.55 - 7.07%	5,872	1,453	-	7,325	-
7.07 - 14.07%	2,542	2,323	-	4,865	-
14.07 - 99.99%	27	131	-	158	-
100%	-	-	812	812	289
no internal rating	21,142	1,229	-	22,371	-
Total	85,300	8,748	812	94,860	289

- **QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR AMOUNTS DUE FROM BANKS**

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2023	Gross carrying amount				
AMOUNTS DUE FROM BANKS	Stage 1	Stage 2	Stage 3	TOTAL	of which POCI
EXTERNAL RATINGS	16,924	-	-	16,924	-
AAA	1,288	-	-	1,288	-
AA	4,128	-	-	4,128	-
A	10,507	-	-	10,507	-
BBB	981	-	-	981	-
BB	19	-	-	19	-
B	1	-	-	1	-
Total	16,924	-	-	16,924	-

The note has been prepared on the assumption that, in the absence of external ratings, a translation of internal to external ratings has been made, using the Bank's in-house scale

(IN PLN MILLION)

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2022	Gross carrying amount				
AMOUNTS DUE FROM BANKS	Stage 1	Stage 2	Stage 3	TOTAL	of which POCI
EXTERNAL RATINGS	**19,458**	-	-	**19,458**	-
AAA	700	-	-	700	-
AA	3,926	-	-	3,926	-
A	14,756	-	-	14,756	-
BBB	70	-	-	70	-
BB	4	-	-	4	-
B	2	-	-	2	-
Total	19,458	-	-	19,458	-

The note has been prepared on the assumption that, in the absence of external ratings, a translation of internal to external ratings has been made, using the Bank's in-house scale.

- QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR DEBT SECURITIES

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2023	Gross carrying amount				
DEBT SECURITIES	Stage 1	Stage 2	Stage 3	TOTAL	of which POCI
EXTERNAL RATINGS	**160,299**	-	-	**160,299**	-
AAA	8,037	-	-	8,037	-
AA	2,791	-	-	2,791	-
A	147,728	-	-	147,728	-
BBB	260	-	-	260	-
BB	1,483	-	-	1,483	-
B	-	-	-	-	-
CCC	-	-	-	-	-
INTERNAL RATINGS	**18,415**	**594**	**12**	**19,021**	-
0.00-0.45%	13,230	-	-	13,230	-
0.45-0.90%	4,090	166	-	4,256	-
0.90-1.78%	308	267	-	575	-
1.78-3.55%	620	-	-	620	-
3.55-7.07%	167	-	-	167	-
7.07-14.07%	-	161	-	161	-
14.07-99.99%	-	-	-	-	-
100.00%	-	-	12	12	-
no internal rating	**10,819**	**109**	-	**10,928**	-
Total	189,533	703	12	190,248	-

(IN PLN MILLION)

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2022	Gross carrying amount				
DEBT SECURITIES	Stage 1	Stage 2	Stage 3	TOTAL	of which POCI
EXTERNAL RATINGS	**103,039**	**-**	**-**	**103,039**	**-**
AAA	5,715	-	-	5,715	-
AA	41	-	-	41	-
A	95,742	-	-	95,742	-
BBB	205	-	-	205	-
BB	1,336	-	-	1,336	-
INTERNAL RATINGS	**26,255**	**338**	**374**	**26,967**	**359**
0.00-0.45%	25,083	-	-	25,083	-
0.45-0.90%	720	2	-	722	-
0.90-1.78%	62	76	-	138	-
1.78-3.55%	202	-	-	202	-
3.55-7.07%	188	113	-	301	-
7.07-14.07%	-	147	-	147	-
100%	-	-	374	374	359
no internal rating	**169**	**-**	**-**	**169**	**-**
TOTAL	129,463	338	374	130,175	359

54. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Bank enters into offsetting arrangements, i.e. ISDA agreements (International Swaps and Derivatives Association Master Agreements) and GMRA agreements (Global Master Repurchase Agreements), which make it possible to offset financial assets and liabilities (close out netting) in the event of an infringement with respect to one of the parties of the agreement. These agreements are of particular importance to mitigate the risk posed by derivative instruments, because they enable offsetting both matured liabilities (mitigating the settlement risk) and non-matured liabilities of the parties (mitigating the pre-settlement risk). However, these agreements do not meet the requirements set out in IAS 32, because the right to offset is conditional on the occurrence of a specific future event (instances of infringement).

Exposures arising from derivatives are further secured by margin deposits provided by counterparties as part of executing CSA (Credit Support Annex).

OFFSETTING ASSETS	Total financial assets	Derivatives	Reverse repo transactions
31.12.2023			
Recognized financial assets, gross	10,215	9,843	372
Financial liabilities subject to offsetting, gross	(7)	(7)	-
Financial assets recognized in the statement of financial position, net	10,208	9,836	372
Amounts subject to enforceable framework agreement or similar agreement concerning offsetting, including related to:	911	911	-
(i) recognized financial instruments which do not meet the offsetting criteria	467	467	-
(ii) financial collateral (including cash)	444	444	-
Net amount	9,297	8,925	372

(IN PLN MILLION)

OFFSETTING LIABILITIES	Total financial liabilities	Derivatives	Repo transactions
31.12.2023			
Recognized financial liabilities, gross	12,365	12,365	-
Financial liabilities subject to offsetting, gross	(7)	(7)	-
Financial liabilities recognized in the statement of financial position, net	12,358	12,358	-
Amounts subject to enforceable framework agreement or similar agreement concerning offsetting, including related to:	2,318	2,318	-
(i) recognized financial instruments which do not meet the offsetting criteria	467	467	-
(ii) financial collateral (including cash)	1,851	1,851	-
Net amount	10,040	10,040	-

OFFSETTING ASSETS	Total financial assets	Derivatives	Reverse repo transactions
31.12.2022			
Recognized financial assets, gross	13,973	13,966	7
Financial liabilities subject to offsetting, gross	(4)	(4)	-
Financial assets recognized in the statement of financial position, net	13,969	13,962	7
Amounts subject to enforceable framework agreement or similar agreement concerning offsetting, including related to:	1,628	1,628	-
(i) recognized financial instruments which do not meet the offsetting criteria	912	912	-
(ii) financial collateral (including cash)	716	716	-
Net amount	12,341	12,334	7

OFFSETTING LIABILITIES	Total financial liabilities	Derivatives	Repo transactions
31.12.2022			
Recognized financial liabilities, gross	20,733	20,733	-
Financial liabilities subject to offsetting, gross	(4)	(4)	-
Financial liabilities recognized in the statement of financial position, net	20,729	20,729	-
Amounts subject to enforceable framework agreement or similar agreement concerning offsetting, including related to:	2,978	2,978	-
(i) recognized financial instruments which do not meet the offsetting criteria	912	912	-
(ii) financial collateral (including cash)	2,066	2,066	-
Net amount	17,751	17,751	-

55. MANAGING CREDIT CONCENTRATION RISK IN THE BANK

The Bank defines credit concentration risk as the risk arising from a considerable exposure to single customers or groups of related customers whose repayment capacity depends on a common risk factor. The Bank analyses the concentration risk, among other things towards:

- the largest entities (customers);
- the largest groups of related customers;
- industry sectors;
- geographical regions;
- currencies;
- exposures secured with a mortgage.

- ### RISK MANAGEMENT OBJECTIVE

The objective of concentration risk management is to ensure a safe structure of the loan portfolio by mitigating threats arising from excessive concentrations relating to exposures characterized by a potential to generate significant losses at the Bank.

- ### MEASUREMENT AND ASSESSMENT OF CONCENTRATION RISK

The Bank measures and assesses concentration risk by examining the actual aggregate exposure to a customer or a group of related customers and the actual aggregate exposure in the individual groups of loan portfolios.

The Bank's actual exposure complies with the definition of exposure in the CRR, which comprises all assets or off-balance sheet items, including exposures in the banking and trading book and indirect exposures arising from the security applied.

Concentration risk is identified by recognizing the factors due to which the risk may arise or the level of the Bank's exposure may change, including potential risk factors resulting, for example, from the planned activities of the Bank. In the process of identifying concentration risk, the Bank:

- identifies and updates the structure of the group of related customers;
- aggregates the exposures towards a customer or a group of related customers;
- applies exemptions from regulatory limits on large exposures and takes into account recognized credit risk mitigation techniques, to the extent consistent with the CRR.

The Bank's tolerance to concentration risk is determined by:

- external regulatory limits arising from Art. 395 of the CRR and from Article 79a of the Banking Law;
- internal limits of the Bank:
  - strategic limits of concentration risk tolerance;
  - limits that define the appetite for concentration risk.

The Bank uses the following to measure concentration risk:

- the ratio of the Bank's exposure to concentration risk with respect to individual customers or groups of related customers to the Bank's Tier 1 capital;
- the industry or geographic concentration ratio which indicates the share of groups with the highest exposure / number in the Bank's loan portfolio;
- Gini coefficient;
- graphs of portfolio concentration (Lorenz curve).

To measure concentration risk and evaluate the effect of internal and external factors on the concentration risk, the Bank performs stress tests with respect to concentration risk for large exposures.

- **MONITORING AND FORECASTING CONCENTRATION RISK**

The Bank monitors concentration risk:

- on an individual level, by verifying the exposure concentration ratio for a customer or a group of related customers, each time before applying for a decision on granting financing or increasing the amount of the exposure, and before taking other actions resulting in increasing the Bank's exposure on other accounts;
- on a systemic level, by:
  - daily control over compliance with the external concentration limit and identifying large exposures;
  - monthly control over the limit arising from Article 79a of the Banking Law;
  - monthly or quarterly control over compliance with the Bank's internal limits with respect to concentration risk;
  - monitoring early warning ratios with respect to concentration;
  - monthly or quarterly monitoring and assessment of the concentration risk at portfolio level.

The Bank forecasts changes in the level of concentration risk as part of its analyses and reviews of internal limits and the concentration risk management policy and in the process of stress testing concentration risk.

The Bank performs stress tests to examine, for example, the effect of macroeconomic factors on individual concentrations, the impact of decisions of other financial market participants, decisions on customer mergers, dependency on other risks, for example, currency risk, which may contribute to the materialization of concentration risk and the effect of other factors from the internal and external environment on the concentration risk.

Concentration risk is an element of comprehensive stress tests which enables the evaluation of the forecast effect of correlated credit, interest rate, currency, operating and liquidity risks and concentration risk on the expected credit loss of the Bank.

- **CONCENTRATION RISK REPORTING**

Reports on currency risk are prepared on a daily, monthly and quarterly basis.

Concentration risk reporting comprises periodic (monthly or quarterly) reporting to the Bank's relevant bodies on the scale of exposure to concentration risk, which may lead to a significant change in the Bank's risk profile, including in particular:

- utilization of limits defining risk appetite and exceeding those limits;
- early warning ratios;
- stress-test results;
- portfolio concentration risk and concentration of the Bank's largest exposures and compliance with concentration standards arising from the Banking Law Act.
- in quarterly periods - of the supervisory authorities to the extent specified in the individual Large exposures reports.

- **MANAGEMENT ACTIONS RELATING TO CONCENTRATION RISK**

The purpose of management actions is to shape and optimize the concentration risk management process and concentration risk level at the Bank (preventing excessive concentrations).

Management actions comprise in particular:

- publishing the Bank's internal regulations on the process of concentration risk management, defining the tolerance level for concentration risk, determining limits and threshold amounts;
- issuing recommendations, guidelines for conduct, explanations and interpretations of internal regulations;
- taking decisions concerning an acceptable level of concentration risk, including in particular decisions determining the threshold values of limits reflecting concentration risk appetite;
- developing and improving concentration risk control tools which make it possible to maintain the concentration risk level within the limits acceptable to the Bank;
- developing and improving concentration risk assessment methods taking into account the changeability of the macroeconomic situation, including crises on foreign and domestic markets and changeability of the regulatory environment;

(IN PLN MILLION)

- developing and improving IT tools to support concentration risk management.
- **CONCENTRATION BY THE LARGEST ENTITIES (CUSTOMERS)**

The risk of concentration of exposures to individual customers and groups of related customers is monitored in accordance with the CRR, according to which the Bank does not assume an exposure to a customer or a group of related customers, where the value of the exposure exceeds 25% of the value of its Tier 1 capital.

As at 31 December 2023 and 31 December 2022, concentration limits were not exceeded. As at 31 December 2023, the largest exposure to a single entity amounted to 55.42%[1] of the Bank's Tier 1 capital (60.07%[1] of the Bank's eligible capital as at 31 December 2022).

The Bank's exposure to the 20 largest non-banking customers[2]:

31.12.2023				31.12.2022			
No.	Credit exposures include loans, advances, purchased debt, bill of exchange discounts, realized guarantees, and interest receivables as well as off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Concentration ratio (relation of exposure to the value of the T1 capital)	No.	Credit exposures include loans, advances, purchased debt, bill of exchange discounts, realized guarantees, and interest receivables as well as off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Concentration ratio (relation of exposure to the value of the T1 capital)
1[1]	22,024	5.72%	55.42%	1[1]	20,910	5.90%	60.07%
2[1]	17,084	4.44%	42.99%	2[1]	16,128	4.55%	46.33%
3	6,514	1.69%	16.39%	3	4,699	1.33%	13.50%
4[1]	3,360	0.87%	8.45%	4[1]	4,531	1.28%	13.02%
5[1]	3,151	0.82%	7.93%	5[1]	3,676	1.04%	10.56%
6	2,953	0.77%	7.43%	6	2,756	0.78%	7.92%
7[1]	2,755	0.72%	6.93%	7	2,453	0.69%	7.05%
8[1]	2,594	0.67%	6.53%	8[1]	2,292	0.65%	6.59%
9[1]	2,578	0.67%	6.49%	9	2,164	0.61%	6.22%
10	2,058	0.53%	5.18%	10[1]	1,928	0.54%	5.54%
11	1,927	0.50%	4.85%	11	1,775	0.50%	5.10%
12	1,826	0.47%	4.59%	12	1,657	0.47%	4.76%
13[1]	1,816	0.47%	4.57%	13[1]	1,618	0.46%	4.65%
14	1,606	0.42%	4.04%	14	1,595	0.45%	4.58%
15	1,501	0.39%	3.78%	15	1,462	0.41%	4.20%
16	1,492	0.39%	3.76%	16	1,374	0.39%	3.95%
17	1,467	0.38%	3.69%	17	1,326	0.37%	3.81%
18	1,343	0.35%	3.38%	18	1,296	0.37%	3.71%
19	1,205	0.31%	3.03%	19	1,236	0.35%	3.54%
20	1,147	0.30%	2.88%	20	1,133	0.32%	3.25%
Total	**80,401**	**20.88%**	**202.31%**	**Total**	**76,009**	**21.46%**	**218.35%**

[1] exposure excluded or partly excluded from the exposure concentration limit under the CRR.

[2] off-balance sheet exposure includes the liability arising from derivative transactions in an amount equal to their balance sheet equivalent.

(IN PLN MILLION)

- **CONCENTRATION BY THE LARGEST GROUPS OF RELATED CUSTOMERS**

The largest concentration of the Bank's exposures to a group of related customers was 8.9% of the Bank's loan portfolio (as at 31 December 2022, it was 7.84%).

As at 31 December 2023 and 31 December 2022, the largest concentration of the Bank's exposures was, respectively: 78.33%[1] of the Bank's Tier 1 capital and 79.77%[1] of the Bank's Tier 1 capital.

The Bank's[2] exposure to the 5 largest groups of related customers[3]:

31.12.2023				31.12.2022			
No.	Credit exposures include loans, advances, purchased debt, bill of exchange discounts, realized guarantees, and interest receivables as well as off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Concentration ratio (relation of exposure to the value of the T1 capital)	No.	Credit exposures include loans, advances, purchased debt, bill of exchange discounts, realized guarantees, and interest receivables as well as off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Concentration ratio (relation of exposure to the value of the consolidated T1 capital)
1[1]	31,130	8.09%	78.33%	1[1]	27,769	7.84%	79.77%
2[1]	18,422	4.79%	46.35%	2[1]	17,134	4.84%	49.22%
3	4,331	1.13%	10.90%	3	5,798	1.64%	16.66%
4[1]	3,582	0.93%	9.01%	4[1]	3,688	1.04%	10.59%
5	3,352	0.87%	8.44%	5	2,855	0.81%	8.20%
Total	60,817	15.81%	153.03%	Total	57,244	16.17%	164.44%

[1] exposure partly excluded from the exposure concentration limit under the CRR

[2] off-balance sheet exposure includes the liability arising from derivative transactions in an amount equal to their balance sheet equivalent

[3] the list does not include exposure to the State Treasury (relevant for groups in which the State Treasury has control)

- **CONCENTRATION BY INDUSTRY**

The structure of the Bank's exposure by industry sector is dominated by entities operating in the "Financial and insurance activities" and "Public administration and defense, compulsory social security" sections (in 2022 "Financial and insurance activities" and "Industrial processing"). The Bank's exposure to these sectors represents approximately 42% (40% in 2022) of the total industry portfolio.

SECTION SYMBOL	SECTION NAME	31.12.2023		31.12.2022	
		EXPOSURE	NUMBER OF ENTITIES	EXPOSURE	NUMBER OF ENTITIES
K	Financial and insurance activities	26.68	1.14	22.44	1.29
C	Industrial processing	15.07	9.27	17.64	9.63
L	Real estate administration	9.57	19.74	11.32	20.02
G	Wholesale and retail trade, repair of motor vehicles	9.09	20.20	11.47	21.18
O	Public administration and national defense, compulsory social security	15.24	3.42	11.76	3.17
Other exposures		24.35	46.23	25.37	44.71
Total		100.00	100.00	100.00	100.00

(IN PLN MILLION)

- **CONCENTRATION BY GEOGRAPHICAL REGIONS**

The Bank's loan portfolio is diversified in terms of geographical concentration.

The Bank classifies the structure of the loan portfolio by geographical regions depending on the customer area – it differs for the Retail Client Area and for Institutional Client Area.

In 2023, the largest concentration of the ORD loan portfolio was in the Warsaw region and Katowice region – these regions account for 27.3% of the ORD portfolio (as at 31 December 2022: 27.4%)

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR RETAIL CUSTOMERS	31.12.2023	31.12.2022
Warsaw region	15.96	16.16
Katowice region	11.31	11.29
Poznań region	10.35	10.47
Kraków region	8.57	8.42
Łódź region	8.85	8.90
Wrocław region	10.97	10.84
Gdańsk region	10.30	10.17
Lublin region	7.32	7.25
Białystok region	6.61	6.56
Szczecin region	8.35	8.46
Head Office	0.76	0.79
Other	0.65	0.69
Total	**100.00**	**100.00**

In 2023, the highest concentration of the Institutional Client loan portfolio was in the central macro-region - 46.3% of the OKI portfolio (as at 31 December 2022: 44.2%)

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR INSTITUTIONAL CUSTOMERS	31.12.2023	31.12.2022
Head Office	4.37	4.56
central macroregion	46.30	44.16
northern macroregion	7.46	8.73
western macroregion	9.74	10.56
southern macroregion	9.84	10.08
south-eastern macroregion	8.20	9.03
north-eastern macroregion	4.45	3.63
south-western macroregion	6.68	6.54
other	0.19	0.16
Foreign countries	2.77	2.55
Total	**100.00**	**100.00**

- **CONCENTRATION OF CREDIT RISK BY CURRENCY**

As at 31 December 2023, the share of exposures in convertible currencies other than PLN in the entire Bank's portfolio amounted to 14.22% (as at 31 December 2022: 16.96%).

Exposures in EUR represent the largest part of the Bank's foreign currency exposure with a 78.9% share in the entire foreign currency portfolio of the Bank as at the end of 2023 (as at 31 December 2022: 68.5%). A consistent decrease in CHF loans has been observed, mainly as a result of the Bank's activities related to concluding settlement agreements with customers holding housing loans in this currency. The share of loans in CHF in the Bank's portfolio as at the end of 2023 amounted to 2.0% (as at 31 December 2022: 4.2%)

(IN PLN MILLION)

CONCENTRATION OF CREDIT RISK BY CURRENCY	31.12.2023	31.12.2022
PLN	85.78	83.04
Foreign currencies, of which:	14.22	16.96
CHF	2.03	4.19
EUR	11.22	11.62
USD	0.91	1.12
UAH	0.03	0.01
Other	0.03	0.02
Total	100.00	100.00

- **OTHER TYPES OF CONCENTRATION**

The Bank analyses the structure of its housing loan portfolio by LTV levels. At the end of 2023 and 2022, the largest concentration is in the LTV range of 0%-40%.

THE GROUP'S HOUSING LOAN PORTFOLIO STRUCTURE BY LTV	31.12.2023	31.12.2022
0% - 40%	44.66	41.36
41%-60%	32.07	39.84
61% - 80%	16.03	16.23
81% - 90%	3.52	1.94
91% - 100%	3.17	0.27
over 100%	0.55	0.36
Total	100.00	100.00

	31.12.2023	31.12.2022
average LTV for the portfolio of loans in CHF	43.73	47.27
average LTV for the entire portfolio	45.50	45.57

56. COLLATERAL

In the period ended 31 December 2023, the Bank did not make any changes to its collateral policies.

The Bank takes into account the collateral held for credit exposures when estimating the expected credit loss. With respect to individually significant exposures that meet the conditions for impairment, future collateral recoveries are estimated individually and taken into account in determining the expected loss, with a weight corresponding to the assessment of the probability of implementation of the debt recovery scenario. The value of collateral recoveries estimated under the recovery scenario for impaired exposures at the balance sheet date was PLN 771 million (as at 31 December 2022: PLN 981 million).

The Bank does not have any exposures for which, due to the value of the collateral, it has not recognized an allowance for expected credit losses.

See also information in notes "CREDIT RISK MANAGEMENT", "USE OF CREDIT RISK MITIGATION TECHNIQUES – COLLATERAL".

(IN PLN MILLION)

57. EXPOSURE TO THE COUNTERPARTY CREDIT RISK

CONCENTRATION OF CREDIT RISK – INTERBANK MARKET AND NON-WHOLESALE MARKET – EXPOSURE AS AT 31.12.2023*

Counterparty	Country	Rating	Interbank market – wholesale			Non-wholesale market		Cash on NOSTRO and LORO accounts	Total
			Deposit (nominal value)	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal balance sheet exposure	Nominal off-balance sheet exposure		
Counterparty 1	Poland	A	-	215	28	4,579	6,944	-	11,766
Counterparty 2	Poland	A	5	-	9,177	-	-	-	9,182
Counterparty 3	Luxembourg	AAA	-	-	8,038	-	-	-	8,038
Counterparty 4	Switzerland	AAA	1,287	17	-	-	-	-	1,304
Counterparty 5	France	A	783	-	-	-	-	-	783
Counterparty 6	Norway	AA	674	-	-	-	-	1	675
Counterparty 7	Switzerland	AA	642	-	-	-	-	-	642
Counterparty 8	Austria	BBB	531	-	-	-	-	-	531
Counterparty 9	The Netherlands	A	500	-	-	-	-	-	500
Counterparty 10	Switzerland	AA	492	-	-	-	-	3	495
Counterparty 11	Japan	A	492	-	-	-	-	-	492
Counterparty 12	Germany	AA	-	404	-	8	24	4	440
Counterparty 13	Switzerland	AA	435	-	-	-	-	-	435
Counterparty 14	Switzerland	AA	394	-	-	-	-	-	394
Counterparty 15	Switzerland	NONE	394	-	-	-	-	-	394
Counterparty 16	Austria	A	391	-	-	-	-	1	392
Counterparty 17	France	A	-	357	-	-	-	-	357
Counterparty 18	Belgium	A	304	(8)	-	-	-	39	343
Counterparty 19	Ukraine	NONE	-	-	-	-	303	-	303
Counterparty 20	Switzerland	AA	295	-	-	-	-	-	295

(IN PLN MILLION)

CONCENTRATION OF CREDIT RISK – INTERBANK MARKET AND NON-WHOLESALE MARKET – EXPOSURE AS AT 31.12.2022*									
Counterparty	Country	Rating	Interbank market - wholesale			Non-wholesale market			Total
			Deposit (nominal value)	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal balance sheet exposure	Nominal off-balance sheet exposure	Cash on NOSTRO accounts	
Kontrahent1	Poland	A	-	30	7	5,484	7,735	14	13,270
Kontrahent2	Poland	A	-	(32)	7,667	-	-	-	7,667
Kontrahent3	Luxembourg	AAA	-	-	3,656	-	-	-	3,656
Kontrahent13	Switzerland	AA	880	-	-	-	-	-	880
Kontrahent7	Switzerland	AA	704	-	-	-	-	-	704
Kontrahent104	Germany	AAA	694	-	-	-	-	-	694
Kontrahent15	Switzerland	AA	593	-	-	-	-	-	593
Kontrahent5	France	A	484	-	-	-	-	-	484
Kontrahent14	Switzerland	AA	399	-	-	-	-	-	399
Kontrahent12	Germany	AA	-	335	-	3	29	5	372
Kontrahent17	France	A	-	353	-	-	-	-	353
Kontrahent19	Ukraine	NONE	-	-	-	-	339	-	339
Kontrahent20	Switzerland	AA	300	-	-	-	-	-	300
Kontrahent46	Poland	A	275	15	-	-	-	-	290
Kontrahent24	Germany	BBB	-	260	-	-	-	-	260
Kontrahent23	United States of America	AA	-	-	-	4	11	192	207
Kontrahent22	Poland	A	-	17	2	150	-	-	169
Kontrahent18	Belgium	A	-	103	-	-	-	60	163
Kontrahent40	France	A	-	42	-	-	-	91	133
Kontrahent56	Germany	A	-	-	-	-	-	126	126

* Excluding exposures to the State Treasury and the National Bank of Poland

In order to limit the credit risk in respect of derivative transactions and securities transactions, the Bank concludes with its counterparties framework agreements (under the PBA, ISDA and ICMA standards). The framework agreements allow to offset mutual amounts payable (reduction of the settlement risk) and non-payable (reduction of pre-settlement risk), resulting from transactions, and also utilize the close-out netting mechanism upon termination of the framework agreement as a result of default or an event justifying termination with regard to one or both parties to the agreement.

Moreover, the Bank concludes with its counterparties collateral agreements (CSA – Credit Support Annex under the ISDA standard, or a Collateral Agreement under the PBA standard), under which each party undertakes, upon meeting the premises stipulated therein, to establish appropriate collateral together with the right to offset. Exemptions include derivative transactions concluded between members of the Group: PKO Bank Polski SA and PKO Bank Hipoteczny SA, which have been exempted from the obligations imposed by the EMIR Regulation regarding the exchange of collateral.

The Bank had access to two clearing houses (CCP) through which it settles clears interest rate derivative transactions specified in the EMIR Regulation with selected domestic and foreign counterparties.

In connection with the requirement to exchange Initial Margin (IM), for certain types of derivative transactions not cleared at a CCP, under the EMIR Regulation, the Bank signs IM agreements with its counterparties, based on the ISDA standard.Initial margin is deposited with the depositary by the two parties to the transaction, in the form of acceptable securities, when the so-called IM threshold (the amount by which the IM threshold is reduced) is exceeded. The amount of the calculated IM requirement is monitored until the threshold IM is exceeded.

58. Forbearance practices

Forbearance is defined by the Bank as actions aimed at amending the contractual terms agreed with a debtor or an issuer, forced by the debtor's or issuer's difficult financial situation (restructuring activities introducing concessions that otherwise would not have been granted). The aim of forbearance activities is to restore a debtor's or an issuer's ability to settle their liabilities towards the Bank and to maximize the efficiency of managing non-performing loans, i.e. obtaining the highest possible recoveries while minimizing the costs incurred.

Forbearance changes in repayment terms may consist of:

- dividing the debt due into instalments;
- changing the repayment scheme (annuity payments, degressive payments);
- extending the loan term;
- changing the interest rate;
- changing the margin;
- reducing the debt.

As a result of concluding a forbearance agreement and repaying the amounts due under it on a timely basis, a non-performing loan becomes a performing loan.

The provision of facilities within the framework of forbearance, as a premise of impairment, results in the recognition of the premise of impairment and the classification of the credit exposure into the portfolio of exposures at risk of impairment.

The inclusion of such exposures in the portfolio of performing exposures (discontinuing recognition of the forbearance agreement as an impairment trigger) takes place at least 12 months after the introduction of forbearance, provided that all payments in arrears and at least six scheduled payments have been made by the customer and, in the Bank's opinion, the current situation of the customer does not pose a threat to their compliance with the terms of the restructuring agreement (except where the forbearance agreement comprises reducing the receivables) (principal, interest or fees) by more than 1%).

(IN PLN MILLION)

Exposures cease to meet the criteria of a forborne exposure when all of the following conditions are met:

- at least 24 months have passed from the date of including the exposure into the portfolio of performing exposures (conditional period);
- as at the end of the conditional period referred to above, the customer has no debt towards the Bank overdue for more than 30 days;
- at least 12 instalments have been repaid on a timely basis and in the amounts agreed.

Forborne exposures are monitored on an on-going basis. Throughout the whole period of their recognition allowances are recognized for these exposures in the amount of expected losses over the life horizon of the exposure.

31.12.2023	Instruments with modified terms and conditions	Refinancing	Total gross	Impairment losses	Total, net
Performing exposures					
Not held for trading, measured at fair value through profit or loss:	11	-	11	-	11
consumer loans	11	-	11	-	11
Measured at fair value through OCI:	1	-	1	-	1
real estate loans	1	-	1	-	1
Measured at amortized cost:	614	1	615	(51)	564
real estate loans	147	-	147	(12)	135
corporate loans	355	1	356	(25)	331
consumer loans	112	-	112	(14)	98
Total performing exposures	**626**	**1**	**627**	**(51)**	**576**
Non-performing exposures					
Not held for trading, measured at fair value through profit or loss:	70	-	70	-	70
consumer loans	24	-	24	-	24
corporate bonds	46	-	46	-	46
Measured at fair value through OCI:	15	-	15	-	15
real estate loans	3	-	3	-	3
corporate bonds	12	-	12	-	12
Measured at amortized cost:	1,464	28	1,492	(634)	858
real estate loans	267	-	267	(185)	82
corporate loans	1,075	28	1,103	(466)	637
consumer loans	122	-	122	17	139
Total non-performing exposures	**1,549**	**28**	**1,577**	**(634)**	**943**
TOTAL EXPOSURES SUBJECT TO FORBEARANCE	**2,175**	**29**	**2,204**	**(685)**	**1,519**

(IN PLN MILLION)

31.12.2022	Instruments with modified terms and conditions	Refinancing	Total gross	Impairment losses	Total, net
Performing exposures					
Not held for trading, measured at fair value through profit or loss:	12	-	12	-	12
consumer loans	12	-	12	-	12
Measured at fair value through OCI:	1	-	1	-	1
real estate loans	1	-	1	-	1
Measured at amortized cost:	656	2	658	(48)	610
real estate loans	209	-	209	(12)	197
corporate loans	344	2	346	(23)	323
consumer loans	103	-	103	(13)	90
Total performing exposures	669	2	671	(48)	623
Non-performing exposures					
Not held for trading, measured at fair value through profit or loss:	74	-	74	-	74
consumer loans	29	-	29	-	29
corporate bonds	45	-	45	-	45
Measured at fair value through OCI:	377	-	377	2	379
real estate loans	3	-	3	-	3
corporate bonds	374	-	374	2	376
Measured at amortized cost:	1,644	35	1,679	(796)	883
real estate loans	338	-	338	(244)	94
corporate loans	1,179	34	1,213	(542)	671
consumer loans	127	1	128	(10)	118
Total non-performing exposures	2,095	35	2,130	(794)	1,336
TOTAL EXPOSURES SUBJECT TO FORBEARANCE	2,764	37	2,801	(842)	1,959

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE	2023	2022
Recognized interest income on forborne loans and advances to customers	183	135

59. INFORMATION ON PACKAGE SALE OF RECEIVABLES

In 2023, the Bank effected package sales (balance sheet and off-balance sheet receivables) of more than 21 thousand individual receivables from retail and business customers amounting to more than PLN 770 million (43 thousand individual receivables of PLN 1,351 million in 2022). The total carrying amount of the provisions for potential claims on the sale of receivables as at 31 December 2023 amounted to PLN 2 million (as at 31 December 2022, it was PLN 4 million). As a result of the sale, all risks and rewards were transferred, hence the Bank derecognized these assets.

The Bank did not receive any securities on account of the aforementioned transactions.

(IN PLN MILLION)

Bank Polski

60. MANAGEMENT OF CURRENCY RISK ASSOCIATED WITH MORTGAGE LOANS FOR INDIVIDUALS

The Bank analyses its portfolio of foreign currency mortgage loans to individuals in a specific manner. The Bank monitors the quality of the portfolio on an on-going basis and reviews the risk of deterioration of the portfolio quality. Currently, the quality of the portfolio is at an acceptable level. The Bank takes into consideration the risk of foreign currency mortgage loans for individuals in the capital adequacy and equity management.

HOUSING LOANS AND ADVANCES TO INDIVIDUALS (RETAIL AND PRIVATE BANKING) BY CURRENCY	31.12.2023			31.12.2022		
	gross	impairment loss	net	gross	impairment loss	net
in local currency	**84,431**	**(1,293)**	**83,138**	**74,481**	**(1,179)**	**73,302**
PLN	84,431	(1,293)	83,138	74,481	(1,179)	73,302
in foreign currency	**6,638**	**(710)**	**5,928**	**11,634**	**(763)**	**10,871**
CHF	4,790	(595)	4,195	9,353	(677)	8,676
EUR	1,818	(110)	1,708	2,243	(82)	2,161
USD	25	(5)	20	32	(4)	28
other	5	-	5	6	-	6
Total	**91,069**	**(2,003)**	**89,066**	**86,115**	**(1,942)**	**84,173**

(IN PLN MILLION)

Convertible currency housing loans and advances to individuals by the granting date		Indexed	Denominated	Total	Indexed	Denominated	Total
		31.12.2023			31.12.2022		
up to 2002	Gross amount	-	14	**14**	-	28	**28**
	Allowances for credit losses	-	-	**-**	-	(1)	**(1)**
	Net amount	-	14	**14**	-	27	**27**
	Number of loans granted	-	2,068	**2,068**	-	2,737	**2,737**
from 2003 to 2006	Gross amount	-	802	**802**	-	1,976	**1,976**
	Allowances for credit losses	-	(83)	**(83)**	-	(111)	**(111)**
	Net amount	-	719	**719**	-	1,865	**1,865**
	Number of loans granted	-	22,418	**22,418**	-	30,771	**30,771**
from 2007 to 2009	Gross amount	-	2,383	**2,383**	-	4,911	**4,911**
	Allowances for credit losses	-	(393)	**(393)**	-	(490)	**(490)**
	Net amount	-	1,990	**1,990**	-	4,421	**4,421**
	Number of loans granted	-	26,552	**26,552**	-	35,811	**35,811**
from 2010 to 2012	Gross amount	1,694	1,736	**3,430**	2,436	2,268	**4,704**
	Allowances for credit losses	(119)	(113)	**(232)**	(74)	(85)	**(159)**
	Net amount	1,575	1,623	**3,198**	2,362	2,183	**4,545**
	Number of loans granted	7,449	9,558	**17,007**	8,741	10,344	**19,085**
from 2013 to 2016	Gross amount	2	7	**9**	4	11	**15**
	Allowances for credit losses	-	(2)	**(2)**	-	(2)	**(2)**
	Net amount	2	5	**7**	4	9	**13**
	Number of loans granted	13	29	**42**	18	34	**52**
Total	Gross carrying amount	1,696	4,942	6,638	2,440	9,194	11,634
	Allowances for credit losses	(119)	(591)	(710)	(74)	(689)	(763)
	Net carrying amount	1,577	4,351	5,928	2,366	8,505	10,871
	Number of loans granted	7,462	60,625	68,087	8,759	79,697	88,456

61. Interest rate risk management

Interest rate risk management

- **Definition**

Interest rate risk is a risk of losses being incurred on the Bank's balance sheet and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in market interest rates.

- **Risk management objective**

To reduce the potential losses resulting from market interest rate fluctuations to an acceptable level by properly shaping the structure of balance sheet and off-balance sheet items.

- **RISK IDENTIFICATION AND MEASUREMENT**

The Bank uses the following measures of interest rate risk: interest income sensitivity, economic value sensitivity, value at risk (VaR), stress tests and repricing gaps.

- **CONTROL**

Control over interest rate risk consists of determining interest rate risk limits and thresholds tailored to the scale and complexity of the Bank's operations, in particular the strategic limit of tolerance to interest rate risk.

- **RISK FORECASTING AND MONITORING**

The Bank monitors, on a regular basis:

- the levels of interest rate risk measures;
- utilization of the strategic limit of tolerance to interest rate risk;
- utilization of internal limits and thresholds of interest rate risk.

- **REPORTING**

Reports on interest rate risk are prepared on a daily, weekly, monthly and quarterly basis. The reports contain information on interest rate risk exposure and on the risk limits utilization. The reports are addressed mainly to: ALCO, RC, the Management Board, the Risk Committee and the Supervisory Board.

- **MANAGEMENT ACTIONS**

The main tools for interest rate risk management used by the Bank are:

  - interest rate risk management procedures
  - currency risk limits and thresholds
  - transactions that reduce interest income sensitivity or economic value sensitivity.

The Bank established limits and thresholds for interest rate risk comprising, among other things, the following: interest income sensitivity, sensitivity of the economic value and losses.

FINANCIAL INFORMATION

The Bank's exposure to interest rate risk remained within the adopted limits as at 31 December 2023 and 31 December 2022. The Bank was mainly exposed to PLN interest rate risk.

The Bank categorizes its portfolios from the perspective of interest rate risk management:

- the banking book - comprises balance sheet and off-balance sheet items not included in the trading book, in particular items resulting from the Bank's core activities, transactions concluded for investment and liquidity purposes and their hedging transactions;
- the trading book - comprises transactions concluded on financial instruments as part of activities conducted on own account and on behalf of the customers.

Due to the principle of keeping interest rate risk in the trading book at a limited level, this risk is primarily generated by positions in the banking book.

In order to mitigate the interest rate risk of the banking book, the Bank uses limits and thresholds, as well as risk mitigation transactions based on information on the level of risk (using a measure of interest income sensitivity, an economic value sensitivity measure, shock analyses and repricing gap) and planned business development. In order to hedge the level of future cash flows and the volatility of fair value arising from interest rate risk, hedging strategies approved by the Bank's Management Board are applied using IRS/CIRS transactions as part of hedge accounting, which are described in note Hedge accounting and other derivative instruments.

BANKING BOOK

In order to monitor interest rate risk, the Bank applies interest rate risk measures that reflect the identified five main types of interest rate risk:

- the risk of revaluation date mismatch;
- the yield curve risk;
- the basis risk;
- the customer option risk; and
- credit spread risk in the banking book (CSRBB).

SENSITIVITY OF INTEREST INCOME

The sensitivity of interest income to sudden shifts in the yield curve is determined by a potential financial effect of such a shift reflected in a changed amount of interest income in a given time horizon. The change results from the mismatch between revaluation dates of assets, liabilities and off-balance sheet liabilities granted and received (in particular derivative instruments) sensitive to interest rate fluctuations.

Sensitivity of interest income in the banking book of the Bank to the abrupt shift in the yield curve of 100 bp down in a one-year horizon in all currencies is shown in the table below:

NAME OF THE MEASURE	31.12.2023	31.12.2022
Sensitivity of interest income (PLN million)	(938)	(712)

SENSITIVITY OF ECONOMIC VALUE

Sensitivity of economic value reflects the fair value changes of items in the portfolio arising from the parallel shift of the yield curves by 100 bp up or down (the most unfavorable of the scenarios mentioned).

The table below presents the economic value sensitivity measure (BPV) of the banking book of the Bank in all currencies as at 31 December 2023 and 31 December 2022:

NAME OF THE MEASURE	31.12.2023	31.12.2022
Sensitivity of economic value (PLN million)	(1,533)	(886)

TRADING BOOK

In order to monitor the interest rate risk in the trading book the Bank applies the value-at-risk (VaR) measure.

VALUE AT RISK

The IR VaR measure is a potential amount of loss that may be incurred in normal market conditions in a specific time (i.e. horizon) and with an assumed level of probability related to changes in interest rate curves.

The IR VaR in the Bank's trading book is shown in the table below:

NAME OF THE MEASURE	31.12.2023	31.12.2022
IR VaR for a 10-day time horizon at a confidence level of 99% (PLN million):		
Average value	59	37
Maximum value	133	86
Value at the end of the period	42	56

62. CURRENCY RISK MANAGEMENT

CURRENCY RISK MANAGEMENT

- #### DEFINITION

Currency risk is the risk of incurring losses due to unfavorable exchange rate fluctuations. The risk is generated by maintaining open currency positions in various foreign currencies.

- #### RISK MANAGEMENT OBJECTIVE

To reduce the potential losses resulting from exchange rate fluctuations to an acceptable level by properly shaping the currency structure of balance sheet and off-balance sheet items.

- #### RISK IDENTIFICATION AND MEASUREMENT

The Bank uses the following measures of the currency risk: value-at-risk (VaR) and stress tests.

- #### CONTROL

Control over currency risk consists of determining currency risk limits and thresholds tailored to the scale and complexity of the Bank's operations, in particular the strategic limit of tolerance to currency risk.

- #### RISK FORECASTING AND MONITORING

The Bank monitors, on a regular basis:

- the level of currency risk measures;
- utilization of the strategic limit of tolerance to currency risk;
- utilization of internal limits and thresholds of currency risk.

- #### REPORTING

Reports on currency risk are prepared on a daily, weekly, monthly and quarterly basis. The reports contain information on liquidity risk exposure and on the risk limits utilization. The reports are addressed mainly to: ALCO, RC, the Management Board, the Risk Committee and the Supervisory Board.

- #### MANAGEMENT ACTIONS

The main tools for currency risk management used by the Bank are:

- currency risk management procedures;
- currency risk limits and thresholds;
- defining allowable types of foreign currency transactions.

The Bank has set limits and thresholds for currency risk for, among other things: currency positions, Value at Risk calculated for a 10-day time horizon and loss on the currency market.

FINANCIAL INFORMATION

- #### SENSITIVITY MEASURES

The FX VaR measure is a potential value of loss that may occur in normal market conditions at a specific time (i.e. horizon) and with an assumed level of probability related to changes in foreign exchange rates.

Stress tests are used to estimate loss in the event of abrupt changes on the currency market which are not described using statistical measures by default.

The Bank's FX VaR, in aggregate for all currencies, is presented in the table below:

NAME OF SENSITIVITY MEASURE	31.12.2023	31.12.2022
VaR for a 10-day time horizon at a confidence level of 99% (PLN million)	3	128

(IN PLN MILLION)

- **FOREIGN CURRENCY POSITION**

The Bank's foreign currency positions are presented in the table below:

FOREIGN CURRENCY POSITION[1]	31.12.2023	31.12.2022
EUR	78	(70)
CHF	15	(1,625)
Other (Global, Net)	(20)	(18)

[1] The positions do not include structural positions in UAH (PLN 1,072.3 million) and in EUR (PLN 23.5 million), for which the Bank obtained approval from the PFSA to exclude them from the calculation of the currency positions, not affecting the Bank's profit or loss.

Currency positions (in addition to volatility of foreign exchange rates) are a key factor determining the level of currency risk to which the Bank is exposed. The foreign currency positions are determined by all foreign currency transactions concluded, both in the statement of financial position and off-balance sheet transactions, with the exception of structural positions in UAH (PLN 1,072.3 million) and in EUR (PLN 23.5 million), for which the Bank obtained approval from the PFSA to exclude them from the calculation of the currency positions.

62.1. FINANCIAL ASSETS AND LIABILITIES BY CURRENCY

Financial assets BY CURRENCY	Currency translated to PLN						
31.12.2023	**PLN**	**CHF**	**EUR**	**USD**	**UAH**	**Other**	**Total**
Cash and balances with the Central Bank	16,250	28	605	113	-	680	17,676
Amounts due from banks	6,201	188	6,619	3,697	-	195	16,900
Hedging derivatives	952	-	128	4	-	-	1,084
Other derivative instruments	7,701	-	762	284	-	5	8,752
Securities	**181,008**	**-**	**5,829**	**4,602**	**-**	**-**	**191,439**
- held for trading	605	-	1	-	-	-	606
- not held for trading, mandatorily measured at fair value through profit or loss	294	-	300	84	-	-	678
- measured at fair value through other comprehensive income	96,616	-	3,945	3,860	-	-	104,421
- measured at amortized cost	83,493	-	1,583	658	-	-	85,734
Reverse repo transactions	372	-	-	-	-	-	372
Loans and advances to customers	**191,966**	**4,316**	**26,000**	**1,222**	**-**	**166**	**223,670**
- not held for trading, mandatorily measured at fair value through profit or loss	2,858	-	-	-	-	-	2,858
- measured at fair value through other comprehensive income	10,751	-	-	-	-	-	10,751
- measured at amortized cost	178,357	4,316	26,000	1,222	-	166	210,061
Other financial assets	1,150	1	119	17	-	22	1,309
Total assets	**405,602**	**4,533**	**40,062**	**9,939**	**-**	**1,066**	**461,202**

(IN PLN MILLION)

Financial liabilities and off-balance sheet liabilities BY CURRENCY	Currency translated to PLN						
31.12.2023	**PLN**	**CHF**	**EUR**	**USD**	**UAH**	**Other**	**Total**
Amounts due to Central bank	10	-	-	-	-	-	10
Amounts due to banks	**1,353**	**14**	**1,813**	**62**	**-**	**8**	**3,250**
- measured at fair value through profit or loss	25	-	-	-	-	-	25
- measured at amortized cost	1,328	14	1,813	62	-	8	3,225
Hedging derivatives	2,396	-	59	1	-	-	2,456
Other derivative instruments	8,976	-	799	122	-	5	9,902
Amounts due to customers	**342,461**	**1,291**	**33,333**	**13,495**	**-**	**3,971**	**394,551**
- measured at fair value through profit or loss	277	-	-	-	-	-	277
- measured at amortized cost	342,184	1,291	33,333	13,495	-	3,971	394,274
Liabilities in respect of debt securities in issue	-	-	3,421	-	-	-	3,421
Subordinated liabilities	2,774	-	-	-	-	-	2,774
Other financial liabilities	4,380	4	1,050	160	-	95	5,689
Provisions for financial liabilities and guarantees granted	633	5	70	35	-	5	748
Total liabilities	**362,983**	**1,314**	**40,545**	**13,875**	**-**	**4,084**	**422,801**
Financial liabilities and guarantees granted	82,983	91	11,527	5,258	-	1,197	101,056

(IN PLN MILLION)

Financial assets BY CURRENCY	Currency translated to PLN						
31.12.2022	PLN	CHF	EUR	USD	UAH	Other	Total
Cash and balances with the Central Bank	13,838	42	1,320	216	-	303	15,719
Amounts due from banks	11,173	12	5,055	2,909	-	293	19,442
Hedging derivatives	128	-	75	14	-	-	217
Other derivative instruments	12,271	-	1,215	245	-	14	13,745
Securities	**124,499**	**-**	**2,476**	**4,011**	**-**	**-**	**130,986**
- held for trading	197	-	2	-	-	-	199
- not held for trading, mandatorily measured at fair value through profit or loss	241	-	326	143	-	-	710
- measured at fair value through other comprehensive income	57,919	-	1,238	3,129	-	-	62,286
- measured at amortized cost	66,142	-	910	739	-	-	67,791
Reverse repo transactions	7	-	-	-	-	-	7
Loans and advances to customers	**173,606**	**8,904**	**24,882**	**1,457**	**-**	**69**	**208,918**
- not held for trading, mandatorily measured at fair value through profit or loss	3,565	-	-	-	-	-	3,565
- measured at fair value through other comprehensive income	11,895	-	-	-	-	-	11,895
- measured at amortized cost	158,146	8,904	24,882	1,457	-	69	193,458
Other financial assets	1,412	12	141	44	-	45	1,654
Total assets	336,934	8,970	35,164	8,896	-	724	390,688

(IN PLN MILLION)

Financial liabilities and off-balance sheet liabilities BY CURRENCY	Currency translated to PLN						
31.12.2022	PLN	CHF	EUR	USD	UAH	Other	Total
Amounts due to Central bank	9	-	-	-	-	-	9
Amounts due to banks	**943**	-	**1,880**	**86**	-	**19**	**2,928**
- measured at fair value through profit or loss	2	-	-	-	-	-	2
- measured at amortized cost	941	-	1,880	86	-	19	2,926
Hedging derivatives	6,460	-	267	-	-	-	6,727
Other derivative instruments	12,630	-	1,230	129	-	13	14,002
Amounts due to customers	**287,465**	**1,348**	**28,934**	**13,641**	-	**3,468**	**334,856**
- measured at fair value through profit or loss	5	-	-	-	-	-	5
- measured at amortized cost	287,460	1,348	28,934	13,641	-	3,468	334,851
Loans and advances received	656	-	70	-	-	-	726
Subordinated liabilities	2,781	-	-	-	-	-	2,781
Other financial liabilities	2,820	3	831	271	-	251	4,176
Provisions for financial liabilities and guarantees granted	714	3	97	5	-	10	829
Total liabilities	314,478	1,354	33,309	14,132	-	3,761	367,034
Financial liabilities and guarantees granted	75,950	119	12,691	5,198	-	902	94,860

63. LIQUIDITY RISK MANAGEMENT

- ### DEFINITION

Liquidity risk is the risk of the inability to settle liabilities as they become due because of an absence of liquid assets. The lack of liquidity may be due to the inappropriate structure of assets and liabilities, including off-balance sheet, a mismatch of cash flows, counterparties failing to settle their liabilities, a sudden withdrawal of funds by the customers or other market events.

The Bank also manages financing risk which takes into account the risk of losing the existing sources of financing and inability to renew the required means of financing or the loss of access to new sources of financing.

- ### RISK MANAGEMENT OBJECTIVE

To ensure the necessary level of funds needed to settle current and future liabilities (also potential ones) as they become due, taking into account the nature of the activities conducted and the needs which may arise due to changes in the market environment, by appropriately establishing the structure of balance sheet and off-balance sheet assets and liabilities.

- ### RISK IDENTIFICATION AND MEASUREMENT

The Bank uses the following measures of the liquidity risk:

- contractual and adjusted liquidity gap;
- liquidity surplus;
- liquidity coverage ratio (LCR);
- net stable funding ratio (NSFR);
- liquidity reserve;

- the ratio of stable funds to illiquid assets;
- measures of stability of the deposit and loan portfolios;
- liquidity stress tests.
- **CONTROL**

Control over the liquidity risk consists in determining liquidity risk limits and thresholds tailored to the scale and complexity of the Bank's operations, in particular the strategic limit of tolerance to liquidity risk.

- **RISK FORECASTING AND MONITORING**

The Bank monitors, on a regular basis:

- utilization of the strategic limit of tolerance to liquidity risk;
- utilization of regulatory liquidity standards;
- utilization of internal limits and thresholds of liquidity risk;
- concentration of the sources of financing;
- early warning indicators – monitored in order to detect early unfavorable developments which may have a negative impact on the Bank's or the financial sector's liquidity position (when exceeded, early warning indicators trigger liquidity contingency plans).

The Bank also makes regular forecasts of liquidity risk which take into account the current developments in the Bank's operations. Liquidity forecasts include primarily the levels of selected liquidity risk measures envisaged in the forecasts of the Bank's assets and liabilities and in selected stress test scenarios.

- **REPORTING**

Liquidity reports are developed on a daily, weekly, monthly and quarterly basis and once a year, an in-depth long-term liquidity analysis is performed. The reports gather the information on liquidity risk exposure and updates on the use of limits for that risk. The reports are addressed mainly to: ALCO, RC, the Management Board, the Risk Committee and the Supervisory Board.

- **MANAGEMENT ACTIONS / RISK MANAGEMENT TOOLS**

The main tools for liquidity risk management used by the Bank are:

- procedures for liquidity risk management, in particular contingency plans;
- limits and thresholds to mitigate short-term, medium-term and long-term liquidity risk;
- supervisory liquidity standards;
- deposit, investment and securities purchase and sale transactions as well as derivatives, including transactions for the sale or purchase of securities;
- transactions ensuring long-term financing of the lending activities.

The Bank's policy concerning liquidity is based on keeping an appropriate level of liquidity surplus and supervisory and internal measures of liquidity risk and financing through appropriate shaping of the portfolio of liquid securities, and stable sources of financing (a stable deposit base, in particular). In liquidity risk management, money market instruments, including NBP open market operations, are also used.

(IN PLN MILLION)

FINANCIAL INFORMATION

- **LIQUIDITY GAP**

The adjusted liquidity gap comprises a set of particular balance sheet and off-balance sheet categories in respect of their adjusted maturities.

	on demand	0 – 1 month	1 – 3 months	3 – 6 months	6 – 12 months	12 – 24 months	24 – 60 months	more than 60 months
31.12.2023								
Adjusted periodic gap	7,347	126,453	(17,528)	2,600	(11,930)	12,305	25,610	(144,857)
Adjusted cumulative periodic gap	7,347	133,800	116,272	118,872	106,942	119,247	144,857	-
31.12.2022								
Adjusted periodic gap	8,548	67,153	(10,815)	(2,012)	(350)	24,862	23,609	(110,995)
Adjusted cumulative periodic gap	8,548	75,701	64,886	62,874	62,524	87,386	110,995	-

In all time horizons, the adjusted cumulative liquidity gap was positive as at 31 December 2023 and also as at 31 December 2022. This means that the Group has a surplus of the assets receivable over the liabilities payable.

- **REGULATORY LIQUIDITY RATIOS**

The following regulatory liquidity ratios (specified by the provisions approved at the EU level) are regularly set and monitored at the Bank:

- Liquidity Coverage Ratio (LCR) - defining the relation of high-quality liquid assets to net outflows in the 30-day horizon in stress conditions (supervisory measure specified in the CRR Regulation);
- Net Stable Funding Ratio (NSFR) - a measure defining the relationship of items providing stable funding to items requiring stable funding;

REGULATORY LIQUIDITY RATIOS	31.12.2023	31.12.2022
NSFR - net stable funding ratio	157.9%	132.9%
LCR - liquidity coverage ratio	231.4%	155.8%

In the period ended 31 December 2023 and 31 December 2022, liquidity measures remained above their respective supervisory limits.

- **CORE DEPOSIT BASE**

As at 31 December 2023, the core deposit base constituted approx. 93.2% of all deposits placed with the Bank (excluding the interbank market), which represents a decrease of around 2.1 p.p. compared with the end of 2022.

- **STRUCTURE OF THE SOURCES OF FINANCING**

STRUCTURE OF THE BANK'S SOURCES OF FINANCING	31.12.2023	31.12.2022
Total deposits (excluding interbank market)	88.58%	87.67%
Interbank market deposits	0.66%	0.80%
Equity	9.42%	10.64%
Market financing	1.34%	0.89%
Total	**100.00%**	**100.00%**

(IN PLN MILLION)

63.1. CONTRACTUAL CASH FLOWS FROM THE BANK'S FINANCIAL LIABILITIES, INCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

CONTRACTUAL CASH FLOWS FROM THE FINANCIAL LIABILITIES, EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. Where the party to whom the Bank has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Bank is obliged to settle the liability shall be taken into account. Where the Bank is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Bank might be obligated to settle. In the case of liabilities where instalment amounts are not fixed, the terms binding as at the reporting date have been adopted.

CONTRACTUAL CASH FLOWS FROM THE GROUP'S FINANCIAL LIABILITIES, EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount	Carrying amount
31.12.2023							
Amounts due to Central bank	10	-	-	-	-	10	**10**
Amounts due to banks	3,245	-	5	-	-	3,250	**3,250**
Amounts due to customers	306,402	35,871	40,294	10,592	6,630	399,789	**394,551**
Liabilities in respect of debt securities in issue	-	183	-	3,445	-	3,628	**3,421**
Subordinated liabilities	-	-	-	3,040	-	3,040	**2,774**
Lease liabilities	23	44	176	489	303	1,035	**1,034**
Other financial liabilities	4,521	-	-	135	-	4,656	**4,655**
Total	**314,201**	**36,098**	**40,475**	**17,701**	**6,933**	**415,408**	**409,695**
Off-balance sheet liabilities:							
financing granted	16,070	4,568	30,364	23,234	11,943	86,179	-
guarantees granted	878	1,406	3,598	5,741	3,254	14,877	-

CONTRACTUAL CASH FLOWS FROM THE GROUP'S FINANCIAL LIABILITIES, EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount	Carrying amount
31.12.2022							
Amounts due to Central bank	9	-	-	-	-	9	**9**
Amounts due to banks	2,913	31	15	-	-	2,959	**2,928**
Amounts due to customers	270,082	29,434	11,022	24,404	7,105	342,047	**334,856**
Loans and advances received	11	-	752	-	-	763	**726**
Subordinated liabilities	-	119	116	2,503	1,036	3,774	**2,781**
Lease liabilities	20	38	156	422	228	864	**864**
Other financial liabilities	3,234	-	-	78	-	3,312	**3,312**
Total	**276,269**	**29,622**	**12,061**	**27,407**	**8,369**	**353,728**	**345,476**
Off-balance sheet liabilities:							
financing granted	15,343	4,639	27,638	22,375	8,326	78,321	-
guarantees granted	496	934	6,136	5,344	3,629	16,539	-

(IN PLN MILLION)

- **CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A GROSS BASIS**

The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A GROSS BASIS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount
31.12.2023						
outflows (principal and interest)	(11,122)	(8,575)	(13,475)	(9,551)	(510)	(43,233)
inflows (principal and interest)	12,206	7,743	12,206	7,005	141	39,301

CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A GROSS BASIS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount
31.12.2022						
outflows (principal and interest)	(15,101)	(16,307)	(16,715)	(11,293)	(166)	(59,582)
inflows (principal and interest)	16,488	15,834	15,493	14,144	526	62,485

- **CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A NET BASIS**

In the case of IRS and NDF transactions, non-discounted future net cash flows in respect of interest and principal have been presented and in the case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2023 and as at 31 December 2022, respectively, was adopted as the cash flow amount.

CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A NET BASIS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount
31.12.2023						
IRS	(279)	(784)	(1,449)	(777)	(75)	(3,364)
other derivatives: options, FRA, NDF	(219)	(338)	(1,153)	(465)	(1)	(2,176)

CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A NET BASIS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount
31.12.2022						
IRS	(481)	(1,655)	(1,204)	(272)	(27)	(3,639)
other derivatives: options, FRA, NDF	(279)	(692)	(1,713)	(609)	(19)	(3,312)

(IN PLN MILLION)

63.2. ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES AND TRANSFERRED FINANCIAL ASSETS

- COLLATERAL FOR LIABILITIES IN RESPECT OF DERIVATIVE INSTRUMENTS

ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES - Derivative instruments (Initial Margin agreement)	31.12.2023	31.12.2022
Carrying amount of the collateral	780	-
Nominal value of the collateral	747	-
Type of collateral	Securities	-
Carrying amount of liabilities secured	712	-

ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES - Derivative instruments (other agreements)	31.12.2023	31.12.2022
Carrying amount of the collateral	841	-
Nominal value of the collateral	957	-
Type of collateral	Securities	-
Carrying amount of liabilities secured	841	-

- FUND FOR THE PROTECTION OF GUARANTEED FUNDS

ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES – FUND FOR THE PROTECTION OF GUARANTEED FUNDS	31.12.2023	31.12.2022
Value of the fund	1,267	1,016
Nominal value of the collateral	1,100	1,300
Type of collateral	bonds,	treasury bonds
Maturity of collateral	25.04.2024	25.04.2024
Carrying amount of the collateral	1,110	1,258

The assets pledged as collateral for the fund are Treasury bonds which mature in the period that ensures securing the carrying amount over the period specified in the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution. The Fund is increased or decreased on 1 July of each year, in proportion to the amount representing the basis for calculation of the mandatory reserve deposits. These assets are treated as assets pledged as collateral for own liabilities.

- FUNDS SECURING LIABILITIES IN RESPECT OF CONTRIBUTIONS TO THE BANK GUARANTEE FUND (BGF)

ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES - Funds securing liabilities in respect of contributions to the Bank Guarantee Fund (BGF)	31.12.2023	31.12.2022
Value of the contribution made in the form of payables	818	818
Nominal value of the assets in which funds corresponding to payables were invested	1,027	1,027
Type of collateral	treasury bonds	treasury bonds
Maturity of collateral	2024-2031	2024-2031
Carrying amount of the collateral	984	994

(IN PLN MILLION)

Starting from 2017, the value of contributions in the form of payment obligations represents 30% of the contributions to the BGF for the Deposit Guarantee Fund or the Bank Resolution Fund. Assets securing payment commitments include Treasury bonds pledged for BGF in an amount which ensures maintaining the ratio of the value of property rights securing payment commitments to the amount of payment commitments of no less than 110%. To establish the minimum ratio of assets to the amount of payment commitment, the value of property rights securing payment commitments is determined at the amount specified based on the last fixing rate of the day in the electronic market for Treasury securities organized by the minister responsible for budgetary matters, plus interest due as at the valuation date, unless interest has already been included in the fixing rate.

Such assets funds are treated as assets pledged as collateral for own liabilities, they cannot be pledged or encumbered in any way, are excluded from judicial or administrative enforcement proceedings and do not form part of the estate in bankruptcy. The amount of funds securing payment commitments relating to contributions to the BGF will be increased on payment dates of contributions to the Deposit Guarantee Fund (quarterly) and the Bank Resolution Fund (in the third quarter of a given year) representing not more than 30% of the contribution established by the BGF.

The amount of these funds may decrease if the Bank is called by the BGF to transfer in cash the amount corresponding to the value of payment commitments.

- LEGAL LIMITATIONS RELATING TO THE BANK'S TITLE

In the years ended 31 December 2023 and 31 December 2022, respectively, there were no intangible assets or property, plant and equipment items to which the Bank's legal title would be limited and pledged as collateral for the Bank's liabilities.

63.3. CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

FINANCIAL ASSETS	Current	Non-current	Total carrying amount
31.12.2023			
Cash and balances with the Central Bank	17,676	-	17,676
Amounts due from banks	12,342	4,558	16,900
Hedging derivatives	58	1,026	1,084
Other derivative instruments	4,192	4,560	8,752
Securities	**64,491**	**126,948**	**191,439**
- held for trading	349	257	606
- not held for trading, mandatorily measured at fair value through profit or loss	336	342	678
- measured at fair value through other comprehensive income	49,753	54,668	104,421
- measured at amortized cost	14,053	71,681	85,734
Reverse repo transactions	372	-	372
Loans and advances to customers	**55,286**	**168,384**	**223,670**
- not held for trading, mandatorily measured at fair value through profit or loss	2,542	316	2,858
- measured at fair value through other comprehensive income	333	10,418	10,751
- measured at amortized cost	52,411	157,650	210,061
Other financial assets	1,273	36	1,309
Total financial assets	**155,690**	**305,512**	**461,202**

(IN PLN MILLION)

FINANCIAL ASSETS	Current	Non-current	Total carrying amount
31.12.2022			
Cash and balances with the Central Bank	15,719	-	15,719
Amounts due from banks	13,974	5,468	19,442
Hedging derivatives	10	207	217
Other derivative instruments	4,862	8,883	13,745
Securities	**9,470**	**121,516**	**130,986**
- held for trading	65	134	199
- not held for trading, mandatorily measured at fair value through profit or loss	344	366	710
- measured at fair value through other comprehensive income	6,820	55,466	62,286
- measured at amortized cost	2,241	65,550	67,791
Reverse repo transactions	7	-	7
Loans and advances to customers	**49,625**	**159,293**	**208,918**
- not held for trading, mandatorily measured at fair value through profit or loss	2,916	649	3,565
- measured at fair value through other comprehensive income	354	11,541	11,895
- measured at amortized cost	46,355	147,103	193,458
Other financial assets	1,654	-	1,654
Total financial assets	**95,321**	**295,367**	**390,688**

FINANCIAL LIABILITIES	Current	Non-current	Total carrying amount
31.12.2023			
Amounts due to Central bank	10	-	10
Amounts due to banks	3,250	-	3,250
- measured at fair value through profit or loss	25	-	25
- measured at amortized cost	3,225	-	3,225
Hedging derivatives	253	2,203	2,456
Other derivative instruments	5,321	4,581	9,902
Amounts due to customers	**380,332**	**14,219**	**394,551**
- measured at fair value through profit or loss	277	-	277
- measured at amortized cost	380,055	14,219	394,274
Liabilities in respect of debt securities in issue	-	3,421	3,421
Subordinated liabilities	-	2,774	2,774
Other financial liabilities	4,762	927	5,689
Provisions for financial liabilities and guarantees granted	592	156	748
Total financial liabilities	**394,520**	**28,281**	**422,801**

(IN PLN MILLION)

FINANCIAL LIABILITIES	Current	Non-current	Total carrying amount
31.12.2022			
Amounts due to Central bank	9	-	9
Amounts due to banks	2,928	-	2,928
- measured at fair value through profit or loss	2	-	2
- measured at amortized cost	2,926	-	2,926
Hedging derivatives	1,455	5,272	6,727
Other derivative instruments	5,067	8,935	14,002
Amounts due to customers	**308,132**	**26,724**	**334,856**
- measured at fair value through profit or loss	5	-	5
- measured at amortized cost	308,127	26,724	334,851
Loans and advances received	726	-	726
Subordinated liabilities	-	2,781	2,781
Other financial liabilities	3,445	731	4,176
Provisions for financial liabilities and guarantees granted	684	145	829
Total financial liabilities	**322,446**	**44,588**	**367,034**

FINANCIAL LIABILITIES	31.12.2023	31.12.2022
Financial liabilities, including:	422,801	367,034
past due	1	3

64. Operational risk management

- **Definition**

Operational risk is defined as the risk of losses being incurred due to a mismatch or unreliability of the internal processes, people and systems may or due to external events. Operational risk includes legal risk and cyber security risk:

- legal risk – the risk of incurring a loss due to ignorance, misunderstanding and non-application of legal norms and accounting standards, the inability to enforce contractual provisions, unfavorable interpretations or decisions of courts or public administration bodies;
- cyber security risk – the degree of exposure by potential negative cyber security risk factors, related to information and communication technologies, which may cause financial damage to the organization by compromising the availability, integrity, confidentiality or accountability of information processed in SIB resources.

Operational risk excludes reputation risk and business risk.

- **Risk management objective**

The objective of operational risk management is to ensure operational and cost effectiveness and business security by limiting the occurrence of operational events and their negative consequences.

- **Risk identification and measurement**

There are two levels of operational risk management at the Bank:

- systemic operational risk management - which consists of creating solutions for the Bank to control the level of operational risk that enables the Bank to achieve its objectives;
- on-going operational risk management - aimed at preventing operational events and responding to operational events that occur, for which each Bank employee is responsible within the scope of his/her tasks and responsibilities.

The process of operational risk management is carried out at the level of the whole Bank and at the levels of individual areas of systemic operational risk management.

Operational risk management comprises the identification of operational risk in particular through collecting data about the operational risk and the self-assessment of operational risk.

In order to manage operational risk, the Bank gathers internal and external data about operational events and the causes and effects of their occurrence, data on the factors of the business environment, results of operational risk self-assessment, data on the operational risk indicators and data related to the quality of the internal control system.

The operational risk self-assessment comprises the identification and assessment of operational risk for the Bank's products, processes and applications as well as organizational changes and it is conducted cyclically and before implementing new or changed Bank products, processes and applications, using the data gathered on operational events and information obtained during the measurement, monitoring, cooperation with the Bank's Group's entities and operational risk reporting, including internal audits and security audits.

The measurement of operational risk comprises:

- calculating operational risk indicators: KRI (Key Risk Indicators) and RI (Risk Indicators);
- calculating the requirement for own funds to cover operational risk under the AMA approach (the Bank, including the German and Czech Branches and excluding the Branch in Slovakia) and BIA (the Branch in Slovakia);
- stress-tests;
- calculation of internal capital.

- **CONTROL**

Control of operational risk includes determining risk control mechanisms tailored to the scale and complexity of the Banks activities, in the form of operational risk limits, in particular the strategic limits of tolerance of operational risk, loss limits, operational risk indicators with thresholds and critical values.

- **RISK FORECASTING AND MONITORING**

The Bank monitors, on a regular basis:

- utilization of the strategic tolerance and operational risk losses limits for the Bank;
- operational events and their consequences;
- results of the operational risk self-assessment;
- the requirement in respect of own funds to cover operational risk, in accordance with the BIA approach in the case of the Slovak Branch and in accordance with the AMA approach in the case of the remaining activities of the Bank;
- the results of stress tests, including reverse stress tests;
- operational risk indicator values in relation to thresholds and critical values;
- the level of risk for the Bank and the areas and tools for managing operational risk in the Bank such as self-assessment, operational risk indicators, loss limits;
- the effectiveness and timeliness of actions undertaken to reduce or transfer operational risk;
- management actions relating to the presence of elevated or high levels of operational risk and their effectiveness in reducing the level of operational risk.

- **REPORTING**

Information relating to operational risk is reported for the purpose of senior management, the Operational Risk Committee, the Risk Committee, the Management Board and the Supervisory Board in monthly and quarterly cycles. Each month, information about operational risk is prepared and forwarded to the ORC, senior management staff, the Bank's organizational units responsible for systemic operational risk management. The reports are addressed to the ORC, the RC, the Management Board and the Supervisory Board. The scope of the information is diversified and tailored to the scope of responsibilities of individual recipients of information.

- **MANAGEMENT ACTIONS**

Management actions are taken in the following cases:

- on an initiative of ORC or the Management Board;
- on the initiative of the Bank's organizational units managing operational risk;
- when operational risk has exceeded the levels determined by Management Board or ORC.

In particular, when the risk level is elevated or high, the Bank uses
the following approaches and instruments to manage the operational risk:

- risk reduction – mitigating the impact of risk factors or the consequences of their occurrence by introducing or strengthening various types of instruments for managing operational risk such as:
    - control instruments (including authorization, internal control, segregation of duties);
    - human resources management instruments (selection of staff, increasing the qualifications of employees, incentive systems);
    - determination or verification of threshold values and critical operational risk indicators;
    - ustalenie lub weryfikacja limitów ryzyka operacyjnego,
    - plany awaryjne,
- risk transfer – transfer of responsibility for covering potential losses on a third-party:
    - insurance;
    - outsourcing,
- risk avoidance - resignation from the risk-generating activity or eliminating the probability of the risk factor's occurrence.

65. ESG RISK MANAGEMENT

The ESG risk (ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE) has been defined by the Bank as a risk of negative financial consequences to the Bank resulting from the current or future impact of ESG risk factors on customers and counterparties or the Bank's balance sheet items. ESG risks include environmental, social and corporate governance risks.

The objective of ESG risk management is to support the sustainable development and create the Bank's long-term value, in line with the Bank's Strategy, by managing the impact of ESG factors in an integrated way.

The Bank manages ESG risk as part of its management of other risks as, due to the nature of ESG risk, it is not a separate risk but a cross-cutting risk affecting the Bank's individual risks, in particular credit risk. Management of the individual risks is the responsibility of the organizational units nominated by the Bank's Management Board. The committees functioning in the Bank within the scope of their tasks and competences take decisions, issue recommendations and opinions on activities related to ESG risk. The Bank applies the principle of "double materiality" by taking into account the following perspective

- wpływu czynników ESG na działalność, wynik finansowy i rozwój of the Bank,
- oraz wpływu działalności of the Bank's activities on society and the environment.

Financial, capital and strategic plans are reviewed and evaluated in terms of the level of risk generated and compliance with sustainable development taking into account ESG risks in the short, medium and long term.

The Bank implements a plan to integrate ESG risks into the Bank's risk management system and, in accordance with the plan, defines ESG risk management processes in a comprehensive manner incorporating them into the existing risk management framework. The integration consists of adapting the existing methods of identification, measurement and control of individual risks, taking into account the cause and effect relationships between these risks and ESG factors.

One component of environmental risk management is a strategic ESG risk tolerance limit. A measure of tolerance for this risk is the ratio of the value of loans for customers in high-emission industries and the Bank's total assets. In 2023, the share of loans to customers in carbon-intensive industries was 0.19% with a Bank tolerance limit of ≤1.6% (with a Bank tolerance limit of ≤1.6%) compared to 0.38% at the end of 2022 (with a Bank tolerance limit of ≤0.8%). This limit is monitored on a quarterly basis and reported to the Bank's Management Board. The Bank decided to increase its financing in the district heating sector and to selectively finance energy security transactions (coal purchases) on a transitional basis, in view of the war in Ukraine and the increase in energy commodity prices and the need to secure coal supplies from alternative sources other than Russia, thus pursuing its social responsibility dimension.

The Bank has developed principles for the classification of sustainability financing in the Bank's Group, which define the manner in which products such as loans, advances and leasing products, among others, are linked to sustainability objectives. The principles define a product with a positive impact on the environment. This product is designed to finance investments that contribute to environmental objectives and have a measurable positive impact on the environment. These investments may relate to, among other things: improving energy efficiency, reducing GHG emissions or preventing waste generation. The objects of financing for a product with a positive environmental impact may include:

- renewable energy sources,
- clean transport,
- low-energy buildings,
- solutions that reduce the carbon footprint of a product or organization or improve the energy efficiency of existing buildings.

In the Risk Management Division, the Bank performs tasks to ensure compliance with the following external regulations:

- **Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 including delegated regulations (hereinafter: EU Taxonomy):**

  In 2023, the Bank is for the first time required to report a key performance indicator, the Green Asset Ratio (GAR), which measures the percentage of the Bank's assets that finance taxonomy-compliant (environmentally sustainable) business activities relative to the Bank's total assets.

  The criteria for an economic activity to be considered sustainable (taxonomy-aligned) compliant) are as follows:

  1) contributes substantially to one or more of the six environmental objectives;
  2) does not significantly harm any other environmental objectives;
  3) is carried out in compliance with the minimum guarantee laid down in Article 18 of the Taxonomy Regulation;
  4) meets the technical screening criteria described in the delegated regulations of the EU Taxonomy Regulation, i.e:
     a. Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives;
     b. Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities.

Technical screening criteria determine whether a Bank-financed investment or business activity makes a significant contribution to one or more of the six environmental objectives and does not cause serious harm to any of the other environmental objectives. The technical screening criteria therefore set out the minimum requirements that the financed investment/business activity should meet in order to be considered environmentally sustainable. A tool to support the assessment of the fulfilment of the technical criteria of the EU Taxonomy are the taxonomy questionnaires developed based on the above-mentioned delegated regulations of the EU Taxonomy and implemented at the Bank. The taxonomy questionnaires are an integral part of the process of identifying/classifying sustainable assets. The data obtained with the taxonomy questionnaires form the basis for calculating the total green asset ratio (GAR).

Detailed information on the taxonomy disclosure is provided in the Statement on non-financial information, which is a part of the Report on activities of the PKO Bank Polski Group.

- **Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of ESG risks**

  The Bank is required to provide information on environmental, social and corporate governance risks. The Bank analyses its loan portfolio with regard to the exposure of the Bank's exposures to the transition risk associated with the transition to a low-carbon and climate-resilient economy and to the impact of prolonged and violent physical phenomena associated with climate change.

  The Bank is currently working on determining the emission intensity of the banking portfolio. To this end, the Bank has adopted the PCAF methodology, a single global standard for counting and reporting GHG emissions to ensure transparency and accountability. The PCAF methodology enables the quantification of GHG emissions associated with, among other factors, corporate loans, securities and mortgages.

As part of best market practice and increasing regulatory requirements, the Bank has developed methodologies and tools for conducting climate stress tests, which represent an innovative approach in the banking industry for assessing corporate credit risk. The methodology is based on a modification of customers' financial statements and takes into account environmental factors such as greenhouse gas (GHG) prices, capital expenditure, energy intensity of buildings and drought risk. The use of scenarios with time horizons of 1 year, 3 years and 30 years enables a thorough analysis of both short-term and long-term risks.

As part of these tasks, the Bank is working to expand its IT systems for collecting, aggregating and managing sustainability data.

CAPITAL MANAGEMENT AT THE BANK

66. Capital adequacy

- **Capital adequacy**

Capital adequacy is the state in which the level of risk incurred by the Bank in connection with its business development can be covered by its capital whose level and structure are adequate to the applicable supervisory requirements, specific risk tolerance level and adopted time horizon. The process of managing capital adequacy comprises, in particular, compliance with the applicable regulations of the supervisory and control authorities, as well as the risk tolerance level determined within the Bank and the capital planning process, including the policy concerning the sources of acquisition of capital.

The objective of capital adequacy management is to ensure an appropriate level and structure of own funds which is adequate to the scale of the Bank’s activities, supervisory requirements and risk exposure.

The process of managing the Bank’s capital adequacy comprises:

- specifying and pursuing the Bank’s capital targets;
- identifying and monitoring significant types of risk;
- measuring or estimating internal capital to cover individual risk types of risk and total internal capital;
- determining threshold values for capital adequacy measures;
- forecasting, monitoring and reporting the level and structure of own funds;
- managing the structure of the balance sheet to optimize the quality of the Bank’s own funds;

(IN PLN MILLION)

- emergency measures with regard to capital;
- stress-tests;
- forecasting requirements for own funds;
- assessing the profitability of individual business areas and customer segments.

Capital adequacy measures include:

- total capital ratio (TCR);
- the ratio of own funds to internal capital;
- Tier 1 core capital ratio (CET1);
- Tier 1 capital ratio (T1);
- leverage ratio;
- MREL ratio - TREA;
- MREL ratio - TEM.

The objective of monitoring the level of capital adequacy measures is to determine the degree of compliance with supervisory requirements and to identify cases which require emergency measures to be implemented or the preparation of a capital protection plan.

Major regulations applicable in the capital adequacy assessment process include:

- the Polish Banking Law;
- the CRR Regulation;
- the Act of 5 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system (as amended), (the Act on macro-prudential supervision);
- the Regulation of the Minister of finance, funds and regional policy of 8 June 2021 on the risk management and internal control systems and remuneration policy in banks (effective from 11 June 2021);
- the Regulation of the Minister of finance, funds and regional policy of 27 July 2021 on the detailed method of estimating internal capital and conducting reviews of estimation strategies and procedures and maintaining a permanent level of internal capital by banks (effective from 4 August 2021);
- the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution (as amended).

Minimum level of capital ratios maintained by the Bank in accordance with Art. 92 of the CRR Regulation	
• total capital ratio (TCR)	8.0%
• Tier 1 capital ratio (T1)	6.0%
• Tier 1 core capital ratio (CET1)	4.5%

Obligation to maintain a combined buffer above the minimum amounts specified in Art. 92 of the CRR, representing the sum of the applicable buffers	**31.12.2023**	**31.12.2022**
Total:	**4.54%**	**4.52%**
• conservation buffer	2.5%	2.5%
• countercyclical buffer	0.04%	0.02%
• due to identifying the Bank as another systemically important institution ("O-SII")	2%[1]	2%[1]

[1] The buffer represents a share of total risk exposure amount calculated in accordance with the CRR. On 20 November 2023, an announcement was published by the PFSA on the review of the adequacy of the Other Systemically Important Institution (O-SII) buffer ratio, according to which the O-SII buffer amount for individual banks was maintained at the level resulting from the previous review conducted in 2022

The combined minimum capital adequacy ratio together with the combined buffer requirement at the end of 2023 was 12.54%, compared to 12.52% at the end of 2022.

(IN PLN MILLION)

On 14 November 2023, the Bank received a letter from the Bank Guarantee Fund (BGF) on the minimum requirement for own funds and eligible liabilities (MREL). The BGF set the target MREL requirement for the Bank based on the consolidated data at the total risk exposure amount (TREA) and the total exposure measure (TEM), which must be fulfilled at the end of 2023.

The required levels are specified in the table below:

in %	31.12.2023
MREL (TREA)	15.36
MREL (TEM)	5.91

As at 31 December 2023, the MREL ratio calculated on the basis of consolidated data in relation to the total "TREA" risk exposure amounted to 16.38% (in accordance with the Act on macro-prudential supervision, Common Equity Tier 1 instruments held by an entity for the purposes of the combined buffer requirement cannot be used to meet this requirement; without this restriction, the ratio was 21.18%). With regard to the total exposure measure "TEM", the MREL ratio was 9.25%.

The impact of IFRS 9 on own funds and capital adequacy measures is governed by Regulation 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (Regulation 2020/873). This provision allows to mitigate the impact on the write-downs recorded as of 1 January 2020 on Tier 1 capital.

Such a solution can be applied up to 2024, inclusive, whereas the adjustment ratio allocated to this value decreases gradually. The Bank decided that in the light of Art. 473a (7a) of the CRR implemented by the aforesaid Regulation, it would apply an option according to which the adjustment mitigating the impact of the introduction of IFRS 9 on own funds would receive a risk weight equal to 100% and the resulting value would be added to the total exposure.

According to Article 468 of the CRR (as amended by the aforementioned Regulation 2020/873), banks were allowed to apply until the end of 2022 the provisional treatment of unrealized gains and losses measured at fair value through other comprehensive income in connection with the COVID-19 pandemic. This approach enabled excluding from the calculation of the Bank's common equity position the portion of the unrealized gains and losses accumulated from 31 December 2019 included in the balance sheet under "changes in fair value of debt instruments measured at fair value through OCI", corresponding to exposures to central governments, regional governments or local authorities, and to public sector entities, excluding those financial assets that are impaired due to credit risk. PKO Bank Polski SA has decided to apply the above provisional treatment from December 2021 data onwards and has notified the Polish Financial Supervision Authority about its decision.

In addition, from the November 2021 data onwards, the Bank has decided to avail itself of the option indicated in the European Banking Authority's guidance set out in the Single Rulebook Q&A No. 2015_1887. According to the EBA's response, deferred tax assets related to gains or losses on cash flow hedges (which are not included in own funds according to Article 33 of the CRR) do not have to be included either in deferred tax assets included in deductions from own funds according to Articles 36 and 48 of the CRR.

- **OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES**

In 2023 and 2022, the Bank's capital adequacy level remained at a safe level, well above the supervisory limits. The minimum capital requirements were satisfied over the entire period.

- **REQUIREMENTS RELATING TO OWN FUNDS (PILLAR I)**

The Bank calculates own funds requirements for the following types of risk:

CREDIT RISK	under the standard approach, using the following formulas with regard to: BALANCE SHEET EXPOSURES – the product of a carrying amount (accounting for adjustments for specific credit risk), the risk weight of the exposure calculated according to the standardized approach in calculating the own funds requirement with regard to credit risk and 8% (accounting for the recognizable collateral), OFF-BALANCE SHEET LIABILITIES GRANTED – the product of the amount of a liability (accounting for adjustments for specific credit risk), the risk weight of the product, the risk weight of off-balance sheet exposure calculated according to the standardized approach in calculating the own funds requirement with regard to credit risk and 8% (accounting for the recognizable collateral), OFF-BALANCE SHEET TRANSACTIONS (DERIVATIVE INSTRUMENTS) – the product of the risk weight of an off-balance sheet transaction calculated according to the standardized approach in calculating the own funds requirement with regard to credit risk and 8%.
OPERATIONAL RISK	• in accordance with the AMA approach – with respect to the Bank's activities, taking into account the branch in Germany and the branch in the Czech Republic and excluding the branch in Slovakia; • in accordance with the BIA approach - with respect to the activities of the branch in Slovakia.
MARKET RISK	• currency risk - calculated under the core approach; • commodity risk – calculated under the simplified approach; • equity instruments risk – calculated under the simplified approach; • specific risk of debt instruments – calculated under the core approach; • general risk of debt instruments – calculated under the duration-based approach; • other types of risk other than delta risk (non-delta risk) calculated under the scenario approach in the case of options for which the Bank uses its own valuation models and under the delta plus approach for other options.
OTHER RISKS	• settlement risk and delivery risk – calculated under the approach specified in Title V, "Own funds requirements for settlement risk" of the CRR Regulation; • counterparty credit risk – calculated under the approach set out in Chapter 6, "Counterparty credit risk" of Title II, "Capital requirements for credit risk" of the CRR Regulation; • credit valuation adjustment risk – calculated under the approach specified in Title VI, "Own funds requirements for credit valuation adjustment risk" of the CRR Regulation; • exceeding the large exposures limit – calculated under the approach set out in paragraphs 395-401 of the CRR Regulation.

(IN PLN MILLION)

Capital adequacy	31.12.2023	31.12.2022 restated	31.12.2022 published
Equity	**42,954**	**34,084**	**34,084**
capital: share capital, supplementary capital, other reserves, and general risk reserve	31,563	31,536	31,534
unappropriated profits	9,437	7,808	7,808
net profit or loss for the year	4,868	3,258	3,258
other comprehensive income	(2,914)	(8,518)	(8,516)
Exclusions from equity:	**3,167**	**1,770**	**1,770**
net profit or loss for the year	4,868	3,258	3,258
cash flow hedges	(1,701)	(5,028)	(5,028)
Other fund reductions:	**2,914**	**4,203**	**4,692**
goodwill	755	755	755
other intangible assets	1,454	1,390	1,333
additional asset adjustments (AVA, DVA, NPE, capital exposures and DTA above the thresholds specified in Art. 48 of the CRR)[1]	705	2,058	2,547
Provisional treatment of unrealized gains and losses on securities measured at fair value through OCI according to Art. 468 of the CRR	-	**1,360**	**1,360**
Temporary reversal of IFRS 9 impact	**1,232**	**1,836**	**1,393**
Net profit or loss for the year, included by permission from the PFSA	**1,624**	**3,258**	**895**
Tier 1 capital	**39,729**	**38,105**	**34,810**
Tier 2 capital (subordinated debt)	**2,080**	**2,216**	**2,584**
Own funds	**41,809**	**40,689**	**37,394**
Requirements for own funds	**16,049**	**15,884**	**15,858**
Credit risk	14,050	13,449	13,423
Operational risk[2]	1,841	2,043	2,043
Market risk[3]	125	342	342
Credit valuation adjustment risk	33	50	50
Total capital ratio	**20.84**	**20.49**	**18 ,86%**
Tier 1 capital ratio	**19.80**	**19.19**	**17 ,56%**

[1] AVA – additional valuation adjustment, DVA – debt valuation adjustment, NPE – non-performing exposures, DTA – deferred tax assets

[2] In 2023, there was a decrease in the own funds requirement for operational risk mainly due to the implementation of individual scaling of the legal risk costs of mortgage loans in CHF in the AMA approach in accordance with the PFSA decision obtained on 22 February 2023. The purpose of the change is to ensure that the historically incurred costs of the portfolio of mortgage loans in CHF are taken into account in the AMA model at an appropriate scale in relation to the risks that the Bank may potentially still incur as a result.

[3] The decrease in the value of the market risk-related requirement as at the end of 2023 relative to 31 December 2022 was mainly due to a decrease in the currency risk-related requirement, which did not occur at the end of September 2023 compared to PLN 138 million at the end of December 2022.

Figures as at 31 December 2022 have been restated in connection with the retroactive accounting of profit for 2022.

Pursuant to Art. 26 (2) of CRR, an institution may include interim or year-end profits in CET1 after a formal decision was taken confirming the final profit or loss of the institution for the year, or before it has taken the formal decision, only with the competent authority's prior permission.

In line with the European Banking Authority's (EBA) guidance in the single rulebook Q&A setting out the EBA's position on when to recognize annual and interim profits in capital adequacy data (Q&A 2018_3822, Q&A 2018_4085 and Q&A 2013_208), from the point at which the institution formally meets the criteria to include the profit for the period in Tier 1 capital, it is considered that the profit should be included on a retrospective date (the date of the profit rather than the date the criterion is met) and an adjustment to own funds should be made to the date to which the profit relates. As the Bank's Annual General Meeting approved the distribution of the profit on 21 June 2023, the above guidelines apply to the Bank's own funds for the figures as at 31 December 2022.

If the transitional arrangements for the partial reversal of the impact of IFRS9 under Article 473a of the CRR had not been applied, the Bank's Tier 1 capital would have amounted to PLN 38,290 million, the total capital would have amounted to PLN 40,370 million, the Tier 1 capital ratio would have been 19.26%, the total capital ratio would have been 20.30% and the leverage ratio 7.93%.

- **INTERNAL CAPITAL (PILLAR II)**

In 2023, the Bank calculated internal capital in accordance with the commonly binding legal regulations:

- the CRR Regulation;
- the Polish Banking Law;
- the Regulation of the Minister of finance, funds and regional policy of 8 June 2021 on the risk management and internal control systems and remuneration policy in banks (effective from 11 June 2021);
- the Regulation of the Minister of finance, funds and regional policy of 27 July 2021 on the detailed method of estimating internal capital and conducting reviews of estimation strategies and procedures and maintaining a permanent level of internal capital by banks (effective from 4 August 2021)
- the Act on macro-prudential supervision;

and the Bank's internal regulations.

Internal capital constitutes an estimated amount of capital necessary to cover all material types of risk arising from the Bank's operations. The purpose of estimating the internal capital is to determine own funds at a level ensuring operational safety, taking into account changes in the profile and scale of the activities conducted and adverse stress conditions, and enabling more effective management of the Bank aimed at improving the profitability of operations and profitability of the capital invested.

The internal capital for covering significant risk types is determined using the methods specified in the internal regulations.

The ratio of own funds to its internal capital remained at a level exceeding both the statutory limit and the Bank's internal limit.

- **DISCLOSURES (PILLAR III)**

The Bank publishes quarterly information in particular concerning risk management and capital adequacy in accordance with: the CRR Regulation and the executive acts to the CRR, guidelines of the European Banking Authority, including guidelines concerning disclosure requirements pursuant to section eight of the CRR Regulation ("EBA guidelines"), the Act on macro-prudential supervision, the Polish Banking Law Act, Recommendations M, P, R and Z issued by the Polish Financial Supervision Authority as part of the Report, "Capital adequacy and other information to be published by the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group". The last report was prepared as at 31 December 2023.

Details of the scope of information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which are available on the Bank's website (www.pkobp.pl).

(IN PLN MILLION)

67. LEVERAGE RATIO

The Bank calculates the leverage ratio as one of its capital adequacy measures.

The objective of excessive leverage risk management is to ensure an appropriate relationship between the amount of the Tier 1 capital and the total of balance sheet assets and off-balance sheet liabilities granted by the Bank.

For the purpose of measuring the risk of excessive financial leverage, a leverage ratio is calculated by the Bank as a measure of Tier 1 capital divided by the measure of total exposure and is expressed as a percentage rate. The leverage ratio as at 31 December 2023 and 31 December 2022 was above the internal and external limits, as well as above the minimum levels as recommended by the PFSA.

To maintain the leverage ratio at an acceptable level, the Bank set up a strategic tolerance limit and a threshold for the ratio and they are regularly monitored and verified periodically.

	Leverage ratio exposures specified in CRR related to capital requirements		
	31.12.2023	31.12.2022 restated	31.12.2022 published
Total capital and exposure measure			
Tier 1 capital	39,729	38,105	34,810
Total exposure measure for leverage ratio calculation	484,318	411,721	411,721
Leverage ratio			
Leverage ratio (in %)	8.20	9, 26	8 ,45

68. DIVIDENDS AND DISTRIBUTION OF RETAINED EARNINGS

On 28 November 2022, PKO Bank Polski adopted a dividend policy for the Bank and the Group ("Dividend policy"). The Dividend policy takes into account the Bank's intention to provide stable dividend payments in the long term, in accordance with the principle of prudent management of the Bank and the Group, in compliance with the law and the PFSA position on the dividend policy assumptions of commercial banks. The objective of the Dividend policy is to optimize the capital structure of the Bank and the Group, while considering the return on equity, the cost of capital and the capital needs for development, and maintaining an appropriate level of the capital adequacy ratios and meeting the minimum requirement for own funds and eligible liabilities (MREL). The repurchase of own shares for cancellation is an additional tool for capital redistribution. The General Meeting gives its consent to the acquisition of own shares by the Bank, after prior approval of the Supervisory Board, specifying the terms of the acquisition, including the maximum number of shares to be acquired, the period of authorization to acquire shares, which may not exceed five years and the maximum and minimum amount of consideration for the acquired shares, if the acquisition takes place for consideration. Purchase of own shares for cancellation in each case requires the Bank to obtain the prior consent of the Polish Financial Supervision Authority.

- ### THE PFSA'S RECOMMENDATIONS REGARDING DIVIDEND PAYMENTS IN 2024

On 14 December 2023, the PFSA adopted a position on the 2024 dividend policy of commercial banks, cooperative and associating banks, insurance companies, reinsurance companies, insurance and reinsurance companies, investment fund companies, universal pension companies and brokerage houses.

The dividend payment criteria for commercial banks indicated in the PFSA's positions are as follows:

1. An amount of up to 50% of the profit for 2023 may only be paid out by banks that fulfil all of the following criteria:

- not implementing a recovery program;
- positively assessed in the supervisory review and evaluation process (SREP) – final BION score not worse than 2.5;
- having a leverage ratio (LR) of more than 5%;
- having a Tier 1 core capital ratio (CET1) of not less than the required minimum: 4.5% +56%*P2R requirement + combined buffer requirement + P2G;
- having a Tier 1 capital ratio (T1) not lower than the required minimum: 6% +75%*P2R requirement + combined buffer requirement + P2G;
- having a total capital ratio (TCR) not lower than the required minimum: 8% + P2R requirement + combined buffer requirement +P2G.

2. An amount of up to 75% of the profit for 2023 may be paid only by banks meeting at the same time the criteria for payment of 50% and at the same time whose portfolio of receivables from the non-financial sector is characterized by good credit quality (the ratio of the portfolio of non-performing loans to the non-financial sector (NPL), including debt instruments, is at a level of no more than 5%).

The criteria set out in points 1 and 2 should be met by the bank both at the individual and consolidated level, as at the end of 2023 and on the date of the decision of the General Shareholders' Meeting to distribute dividends. The maximum possible level of dividend to be distributed from profit earned in 2023 is limited to 75% in connection with the expectation of strengthening the capital base in order to absorb the possible materialization of risks accumulated in the environment of the Polish banking sector.

Additionally, the PFSA indicated that the banks which have considerable portfolios of foreign currency housing loans should adjust the rate of dividend distribution based on two additional criteria:

- Criterion 1 – based on the share of foreign currency housing loans for households granted to unsecured borrowers in the total portfolio of receivables from the non-financial sector;
- Criterion 2 – based on the share of loans granted in 2007 and 2008 in the foreign currency housing loans for households' portfolio.

The PFSA recommended that appropriate adjustments be applied, depending on the size of the Bank's portfolio:

- Criterion 1:

  – banks with a share exceeding 5% – adjustment of the dividend rate by 20 p.p.;

  – banks with a share exceeding 10% – adjustment of the dividend rate by 40 p.p.;

  – banks with a share exceeding 20% – adjustment of the dividend rate by 60 p.p.;

  – banks with a share exceeding 30% – adjustment of the dividend rate by 100 p.p.;

- Criterion 2:

  – banks with a share exceeding 20% – adjustment of the dividend rate by 30 p.p.;

  – banks with a share exceeding 50% – adjustment of the dividend rate by 50 p.p.;

whereas the total value of the adjustment (maximum 75%) is the sum of adjustments resulting from both criteria.

The PFSA additionally advised that banks should not undertake other activities, in particular those outside the scope of their current business and operating activities, which could result in a reduction of own funds, without prior consultation with the PFSA. This also applies to dividend payments, if any, from retained earnings and buybacks of own shares. The PFSA expects that any implementation of such operations will be preceded in each case by a consultation with the PFSA and will depend on its result.

- **PAYMENT OF DIVIDEND FOR 2022**

On 21 June 2023, the Annual General Meeting of PKO Bank Polski S.A. (AGM) passed a resolution on distribution of profit of PKO Bank Polski S.A. for 2022, in accordance with which:

- the amount of PLN 1,629,138,013.50 was allocated to reserve capital for the payment of dividends, including interim dividends, in accordance with § 30 of the Bank's Articles of Association,
- the amount of PLN 1,629,138,013.50 was left as unapportioned.

At the same time, the AGM passed a resolution to leave PKO Bank Polski S.A.'s retained earnings, in the amount of PLN 7,808,836,372, undistributed.

The above resolutions are consistent with the individual recommendation of the Polish Financial Supervision Authority ("PFSA") received on 17 March 2023, in which the PFSA confirmed that the Bank fulfils the requirements for the payment of dividends at a level of up to 50% of the net profit for 2022 but, at the same time, recommended that the Bank mitigate the risks present in its operations.

The distribution of profit for 2022 adopted by the AGM did not preclude the Bank's Management Board from deciding to distribute profit to shareholders in the form of an interim dividend and to use the reserve capital for this purpose.

In 2023, the Bank consulted the PFSA on two occasions relating to the possibility of the Bank distributing part of its profit from reserve capital in the form of an interim dividend. On 21 July 2023, the Bank received a negative opinion from the PFSA Office in this respect, and on 11 December 2023, the Bank received a positive opinion from the PFSA Office.

In its letter dated 11 December 2023, the PFSA stated that having analyzed the current business and financial standing of the Bank and the arguments presented by the Bank, the PFSA does not raised any concerns to the potential payment of interim dividend by the Bank in the amount of PLN 1.6 billion or less from the profit earned in the period between 1 January 2022 and 31 December 2022 allocated to the reserve capital in line with resolution No 7 of the Annual General Meeting of 21 June 2023 with regard to the distribution of profit earned by PKO Bank Polski S.A. in 2022. The PFSA noted that all decisions affecting the Bank's capital position, including those relating to the distribution of generated profit, should be made taking into account not only the provisions of law and the supervisory authority's positions and guidelines, but also the principles of prudent and stable management of the Bank, and in particular - the need to ensure that the Bank is equipped with own funds to cover all risks occurring in its operations, as well as its further sustainable development.

On 19 December 2023, the Bank's Management Board decided to pay an interim dividend for the financial year from 1 January 2023 to 31 December 2023 and to earmark PLN 1,600,000,000 for this purpose. On the same day, the Supervisory Board approved the payment of the interim dividend. The interim dividend was paid out only of the reserve capital created for the distribution of dividend, including interim dividends (the funds for the payment will not come from the Bank's profit earned since the end of 2022). 1,250,000,000 shares (series A, B, C, D) gave entitlement to the Interim Dividend. The interim dividend per share was PLN 1.28 gross. The record date for the interim dividend was 25 January 2024 and the dividend payment date was 1 February 2024.

(IN PLN MILLION)

OTHER NOTES

69. NOTES TO THE CASH FLOW STATEMENT

- ### CASH AND CASH EQUIVALENTS

ACCOUNTING POLICIES:

Cash and cash equivalents consist of cash in hand, cash on nostro accounts and a deposit with the National Bank of Poland, as well as current amounts due from banks, as well as other cash equivalents with maturities up to 3 months from the date of acquisition.

FINANCIAL INFORMATION

CASH AND CASH EQUIVALENTS	2023	2022
Cash, current account with the Central Bank	13,924	11,768
Deposits with the Central Bank	3,752	3,951
Current amounts due from banks	12,144	13,857
Restricted cash and cash equivalents of which	31	35
- loans and advances to customers	31	35
Total	**29,851**	**29,611**

- ### RESTRICTED CASH AND CASH EQUIVALENTS

Cash of PLN 31 million (as at 31 December 2022: PLN 35 million) pledged as collateral for securities' transactions conducted by Biuro Maklerskie PKO BP are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of settlement-making participant is obliged to make payments to the settlement fund which guarantees a proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW_CCP on a daily basis.

- ### CASH FLOWS FROM INTEREST AND DIVIDENDS, BOTH RECEIVED AND PAID

INTEREST INCOME ON:	2023	2022
loans to and other amounts due from banks	1,893	1,369
debt securities:	6,333	3,639
loans and advances to customers	17,757	12,954
Total	**25,983**	**17,962**

The above amounts of interest received do not include the amounts of commission recognized using the effective interest rate as interest income.

INTEREST EXPENSES – PAID:	2023	2022
amounts due to banks	(88)	(127)
amounts due to customers	(6,903)	(2,775)
loans and advances received	(49)	(243)
leases	(30)	(14)
hedging derivatives	(4,108)	(2,616)
debt securities	(158)	(89)
subordinated liabilities	(234)	(99)
Total	**(11,570)**	**(5,963)**

(IN PLN MILLION)

DIVIDEND INCOME RECEIVED	2023	2022
from subsidiaries, associates and joint ventures	638	574
from financial assets held for trading	2	1
financial instruments not held for trading, measured at fair value through profit or loss	13	12
Total	**653**	**587**

- **CASH FLOWS FROM OPERATING ACTIVITIES – OTHER ADJUSTMENTS**

OTHER ADJUSTMENTS	2023	2022
Cash flow hedges and hedges of a net investment in a foreign operation	4,108	(1,637)
Actuarial gains and losses	(4)	(8)
Currency translation differences on foreign operations	(2)	-
Remeasurement of shares in subordinated entities and other changes	120	5
Scrapping of property, plant and equipment and intangible assets	(67)	(64)
Other changes	(85)	125
Total	**4,070**	**(1,579)**

- **EXPLANATION OF DIFFERENCES BETWEEN CHANGES IN THE STATEMENT OF FINANCIAL POSITION ITEMS AND CHANGES IN THESE ITEMS PRESENTED UNDER OPERATING ACTIVITIES IN THE CASH FLOW STATEMENT**

(GAINS)/LOSSES ON INVESTING ACTIVITIES	2023	2022
Gains on sale and scrapping of property, plant and equipment, intangible assets and assets held for sale	(17)	(17)
Losses on sale and scrapping of property, plant and equipment, intangible assets and assets held for sale	3	3
Total	**(14)**	**(14)**

Analytics for "Interest and dividends received" and "Interest paid" in cash flow from operating activities	2023	2022
Reported under investing activities:	(6,935)	(4,189)
dividends received from subordinated entities	(638)	(574)
from financial assets held for trading	(2)	(1)
dividends received from securities not held for trading, measured at fair value through profit or loss	(13)	(12)
interest received on securities measured at fair value through other comprehensive income	(4,154)	(1,883)
interest received on securities measured at amortized cost	(2,128)	(1,719)
Reported under financing activities:	283	342
interest paid on subordinated liabilities	234	99
interest paid on loans and advances received	49	243
Total	**(6,652)**	**(3,847)**

(IN PLN MILLION)

CHANGES IN AMOUNTS DUE FROM BANKS	2023	2022
Change resulting from the balance sheet items	2,542	(5,146)
Changes in allowances for expected credit losses	(8)	(1)
Exclusion of the change in cash and cash equivalents	(1,713)	6,174
Total	**821**	**1,027**

CHANGE IN SECURITIES	2023	2022
Change resulting from the balance sheet items	(60,453)	(148)
Changes in allowances for expected credit losses	(4)	40
Fair value of financial assets measured at fair value through other comprehensive income	2,835	(2,025)
Recognition of acquisition / disposal of securities measured at fair value through other comprehensive income in investing activities	35,330	4,473
Recognition of acquisition / disposal of securities measured at amortized cost in investing activities	15,899	(5,945)
Other inflows from investing activities	(78)	(8)
Total	**(6,471)**	**(3,613)**

CHANGE IN LOANS AND ADVANCES TO CUSTOMERS	2023	2022
Change resulting from the balance sheet items	(14,752)	(3,241)
Changes in allowances for expected credit losses	(456)	(694)
Fair value of financial assets measured at fair value through other comprehensive income	(20)	13
Exclusion of the change in cash and cash equivalents	(4)	11
Total	**(15,232)**	**(3,911)**

CHANGE IN NON-CURRENT ASSETS HELD FOR SALE	2023	2022
Change resulting from the balance sheet items	(129)	8
Changes in impairment losses on non-current assets held for sale	1	-
Total	**(128)**	**8**

CHANGE IN OTHER ASSETS	2023	2022
Change resulting from the balance sheet items	244	(73)
Changes in impairment losses on other assets and inventory write-downs	-	(14)
Total	**244**	**(87)**

CHANGE IN LIABILITIES IN RESPECT OF LOANS AND ADVANCES RECEIVED	2023	2022
Change resulting from the balance sheet items	(726)	(4,416)
Recognition of drawing/repayment of long-term loans and advances under financing activities, including interest	715	5,219
Total	**(11)**	**803**

(IN PLN MILLION)

CHANGE IN LIABILITIES IN RESPECT OF SECURITIES IN ISSUE	2023	2022
Change resulting from the balance sheet items	3,421	-
Recognition of drawing/repayment of liabilities in respect of debt securities in issue under financing activities	(3,531)	-
Total	(110)	-

CHANGE IN ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES AND IMPAIRMENT LOSSES ON NON-FINANCIAL AND OTHER ASSETS	2023	2022
Change in accumulated allowances and provisions for expected credit losses	**377**	**821**
for amounts due from banks	8	1
for loans and advances to customers	456	693
for securities	4	(40)
for other financial assets	(10)	10
provisions for financial liabilities and guarantees granted	(81)	157
Change in accumulated impairment losses on non-financial assets and other provisions	**2,196**	**332**
on non-current assets held for sale	(1)	-
on property, plant and equipment	34	3
on intangible assets	1	(2)
on investments in subordinated entities	-	52
on other non-financial assets	10	4
other provisions	2,152	275
Total	2,573	1,153

CHANGE IN OTHER LIABILITIES	2023	2022
Change resulting from the balance sheet items	3,756	1,390
Adjustment to exclude dividends	(1,600)	-
Recognition of lease payments in financing activities	255	242
Total	2,411	1,632

CHANGE IN LEASE LIABILITIES	2023	2022
Opening balance	**864**	**904**
Changes recorded in operating activities:	425	202
- new agreements	296	62
- closing of agreements	(6)	(4)
- modifications	138	122
- interest	30	14
- foreign exchange differences	(33)	8
Recognition of lease payments in financing activities	(255)	(242)
Closing balance	1,034	864

(IN PLN MILLION)

- **RECONCILIATION OF ITEMS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION WITH FINANCING ACTIVITIES IN THE CASH FLOW STATEMENT**

2023	As at the beginning of the period	Recognized in financing activities in the cash flow statement		Presented in operating activities in the cash flow statement (including: interest accrued, foreign exchange differences and other)	As at the end of the period
		Incurred	Repaid		
Loans and advances received	726	-	(715)	(11)	-
from customers	726	-	(715)	(11)	-
Liabilities in respect of debt securities in issue	-	3,531	-	(110)	3,421
Subordinated liabilities - subordinated bonds	2,781	-	-	(7)	2,774
Payment of lease liabilities	864	-	(255)	425	1,034
Total	**4,371**	**3,531**	**(970)**	**297**	**7,229**

2022	As at the beginning of the period	Recognized in financing activities in the cash flow statement		Presented in operating activities in the cash flow statement (including: interest accrued, foreign exchange differences and other)	As at the end of the period
		Incurred	Repaid		
Loans and advances received	5,142	-	(5,219)	803	726
from banks	13	-	-	(13)	-
from customers	5,129	-	(5,219)	816	726
Subordinated liabilities - subordinated bonds	2,716	-	-	65	2,781
Payment of lease liabilities	904	-	(242)	202	864
Total	**8,762**	**-**	**(5,461)**	**1,070**	**4,371**

Other investment inflows include dividend proceeds and proceeds from the sale of equity securities. Other investment expenditure includes purchases of equity securities.

In 2023, under "other inflows from investing activities", the Bank presents the effect of the sale of series A VISA shares in the amount of PLN 78 million. In 2022, in the item "other investment expenditure", the Bank presents the effect of the purchase of PKN ORLEN shares in the amount of PLN 707 million and in the item "other investment inflows" the effect of the sale of these shares in the amount of PLN 715 million. On 29 September 2022, the Bank acquired 14,161,080 PKN ORLEN S.A. bearer shares from the State Treasury – Minister of State Assets for a price equal to the result of the multiplication of the number of shares and the price of one share in accordance with the closing price of PKN ORLEN S.A. shares on the main market of the Warsaw Stock Exchange on the date of conclusion of the agreement decreased by the discount determined on market terms. On 30 September 2022, the Bank concluded a total return swap with PKN ORLEN S.A. for a period of 1 month, where the underlying instrument were acquired shares. PKN ORLEN S.A. made a cash deposit to the Bank as collateral for the receivables, which was subject to interest at market conditions. On 18 October 2022, the Bank disposed of all shares in PKO ORLEN S.A. The sale took place under the accelerated bookbuilding (ABB) formula.

70. TRANSACTIONS WITH THE STATE TREASURY AND RELATED ENTITIES

- **TRANSACTIONS WITH THE STATE TREASURY**

(IN PLN MILLION)

The State Treasury holds a 29.43% interest in the Bank's share capital.

Pursuant to the Act of 30 November 1995 on the state support in repayment of certain housing loans, reimbursement of guarantee bonuses paid, and amendments to certain Acts, PKO Bank Polski SA receives payments from the State budget as the repurchase of interest receivable on housing loans.

TRANSACTIONS WITH THE STATE TREASURY	2023	2022
Income recognized on an accruals basis	65	65
Income recognized on a cash basis	4	12
Income from temporary redemption by the State Treasury of interest on housing loans in the "old portfolio"	61	53

As of 1 January 2018 based on the provisions of the Act of 30 November 1995 on state support in the repayment of certain housing loans, granting guarantee bonuses and reimbursement of guarantee bonuses paid, the borrowers acquired the right to be forgiven the remaining debt by the State Treasury, which will result in gradual (until 2026) full settlement of the housing loan indebtedness from the so-called "old" portfolio. The Bank conducts settlements in respect of repurchase of interest on housing loans by the State Budget and on this account the Bank received commission in 2023 and 2022 amounting to under PLN 1 million.

As of 1 January 1996, the Bank became the general distributor of value marks. The Bank receives commissions in this respect from the State Treasury – in 2023 and in 2022, the Bank received commission on this account of under PLN 1 million.

Biuro Maklerskie PKO BP plays the role of an agent for the issue of retail Treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, Biuro Maklerskie PKO BP receives a fee for providing the services of an agent for the issue of bonds – in 2023 in the amount of PLN 222 million, and in 2022 in the amount of PLN 254 million.

- **Significant transactions with the State Treasury's related entities**

The Bank's exposure and the value of the Bank's liabilities to 10 entities related to the State Treasury with the highest total exposure are presented below.

SIGNIFICANT TRANSACTIONS WITH THE STATE TREASURY'S RELATED ENTITIES	BALANCE SHEET EXPOSURE, INCLUDING EXPOSURE TO LOANS AND DEBT INSTRUMENTS		OFF-BALANCE SHEET EXPOSURE		LIABILITIES IN RESPECT OF DEPOSITS	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
counterparty 1	-	-	3,150	2,453	2,350	2,820
counterparty 2	16,586	16,097	32	31	112	87
counterparty 3	761	245	1,065	1,081	140	5
counterparty 4	1,933	422	2,246	3,807	544	2,087
counterparty 5	685	833	2,360	2,096	-	6
counterparty 6	-	118	1,501	1,500	637	275
counterparty 7	60	1,643	2,070	4,610	1,355	1,088
counterparty 8	915	751	1,009	557	-	-
counterparty 9	1,177	608	640	1,320	395	59
counterparty 10	1,068	841	538	816	-	-

	2023	2022
Interest and commission income	594	420
Interest and commission expense	193	497

As at 31 December 2023, the allowance for expected credit losses on an individualized basis for the above exposures amounted to PLN 1 million (as at 31 December 2022 it amounted to PLN 1 million).

(IN PLN MILLION)

In the opinion of the Bank, all transactions with entities related to the State Treasury are concluded on an arm's-length basis.

- **RELATED-ENTITY TRANSACTIONS – CAPITAL LINKS**

The Bank provides services to its entities related through capital, including maintaining bank accounts, accepting deposits, granting loans and advances, debt securities issuance, granting of guarantees and spot exchange transactions and offering participation units and certificates of investment funds, lease products, factoring products and insurance products of the Bank's Group companies, and services offered by Brokerage Office of PKO Bank Polski S.A.

The Bank provides services to PKO Bank Hipoteczny S.A. within the scope of intermediation in sales of housing loans for natural persons, performing tasks as part of post-transaction services in respect of these loans and support tasks under the outsourcing agreement. The Bank offers its infrastructure and IT services and rents office space to selected Bank's Group companies. Together with Centrum Elektronicznych Usług Płatniczych eService sp. z o.o., the Bank renders services of payment transaction clearance.

Transactions between the Bank as the parent and its subsidiaries, associates and joint ventures are presented in the table below. All transactions presented below were arm's length transactions. Repayment terms are within a range of from one month to seventeen years.

31.12.2023 Company name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	-	-	8	318
NEPTUN - fizan and its subsidiaries	141	141	20	-
PKO Bank Hipoteczny SA	4,813	4,565	59	6,944
PKO BP BANKOWY PTE SA	-	-	34	-
PKO BP Finat sp. z o.o.	-	-	22	20
PKO Leasing SA and its subsidiaries	25,887	25,844	27	4,500
PKO Towarzystwo Funduszy Inwestycyjnych SA	-	-	226	-
PKO Towarzystwo Ubezpieczeń SA	5	-	54	-
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	2	-	132	-
Total subsidiaries	**30,848**	**30,550**	**582**	**11,782**

For the period ended 31.12.2023 Company Name	Total income	of which interest and commission income	Total expense	of which interest and commission income
KREDOBANK SA and its subsidiary	2	2	-	-
NEPTUN - fizan and its subsidiaries	6	6	1	1
PKO Bank Hipoteczny SA	570	553	3	-
PKO BP BANKOWY PTE SA	10	1	-	-
PKO BP Finat sp. z o.o.	33	-	9	1
PKO Leasing SA and its subsidiaries	1,542	1,535	36	36
PKO Towarzystwo Funduszy Inwestycyjnych SA	195	1	10	10
PKO Towarzystwo Ubezpieczeń SA	216	216	2	2
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	247	211	5	5
Total subsidiaries	**2,821**	**2,525**	**66**	**55**

(IN PLN MILLION)

31.12.2022 Company name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	-	-	39	345
Merkury - fiz an and its subsidiaries	-	-	21	-
NEPTUN - fizan and its subsidiaries	151	151	30	-
PKO Bank Hipoteczny SA	5,506	5,470	509	7,735
PKO BP BANKOWY PTE SA	-	-	15	-
PKO BP Finat sp. z o.o.	-	-	38	15
PKO Finance AB	-	-	190	-
PKO Leasing SA and its subsidiaries	21,805	21,778	27	5,305
PKO Towarzystwo Funduszy Inwestycyjnych SA	-	-	223	-
PKO Towarzystwo Ubezpieczeń SA	-	-	16	1
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	-	-	129	-
Total subsidiaries	27,462	27,399	1,237	13,401

for the period ended 31.12.2022 Company Name	Total income	of which interest and commission income	Costs total	of which on account of interest and commission
KREDOBANK SA and its subsidiary	2	2	-	-
NEPTUN - fizan and its subsidiaries	3	3	1	1
PKO Bank Hipoteczny SA	904	800	-	-
PKO BP BANKOWY PTE SA	1	1	-	-
PKO BP Finat sp. z o.o.	4	-	8	1
PKO Finance AB	29	29	159	159
PKO Leasing SA and its subsidiaries	1,222	1,054	-	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	146	1	7	7
PKO Towarzystwo Ubezpieczeń SA	314	313	-	-
PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary	239	208	3	3
Total subsidiaries	2,864	2,411	178	171

31.12.2023 Company name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	79	13	138	64
"Centrum Obsługi Biznesu" sp. z o.o.	11	11	5	-
Bank Pocztowy S.A.				1
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	-	-	1	-
Operator Chmury Krajowej sp. z o.o.	-	-	34	428
Total joint ventures and associates	90	24	178	493

(IN PLN MILLION)

For the period ended 31.12.2023 Company name	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	897	838	192	192
"Centrum Obsługi Biznesu" sp. z o.o.	2	2	-	-
Operator Chmury Krajowej sp. z o.o.	1	1	45	-
Total joint ventures and associates	900	841	237	192

31.12.2022 Company name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	64	-	206	63
"Centrum Obsługi Biznesu" sp. z o.o.	11	10	2	-
Bank Pocztowy S.A.	-	-	-	1
Operator Chmury Krajowej sp. z o.o.	-	-	31	917
Total joint ventures and associates	75	10	239	981

For the period ended 31.12.2022 Company name	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	850	783	198	198
"Centrum Obsługi Biznesu" sp. z o.o.	1	1	1	1
Operator Chmury Krajowej sp. z o.o.	-	-	29	-
System Ochrony Banków Komercyjnych S.A.[1]	-	-	956	-
Total joint ventures and associates	851	784	1,184	199

[1] for more details, see note "Operating expenses"

- **RELATED-ENTITY TRANSACTIONS – PERSONAL LINKS**

As at 31 December 2023, four entities were related to the Bank through the key management personnel of PKO Bank Polski S.A. or close family members of the key management personnel. As at 31 December 2022, it was ten entities. In 2023 and in 2022, no transactions were conducted between the Bank and those entities.

71. BENEFITS FOR THE PKO BANK POLSKI SA KEY MANAGEMENT

ACCOUNTING POLICIES:

Short-term employee benefits include, apart from the basic salary, also the part of the variable remuneration component paid in cash which is not deferred.

The deferred part of the variable remuneration component paid in cash was recognized as other long-term benefits.

Non-deferred and deferred remuneration components granted in the form of financial instruments i.e. Phantom shares (for which conversion into cash is carried out after an additional period of retention) are recognized as share-based payments settled in cash in accordance with the principles described below.

- **VARIABLE REMUNERATION COMPONENTS OF KEY MANAGEMENT PERSONNEL IN THE BANK**

Variable remuneration components are granted at the Bank in the form of: non-deferred remuneration (in the first year after the calendar year constituting an appraisal period), and deferred remuneration (for the next five years after the first year of the appraisal period), whereas both the non-deferred and deferred remuneration is awarded in equal parts in cash and in the form of financial instruments, i.e. phantom shares (for which conversion into cash is carried out after an additional period of retention).

The component of remuneration in the form of the financial instrument is converted into phantom shares after granting a particular component – taking into consideration the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange for the first quarter of the year after the bonus period, available on Thomson Reuters or Bloomberg information system. Next, after a period of retention and deferral period, the shares are converted into cash – taking into consideration the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange for the first quarter of the year in which the payment is made, available on either the Thomson Reuters or Bloomberg information system.

The deferred remuneration may be reduced in the event of deterioration in the financial performance of the Bank, a loss incurred by the Bank or deterioration of other variables related to the performance in the period of appraisal of key management personnel and results of the organizational units/cells supervised or managed by these people, which were revealed after the appraisal period.

For a more extensive description, please refer to the chapter " **Benefits for supervisors and management persons** " of the PKO Bank Polski S.A. Group Directors' Report for 2023, prepared together with the Directors' Report of PKO Bank Polski S.A.

FINANCIAL INFORMATION

COST OF REMUNERATION OF THE BANK'S MANAGEMENT AND SUPERVISORY BOARDS (in PLN thousand)	2023	2022
Management Board of the Bank		
Short-term employee benefits	14,276	12,975
Long-term employee benefits	1,946	1,988
Share-based payments settled in cash[1]	9,787	438
Benefits to the Bank's Management Board members who ceased to perform their functions before the reporting date	2,700	1,244
Total	**28,709**	**16,645**
Supervisory Board of the Bank		
Short-term employee benefits	2,215	2,165
Total	**2,215**	**2,165**

[1] "Share-based payments settled in cash" includes both costs of variable remuneration in the form of a financial instrument for the current period, as well as the effect of revaluation of provisions for variable remuneration components in the form of a financial instrument for previous years based on the current price of the Bank's shares.

LOANS AND ADVANCES GRANTED BY THE BANK TO THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARDS (in PLN thousand)	31.12.2023	31.12.2022
Supervisory Board of the Bank	-	-
Management Board of the Bank	159	101
Total	**159**	**101**

The interest rates and repayment terms do not differ from the arm's-length conditions and repayment terms for similar banking products.

In 2023, members of the Bank's Management Board in office as at 31 December 2023 received remuneration from the Bank's related entities in the amount of PLN 62 thousand. In 2022, members of the Bank's Management Board did not receive any remuneration from the Bank's related entities.

The Bank provides the key management personnel, members of the Supervisory Board and their families with standard financial services which comprise, among other things, operating bank accounts, accepting deposits, granting loans and providing other financial services. All these transactions are concluded on an arm's length basis.

(IN PLN MILLION)

- VARIABLE REMUNERATION COMPONENTS

PROVISION FOR VARIABLE REMUNERATION COMPONENTS	31.12.2023 (for 2019-2023)	31.12.2022 (for 2018-2022)
Management Board (including members of the Bank's Management Board who ceased	28	20
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	87	60
Total provision	115	80
Remuneration paid during the year	**2023 (for 2018-2023)**	**2022 (for 2017-2021)**
- granted in cash	**18**	**18**
Management Board (including members of the Bank's Management Board who ceased to perform their functions before the reporting date)	5	4
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	13	14
- granted in the form of financial instruments	**11**	**19**
Management Board (including members of the Bank's Management Board who	4	5
Other Risk Takers (persons holding managerial positions other than members of the	7	14
Total remuneration paid	**29**	**37**

72. LEASES

ACCOUNTING POLICIES:

The Bank applies exceptions and does not recognize right-of-use assets and liabilities with respect to:

- short-term leases, which include agreements without an option to buy an asset, concluded for a period not exceeding 12 months from the commencement of the agreement, in particular agreements concluded for an indefinite period with a short (up to 12 months) notice period, without significant penalties, which include in particular leasehold improvements incurred and relocation costs;
- low-value leases (an asset's value is lower than PLN 20,000, determined based on the value of a new asset, regardless of the age of the leased asset), excluding agreements for rental of space.

The Bank initially measures lease liabilities at the present value of the lease payments outstanding as at that date.

The amount of the lease liability is affected by:

- fixed payments less any lease incentives payable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- any residual guarantees expected from the lessee;
- the exercise price of a purchase option if the probability that the Bank would exercise that option is higher than 50%;
- payments of penalties for terminating the lease, if the lease agreement contains an option for the Bank to terminate the lease as a lessee.

The Bank does not classify variable fees that depend on external factors as lease payments.

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

- increasing the carrying value to reflect interest on the lease liability;
- reducing the carrying value to reflect the lease payments made; and
- remeasuring the carrying value to reflect any reassessment or lease modifications, or to reflect revised fixed lease payments.

The Bank records revaluation of lease liabilities as an adjustment to the right-of-use asset. If as a result of remeasurement the carrying amount of the right-of-use asset is reduced to zero and the lease liability is further reduced, the Bank recognizes the remaining amount of the remeasurement as a profit or loss.

The Bank initially measures the right-of-use assets at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Bank.

The Bank subsequently measures the right-of-use asset at cost less accumulated depreciation (depreciation calculated under the straight-line method) and accumulated impairment losses, and adjusted for any remeasurement of the lease liability.

To discount future lease payments, the Bank applies discount rates that:

- are calculated based on yield curves reflecting the cost of financing in a given currency;
- cover the tenor of the longest lease contract subject to measurement and reflecting – for a given currency – a fixed market interest rate and the Bank's cost of financing (the tenors of the lease agreements are within the range of from 1 to 99 years);
- have been read from the curve for maturity corresponding to one-half of the maturity of the lease agreement.

The Bank performs quarterly updates of the incremental borrowing rate for lease agreements.

The Bank applies the same discount rates for the portfolio of car leases and property leases, including rights to perpetual usufruct of land, taking into account the impact of the lease security on the discount rate applied.

The Bank recognizes the lease payments relating to short-term or low-value leases as cost using the straight-line method, over the term of the lease. The differences between the amounts paid and those arising from the straight-line recognition of the costs are recorded as prepayments or accruals.

FINANCIAL INFORMATION

LESSEE - LEASE AMOUNTS RECOGNIZED IN THE INCOME STATEMENT	2023	2022
Costs related to short-term lease contracts	(15)	(6)
Costs related to lease contracts for low-value assets (other than short-term), non-deductible VAT expenses and service charges	(96)	(84)
Total	**(111)**	**(90)**

The interest expense on the lease liability is recognized under "Interest expense", line item "leases".

Depreciation charge for right-of-use assets is recognized under "Administrative expenses", line item "Amortization and depreciation" and the breakdown of those costs by class of underlying asset is presented in tables "Non-current right-of-use assets"

The lease liability is recognized under the line "Other liabilities" in the statement of financial position, line item "lease liability".

(IN PLN MILLION)

The following tables present information on the non-current right-of-use assets, which are presented under "Property, plant and equipment" in the statement of financial position.

NON-CURRENT right-of-use assets	Land and buildings	Machinery and equipment, including computer hardware	Other, including vehicles	Total
2023				
Gross carrying amount at the beginning of the period	1,571	13	75	1,659
Increases	413	-	14	427
Scrapping and sale	(6)	-	-	(6)
Gross carrying amount at the end of the period	1,978	13	89	2,080
Accumulated amortization as at the beginning of the period	(790)	(2)	(48)	(840)
Amortization charge for the period	(217)	(3)	(13)	(233)
Accumulated amortization as at the end of the period	(1,007)	(5)	(61)	(1,073)
Impairment losses as at the beginning of the period	(5)	-	-	(5)
Reversed during the period	1	-	-	1
Impairment losses as at the end of the period	(4)	-	-	(4)
Carrying amount as at the beginning of the period, net	776	11	27	814
Carrying amount as at the end of the period, net	967	8	28	1,003

NON-CURRENT right-of-use assets	Land and buildings	Machinery and equipment, including computer hardware	Other, including vehicles	Total
2022				
Gross carrying amount at the beginning of the period	1,422	-	54	1,476
Increases	153	12	22	187
Scrapping and sale	(4)	-	-	(4)
Other	-	1	(1)	-
Gross carrying amount at the end of the period	1,571	13	75	1,659
Accumulated amortization as at the beginning of the period	(587)	-	(35)	(622)
Amortization charge for the period	(203)	(2)	(13)	(218)
Accumulated amortization as at the end of the period	(790)	(2)	(48)	(840)
Impairment losses as at the beginning of the period	(5)	-	-	(5)
Impairment losses as at the end of the period	(5)	-	-	(5)
Carrying amount as at the beginning of the period, net	830	-	19	849
Carrying amount as at the end of the period, net	776	11	27	814

73. GOVERNMENT GRANTS

ACCOUNTING POLICIES

The Bank recognizes government grants received when there is reasonable assurance that the Bank will meet the conditions associated with the government grants and the government grants will be received. The Bank considers the receipt of grant funding on the basis of a payment application verified by the grantor institution to be sufficient assurance of receipt of the government grant.

The Bank recognizes government grants received for assets as a reduction in the carrying value of the tangible or intangible assets for which it received such grants and recognizes them in profit or loss: over the useful life of the tangible or intangible assets subject to depreciation through reduced depreciation.

Grants received to income are recognized by the Bank as a reduction of the costs for which it has received these grants:

- systematically in the periods in which it recognizes the costs for which the grant is received, from the accruals in which the grant was recognized when received,
- on a one-off basis in the period in which the grant is received and relates to expenditure already incurred.

FINANCIAL INFORMATION:

In 2022, the Bank received grants for costs incurred in connection with publicly funded research and development projects through the National Research and Development Centre. The disbursement of funds was based on the financial assistance granted in connection with the agreements concluded between the Bank and the National Centre for Research and Development.

In 2023, the amount of the grant was PLN 4 million (2022: 7 million).

74. INFORMATION ON THE AUDIT FIRM AUTHORIZED TO AUDIT THE FINANCIAL STATEMENTS

On 23 September 2021, pursuant to § 15 clause 1 point 2 of the Bank's Articles of Association, the Supervisory Board selected PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. (hereinafter PWC) as the audit firm to audit and review the financial statements of the Bank and of the Bank's Group for the years 2022–2023. PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. with its registered office in Warsaw, ul. Polna 11, is entered in the list of audit firms maintained by the National Board of Registered Auditors under the number 144. On 31 January 2022, the Bank concluded an agreement with PwC for the audit and review of the financial statements of the Bank and the Bank's Group for the years 2022-2023. The financial statements of the Bank and the Bank's Group for 2020-2021 were also audited by PwC in accordance with the Supervisory Board's decision of 13 December 2018.

TOTAL AMOUNT OF NET REMUNERATION DUE TO THE AUDIT FIRM AUDITING THE FINANCIAL STATEMENTS IN RESPECT OF: (in PLN thousand)	2023	2022
audit of financial statements of the Bank and consolidated financial statements of the Group	1,913	1,549
assurance services, including reviews of the financial statements	1,737	1,010
Total	**3,650**	**2,559**

On 15 December 2022, the Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. as the audit firm to audit and review the financial statements of the Bank and of the Bank's Group for the years 2024–2026.

75. Impact of the geopolitical situation in Ukraine on PKO Bank Polski S.A.

The PKO Bank Polski S.A. Group conducts activities in Ukraine through the KREDOBANK S.A. Group, "Inter-Risk Ukraina" spółka z dodatkową odpowiedzialnością (company with additional liability), Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. and Finansowa Kompania "Idea Kapitał" sp. z o.o.

The impairment tests of KREDOBANK S.A., performed quarterly using the discounted dividends method, in recent years showed an excess of value in use over the net carrying amount; however, for prudential reasons the impairment loss on shares in Kredobank had been maintained at the same level since 2015. The test performed as 31 March 2022, taking into account the effect of the war in Ukraine and an additional discount of 25% associated with uncertainty as to the further developments in this regard, revealed a need to increase the impairment loss by PLN 52 million and reduce the net carrying amount of shares in KREDOBANK S.A. to PLN 227 million. Subsequent tests carried out in 2022 and 2023 did not indicate a need to increase the level of impairment losses, thus confirming the correctness of the main assumptions previously used in the valuation model.

The test conducted as of December 31, 2023 included the calculation of the residual value by extrapolating the cash flow projections beyond the forecast period using a growth rate assumed at 4% per annum. The cash flow forecasts in the impairment test covered a period of 6 years and were based on a long-term forecast prepared by KREDOBANK S.A. - taking into account the current situation in Ukraine and the assumptions included in the Bank's financial plan for 2024 and subsequent years. To discount future cash flows in UAH, the Bank used a discount rate equal to the cost of equity capital of 55.6% in 2024 and 26.3% in subsequent years.

The Bank monitors sanction regulations on an ongoing basis and implements them to the extent appropriate to its specific business. The Bank has introduced guidelines for the financing of and providing banking services to:

- customers conducting business whose business model is based on the benefits of active operation in the markets of Russia and Belarus or through significant links (e.g. economic, personal),
- customers on whom sanctions have been or can be imposed in connection with Russia's aggression in Ukraine.

The Bank performed an analysis of the corporate loans portfolio of its Polish customers from the perspective of the customers' exposure to the adverse effects of the military conflict in Ukraine. If we adopt a threshold of at least 5% of the turnover generated from transactions with counterparties from Russia, Belarus or Ukraine, the risk-exposed portfolio amounts to approx. PLN 2.46 billion. For the purpose of the measurement of credit exposures, the Bank considered the information on the scale of the Polish customers' business relations with counterparties from Ukraine, Belarus and Russia, and performed an assessment of various scenarios of development of the macroeconomic situation. The exposures of these customers were classified to Stage 2 and were subject to the valuation of expected credit losses throughout their lifetime. If the probability of a customer repaying its loan liabilities was assessed as low, the exposures were reclassified to Stage 3. Retail exposures granted to Russian, Belarusian or Ukrainian nationals, which as at 31 December 2023 amounted to PLN 151 million, were reclassified by the Bank into Stage 2 and their credit risk was measured over the life of these loans As at 31 December 2023, the allowance for expected credit losses for the above portfolios amounted to PLN 80 million.

In 2023, the Bank maintained a safe level of liquidity, allowing for a quick and effective response to potential threats. Analyses of the Bank's liquidity position confirm that it has a safe level of liquid assets, while maintaining a stable, dispersed deposit base, mainly from retail customers, which is characterized by moderate concentration of entities and is largely covered by guarantees from the BGF. Consequently, the Bank maintains both supervisory and internal measures of liquidity risk at safe levels.

At the same time, in connection with the war in Ukraine, the Bank formed a Support Group led by the Head of the Crisis Staff, whose tasks include preventing disruption to the critical processes of the Bank, exchange of information within the Bank's Group and coordination of the aid provided. The Bank takes actions to mitigate the threats associated with the war in Ukraine on an ongoing basis, in particular with respect to ensuring access to the Bank's systems, cyber security and the continuity of cash services and other processes.

76. INTEREST RATE BENCHMARKS REFORM

- **LEGAL ENVIRONMENT**

A new standard has been developed in the European Union for designing, providing and applying interest rate benchmarks. The legal basis for the said standard is the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (hereinafter: “BMR”). The BMR:

- sets the rules for development and application of transparent, reliable and fair benchmarks;
- provides extensive controls over the set-up of benchmarks;
- expects the benchmarks to be determined, generally, on the basis of the actual transactions executed on a given market.

In October 2020, ISDA, an international organization setting standards for trading in derivative instruments, published the ISDA Protocol describing the procedure for replacing IBORs used in the current and new derivative transactions with new risk-free benchmarks. The Bank joined the Protocol in November 2020.

On 10 February 2021, the European Union published an amendment to the BMR, granting the European Commission and the Member States competences to designate replacements for benchmarks in cessation, if such cessation could threaten the stability of the EU market or a Member State market.

The Financial Conduct Authority (FCA) has announced that 1M, 3M and 6M LIBOR USD rates will be published in synthetic form until the end of September 2024, 1M and 6M LIBOR GBP rates will be published in synthetic form until the end of March 2023 and 3M LIBOR GBP rates until the end of March 2024.

The European Commission, in Implementing Regulation (EU) 2021/1847 of 14 October 2021 on the designation of a statutory replacement for certain settings of CHF LIBOR, which is in force by operation of law and directly applicable in all Member States of the European Union as of 1 January 2022, has determined substitutes for the CHF LIBOR rates. These substitutes are the 1-month or 3-month SARON compound rate with an indicated value of the adjustment spread, respectively. The SARON rate replaced the CHF LIBOR rate in every contract and financial instrument within the European Union, so this also applied to Polish borrowers.

The WIBOR reform and its adjustment to the BMR requirements were completed in 2020. It involved the same change in the benchmark calculation methodology as in the case of EURIBOR. On 16 December 2020, the PFSA granted GPW Benchmark S.A. permission to perform the function of administrator of the key benchmarks WIBID and WIBOR.

- **ANNOUNCEMENT ON THE USE OF A REPLACEMENT FOR WIBOR**

The Act of 7 July 2022 on the crowdfunding of business ventures and on assistance for borrowers initiated the reform of the WIBOR index. The WIBOR index will be discontinued and replaced by a replacement. The law contains a legal delegation to promulgate it by means of a regulation. The process of determining a replacement for WIBOR will be regulated by law. According to the regulation of the Minister of Finance, the replacement of the WIBOR rate will apply to contracts and financial instruments that meet the requirements of the BMR Regulation. The regulation of the Minister of Finance will also specify the corrective margin and the date from which the conversion will be effective.

In July 2022, the National Working Group on Benchmark Reform (NWG) has been established to ensure the credibility, transparency and reliability of the development and application of the new benchmark interest rate.

The National Working Group comprises representatives of the Ministry of Finance, the National Bank of Poland, the Office of the Financial Supervision Authority, the Bank Guarantee Fund, the Polish Development Fund, the Warsaw Stock Exchange, the National Depository for Securities, Bank Gospodarstwa Krajowego, the WSE Benchmark, as well as representatives of banks, investment fund companies, insurance companies, factoring and leasing companies, entities that are issuers of bonds, including corporate and municipal bonds, and clearing houses.

The work of the National Working Group shall be coordinated and supervised by the Steering Committee, composed of representatives of key institutions: the Polish Financial Supervision Authority, the National Bank of Poland, the Ministry of Finance, the Bank Guarantee Fund, the Polish Development Fund, as well as the WSE Benchmark – the administrator of benchmark rates – and the Association of Polish Banks.

NGR's activities are carried out in a project formula in which project streams have been identified and in which representatives of PKO Bank Polski S.A. actively participate.

On 1 September 2022, the Steering Committee of the National Working Group appointed in connection with the planned benchmark reform (NWG SC) decided to choose the WIRON® index as an alternative interest rate benchmark, calculated based on the actual overnight (ON) transactions concluded with large enterprises and financial institutions. WIRON® is intended to become a critical interest rate benchmark within the meaning of BMR, which will be applied in financial agreements and instruments.

On 27 September 2022, the NWG SC adopted a Road Map specifying a schedule of actions aimed at replacing WIBOR with WIRON® in accordance with the BMR. On 25 October 2023, the NWG SC decided to revise the deadlines for the Road Map for the process of replacing the WIBOR and WIBID benchmarks indicating a final conversion date of the end of 2027. The NWG SC announced that neither the directions of the benchmark reform in Poland nor the scopes of measures planned to date in the Roadmap are changing.

In January 2023, PKO BP S.A. and ING Bank Śląski S.A. executed the first transaction in the Polish financial market for which the WIRON interest rate index has been applied. The financial instrument being traded was an interest-rate derivative contract – Overnight Index Swap (OIS). With the transaction, the banks have tested the operational and technological capacity for applying WIRON in financial instruments.

Interest-rate derivative contracts, including OISs, may be used by banks to hedge interest rate risk of their own and clients' positions.

The transaction is part of the "Implementation Phase" of the benchmark reform as described in the Roadmap which involves the accumulation of liquidity in the market of financial instruments being derivative contracts that meet the criteria of an OIS for which WIRON is to be the interest rate benchmark.

On 13 February 2023, the Office of the Polish Financial Supervision Authority announced that WIRON had become an interest rate benchmark. Banks may also apply the WIRON benchmark to determine interest rate on consumer loans or mortgage loans.

To date, the Steering Committee of the National Working Group on benchmark reform endorsed the following recommendations:

- on the standard OIS transaction based on WIRON,
- on the application of the WIRON index in issues of floating-rate debt securities,
- on the rules and methods of applying the WIRON benchmark (or benchmarks from the WIRON Compound Indices Family) when entering into new contracts for benchmark-based products in PLN offered by financial market entities,
- on the rules and methods of applying the WIRON interest rate index (or indices from the WIRON Compound Indices Family) when entering into new contracts in PLN for factoring products (excluding discounting products) for benchmark-based products in PLN offered by financial market entities,
- on the methods of applying the WIRON interest rate index (or indices from the WIRON Compound Indices Family) when entering into new contracts in PLN for leasing products for benchmark-based products in PLN offered by financial market entities,

- on the use of a replacement rate for the WIBOR benchmark in interest rate derivatives,
- on the rules and methods of conversion of existing issues of debt securities where WIBOR is used.

This marks the completion of work on the recommendations on new banking, leasing and factoring products as well as the previously published recommendations on bonds and derivatives. This also represents the achievement of the absolutely crucial milestone of the Reform Roadmap that allows financial institutions to use the NWG's expertise to prepare and implement a series of new arrangements using WIRON index, including mortgage loans, being of key importance to households.

The NGR is working intensively on a recommendation on the principles and methods for replacing the WIBOR/WIBID benchmarks with the WIRON benchmark (or a benchmark from the WIRON Compound Index Family) for the existing portfolio of PLN products with regard to financial market entities.

- **ADJUSTMENT OF THE BANK**

Evolution of the legal environment and benchmark market migration in accordance with BMR affect the Bank's operations through the agreements signed with the customers and counterparties, changes in the valuation of financial instruments and the need to adjust IT processes and systems.

Since the third quarter of 2020, PKO Bank Polski S.A., starting with the reform of LIBOR benchmarks, has been running an inter-disciplinary project supervised by members of the Management Board of the Bank with the participation of subsidiaries' representatives from PKO Bank Hipoteczny, PKO Leasing S.A. and PKO Faktoring S.A. related to the adjustment of the Bank and its subsidiaries to changes introduced as part of the benchmark reform, in particular as regards:

- development of a contingency plan and its implementation in the Bank's contracts and rules and regulations;
- adjustment of the offer of products and services;
- adjustment of the Bank's transactional, accounting, analytical, risk and reporting systems;
- adjustment of the use of hedge accounting;
- annexing the contracts and implementing the standards adopted by the markets;
- cooperation with the banking sector aimed at developing a uniform interpretation of the regulations and standards of their implementation.

Representatives of many organizational units of the Bank, including in particular those responsible for product areas, as well as issues related to risk and financial management, participate in the project's works. On the part of the companies, representatives of PKO Bank Hipoteczny, PKO Leasing S.A and PKO Faktoring S.A participate. The structure of the project takes into account the division into streams covering products and processes where there is an element of applying the WIBOR reference index and the cyclical reporting of statuses with regard to individual streams. In the current phase of the project, intensive work is underway at the Bank to adapt the technological infrastructure, as well as involving the preparation of internal processes and documentation (including rules and regulations).

Since 1 January 2022, the Bank continued servicing the loan portfolios and new loan agreements using WIBOR and EURIBOR without any changes.

The Bank is working on analyzing the risks and monitoring them on an ongoing basis; however, due to the early stage of the reform, more detailed information on the transition process will be provided as the WIBOR reform work progresses. Moreover, due to the lack of formal information on the potential regulatory event referred to in Article 23c(1) of the BMR, the lack of the Regulation of the Minister of Finance referred to in Article 61c of the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system concerning the replacement, or even for the draft of such a regulation, lack of information on the amount of adjustment spread or the method of calculating this spread as well as the lack of the market for hedging instruments and taking into account the current stage of work of the National Working Group and implementation of the roadmap, currently, it is not possible to estimate the financial impact of the WIBOR rate reform.

(IN PLN MILLION)

The tables below show the Bank's exposure to WIBOR as at 31 December 2023.

Financial assets	WIBOR PLN	
	31.12.2023	31.12.2022
Amounts due from banks	2,719	3,674
Securities	15,569	12,660
Reverse repo transactions	253	-
Loans and advances to customers	156,160	142,029
Total assets	**174,701**	**158,363**

Financial liabilities and off-balance sheet liabilities	WIBOR PLN	
31.12.2023	31.12.2023	31.12.2022
Amounts due to customers	7,700	6,830
Subordinated liabilities	2,774	2,781
Liabilities in respect of debt securities in issue	3,421	-
Provisions for financial liabilities and guarantees granted	358	412
Total liabilities	**14,253**	**10,023**
Financial liabilities and guarantees granted	39,328	32,051

The Bank is working to start offering products using the WIRON benchmark index or an index from the WIRON family of compound indices no later than the beginning of the third quarter of 2024. The withdrawal of products where the WIBOR or WIBID benchmark is used will be done gradually.

For new variable interest loans granted to corporate customers in foreign currencies, new benchmarks (referred to as risk-free rates) are used, such as SARON for CHF, SOFR for USD, SONIA for GBP. Depending on the nature of the product, interest is calculated daily or using compound interest rates – either "in advance" (based on historical rates) or "in arrears" (at the end of an interest period). As far as the financial market transactions are concerned, the Bank (as mentioned above) has joined the ISDA Protocol and executes and settles transactions in accordance with that standard, i.e. using compound risk-free rates.

- HEDGE ACCOUNTING

The amendments to IFRS allow for the assumption that future cash flows – although subject to changes in the future as a result of the transition to alternative reference rates – are still highly probable and thus the existing hedging relationships can be maintained.

77. SUBSEQUENT EVENTS

1. On 2 February 2024, the Extraordinary General Shareholders' Meeting (EGM) of the Bank recalled the following members from the Bank's Supervisory Board: Mr. Mariusz Andrzejewski, Mr. Wojciech Jasiński, Mr. Dominik Kaczmarski, Mr. Rafał Kos, Mr. Tomasz Kuczur, Mr. Maciej Łopiński, Mr. Robert Pietryszyn, Mr. Bogdan Szafrański.

   At the same time, the Bank announces that the EGM appointed the following persons to the Bank's Supervisory Board: Mr. Maciej Cieślukowski, Ms. Hanna Kuzińska, Mr. Szymon Midera, Mr. Andrzej Oślizło, Mr. Marek Panfil, Mr. Marek Radzikowski, Mr. Paweł Waniowski, Ms. Katarzyna Zimnicka-Jankowska.

   The State Treasury as the Eligible Shareholder, pursuant to the Bank's Articles of Association, appointed:

   - Ms. Katarzyna Zimnicka-Jankowska – for the position of the Chair of the Bank's Supervisory Board
   - Mr. Paweł Waniowski - for the position of the Deputy Chair of the Bank's Supervisory Board.

2. On 7 February 2024, Mr. Dariusz Szwed resigned from the function of the President of the Bank's Management Board as well as from the membership in the Bank's Management Board effective as of 14 February 2024.
3. On 14 February 2024, the Supervisory Board resolved to recall the following members from the Bank's Management Board:

   - Mr. Andrzej Kopyrski,
   - Mr. Paweł Gruza,
   - Mr. Maciej Brzozowski,
   - Mr. Marcin Eckert,
   - Mr. Wojciech Iwanicki,
   - Mr. Artur Kurcweil.

   The resolutions on the aforementioned recalls became effective upon adoption.

   The Supervisory Board delegated the following members of the Supervisory Board:

   - Mr. Szymon Midera to temporarily perform the duties of Vice-President of the Management Board from 15 February 2024, with assignment to manage the work of the Management Board,
   - Mr. Maciej Cieślukowski to temporarily perform the duties of Vice-President of the Management Board from 14 February 2024,
   - Mr. Marek Radzikowski to temporarily perform the duties of Vice-President of the Management Board from 14 February 2024.
4. On 20 February 2024, the Management Board of PKO Bank Polski S.A. informed that it had decided to issue senior non preferred bonds ("Bonds") within the framework of the Program for the issue of own bonds on the domestic market, the establishment of which was announced by the Bank in report No 32/2011 ("Program"). The Program has been modified in order to allow the Bonds to be recognized as eligible liabilities of the Bank pursuant to Article 97a(1) para. 2 of the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and resolution.

   On 23 February 2024, the Bank closed the subscription for 5 years senior non preferred notes with a total nominal value of PLN 1 billion, carried out on the domestic market under the own bond issue Programme of PLN 5 billion. The interest rate on the bonds is variable, representing the sum of the WIBOR 6M benchmark rate and a margin of 159 bps. The Bank may have the right of early redemption of the Bonds upon approval of the Bank Guarantee Fund. The date of issue is scheduled for 28 February 2024. The bonds will be classified as eligible liabilities of the Bank within the meaning of Article 97a(1)(2) of the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and resolution.
5. On 21 February 2024, the Bank received the individual recommendation from the Polish Financial Supervision Authority („PFSA”) in which the PFSA confirmed that the Bank fulfils the criteria for the payment of dividend up to 75% of the profit for 2023, whereby the maximum amount of payment may not exceed the amount of the annual profit less the profit generated in 2023 already counted as own funds. The Bank has included in its own funds the net profit, achieved in the first half of 2023, in the amount of PLN 1,624,430,283 at standalone level and PLN 1,697,253,857 at consolidated level. On 26 February 2024, the Bank received the additional explanation from the PFSA in which the PFSA presented the position that the amount of the interim dividend, paid out from the portion of the profit earned in 2022 allocated to the reserve capital created for dividend payment (including interim dividends) may not reduce the amount indicated in the PFSA's position referred to above

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

Szymon Midera	Member of the Supervisory Board delegated to temporarily act as Vice-President of the Management Board and in charge of the work of the Management Board
Maciej Cieślukowski	Member of the Supervisory Board delegated to temporarily act as Vice-President of the Management Board
Piotr Mazur	Vice-President of the Management Board
Marek Radzikowski	Member of the Supervisory Board delegated to temporarily act as Vice-President of the Management Board

SIGNATURE OF A PERSON WHO IS RESPONSIBLE FOR MAINTAINING THE ACCOUNTING RECORDS

Danuta Szymańska	Director of the accounting division

The original Polish document is signed with a qualified electronic signatures