



CONSOLIDATED FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

Consolidated Group
BNP Paribas Bank Polska S.A.



BNP PARIBAS

Bank
zmieniającego
się świata

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SELECTED CONSOLIDATED FINANCIAL DATA

Selected consolidated financial data		in PLN'000		in EUR'000	
Statement of profit or loss	Nota	for the period from 01.01.2021 to 31.12.2021	for the period from 01.01.2020 to 31.12.2020	for the period from 01.01.2021 to 31.12.2021	for the period from 01.01.2020 to 31.12.2020
Net interest income	4	3,140,942	3,060,070	686,170	683,937
Net fee and commission income	5	1,048,986	916,095	229,161	204,751
Profit before tax		616,129	1,110,567	134,599	248,216
Profit after tax		176,298	733,095	38,54	163,849
Total comprehensive income		(675,157)	863,677	(147,495)	193,035
Cash flow		for the period from 01.01.2021 to 31.12.2021	for the period from 01.01.2020 to 31.12.2020	for the period from 01.01.2021 to 31.12.2021	for the period from 01.01.2020 to 31.12.2020
Total net cash flows		1,807,496	(1,127,889)	394,865	(252,087)
Ratios		31.12.2021	31.12.2020	31.12.2021	31.12.2020
Number of shares (items)	47	147,518,782	147,418,918	147,518,782	147,418,918
Earnings per share	16	1,20	4.97	0.26	1.11
Statement of financial position		31.12.2021	31.12.2020	31.12.2021	31.12.2020
Total assets		131,777,481	119,577,288	28,651,018	25,911,695
Loans and advances to customers measured at amortised cost	21	85,080,454	74,097,269	18,498,164	16,056,442
Loans and advances to customers measured at fair value through profit or loss	22	1,219,027	1,539,848	265,040	333,676
Total liabilities		120,415,850	107,546,761	26,180,774	23,304,750
Amounts due to customers	33	101,092,941	90,051,004	21,979,593	19,513,523
Share capital	47	147,519	147,419	32,074	31,945
Total equity		11,361,631	12,030,527	2,470,242	2,606,944
Capital adequacy		31.12.2021	31.12.2020	31.12.2021	31.12.2020
Total own funds		15,502,698	15,748,450	3,370,591	3,412,596
Total risk exposure		91,651,096	84,447,701	19,926,750	18,299,320
Total capital ratio		16.91%	18.65%	16.91%	18.65%
Tier 1 capital ratio		12.33%	13.55%	12.33%	13.55%

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

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

- as at 31.12.2021 - EUR 1 = PLN 4.5994
- as at 31.12.2020 - EUR 1 = PLN 4.6148

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

- for the period from 1.01.2021 to 31.12.2021 - EUR 1 = PLN 4.5775
- for the period from 1.01.2020 to 31.12.2020 - EUR 1 = PLN 4.4742

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

c	Note	12 months ended 31.12.2021	12 months ended 31.12.2020 (data restated)
Interest income	4	3,420,814	3,573,340
Interest income calculated with the use of effective interest rate method		3,202,725	3,372,209
interest income on financial instruments measured at amortised cost		3,012,072	3,180,080
interest income on financial instruments measured at fair value through other comprehensive income		190,653	192,129
Income of a similar nature to interest on instruments measured at fair value through profit or loss		218,089	201,131
Interest expense	4	(279,872)	(513,270)
Net interest income		3,140,942	3,060,070
Fee and commission income	5	1,284,545	1,132,051
Fee and commission expenses	5	(235,559)	(215,956)
Net fee and commission income		1,048,986	916,095
Dividend income	6	8,550	9,669
Net trading income (including result on foreign exchange)	7	633,493	748,390
Result on investment activities	8	(5,133)	29,081
Result on hedge accounting	20	50,369	(11,077)
Net impairment losses on financial assets and contingent liabilities	9	(266,185)	(601,499)
Result on provisions for legal risk related to foreign currency loans	55	(1,045,304)	(168,156)
General administrative expenses	10	(2,143,976)	(2,137,605)
Depreciation and amortization	12	(399,553)	(367,958)
Other operating income	13	229,695	323,586
Other operating expenses	14	(297,645)	(371,120)
Operating result		954,239	1,429,476
Tax on financial institutions		(338,110)	(318,909)
Profit before tax		616,129	1,110,567
Income tax expenses	15	(439,831)	(377,472)
Net profit		176,298	733,095
attributable to equity holders of the Group		176,298	733,095
Earnings (loss) per share (in PLN per one share)			
Basic	16	1.20	4.97
Diluted	16	1.19	4.96

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	12 months ended 31.12.2021	12 months ended 31.12.2020
Net profit for the period	176,298	733,095
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss upon fulfilment of certain conditions	(854,322)	132,361
Measurement of gross financial assets measured at fair value through other comprehensive income	(969,416)	163,408
Deferred income tax on the valuation of gross financial assets measured through other comprehensive income	184,189	(31,047)
Measurement of cash flow hedge accounting derivatives	(85,303)	-
Deferred income tax on valuation of gross derivatives hedging cash flows	16,208	-
Items that cannot be reclassified to profit or loss	2,867	(1,779)
Actuary gross valuation of employee benefits	3,540	(2,196)
Deferred income tax on actuarial valuation of gross personnel expenses	(673)	417
Other comprehensive income (net)	(851,455)	130,582
Total comprehensive income	(675,157)	863,677
attributable to equity holders of the Group	(675,157)	863,677

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Nota	31.12.2021	31.12.2020
Cash and balances at Central Bank	17	4,631,477	3,421,877
Amounts due from banks	18	2,615,150	774,722
Derivative financial instruments	19	1,901,919	1,531,617
Differences from hedge accounting	20	65,465	531,793
Loans and advances to customers measured at amortised cost	21	85,080,454	74,097,269
Loans and advances to customers measured at fair value through profit or loss	22	1,219,027	1,539,848
Securities measured at amortised cost	23	23,268,041	23,361,022
Securities measured at fair value through profit or loss	24	347,309	371,900
Securities measured at fair value through other comprehensive income	25	9,143,353	10,228,560
Intangible assets	27	728,475	651,608
Property, plant and equipment	28	1,243,523	1,479,540
Deferred tax assets	38	876,599	745,606
Current tax assets		94	55,087
Other assets	30	656,595	786,839
Total assets		131,777,481	119,577,288
LIABILITIES	Nota	31.12. 2021	31.12.2020
Amounts due to the Central Bank	31	-	84,675
Amounts due to other banks	32	8,012,244	6,824,894
Derivative financial instruments	19	1,918,032	1,521,148
Differences from hedge accounting	20	44,107	542,719
Amounts due to customers	33	101,092,941	90,051,004
Securities issued	34	722,628	1,318,380
Subordinated liabilities	35	4,334,572	4,306,539
Leasing liabilities	29	860,004	968,749
Other liabilities	36	1,556,289	1,269,243
Current tax liabilities		175,681	-
Provisions	38	1,699,352	659,410
Total liabilities		120,415,850	107,546,761
EQUITY			
Share capital	47	147,519	147,419
Supplementary capital	48	9,110,976	9,110,976
Other reserve capital	48	2,946,115	2,208,982
Revaluation reserve	48	(595,622)	255,833
Retained earnings		(247,357)	307,317
retained profit		(423,655)	(425,778)
net profit for the period		176,298	733,095
Total equity		11,361,631	12,030,527
Total liabilities and equity		131,777,481	119,577,288

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

* the management stock option programme is described in detail in Note 40

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2020	147,419	9,110,976	1,572,757	125,251	(411,714)	614,694	11,159,383
Total comprehensive income for the period	-	-	-	130,582	-	733,095	863,677
Net profit for the period	-	-	-	-	-	733,095	733,095
Other comprehensive income for the period	-	-	-	130,582	-	-	130,582
Distribution of retained earnings	-	-	628,696	-	(14,002)	(614,694)	-
Distribution of retained earnings intended for capital	-	-	628,696	-	(14,002)	(614,694)	-
Management stock options*	-	-	7,529	-	-	-	7,529
Other adjustments	-	-	-	-	(62)	-	(62)
Balance as at 1 January 2020	147,419	9,110,976	2,208,982	255,833	(425,778)	733,095	12,030,527

* the management stock option programme is described in detail in Note 40

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES:	Note	12 months ended 31.12.2021	12 months ended 31.12.2020
Net profit (loss)		176,298	733,095
Adjustments for:		1,639,445	3,966,271
Income tax expenses		439,831	377,472
Depreciation and amortization		399,553	367,958
Dividend income		(8,550)	(9,669)
Interest income		(3,420,814)	(3,573,340)
Interest expense		279,872	513,270
Change in provisions		1,042,634	126,450
Change in amounts due from banks	52	(1,243,712)	(105,680)
Change in assets due to derivative financial instruments		96,026	(1,034,404)
Change in loans and advances to customers measured at amortised cost	52	(11,083,972)	(1,954,634)
Change in loans and advances to customers measured at fair value through profit or loss		320,821	434,548
Change in amounts due to banks	52	171,851	2,108,035
Change in liabilities due to derivative financial instruments		(187,181)	1,024,012
Change in amounts due to customers	52	11,019,451	3,994,614
Change in receivables due to current income tax		215,053	89,970
Change in other liabilities and provisions due to deferred tax		123,503	(849,135)
Other adjustments	52	184,199	(9,540)
Interest received		3,578,896	3,083,438
Interest paid		(286,745)	(622,286)
Leasing fees for short-term leases not included in the valuation of the liability		(1,271)	5,192
Net cash flows from operating activities		1,815,743	4,699,366

	12 months ended 31.12.2021	12 months ended 31.12.2020
CASH FLOWS FROM INVESTING ACTIVITIES:		
Inflows	87,470,007	49,025,186
Sale of debt securities	87,414,933	48,851,252
Sale of investment property	-	30,959
Sale of intangible assets and property, plant and equipment	46,484	133,289
Dividends received and other inflows from investing activities	8,590	9,686
Outflows	(87,690,384)	(56,532,021)
Purchase of debt securities	(87,348,001)	(56,160,854)
Purchase of intangible assets and property, plant and equipment	(342,383)	(371,167)
Net cash flows from investing activities	(220,377)	(7,506,835)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Inflows	2,396,452	3,862,305
Long-term loans received and subordinated liabilities	2,396,352	3,862,305
Net inflows from share issue	100	-
Outflows	(2,184,322)	(2,182,725)
Repayment of long-term loans	(1,461,637)	(1,193,888)
Repayment of leasing liabilities	(126,968)	(128,328)
Repurchase of debt securities	(595,717)	(860,509)
Net cash flows from financing activities	212,130	1,679,580
TOTAL NET CASH AND CASH EQUIVALENTS	1,807,496	(1,127,889)
Cash and cash equivalents at the beginning of the period	3,705,320	4,833,209
Cash and cash equivalents at the end of the period	51	5,512,816
effect of exchange rate fluctuations on cash and cash equivalents	23,247	57,021

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

In 2021, the name of the Bank was not subject to change.

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

As at 31 December 2021, the headcount of the Bank amounted to 8 504,37 FTEs, as compared to 8 844,90 FTEs as at 31 December 2020. As regards the Group, the headcount amounted to 8 667,46 FTEs as at 31 December 2021, and 9 019,74 FTEs as at 31 December 2020.

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

The Bank operates mainly in Poland.

Composition of the Bank’s Management Board as of 31 December 2021:

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

Changes in the Bank’s Management Board in the period between 1 January and 31 December 2021:

- On 8 March 2021, the Supervisory Board of the Bank appointed the above mentioned people as Members of the Management Board until the end of the current three-year joint term of office, beginning after the Ordinary General Meeting of the Bank. Mr. Jerzy Śledziewski did not stand for election to the Management Board, as the Vice-President of the Management Board, of the new term of office (he was the Vice-President of the Management Board before 8 March 2021).
- On 12 May 2021, the Supervisory Board of the Bank appointed Mrs Agnieszka Wolska as Vice-President of the Management Board as of 1 September 2021.

Composition of the Bank's Supervisory Board as of 31 December 2021:

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

* Lucyna Stańczak-Wuczyńska was elected Chairman of the Supervisory Board from 1 July 2021 (following the resignation of Józef Wancer)

Changes in the composition of the Supervisory Board in the period from 1 January to 31 December 2021:

- On 24 March 2021, the Ordinary General Meeting of the Bank appointed the mentioned people as Members of the Supervisory Board until the end of the next five-year joint term of office: Mr Józef Wancer, Mrs Lucyna Stańczak-Wuczyńska, Mr Jean-Paul Sabet, Mr Francois Benaroya, Mr Jarosław Bauc, Mr Stefaan Decraene, Mrs Magdalena Dziewguć, Mr Vincent Metz, Mr Piotr Mietkowski, Mr Stéphane Vermeire and Mr Mariusz Warych. Mrs Sofia Merlo did not stand for election to the Supervisory Board of the new term of office.
- On 21 May 2021 Mr Stéphane Vermeire resigned from the position of a Member of the Supervisory Board as of 31 May 2021.
- On 2 June 2021 Mr Józef Wancer resigned from the position of a Member of the Supervisory Board and the Chairman of the Supervisory Board as of 30 June 2021.
- On 17 June 2021, the Extraordinary General Meeting of the Bank appointed Mrs Małgorzata Chruściak as Member of the Supervisory Board (independent member) as of 1 July 2021 until the end of the current five-year joint term of office.
- On 17 June 2021, the Extraordinary General Meeting of the Bank appointed Mrs Geraldine Conti as Member of the Supervisory Board as of 1 July 2021 until the end of the current five-year joint term of office.
- On 17 June 2021, the Extraordinary General Meeting of the Bank appointed Mrs Khatleen Pauwels as Member of the Supervisory Board as of 1 July 2021 until the end of the current five-year joint term of office.

BNP Paribas is an entity belonging to the BNP Paribas Capital Group with its registered office in Paris.

As at 31 December 2021, the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A. as the parent company and its subsidiaries. The Bank's share in the equity of each company is presented in brackets:

- BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O. („ACTUS”, 100%).
- BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI”, 100%).
- BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING”, 100%).
- BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC”, 100%).
- CAMPUS LESZNO SP. Z O.O. (100%)
- BNP PARIBAS SOLUTIONS SPÓŁKA Z O.O.
- BGZ POLAND ABS1 DAC („SPV”).

The Bank does not have any capital involvement in BGŻ Poland ABS1 DAC (SPV). The company is controlled by the Bank in connection with the control conditions contained in IFRS10.

In accordance with IFRS requirements, the consolidated financial statements include all subsidiaries as at 31 December 2021.

Approval of the financial statements

The present consolidated financial statements have been prepared as at 31 December 2021 and approved for publication by the Management Board of the Bank on 2 March 2022.

The separate financial statements of BNP Paribas Bank Polska S.A. have been prepared as at 31 December 2021 and approved for publication by the Management Board of the Bank on 2 March 2022.

Data included in the above mentioned financial statements are presented for the financial year ended 31 December 2021 with comparative data for the financial year ended 31 December 2020.

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

2.1. Basis for preparation of the consolidated financial statements

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

2.2. Going concern

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

2.3. Statement of compliance with IFRS

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

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

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

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

Standards / Interpretations	Date of issue/ publication	Date of entry into force in EU	Approved by the EU	Description of changes
IFRS 17 Insurance Contracts: First application of IFRS 17 and IFRS 9 – comparative data	09.12.2021	01.01.2023	No	<p>The amendments provide a transitional option for comparative information on financial assets presented on initial application of IFRS 17. The amendment is intended to help entities avoid temporary accounting mismatches between financial assets and insurance contract liabilities, thereby improving the usefulness of comparative information for users of financial statements.</p> <p>The changes will not significantly affect the Group's financial statements.</p>
Amendments to IAS 1, Presentation of financial statements - classification of liabilities as short-term and long-term	23.01.2020/ 15.07.2020	01.01.2023	No	<p>Amendments to IAS 1 affect the requirements for presenting liabilities in the statement of financial position. In particular, they explain the difference between classification of liabilities as short-term or long-term ones – the classification shall be based on the rights existing at the end of the reporting period. The prospective approach will be applicable while introducing these amendments.</p> <p>The changes will not significantly affect the Group's financial statements.</p>
Amendments to IAS 8, Definition of accounting estimates	12.02.2021	01.01.2023	No	<p>In the amendment to IAS 8 Definition of Accounting Estimates, the definition of change in accounting estimates was replaced by the definition of accounting estimates. According to the new definition, accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. The Board also clarified the new definition through additional guidance and examples of how accounting policies and accounting estimates are related and how a change in valuation technique constitutes a change in accounting estimate. The introduction of the definition of accounting estimates and other amendments to IAS 8 were intended to help entities distinguish between changes in accounting policies and changes in accounting estimates.</p> <p>The change will not significantly affect the Group's financial statements.</p>
Amendments to IAS 1 and IFRS 2 Practice Statement on Disclosure of accounting policies	12.02.2021	01.01.2023	No	<p>The amendments to IAS 1 and IFRS 2 Practice Statement are intended to help preparers decide which accounting policies to disclose in their financial statements. The amendments introduce the requirement to disclose significant information concerning accounting policies instead of significant accounting policies. The amendments clarify that accounting policy information may be material by its nature even if the amounts are immaterial and users of financial statements would need it to understand other material information in the financial statements.</p> <p>The changes will not significantly affect the Group's financial statements.</p>
Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction	07.05.2021	01.01.2023	No	<p>The changes aim to clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.</p> <p>The changes will not significantly affect the Group's financial statements.</p>

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

Standards / Interpretations	Date of issue/ publication	Date of entry into force in EU	Date of approval by EU	Description of changes
IFRS 17 "Insurance Contracts", amendments to IFRS 17	18.05.2017, amendments issued on 25.06.2020 amendments published on 23.11.2021	01.01.2023	19.11.2021	<p>IFRS 17 'Insurance Contracts' will replace the IFRS 4 'Insurance Contracts' standard, which allows insurance contracts to continue to be accounted under the accounting rules applicable in national standards and which consequently implies a number of different solutions. IFRS 17 requires consistent recognition of all insurance contracts. Liabilities arising from contracts will be recognised at present values instead of historical cost. The standard is to be applied based on a full retrospective approach (if inapplicable, an entity should use the modified retrospective approach or the fair value approach).</p> <p>The amendments are intended to:</p> <ul style="list-style-type: none"> - reducing costs by simplifying certain requirements of the standard; - less complicated explanation of financial results; and - facilitating the transition to the new standard by deferring the effective date of the standard to 2023 and introducing additional relief to facilitate the first-time implementation of IFRS 17. <p>The changes will not significantly affect the Group's financial statements.</p>
Amendments to IFRS 3 Business combinations; IAS 16 Property, plant and equipment; IAS 37 Provisions, contingent liabilities and contingent assets; annual improvements 2018-2020	14.05.2021	1.01.2022	02.07.2021	<p>Amendments to IFRS 3 "Business combinations" update the reference to the Framework for Financial Reporting present in IFRS 3 without changing the requirements for accounting for business combinations.</p> <p>Amendments to IAS 16 "Property, plant and equipment" prohibit a company from deducting the amounts received from the sale of items produced in the process of preparation of the asset's to its intended use from the asset's purchase price or from the production cost of property, plant and equipment. Instead, the company should recognise the sales revenue and related costs in the statement of profit or loss.</p> <p>Amendments to IAS 37 "Provisions, contingent liabilities and contingent assets" determine which costs should be considered when assessing whether the contract will result in a loss. Annual improvements introduce minor changes to IFRS 1 First-time adoption of IFRS, IFRS 9 Financial instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.</p> <p>The changes will not significantly affect the Group's financial statements.</p>

New standards, interpretations and amendments to the existing standards, that have been issued by the International Accounting Standards Board (IASB), approved by the European Union and are effective and have been implemented by the Group

Standards / Interpretations	Date of issue/ publication	Date of entry into force in EU	Date of approval by EU	Description of changes
Amendments to IFRS 16: COVID-19-Related Rent Concessions beyond 30 June 2021	31.03.2021	1.04.2021	31.08.2021	<p>The amendments increase the scope of changes introduced to IFRS 16: Covid-19-Related Rent Concessions, which was issued on 28 May 2020, provides a practical exception that allows tenants not to assess whether rental concessions that occur as a direct consequence of pandemic COVID-19 and meet certain conditions are modifications to the lease agreement and, instead, to recognise those rental concessions as if they were not modifications to the agreement. The amendment to IFRS 16 extends the application period of the practical exception by 12 months from 30 June 2021 to 30 June 2022.</p> <p>The changes will not significantly affect the Group's financial statements.</p>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 15 - IBOR reform - Phase II	27.08.2020	1.01.2021	15.01.2021	<p>The provisions published under Phase II of the IBOR reform relate to:</p> <ul style="list-style-type: none"> - contractual cash flow modifications - the addition of a solution to IFRS 9 that will enable the recognition of contractual cash flow modifications due to the IBOR reform by updating the effective interest rate of the contract to reflect the transition to an alternative reference rate (there will be no obligation to cease recognising or adjusting the balance sheet amount of financial instruments); a similar solution applies to IFRS 16 for lessees' recognition of lease modifications; - hedge accounting - there will be no need to discontinue hedge accounting simply because of the changes required by the reform if the hedge meets the other criteria for hedge accounting; and - disclosures - companies will be required to disclose information about new risks arising from the reform and information on how it manages the transition to alternative reference rates. <p>The impact of the reform is detailed in note 56.5 Interest rate risk in the banking book (ALM Treasury).</p>
Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9	25.06.2020	1.01.2021	15.12.2020	<p>The amendments provide two optional arrangements to reduce the impact of different effective dates of IFRS 9 and IFRS 17.</p> <p>The changes will not significantly affect the Group's financial statements.</p>
Amendments to IFRS 16 Leases - Covid-19-related Rent Concessions beyond 30 June 2021	28.05.2020	1.06.2020	9.10.2020	<p>The amendments provide an option for lessees not to treat rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions.</p> <p>The changes will not significantly affect the Group's financial statements.</p>

2.4. Recognition of transactions under common control

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

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

The difference between the book value of the acquired net assets and the fair value of the payment is recognised in the Group's equity. A method based on book values is used, and therefore the comparative data are not restated.

If the business combination under common control involves acquisition of minority interests, the Group recognizes them separately.

2.5. Business combinations

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

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

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

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

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

2.6. Changes in presentation of financial data

Compared to the consolidated financial statements for the year ended 31 December 2020, the Group changed the presentation of:

- costs resulting from intermediation in the sale of products spread over time using the effective interest rate by transferring from interest expense to interest income on financial instruments measured at amortised cost

	12 months ended 31.12.2020 (before change)	Change	12 months ended 31.12.2020 (after change)
Interest income	3,602,796	(29,456)	3,573,340
Interest expense	(542,726)	29,456	(513,270)
Net interest income	3,060,070	-	3,060,070

The Group considers the presentation changes presented above to better reflect the economic nature of the above items and therefore provide more useful information to the users of the financial statements.

2.7. Consolidation

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

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

2.8. Measurement of items denominated in foreign currencies

Functional and presentation currency

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

Transactions and balances

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

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

Basic currency rates used in the preparation of the present consolidated financial statements as at 31 December 2021 and 31 December 2020 are presented in the below table:

	31.12.2021	31.12.2020
1 EUR	4.5994	4.6148
1 USD	4.0600	3.7584
1 GBP	5.4846	5.1327
1 CHF	4.4484	4.2641

2.9. Interest income and expenses

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

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

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

2.10. Net fee and commission income

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

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

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

Revenues from contracts with customers include both fees and commissions, which are settled over time using the straight-line method (throughout the period of providing the service) as well as on a one-off basis. Revenues are presented as the amount of the Group's remuneration specified in the contracts with customers and do not include amounts collected by the Group on behalf

of third parties, which are then transferred to them (i.e., insurance premiums collected which the Group transfers to insurance companies). The Group recognizes revenues when the performance obligation is met (or when it is being fulfilled) by transferring the promised good or service (i.e. an asset) to the customer.

Loans and advances

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

Debit and credit cards

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

Commitments to grant loans and advances

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

Investment brokerage and asset management

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

Insurance brokerage

The Group, acting as an agent in the sale of insurance for an insurance company, is entitled to participate in the distribution of the company's profit for which it participates in the mediation. The Group recognizes revenues on a quarterly basis based on the periodic results of the insurance company in an amount that will not be subject to significant reversal in the future.

Recognition of bancassurance income and expenses

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

Recognition of bancassurance income for related transactions

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

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

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

Recognition of bancassurance expenses for related transactions

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

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

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

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

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

2.11. Dividend income

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

2.12. Net trading income

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

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

2.13. Result on investment activities

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

2.14. Other operating income and expenses

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

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

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

2.15. Income tax expense

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

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

2.16. Classification and measurement of financial assets and liabilities**Classification and measurement of financial assets**

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

- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income,

- financial assets measured at fair value through profit or loss.

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

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

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

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

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

Business models

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

Model 1: Receiving contractual cash flows.

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

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

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

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

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

Assets acquired or originated with impairment identified (POCI assets)

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

SPPI test

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

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

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

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

- an asset is held by the Group in accordance with the business model whose purpose is to maintain assets to collect contractual cash flows,
- contractual terms of the financial asset represent contractual cash flows that are solely payment of principal and interest.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- an asset is held by the Group in accordance with the business model, which aims to both receive contractual cash flows and sell assets,
- the contractual terms of the financial asset represent contractual cash flows that are solely payment of principal and interest.

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

Modification of financial assets

If the terms of a financial asset agreement change, the Group assesses whether the cash flows generated by the modified asset differ significantly from those generated by this asset before the terms of its agreement are modified. If a significant difference is identified, the original financial asset is derecognised from the statement of financial position, and the modified financial asset is recognised as a "new" financial asset, which is recognised in its fair value and the new effective interest rate applied to the new asset is calculated.

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

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Classification and measurement of financial liabilities

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

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

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

Compensation

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

Securitization

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

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

The Group performed a comprehensive analysis of the transaction, considering that in the light of the provisions of IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of the securitized assets. As at the date of the transaction, the Group received the initial remuneration from the SPV irrevocably, corresponding to the total nominal value of the securitized loan portfolio. The transaction uses the mechanism of deferred remuneration payable to the Group by SPV. Deferred remuneration corresponds to the SPV result after settling the financing costs and operating costs. Due to the applied deferred remuneration mechanism, the Group retains substantially all the risks and rewards associated with the transferred loans. The deferred remuneration of the Group, as expected, will be absorbing the entire volatility of cash flows from the portfolios of securitized loans. The Group bears this volatility risk as the payment of the deferred remuneration by SPV to the Group is entirely subordinated to the SPV's liabilities towards investors in respect of financing.

In connection with the above, the Group recognizes a liability for cash flows from securitization that are measured with the use of effective interest rate calculated on the basis of future SPV payments due to liabilities resulting from bonds issued. The securitization transaction is described in Note 45 *Securitization*.

Repo and sell buy back transactions

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

Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured at the acquisition price less impairment allowance in the consolidated financial statements of the Group.

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

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

The Group derecognizes a financial asset when :

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

Transfer takes place:

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

2.17. Fixed assets held for sale

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

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

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

Fixed assets held for sale include fixed assets repossessed for debt, meeting the requirements of IFRS 5 as described above.

2.18. Investment properties

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

Investment property is recognised in assets when and only when:

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

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

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

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

Real estate and land repossessed for debt are recognised as investment properties, unless they meet the criteria allowing their classification as fixed assets held for sale.

2.19. Intangible assets

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

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

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

Except for research and development works, internally generated intangible assets are not recognised as assets, and expenditures on their generation are charged to the statement of profit or loss for the year in which they have been incurred.

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

Purchased software licenses are capitalized in the amount of costs incurred for the purchase of a given software and its adaptation for use. Capitalized costs are amortised over an estimated useful life of the software. Software development or maintenance costs are charged to expenses when incurred. Expenditure directly related to the production of identifiable and unique computer programs controlled by the Group, which will probably bring economic benefits exceeding the expenditure within a period exceeding one year, is classified to intangible assets. Direct costs include personnel expenses related to software development and a corresponding portion of general expenses. Costs related to software development, included in the initial value of assets, are amortised over the estimated useful life of these assets.

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

- licenses 14.0 – 50.0%
- copyrights 20.0 – 50.0%

The useful lives of intangible assets are verified at the end of each reporting period and adjusted if necessary.

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

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

2.20. Property, plant and equipment

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

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

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

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

The residual value and useful lives of property, plant and equipment are verified at the end of each reporting period and adjusted if necessary.

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

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

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

2.21. Hedge accounting

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

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

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

Fair value hedge

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

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

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

Cash flow hedge

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

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

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

2.22. Provisions

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

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

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

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

- a) are an indispensable effect of the restructuring procedure and
- b) at the same time are not related to current operations of the entity.

The restructuring provision shall not cover costs such as:

- (a) training of remaining employees or reassignment of employees;
- (b) marketing; or
- (c) investment in new distribution systems and networks.

A restructuring provision does not include future operating expenses.

2.23. Leases

Group as a lessee

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

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

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

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

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

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

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

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

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

- the initial value of the lease liability,

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

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

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

Group as a lessor

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

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

2.24. Financial guarantees

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

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

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

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

2.25. Employee benefits

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

Employees of the Group are entitled to the following benefits:

Retirement, disability and post-mortem benefits

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

Liabilities due to unused annual holiday

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

Benefits arising from the variable remuneration program

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

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

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

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

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

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

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

Liabilities due to restructuring of employment

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

Liabilities due to incentive – retention programs

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

2.26. Capital

Share capital

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

Own shares

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

Supplementary capital from the sale of shares above their par value

The supplementary capital is created from the issue premium obtained from the issue of shares, reduced by the direct costs incurred with the issue.

The costs directly related to the issue of new shares, after deduction of income tax, reduce the proceeds from the issue included in the equity.

Other capital

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

Other capital items

Other equity items are created as a result of:

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

2.27. Custody operations

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

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

2.28. Cash and cash equivalents

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

3. ESTIMATES

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

a. Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

In order to assess whether there has been a significant increase in credit risk since the initial recognition of the financial instrument (Stage 2), the Bank compares the risk of default during the expected period of financing granted as at the balance sheet date and the date of initial recognition. For this purpose, the Bank applies an internal credit risk rating system, information on delay in repayments (over 30 days of delay) and information from internal credit risk monitoring systems, such as warning letters and information about restructuring.

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

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

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

- restructuring,
- granting of a facility where the exposure is granted a facility or restructured,
- granting of a facility without significant economic loss where at least one of the following conditions is met
 - a large lump sum payment towards the end of the repayment schedule;
 - irregular repayment schedule, with significantly lower payments at the beginning of the repayment schedule;
 - significant grace period at the beginning of the repayment schedule;
 - exposures to an obligor that are subject to distress restructuring on more than one occasion.
- suspicion of fraud (including economic crime or any other criminal offence related to the credit exposure),

- information has been received about the submission of an application for restructuring proceedings within the meaning of the Act on Restructuring Law,
- filing of an application for commencing enforcement proceedings by the Banks or becoming aware of the fact that enforcement proceedings against the debtor are being conducted in the amount which, in the opinion of the Bank, may result in the loss of creditworthiness,
- becoming aware of the fact of filing of an application for declaring the debtor bankrupt (liquidation, consumer), putting the debtor into liquidation, dissolution or cancellation of the company, appointment of a curator, appointment of a receiver over the debtor's activity,
- filing of an application for bankruptcy proceedings, a declaration of bankruptcy or becoming aware of the dismissal of the bankruptcy application due to the fact that the debtor's assets are insufficient or sufficient only to meet the costs of the bankruptcy proceedings,
- termination of the credit agreement,
- submission by the Bank of an application to initiate enforcement proceedings against the customer,
- granting of a public moratorium,
- customer disputing the on-balance sheet credit exposure through legal proceedings,
- financial difficulties identified during the customer monitoring/review process or on the basis of information obtained from the customer in the course of other activities,
- significant deterioration in customer rating.

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

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

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

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

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

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

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

The following assets are measured collectively:

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

The value of the impairment allowance for the expected credit losses depends on, among others, the type of credit exposure, rating of the client, collateral type and value (for selected portfolios), which translate into the parameters such as the probability of default (PD) parameter, loss given default (LGD) parameter and credit conversion factor (CCF).

The amount of collective impairment allowances is determined with the application of statistical methods for defined exposure portfolios which are homogenous from the perspective of credit risk. Homogeneous exposure portfolios are defined based on, among others, customer segment and type of credit products. The criteria applied by the Bank to define homogeneous portfolios are aimed at grouping exposures so that the credit risk profile is reflected as accurately as practicable and, consequently, so as to estimate the level of allowances for the expected credit losses on financial assets as objectively and adequately as possible.

In order to adequately reflect the impact of the COVID-19 situation in the valuation of the loan portfolio, the Group monitors the loan portfolio for risks related to the epidemiological situation. In particular, when determining impairment losses, the Group takes

into account the impact of macroeconomic scenarios and the specific characteristics of the portfolio of customers particularly exposed to the impact of the pandemic, including customers receiving public support and those operating in industries exposed to the risk related to COVID-19.

In 2021 due to lower than anticipated negative impact of the COVID-19 pandemic, the Group released PLN 33 724 thousand of provisions.

The amount includes an impact of macroeconomic assumption resulting in a release of PLN 155 854 thousand and additional COVID provisions created for particularly vulnerable segments of PLN 122 130 thousand.

Additional COVID provisions were created under the assumption, that materialization of negative COVID effects on the credit quality will be delayed (amongst others due to public support, which improved the financial and liquidity situation of the clients). The Group increased the level of provisions related to this factor from PLN 78 000 thousand as of EOY 2020 to PLN 200 130 thousand as of 31 December 2021. Provisions for the corporate segment were estimated based on a simulation of decline in income due to the COVID pandemic. For the Personal Finance portfolio, the provisions are based on applying shock changes to PD parameters for clients employed in sectors which were impacted by the pandemic.

Regardless of the discussed above COVID provisions, considering new hazards which include high inflation and increase of energy prices, the Group created an additional PLN 44 800 thousand of provisions. The provisions were estimated based on simulation analyses for portfolios particularly exposed to these risk factors.

In addition, in the fourth quarter of 2021, provisions of PLN 65,170 thousand were created in connection with amendments to the Code of Civil Procedure affecting expected recovery levels on the portfolio of loans to individual farmers.

The Bank implemented rules and IT solutions in line with the EBA guidelines on the application of the definition of default as set out in Article 178 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26.06.2013 on prudential requirements for credit institutions and investment firms. A two-step approach was applied to align its operations with the requirements of the new definition of default under the EBA Guidelines. In the first stage, i.e. as at 31 December 2020, the Bank introduced relative and absolute thresholds for the determination of material past due, resulting from the Regulation of the Minister of Finance, Investment and Development of 3 October 2019 on the level of materiality of past due credit liabilities. The absolute threshold was set at PLN 400 for retail exposures and PLN 2,000 for non-retail exposures. The relative threshold was defined as the share of past due liabilities in total exposure greater than 1%.

In the second stage, i.e. as of 1 January 2021, the Bank aligned its operations with the remaining requirements of the EBA Guidelines. Significant changes introduced in connection with the implementation of the new definition of default include:

- establishing the level of recognition of default and calculation of overdue liabilities (customer or exposure level depending on the portfolio),
- changing the calculation of the number of past due days to a mechanism of continuous material past due (only repayment decreasing the past due liability below one of the two materiality thresholds will result in discontinuation of the calculation of past due days)
- the introduction of a new default trigger based on NPV loss, and
- the introduction of the concept of technical past due (not resulting in classification into default status).

As a result of the introduction of the amended rules, the change in classification and adequate recalculation of risk parameters resulted in the released allowances in the amount of PLN 20,983 thousand on a consolidated basis.

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

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

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

Analysis/scenario	The percentage change in the amount of allowance
Pessimistic scenario – considering pessimistic and baseline scenarios only	5%
Optimistic scenario – considering optimistic and baseline scenarios only	-3%
Baseline scenario – uniform distribution of optimistic and pessimistic scenarios	1%

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

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

Analysis/scenario	The percentage change in the amount of allowance
PD decrease by 10%	-4%
PD increase by 10%	4%
LGD decrease by 10%	-10%
LGD increase by 10%	9%

Climate issues

The European Securities and Markets Authority (ESMA) in its annual public statement, setting out the European common supervisory priorities for annual financial reports for 2021, identified climate-related issues as one of the priorities. The International Accounting Standards Board, in material published in November 2020, highlighted that certain IFRS standards require the impact of climate-related issues to be taken into account if the impact is material. When considering the need to disclose climate-related risks, the Bank takes into account the requirements for determining materiality of financial information in paragraph 7 of IAS 1. According to these requirements, the Bank should consider both quantitative factors and qualitative factors, as well as the interactions between the factors, when assessing whether or not the information is material.

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

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

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

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

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

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

b. Classification of financial instruments

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

c. Fair value of derivative instruments

The fair value of derivative instruments which are not quoted on active markets is determined using measurement techniques (e.g. models). Such methods are evaluated and verified periodically by qualified independent employees who have not participated in their development. All models require approval before use as well as calibration to ensure that the results reflect actual data and comparable market prices. The models used at present rely on the data obtained from Reuters and/or Bloomberg information systems. Derivative instruments are measured on the basis of generally acceptable models. Linear instruments are measured using the discounted cash flow method while plain vanilla options using the Black-Scholes model. Other options included in structured deposits are measured either through decomposition into vanilla options or through Monte Carlo simulations.

Credit Valuation Adjustment / Debit Value Adjustment (CVA/DVA) is estimated for all derivatives which are active at a specific date. The adjustment (counterparty credit risk exposure and default risk) is determined based on the projected future exposure resulting from the instrument, counterparty rating and collateral provided/accepted.

d. Fair value of securities

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

e. Impairment of fixed assets

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

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

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

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

The projected value is discounted actuarially at the end of each quarter. In accordance with the requirements of IAS 19, the financial discount rate for calculating the current value of liabilities related to employee benefits is determined on the basis of market yields on treasury bonds whose currency and maturity date are consistent with the currency and the estimated date of the benefit obligations. The actuarial discount is the product of the financial discount, the probability of a person's continued employment at the Group until the severance is required, and the probability of the need for a particular benefit (e.g. the probability of acquiring a disability). The value of annual write-offs and the probability are projected with the use of models which take the following three risks into account:

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

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

Provisions resulting from actuarial valuation are updated quarterly.

Sensitivity analysis

The table below presents the impact of a 1 p.p. change in the relevant actuarial assumptions on liabilities due to retirement, disability and post-mortem severance as at 31 December 2021 and 31 December 2020.

	increase by 1 p.p.	decrease by 1 p.p.
31.12.2021		
discount rate	(1,507)	1,776
wage growth rate	1,759	(1,521)
31.12.2020		
discount rate	(2,020)	2,418
wage growth rate	2,378	(2,013)

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

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

	31.12.2021	31.12.2020
Opening balance	18,188	16,209
current employment costs	1,725	1,737
net interest on net liability	308	273
actuarial gain or loss	(3,540)	2,195
past employment costs	-	(1,201)
benefits paid	(870)	(1,025)
Closing balance	15,811	18,188

g. Restructuring provision

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

h. Asset and provision for deferred income tax

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

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

The balance sheet amount of the deferred tax asset is reviewed at the end of each reporting period and is reduced accordingly, and so far as it is no longer probable that taxable income sufficient for partial or total realization of the deferred tax asset will be realized. An unrecognised deferred tax asset is subject to reassessment at the end of each reporting period and is recognised up to an amount that reflects the probability of achieving future taxable income that will allow recovery of that asset. The Group offsets deferred tax assets with deferred tax provisions if and only if it has an enforceable legal title to compensate corresponding receivables and liabilities due to current tax and deferred income tax is related to the same taxpayer and the same tax authority. Income tax related to the items recognised directly in equity is recognised in equity and in the statement of comprehensive income. In 2021 and 2020, current income tax and deferred tax provision were calculated using the 19% rate.

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

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

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

As a result of the analysis concerning the impact of the judgment on the Group's revenues, in particular on relations expired before the judgment was issued, in 2019 the Group decided to create a provision for a proportional refund of commission in the event of early repayment of the loan in the amount of PLN 48,750 thousand as at 31 December 2021 the provision amounted to PLN 19,156 thousand (as at 31 December 2020 the provision amounted to PLN 26,116 thousand). The provision was estimated based on the estimation of the total amount of the provision for the early repaid loans and the expected percentage of customers who will claim for a refund of the due part of the commission. Assuming that the percentage of customers would be 5 p.p. higher than the assumed level, the amount of the provision would be higher by PLN 12.5 million.

Additionally, the Group created in 2019 a provision of PLN 20,800 thousand to cover the partial reimbursements of loan commissions in the event of their early repayment, for loans repaid after 31 December 2019. The estimate of the provision is based on the difference between the value of commissions to be reimbursed and the balance of unsettled commissions as at the expected date of early loan repayment. Due to increased utilisation of the provision in 2021 (as compared to the estimate made in 2019), based on complex portfolio analysis regarding the rate of early repayments, the required provision has been revalued. As of 31 December 2021 the provision amounted to PLN 11,542 thousand (as of 31 December 2020 the provision amounted to 6,161 thousand).

As a result of the CJEU judgment, the Group has implemented a process whereby a provision for estimated refunds of fees charged is made on an ongoing basis for newly originated loans. This provision is calculated as a percentage of commissions charged to the customer, which reflects the expected average difference between the amounts of commissions to be refunded to customers and the balance of outstanding commissions at the expected time of early repayment of the loan. This percentage is calculated based on the estimated level of early repayments and the expected timing of repayment. In the event of early loan repayment, this provision is released and for newly sold loans a provision will be created on an ongoing basis. As of 31 December 2021, the provision amounted to PLN 18,709 thousand (PLN 1,500 thousand as of 31 December 2020). 5 p.p. increase in the level of early repayments would result in a higher provision within a range from 8% to 13%, depending on the product.

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

Simultaneously, the Group recognises its liability due to the proportional reimbursement of commissions in the event of their early repayment in the period from the date of the judgment of the CJEU on 11 September 2019 to 31 December 2019. As of 31 December 2021, this liability amounted to PLN 2,363 thousand (PLN 2,434 thousand as of 31 December 2020).

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

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

Provision for potential claims resulting from proceedings related to CHF loan agreements and model used by the Group were presented in Note 55 Litigation and claims.

4. NET INTEREST INCOME

Interest income	12 months ended 31.12.2021	12 months ended 31.12.2020 (data restated)
Amounts due from banks	9,147	6,438
Loans and advances to customers measured at amortised cost, including:	2,411,404	2,637,946
non-banking financial institutions	11,389	12,715
retail customers	1,239,713	1,279,498
economic operators	1,056,358	1,240,254
including retail farmers	285,509	354,127
public sector institutions	1,997	4,915
leasing receivables	101,947	100,564
Loans and advances to customers measured at amortised cost through profit or loss	9,969	20,161
Debt instruments measured at amortised cost	591,247	535,678
Debt instruments measured at fair value through profit or loss	4,640	4,311
Debt instruments measured at fair value through other comprehensive income	190,653	192,129
Derivative instruments as part of fair value hedge accounting	195,568	176,659
Derivative instruments as part of cash flow hedge accounting	7,912	-
Securities purchased under repurchase agreements	274	18
Total interest income	3,420,814	3,573,340

Interest expense	12 months ended 31.12.2021	12 months ended 31.12.2020 (data restated)
Amounts due to banks	(126,757)	(89,835)
Debt securities issued	(27,797)	(49,291)
Amounts due to customers, including:	(59,828)	(261,676)
non-banking financial institutions	(8,397)	(17,626)
retail customers	(34,019)	(179,273)
economic operators	(16,217)	(60,119)
including retail farmers	(109)	(1,429)
public sector institutions	(1,195)	(4,658)
Lease liabilities	(4,551)	(6,694)
Derivative instruments as part of fair value hedge accounting	(53,031)	(99,538)
Derivatives under cash flow hedge accounting	(2,267)	-
Securities sold subject to repurchase agreements	(1,056)	(6,236)
Other related to financial assets	(4,585)	-
Total interest expense	(279,872)	(513,270)
Net interest income	3,140,942	3,060,070

The value of interest expenses calculated using the effective interest rate in relation to financial liabilities, which are measured at amortised cost, amounted to PLN 219,989 thousand (PLN 413,732 thousand for the period of 12 months ended 31 December 2020).

Interest income includes interest on financial assets assessed individually and collectively, for which impairment was identified. The amount of the above mentioned interest, which was recognised in the interest income for 2021, amounted to PLN 70,804 thousand, as compared to PLN 65,978 thousand for 2020.

5. NET FEE AND COMMISSION INCOME

Fee and commission income	12 months ended 31.12.2021	12 months ended 31.12.2020
loans, advances and leases	311,790	312,218
account maintenance	254,418	212,308
cash service	32,875	31,491
cash transfers and e-banking	83,545	75,425
guarantees and documentary operations	50,555	50,320
asset management and brokerage operations	153,834	111,488
payment and credit cards	246,382	201,104
insurance mediation activity	120,143	100,702
product sale mediation and customer acquisition	11,687	12,937
other commissions	19,316	24,058
Total fee and commission income	1,284,545	1,132,051
Fee and commission expense	12 months ended 31.12.2021	12 months ended 31.12.2020
loans, advances and leases	(408)	(367)
account maintenance	(9,821)	(10,432)
cash service	(17,935)	(13,329)
cash transfers and e-banking	(2,682)	(2,316)
asset management and brokerage operations	(6,622)	(5,121)
payment and credit cards	(102,415)	(97,950)
insurance mediation activity	(19,271)	(20,007)
product sale mediation and customer acquisition	(30,341)	(27,099)
other commissions	(46,064)	(39,335)
Total fee and commission expense	(235,559)	(215,956)
Net fee and commission income	1,048,986	916,095

The commission income for 2021 includes revenues from custody activities in the amount of PLN 153,834 thousand (PLN 111 488 thousand in 2020) and the amount of costs from custody activities in the amount of PLN 6,662 thousand (PLN 5,121 thousand in 2020).

Net commission income includes commission income that relate to assets and liabilities that are not measured at fair value with the result of measurement recognised in the statement of profit or loss for 2021 in the amount of PLN 814,458 thousand, while for 2020 in the amount of PLN 745,081 thousand, and commission costs for 2021 in the amount of PLN 80,458 thousand, as compared to PLN 73,550 thousand for 2020.

6. DIVIDEND INCOME

Dividend income	12 months ended 31.12.2021	12 months ended 31.12.2020
Equity instruments measured at fair value through profit or loss	8,550	9,669
Total dividend income	8,550	9,669

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

Net trading income	12 months ended 31.12.2021	12 months ended 31.12.2020
Equity instruments measured at fair value through profit or loss	22,454	102,340
Debt instruments measured at fair value through profit or loss	(1,406)	7,253
Derivative instruments and result on foreign exchange transactions	612,445	638,797
Result on financial instruments measured at fair value through profit or loss	633,493	748,390

In 2020, the Group recognised in Net trading income an increase in the valuation of shares in Krajowa Izba Rozliczeniowa S.A. and Biuro Informacji Kredytowej S.A. in the total amount of PLN 45 million. The amounts are classified as measured at fair value through profit or loss.

8. RESULT ON INVESTMENT ACTIVITIES

Result on investment activities	12 months ended 31.12.2021	12 months ended 31.12.2020
Equity instruments measured at fair value through other comprehensive income	-	5
Debt instruments measured at fair value through other comprehensive income	(2,276)	77,406
Loans and advances to customers measured at fair value through profit or loss	(2,857)	(48,330)
Total result on investment activities	(5,133)	29,081

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

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

Net impairment allowances on financial assets and provisions on contingent liabilities

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

Change in impairment allowances on financial assets and provisions on contingent liabilities	12 months ended 31.12.2021
As at 1 January 2021	(3,415,311)
Increases due to acquisition or origination	(667,374)
Decreases due to derecognition	268,134
Net changes in credit risk	(114,714)
Changes arising from changes to the applied estimation method (net)	20,384
Use of allowances	749,471
Other changes (including foreign exchange differences)	(10,119)
As at 31 December 2021	(3,169,529)

Net impairment allowances on financial assets and provisions on contingent liabilities	12 months ended 31.12.2021
Change in impairment allowances on financial assets and provisions on contingent liabilities	(475,125)
Change in initial impairment on financial assets classified as POCI	21,521
Revenue from the sale and write-off of receivables and costs related to the write-off of receivables	187,419
	(266,185)

Net impairment allowances on financial assets and provisions on contingent liabilities

12 months ended 31.12.2020	Stage 1	Stage 2	Stage 3	Total	including POCI
Amounts due from banks	(837)	-	-	(837)	-
Loans and advances to customers measured at amortised cost	(39,110)	(109,564)	(477,910)	(626,584)	18,218
Contingent commitments granted	(19,244)	27,483	14,186	22,425	-
Securities measured at amortised cost	325	3,172	-	3,497	(2,312)
Total net impairment allowances on financial assets and provisions on contingent liabilities	(58,866)	(78,909)	(463,724)	(601,499)	15,906

Change in impairment allowances on financial assets and provisions on contingent liabilities	12 months ended 31.12.2020
As at 1 January 2020	(3,485,208)
Increases due to acquisition or origination	(627,452)
Decreases due to derecognition	278,229
Net changes in credit risk	(487,147)
Net changes due to the change in estimates method applied	-
Use of allowances	939,365
Other changes (including foreign exchange differences)	(33,098)
As at 31 December 2020	(3,415,311)

Net impairment allowances on financial assets and provisions on contingent liabilities	12 months ended 31.12.2020
Change in impairment allowances on financial assets and provisions on contingent liabilities	(802,442)
Change in initial impairment on financial assets classified as POCI	45,139
Revenue from the sale and write-off of receivables and costs related to the write-off of receivables	155,804
	(601,499)

10. GENERAL ADMINISTRATIVE COSTS

General administrative costs	12 months ended 31.12.2021	12 months ended 31.12.2020 (data restated)
Personnel expenses	(1,183,578)	(1,189,935)
Marketing	(102,155)	(84,590)
IT and telecom expenses	(220,753)	(203,152)
Short-term leasing and operation	(63,944)	(75,182)
Other non-personnel expenses	(384,354)	(323,479)
Business travels	(6,773)	(8,565)
ATM and cash handling expenses	(22,746)	(25,410)
Costs of outsourcing services related to leasing operations	(2,915)	(3,402)
Bank Guarantee Fund fee	(143,352)	(213,185)
Cost of PFSA supervision	(13,406)	(10,705)
Total general administrative expenses	(2,143,976)	(2,137,605)

In the line Other non –personnel expenses are presented expenses related to legal services to court cases related to CHF loans in the amount of PLN 82 016 thousand in 2021 (2020 PLN 12 872 thousand).

In 2021, the Bank changed the presentation of settlements with a subsidiary Leasing in terms of intermediation in the sale of the company's products, this change took place in the fourth quarter of 2021 and had an impact on the line Other non-personnel expenses and Other operating income (Note 13).

11. PERSONNEL EXPENSES

Personnel expenses	12 months ended 31.12.2021	12 months ended 31.12.2020 (data restated)
Payroll expenses	(945,338)	(928,779)
Payroll charges	(166,822)	(171,333)
Employee benefits	(47,380)	(43,834)
Costs of restructuring provision	(1,091)	(22,502)
Costs of provision for future liabilities arising from unused annual leave and retirement benefits	(8,755)	(7,444)
Appropriations to Social Benefits Fund	(13,372)	(14,454)
Other	(820)	(1,589)
Total personnel expenses	(1,183,578)	(1,189,935)

12. DEPRECIATION AND AMORTIZATION

Depreciation and amortization	12 months ended 31.12.2021	12 months ended 31.12.2020
Property, plant and equipment	(230,288)	(235,126)
Intangible assets	(169,265)	(132,832)
Total depreciation and amortization	(399,553)	(367,958)

13. OTHER OPERATING INCOME

Other operating income	12 months ended 31.12.2021	12 months ended 31.12.2020
Sale or liquidation of property, plant and equipment and intangible assets	51,802	165,330
Release of allowances on other receivables	9,662	10,908
Profit from sales of goods and services	14,576	7,777
Release of provisions for litigation and claims and other liabilities	43,043	51,628
Recovery of debt collection costs	25,595	25,206
Recovered indemnities	465	1,027
Income from leasing operations	43,405	30,633
Other operating income	41,147	31,077
Total other operating income	229,695	323,586

The comparison of income realised in the analysed periods was primarily affected by the settlement and accounting treatment of the sale of the real estate of the Bank's Headquarters at Kasprzaka in Warsaw in the first quarter of 2020. The total gross result on this operation amounted to PLN 43,564 thousand and was presented under Other operating income (under Sale or liquidation of property, plant and equipment and intangible assets, in the amount of PLN 110,848 thousand) and under Other operating expenses in 2020 (under items: Loss on sale or liquidation of property, plant and equipment and intangible assets, in the amount of PLN 64,371 thousand and Other operating expenses, in the amount of PLN 2,914 thousand).

14. OTHER OPERATING EXPENSES

Other operating expenses	12 months ended 31.12.2021	12 months ended 31.12.2020
Loss on sale or liquidation of property, plant and equipment and intangible assets	(52,485)	(91,702)
Impairment allowances on other receivables	(13,515)	(12,859)
Provisions for litigation and claims and other liabilities	(63,002)	(101,864)
Debt collection	(46,570)	(52,190)
Donations made	(5,983)	(6,542)
Costs of leasing operations	(23,472)	(20,522)
Costs of compensations, penalties and fines	(10,834)	(13,700)
Other operating expenses	(81,784)	(71,741)
Total other operating expenses	(297,645)	(371,120)

Other operating expenses for 12 months of 2021 include:

- under Loss on sale or liquidation of property, plant and equipment and intangible assets in the amount of PLN 64,371 thousand, representing a portion of the settlement of the sale of the real estate of the Bank's Headquarters at Kasprzaka in Warsaw in the first quarter of 2020,
- under Other operating expenses - part of the settlement of the sale of the real estate of the Bank's Headquarters at Kasprzaka in Warsaw in the amount of PLN 2,914 thousand.

15. INCOME TAX EXPENSE

	12 months ended 31.12.2021	12 months ended 31.12.2020
Current income tax	(371,099)	(185,611)
Deferred income tax	(68,732)	(191,861)
Total income tax expense	(439,831)	(377,472)
Profit before income tax	616,129	1,110,567
Statutory tax rate	19%	19%
Income taxes on gross profit	(117,065)	(214,190)
Receivables written-off	(20,298)	(18,369)
Representation expenses	(129)	(263)
PFRON	(1,596)	(1,696)
Prudential fee to the Bank Guarantee Fund	(27,237)	(40,505)
Tax on financial institutions	(64,241)	(60,593)
Research and development relief	7,185	10,320
Provision for claims related to CHF loans	(197,732)	(38,057)
Legal risk provisions	(4,296)	(8,267)
Other differences	(14,423)	(5,852)
Total income tax expense	(439,831)	(377,472)

16. EARNINGS PER SHARE

	12 months ended 31.12.2021	12 months ended 31.12.2020
Basic		
Net profit	176,298	733,095
Weighted average number of ordinary shares (units)	147,492,790	147,418,918
Basic earnings (loss) per share (in PLN per one share)	1.20	4.97
Diluted		
Net profit used in determining diluted earnings per share	176,298	733,095
Weighted average number of ordinary shares (units)	147,492,790	147,418,918
Adjustments for:		
- stock options	126,141	128,644
Weighted average number of ordinary shares for the diluted earnings per share (units)	147,618,931	147,547,562
Diluted earnings (loss) per share (in PLN per one share)	1.19	4.96

In accordance with IAS 33 the Bank prepares the calculation of diluted net profit per share, taking into account the shares issued conditionally under incentive schemes described in Note 40. The calculation does not take into account those elements of the incentive schemes which had antidilutive effect in the presented reporting periods and which may potentially affect the dilution of profit per share in the future.

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

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

17. CASH AND CASH BALANCES AT CENTRAL BANK

Cash and cash equivalents	31.12.2021	31.12.2020
Cash and other balances	3,049,607	3,403,704
Account in the National Bank of Poland	1,582,153	18,176
Gross cash and cash equivalents	4,631,760	3,421,880
Impairment allowances	(283)	(3)
Total cash and cash equivalents	4,631,477	3,421,877
Change of impairment allowances	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	(3)	(374)
Increases due to acquisition or origination	(3,067)	(1,576)
Decreases due to derecognition	3,120	1,491
Other changes (including foreign exchange differences)	(333)	456
Closing balance	(283)	(3)

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

The funds on the statutory reserve account bear interest. As at 31 December 2021 interest on statutory reserve accounts was 1.75% (0.1% as at 31 December 2020).

The balance of cash in hand and at Central Bank includes the statutory reserve maintained with the National Bank of Poland. The basic reserve requirement at 31.12.2021 was 2% (at 31.12.20 it was 0.5%). The declared reserve level to be maintained since 31 December 2021 was PLN 2,079,746 thousand (as compared to PLN 484,302 thousand in December 2020).

18. AMOUNTS DUE FROM OTHER BANKS

Amounts due from other banks	31.12.2021			31.12.2020		
	Gross balance sheet value	Allowance	Net balance sheet value	Gross balance sheet value	Allowance	Net balance sheet value
Current accounts	234,103	(52)	234,051	153,690	(224)	153,466
Interbank deposits	726,430	(25)	726,405	123,000	-	123,000
Loans and advances	100,078	(5)	100,073	1,511	(2)	1,509
Other receivables	1,559,982	(5,361)	1,554,621	498,189	(1,442)	496,747
Total amounts due from other banks	2,620,593	(5,443)	2,615,150	776,390	(1,668)	774,722

Receivables from cash collateral in the amount of PLN 1,545,152 thousand were also presented under "Other receivables".

The total balance of long-term amounts due from banks as at 31 December 2021 amounted to PLN 1,545,152 thousand (PLN 330,838 thousand as at 31 December 2020).

Change in impairment allowance	12 months ended 31.12.2021	12 months ended 31.12.2020
Balance at the beginning of the period	(1,668)	(920)
Increases due to acquisition or origination	(4,865)	(7,760)
Decreases due to derecognition	4,224	5,874
Changes resulting from the change in credit risk (net)	(3,134)	217
Other changes (including foreign exchange differences)	-	921
Balance at the end of the period	(5,443)	(1,668)

As at 31 December 2021 and 31 December 2020, amounts due from other banks were classified as Stage 1.

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Trading derivatives	Nominal value	Fair value	
		Assets	Liabilities
31.12.2020			
Currency derivatives			
Foreign Exchange Forward (FX Forward + NDF)	14,782,276	184,587	113,239
Currency Swap (FX Swap)	18,367,382	178,217	213,453
Currency Interest Rate Swaps (CIRS)	13,428,351	167,205	268,192
OTC currency options	3,968,876	180,644	168,075
Total currency derivatives	50,546,885	710,653	762,959
Interest rate derivatives			
Interest Rate Swap	45,872,723	810,474	743,456
Forward Rate Agreements (FRA)	3,300,000	-	7,451
OTC interest rate options	4,435,634	4,646	1,556
Total interest rate derivatives	53,608,357	815,120	752,463
Other derivatives			
OTC commodity swaps	306,311	5,844	5,726
Currency Spot (FX Spot)	3,967,651	-	-
Total other derivatives	4,273,962	5,844	5,726
Total trading derivatives	108,429,204	1,531,617	1,521,148
including: measured using models	108,429,204	1,531,617	1,521,148

Fair value of derivatives by their maturity

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

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

31 December 2020	Fair value of assets						Fair value of liabilities					
	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years	Total	<= 1 month	> 1 months <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years
Trading derivatives												
Currency derivatives:												
Foreign Exchange Forward (FX Forward + NDF)	184,587	19,727	22,467	74,380	38,019	29,994	113,239	18,358	28,513	22,341	41,130	2,897
Currency Swap (FX Swap)	178,217	39,832	67,993	17,441	48,078	4,871	213,453	74,540	28,773	48,158	48,701	13,281
Currency Interest Rate Swaps (CIRS)	167,205	2,401	-	1,389	90,912	72,502	268,192	-	3,603	-	84,832	179,757
OTC currency options	180,644	8,044	8,785	27,713	135,552	550	168,075	2,926	8,568	23,650	132,386	545
Total currency derivatives:	710,653	70,004	99,245	120,924	312,562	107,917	762,959	95,824	69,457	94,149	307,049	196,480
Interest rate derivatives:												
Interest Rate Swap	810,474	3,020	12,941	34,489	342,663	417,361	743,456	2,378	18,027	33,955	329,836	359,259
Forward Rate Agreements (FRA)	-	-	-	-	-	-	7,451	-	-	2,509	4,942	-
OTC interest rate options	4,646	-	-	279	212	4,155	1,556	-	-	156	212	1,188
Total interest rate derivatives:	815,120	3,020	12,941	34,768	342,875	421,516	752,463	2,378	18,027	36,620	334,991	360,447
Other derivatives												
OTC commodity swaps	5,844	1,520	891	3,432	-	-	5,726	1,504	874	3,349	-	-
Total other derivatives:	5,844	1,520	891	3,432	-	-	5,726	1,504	874	3,349	-	-
Total trading derivatives	1,531,617	74,545	113,077	159,124	655,437	529,433	1,521,148	99,706	88,358	134,118	642,039	556,927

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

Maturity dates:

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

20. HEDGE ACCOUNTING

As at 31 December 2021, the Group used fair value hedge (**macro fair value hedge**).

Hedging relationship description The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.

Hedged items Fixed-rate PLN, EUR and USD current accounts are the hedged items.

Hedging instruments Hedging instruments include standard IRS transactions, i.e. plain vanilla IRS in PLN, EUR and USD, in which the Bank receives a fixed interest rate and pays a floating rate based on WIBOR 3M, WIBOR 6M, EURIBOR 1M, EURIBOR 3M, EURIBOR 6M, USD LIBOR 3M, USD LIBOR 6M.

	IRS	Nominal value	Fair value	
			Assets	Liabilities
31.12.2021		25,073,220	65,465	1,028,790
31.12.2020		17,260,690	531,793	-

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

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

31.12.2021 PLN -1,083,866 thousand
 31.12.2020 PLN 482,691 thousand

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

Hedging derivatives	31.12.2021								
	Fair value				Nominal value				Total
	positive	Negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years		
Interest rate agreements									
Swap (IRS)	65,465	1,028,790	500,000	545,994	6,189,910	14,700,739	3,136,577	25,073,220	
Hedging derivatives - total	65,465	1,028,790	500,000	545,994	6,189,910	14,700,739	3,136,577	25,073,220	

Hedging derivatives	31.12.2020								
	Fair value				Nominal value				Total
	positive	Negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years		
Interest rate agreements									
Swap (IRS)	531,793	-	13,844	-	806,376	14,347,698	2,092,772	17,260,690	
Hedging derivatives - total	531,793	-	13,844	-	806,376	14,347,698	2,092,772	17,260,690	

Additionally, as at 31 December 2021, the Group applies fair value hedge accounting (**micro fair value hedge**).

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.												
Hedged items	The hedged items are: Fixed rate bond PS0422.												
Hedging instruments	Hedging instruments are the standard IRS transactions, i.e. plain vanilla IRS, denominated in PLN, in which the Bank receives a floating rate based on WIBOR 6M and pays a fixed interest rate.												
	Fair value												
	<table border="1"> <thead> <tr> <th>IRS</th> <th>Nominal value</th> <th>Assets</th> <th>Liabilities</th> </tr> </thead> <tbody> <tr> <td>31.12.2021</td> <td>750,000</td> <td>-</td> <td>13,817</td> </tr> <tr> <td>31.12.2020</td> <td>1,750,000</td> <td>-</td> <td>60,027</td> </tr> </tbody> </table>	IRS	Nominal value	Assets	Liabilities	31.12.2021	750,000	-	13,817	31.12.2020	1,750,000	-	60,027
IRS	Nominal value	Assets	Liabilities										
31.12.2021	750,000	-	13,817										
31.12.2020	1,750,000	-	60,027										
Presentation of result on the hedged and hedging transactions	The change in fair value of hedging transactions is recognised in the Result on hedge accounting. Interest on IRS transactions and hedged items is recognised in Interest income.												

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

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

	31.12.2020								
	Fair value		Nominal value						Total
	positive	negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years		
Hedging derivatives									
Interest rate agreements									
Swap (IRS)	-	60,027	-	-	-	950,000	800,000	1,750,000	
Hedging derivatives - total	-	60,027	-	-	-	950,000	800,000	1,750,000	

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

Fair value	31.12.2021	31.12.2020
Net interest income on hedging derivative instruments	195,568	176,659
Net interest expense on derivative hedging instruments	(53,031)	(99,538)
Change in fair value of hedging transactions recognised in the Result on hedge accounting, including:	50,369	(11,077)
change in fair value of hedging instruments	(1,472,733)	(246,040)
change in fair value of hedged instruments	1,523,101	234,963

Additionally, the Group applies **cash flow hedge accounting** as of 31 December 2021. The cash flow hedge relationship was established in March 2021, and therefore there were no balances relating to this type of hedge at 31 December 2020.

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

IRS	Nominal value	Fair value	
		Assets	Liabilities
31.12.2021	625,000	-	85,365
Presentation of result on hedging and hedging transactions	The change in fair value of derivative hedging instruments designated as hedging of cash flows is recognised directly in the Revaluation reserve in the part constituting the effective part of the hedge. The ineffective part of the hedge is recognised in the statement of profit or loss under Result on hedge accounting.		

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

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

Cash flow hedges	31.12.2021
Interest income on hedging derivatives	7,912
Interest expense on hedging derivatives	(2,267)

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

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

21. LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST

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

31.12.2020			
Loans and advances to customers measured at amortised cost	Gross balance sheet value	Allowance	Net balance sheet value
Loans and advances for:			
Non-banking financial entities	595,102	(1,934)	593,168
current account loans	492,335	(1,577)	490,758
investment loans	96,141	(259)	95,882
other loans	6,626	(98)	6,528
Retail customers	33,802,097	(1,172,830)	32,629,267
mortgage loans	22,559,727	(363,664)	22,196,063
other loans	11,242,370	(809,166)	10,433,204
Corporate customers	38,673,033	(1,863,349)	36,809,684
current account loans	17,823,636	(1,135,775)	16,687,861
investment loans	13,921,875	(512,585)	13,409,290
other loans	6,927,522	(214,989)	6,712,533
including retail farmers	8,118,713	(453,098)	7,665,615
current account loans	3,979,679	(229,272)	3,750,407
investment loans	4,125,187	(222,105)	3,903,082
other loans	13,847	(1,721)	12,126
Public sector institutions	101,382	(2,268)	99,114
current account loans	70,300	(1,649)	68,651
investment loans	30,448	(611)	29,837
other loans	634	(8)	626
Lease receivables	4,112,460	(146,424)	3,966,036
Total loans and advances to customers measured at amortised cost	77,284,074	(3,186,805)	74,097,269

Loans and advances to customers by Stages is presented below:

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

31.12.2020	Stage 1	Stage 2	Stage 3	Total	POCI
Loans and advances for:	65,969,373	7,165,450	4,149,251	77,284,074	324,756
Non-banking financial entities	593,444	33	1,625	595,102	80
Retail customers	30,416,993	1,940,388	1,444,716	33,802,097	71,872
Corporate customers	31,474,785	4,699,506	2,498,742	38,673,033	52,760
including retail farmers	6,069,509	1,259,809	789,395	8,118,713	2
Public sector entities:	98,992	2,346	44	101,382	44
Lease receivables	3,385,159	523,177	204,124	4,112,460	-
Impairment allowance on loans and receivables for:	(505,527)	(594,339)	(2,086,939)	(3,186,805)	(47,810)
Non-banking financial entities	(1,213)	(3)	(718)	(1,934)	(23)
Retail customers	(197,518)	(226,981)	(748,331)	(1,172,830)	(10,127)
Corporate customers	(274,643)	(346,822)	(1,241,884)	(1,863,349)	(37,648)
including retail farmers	(48,403)	(116,224)	(288,471)	(453,098)	(1)
Public sector entities	(1,990)	(266)	(12)	(2,268)	(12)
Lease receivables	(30,163)	(20,267)	(95,994)	(146,424)	-
Net loans and advances to customers measured at amortised cost	65,463,846	6,571,111	2,062,312	74,097,269	276,946

Impairment allowance of loans and advances to customers measured at amortised cost

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

Change in impairment allowances	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 January 2021	(462,118)	(481,781)	(2,284,310)	(3,228,209)
Increase due to acquisition or origination	(318,192)	(80,321)	(123,188)	(521,701)
Decrease due to derecognition	55,378	21,739	110,796	187,913
Changes resulting from the change in credit risk (net)	223,644	(50,954)	(706,534)	(533,844)
Use of allowances	90	30	939,245	939,365
Other changes (including foreign exchange differences)	(4,329)	(3,053)	(22,947)	(30,329)
Closing balance as at 31 December 2020	(505,527)	(594,339)	(2,086,939)	(3,186,805)

The total balance of long-term loans and advances due to customers as at 31 December 2021 amounted to PLN 76,534,598 thousand (PLN 63,711,558 thousand as at 31 December 2020).

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

Loans by currency	31.12.2021	31.12.2020
CHF	4,531,564	4,822,478
EUR	36,388	47,606
PLN	22,141,389	17,687,284
USD	1,656	2,359
Total	26,710,997	22,559,727

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

	31.12.2020			
Value of CHF loan portfolio	Gross balance sheet value	including CHF exposures	Allowance	including CHF exposures
Loans and advances for:				
Non-banking financial entities	595,102	-	(1,934)	-
current account loans	492,335	-	(1,577)	-
investment loans	96,141	-	(259)	-
other loans	6,626	-	(98)	-
Retail customers	33,802,097	4,876,681	(1,172,830)	(235,754)
mortgage loans	22,559,727	4,822,478	(363,664)	(223,878)
other loans	11,242,370	54,203	(809,166)	(11,876)
Corporate customers	38,673,033	148,909	(1,863,349)	(12,064)
current account loans	17,823,636	137,511	(1,135,775)	(7,502)
investment loans	13,921,875	10,068	(512,585)	(4,560)
other loans	6,927,522	1,330	(214,989)	(2)
including retail farmers	8,118,713	3,094	(453,098)	(493)
current account loans	3,979,679	2,998	(229,272)	(493)
investment loans	4,125,187	96	(222,105)	-
other loans	13,847	-	(1,721)	-
Public sector institutions	101,382	-	(2,268)	-
current account loans	70,300	-	(1,649)	-
investment loans	30,448	-	(611)	-
other loans	634	-	(8)	-
Lease receivables	4,112,460	38,940	(146,424)	(7,448)
Total loans and advances	77,284,074	5,064,530	(3,186,805)	(255,266)

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

	31.12.2021	31.12.2020
Subsidised loans	1,219,027	1,539,848
Total loans and advances to customers measured at fair value through profit a loss	1,219,027	1,539,848

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

	Gross balance sheet value	Fair value
31.12.2021	1,343,402	1,219,027
31.12.2020	1,715,680	1,539,848

Subsidised loans measured through fair value	Stage 1	Stage 2	Stage 3	Total
31.12.2021	897,554	244,754	76,719	1,219,027
31.12.2020	1,106,270	311,307	122,271	1,539,848

23. SECURITIES MEASURED AT AMORTISED COST

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

31.12.2020			
Securities	Gross balance sheet value	Allowance	Net balance sheet value
issued by local banks – mortgage bonds	5,581	(89)	5,492
issued by local banks	3,836,125	-	3,836,125
issued by other financial institutions	588,445	-	588,445
issued by governments – Treasury bonds	18,640,800	(96)	18,640,704
issued by non-financial entities – bonds	213,573	(11,818)	201,755
issued by local governments – municipal bonds	88,890	(389)	88,501
Total securities measured at amortised cost	23,373,414	(12,392)	23,361,022

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

31.12.2020	Stage 1	Stage 2	Stage 3	Total	POCI
Securities	23,180,310	4,021	189,083	23,373,414	184,928
issued by local banks – mortgage bonds	5,581	-	-	5,581	-
issued by local banks	3,836,125	-	-	3,836,125	-
issued by other financial institutions	588,445	-	-	588,445	-
issued by governments – Treasury bonds	18,640,800	-	-	18,640,800	-
issued by non-financial entities – bonds	20,469	4 021	189 083	213,573	184 928
issued by local governments – municipal bonds	88,890	-	-	88,890	-
Impairment allowances on securities:	(823)	(446)	(11,123)	(12,392)	(6,968)
issued by local banks – mortgage bonds	(89)	-	-	(89)	-
issued by governments – Treasury bonds	(96)	-	-	(96)	-
issued by non-financial entities – bonds	(249)	(446)	(11,123)	(11,818)	(6,968)
issued by local governments – municipal bonds	(389)	-	-	(389)	-
Total net securities measured at amortised cost	23,179,487	3,575	177,960	23,361,022	177,960

In accordance with the Banking Guarantee Fund (“BFG”) Act of 14 December 1994, as at 31 December 2021, BNP Paribas Bank Polska S.A. held Treasury bonds recognised in the statement of financial position in the amount of PLN 336,429 thousand (with the nominal value of PLN 340,000 thousand), securing the guaranteed funds under BFG (in 2020 in the amount of PLN 364,531 thousand, with the nominal value of PLN 370,000 thousand).

Change of securities measured at amortised cost based on the balance sheet value:	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	23,361 022	17,916,645
Purchase of securities	-	5,776,975
Sale/repurchase of securities	(56,116)	(507,612)
Change in impairment allowances	(33,258)	10,133
Change on the initial value adjustment	-	(6,576)
Change in interest due, foreign exchange differences, discounts and bonuses	(3,607)	171,457
Closing balance	23,268 041	23,361,022

Change in impairment allowances of securities measured at amortised cost	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	(12,392)	(22,526)
Increases due to acquisition or origination	-	(1,678)
Decreases due to derecognition	259	5,241
Changes due to changes in credit risk (net)	(33,519)	6,571
Closing balance	(45,652)	(12,392)

The gross amount of long-term securities measured at amortised cost as at 31 December 2021 was PLN 23,257,519 thousand (PLN 23,351,070 thousand as at 31 December 2020).

24. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities measured at fair value through profit or loss	31.12.2021	31.12.2020
	Balance sheet value	
Treasury bonds issued by central government entities	27,046	-
Bonds issued by non-financial entities	41,286	54,228
Bonds convertible for non-financial entities bonds	51,121	57,292
Equity instruments	226,988	259,512
Units	47	44
Certificates issued by non-financial entities	821	824
Total securities measured at fair value through profit or loss	347,309	371,900
	Change in securities measured at fair value through profit or loss	
	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	371,900	241,754
Purchase of securities	35,963	41,429
Sale of securities	(30,552)	(7,513)
Change in measurement at fair value through profit or loss	(32,713)	94,000
Change in interest due, foreign exchange differences, discounts and bonuses	2,690	2,230
Other changes	21	-
Closing balance	347,309	371,900

The gross amount of long-term securities measured at fair value through profit or loss as at 31 December 2021 was PLN 76,758 thousand (PLN 106,786 thousand as at 31 December 2020).

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

	12 months ended 31.12.2021	12 months ended 31.12.2020
Classified as obligatory measured at fair value through profit or loss as at the moment of initial recognition	120,274	112,343
Classified as measured at fair value through profit or loss as at the moment of initial recognition	227,035	259,557
Total securities measured at fair value through profit or loss	347,309	371,900

25. SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt securities	31.12.2021	31.12.2020
Bonds issued by banks	2,608,513	4,319,718
Treasury bonds issued by central governments	4,101,875	4,685,483
Bonds issued by other financial institutions	2,432,965	1,223,359
Securities measured at fair value through other comprehensive income	9,143,353	10,228,560

The measurement of debt securities measured at fair value through other comprehensive income is based on the discounted cash flow model using current market interest rates, taking into account the issuer's credit risk in the amount corresponding to the parameters observed on the market for transactions with similar credit risk parameters and similar time horizon. The measurement does not take into account assumptions that cannot be observed directly on the market.

Change of securities measured at fair value through other comprehensive income	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	10,228,560	7,953,358
Purchase of securities	87,312,000	50,342,450
Sale of securities	(87,328,265)	(48,329,550)
Change in measurement at fair value through other comprehensive income	(969,416)	163,408
Change in measurement at fair value through profit or loss	(44,296)	36,601
Change in interest due, foreign exchange differences, discounts and bonuses	(55,230)	62,293
Closing balance	9,143,353	10,228,560

The gross amount of securities measured at fair value through other comprehensive income as at 31 December 2021 was PLN 8,261,704 thousand (PLN 10,072,024 thousand as at 31 December 2020).

The table below presents gains and losses related to securities measured at fair value through other comprehensive income, which in the given period were recognised directly in equity, and then were derecognised and recognised in profit or loss for a given period of 12 months until 31 December 2021 and 31 December 2020.

Securities measured at fair value through other comprehensive income	12 months ended 31.12.2021	12 months ended 31.12.2020
Profits included directly in equity and then transferred from equity to the statement of profit or loss	31,559	76,998
Losses included directly in equity and then transferred from equity to the statement of profit or loss	(33,835)	(1,229)
Total securities measured at fair value through other comprehensive income	(2,276)	75,769

26. INVESTMENT PROPERTIES

In 2020, the Group has sold the investment property in the form of an undeveloped land with an area of 46.85 ha in Wrocław Marszowice. The contractual acquisition price was determined at the level of PLN 46,200 thousand. Loss due to the sale of the investment property amounted to PLN 10,377 thousand.

	12 months ended 31.12.2020
Opening balance	56,577
Valuation update	-
Sale	(56,577)
Closing balance, including	-
acquisition price	-
revaluation to fair value	-

27. INTANGIBLE ASSETS

Intangible assets	31.12.2021	31.12.2020
Licenses	533,757	420,429
Other intangible assets	17,227	7,951
Expenditure on intangible assets	177,491	223,228
Total intangible assets	728,475	651,608

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

Intangible assets				
12 months ended 31.12.2020	Licenses	Other intangible assets	Expenditure on intangible assets	Total
Gross book value				
As at 1 January	1,313,359	20,673	233,656	1,567,688
Increases:	270,938	3,334	282,182	556,454
reclassification from expenditure	264,313	3,198	-	267,511
purchase	6,480	42	249,357	255,879
other	145	94	32,825	33,064
Decreases:	(102,483)	(575)	(292,610)	(395,668)
reclassification from expenditure	-	-	(267,512)	(267,512)
sale, liquidation, donation, shortage	(102,483)	(561)	(3,637)	(106,681)
other	-	(14)	(21,461)	(21,475)
As at 31 December	1,481,814	23,432	223,228	1,728,474
Accumulated amortisation (-)				
As at 1 January	1,033,684	12,329	-	1,046,013
Changes:	27,701	3,152	-	30,853
amortisation for the financial year	124,553	8,279	-	132,832
other	-	(4,760)	-	(4,760)
sale, liquidation, donation, shortage	(96,852)	(367)	-	(97,219)
As at 31 December	1,061,385	15,481	-	1,076,866
Impairment allowances (-)				
As at 1 January	-	46	1,685	1,730
Balance changes:	-	(46)	(1,685)	(1,730)
impairment allowance recalculation	-	(46)	(1,685)	(1,730)
As at 31 December	-	-	-	-
Net book value				
As at 1 January	279,675	8,298	231,971	519,945
As at 31 December	420,429	7,951	223,228	651,608

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

As at 31 December 2021, the Group had significant contractual obligations incurred in connection with the acquisition of intangible assets in the amount of PLN 3,505 thousand (PLN 1,394 as of 31 December 2020).

28. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	31.12.2021	31.12.2020
Fixed assets, including:	455,206	507,441
land and buildings	104,873	129,709
IT equipment	145,741	162,182
office equipment	52,065	51,526
other, including leasehold improvements	152,527	164,024
Fixed assets under construction	22,970	47,450
Right of use, including:	765,347	924,649
land and buildings	743,564	907,828
motor vehicles	21,655	16,728
other, including leasehold improvements	128	93
Total property, plant and equipment	1,243,523	1,479,540

Changes in property, plant and equipment in 2021 and 2020 were presented below:

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

Property, plant and equipment and fixed assets under construction

12 months ended 31.12.2020	Land and buildings	Property, plant and equipment	Fixed assets under construction	Total
Gross book value				
As at 1 January	412,810	1,259,850	94,250	1,766,910
Increases:	9,827	167,068	108,128	285,023
reclassification from fixed assets under construction	9,750	135,991	-	145,741
purchase	-	20,920	94,262	115,182
other	77	10,157	13,866	24,100
Decreases:	(155,744)	(208,714)	(154,887)	(519,345)
reclassification from fixed assets under construction	-	-	(145,741)	(145,741)
sale, liquidation, donation, shortage, theft	(155,630)	(192,511)	-	(348,141)
other	(114)	(16,203)	(9,146)	(25,463)
As at 31 December	266,893	1,218,204	47,491	1,532,588
Accumulated depreciation (-)				
As at 1 January	199,753	918,992	-	1,118,745
Balance changes:	(75,735)	(79,885)	-	(155,620)
depreciation for the financial year	7,193	101,245	-	108,438
sale, liquidation, donation, shortage	(82,928)	(181,130)	-	(264,058)
As at 31 December	124,018	839,107	-	963,125
Impairment allowances (-)				
As at 1 January	10,471	925	76	11,472
Balance changes:	2,695	440	(35)	3,100
impairment allowance recalculation	2,695	440	(35)	3,100
As at 31 December	13,166	1,365	41	14,572
Net book value				
As at 1 January	202,586	339,933	94,174	636,693
As at 31 December	129,709	377,732	47,450	554,891

As at 31 December 2021, the Group had significant contractual obligations incurred in connection with the acquisition of property, plant and equipment in the amount of PLN 391 thousand (PLN 1,165 thousand as of 31 December 2020).

Right of use				
12 months ended 31.12.2021	Land and buildings	Motor vehicles	Other, including leasehold improvements	Total
Gross book value				
As at 1 January	1,116,121	27,608	280	1,144,009
Increases:	79,969	14,451	145	94,565
Decreases:	(140,148)	(5,514)	(280)	(145,942)
As at 31 December	1,055,942	36,545	145	1,092,632
Accumulated depreciation (-)				
As at 1 January	202,379	10,880	187	213,446
Balance changes:	93,778	4,010	(170)	97,618
depreciation for the financial year	118,142	8,727	111	126,980
other	(24,343)	(4,639)	(281)	(29,263)
sale, liquidation, donation, shortage	(21)	(78)	-	(99)
As at 31 December	296,157	14,785	17	310,959
Impairment allowances (-)				
As at 1 January	5,914	-	-	5,914
Balance changes:	10,306	-	-	10,306
recognition of impairment allowance	13,250	-	-	13,250
reversal of impairment allowance	(2,944)	-	-	(2,944)
As at 31 December	16,220	-	-	16,220
Net book value				
As at 1 January	907,828	16,728	93	924,649
As at 31 December	743,564	21,655	128	765,347

Right of use					
12 months ended 31.12.2020	Land and buildings	Motor vehicles	IT equipment	Other, including leasehold improvements	Total
Gross book value					
As at 1 January	690,351	18,630	6,556	280	715,817
Increases:	503,318	11,569	-	-	514,887
Decreases:	(77,548)	(2,591)	(6,556)	-	(86,695)
As at 31 December	1,116,121	27,608	-	280	1,144,009
Accumulated depreciation (-)					
As at 1 January	110,891	5,143	2,452	93	118,579
Balance changes:	91,488	5,737	(2,452)	94	94,867
depreciation for the financial year	118,001	7,886	707	94	126,688
other	(26,513)	(2,075)	(3,159)	-	(31,747)
sale, liquidation, donation, shortage	-	(74)	-	-	(74)
As at 31 December	202,379	10,773	-	187	213,339
Impairment allowances (-)					
As at 1 January	7 185	-	-	-	7,185
Balance changes:	(1,271)	-	-	-	(1,271)
recognition of impairment loss	2,731	-	-	-	2,731
reversal of impairment loss	(4,002)	-	-	-	(4,002)
As at 31 December	5,914	-	-	-	5,914
Net book value					
As at 1 January	572,275	13,487	4,104	187	590,053
As at 31 December	907,828	16,728	-	93	924,649

29. LEASES

Group as a lessee

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

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

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

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

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

	31.12.2021	31.12.2020
Costs of leasing recognised in profit and loss account	(134,006)	(138,959)
cost of interest from leasing liabilities	(4,551)	(6,694)
cost of amortization of assets due to the right of use	(126,980)	(126,688)
costs related to short-term leases (recognised as administrative costs)	(2,475)	(5,577)

	31.12.2021	31.12.2020
Undiscounted lease payments by maturity		
up to 1 year	127,496	126,132
from 1 year to 5 years	461,962	493,225
over 5 years	312,375	397,542
Total	901,833	1,016,899

	31.12.2021	31.12.2020
Book value of liabilities due to discounted lease	860,004	968,749

Group as a lessor

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

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

	31.12.2021	31.12.2020
Finance lease receivables		
Gross receivables due to finance lease	5,044,682	4,266,524
Unrealized financial income	(98,518)	(154,064)
Present value of minimum lease payments	4,946,163	4,112,460
Impairment allowance	(162,122)	(146,424)
Total finance lease receivables	4,784,041	3,966,036

Gross finance lease receivables by maturity	31.12.2021	31.12.2020
up to 1 year	1,899,558	1,527,068
from 1 year to 5 years	2,946,967	2,543,841
over 5 years	198,157	195,615
Total gross finance lease receivables	5,044,682	4,266,524

30. OTHER ASSETS

Other assets:	31.12.2021	31.12.2020
Receivables from contracts with customers:		
sundry debtors	247,178	192,405
accrued income	106,560	97,405
payment card settlements	16,194	31,254
social insurance settlements	6,623	5,562
Other:		
interbank and intersystem settlements	121,977	293,842
deferred expenses	48,056	32,842
tax and other regulatory receivables	48,181	50,653
other lease receivables	36,040	9,506
other	84,690	109,861
Total other assets (gross)	715,499	823,330
Impairment allowances on other receivables from other debtors	(58,904)	(36,491)
Total other assets (net)	656,595	786,839

31. AMOUNTS DUE TO CENTRAL BANK

Amounts due to Central Bank	31.12.2021	31.12.2020
Current account overdraft	-	84,675

32. AMOUNTS DUE TO OTHER BANKS

Amounts due to other banks	31.12.2021	31.12.2020
Current accounts	518,981	806,438
Interbank deposits	1,967,290	1,615,771
Loans and advances received	5,351,400	4,081,845
Other liabilities	174,573	320,840
Total amounts due to other banks	8,012,244	6,824,894

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

There were no breaches of contractual provisions and covenants related to the financial situation of the Group and disclosure obligations in 2021 and 2020.

The amount of long-term liabilities due to other banks as at 31 December 2021 equals PLN 3,559,283 thousand (PLN 2,950,936 thousand as at 31 December 2020).

33. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers	31.12.2021	31.12.2020
OTHER FINANCIAL INSTITUTIONS	1,315,721	1,528,698
Current accounts	1,200,041	1,335,032
Term deposits	11,420	184,356
Loans and advances received	101,666	-
Other liabilities	2,594	9,310
RETAIL CUSTOMERS	44,771,970	43,578,829
Current accounts	38,430,796	35,826,600
Term deposits	5,880,637	7,327,267
Other liabilities	460,537	424,962
CORPORATE CUSTOMERS	53,418,415	43,677,506
Current accounts	47,213,927	40,222,097
Term deposits	5,428,183	2,723,760
Other liabilities	776,305	731,649
including RETAIL FARMERS	2,717,618	2,464,474
Current accounts	2,658,847	2,388,764
Term deposits	41,112	60,296
Other liabilities	17,659	15,414
PUBLIC SECTOR INSTITUTIONS	1,586,835	1,265,971
Current accounts	1,487,523	1,111,576
Term deposits	78,654	148,718
Other liabilities	20,658	5,677
Total amounts due to customers	101,092,941	90,051,004

The amount of long-term amounts due to customers as at 31 December 2021 equals PLN 474,970 thousand (PLN 378,908 thousand as at 31 December 2020).

34. DEBT SECURITIES ISSUED

	31.12.2021	31.12.2020
Debt securities	722,628	1,318,380
Changes in the balance of debt securities issued	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	1,318,380	2,179,052
Redemption of certificates of deposit	(595,717)	(860,509)
Changes in discount, interests, commission and fees on certificates of deposit amortised using EIR, foreign currency exchange differences	(35)	(163)
Closing balance	722,628	1,318,380

35. SUBORDINATED LIABILITIES

	31.12.2021	31.12.2020
Subordinated liabilities	4,334,572	4,306,539

Change in the balance of subordinated liabilities	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	4,306,539	1,882,064
Loans received	-	2,300,000
Change in the balance of interest	6,716	1,795
Exchange differences	21,317	122,680
Closing balance	4,334,572	4,306,539

36. OTHER LIABILITIES

Other liabilities	31.12.2021	31.12.2020
Liabilities due to contracts with customers		
Sundry creditors	207,148	221,943
Payment card settlements	158,617	128,516
Deferred income	89,110	91,687
Escrow account liabilities	581	3,431
Social insurance settlements	34,769	30,625
Other liabilities		
Interbank and intersystem settlements	284,944	30,265
Provisions for non-personnel expenses	343,656	342,771
Provisions for other employees-related liabilities	246,935	215,090
Provision for unused annual holidays	42,426	42,481
Other regulatory liabilities	54,689	49,345
Other lease liabilities	28,320	18,100
Other	65,094	94,989
Total other liabilities	1,556,289	1,269,243

37. PROVISIONS

	31.12.2021	31.12.2020
Provision for restructuring	56,280	82,918
Provision for retirement benefits and similar obligations	15,858	18,188
Provision for contingent financial liabilities and guarantees granted	155,638	214,443
Provisions for litigation and claims	1,463,347	335,629
Other provisions	8,229	8,232
Total provisions	1,699,352	659,410

Provisions for restructuring	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	82,918	113,076
Provisions recognition	4,917	48,590
Provisions utilization	(31,177)	(59,882)
Provisions release	(378)	(18,839)
Other changes	-	(27)
Closing balance	56,280	82,918

Provision for retirement benefits and similar obligations	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	18,188	16,209
Provisions recognition	2,492	4,514
Provisions utilization	(884)	(1,025)
Provisions release	(3,938)	(1,510)
Closing balance	15,858	18,188

Provisions for financial liabilities and guarantees granted	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	214,443	233,179
Provisions recognition	116,428	96,415
Provisions utilization	(55,414)	(82,951)
Changes resulting from changes in credit risk (net)	(123,080)	-
Changes arising from updates to the method of estimation used (net)	2,853	(35,887)
Other changes	408	3,687
Closing balance	155,638	214,443

Provisions for litigation and similar liabilities	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	335,629	166,073
Provisions recognition	1,125,766	218,936
Provisions utilization	(32,231)	(38,092)
Provisions release	(16,433)	(11,288)
Other changes, including foreign exchange differences	50,616	-
Closing balance	1,463,347	335,629

Other provisions	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	8,232	2,524
Provisions recognition	16	4,644
Provisions utilization	(17)	(25)
Provisions release	(2)	(738)
Other changes	-	1,827
Closing balance	8,229	8,232

38. DEFERRED INCOME TAX

Changes in deferred income tax in the financial year:

Deferred tax assets	Deferred tax basis as at 31 December 2021	Deferred tax basis as at 31 December 2020	Charge arising from changes in asset in 2021
Outstanding interest accrued on liabilities, including CD interest and discount	379,956	347,885	6,093
Fair value measurement of derivative instruments and securities*	2,102,834	1,069,542	196,325
Unrealized liabilities due to hedged items and hedging instruments	39,302	482,691	(84,244)
Impairment allowances on financial assets and provisions for contingent liabilities (non-deductible), which are probable to occur/documented	2,899,861	3,397,655	(94,581)
Revenue collected in advance and measured at amortised cost including the effective interest rate	220,849	347,625	(24,087)
Provision for retirement benefits and provision for restructuring	72,947	93,482	(3,902)
Other provisions for personnel costs	294,292	254,917	7,481
Provisions for non-personnel expenses	343,957	337,319	1,261
Impairment allowance on fixed and intangible assets	13,564	14,669	(210)
Impairment of subsidiaries and associates	64,983	61,375	686
Compensations paid	8,885	3,051	1,108
Impairment allowance on lease receivables	126,176	105,391	3,949
Impairment allowance on available for sale assets related to leasing operations	65,674	70,620	(940)
Surplus of the tax value of leased fixed assets over the book value of receivables	655,127	619,332	6,801
Lease down-payments	91,165	37,121	10,268
Deferred income from leasing operations	28,817	21,712	1,350
Lease liabilities	869,192	958,280	(16,927)
Impairment allowances on other assets	39,061	8,451	5,816
Valuation of securities measured through other comprehensive income	753,102	41,612	135,183
Other negative deductible temporary differences	83,807	130,177	(8,810)
Total:	9,153,551	8,402,907	142,622
Asset basis recognised in profit or loss (in the current and preceding years) and charge arising from changes in asset	8,400,448	8,361,294	7,439
Basis for assets recognised in correspondence with revaluation reserve and charge arising from changes in asset	753,103	41,613	135,183

Unrecognised deferred tax asset is related to impairment allowances on loans and advances whose non-recoverability will not become probable in the future. The related unrecognised temporary differences amounted to PLN 26,767 thousand as at 31 December 2021 as compared to PLN 33,219 thousand as at 31 December 2020.

Deferred tax liability	Deferred tax basis as at 31 December 2021	Deferred tax basis as at 31 December 2020	Charge arising from changes in asset in 2021
Accrued revenue from interest on amounts due	(1,080,507)	(1,098,424)	3,404
Fair value measurement of derivative instruments and securities	(1,046,616)	(1,713,544)	126,716
Valuation of securities measured through other comprehensive income	(17,661)	(353,222)	63,757
Difference between accounting and tax depreciation of the Bank's own fixed assets	(358,111)	(301,636)	(10,730)
Accrued income – other	-	(33)	6
Net value of right of use (RoU)	(781,441)	(930,406)	28,303
R&D expenses	(34,525)	(4,178)	(5,766)
Subleasing agreements	(34,026)	-	(6,465)
Unrealized liabilities related to hedged items and hedging instruments	(1,123,168)	-	(213,402)
Deferred costs of leasing operations	(56,144)	(48,836)	(1,389)
Other positive taxable temporary differences	(7,669)	(28,385)	3,936
Total:	(4,539,868)	(4,478,664)	(11,629)
Basis for the provision recognised in profit or loss (in the current and preceding years) and charged arising from changes in the provision	(4,522,045)	(4,121,141)	(76,171)
Basis for the provision charged to revaluation reserve and charged arising from changes in the provision	(17,823)	(357,523)	64,542
Deferred tax assets		1,739,175	1,596,551
Deferred tax liability		(862,576)	(850,945)
Net deferred tax asset		876,559	745,606

39. DISCONTINUED OPERATIONS

The Group did not discontinue any operations in 2021 or 2020.

40. SHARE-BASED PAYMENTS

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

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

Pursuant to the Remuneration policy for Individuals with a significant impact on the Bank's risk profile approved 31 December 2019, from 2020 (excluding persons who have terminated their cooperation with the Bank) the applicable financial instrument in which part of the variable remuneration is paid is ordinary shares (change from phantom shares).

The 2020 variable remuneration convertible into a financial instrument was granted in actual shares of the Bank.

On 9 December 2021, the Supervisory Board approved a modified Remuneration Policy for persons with material impact on the risk profile of BNP Paribas Bank S.A. The changes consisted mainly in adjusting the provisions of the Policy to the Ordinance of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system and internal control system

and remuneration policy in banks and the guidelines contained in the CRD5 Directive and consisted, among others, in extending the deferral period.

Phantom share-based programme

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

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

Financial instruments (phantom shares) - programme amendments in 2021 and 2020.

	31.12.2021		31.12.2020	
	Financial instrument		Financial instrument	
	units	value (PLN '000)	units	value (PLN '000)
Opening balance	220,298	11,455	294,738	15,628
granted in the period	-	-	13,586	928
executed during the period	(98,748)	(5,581)	(88,026)	(5,101)
expired	(3,780)	(258)	-	-
Closing balance	117,770	5,616	220,298	11,455

In 2021, payments in the amount of PLN 5,581 thousand were made due to exercising rights to deferred phantom shares (under the programme for 2016, 2017 and 2018).

The table below presents the terms of the Stock Purchase Plan in 2021.

Transaction type in line with IFRS 2	Share-based payments settled in cash
Plan issued on	21 June 2012 - the Resolution of the Supervisory Board approving the Remuneration Policy
The commencement date for granting phantom shares	8 March 2021
The end date for granting phantom shares	9 March 2021

Programme based on the Bank's shares

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

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

The Bank will grant the participants of the Incentive Scheme subscription warrants, which will result in the right to acquire a new Series M shares issued by the Bank under the conditional share capital increase. The number of Series M shares shall not exceed 576,000. The rights to acquire Series M shares shall be granted taking into account the principles of dividing the variable remuneration into the non-deferred and deferred portions, as defined in the Remuneration Policy and the regulations adopted on its basis. Series M shares will constitute a component of variable remuneration for persons having a significant impact on the Bank's risk profile within the meaning of the Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021.

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

On 24 April 2020, the Bank obtained a decision of the Polish Financial Supervision Authority on the amendments to the Articles of Association resulting from this Resolution, and on 14 May 2020 the conditional share capital increase was registered by the Court.

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

1. the part constituting at least 50% is assigned in the form of the Bank's shares (which will be acquired by exercising rights from subscription warrants);

2. the part of variable remuneration not less than 40% of that remuneration is deferred. The deferral period is at least 5 years for Senior Management and a minimum of 4 years and a maximum of 5 years for employees other than Senior Management. The maximum deferral period of 5 years is applied in the case of an assignment of Variable Remuneration that exceeds a particularly high amount.

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

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

1. The Bank shall be prohibited from paying assigned variable remuneration in excess of the maximum amount to be paid (the so-called MDA) in a situation where the Bank does not meet the combined buffer requirement within the meaning and under the rules set out in *Articles 55 and 56 of the Act on macro-prudential supervision*.
2. In the event when the Bank does not meet the combined buffer requirement, then before the MDA is calculated, the Bank:
 - does not undertake commitments to pay variable remuneration or discretionary pension benefits;
 - does not make variable remuneration payments if the obligation to pay them arose during the period in which the Bank did not meet the combined buffer requirement.

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

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

The number of shares granted in April 2021 under the non-deferred portion of variable remuneration was 99,864 pieces.

In 2021, for the variable remuneration granted for 2019 and 2020 and in connection with the forecast of the variable remuneration for 2021, which will be granted in 2022, in the part concerning shares to be issued in the future, the Bank has recognized in the capitals an amount of PLN 6,073 thousand. At the same time, an amount of PLN 7,528 thousand (recognised in the previous year) is presented in capital. The actuarial value of the shares issued in 2021 in the amount of PLN 4,742 thousand is included in the mentioned amounts.

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

	31.12.2021		31.12.2020	
	Financial instrument		Financial instrument	
	units	value (PLN '000)	units	value (PLN '000)
Opening balance	68,910	4,638	-	-
granted in the period	39,941	2,765	68,910	4,638
Closing balance	108,851	7,403	68,910	4,638

The table below presents the terms and conditions of the Share/Warrants Purchase Plan for 2021

Type of transaction under IFRS 2	Share-based payments
Program announcement date	31 January 2020 – the Resolution of the Supervisory Board approving the Remuneration Policy.
The commencement date for granting of shares	1 April 2021
The end date for granting shares	6 April 2021

41. CONTINGENT LIABILITIES

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

Contingent liabilities	31.12.2021	31.12.2020
Contingent commitments granted	43,750,937	38,053,674
Financial commitments	33,487,647	30,220,021
Guarantees	10,263,290	7,833,653
Contingent commitments received	27,524,546	21,911,007
Financial commitments	13,592,590	13,037,589
Guarantees	13,931,956	8,873,418

The amount of contingent liabilities granted as at 31 December 2021 equals PLN 18,813,999 thousand (PLN 15,903,598 thousand as at 31 December 2020), while the amount of contingent liabilities received by the Bank as at 31 December 2021 equals PLN 24,046,996 thousand (PLN 20,249,636 thousand as at 31 December 2020).

42. COLLATERALS

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

Assets of the Group pledged as collaterals

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

Assets pledged as collaterals	31.12.2021	31.12.2020
Guaranteed amount protection fund – Bank Guarantee Fund (BFG)		
nominal value of collateral	340,000	370,000
type of collateral	Treasury bonds	
maturity	2026-07-25	2026-07-25
balance sheet value of collateral	336,429	364,531
Collateral of BM BGŻ BNP Paribas S.A. transactions in securities deposited with the national depository for securities (KDPW) as part of the stock exchange guarantee fund		
cash	-	3,265
Collateral for derivative transaction settlement		
nominal value of collateral	1,558,124	344,005
type of collateral	call deposits (amounts due from other banks)	
Collateral of SPV settlements for securitization		
nominal value of collateral	761,924	1,318,022
type of collateral	receivables that are the subject to a securitization transaction	
Collateral due to repo transactions		
Balance sheet value	92,809	-
fair value	90,629	-

Assets of the customer pledged as collaterals

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

43. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1

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

Level 2

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

Level 3

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

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

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

In 2021, the Group did not make any changes in the method of fair value measurement that would result in the transfer of financial assets and liabilities between levels.

On 31 December 2021, particular instruments were included in the following valuation levels:

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

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

31.12.2021	Level 1	Level 2	Level 3	Total
Assets measured at fair value:	9,170,446	1,412,875	2,093,752	12,677,073
Derivative financial instruments	-	1,347,410	554,509	1,901,919
Hedging instruments	-	65,465	-	65,465
Securities measured at fair value through other comprehensive income	9,143,353	-	-	9,143,353
Securities measured at fair value through profit or loss	27,093	-	320,216	347,309
Loans and advances to customers measured at fair value through profit or loss	-	-	1,219,027	1,219,027
Liabilities measured at fair value:	-	2,440,495	520,144	2,960,639
Derivative financial instruments	-	1,458,287	459,745	1,918,032
Hedging instruments	-	982,208	60,399	1,042,607

31.12.2020	Level 1	Level 2	Level 3	Total
Assets measured at fair value:	10,228,604	1,681,443	2,293,671	14,203,718
Derivative financial instruments	-	1,244,523	287,094	1,531,617
Hedging instruments	-	436,920	94,873	531,793
Securities measured at fair value through other comprehensive income	10,228,560	-	-	10,228,560
Securities measured at fair value through profit or loss	44	-	371,856	371,900
Loans and advances to customers measured at fair value through profit or loss	-	-	1,539,848	1,539,848
Liabilities measured at fair value:	-	1,233,070	348,105	1,581,175
Derivative financial instruments	-	1,173,043	348,105	1,521,148
Hedging instruments	-	60,027	-	60,027

In the case of some derivatives there was a change of valuation level from 3 to 2 due to reduction of time to maturity. Four of the transactions migrated from valuation level 2 to level 3 due to the increased CVA/DVA adjustment. There was also a transfer of Visa shares and Mastercard shares from level 1 to level 2 (due to the application of a liquidity discount) and a transfer of PFR bonds from level 1 to level 2 (the price comes from the market, but a reduction in liquidity was observed).

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

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

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

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

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

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

31.12.2020	Derivative financial instruments – assets	Hedging instruments - assets	Financial assets measured at fair value	Investment property	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Opening balance	300,814	90,992	2,215,823	56,577	(306 055)	(1 626)
Total gains/losses recognised in:	(13,720)	3,881	60,332	-	42,050	1,626
statement of profit or loss	(13,720)	3,881	60,332	-	42,050	1,626
Purchase	-	-	35,306	-	-	-
Sale	-	-	(4,368)	(56,577)	-	-
Settlement/expiry	-	-	(400,385)	-	-	-
Transfer	-	-	4,996	-	-	-
Closing balance	287,094	94,873	1,911,704	-	(348,105)	-
Unrealized gains/losses recognised in profit or loss related to assets and liabilities at the end of the period						
	(13,720)	3,881	60,332	-	42,050	1,626

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

The yield curve used for fair value measurement of liabilities (such as customer and interbank deposits) and receivables (such as loans to customers and interbank deposits) of the Group comprises:

- the credit risk free yield curve;
- the cost of obtaining financing above the credit risk free yield curve;
- the market margin that reflects credit risk for receivables.

The yield curve for fair value measurement of loans is constructed through classification of loans into sub-portfolios depending on the product type and currency as well as customer segmentation. A margin is determined for each sub-portfolio taking into account credit risk. The margin may be determined in two ways: by reference to margins used for each type of loan granted over the past six months or with the use of credit risk parameters of a given customer determined in the process of calculating the impairment of financial instruments.

When using the first approach for foreign currency mortgage loans, the margin for the entire portfolio of a specific type of mortgage loans serves as the basis for determination of a margin reflecting credit risk as no new transactions are concluded. In the case of insufficient amount of loans, which makes it impossible to reliably determine the amount of margin, the average market margin for products of a given type is used.

The following table presents the book and fair values of those financial assets and liabilities which have not been presented in the Group's statement of financial position at fair value, along with the measurement classification level. The current credit risk margin and the current liquidity margin, the values of which are not quoted on an active market, are the non-observable parameters for all the categories.

31.12.2021	Book value	Fair value	Level
Financial assets			
Cash and balances at Central Bank	4,631,477	4,631,477	3
Amounts due from other banks	2,615,150	2,442,241	3
Loans and advances to customers measured at amortised cost	85,080,454	83,996,937	3
Securities measured at amortised cost	23,268,041	21,612,237	1,3
Other financial assets	369,108	369,108	3
Financial liabilities			
Amounts due to other banks	8,012,244	7,966,133	3
Amounts due to customers	101,092,941	100,330,112	3
Subordinated liabilities	4,334,572	4,591,245	3
Lease liabilities	860,004	860,004	3
Other financial liabilities	714,379	714,379	3
Debt securities issued	14,841,541	14,841,541	3

31.12.2020	Book value	Fair value	Level
Financial assets			
Cash and balances at Central Bank	3,421,877	3,421,877	3
Amounts due from other banks	774,722	744,238	3
Loans and advances to customers measured at amortised cost	74,097,269	72,806,516	3
Securities measured at amortised cost	23,361,022	25,276,195	1,3
Other financial assets	496,078	496,078	3
Financial liabilities			
Amounts due to the Central Bank	84,675	84,675	3
Amounts due to other banks	6,824,894	6,821,688	3
Amounts due to customers	90,051,004	90,063,849	3
Subordinated liabilities	4,306,539	4,847,359	3
Lease liabilities	968,749	968,749	3
Other financial liabilities	432,881	432,881	3
Debt securities issued	1,318,380	1,318,380	3

a) Amounts due from banks and amounts due to banks

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

b) Loans and advances to customers

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

c) Securities measured at amortised cost

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

d) Investments in subsidiaries and associates

The fair value of investments in subsidiaries and associates amounts to their balance sheet value.

e) Liabilities due to subordinated loan

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

f) Liabilities due to customers

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

g) Lease liabilities

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

h) Debt securities issued

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

Compensation of financial assets and liabilities

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

31.12.2020	Gross value presented in financial assets/liabilities	Net value presented in financial assets/liabilities	Offsetting value under concluded contracts	Cash collateral value	Net value
Financial assets					
Trading and hedging derivatives	2,063,410	2,063,410	(1,244,829)	(342,436)	476,146
Total	2,063,410	2,063,410	(1,244,829)	(342,436)	476,146
Financial liabilities					
Trading and hedging derivatives	1,581,175	1,581,175	(1,244,829)	(260,442)	75,905
Total	1,581,175	1,581,175	(1,244,829)	(260,442)	75,905

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

44. LOAN PORTFOLIO SALE

In 2021 the Group concluded agreements regarding the sale of individual loans from SME, corporate and retail loan portfolio.

The gross book value of the portfolio sold measured at amortised cost amounted to PLN 711,954 thousand, while the amount of created impairment allowances was PLN 638,727 thousand.

The contractual price for the sale of these portfolios has been set at PLN 158,147 thousand. The net effect on the Group's results from the sale of portfolios which amounted to PLN 84,920 thousand is presented in Net impairment allowances on financial assets and provisions on contingent liabilities.

45. SECURITIZATION

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

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

SPV issued bonds with a total value of PLN 2,180,850 thousand on the basis of securitized assets and received a loan of PLN 119,621 thousand, which was secured by a registered pledge on the rights to cash flows from securitized assets. At the end of December 2021, the value of bonds and loan amounted to PLN 761,924 thousand.

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

In the light of the provisions of IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Group recognises securitized assets in "Loans and advances to customers" as of 31 December 2021 at net value of PLN 775,591 thousand.

The Bank acts as a servicing entity in the transaction.

Balance sheet values and fair values of financial assets covered by securitization and related liabilities:

	Balance sheet amount		Fair value	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Assets	775,591	1,393,049	706,029	1,293,509
Liabilities	761,924	1,390,318	761,924	1,390,318

46. CUSTODY OPERATIONS

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

As at 31 December 2021, the Custody Services Office conducted 245 securities accounts for the clients. The fair value of the financial instruments of the customers of the Custody Services Office for this date was PLN 19,773,638 thousand.

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

47. THE SHAREHOLDER'S STRUCTURE OF BNP PARIBAS BANK POLSKA S.A.

As at 31 December 2021, the structure of the shareholders of BNP Paribas Bank Polska S.A., including those holding at least 5% of the total number of votes at the General Shareholders' Meeting was as follows:

Shareholders	Number of shares	Percentage interest in share capital	Number of votes at the General Shareholders' Meeting	Percentage share in the total number of votes at the General Shareholders' Meeting
BNP Paribas, in total:	128,991,553	87.44%	128,991,553	87.44%
BNP Paribas directly	93,501,327	63.38%	93,501,327	63.38%
BNP Paribas Fortis SA/NV directly	35,490,226	24.06%	35,490,226	24.06%
Other shareholders	18,527,229	12.56%	18,527,229	12.56%
Total	147,518 782	100.00%	147,518,782	100.00%

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

The share capital is divided into 147 418,918 shares with the par value of PLN 1,00, including: 15 088,100 A series shares, 7,807,300 B series shares, 247,329 C series shares, 3,220,932 D series shares, 10,640,643 E series shares, 6,132,460 F series shares, 8,000,000 G series shares, 5,002,000 H series shares, 28 099,554 I series shares, 2,500,000 series J shares and 49,880,600 series L shares, 99,864 series M shares.

The Bank's shares are ordinary bearer and registered shares. As at 31 December 2021, there were 67,005,515 registered shares, including 4 shares from B series. No special control rights are attached to the ordinary bearer shares.

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

The Bank's Statute does not impose any limitations as to exercising the voting rights or set forth any provisions whereby the equity rights attached to securities would be separated from the holding itself. One right to vote at the General Shareholders' Meeting of the Bank is attached to each share. The Bank's Statute does not impose any limitations as to transferring the title to the securities issued by the Bank.

Changes in the shareholding structure in 2021

On **6 April 2021**, on the basis of settlement orders referred to in § 6 of the Detailed Rules of Operation of the National Depository for Securities, 99,864 series M ordinary bearer shares of the Bank, with nominal value of PLN 1 each (hereinafter: Series M Shares), were registered with the National Depository for Securities and admitted to trading by the Warsaw Stock Exchange, and Series M Shares were recorded in the securities accounts of the eligible persons.

Series M shares were issued under a conditional increase of the Bank's share capital pursuant to Resolution No. 5 of the Extraordinary General Meeting of the Bank dated 31 January 2020, as amended by Resolution No. 37 of the Ordinary General Meeting of the Bank dated 29 June 2020. Series M shares were subscribed in exercise of the rights attached to series A registered subscription warrants, each of which gave the right to subscribe for one Series M share.

Pursuant to of Article 451 §2 the second sentence of the Commercial Companies Code, the allocation of Series M Shares became effective at the moment of their entry in the securities accounts of authorised persons.

Therefore, pursuant to Art. 451 §2 in conjunction with Art. 452 §1 of the Commercial Companies Code, the rights attached to 99,864 Series M Shares of the total nominal value of PLN 99,864 were purchased, and the share capital of the Bank was increased from PLN 147,418,918 to PLN 147,518,782.

The total number of votes resulting from all the shares of the Bank is 147,518,782. The number of votes resulting from the allocated Series M Shares is 99,864 votes.

The amount of the conditional share capital increase after the Series M Shares issue is PLN 476,136.

On **2 June 2021**, a notice from two shareholders of the Bank, BNP Paribas S.A. and Rabobank International Holding B.V. (hereinafter: Shareholders), in which the Shareholders announced the completion of the accelerated book building process (hereinafter: ABB) aimed at the sale by the Shareholders of not more than 7,472,786 ordinary bearer shares in the Bank, representing in total not more than 5.07% of the Bank's share capital and representing not more than 5.07% of the total number of votes in the Bank (hereinafter: Sold Shares).

According to the Notice, as a result of the ABB process, the total number of Sold Shares has been determined at 7,472,786 representing 5.07% of shares in the Bank's share capital and in the total number of votes in the Bank, of which:

- BNP Paribas S.A. will sell 1,858,911 Sale Shares, which represent 1.26% of shares in the Bank's share capital and in the total number of votes in the Bank, and
- Rabobank International Holding B.V. will sell 5,613,875 Sale Shares, which constitute 3.81% of shares in the Bank's share capital and in the total number of votes in the Bank.

Following the settlement of the sale of the Sold Shares under the ABB process:

- BNP Paribas S.A. directly holds 93,501,327 shares in the Bank representing 63.38% of the total number of shares and votes at the Bank, and together with other entities of the BNP Paribas S.A. Capital Group controls jointly 128,991,553 shares in the Bank representing 87.44% of the total number of shares and votes at the Bank,
- Rabobank International Holding B.V. does not hold any shares of the Bank.

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

Summary of the holdings of Bank shares and share entitlements by members of the Bank's Management Board and Supervisory Board as at the date of publication of the report for the 3 quarters of 2021 (9 November 2021) and the report for 2021 (3 March 2022) is presented below.

The holdings of the individual members of the Management Board of the Bank's shares and share entitlements have not changed since the publication date of the previous report, i.e. 9 November 2021.

MEMBER OF THE BANK'S MANAGEMENT BOARD	SHARES*	SUBSCRIPTION WARRANTS	SHARES	SUBSCRIPTION WARRANTS**
	9.11.2021	9.11.2021	3.03.2022	3.03.2022
Przemysław Gdański	7,989	9,148	7,989	9,148
Jean-Charles Aranda	-	2,338	-	2,338
André Boulanger	-	3,129	-	3,129
Przemysław Furlepa	-	2,722	-	2,722
Wojciech Kemblowski	-	3,195	-	3,195
Kazimierz Łabno	-	1,862	-	1,862
Magdalena Nowicka	-	-	-	-
Volodymyr Radin	-	895	-	895
Agnieszka Wolska	-	-	-	-

* M series shares subscribed on 6 April 2021 in exercise of the rights attached to A1 series subscription warrants (A1 series registered subscription warrants were subscribed on 8 March 2021; one warrant entitled to subscribe for one M series ordinary bearer share of BNP Paribas Bank Polska S.A., with the issue price of PLN 1.00 per share); in the case of Mr Przemysław Gdański, the number of M series shares subscribed was 7,489, the number of shares purchased on the WSE share market was 500

** A2 series subscription warrants taken up on 25.03.2021 - one A2 series warrant entitles to acquire one M series ordinary bearer share of BNP Paribas Bank Polska S.A., at the issue price of PLN 1.00 per share

The members of the Bank's Supervisory Board did not declare their ownership of the Bank's shares/privileges as at 31 December 2021 and as at the date of publication of this annual report, i.e. 3 March 2022, which has not changed since the publication of the report for the 3 quarters of 2021, i.e. 9 November 2021.

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

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

48. SUPPLEMENTARY CAPITAL AND OTHER CAPITALS

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

Supplementary capital	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	9,110,976	9,110,976
Issue costs	-	-
Closing balance	9,110,976	9,110,976

Other reserve capital	12 months ended 31.12.2021	12 months ended 31.12.2020
General banking risk fund	627,154	627,154
Revaluation reserve	(595,622)	255,833
Other reserve capital	2,318,961	1,581,828
Total	2,350,493	2,464,815

General banking risk fund created from net profit	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	627,154	627,154
Distribution of retained earnings	-	-
Closing balance	627,154	627,154

Revaluation reserve	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	255,833	125,251
Net gain/loss on changes in fair value of financial assets measured through other comprehensive income	(969,416)	163,408
Net gain/loss on change in fair value of gross cash flow hedging derivatives	(85,303)	-
Actuarial valuation of employee benefits	3,540	(2,196)
Deferred income tax	199,724	(30,630)
Closing balance	(595,622)	255,833

Other reserve capital	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	1,581,828	945,603
Distribution of retained earnings	731,060	628,696
Management stock options	6,073	7,528
Closing balance	2,318,961	1,581,828

Retained earnings	12 months ended 31.12.2021	12 months ended 31.12.2020
Opening balance	(425,778)	(411,714)
Distribution of the current period profit	2,035	(14,002)
Other	88	(62)
Closing balance	(423,655)	(425,778)

Change in revaluation reserve on financial assets measured through other comprehensive income	2021		2020	
	Gross value	Deferred tax	Gross value	Deferred tax
Opening balance	311,585	(59,201)	148,177	(28,154)
gains/losses on financial assets measured at fair value through other comprehensive income recognised in equity	(1,052,443)	199,965	87,639	(16,651)
reclassification to financial result due to sale of financial assets measured at fair value through other comprehensive income	(2,276)	432	75,769	(14,396)
Closing balance	(743,134)	141,196	311,585	(59,201)

49. DIVIDENDS PAID

The Group did not pay any dividends for 2020. The Management Board of the Bank will not recommend dividend payment for 2021.

50. DISTRIBUTION OF RETAINED EARNINGS

Pursuant to the Resolution No. 6 of the General Shareholders' Meeting of BNP Paribas Bank Polska S.A. of 24 March 2021 the net profit for 2020, in the amount of PLN 731,060 thousand, was allocated to the reserve capital.

51. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents	31.12.2021	31.12.2020
Cash and balances at Central Bank (Note 19)	4,631,477	3,421,880
Current accounts of banks and other receivables	234,061	276,691
Interbank deposits	647,278	-
Loans and advances	-	6,749
Total cash and cash equivalents	5,512,816	3,705,320

52. ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

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

Change in amounts due from other banks	31.12.2021	31.12.2020
Change arising from the balance sheet	(2,908,876)	1,207,583
Elimination of a change in cash and cash equivalents	1,666,345	(1,314,602)
Change in balance arising from interest	(1,180)	1,339
Total change in amounts due from banks	(1,243,712)	(105,680)

Change in amounts due from customers measured at amortised cost	31.12.2021	31.12.2020
Change arising from the balance sheet	(10,983,185)	(2,260,626)
Change in balance arising from interest	(100,787)	305,992
Total change in amounts due from customers measured at amortised cost	(11,083,972)	(1,954,634)

Change in amounts due to other banks	31.12.2021	31.12.2020
Change arising from the balance sheet	(762,864)	(560,382)
Repayment of long-term loans received	(1,461,637)	(1,193,888)
Long-term loans from other banks	2,396,352	3,862,305
Total change in amounts due to other banks	171,851	2,108,035

Change in amounts due to customers	31.12.2021	31.12.2020
Change arising from the balance sheet	11,041,937	3,916,020
Change in balance arising from interest	(22,486)	78,594
Total change in amounts due to customers	11,019,451	3,994,614

Cash flows from operating activities – other adjustments	31.12.2021	31.12.2020
FX differences from subordinated loans	21,317	122,680
Securities measured through the statement of profit or loss	77,036	(150,881)
Allowance for securities	33,258	10,133
Other adjustments	52,589	8,528
Cash flows from operating activities – total other adjustments	184,199	(9,540)

53. RELATED PARTY TRANSACTIONS

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

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

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

As of 30 December 2021, the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A. as the parent company, and its subsidiaries:

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

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

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

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

31.12.2020	BNP Paribas S.A. located in Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S. A.	Key personnel	Total
Assets	1,368,942	3,326	38,681	4	1,410,953
Receivables on current accounts, loans and deposits	201,866	2,859	31,592	-	236,317
Derivative financial instruments	635,475	-	-	-	635,475
Derivative hedging instruments	531,326	467	-	-	531,793
Other assets	275	-	7,089	4	7,368
Liabilities	10,511,640	32,066	1 364,764	6,409	11,914,879
Long-term loans received	3,506,745	-	414,294	-	3,921,039
Current accounts and deposits	1,964,027	32,066	670,210	6,409	2 672,712
Subordinated liabilities	4,029,098	-	277,441	-	4,306,539
Derivative financial instruments	951,742	-	-	-	951,742
Derivative hedging instruments	60,027	-	-	-	60,027
Lease liabilities	-	-	2,552	-	2,552
Other liabilities	-	-	267	-	267
Contingent liabilities					
Financial commitments granted	-	-	765,987	105	766,092
Guarantees granted	114,658	198,268	778,875	-	1,091,801
Commitments received	990,111	130,455	938,840	-	2,059,406
Derivative instruments (nominal value)	63,199,300	-	-	-	63,199,300
Derivative hedging instruments (nominal value)	18,996,846	13,844	-	-	19,010,690
Statement of profit or loss	43,133	6,914	(51,543)	(25)	(1,521)
12 months ended 31.12.2020					
12 months ended 31.12.2020	44	200	1,144	-	1,388
Interest income	(143,586)	(65)	(14,890)	(25)	(158,566)
Interest expense	450	203	30,214	-	30,867
Fee and commission income	-	-	(6,256)	-	(6,256)
Fee and commission expense	240,889	6,576	9	-	247,474
Other operating income	-	-	3,819	-	3,819
Other operating costs	-	-	(327)	-	(327)
General administrative costs	(54,664)	-	(65,256)	-	(119,920)

Remuneration of the Management Board and Supervisory Board

Management Board	31.12.2021	31.12.2020
Short-term employee benefits	15,958	17,419
Long-term benefits	4,638	4,561
Benefits due to termination of employment	973	1,846
Post-employment benefits	-	522
Share-based payments*	4,340	3,983
Shares issued**	1,513	-
Total	27,422	28,331

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

**value of shares issued based on actuarial valuation

Supervisory Board	31.12.2021	31.12.2020
Short-term employee benefits	1,457	1,380
Total	1,457	1,380

54. OPERATING SEGMENTS

Segment reporting

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

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

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

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

Description of operating segments

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

- entrepreneurs whose annual net income for the preceding financial year is below PLN 4 million, conducting full financial reporting,
- entrepreneurs conducting simplified financial reporting,
- cooperatives and housing communities as well as property managers,
- non-profit organizations,
- individual farmers irrespective of production size, if the credit exposure is less than PLN 3 million, individual farmers irrespective of production size, if the credit exposure is between PLN 3 million and less than PLN 4 million and the collateral on agricultural land covers at least 50% of the credit exposure.

The scope of financial services offered by the Retail and Business Banking Segment includes maintenance of current and deposit accounts, acceptance of term deposits, granting mortgage loans, cash loans, mortgage advances, overdrafts, loans to microenterprises, issuing debit and credit cards, cross-border cash transfers, foreign exchange transactions, sale of insurance products as well as other services of lesser importance to the Group's income. Additionally, the performance of the Retail and Business Banking Segment includes: balances and performance of direct banking Optima, performance of brokerage services and distribution and storage of investment fund units.

The Retail and Business Banking customers are served by the Bank's Branches and alternative channels, i.e. online banking, mobile banking and telephone banking, direct banking channel Optima and Premium banking channel as well as Wealth Management (respectively investing assets above PLN 100 thousand and in the amount of minimum PLN 1 million). Selected products are also sold by financial intermediaries active at the country and local level.

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

SME Banking provides services to:

- Agro clients preparing full financial reporting in relation to net sales revenue for the previous financial year in the range between PLN 4 million and PLN 60 million and credit exposure below 18 million, agricultural producers with a credit exposure to the Group not exceeding PLN 40 million and Agro customers belonging to the group of affiliated entities, with a net sales revenue between PLN 4 million and PLN 80 million, and a credit exposure not exceeding PLN 40 million, as well as - irrespective of the level of the Group's revenues and the level of involvement of the Group - groups of agricultural producers and organizational units of the state-owned National Forest Holding,
- non-Agro clients - a sub-segment to which entities preparing full financial reporting are qualified, with net sales revenues for the previous financial year from PLN 4 million to PLN 60 million and with the credit exposure below PLN 18 million, as well as public finance units with a budget of up to PLN 100 million and a credit exposure not exceeding 18 million,
- farmers (i.e. business entities conducting agricultural activity) preparing full financial reporting, with net revenues for the previous financial year and with credit exposure below PLN 40 million, as well as individual farmers, if their credit exposure is in the range from PLN 4 million to PLN 40 million and between PLN 3 million and PLN 4 million, if the collateral on arable lands covers less than 50% of the credit exposure.

Corporate Banking offers a wide variety of financial services to large and medium-sized enterprises as well as local government entities and entities operating in multinational capital groups.

Clients of Corporate Banking are divided into 5 groups:

- international clients (entity belonging to international groups through capital or personal links),
- Polish entities (or groups of Polish related entities) with net sales revenues exceeding or equal to PLN 60 million or with credit exposure exceeding PLN 18 million (in case of Farmers with credit exposure exceeding PLN 40 million),
- the largest Polish corporations, i.e. Polish entities (or groups of Polish related entities) with annual sales revenues exceeding EUR 150 million, large Polish corporations with annual revenues below EUR 150 million or characterised by one of the following features: stock exchange status, cross-selling potential, business growth exceeding 50% in the last 3 years,
- institutional investors, e.g.: insurance institutions, investment funds, national payment institutions,
- public sector entities.

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

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

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

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

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

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

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss for the period of 12 months ended 31.12.2021*								
Net interest income	1,747,419	241,560	557,923	52,213	541,827	3,140,942	394,850	630,391
external interest income	1,692,462	181,111	449,746	88,860	1,008,636	3,420,814	413,863	864,291
external interest expenses	(62,195)	(10,073)	(21,104)	(123)	(186,377)	(279,872)	(13,282)	(58,984)
internal interest income	638,985	130,002	268,613	(101)	(1,037,498)	-	110,151	-
internal interest expenses	(521,832)	(59,481)	(139,332)	(36,422)	757,067	-	(115,883)	(174,916)
Net fee and commission income	557,486	129,558	320,643	54,150	(12,851)	1,048,986	147,181	128,115
Dividend income	-	-	2,894	-	5,656	8,550	255	-
Net trading income	98,993	82,928	282,820	188,600	(19,846)	633,493	59,662	106
Result on investment activities	3,608	-	-	-	(8,740)	(5,133)	-	-
Result on hedge accounting	-	-	-	-	50,369	50,369	-	-
Other operating income and expenses	(17,316)	(4,248)	(7,071)	135	(39,450)	(67,950)	(1,290)	(19,651)
Net impairment allowance on financial assets and contingent liabilities	(148,295)	(40,255)	(79,021)	2,250	(865)	(266,185)	(82,717)	(62,332)
Result on provisions for legal risk related to foreign currency loans	(1,045,304)	-	-	-	-	(1,045,304)	-	-
General administrative expenses	(1,050,622)	(123,688)	(239,967)	(82,856)	(646,841)	(2,143,976)	(17,326)	(279,066)
Depreciation and amortization	(103,581)	(2,904)	(27,851)	(8,806)	(256,412)	(399,553)	(563)	(19,965)
Expense allocation (internal)	(580,917)	(175,598)	(119,088)	8,147	867,455	-	-	(106,639)
Operating result	(538,529)	107,353	691,282	213,833	480,302	954,239	500,052	270,959
Tax on financial institutions	(171,619)	(26,771)	(83,591)	(17,160)	(38,970)	(338,110)	-	(41,517)
Gross profit	(710,148)	80,582	607,691	196,673	441,332	616,129	500,052	229,442
Income tax expenses						(439,833)		
Net profit						176,298		
Statement of financial position as at 31.12.2021*								
Segment assets	50,307,341	7,497,963	24,831,584	4,599,816	44,540,776	131,777,481	14,475,073	13,463,664
Segment liabilities	62,514,566	12,957,356	31,951,823	-	12,992,103	120,415,850	10,287,839	-

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

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss for the period of 12 months ended 31.12.2020*								
Net interest income	1,714,399	264,110	569,678	38,187	473,696	3,060,070	421,477	619,532
external interest income	1,775,873	242,877	549,074	69,642	935,874	3,573,340	529,327	829,128
external interest expenses	(220,429)	(21,660)	(54,926)	(81)	(216,175)	(513,270)	(24,859)	(44,204)
internal interest income	817,698	146,211	302,089	(204)	(1,265,795)	-	112,355	-
internal interest expenses	(658,744)	(103,319)	(226,559)	(31,170)	1,019,791	-	(195,346)	(165,392)
Net fee and commission income	468,236	112,460	285,997	64,158	(14,756)	916,095	150,441	112,712
Dividend income	-	-	3,140	-	6,530	9,669	160	(316)
Net trading income	89,061	70,387	240,494	204,072	144,376	748,390	51,710	352
Result on investment activities	3,697	579	1,188	-	23,616	29,081	391	3,180
Result on hedge accounting	-	-	-	-	(11,077)	(11,077)	-	-
Other operating income and expenses	(34,718)	(3,452)	(7,942)	(3,475)	2,055	(47,534)	(5,070)	(18,666)
Net impairment allowance on financial assets and contingent liabilities	(512,572)	(15,875)	(68,331)	(1,773)	(2,947)	(601,499)	(128,144)	(208,462)
Result on provisions for legal risk related to foreign currency loans	(168,156)	-	-	-	-	(168,156)	-	-
General administrative expenses	(1,122,899)	(132,844)	(242,713)	(69,628)	(569,522)	(2,137,605)	(15,586)	(287,152)
Depreciation and amortization	(101,100)	(3,287)	(18,872)	(6,277)	(238,424)	(367,958)	(468)	(15,642)
Expense allocation (internal)	(483,811)	(150,494)	(124,395)	(10,484)	769,184	-	-	(101,927)
Operating result	(147,863)	141,584	638,244	214,780	582,731	1,429,476	474,911	103,611
Tax on financial institutions	(165,753)	(35,574)	(95,832)	(7,442)	(14,308)	(318,909)	-	(44,560)
Gross profit	(313,616)	106,010	542,412	207,338	568,423	1,110,567	474,911	59,051
Income tax expenses						(377,472)		
Net profit						733,095		
Statement of financial position as at 31.12.2021*								
Segment assets	46,089,094	6,673,999	20,824,777	2,614,541	43,374,878	119,577,288	13,824,047	10,445,193
Segment liabilities	58,368,129	12,278,212	23,255,675	-	13,644,746	107,546,761	7,881,453	-

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

55. LITIGATION AND CLAIMS

Legal risk

As of 31 December 2021, there were no proceedings in the court, arbitration tribunal or state administration authorities regarding liabilities or receivables of the Bank, the value of which would exceed 10% of the Bank's equity.

Court decision regarding calculation of the interchange fee

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

The total fine levied on Bank BGŻ BNP Paribas S.A. (presently BNP Paribas Bank Polska S.A.) amounted to PLN 12.54 million and included: i) a fine for the practice of Bank Gospodarki Żywnościowej in the amount of PLN 9.65 million; and ii) a fine for the practice of Fortis Bank Polska S.A. (FBP) in the amount of PLN 2.89 million. The penalty was paid by the Bank on 19 October 2015. The Bank prepared a last resort appeal against the aforesaid court decision and brought it on 25 April 2016. On 25 October 2017, the Supreme Court overruled the judgment of the Court of Appeal and remitted the case. Acquisition of the core business of RBPL did not change the situation of the Bank as RBPL was not a party to this claim.

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

Corporate claims against the Bank (interchange fee)

Until 31 December 2021 the Bank received:

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

Proceedings regarding recognizing a standard contract as prohibited

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

- found certain provisions of the standard contract (the so-called anti-spreading annex) concerning the principles of determining currency exchange rates illegal and prohibited their application;
- obligated the Bank to inform all customers who are parties to the annex about the decision and its consequences and to post information about the decision and its content on its website;
- imposed a fine on the Bank in the amount of PLN 26,626 thousand payable to the Financial Education Fund.

The Bank appealed against the decision within the statutory deadline. The Bank has established a provision for the above penalty in full amount. As of the date of the present report, a court date has not yet been set for this case.

Litigation concerning CHF credit agreements in the banking sector

More than a year after the judgment of the Court of Justice of the European Union in the CHF-indexed mortgage case (C-260/18), the number of lawsuits related to CHF mortgages against banks is gradually increasing. According to the Association of Polish Banks (ZBP), the number of pending lawsuits related to CHF loan agreements at the end of September 2021 reached almost 77 thousand compared to 39 thousand at the end of 2020. This resulted in a significant increase in provisions for these proceedings created in 2020 and in the third quarter of 2021 by banks having CHF mortgage loan portfolios. The amount of these provisions created by listed banks in 2020 amounted to approximately PLN 10 billion, while in the third quarter 2021 it was approximately PLN 3.68 billion contributing to the total value of provisions created for this purpose in the amount of PLN 11.7 billion at the end of 2020 and over PLN 14.55 billion at the end of the third quarter of 2021.

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

The gross balance sheet value of mortgage and housing loans granted to individual customers in CHF as of 31 December 2021 amounted to PLN 4.53 billion, compared to PLN 4.82 billion at the end of 2020.

As of 31 December 2021 the Bank was the defendant in 2,120 (1,505 new cases in 2021, 350 of which in the fourth quarter of 2021, and 20 cases closed with final judgement) pending court proceedings (including validly closed cases, clients brought a total of 2,170 actions against the Bank), in which the Bank's customers demanded the annulment of mortgage loan agreements regarding foreign currency loans or loans denominated in CHF, or declaration that the contract is permanently ineffective on the ground that it contains abusive clauses which cause the contract cannot be remained in force, or determining that the Bank granted a loan in PLN without denomination to foreign currency. The Bank is not a party to any collective claim regarding these loans. The total value of claims pursued in the currently pending cases as of 31 December 2021 was PLN 858.03 million (as of 31 December 2020 was PLN 217.82 million), and in legally binding cases PLN 41.36 million (34.96 million as of 31 December 2020).

The following judgments have been made in the 50 finalised proceedings to date: in 16 cases the claims against the Bank were dismissed, in 6 cases the proceedings were discontinued, in 3 of them due to the conclusion of a settlement agreement by the parties; in 1 case the court rejected the claim; in 26 cases the court found the agreement invalid, in 1 case only the claim under the low own contribution insurance was judged, in the remaining cases the court dismissed the claim.

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

The total amount of provisions created as at 31 December 2021 was PLN 1,290.4 million (as at 31 December 2020 it was PLN 200.3 million), with an impact on the Bank's income statement of PLN 1,045.3 million (PLN 16.2 million in 2020).

In the fourth quarter of 2021, the balance of provisions made by the Bank for risks relating to CHF loans increased by PLN 613.8 million (in 2020 by PLN 168.2 million). The increase in the provision in the fourth quarter of 2021 was mainly due to an increase in the scale of legal uncertainty, an increase in the number of new lawsuits (new lawsuits in the fourth quarter of 2021 numbered 350, of which 214 related to denominated loans and 136 to foreign currency loans), an update of the assumptions and parameters of the model used by the Bank, through a more conservative estimation of them by, inter alia, increasing the expected number of lawsuits the Bank may receive over the next 4 years or extending the average time to complete the proceedings.

The provision is created in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets'. Provision for pending cases is calculated on an individual basis, for future cases using the portfolio method. While calculating the provision, the Bank takes into account, inter alia, the number of certificates downloaded by clients for trial purposes, the estimated probability of clients filing cases, the estimated number of future claims, the number of claims filed, the probability of losing the case, and the Bank's expected loss in the event of an unfavourable judgment. In addition, the Bank has included in its provisioning model the estimated number of settlements to be made with customers. The amount of the provision for estimated settlements was PLN 171.2 million from the total balance of provisions.

The Bank, in estimating the number of future cases and settlements with borrowers, assumed that approximately 39% of borrowers with active CHF loans have filed or will file a lawsuit against the Bank or will enter into a settlement with the Bank.

The Bank estimates the probability of losing a case based on historical judgments, separately for the foreign currency and denominated loan portfolios. Due to the observed volatility in case law, the Bank, when estimating the probability of an adverse judgment, takes into account judgments made after the CJEU judgment of 3 October 2019.

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

Should the assumed average loss change by +/- 5%, with all other significant assumptions unchanged, the amount of the provision would change by +/- PLN 60 million.

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

Parameter	Scenario	Impact on Bank's loss due to legal risk
Percentage of lawsuits lost	+5 p.p.	+ PLN 62 million
	-5 p.p.	- PLN 62 million

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

Parameter	Scenario	Impact on Bank's loss due to legal risk
Percentage of lawsuits lost	+20%	+ PLN 110 million
	-20%	- PLN 110 million

Additionally, if 1% of customers with CHF loans filed a lawsuit against the Bank, the loss due to legal risk would increase by approx. PLN 33 million.

When calculating the expected loss on legal risk related to CHF loans, the Bank used simplifications resulting from the short horizon of available historical data and a relatively small number of cases ended with courts' rulings. The Bank will monitor the number of collected certificates and the changing number of lawsuits, and will update the provision estimate accordingly.

At the same time, the Bank points to the fact that there is a significant discrepancy in both facts (in particular different contractual provisions and scope of information provided to the clients) as well as rulings passed in Poland regarding indexed, denominated and currency loans, which significantly impedes a precise estimation of risk. The Bank monitors the courts' rulings on an ongoing basis and will adjust the level of reserves to the emerging case-law.

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

On 29 April 2021, the Court of Justice of the European Union handed down its judgment in case C-19/20, in which it confirmed, inter alia, that the aim of Directive 93/13 is not to invalidate all contracts containing provisions which are not permitted, and that preference should be given to legal solutions upholding contracts. At the same time the Bank pointed out that key issues such as whether a given clause is prohibited, the remedies available in the event that a clause is found to be abusive and the manner in which limitation periods are calculated are a matter of national law, and thus the need to analyse the above issues should arise in each individual case. The Bank will analyse the impact of the CJEU ruling on judgments of domestic courts on an ongoing basis and will take into account the changes in the case law in the calculation of provisions.

On 7 May 2021, the Civil Chamber of the Supreme Court in a composition of 7 judges issued a resolution having the force of law in the case ref. III CZP 6/21. In the ruling responding to a legal issue presented by the Financial Ombudsman, the Supreme Court indicated by reasoning the grounds that:

- (1) the borrower may agree to the continued validity of terms which may be unfair, in which case they take effect from the date of conclusion of the contract,
- (2) if the contract falls due to the unfair terms contained therein, each party has a claim for repayment of the performance made by that party (the so-called two-condition theory) ,
- (3) the limitation period for the Bank's claims for reimbursement of the principal begins to run only from the moment when the agreement has become definitively ineffective (the basis for the performance has been lost).
- (4) the agreement becomes permanently ineffective from the moment when the borrower, having been informed of all the consequences of the failure of the agreement, including the possible specific negative consequences of such a failure, makes a declaration to not keep the agreement in force. The borrower should be informed of the consequences of the failure of the agreement by the court in the course of the proceedings.

On 10 June 2021, the Court of Justice of the European Union issued a summary judgment in Case C-198/20, which confirmed that consumer protection is available to any consumer and not only to the "reasonably well-informed and reasonably observant and circumspect average" recipient of the resolution.

The meeting of the full bench of the Civil Chamber of the Supreme Court, at which a resolution was to be adopted on the legal issues presented on 29 January 2021 by the First President of the Supreme Court, scheduled for 2 September 2021, was postponed without a date, following the Supreme Court's formulation of preliminary questions to the CJEU. The preliminary questions are aimed to establish whether the Civil Chamber in its current composition can be regarded as an independent court and thus whether it has the capacity to pass a resolution on the legal questions posed at all..

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

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

If the answer to the above question is negative:

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

Irrespective of the answers to questions 1 to 3:

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

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

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

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

On 2 September 2021, the Court of Justice of the European Union handed down its judgment in Case C-932/19, in which it unequivocally indicated that national courts, when deciding on customers' claims based on a challenge to certain contract terms, may not rely solely on the potentially favourable annulment of the contract for the consumer. It is not permissible for the situation of one of the parties to be regarded by the national courts as the decisive criterion as to the future fate of the contract. The Court reiterates that the fundamental objective of Directive 93/13 is to restore the balance of the parties, including by means of the national provisions in force.

On 18 November 2021, the Court of Justice of the European Union handed down its judgment in Case C-212/20, in which it indicated that the wording of an indexation clause in a credit agreement between a trader and a consumer must, on the basis of clear and comprehensible criteria, enable a sufficiently well-informed, reasonably observant and prudent consumer to understand how the exchange rate applicable to the calculation of instalments is determined, in such a way that the consumer is able at any time to calculate for himself the exchange rate applied by the trader.

Proposal by the Chairman of the PFSA

As a consequence of the growing number of lawsuits and the value of provisions created by banks, in December 2020, the Chairman of the Polish Financial Supervision Authority - Jacek Jastrzębski - presented a proposal for a sectoral solution to the CHF loans problem. In simple terms, the Bank would treat a loan in CHF as if it had been granted in PLN and bears interest at the appropriate WIBOR rate plus a margin, which would be historically applied to this type of a loan.

Adopting such an approach would impose a very heavy burden on the sector, although its scale is difficult to estimate precisely at the moment. The costs would depend on a number of variables, such as the date the loan is granted, the exchange rate table of the specific bank, or the fee and commission policy.

The Management Board of the National Bank of Poland stated in its communication of 9 February 2021 that it may consider its possible involvement in the process of conversion of residential foreign-currency loans into PLN, on market terms and at market rates, provided that banks meet certain boundary conditions.

At the beginning of 2021, the Bank has joined a working group that is analysing the solution proposed by the Chairman of the PFSA. The cost estimate of a potential conversion in line with the assumptions of the PFSA Chairman's proposal is PLN 1.6 billion assuming that the proposal covers the whole CHF loan portfolio (denominated and foreign currency loans). The change in the amount of the estimate in relation to the disclosure in the 2020 report is due to the change in the CHF/PLN exchange rate and the revision of the assumptions used in the calculation, and may also be subject to fluctuations in the future for the same reasons. The potential cost was estimated as the difference between the current balance sheet value of foreign currency or CHF-denominated loans and the balance sheet value of hypothetical PLN loans. The amount of the estimated cost of a potential conversion is not a component and does not affect the amount of risk provisions created by the Bank for CHF loans. At the moment of publication of the present Report, the Bank has not decided to offer settlements to customers in the form suggested by the Chairman of the PFSA.

Individual settlements offered by the Bank

The Bank has conducted a survey among its customers, which showed preliminary interest of customers in the settlements, and conducted a pilot campaign on offering settlements on terms individually agreed with borrowers.

In December 2021, the Bank completed a pilot campaign to propose settlements on terms individually offered and negotiated with borrowers, resulting in the conversion of a loan granted in a currency into a loan in Polish zloty and the cancellation of part of the loan balance or the complete cancellation of the loan. The Management Board positively assessed the results of the pilot and decided to expand the scope of these individual negotiations. The Bank took this parameter into account when creating the provision. As at 25 February 2022 the Bank presented individual settlement proposals 1917 Customers and 373 Customers accepted the terms of the presented proposals.

56. FINANCIAL RISK MANAGEMENT

56.1. Financial instrument strategy

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

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

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

56.2. Credit risk

Credit risk is inherent in the core financial operations of the Group, the scope of which includes both lending and providing funding with the use of capital market products. Consequently, credit risk is identified as the risk with the highest potential to affect the present and future profits and equity of BNP Paribas. Proof of the key nature of credit risk is its 79% share in the total economic capital estimated by the Group for purposes of covering major risks involved in the Bank's operations, in addition to its 89% share in the total value of regulatory capital.

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

Credit risk management principles adopted by the Group include:

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

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

The Management Board assesses the concentration risk policy in terms of its application. In particular, it analyses the efficiency and adequacy of the principles applied in the context of the current and planned operations and risk management strategy. The adequacy of the concentration risk management is reviewed if any material changes are observed in the Group's environment or if the risk management strategy is modified. The appropriate assessment of the concentration risk of the Group is highly dependent on correct identification of all key concentration risks. In justified cases, the Group identifies concentration risk when planning its new activities involving the development and launch of new products, services, expansion to new markets, considerable alterations of products and services or market changes.

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

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

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

The Group's concentration limits are monitored in accordance with Article 387 of the Regulation No. 575/2013. The limits, defined in Article 395 of the Regulation No. 575/2013, had not been exceeded as at the end of 2021. As at the end of 2021, the Group's exposure to customers/groups of customers with equity or organizational relationships had not exceeded the concentration limit. The Group's largest exposure represented 20.14% of Tier 1 capital.

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

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

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

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

Systemic measures that limit concentration risk include:

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

A concentration analysis by industry, conducted by the Group, focuses on all credit exposures of the Group to institutional customers. The Group defines industries based on Polish statistical classification of economic activities (NACE/PKD 2007). The Group's exposure to industries analysed at the end of 2021 (presented based on the classification of industries in NACE/PKD), similarly as at the end of December 2020, is concentrated in the following industries: Agriculture, Forestry, Hunting and Fishing, manufacturing. As at the end of December 2021, the share of manufacturing increased by 3 p.p. to the level of 24% as compared to the end of 2020, while the share of agriculture, forestry and fishing decreased by 4 p.p. as compared to the end of 2020 to the level of 22% of industrial exposure.

The table below presents a comparison of the share of impaired loans in industries (gross balance sheet value) as at 31 December 2021 and 2020.

Industry	Exposure*		Share of impaired loans	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
AGRICULTURE, FORESTRY AND FISHING	10,465,499	10,756,142	7.4%	9.2%
MINING AND QUARRYING	37,820	36,341	10.6%	9.5%
MANUFACTURING	11,796,094	8,772,763	2.9%	5.5%
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	1,625,848	648,737	0.3%	0.8%
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	178,067	166,344	1.9%	6.6%
CONSTRUCTION	2,523,808	2,540,629	7.0%	8.5%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	7,210,738	5,725,092	4.9%	7.5%
TRANSPORTATION AND STORAGE	2,091,731	1,216,516	3.1%	6.9%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	257,179	273,257	19.3%	20.5%
INFORMATION AND COMMUNICATION ACTIVITIES	1,066,367	1,439,082	1.3%	3.4%
FINANCIAL AND INSURANCE ACTIVITIES	971,971	891,461	7.6%	11.5%
REAL ESTATE ACTIVITIES	5,134,198	4,657,921	2.2%	3.0%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	3,140,265	2,368,361	1.4%	2.4%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	1,038,545	767,882	4.6%	9.7%
PUBLIC ADMINISTRATION AND DEFENCE, COMPULSORY SOCIAL SECURITY	82,711	96,875	0.0%	0.0%
EDUCATION	86,123	87,763	9.9%	12.0%
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	755,823	652,849	2.5%	3.5%
ARTS, ENTERTAINMENT AND RECREATION ACTIVITIES	17,343	16,257	18.5%	21.0%
OTHER ACTIVITIES	108,059	88,598	5.1%	7.6%
Total	48,588,189	41,202,870	4.3%	6.7%

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

The Group manages the risk of collateral concentration. For this purpose, the Group introduced limits for the involvement of particular types of collateral, ensuring their appropriate diversification. As at the end of 2021, as well as at the end of 2020, the limits were not exceeded.

In the case of an individually assessed exposures as at 31 December 2021, the Group expects to recover, due to established collateral, the amount of PLN 325,251 thousand, which is 29% of the total exposure assessed individually with an impairment recognised as at 31 December 2020 (PLN 446,091 thousand and 30% as at 31 December 2020).

Maximum exposure on credit risk

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

31.12.2021		
Assets	Maximum exposure on credit risk – no collaterals included	Maximum exposure on credit risk – collaterals included
Cash and balances at Central Bank	4,631,760	4,631,477
Amounts due from other banks	2,620,593	2,615,150
Derivative financial instruments	1,901,919	1,901,919
Adjustment of the hedged item fair value	65,465	65,465
Loans and advances to customers measured at amortised cost	88,042,967	85,080,454
Loans and advances to customers measured at fair value through profit or loss	1,219,027	1,219,027
Securities measured at amortised cost	23,313,693	23,268,041
Securities measured at fair value through profit or loss	347,309	347,309
Securities measured at fair value through other comprehensive income	9,143,353	9,143,353
Deferred tax assets	876,599	876,599
Other financial assets	369,108	369,108
Total assets	132,531,793	129,517,902
Total contingent liabilities	8,692,582	8,692,582
Total exposure on credit risk	141,224,375	138,210,484

31.12.2020		
Assets	Maximum exposure on credit risk – no collaterals included	Maximum exposure on credit risk – collaterals included
Cash and balances at Central Bank	3,421,880	3,421,877
Amounts due from other banks	776,390	774,722
Derivative financial instruments	1,531,617	1,531,617
Adjustment of the hedging item fair value	531,793	531,793
Loans and advances to customers measured at amortised cost	77,284,074	74,097,269
Loans and advances to customers measured at fair value through profit or loss	1,539,848	1,539,848
Securities measured at amortised cost	23,373,414	23,361,022
Securities measured at fair value through profit or loss	371,900	371,900
Securities measured at fair value through other comprehensive income	10,228,560	10,228,560
Deferred tax assets	745,606	745,606
Other financial assets	496,079	496,079
Total assets	120,301,161	117,100,293
Total contingent liabilities	4,889,575	4,889,575
Total exposure on credit risk	125,190,736	121,989,868

Exposure to credit risk by credit quality ratings

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

31.12.2021

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

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

31.12.2020

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

Rating	12-month expected credit loss - exposures without impairment	Expected credit loss during the exposure period - exposures without impairment	Expected credit loss during the exposure period - exposures with impairment	Expected credit loss during the exposure period - POCI exposures	Gross portfolio value for a given rating category	Net portfolio value for a given rating category
1	289	-	-	-	289	279
2	110,426	-	-	-	110,426	110,417
3	329,527	1	-	-	329,528	329,507
4	1,494,647	1,903	-	-	1,496,550	1,496,122
5	5,191,773	120,809	3,615	62	5,316,259	5,300,019
6	12,078,510	432,815	21,329	2,089	12,534,744	12,402,994
7	12,155,128	1,571,548	34,668	20,144	13,781,487	13,507,505
8	2,501,199	1,404,451	44,648	2,300	3,952,598	3,832,457
9	100,811	775,060	64,280	4,803	944,954	860,858
10	36,627	651,220	691,922	15,440	1,395,208	1,004,431
11 to 12	5,878	7,395	1,531,945	205,669	1,750,887	824,001
Total	34,004,815	4,965,202	2,392,407	250,507	41,612,930	39,668,590

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

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

The structure of overdue receivables

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

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

Structure of overdue loan portfolio (net balance sheet value)	31.12.2021					Total
	not impaired				impaired	
	0 days	1-30 days	31-60 days	61-90 days		
Mortgage loans and advances	26,290,199	22,813	5,965	782	269,685	26,589,444
Cash loans	8,497,311	60,781	9,149	3,176	175,663	8,746,080
Car loans	1,736,309	4,433	1,650	442	12,836	1,755,670
Credit cards	1,005,430	8,466	1,560	438	22,489	1,038,383
Investment loans	20,942,964	312,572	10,756	655	374,149	21,641,096
Limits in current accounts	10,398,990	73,858	6,663	1,068	160,716	10,641,295
Corporate revolving loans	9,779,339	88,918	5,106	1,459	308,431	10,183,253
Leases	4,506,032	127,264	88,526	2,445	98,789	4,823,056
Other	834,864	11,155	13,824	8	21,353	881,204
Total	83,991,438	710,260	143,199	10,473	1,444,111	86,299,481

Structure of overdue loan portfolio (net balance sheet value)	31.12.2020					Total
	not impaired				impaired	
	0 days	1-30 days	31-60 days	61-90 days		
Mortgage loans and advances	21,967,159	7,477	3,829	4,382	448,995	22,431,842
Cash loans	7,413,543	49,281	16,476	5,322	206,064	7,690,686
Car loans	1,569,276	4,343	1,598	511	14,699	1,590,427
Credit cards	1,124,625	7,942	1,737	1,007	30,137	1,165,448
Investment loans	19,864,473	40,268	17,491	1,191	684,423	20,607,846
Limits in current accounts	7,941,707	31,014	6,878	1,642	259,558	8,240,799
Corporate revolving loans	8,087,622	51,799	6,654	2,017	398,504	8,546,596
Leases	3,822,553	15,958	3,799	1,439	108,131	3,951,880
Other	1,375,712	1,345	338	126	34,072	1,411,593
Total	73,166,670	209,427	58,800	17,637	2,184,583	75,637,117

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

Impairment allowances

Impairment allowances reflect the expected credit loss calculated using the three-step approach required by IFRS 9, as described in Note 3.

Collaterals

Description of collateral held or other mechanisms that improve the credit quality

The Group assesses the creditworthiness of each client on an individual basis. The value of collateral obtained, if it is deemed necessary by the Group due to the granting of a loan, is subject to valuation by the Group.

The Group accepts various forms of collateral for loans, while the main categories include:

- real estate mortgage;
- insurance of real estate being the subject of a mortgage;
- life insurance of the borrower;
- registered pledge.

Impact of collaterals on the valuation of exposure with impairment identified (loans measured at amortised cost and at fair value through profit or loss)*:

31.12.2021	Gross value with impairment	Collateral value	Net value with impairment
Loans and advances to:			
Other financial institutions	1,616	-	294
Retail customers	1,127,360	594,143	505,491
Corporate customers	1,949,635	1,424,520	835,308
including retail farmers	702,602	636,185	423,209
Lease receivables	204,827	-	103,018
Total gross loans and advances	3,283,438	2,018,663	1,444,111
Allowances (negative value)	(1,839,327)		
Total net loans and advances	1,444,111		

31.12.2020	Gross value with impairment	Collateral value	Net value with impairment
Loans and advances to:			
Other financial institutions	1,625	4	907
Retail customers	1,444,716	762,882	696,385
Corporate customers	2,621,013	1,886,370	1,384,433
including retail farmers	898,771	805,607	610,300
Public sector entities	44	-	32
Lease receivables	204,124	-	102,825
Total gross loans and advances	4,271,522	2,649,256	2,184,583
Allowances (negative value)	(2,086 939)		
Total net loans and advances	2,184,583		

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

In the period covered by the present financial statements, there were no significant changes in the quality of collateral as a result of deterioration or changes in the Group's collateral policy.

Mortgage loans denominated in foreign currencies

Mortgage loans to individual customers account for ca. 31% of the loan portfolio of non-financial sector of the Group (gross carrying amount), with 17% being loans in foreign currencies the major part of which (99%) are denominated in CHF (the Swiss franc). The total gross carrying amount of mortgage loans in foreign currencies is PLN 4,569,608 thousand.

The Group performs revaluation of the residential property pledged as collateral for loans on an annual basis, on the following assumptions:

- where the debt is below PLN 12 million at the revaluation date – the property is revalued using a statistical method;
- where the debt is more than PLN 12 million at the revaluation date – the property is revalued on a case-by-case basis.

The revalued amount is the basis for calculation of the current LTV for a single exposure and the average LTV for the entire portfolio as the average weighted by the gross carrying amount of individual LTVs.

The total on-balance sheet exposure and the average LTVs for mortgage loans in foreign currencies considering impairment and delinquency in days is presented below.

days past due	gross balance sheet value	average LTV weighted with gross balance sheet value
0-30 days	4,346,117	80.85%
31-60 days	4,718	80.91%
61-90 days	1,429	130.64%
over 90 days	217,344	113.34%
Total	4,569,608	82.40%
impairment identified	gross balance sheet value	average LTV weighted with gross book value
NO	4,214,400	79.88%
YES	355,208	112.33%
Total	4,569,608	82.40%

The average current LTV for the entire foreign currency mortgage loan portfolio is at the level of 81%, while the average current LTV for mortgage loans in the Polish currency amounts to 69%.

Exposure structure and average current LTV by loan granting year (mortgage loans in foreign currencies) are presented in the table below:

date of agreement	number of loans granted	gross balance sheet value	average LTV weighted with gross book value	gross balance sheet value*
2005 and before	2,268	292,768	42.43%	278,109
2006	4,687	1,027,224	58.15%	975,424
2007	4,349	1,415,941	88.22%	1,318,215
2008	5,348	1,587,940	100.39%	1,442,844
2009	612	131,127	67.06%	123,973
2010 and beyond	293	114,608	97.62%	75,834
Total	17,557	4,569,608	82.40%	4,214,399

*non-impaired loans

Forbearance practices

The Group treats its exposures as forbore if the obligor is provided with a forbearance due to economic reasons (financial difficulties), including any forbearance granted for exposures with identified impairment triggers. In case the forbearance is granted for a customer with a material economic loss, the Bank classifies such a customer as default.

A facility is understood as the occurrence of at least one of the following events:

- a change to the repayment schedule, especially extending the loan maturity date;
- cancellation of overdue amounts (e.g. capitalization of an overdue amount, which can be repaid at a later date);
- redemption of principal, interest or fees;
- consolidation of loans into one new product, if the amounts of payments of the consolidated loan are lower than the sum of payments of these loans separately before the consolidation occurred;
- decrease of the base interest rate or margin;
- originating a new loan to repay the existing debt;
- conversion of an existing credit,
- amendment or waiver of significant provisions of the agreement (e.g. a condition of the agreement that was breached as a result of financial difficulties),
- additional collateral presented by the Borrower (if present together with another event meeting the definition of a facility) or sale of the collateral agreed with the Bank, with the proceeds from the repayment of the collateral being used to repay the Bank's loan obligation.

Only in the period of customer's financial difficulties or, in the period when, due to changes on the market, such difficulties may occur, i.e.:

- the exposure is subject to debt collection; or
- the exposure is not subject to debt collection but there is evidence (provided by the customer or obtained in the decision-making process) that the customer is facing financial difficulties or may be facing them in the near future.

A material economic loss is defined by the Bank as the drop of present value of expected cash flows, resulting from forbearance granted, equal or higher than 1%¹. The drop of the present value is calculated in accordance with the below formula:

$$\frac{NPV_0 - NPV_1}{NPV_0}$$

where:

NPV₀ – the present value of expected cash flows (including interest and fees / commissions) prior to the introduction of changes in loan terms, discounted with the original effective interest rate ,

NPV₁ – the present value of expected cash flows (including interest and fees / commissions), after the introduction of changes in the loan terms, discounted using the original effective interest rate. In the case of consolidation of many loans for the original interest rate for the purpose of assessing the significance of economic loss, the average EIR weighted with the gross balance sheet exposure at the moment of granting the facility is assumed.

The change in the present value of expected cash flows shall be calculated at the level of single exposure.

In justified cases resulting from complex restructuring measures for a given client (e.g. priority repayment of loans with a collateral of a low value), it is permissible to calculate NPV at the level of a client.

The “forborne” status is no longer assigned if the following conditions have been satisfied:

- exposure reclassified to performing portfolio as a result of the analysis of financial situation (in case of corporate portfolio), which proved that the customer does not meet the criteria for being classified to the impaired portfolio;
- the exposure has not been considered impaired for 24 months in a row;
- none of the exposures to the customer are past due by more than 30 days;
- the obligor has been making regular and considerable payments for at least a half of the trial period.

	31.12.2021			
	Total portfolio	including forbearance exposures	including change of terms	including refinancing
Forborne exposures				
Loans and advances for:	89,261,994	1,467,746	1,404,311	63,435
Non-banking financial institutions	796,517	-	-	-
Retail customers	38,820,174	569,119	551,405	17,714
Corporate customers	44,571,465	869,455	823,734	45,721
including retail farmers	8,823,433	383,741	380,732	3,009
Public sector institutions	84,487	-	-	-
Lease receivables	4,989,351	29,172	29,172	-
Impairment allowances on loans and advances	(2,962,513)	(438,438)	(420,751)	(17,687)
Non-banking financial institutions	(2,075)	-	-	-
Retail customers	(935,977)	(188,839)	(184,177)	(4,662)
Corporate customers	(1,860,797)	(238,627)	(225,602)	(13,025)
including retail farmers	(389,619)	(59,306)	(58,948)	(358)
Public sector institutions	(1,542)	-	-	-
Lease receivables	(162,122)	(10,972)	(10,972)	-
Total loans and advances (net)	86,299,481	1,029,308	983,560	45,748

¹ change from 5% to 1% since 11.01.2021

31.12.2020

Forborne exposures		including forbearance exposures	including change of terms	including refinancing
	Total portfolio			
Loans and advances for:	78,823,922	1,448,966	1,380,968	67,998
Non-banking financial institutions	595,102	-	-	-
Retail customers	33,802,097	414,718	387,464	27,254
Corporate customers	40,212,881	999,526	958,782	40,744
including retail farmers	9,462,022	401,262	394,387	6,875
Public sector institutions	101,382	-	-	-
Lease receivables	4,112,460	34,722	34,722	-
Impairment allowances on loans and advances	(3,186,805)	(396,096)	(377,340)	(18,756)
Non-banking financial institutions	(1,934)	-	-	-
Retail customers	(1,172,830)	(145,977)	(139,637)	(6,340)
Corporate customers	(1,863,349)	(237,774)	(225,358)	(12,416)
including retail farmers	(453,098)	(50,380)	(49,648)	(732)
Public sector institutions	(2,268)	-	-	-
Lease receivables	(146,424)	(12,345)	(12,345)	-
Total loans and advances (net)	75,637,117	1,052,870	1,003,628	49,242

In connection with the continuation of the COVID-19 pandemic, the Group continued a number of actions during the year 2021 regarding, including:

- review of the loan portfolio with focus on industries, particularly affected by and sensitive to the consequences of the COVID 19 pandemic;

The Group also actively participated in the works of the banking sector, regulators and organizers of government support addressed to entrepreneurs, has launched a number of solutions allowing customers to submit application to the Bank electronically and online as well as to use support programs related to the effects of a pandemic and has been conducting ongoing monitoring of the number of clients and credit exposures affected by the pandemic, including ongoing decisions on individual clients regarding the type and structure of client financing adequate to his current situation and government support programs.

The Group continued cooperation with BGK in relation to PLG-FGP liquidity guarantees offered to the Group's clients, other liquidity guarantees and loan interest rate subsidy programs.

An electronic and simplified process of applying for postponement of principal and interest instalments on investment loans was introduced.

As a partner of the PFR program, the Bank provided its clients with technical possibilities to apply for funding from these programs using electronic banking.

In the period between 18 February and 31 March 2021, the Group was focusing on the use of available assistance programs for clients, including temporary postponement of instalments, examining clients' applications in this respect on an ongoing basis.

After 31 March 2021, clients' applications to postpone loan instalments could have been submitted and examined in a mode analogous to the situation before the COVID-19 pandemic.

The data in the tables below are based on balance sheet value and present the amounts recognized in the Group's books as at 31 December 2021 and 31 December 2020.

31.12.2021

Loans and advances to customers subject to a moratorium	Number of clients granted with moratoriums	Value of loans and advances covered by ongoing and expired moratoriums	including regulatory moratorium	including ongoing moratorium	
				not impaired	impaired
Gross balance sheet value	37,232	5,709,313	255,747	126	12,704
Retail customers	28,547	2,960,346	255,374	126	12,486
Corporate customers	6,546	2,213,339	373	-	218
including retail farmers	1,411	460,274	218	-	218
Public sector institutions	2	1,041	-	-	-
Lease receivables	2,137	534,587	-	-	-
Allowance	x				
Retail customers	x	(207,870)	(71,904)	(10)	(3,647)
Corporate customers	x	(153,253)	(19)	-	(19)
including retail farmers	x	(35,025)	(19)	-	(19)
Public sector institutions	x	(201)	-	-	-
Lease receivables	x	(35,151)	-	-	-
Total net loans and advances to customers subject to the moratorium	37,232	5,312,838	183,824	116	9,038

31.12.2020

Loans and advances to customers subject to a moratorium	Number of clients granted with moratoriums	Value of loans and advances covered by ongoing and expired moratoriums	including regulatory moratorium	including ongoing moratorium	
				not impaired	impaired
Gross balance sheet value	43,309	7,251,102	135,935	171,565	129,760
Non-banking financial institutions	1	33	-	-	-
Retail customers	33,257	3,374,952	135,848	45,132	94,051
Corporate customers	7,460	3,095,593	87	120,067	35,625
including retail farmers	1,492	523,060	87	40,981	4,465
Public sector institutions	2	1,121	-	886	-
Lease receivables	2,589	779,403	-	5,480	84
Allowance	x	(375,835)	(32,988)	(5,206)	(32,835)
Non-banking financial institutions	x	(3)	-	-	-
Retail customers	x	(201,320)	(32,987)	(2,136)	(26,281)
Corporate customers	x	(137,439)	(1)	(2,780)	(6,532)
including retail farmers	x	(39,932)	(1)	(696)	(1,011)
Public sector institutions	x	(238)	-	(233)	-
Lease receivables	x	(36,835)	-	(57)	(22)
Total net loans and advances to customers subject to the moratorium	43,309	6,875,267	102,947	166,359	96,925

31.12.2021		Residual maturity of the ongoing moratoria		
Gross balance sheet value		Total	up to 3 months	3 – 6 months
Retail customers		12,612	12,612	-
Corporate customers		218	218	-
including retail farmers		218	218	-
Total gross loans and advances to customers subject to the moratorium		12,830	12,830	-

31.12.2020		Residual maturity of the ongoing moratoria		
Gross balance sheet value		Total	up to 3 months	3 – 6 months
Retail customers		139,183	136,262	2,921
Corporate customers		155,692	139,303	16,389
including retail farmers		45,446	39,401	6,045
Public sector institutions		886	886	-
Lease receivables		5,564	419	5,145
Total gross loans and advances to customers subject to the moratorium		301,325	276,870	24,455

31.12.2021		Including: residual maturity of the public guarantee					
Newly granted loans and advances to customers covered by public guarantee programs	Number of clients who have used the public guarantee	Value	Including: residual maturity of the public guarantee				
			up to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
Gross balance sheet value	5,306	2,519,663	173,596	997,446	997,298	150,263	201,060
Corporate customers	5,306	2,519,663	173,596	997,446	997,298	150,263	201,060
including retail farmers	245	60,173	216	1,508	8,040	50,409	-
Allowance	x	(24,226)	(1,329)	(9,160)	(7,869)	(2,372)	(3,496)
Corporate customers	x	(24,226)	(1,329)	(9,160)	(7,869)	(2,372)	(3,496)
including retail farmers:	x	(260)	(10)	(1)	(144)	(105)	-
Total net newly granted loans and advances to customers covered by public guarantee programs	5,306	2,495,437	172,267	988,286	989,429	147,891	197,564

31.12.2020		Including: residual maturity of the public guarantee					
Newly granted loans and advances to customers covered by public guarantee programs	Number of clients who have used the public guarantee	Value	Including: residual maturity of the public guarantee				
			up to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
Gross balance sheet value	3,034	1,298,960	20,314	334,725	693,771	234,531	15,619
Corporate customers	3,034	1,298,960	20,314	334,725	693,771	234,531	15,619
including retail farmers	103	23,631	-	600	6,437	16,594	-
Allowance	x	(9,931)	(147)	(1,825)	(3,644)	(3,933)	(382)
Corporate customers	x	(9,931)	(147)	(1,825)	(3,644)	(3,933)	(382)
including retail farmers	x	(75)	-	-	(3)	(72)	-
Total net newly granted loans and advances to customers covered by public guarantee programs	3,034	1,289,029	20,167	332,900	690,127	230,598	15,237

As at 31 December 2021 the value of expired moratoriums amounted to PLN 5,696,483 thousand (PLN 6,949,777 thousand as at 31 December 2020).

As part of its response to the situation related to COVID-19 pandemic during the year, the Group has continued changes to the process of recognition of material increases in risk. The Group still monitors the behaviour of exposures subject to moratorium, both statutory and non-statutory. From the second quarter of 2021, the Bank did not offer non-statutory moratoria.

Exposures covered by statutory credit vacations are transferred to Stage 3. In case of exposures covered by non-statutory credit vacations, the Group applied stricter criteria and these are classified to Stage 2. For these exposures, more than 30 days overdue within 3 months after the end of moratorium is an indication of a significant increase of credit risk (Stage 2), which results in calculation of allowances within the exposure life horizon.

Country risk

Within credit risk, the Bank additionally distinguishes country risk, which covers all risks related to conclusion of financial agreements with foreign parties, assuming that it is possible that economic, social or political events will have an adverse effect on creditworthiness of the Bank's obligors in that country or where intervention of a foreign government could prevent the obligor (which could also be the government itself) from discharging his liabilities.

The Bank's policy concerning country risk has been conservative. Country limits have been reviewed periodically and the limit level modified to precisely match the anticipated business needs and risk appetite of the Bank.

As at the end of 2021, 63% of the Bank's exposure to countries other than Poland were transactions related to the Bank's foreign lending activities, treasury transactions (including placement and derivative transactions) accounted for 14% while the remaining part, i.e. 23% was related to foreign trade transactions (letters of credit and guarantees). France accounted for 43%, Luxembourg for 22%, the Netherlands for 9%, Austria for 6%, and Belgium for 5% of the exposure. The remaining exposure was concentrated in Germany, Italy, the Great Britain and Switzerland.

56.3. Counterparty risk

Counterparty risk is the credit risk concerning the counterparty transactions in case of which the amount of liability may change in time depending on market parameters. Therefore, the counterparty risk is related to transactions on instruments whose value may change over time depending on such factors as interest rates or foreign exchange rates. The varying exposure may affect the customer's solvency and is of crucial importance to the customer's ability to discharge its liabilities when the transaction is settled. The Bank's customers may enter into financial market transactions. The exposure is determined by the Bank on the basis of the current measurement of contracts as well as the potential future changes in the exposure, depending on the transaction type, customer type and the settlement dates.

At the end of December 2021, the counterparty risk was calculated for the following types of transactions: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.

Counterparty credit risk, for transactions which generate counterparty risk, is assessed using the same methodology as the one applied to loans. This denotes that in the credit process, these transactions are subject to limits, the value of which results directly from assessment of customer creditworthiness. However, the assessment also takes into account the specific nature of transactions, in particular their changing value in time or direct dependence on market parameters.

The principles applicable to foreign exchange transactions, derivative transactions as well as credit limit granting, use and monitoring for transactions subject to counterparty risk limits have been laid down in dedicated procedures. According to the policy in place at the Bank, all transactions are entered into considering individual limits and knowledge of the customer. The Bank diversifies availability of products, which are offered to customers depending on their knowledge and experience. The Bank has transparent rules applicable to hedging the counterparty credit risk exposure in place.

At the end of December 2021, the Bank's exposure to the counterparty risk due to concluded derivative transactions was PLN 2.6 billion. Corporate and financial clients constituted 78% of the exposure, while the remaining 22% were banks.

In connection with COVID-19 pandemic, the Bank observes increased volatility in market risk parameters, which translates into fluctuations in counterparty risk exposure. The Bank assesses counterparty risk on an ongoing basis by conducting reviews of the portfolio of clients in case of whom this risk exists.

The Bank maintains the application of its basic principle of "Know Your Customer". Due to the non-standard situation, some clients may be asked for additional information related to the change in business conditions in the context of the COVID-19 pandemic situation. The Bank also takes into account the higher volatility of the above parameters in risk assessment when entering into new transactions.

The Bank currently does not observe significant changes in the materialisation of counterparty risk.

56.4. Market risk (interest rate risk in the trading book and currency risk)

Market risk management organization

The operations of BNP Paribas Bank Polska S.A. are recorded in the trading and in the banking book. In relation to market risk, covering interest risk in the trading book and the currency risk, the Bank is sensitive for changes in market interest rates, foreign exchange rates, security prices and implied volatility of option instruments leading to changes in the result on measurement of the financial instruments present value. The risk of adverse changes in the value, driven by the aforesaid factors, is recognised by the Bank as market risk. The risk is monitored and managed with the use of the defined and specially designed tools and measures.

In order to reflect the characteristics of financial market transactions appropriately, i.e. the intentions of the parties entering into the transactions, the major risks and the accounting treatment, the Bank allocates all on- and off-balance sheet items to the banking or trading book. Detailed allocation criteria are established in the documents ("policies" and "methodologies") adopted by resolutions of the Management Board of the Bank and defining the purpose of keeping each book, the profile and types of risks assumed by the Bank, the measurement and mitigation methods as well as the authorizations and place of each organizational unit of the Bank in the risk generation, measurement, mitigation and reporting process.

The process of concluding transactions and their recording, as well as risk level supervision and adoption of risk limits is performed by independent units. In line with the long-term strategy adopted by the Bank, as well as with its financial plan, the Supervisory Board determines the Bank's risk tolerance, i.e. an acceptable risk level and profile, which is subsequently allocated by the Risk Management Committee. The Financial Markets Division takes responsibility for daily operational management of the risk inherent in trading book in line with the defined market risk limits, including limits related to interest rate in the trading book and the currency risk, which is managed at a centralized level for the entire Bank. The Financial and Counterparty Risk Department are in charge of measuring and reporting risk and limit overrides. Additionally, the Financial and Counterparty Risk Department ensures that financial instruments are measured properly. The management result is calculated by the Financial Market Transactions Monitoring Unit, while transactions are recorded and settled by the Financial Market Transactions Processing Department. The system of limit override acceptance is hierarchical. It depends on the period of such override and its scale, and is managed by the Division head or Members of the Bank's Management Board exercising supervision of the Risk Function and the function responsible for the risk override. Irrespective of the process, all limit overrides are reported immediately after they occur and discussed at monthly Risk Management Committee meetings.

Interest rate risk in the trading book

The Bank's trading activities are supplementary, as they support sales of financial products to corporate customers, non-banking financial customers (directly) and retail customers (through structured products, which are officially classified into the banking book). The Bank opens its own positions, thus generating income on short-term changes in price parameters (foreign currency rates or interest rates), while maintaining the exposure within the adopted risk limits. The Bank offers commodity instruments but does not maintain open position in commodity market.

As part of the interest rate risk exposure, which is the key exposure in the trading portfolio, the Bank could enter into IRS, OIS, CIRS, FRA and basis swap transactions and purchase and sale of foreign currency options on interest options. The interest rate risk was also determined by positions resulting from FX swap and FX Forward transactions. In 2021, as part of internal risk limits, the Bank maintained an open option position in order to optimize the result, i.e. generate additional benefits due to the lack of immediate closing of customer positions by reverse transactions on the interbank market. The priority of the Bank is to hedge the interest rate risk and currency risk.

Sensitivity of items to shifts in the yield curve and the value at risk (VaR – which is a measure that estimates the potential loss arising from a change in the market value of a portfolio under specified assumptions about market parameters, over a specified period of time and with specified probability) are the key measures of the interest rate risk in the trading portfolio. Additionally, the Bank conducts sensitivity analyses, where the changes in interest rates are more considerable than those typically observed (stress tests).

In 2021, the interest rate risk for PLN items, measured by sensitivity to shifts in the yield curve in the trading portfolio, was lower (PLN 25 thousand on average) than in 2020 (PLN 54 thousand).

The following table presents the interest rate risk in the trading book based on BPV (Basis Point Value, in PLN '000):

BPV*	31.12.2021		31.12.2020	
	PLN	EUR	PLN	EUR
31.12.	10	(14)	89	(42)
average	25	(38)	54	(32)
max	107	209	110	24
min	(40)	(87)	(20)	(84)

* a measure of the sensitivity of instrument measurement to a shift in interest rate curves by 1 basis point

Interest rate risk exposure in the trading book measured by sensitivity to a 1 basis point movement in interest rate curves and currency risk in 2021 was maintained at a relatively low level as a result of the crisis situation triggered by COVID-19 pandemic and increasing uncertainty about future market behaviour. In contrast, the exposure measured with the use of the external VaR limit decreased as compared to the previous year and averaged 13% of the granted limit (compared to 24% a year earlier). The risk was mainly due to the open interest rate position, with an average utilization of the VaR for this risk was at the level of 17% of the granted limit.

Currency risk

The Bank, while measuring the currency risk, limits the maximum allowable open currency position at the individual currency level and for all currencies combined, and applies the value at risk method (VaR). For purposes of currency risk monitoring, it is assumed that VaR is determined with a 99% confidence level and that a position is maintained for one day. The VaR methodology is validated on an annual basis by means of an analysis which involves a comparison of the forecast figures and those determined on the basis of actual changes in foreign exchange rates, assuming that the currency position is maintained (back-testing). The comparative period covers the last 250 business days. The VaR model was back-tested in 2021 and the verification results indicate that there is no necessity to make any adjustments.

Foreign currency transactions used for management of the Bank's currency position were characterized by a stable exposure and a low risk. The risk resulting from foreign currency transactions with customers was offset on the inter-bank market. The level of risk exposure was maintained at a low level, i.e. around 14% of the utilisation of the available VaR limit and, as in the previous year, this risk did not make a significant contribution to the overall risk level. The Bank maintained a small open position in foreign exchange options to ensure the serviceability of customer transactions, for which the exposure was limited through a set of additional dedicated limits for the Greek gamma and vega ratios.

The following table presents currency risk of the Bank expressed as FX VaR (in PLN '000):

	31.12.2021	31.12.2020
FX VaR*		
average	354	276
max	1,725	3,916
min	71	71

* The Bank uses a historical exponential method which assumes the confidence level 99% and that positions are held for 1 day

The table below presents the currency structure of assets and liabilities in their balance sheet value expressed in PLN '000:

Currency position items	31.12.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
USD	682,340	4,168,644	752,899	4,060,837
GBP	104,132	353,637	116,988	345,801
CHF	4,441,901	2,160,507	4,852,886	859,008
EUR	12,920,246	17,434,157	12,713,450	15,425,756
Other convertible currencies	99,178	270,054	135,302	254,236
PLN	113,529,684	107,390,482	101,005,763	98,631,650
Total	131,777,481	131,777,481	119,577,288	119,577,288

56.5. Interest rate risk in the banking portfolio (ALM Treasury)

The banking book of BNP Paribas Bank Polska S.A. is composed of two parts: the first one is the ALM portfolio as part of which structural interest rate, currency and liquidity risks resulting from the structure of the statement of financial position determined by the core lending, deposit and investing operations of the Bank, are managed. On the other hand, the Treasury portfolio is subject to daily and short-term liquidity management. It is also used by the Bank for purposes of performing its investing activities as well as concluding hedging transactions on the financial market.

The ALM portfolio comprises accounts, deposits and loans, strategic items (long-term investments, own debt issues and long-term loans), financial market transactions hedging the portfolio (derivative instruments) and zero-interest items (to include equity, tangible assets, intangible assets, taxes and provisions and profit for the period), transferred under management of ALM Treasury through the Fund Transfer Pricing (FTP) system.

The Treasury portfolio includes liquid securities (liquidity buffer), interbank deposits and placements, nostro and loro accounts as well as financial market transactions hedging the market risk of the portfolio (derivative instruments).

The Bank's policy in respect of the banking book – ALM and Treasury portfolios managed collectively – is to earn additional, stable revenue in excess of the product margin, without any threat to the stability of funds deposited by customers, equity and profit. The above mentioned objective is accomplished by the Bank by maintaining or matching its natural exposure generated by the core lending and deposit operations, in line with the adopted risk limits which guarantee limited sensitivity of the Bank's profit to changes in market factors, in addition to bringing the exposure into line with financial market trends forecast in the medium and long term.

Competitive conditions of the local financial market and customer expectations are the main factors shaping the Bank's product policy, in particular the application of variable interest rates for medium- and long-term credit products, and financing of these assets with short deposits and interest-free accounts.

The real interest rate gap, net interest income sensitivity and economic capital sensitivity are the key measures of the market risk in the banking book, which comprises the ALM portfolio and the Treasury portfolio.

The major assumptions adopted for measurement of interest rate risk in banking book are as follows:

- a) individual assets, liabilities and off-balance sheet transactions are analysed at their nominal value which is used as the basis for calculation of interest;
- b) items and transactions based on floating reference rates, such as WIBOR, LIBOR, EURIBOR, NBP rediscount rate etc. are taken into account for purposes of determining the gap at the nearest repricing date for a given contract;
- c) items based on floating reference rates scaled with a multiplier are taken into account for purposes of determining the gap at the nearest repricing date for a given contract at nominal value scaled with a multiplier and the nominal amount scaled with a value $(1 - \text{multiplier})$ is considered at the maturity date or proportionally at the principal payment dates;
- d) fixed rate items and transactions are taken into account for purposes of determining the gap at the principal payment dates, at the amounts of the principal paid at a given date or at the full amount at the maturity date for items in case of which the principal is not repaid (e.g. term deposits). Items and transactions with unspecified maturity, repricing date or non-interest bearing are taken into account in line with the profile determined as a result of modelling, which is aimed to ensure the best possible reflection of the changes in interest and principal cash flows resulting from customer behaviours and in response to external factors, in particular the market interest rates.
- e) for the portfolio of impaired loans - for net values (decreased by the created reserves) - the average contractual maturity for unimpaired exposures (IFRS stage 1 and 2) increased by two years is applied,
- f) economic capital is calculated based on positions at internal prices.

As part of interest rate risk management in the banking portfolio, the Bank distinguishes structural elements consisting of interest-free current accounts and the Bank's capital as well as other commercial items. In terms of structural elements, the Bank secures a significant portion of them by long-term positions (bonds, interest rate exchange transactions). Regarding other commercial items, the Bank plans to reduce interest rate risk.

For interest rate risk models, the Bank uses the provisions of the 'W' recommendation regarding verification of the model's operation, qualitative criteria, minimum model acceptance criteria and ongoing control of the model's accuracy.

Replication portfolio models for accounts with no specific maturity dates are behavioural models built on the basis of the historical variability of deposit account balances and the analysis of the closing ratios for the modelled position. As part of modelling, the portfolio is divided into the stable parts and a variable part, which is assigned the symbol ON in interest rate analyses. The stable part is divided into a part that is insensitive to interest rate changes (the structural part) and a part sensitive to interest rate changes (the unstructured part). A long-term interest rate repricing profile is determined for the structural part, while for the non-structural part it depends on the current macroeconomic situation and forecasts of the behaviour of interest rates for individual currencies.

As regards loans with a fixed interest rate, prepayment ratios determined in accordance with the applicable models at the Bank are used. Prepayments are analysed separately for individual types of loans (cash, car), due to the different characteristics of

these products. Factors included in the prepayment analysis: loan age, seasonality, financial incentive for the customer to prepay the loan.

The following tables present the Bank's real interest rate gap as at 31 December 2021 and 31 December 2020 (PLN '000)* on a consolidated basis:

31.12.2021

Interest rate gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	4,631,410	-	-	-	-	4,631,410
Amounts due from other banks	2,524,490	69,000	10,000	-	-	2,603,490
Loans and advances to customers	33,833,230	35,615,101	9,837,748	5,925,633	1,141,102	86,352,815
Investment securities	1,550,400	77,990	1,607,950	10,891,497	18,397,040	32,524,878
Other assets	1,336,708	172,230	240,729	1,337,100	696,816	3,783,583
Total assets	43,876,239	35,934,322	11,696,427	18,154,230	20,234,958	129,896,175
Amounts due to banks	(8,152,774)	(3,397,907)	(481,466)	(167,966)	(7,100)	(12,207,213)
Amounts due to customers	(31,541,248)	(7,394,623)	(20,312,153)	(29,683,473)	(11,975,070)	(100,906,567)
Other amounts due	(415,356)	(178,675)	(30,790)	-	(137,103)	(761,924)
Capital	(259,987)	(268,257)	(1,207,156)	(6,438,163)	(3,219,081)	(11,392,644)
Other liabilities	(4,409,723)	(28,894)	(6,502)	(5,411)	(6,763)	(4,457,293)
Total liabilities:	(44,779,087)	(11,268,356)	(22,038,067)	(36,295,013)	(15,345,118)	(129,725,641)
Net off-balance sheet liabilities	(6,146,153)	(6,107,753)	(7,079,780)	15,151,152	4,050,232	(132,303)
Interest rate gap	(7,049,002)	18,558,213	(17,421,420)	(2,989,632)	8,940,073	38,232

31.12.2020

Interest rate gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	3,421,866	-	-	-	-	3,421,866
Amounts due from other banks	555,289	-	-	-	-	555,289
Loans and advances to customers	22,490,586	34,486,774	9,255,341	5,273,317	985,311	72,491,329
Investment securities	1,550,400	40,300	358,900	9,258,791	21,355,807	32,564,198
Other assets	1,821,370	63,037	232,955	1,129,398	564,699	3,811,459
Total assets	29,839,511	34,590,111	9,847,196	15,661,506	22,905,817	112,844,141
Amounts due to banks	(3,356,032)	(3,398,269)	(383,769)	-	-	(7,138,070)
Amounts due to customers	(23,448,977)	(7,363,264)	(16,071,703)	(31,384,257)	(11,719,149)	(89,987,350)
Other amounts due	(408,337)	(317,896)	(395,421)	(131,562)	(137,103)	(1,390,319)
Capital	(1,119,890)	(263,461)	(1,185,576)	(6,323,074)	(3,161,537)	(12,053,539)
Other liabilities	(2,924,499)	(45,441)	(6,650)	(16,192)	(1,246)	(2,994,028)
Total liabilities:	(31,257,735)	(11,388,331)	(18,043,119)	(37,855,085)	(15,019,035)	(113,563,306)
Net off-balance sheet liabilities	(6,269,225)	(3,089,479)	(6,286,176)	13,976,760	1,579,875	(88,245)
Interest rate gap	(7,687,449)	20,112,301	(14,482,099)	(8,216,819)	9,466,657	(807,410)

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

Estimated decreases or increases in the net interest income for the banking portfolio between 1 and 3 years, resulting from changes in market interest rates, are the measure of its sensitivity. For management and risk control purposes, the Bank calculates sensitivity to a number of different market parameter change scenarios: immediate shifts and shifts in time, parallel and non-parallel shifts, in normal and stress conditions, varying depending on the currency, market and instrument.

Annual net interest income sensitivity to an immediate shift of market rates by 100 bps (in PLN '000) assuming the most probable change in the product structure, especially in the corporate segment, is presented in the below tables:

Immediate shift in market rates by 100 bps:	31.12.2021	31.12.2020
increase	204,081	286,858
decrease	(196,869)	(154,726)

Sensitivity of interest result by currency:

Immediate shift in market rates by 100 bps:	PLN	EUR	USD	CHF
increase	191,895	-315	14,772	(2,383)
decrease	(185,469)	3,022	(14,772)	461

In case of the significant decrease in net interest rates, the decrease in interest income has been hedged with fee income from current accounts of corporate clients resulting from negative interest rates in both foreign currencies and PLN.

The most probable cumulative impact of the interest rate rises (from October 2021 to February 2022, a total increase by 215 bs) on the Bank's financial results has been estimated at the level of PLN 520-580 million.

The economic sensitivity of capital to a sudden parallel shift of market rates by +/- 200 basis points in PLN '000 and as percentage of own funds:

Immediate shift in interest rates:	In PLN thousand	%
increase by 200 bps	(427,755)	-2.76%
decrease by 200 bps	44,527	0.29%

In terms of base risk, the Bank analyses positions based on different types of rates with the same interest rate repricing date. The largest potential change in the Bank's net interest income may result from a change in the spread between Wibor 1M rates and the NBP reference rate.

If the market rate changes by 50 bps compared to the reference rate, the change in the result will be PLN 4,930 thousand.

The COVID-19 pandemic did not fundamentally affect the method of managing the interest rate risk in the banking portfolio. **Impact of IBOR Reform on BNP Paribas Bank Polska S.A.**

BNP Paribas Bank Polska S.A. (the "Bank") conducted a project related to the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (the "BMR Regulation"). The project not only aimed to bring financial contracts within the meaning of the BMR Regulation into line with the requirements under Article 28(2) of the BMR Regulation, but also included the application of an identical approach to the Bank's customer relations with respect to products and contracts other than such financial contracts.

On 5 March 2021, Financial Conduct Authority - FCA - (British financial regulator) announced the liquidation of LIBOR rates for EUR, GBP, CHF, JPY and USD (ON, SW, 2M, 1Y) at the end of 2021 and LIBOR USD (1M, 3M, 6M) on 30.06.2023. At the beginning of April 2021, the Bank informed its customers about this fact through the Bank's website as well as through electronic banking channels. The Bank identified balance sheet and off-balance sheet items based on CHF LIBOR, GBP LIBOR, USD LIBOR indices. Until the liquidation of the aforementioned indices, the resulting cash flows continue to be exchanged between counterparties under existing rules.

As at 31.12.2021. The Bank holds:

- USD LIBOR-based financial assets of USD 84.7 million, of which USD 5.8 million maturing beyond 30.06.2023,
- USD LIBOR based financial liabilities of USD 0.01 million maturing in full before 30.06.2023,
- CHF LIBOR-based financial assets of CHF 999.3 million
- CHF LIBOR-based financial liabilities of CHF 150.0 million
- GBP LIBOR-based financial assets of GBP 1.4 million

As at 31 December 2021 the Bank also had interest rate swaps (IRS) under fair value hedge accounting based on USD LIBOR for USD 70.0 million, of which USD 55.0 million matures beyond 30.06.2023.

The Bank has no hedging relationships based on CHF LIBOR and GBP LIBOR.

As at 31 December 2021 the Bank does not have any currency interest rate swaps (CIRS) that require LIBOR to be swapped for alternative rates.

At present, it is not possible to identify any rationale for discontinuation of the publication of the WIBOR and EURIBOR indices. Thus, the flows resulting from these indices will continue to be exchanged between counterparties under existing rules.

For the EONIA rate, which also expires at the end of 2021, the Bank has no established relationship as at 31 December 2021.

Due to contractual provisions (extended periods of stabilisation of billing rates, i.e. application of a single rate for subsequent billing periods), LIBOR CHF, LIBOR GBP and LIBOR USD rates may be applied to the settlements occurring after the date of the announced cessation for these indices. These indices to be replaced: LIBOR CHF by SARON (Swiss Averaged Rate Overnight) administered by SIX Swiss Exchange, LIBOR GBP by SONIA (Sterling Overnight Index Average) administered by the Bank of England and LIBOR USD by SOFR (Secured Overnight Financing Rate) administered by the Federal Reserve Bank of New York. Application of new indices in financial contracts may involve the use of a composite rate or other method depending on the market standard adopted or the standard adopted by the administrator for the calculation of a given index.

As part of the project concerning the IBOR reform implementation, the Bank focused, inter alia, on establishing or updating the content of the so-called fallback clauses regulating how to establish substitute (alternative) indices to those which are currently in use; confirming the method of implementation of these clauses; developing changes to the Bank's IT systems that will allow for the practical application of substitute indices in the event the development of a given reference index is discontinued. It should be pointed out that, starting from mid-2018, the Bank has introduced fallback clauses in mortgage loan agreements.

It should be emphasised that the IT systems at 31 December 2021 allow for a multivariate use of overnight rates in banking products depending on the usage standards for these indicators that may take shape in the future. The Bank is prepared to use hedging instruments for these indicators.

In the case of hedging instruments, the Bank, as recommended by the PFSA, has joined the ISDA IBOR Fallbacks Supplement and Protocol and is actively working with its counterparties to introduce the rules in line with this methodology.

It should also be noted that under Article 23 b of the BMR Regulation, the European Commission has been given the power to set a substitute index. On this basis, Commission Implementing Regulation (EU) 2021/1847 of 14 October 2021 on the designation of a statutory replacement for certain settings of CHF LIBOR was published on 22 October 2021. The Regulation applies to contracts (including credit agreements) and financial instruments that use CHF LIBOR rates and which did not have appropriate fallback clauses as at the date when the Regulation entered into force. According to the Regulation, as of 1 January 2022, a substitute - SARON Compound (SARON Compound Rate) will be used by law in place of LIBOR CHF with an appropriate adjustment. As a consequence, the continuity of agreements, including loan agreements in which LIBOR CHF was an element of the calculation of the loan interest rate, will be preserved, without the need to amend them individually. The Bank will convert LIBOR rates to SARON Compound rates in accordance with the individual interest payment schedule for each loan. The Bank has informed customers of this change using various communication channels. There is a risk that the legality of the Implementing Regulation may be challenged, due to an action for annulment filed under Article 263 of the Treaty on the Functioning of the European Union (T-725/21). At the date of publication of the Financial Statements, the reasons for the action have not been published and, consequently, it is not possible to assess the materiality of this risk.

The Bank assesses that the introduction of fallback clauses in customer documentation in the form of annexes and amendments to regulations, the use of Term Rates for selected indices, the entry into force of the Commission's Implementing Regulation and the accession to the ISDA IBOR Fallbacks Supplement and Protocol significantly reduce uncertainty about the timing and amounts of cash flows for the SOFR, SONIA and SARON indices.

As at 31 December 2021, the Bank has confirmed its operational and systemic readiness for the swap of the liquidated LIBOR rates and has thus completed the tasks that were planned under the dedicated project.

56.6. Liquidity risk

Risk management organization

The Bank's comprehensive liquidity management system covers both immediate (intraday) and future (current, short-term as well as structural medium- and long-term) liquidity. Risk is managed by the Bank by building the statement of financial position and the financing structure reflected in the Bank's financial statements including both balance and off-balance sheet items to ensure liquidity at any time, taking into consideration the profile of the Bank's business, customer characteristics and behaviours as well as needs that may arise as a result of changes in the financial market. Additionally, the risk identification and measurement methods used by the Bank enable it to forecast future liquidity levels, also in stress conditions.

The Bank ensures separation and independence of its operations, risk management, control and reporting functions. In particular, transactions with contracting parties and customers are entered into by the business, confirmed and processed by Operations, immediate (intraday) and future liquidity is managed by ALM Treasury, daily supervision of the risk level and compliance with risk limits is the responsibility of the Risk Function, while supervisory liquidity measures are reported independently by the Finance Division.

The liquidity risk limits adopted by the Bank reduce its exposure to this type of risk. Risk is monitored and controlled based on documents adopted by resolutions of the Bank's Management Board (risk measurement and monitoring policy and methodologies), developed in compliance with the guidelines formulated in Recommendation P of the Polish Financial Supervision Authority, the provisions of PFSA's Resolution No. 386/2008 and European Commission Delegated Regulation 2018/60 of 13 July 2018 amending Commission Delegated Regulation (EU) 2015/61 of 10 October 2014. The Bank has an internal transfer pricing system in place, which reflects accurately the real financing cost for each asset and liability type, and the transfer pricing structure stimulates optimization of the statement of financial position, including diversification of the sources of funding, from the perspective of liquidity risk. LTD limits for each business line are an important additional component of that system, as they facilitate maintenance of a secure level of assets relative to liabilities, which is appropriate considering the characteristics of each line.

The level of liquidity risk appetite is determined by the Supervisory Board of the Bank and the risk management policy based on that appetite, including definition of general liquidity risk measures, is approved by the Management Board, whereas specific risk limits and their monitoring are the responsibility of ALCO. The Bank's Management Board and Supervisory Board supervise the effectiveness of the liquidity risk management process based on periodic information and current reports.

In compliance with the requirements of PFSA's Recommendation P, the Bank conducts numerous analyses verifying its ability to maintain liquidity in crisis situations. Stress tests cover comprehensive scenarios considering internal and system factors and combining different variants with possible interactions. Stress test results are taken into account in determining liquidity limits. The Bank has a comprehensive emergency plan in place. It comprises various scenarios along with action plans for liquidity crisis situations in the Bank and in the banking system as a whole. Stress test results are correlated with the emergency plan and reaching defined warning levels triggers the emergency plan.

Risk measures

The Bank uses external and internal risk measures. The internal measures include, among others: an analysis of trends and volatility of each source of funding relative to the loan portfolio (LTD), the contractual liquidity gap and the liquidity gap realigned based on behavioural factors along with mismatch structure limits defined on its basis, an analysis of surplus liquidity and the available sources of funding, an analysis of stability and concentration of the deposit base as well as a review of the structure of funds placed with the Bank by the major depositors by volume and maturity. Additionally, sales plans (covering loans and deposits) are monitored, by each business line, and simulation analyses are performed. Furthermore, the Bank analyses the costs of the deposit base with a view to optimizing the liquidity buffer and the use of such tools as the liquidity margin or pricing policy.

The external measures include supervisory long-term liquidity ratios introduced by PFSA's Resolution No. 386/2008, which was in force before 30 June 2021, as well as liquidity coverage ratio (LCR), as defined in European Commission Delegated Regulation 2018/60 of 13 July 2018 amending Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, and the net stable funding ratio (NSFR) determined in the Regulation No. 2019/876 of 20 May 2019 amending the Regulation (EU) No. 575/2013 of the European Parliament and of the Council and developed in line with the Commission Implementing Regulation (EU) No. 680/2014 and the Basel document on the NSFR.

The on-going supervision includes early warning tools, such as monthly reviews of additional liquidity requirements defined in the Commission Implementing Regulation (EU) No. 2016/313. In addition, the Bank conducts daily analyses of various liquidity indicators with warning levels defined in the Emergency Liquidity Plan. These allow, when warning levels are reached, to introduce remedial actions and restore the Bank's safety in terms of liquidity.

Liquidity risk profile

In 2021, the Bank's financial liquidity was maintained at a safe level. The Bank's funds were sufficient for payment of all its liabilities upon maturity. The portfolio of the most liquid securities was maintained at a level, which was sufficient to offset a potential outflow of funds placed with the Bank by the major depositors in whole.

The year 2021 was a year of continuation of the COVID-19 pandemic situation. The activities of the ALMT Division focused on continuing the special monitoring of the Bank's liquidity situation and ensuring the smooth management of settlements, clients' access to cash. The Bank maintained on its portfolio the purchase of government bond issues and those issued by Bank Gospodarstwa Krajowego in support of pandemic control activities. Internal models and internal transfer prices were adjusted on an ongoing basis. The ALMT division coordinated with the business lines through regularly held meetings and consultations concerning the liquidity situation and customer behaviour.

As at the end of 2020, the Bank's surplus liquidity was at the level of PLN 29.811 billion:

	31.12.2021	31.12.2020
Cash at Central Bank (over the reserve requirement)	(491,888)	(424,506)
Cash at other banks	2,078,986	401,261
Highly-liquid securities	28,223,645	29,982,133
Surplus liquidity up to 30 days	29,810,743	29,958,888

The liquidity surplus decreased compared to the end of 2020 mainly due to the reduction in the portfolio of liquid assets, which were sufficient to ensure that the Bank's regulatory ratios were safe and well above the required level.

Throughout 2021, in particular as at 31 December 2021, the Bank complied with the requirements applicable to the supervisory measures.

	31.12.2021	31.12.2020
M3	Not required	7.86
M4	Not required	1.26
Limit		1.00

	31.12.2021	31.12.2020	limit
Liquidity Coverage Ratio	143%	181%	100%

In 2021, the Bank continued to optimize its financing sources, which aims to reduce unnecessary, and at the same time costly and unstable, excess funding. In 2021, the Bank maintained the level of medium- and long-term loans from the BNPP Group and its subsidiaries, including a subordinated loan from BNP Group in order to meet the MREL requirement.

The Bank's sources of funding remained highly stable throughout 2021 at a similar level as in the previous year:

	31.12.2021		31.12.2020	
	balance	stable (%)	balance	stable (%)
long-term loans from the Group	4,327,140	100%	4,306,539	100%
other long-term loans	101,501	100%	160,736	100%
securitization liabilities	761,925	100%	1,390,318	100%
Retail	56,293,236	93%	53,982,138	87%
corporates	44,556,433	82%	38,337,062	79%
banks and other unstable sources	2,598,201	0%	2,715,259	0.00%
Total	108,638,436	86.6%	100,892,052	82.2%

Inflows and outflows – expected under the agreements concluded by the Bank is presented as contractual liquidity gap*:

31.12.2021

Contractual liquidity gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Loans and advances to customers	13,801,511	2,263,839	9,551,957	29,757,435	26,232,084	81,606,826
Debt securities	-	-	880,150	12,622,687	19,022,040	32,524,877
Interbank deposits	2,078,986	69,000	10,000	-	-	2,157,986
Cash and balances at Central Bank	2,584,646	-	-	-	2,079,746	4,664,392
Fixed assets	-	-	-	-	2,446,968	2,446,968
Other assets	1,010,509	-	-	-	269,983	1,280,492
Off-balance sheet liabilities, including: derivatives	12,804,974	7,603,928	11,549,988	22,210,695	2,104,088	56,273,673
Liabilities						
Retail deposits	52,989,326	1,930,056	1,321,014	52,787	53	56,293,236
Corporate deposits	42,985,027	778,536	532,831	243,898	16,141	44,556,433
Interbank deposits	2,563,201	20,000	15,000	-	-	2,598,201
Loans from financial institutions	103,913	82,539	297,780	378,832	362	863,426
Equity and subordinated liabilities	577,946	-	-	899,940	14,783,875	16,261,761
Other equity and liabilities	5,100,123	-	-	-	-	5,100,123
Off-balance sheet liabilities, including: derivatives	12,873,870	7,664,647	11,533,690	22,235,755	2,116,816	56,424,778
Total receivables	32,280,626	9,936,767	21,992,095	64,590,817	52,154,909	180,955,215
Total liabilities	117,193,405	10,475,778	13,700,314	23,811,212	16,917,246	182,097,958
Liquidity gap	(84,912,784)	(539,011)	8,291,781	40,779,605	35,237,663	(1,142,743)

Compared to 2020, the contractual gap up to 1m increased, which is due on the one hand to the persistence of a very large portfolio of amounts due to customers in products such as current and savings accounts. However, the stability of customer funds is still very high (88% of the total balance, which is higher than in the previous year) with an average maturity of the stable parts of more than five years. At the end of 2021, off-balance sheet liabilities excluding derivatives amounted to PLN 45.204 trillion.

	31.12.2020					
Contractual liquidity gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Loans and advances to	12,188,841	2,279,148	9,858,407	26,497,990	22,865,167	73,689,553
Debt securities	24,334	-	343,950	10,637,606	21,556,807	32,562,697
Interbank deposits	401,261	-	-	-	-	401,261
Cash and balances at Central	2,997,364	-	-	-	484,302	3,481,666
Fixed assets	-	-	-	-	2,553,563	2,553,563
Other assets	735,117	-	-	-	303,741	1,038,858
Off-balance sheet liabilities, including: derivatives	12,802,413	6,676,789	15,729,727	66,734,306	11,848,411	113,791,646
Liabilities						
Retail deposits	48,840,356	2,464,997	2,548,526	128,054	204	53,982,137
Corporate deposits	34,283,223	811,015	453,448	79,318	201	35,627,205
Interbank deposits	2,715,259	-	-	-	-	2,715,259
Loans from financial institutions	146,318	129,463	479,318	791,279	-	1,546,378
Equity and subordinated liabilities	659,391	-	-	-	15,616,904	16,276,295
Other equity and liabilities	3,388,669	-	-	-	-	3,388,669
Off-balance sheet liabilities, including: derivatives	12,866,220	6,657,014	15,744,740	69,383,577	11,951,839	116,600,890
Total receivables	29,149,330	8,955,937	25,932,084	103,869,902	59,611,991	227,519,244
Total liabilities	102,899,436	10,062,489	19,226,032	70,382,228	27,569,148	230,136,833
Liquidity gap	(73,750,106)	(1,106,552)	6,706,052	33,487,674	32,042,843	(2,617,589)

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

The Bank's liquidity position continued to improve throughout the year. Due to the Covid-19 pandemic, interest in loans increased slightly during the summer months of 2021, but the reluctance to commit continued. In addition, the reduction in lending towards the end of the year was caused by rising inflation, interest rate increases (3 increases since September 2021) totalling 2.15% of increase in case of the reference rate. This also caused a slowdown in mortgage production towards the end of the year. Inflationary concerns, wage pressures as well as the planned significant increases in energy prices from 2022 also caused a slowed down loan production in the corporate segment.

Funds obtained from non-banking customers continue to be the primary source of financing.

56.7. Operational risk

The Bank's operational risk is defined in accordance with the requirements of the Polish Financial Supervision Authority included in Recommendation M as the risk of incurring a loss through the fault of inappropriate or unreliable internal processes, people, technical systems or as a result of external factors. It comprises legal but not strategic risk. Operational risk as such is inherent in any banking operations. The Bank identifies the risk as permanently significant.

Operational risk is managed with a view to reducing the losses and costs resulting from the aforesaid risk, ensuring top quality of the services provided by the Group in addition to security and compliance of the Group's operations with the applicable laws and standards.

Procedures

Operational risk management consists in employment of measures aimed at operational risk identification, analysis, monitoring, control, reporting and mitigating. Such measures take into account the structures, processes, resources and scopes of responsibilities for the said processes at various organizational levels. The operational risk management strategy has been described in the Operational Risk Management Strategy of BNP Paribas Bank Polska S.A., which was approved by the Management Board of the Bank and accepted by the Supervisory Board. The Operational Risk Policy of BNP Paribas Bank Polska S.A., adopted by the Management Board of the Bank, constitutes organizational framework and standards for operational risk management. It addresses all aspects of the Bank's operations in addition to defining the Bank's objectives and the methods of their achievement as regards the quality of operational risk management as well as compliance with legal requirements set out in the recommendations and resolutions issued by national financial supervision authorities. The Bank's operational risk management objectives include, in particular, compliance with high operational risk management that guarantee security of customer deposits, the Bank's equity, stability of its financial performance as well as maintenance of the operational risk level within the range of the operational risk appetite and tolerance defined by the Bank. When developing the operational risk management system, the Bank complies with the applicable legal requirements, in particular, with the recommendations and resolutions of the national financial supervision authorities and the standards adopted by the BNP Paribas Group.

In accordance with the Policy, the Bank's operational risk management instruments include:

- identification and assessment of operational risk, including through gathering information on operational events, assessment of the risk in processes and products and determination of key risk indicators;
- setting the operational risk appetite and limits at the level of the whole Bank and individual business areas; analysing operational risk, its monitoring and ongoing control;
- counteracting an elevated level of operational risk, to include risk transfer.

Compliance with the operational risk policy is verified by the Bank's Management Board periodically and, if necessary, the required adjustments are made in order to improve the system. To this end, the Management Board of the Bank is regularly provided with information concerning the scale and types of operational risk to which the Bank is exposed, its effects and methods of operational risk management. In particular, both the Bank's Management Board and Supervisory Board are informed on a regular basis of the development of the operational risk appetite measures set out in the Operational Risk Management Strategy.

Internal environment

The Bank precisely defines the roles and responsibilities in the operational risk management process, considering its organizational structure. The Operational Risk Department, operating within the risk management area, has comprehensive oversight of the organisation of operational risk management standards and methods within the second line of defense. Development and implementation of the Bank's strategy with respect to insurance as a risk mitigation technique is the responsibility of the Real Estate and Administration Department, while the Security and Management of Business Continuity Division is in charge of business continuity management.

As part of the legal risk management process, the Legal Division monitors, identifies and performs analyses of changes to laws of general application and their effect on the Group's operations, in addition to court and administrative proceedings which affect the Group. The Compliance Monitoring Department is responsible for daily non-compliance risk analysis in addition to development of appropriate risk controls and their improvement.

Considering the elevated level of external and internal risks related to fraud and offense against the assets of the Bank and its customers, the Bank has been extending the scope of and improved its processes aimed at counteracting, detecting and examining such cases. The Fraud Prevention Department, as the second line of defense, supervises the activities carried out in this area. The Bank's Management Board and the Risk Committee of the Supervisory Board are informed about the effectiveness of solutions implemented by the Bank in this respect.

Risk management

The Bank places a strong focus on identification and assessment of the factors that trigger its present exposure to operational risk in relation to banking products. It is the Bank's objective to reduce the operational risk level through improvement of its internal processes as well as mitigating the risk inherent in the process of launching new products and services and outsourcing operations to third parties.

In accordance with the Operational Risk Management Policy of BNP Paribas Bank Polska S.A., the operational risk analysis is aimed at acquiring an understanding of the interdependence between the risk generating factors and operational event types, and it is performed primarily with the objective to define the operational risk profile.

The operational risk profile is an assessment of the level of significance of this risk, understood as the scale and structure of operational risk exposures, determining the exposure levels to this risk (i.e. operational losses), expressed in the structural dimensions selected by the Bank and the scale dimensions. Periodic assessment and review of the Bank's operational risk profile is based on an analysis of the Bank's current risk parameters, changes and risks occurring in the Bank's environment, implementation of the business strategy, as well as the adequacy of the organizational structure and the effectiveness of the risk management and internal control system.

Internal control system

The purpose of internal control is effective risk control, including risk prevention or early detection. The role of the internal control system is to achieve general and specific objectives of the internal control system, which should be considered at the design stage of control mechanisms. The principles of the internal control system are described in the "Policy on internal control at BNP Paribas Bank Polska S.A." document, approved by the Bank's Management Board. This document describes the main principles, organizational framework and standards for the functioning of the control environment at the Bank, complying with the PFSA requirements provided in Recommendation H and the Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system and the internal control system, the remuneration policy in banks. Detailed internal regulations concerning specific areas of the Bank's activity are adapted to the specifics of the Bank's operations. The appropriate organizational units of the Bank, in accordance with the scope of the tasks assigned to them, are responsible for developing detailed regulations relating to the area of internal control.

The internal control system at the Bank is based on the 3 defense lines model, which consists of:

- 1st defense line, which consists of organizational units from particular areas of banking and support areas,
- 2nd defense line, which consists of organizational units responsible for risk management, regardless of the risk management related to the first line defense, and the compliance unit,
- 3rd defense line, which is independent and objective internal audit unit.

The Bank ensures internal control through independent monitoring of compliance with control mechanisms, including on-going verification and testing.

Monitoring and reporting

The Bank periodically monitors the efficiency of the operational risk management system and its appropriateness for its current risk profile. The organization of the operational risk management system is reviewed as part of periodic control exercised by the Internal Audit Division, which is not directly involved in the operational risk management process but provides professional and unbiased opinions supporting achievement of the Bank's objectives. The operational risk management system is overseen, and its appropriateness and efficiency are assessed by the Supervisory Board.

Capital requirements due to operational risk

The Bank estimates its regulatory capital necessary to cover operational risk in accordance with the applicable regulations. The said calculation is performed using the standard approach (STA). Requirements regarding Bank's subsidiaries, to be disclosed in the consolidated financial statements, are determined in accordance with the base indicator method (BIA).

Subsidiaries

In accordance with supervisory regulations, the Bank supervises the operational risk related to the activities of its subsidiaries. Operational risk management in subsidiaries is carried out within dedicated units/persons appointed for this purpose. The manner and methods of operational risk management in subsidiaries are organised adequately to the scope of activity of an entity and its business profile, in accordance with the rules in force in the Group.

Pandemic-related risks

As part of operational risk management, the Bank conducts activities in the area of ongoing risk analysis related to the pandemic of the COVID-19 pandemic, and undertakes appropriate measures to ensure the safety of employees and clients of the Bank and to ensure uninterrupted implementation of processes related to the conducted business activities.

57. CAPITAL ADEQUACY MANAGEMENT

Own funds and capital ratios

Capital adequacy management is aimed to ensure the Bank's and the Capital Group's compliance with macro-prudential regulations defining capital requirements related to the risks incurred by the Bank, quantified in the form of the capital ratio.

Since 1 January 2014, banks have been subject to new principles applicable to calculation of capital ratios, following the implementation of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on macro-prudential requirements for credit institutions and investment firms, as amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 (CRR2) in relation to leverage ratio, net stable funding ratio, own funds and eligible liabilities requirements, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements.

On 27 June 2020, Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, amending Regulations (EU) No 272/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic, entered into force, allowing, inter alia, a reduction in risk weights for some SME loans, a temporary partial exclusion from the calculation of Common Equity Tier 1 items of the amount of unrealised profits or losses measured at fair value through other comprehensive income in relation to the COVID-19 pandemic.

As at 31 December 2021, the adjustment related to the temporary partial exclusion from the calculation of common equity tier 1 items of the amount of unrealised profits or losses measured at fair value through other comprehensive income in relation to pandemic COVID-19 amounted to PLN 367,167 thousand.

On 23 December 2020, Commission Delegated Regulation (EU) 2020/2176 of 12 November 2020, amending Delegated Regulations (EU) No 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items, entered into force.

As at 31 December 2021, the adjustment to Tier 1 capital related to other intangible assets amounted to PLN 378,273 thousand.

The capital ratios, capital requirements and equity have been calculated in accordance with the aforesaid Regulation with the use of national options.

Pursuant to the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial sector (Journal of Laws 2015, item 1513, as amended), an additional buffer of 2.5% was introduced starting from 1 January 2019.

At the same time, the Ordinance of the Minister of Development and Finance of 1 September 2017 on the systemic risk buffer (Journal of Laws 2017, item 1776) determined that a systemic risk buffer of 3% is introduced as of 1 January 2019.

The Financial Supervision Authority, in a release dated 8 November 2021, announced that, based on the provisions of the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial system and after taking into account the opinion of the Financial Stability Committee, it confirmed the identification of ten banks as other systemically important institutions (O-SII).

As a result of the review, the Commission concluded that there are no reasons justifying the repeal or amendment of its previous decision of 4 October 2016, as amended by the Commission decision of 19 December 2017, concerning imposition of a buffer for another systemically important institution on the Bank (on a consolidated and separate basis) in the amount of 0.25% of the total risk exposure amount calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013.

On 19 March 2020, the Regulation of the Minister of Finance (Journal of Laws of 2020, item 473) of 18 March 2020 repealing the regulation on the systemic risk buffer came into force. The regulation repealed the Regulation of the Minister of Development and Finance of 1 September 2017 regarding the systemic risk buffer (Journal of Laws of 2017, item 1776), which pursuant to art. 1 paragraph 1 introduced the systemic risk buffer rate of 3% of the total risk exposure calculated in accordance with art. 92 paragraph 3 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on macro-prudential requirements for credit institutions and investment firms and amending Regulation No. 648/2012. (Official Journal of the EU L 176 of 27 June 2013, p. 1, as amended 2), on a separate and consolidated basis

The level of Tier I capital ratio (Tier I) and the total capital ratio (TCR) on a consolidated level, were above the requirements for the Capital Group as at 31 December 2021.

At the same time, the Capital Group meets the legal requirements under the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector.

31.12.2021	The minimum supervisory consolidated solvency ratios of the Group	Consolidated capital adequacy ratios of the Group
CET I	7.25%	12.33%
Tier I	8.75%	12.33%
Total Capital Ratio	10.75%	16.91%
31.12.2020		
CET I	7.25%	13.55%
Tier I	8.75%	13.55%
Total Capital Ratio	10.75%	18.65%

Requirement of a minimum level of own funds and eligible liabilities (MREL)

On 22 November 2021 the Bank received an announcement from the Bank Guarantee Fund ("BFG") regarding the joint decision of the resolution authorities, i.e. the Single Resolution Board ("SRB"), Central Bank of Hungary, Finanstilsynet, Bank of England and BFG, on the minimum level of own funds and eligible liabilities ("MREL").

The joint decision indicates that the Group's restructuring plan envisages a Single Point of Entry (SPE) strategy for the mandatory restructuring. The Group's preferred tool for mandatory restructuring is the open bank bail-in tool.

The MREL requirement set by the Fund, in consultation with the SRB, for BNP Paribas Bank Polska S.A. is:

- 15.90% of TREA, the total risk exposure amount (TREA) calculated in accordance with Article 92(3) and (4) of Regulation (EU) No 575/2013 (hereinafter MREL-TREA), and
- 5.91% of TEM, the total exposure measure (TEM) calculated in accordance with Articles 429 and 429a of Regulation (EU) No 575/2013 (hereinafter MREL-TEM)

at the individual level. The Bank is required to meet the MREL requirement by 31 December 2023.

The Fund, in consultation with the SRB, has set interim targets for the Bank to meet by the end of each calendar year during the period of reaching the MREL target:

- in relation to TREA: 11.95% at the end of 2021 and 13.92% at the end of 2022,
- in relation to TEM: 3.00% at the end of 2021 and 4.46% at the end of 2022.

The entire MREL requirement should be met in the form of own funds and liabilities meeting the criteria set out in Article 98 of the Act on the BGF, which transposes Article 45f(2) of the BRRD2. According to the decision, the part of MREL corresponding to the recapitalisation amount (RCA) will be met in the form of AT1, T2 instruments and other subordinated eligible liabilities acquired directly or indirectly by the parent company.

The Bank definitely complies with the defined MREL-TREA and MREL-TEM requirements as at 31 December 2021.

58. MAJOR EVENTS IN BNP PARIBAS BANK POLSKA S.A. IN 2021

19.01.2021	Recommendation of the Polish Financial Supervision Authority from 15.01.2021 regarding the suspension of dividend payments by BNP Paribas Bank Polska S.A. in the first half of 2021
8.03.2021	Appointment of the Management Board of BNP Paribas Bank Polska S.A. for a new term of office
24.03.2021	Annual General Meeting of BNP Paribas Bank Polska S.A. <ul style="list-style-type: none"> • Consideration and approval of: <ul style="list-style-type: none"> - The financial statements for 2020 and the Management Report on activities in 2020. - CSR and Sustainability Report presenting non-financial information of the Bank and the Group in 2020. - Report on the activities of the Bank's Supervisory Board and its committees in 2020. - Adoption of a resolution on the distribution of the Bank's profit for the financial year 2020 - Adoption of resolutions on granting discharge to the members of the Bank's Management Board and Supervisory Board for the performance of their duties in 2020 • Passing resolutions on appointing members of the Bank's Supervisory Board for a new term of office
31.03.2021	Declaration of the Central Securities Depository of Poland on the conditional registration of series M shares of BNP Paribas Bank Polska S.A.
31.03.2021	Warsaw Stock Exchange information on the admission and introduction to trading of series M shares of BNP Paribas Bank Polska S.A.
6.04.2021	Series M shares issue within the conditional share capital increase and change of the value of share capital of BNP Paribas Bank Polska S.A. The Bank's share capital was increased from PLN 147,418,918 to PLN 147,518,782
19.04.2021	Determination by the Bank Guarantee Fund (BFG) the amount of annual contribution to the banks' forced restructuring fund for 2021 for BNP Paribas Bank Polska S.A. in the amount of PLN 90.147 thousand. The total contributions to the BFG booked by the Bank as expenses in the first quarter of 2021 amount to PLN 103,716 thousand (i.e. the abovementioned contribution plus the contribution to the banks' guarantee fund due for the first quarter of 2021 in the amount of PLN 13,569 thousand)
12.05.2021	Commencement of the share buy-back programme addressed to the participants of the incentive programme
20.05.2021	Entry of amendments to the Bank's Statute into the National Court Register. The amendments resulted from the increase of the share capital of the Bank to the amount of PLN 147,518,782 due to the acquisition of series M shares by eligible persons
31.05.2021	Notice from two shareholders of the Bank (BNP Paribas SA and Rabobank International Holding B.V.) on the commencement of sale regarding the part of their BNP Paribas Bank Polska S.A.'s shares within the accelerated book building process ("ABB")*
2.06.2021	Notice from two shareholders of the Bank (BNP Paribas SA and Rabobank International Holding B.V.) on the completion of sale regarding the part of their BNP Paribas Bank Polska S.A.'s shares within the accelerated book building process ("ABB")*

17.06.2021	Extraordinary General Meeting of BNP Paribas Bank Polska S.A. - adoption of the following resolutions: <ul style="list-style-type: none"> • determination of remuneration for the Bank's Supervisory Board members, • the approval of the Remuneration Policy for the Supervisory Board Members of BNP Paribas Bank Polska S.A. and the Remuneration Policy for Executives who have a significant impact on the risk profile of BNP Paribas Bank Polska S.A. (including the members of the Bank's Management Board), • determination of the target number of Supervisory Board members for the new term of office, • amendments to the Bank's Statute and the Regulations of the General Meeting.
5.10.2021	Entry in the National Court Register of some amendments to the Statute of BNP Paribas Bank Polska S.A. adopted by the Extraordinary General Meeting of the Bank on 17 June 2021 (Resolution no. 11)
15.10.2021	Entry in the National Court Register of some amendments to the Statute of BNP Paribas Bank Polska S.A. adopted by the Extraordinary General Meeting of the Bank on 17 June 2021 (Resolution no. 11)
19.11.2021	Entry in the National Court Register of some amendments to the Statute of BNP Paribas Bank Polska S.A. adopted by the Extraordinary General Meeting of the Bank on 17 June 2021 (Resolution no. 11)
23.11.2021	Letter from the BFG dated 22.11.2021 on the minimum level of own funds and eligible liabilities ("MREL") for BNP Paribas Bank Polska S.A. The MREL requirement for the Bank has been set at an individual level at 15.90% of the total risk exposure amount ("TREA") and 5.91% of the total exposure measure ("TEM"). This requirement should be achieved by 31 December 2023. In addition, the BFG has set interim MREL targets which: <ul style="list-style-type: none"> - in relation to TREA are: 11.95% at the end of 2021 and 13.92% at the end of 2022, and - in relation to TEM are: 3.00% at the end of 2021 and 4.46% at the end of 2022.

* details regarding the process of sale by BNP Paribas SA and Rabobank International Holding B.V. of part of their shares of BNP Paribas Bank Polska S.A. are described in Note 47 The shareholder's structure of BNP Paribas Bank Polska S.A. of the present Report

59. SUBSEQUENT EVENTS

4.01.2022	Extraordinary General Shareholders Meeting - adoption of resolutions, inter alia, on <ul style="list-style-type: none"> • adoption for application by the Bank of the rules contained in "Code of Best Practice for WSE Listed Companies 2021", • adoption of the Policy for appointing and dismissing members of the Bank's Supervisory Board and the Policy for assessing the adequacy of the Bank's Supervisory Board members, • amendments to the Bank's Statutes and adoption of the Regulations of the General Meeting.
18.01.2022	Rating of the Bank by Fitch Ratings <ul style="list-style-type: none"> • Long-Term Issuer Default Rating (IDR) at „A+” with a stable outlook, • Viability Rating (VR) at „bbb-”, • Shareholder Support Rating (SSR) at „a+”.
28.01.2022	Liquidation of subsidiary BFN ACTUS Sp. z o.o. On 28 January 2022 the Extraordinary Shareholders' Meeting of BFN ACTUS Sp. z o.o. adopted a resolution to dissolve the company by way of liquidation. As of 1 February 2022, the company changed its name to Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. in liquidation.
11.02.2022	Additional capital charge imposed by the Financial Supervision Authority under Pillar II (P2G) PFSA recommended the Bank to maintain at the separate and consolidated level own funds to cover the additional capital charge (P2G) of 0.61 p.p. in order to absorb potential losses resulting from stress events.
01.03.2022	Liquidation of subsidiary BNP Paribas Solution Sp. z o.o. On 1 March 2022, the Extraordinary Meeting of Shareholders of BNP Paribas Solutions sp. z.o.o. adopted a resolution to start the liquidation process of the Company.

Due to the political and economic situation in Ukraine, the Management Board of the Bank monitors the impact of the conflict on the Bank's operations and its financial results on an ongoing basis. In the Bank's opinion, this event had no impact on the Bank's financial statements for the year ended December 31, 2021. The analysis covers the risk of further escalation of the dispute and the possible introduction of further economic sanctions. As at the date of publication of this report, the scale of the impact of the events in Ukraine on the global economy and Poland is not known, therefore it is not possible to assess the potential impact on the Bank's operations and results in subsequent periods.

02.03.2022	Przemysław Gdański <i>President of the Management Board</i>	<i>qualified electronic signature</i>
02.03.2022	Jean-Charles Aranda <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
02.03.2022	André Boulanger <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
02.03.2022	Przemysław Furlepa <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
02.03.2022	Wojciech Kemblowski <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
02.03.2022	Kazimierz Łabno <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
02.03.2022	Magdalena Nowicka <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
02.03.2022	Volodymyr Radin <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
02.03.2022	Agnieszka Wolska <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>

Warsaw, 2 March 2022