# CAPITAL ADEQUACY INFORMATION OF BNP PARIBAS BANK POLSKA S.A. CAPITAL GROUP

AS OF 31 DECEMBER 2022

BNP PARIBAS

The Bank
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world

## TABEL OF CONTENTS

# 1. INTRODUCTION

In accordance with the Regulation of the European Parliament and of the Council (EU) No 575/2013 as of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No 648/2012 (Office Journal EU. L No. 176, p. 1, as amended) (hereinafter the CRR, CRR Regulation) BNP Paribas Bank Polska S.A. is obliged to publish in a publicly accessible manner information about the qualitative and quantitative information on the capital adequacy excluding irrelevant information, proprietary or confidential.

The document is the implementation of the Information policy of BNP Paribas Bank Polska S.A regarding capital adequacy. The presented scope of information was developed in accordance with applicable regulations regarding disclosure of information and guidelines of the European Banking Authority in this regard:

- Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295 (hereinafter "Regulation (EU) No 2021/637")
- Guidelines of the European Banking Authority on materiality, proprietary and confidentiality and disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013 (EBA/GL/2014/14)
- Guidelines of the European Banking Authority of 2 June 2020 on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07)
- Guidelines of the European Banking Authority of 11 August 2020 amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of the CRR on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR 'quick fix' in response to the COVID-19 pandemic (EBA/GL/2020/12).

The presented information also addresses the requirements for disclosure of information in terms of operational risk and liquidity, set out in the Recommendations of the Polish Financial Supervision Authority.The report does not include information indicated in art 449a of the CRR nor in the Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022, amending technical standards stipulated in implementing regulation (EU) 2021/637 in reference to disclosure of information on ESG (Economic Social Governance) risks. The information is not presented due to the fact that in line with art 6 of the CRR, it is not required to complete section 8 of the CRR on an individual basis.

Unless otherwise specified, all figures in the document are presented as at December 31, 2022, in thousands PLN, based on the data of the BNP Paribas Bank Polska S.A. Capital Group.

List of abbreviations used:

- Bank - BNP Paribas Bank Polska S.A.
- Group - BNP Paribas Bank Polska S.A. Capital Group.
- Supervisory Board - Supervisory Board of BNP Paribas Bank Polska S.A.
- Regulation (EU) No 575/2013 - Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No 648/2012
- Management Board - Management Board of BNP Paribas Bank Polska S.A.

# 2. BNP PARIBAS BANK POLSKA S.A. CAPITAL GROUP

BNP Paribas Bank Polska S.A. is the parent company of the BNP Paribas Bank Polska S.A. Capital Group and is a part of an international financial group headed by BNP Paribas S.A. based in Paris. BNP Paribas S.A. is a direct parent entity of the Bank and holds 87.40% of the Bank's shares, where 24.05% is held indirectly by BNP Paribas Fortis SA/NV. The remaining 12.6-% of shares is held by minority shareholders (having less than 5% of the total number of votes at the General Meeting).

**Table 1 Shareholders' structure of BNP Paribas Bank Polska S.A. as of 31 December 2022**

| SHAREHOLDERS | NUMBER OF SHARES HELD | % OF THE SHARE CAPITAL | NUMBER OF VOTES AT THE AGM | % NUMBER OF THE TOTAL NUMBER OF VOTES |
|---|---|---|---|---|
| BNP Paribas S.A., *total*: | 128 991 553 | 87.40% | 128 991 553 | 87.40% |
| *BNP Paribas S.A. directly* | 93 501 327 | 63.35% | 93 501 327 | 63.35% |
| *BNP Paribas Fortis SA/NV directly* | 35 490 226 | 24.05% | 35 490 226 | 24.05% |
| Others | 18 601 597 | 12.60% | 18 601 597 | 12.60% |
| **Total** | | **100.00%** | | **100.00%** |

As at 31 December 2022, the Group comprised the Bank, as the parent, and its subsidiaries:

- BNP Paribas Towarzystwo Funduszy Inwestycyjnych S.A.
- BNP Paribas Leasing Services Sp. z o.o.
- BNP Paribas Group Service Center S.A.
- Campus Leszno sp. z o.o.
- BGŻ Poland ABS1 DAC.

On 24.11.2022 BNP Paribas Solutions Sp. z o.o. was removed from the National Court Register (KRS) which concluded its liquidation process. On 28.01.2022 the BFN ACTUS Sp. z o.o. extraordinary general meeting executed a resolution on dissolving the company via liquidation. On 01.02.2022 the company changed its name to Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. w likwidacji.

According to the Article 436 of Regulation (EU) No 575/2013 the Bank informs about the differences in the scope of consolidation for accounting and prudential purposes. For the purposes of prudential consolidation, the following shall not be included:

- Campus Leszno sp. z o.o.
- BGŻ Poland ABS1 DAC.

Exclusion from prudential consolidation of companies, with the exception of BGŻ Poland ABS1 DAC, results from taking into account the conditions set out in Art. 19(1) of Regulation (EU) No 575/2013.BGŻ Poland ABS1 DAC is controlled by the Bank due to the meeting the conditions contained in IFRS10.

The table below presents information on the consolidation method used for each entity within the scope of accounting and prudential consolidation.

**Table 2 EU LI3 - Outline of the differences in the scopes of consolidation (entity by entity) as of 31 December 2022**

| a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|
| | | Method of regulatory consolidation | | | | | |
| Name of the entity | Method of accounting consolidation | Full consolidation | Proportional consolidation | Equity method | Neither consolidated nor deducted | Deducted | Description of the entity |
| BNP Paribas Towarzystwo Funduszy Inwestycyjnych S.A. | Full consolidation | x | - | - | - | - | Investment funds and portfolios of financial instruments portfolios management |
| BNP Paribas Leasing Services Sp. z o.o. | Full consolidation | x | - | - | - | - | Leasing activities |
| BNP Paribas Group Service Center S.A. | Full consolidation | x | - | - | - | - | Financial intermediation |
| Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. | Pełna konsolidacja | - | - | | x | - | Real estate services |
| Campus Leszno sp. z o.o. | Full consolidation | - | - | - | x | - | Training and conference center management services |
| BGŻ Poland ABS1 DAC | Full consolidation | x | - | - | - | - | Special purpose company - entity established to conduct securitization transactions |

**Table 3 EU LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories as of 31 December 2022**

| | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|
| | | | Carrying values of items | | | | |
| | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to own funds requirements or subject to deduction from own funds |
| **Assets** | | | | | | | |
| Cash and balances at the Central Bank | 2 718 307 | 2 718 242 | 2 718 242 | - | - | - | - |
| Receivables from banks | 11 800 189 | 11 800 189 | 11 800 189 | - | - | - | - |
| Derivative financial instruments | 3 224 272 | 3 224 272 | - | 3 224 272 | - | 3 126 459 | - |
| Adjustment of the fair value of the hedged item | 33 025 | 33 025 | | 33 025 | - | - | - |
| Loans and advances to customers valued at amortized cost | 89 090 317 | 89 087 940 | 88 658 715 | | 429 225 | - | - |
| Loans and advances to customers are valued at fair value through profit and loss | 949 298 | 949 298 | 949 298 | | - | - | - |
| Securities valued at amortized cost | 22 167 261 | 22 167 261 | 22 167 261 | - | - | - | - |
| Securities measured at fair value through profit and loss | 316 593 | 316 593 | 316 593 | - | - | - | - |
| Securities valued at fair value through other comprehensive income | 17 384 793 | 17 384 793 | 17 384 793 | - | - | - | - |
| Investments in subsidiaries | - | 8 584 | 8 584 | - | - | - | - |
| Investment estates | - | - | - | - | - | - | - |
| Intangible assets | 821 106 | 821 106 | 381 604 | - | - | - | 439 502 |
| Tangible assets | 1 069 429 | 1 059 947 | 1 059 947 | - | - | - | - |
| Assets due to deferred income tax | 966 436 | 966 435 | 966 435 | - | - | - | - |
| Assets due to current income tax | 14 107 | 14 107 | 14 107 | - | - | - | - |
| Other assets | 961 936 | 955 142 | 955 142 | - | - | - | - |
| **Total assets** | **151 517 069** | **151 506 934** | **147 380 910** | **3 257 297** | **429 225** | **3 126 459** | **439 502** |
| **Liabilities** | | | | | | | |
| Liabilities due to Central Bank | 8 713 | 8 713 | - | - | - | - | - |
| Liabilities due to banks | 7 158 024 | 7 158 024 | - | | - | - | - |
| Derivative financial instruments | 3 147 855 | 3 147 855 | - | 3 147 855 | - | 2 883 430 | - |
| Adjustment of the fair value of the hedged item | - 451 646 | - 451 646 | - | 1 474 526 | - | | - |
| Liabilities to customers | 120 021 043 | 120 721 689 | - | | - | - | - |
| Liabilities arising from the issue of debt securities | 364 633 | 384 633 | - | - | - | - | - |
| Subordinated liabilities | 4 416 887 | 4 416 887 | - | - | - | - | - |
| Lease liabilities | 718 892 | - | - | - | - | - | - |
| Other liabilities | 2 423 182 | 2 423 108 | - | - | - | - | - |
| Current income tax liabilities | 223 527 | 223 527 | - | - | - | - | - |
| Deferred income tax | - | - | - | - | - | - | - |
| Provisions | 2 223 738 | 2 223 738 | - | - | - | - | - |
| **Total liabilities** | **140 254 848** | **140 256 528** | **-** | **4 622 381** | **-** | **2 883 430** | **-** |

The differences between columns a) and b) in template EU LI1 are due to a different scope of consolidation of subsidiaries. All subsidiaries are consolidated in the financial statements, and companies that met the prudential consolidation requirements as at December 31, 2022 are consolidated in FINREP, COREP.The market risk framework covers balance sheet items valued at fair value that are supervisedly classified in the trading book.

**Table 4 EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements as of 31 December 2022**

| | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | | | Items subject to | | | |
| | | Total | Credit risk framework | Securitisation framework | CCR framework | Market risk framework |
| 1 | Assets carrying value amount under the scope of regulatory consolidation (as per template LI1) | 151 506 934 | 147 380 910 | 429 225 | 3 257 297 | 3 126 459 |
| 2 | Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1) | 140 256 528 | | | 4 622 381 | 2 883 430 |
| 3 | Total net amount under the regulatory scope of consolidation | 11 250 406 | 147 380 910 | 429 225 | -1 365 084 | 243 029 |
| 4 | Off-balance-sheet amounts | 40 880 468 | 32 001 879 | | | |
| 5 | Differences in valuations | *3 450 792* | | | *3 450 792* | |
| 6 | Differences resulting from the consideration of regulations | - | | | | |
| 7 | Differences due to the specific credit risk adjustment value adjustment | *307 555* | *307 555* | | | |
| 8 | Differences due to Securitisation with risk transfer | *-429 225* | | *-429 225* | | |
| 9 | Other differences | *524 153* | *524 153* | | | |
| 10 | Exposure amounts considered for regulatory purposes | 182 300 204 | 180 214 497 | | 2 085 707 | |

Pursuant to Art. 436 (f) and (g) of Regulation (EU) No 575/2013, the Bank informs that it does not identify the present and does not anticipate any significant practical or legal obstacles to the quick transfer of own funds or to repay liabilities between the parent company and its subsidiaries, and there is no shortage between the actual own funds and the minimum required in all subsidiaries not included in the consolidation.

# 3. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is a financial institution that offers a wide range of banking services and products and as a financial services provider, creates value by initiating, maintaining and transforming risks and by properly managing them both at the level of individual transactions and managed portfolios. The risk management system, internal control system, internal capital estimation, risk appetite and stress tests constitute a coherent system, adequate in terms of the risk profile and strategy of the Bank and the entire Group.

## Risk management system

The risk management system is an integrated set of rules, mechanisms and tools (including policies and procedures) relating to risk processes. Risk management is part of the Bank's overall management system. In addition to the regulatory requirements, the Bank takes into account the specific nature, scale and complexity of business activities and the associated risks. The main objectives of the risk management system:

- ensuring the early recognition and appropriate management of all significant types of risk related to the performed activities,
- supporting the implementation of the business strategy through effective control of the risk level and its maintenance within the adopted risk appetite,
- reflecting the Bank's attitude towards risk and risk culture,
- risk measurement or estimation and monitoring, including securing possible losses through appropriate control mechanisms,
- risk mitigation by defining a system of limits and rules of conduct in the event of their exceeding,
- determination of the organizational structure adjusted to the size and profile of the risk incurred.

The Bank's risk management system and the internal control system are organized on the basis of a framework of three independent lines of defense, used to define roles and responsibilities in order to achieve effective supervision and organization of risk management:

- **the first line of defense** are business units responsible for risk management in the Bank's operating activities, including compliance with control mechanisms,
- **the second line of defense** consists of the organizational units of the Risk Area, Security & Business Continuity Management Line the Compliance Line, which are responsible for managing particular risks, including risk measurement, monitoring, control and reporting, regardless of the first line,
- **the third line of defense** is the activity of the Internal Audit Line, which performs independent assessments of risk management activities carried out by both the first and second lines of defense.

## Information on governance arrangements

The key role in the risk management system is fulfilled by the Management Board, which defines the risk management strategy, risk appetite, and adopts the risk management policies as well as defines limits for material risks and risk control procedures. The risk management principles are derived from the document *Risk management strategy at BNP Paribas Bank Polska S.A.* defined by the Management Board and approved by the Supervisory Board.

The risk management system comprises mainly the Supervisory Board, the Management Board, dedicated committees (Audit Committee and Risk Committee at the level of the Supervisory Board, TAC/NAC, Risk Management Committee, Retail Banking Risk Committee, Personal Finance Risk Committee, Credit Committee, Problematic Loan Committee, Products Approval, Services, Transaction and Businesses Committee, as well as Internal Control Coordination Committee), Risk Area, Compliance Line as well as Security & Business Continuity Management Line.

Members of the Management Board:

- Przemysław Gdański – President of the Management Board
- Jean-Charles Aranda - Vice-President of the Management Board
- Volodymyr Radin- 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
- Agnieszka Wolska - Vice-President of the Management Board

The number of directorships positions held by the members of the governing body is presented below:

- The Members of the Bank's Management Board hold one position of a member of the Management Board and 7 positions of a member of the Supervisory Board, whereas in other Group subsidiaries the number of positions held by specific members of the Management Board meets the requirements set forth in Art. 22aa, paras. 3-5 of the Banking Law Act.

- The Members of the Bank's Supervisory Board hold 8 positions of a member of the Management Board and 15 positions of a member of the Supervisory Board, whereas in other Group subsidiaries the number of positions held by specific members of the Supervisory Board meets the requirements set forth in Art. 22aa, paras. 3-5 of the Banking Law Act.

Members of the Supervisory Board:

- Lucyna Stańczak-Wuczyńska – Chairman of the Supervisory Board, Independent Member of the Supervisory Board
- Francois Benaroya – Vice-Chairman of the Supervisory Board
- Magdalena Dziewguć – Independent Member of the Supervisory Board
- Jarosław Bauc – Independent Member of the Supervisory Board
- Jean Paul Sabet – Vice-Chairman of the Supervisory Board
- Mariusz Warych – Independent Member of the Supervisory Board
- Vincent Metz – Member of the Supervisory Board
- Stefaan Decraene – Member of the Supervisory Board
- Piotr Mietkowski – Member of the Supervisory Board
- Małgorzata Chruściak – Independent Member of the Supervisory Board
- Geraldine Conti – Member of the Supervisory Board
- Khatleen Pauwels – Member of the Supervisory Board.

The Bank has a *Policy for the appointment and dismissal of Members of the Management Board of BNP Paribas Bank Polska S.A.*, which is one of the elements ensuring transparency, effectiveness and compliance with the law of the functioning of the corporate governance at the Bank. The aim of the Policy is to ensure that the composition of the Bank's Management Board is appropriate to the scale, complexity and risk profile of the Bank and contributes to the effective management of the Bank. Pursuant to the Policy, the appointment of a member of the Management Board is possible provided that the candidate meets the statutory and statutory requirements and has obtained a positive suitability assessment. In the process of recruiting a candidate for the position of a member of the Management Board, the Supervisory Board is supported by the Appointment Committee and the Executive Director of the Human Resource Management Area. The purpose of conducting an adequacy assessment is to ensure that the members of the Management Board are appropriate and that the Management Board as a whole has at all times an appropriate combined level of knowledge, skills and experience to enable effective management of the Bank.

The Bank has a diversity policy which is formally part of the adequacy assessment policy at BNP Paribas Bank Polska SA. The purpose of the diversity policy is to promote diversity to the Management Board in order to reach the wide range of properties and competences of the members of the Management Board, to gain different points of view and experience, and to enable the issuing of independent opinions and sound decisions. The following quantitative target and time frame have been set at the Bank in which the target of gender differentiation should be achieved, ie the Bank will strive to achieve in 2025 the share of the underrepresented gender in the Management Board at the level of at least 30% of the composition. At the end of 2022, the share of women in the Management Board was 22.2%.

The Bank has the Risk Committee which is a consultation and advisory body of the Supervisory Board. Its task is to support the Supervisory Board in fulfilling its supervisory duties in the area of risk management. The Committee's scope of competence shall include in particular the following:

- providing opinions on the Bank's overall present and future readiness to assume risk,
- providing opinions on the risk management strategy developed by the Management Board with regard to the Bank's operations and on strategy implementation reports submitted by the Management Board,
- supporting the Supervisory Board in its supervision over the implementation of the Bank's risk management strategy carried out by the senior management staff,
- verifying whether the prices of liabilities and assets offered to Clients take account of the Bank's business model and its risk strategy in their entirety, and - if the prices do not adequately reflect the types of risk under this model and this strategy - presenting proposals to the Management Board, aimed at ensuring prices of liabilities and assets adequate to these risk types.

In 2022, in the performance of the duties stipulated in the Regulations, the Risk Committee held 4 meetings. The number of the Members of the Risk Committee who attended the respective Committee meetings in 2022 allowed for the correct conduct of all meetings of the Risk Committee in 2022.

The Bank's management reporting system supports decision-making processes in the area of risk management, ensuring an appropriate flow of risk information. Regularly, in accordance with the agreed reporting schedule, reports are submitted to the Supervisory Board, the Management Board and committees. Reported data include: analyzes of the main risks arising from the Bank's operations, including strategic aspects of credit risk, cross-cutting aspects of market and liquidity risk, information on counterparty risk, operational risk and interest rate risk in the banking book, risk appetite measures, information on capital adequacy, including the reaisation of the capital plan, reports on the current economic situation, as well as the results of stress tests. Reporting contains reliable, comprehensive, accurate and up-to-date data, provides information on the types, size and profile of risk, and also serves to assess the effects of risk management decisions in the Bank, monitor compliance with limits, and support management decisions.

## Internal control system

The organization of the internal control system is aimed at effective risk control, including risk prevention or early detection. The role of the internal control system is to achieve the general and specific objectives of the internal control system, which should be taken into account at the stage of designing control mechanisms. The principles of the internal control system are set out in *the Internal control policy of BNP Paribas Bank Polska S.A*., approved by the Management Board. This document defines the main principles, organizational framework and standards for the functioning of the control environment at the Bank, while complying with the requirements of the Polish Financial Supervision Authority set out in Recommendation H. Detailed internal regulations concerning individual areas of the Bank's operations are adjusted to the specific nature of the Bank's operations. The appropriate organizational units of the Bank, in accordance with the scope of their assigned tasks, are responsible for the development of detailed regulations relating to the area of internal control. The Internal Control Coordination Committee supports the Management Board on supervision the consistency, completeness and effectiveness of the internal control system and the Bank's operational risk management processes, as well as managing the main risks related to the internal control system of the Bank and its subsidiaries, including the risk management process supporting operational, compliance and anti-fraud risk.

The Bank exercises internal control by independent monitoring of compliance with control mechanisms, including ongoing verification and testing.

## Internal capital adequacy assessment

The purpose of the internal capital adequacy assessment process is to monitor and control the level of the Bank's and the Group's internal capital. The implementation of the ICAAP process is dictated by the striving to maintain a stable financial situation that guarantees the Groups's operation despite incurring unexpected losses. The Bank ensures that the risk management process is in line with the Group's risk profile and limits excessive risk in its operations. The details of the process are defined in the *Policy on internal capital estimation at BNP Paribas Bank Polska S.A.*

The Bank has developed comprehensive rules of risk identification and assessment in response to the requirements of the review and supervisory assessment process. The rules are aimed at identification and assessment of all risks to which the Group is or may be exposed to, taking into account regulatory requirements, best practices and use of existing risk management processes tested by the Bank. The Bank takes into account the specific nature, scale and degree of complexity of business activity and related risk, ensuring that all significant risks in the Group's activity are measured and mitigated. The Bank strives to identify and assess risks resulting from the internal and external environment that could have a significant impact on the Group's financial stability.

Identification of potentially material risks consists in identifying threats and potential risks that may arise in the future with an appropriate dose of probability. The risk management process is designed to protect the Bank against risk materialization and through an adequate assessment of the capital needs necessary for the identified risks. The risk identification process is carried out annually.

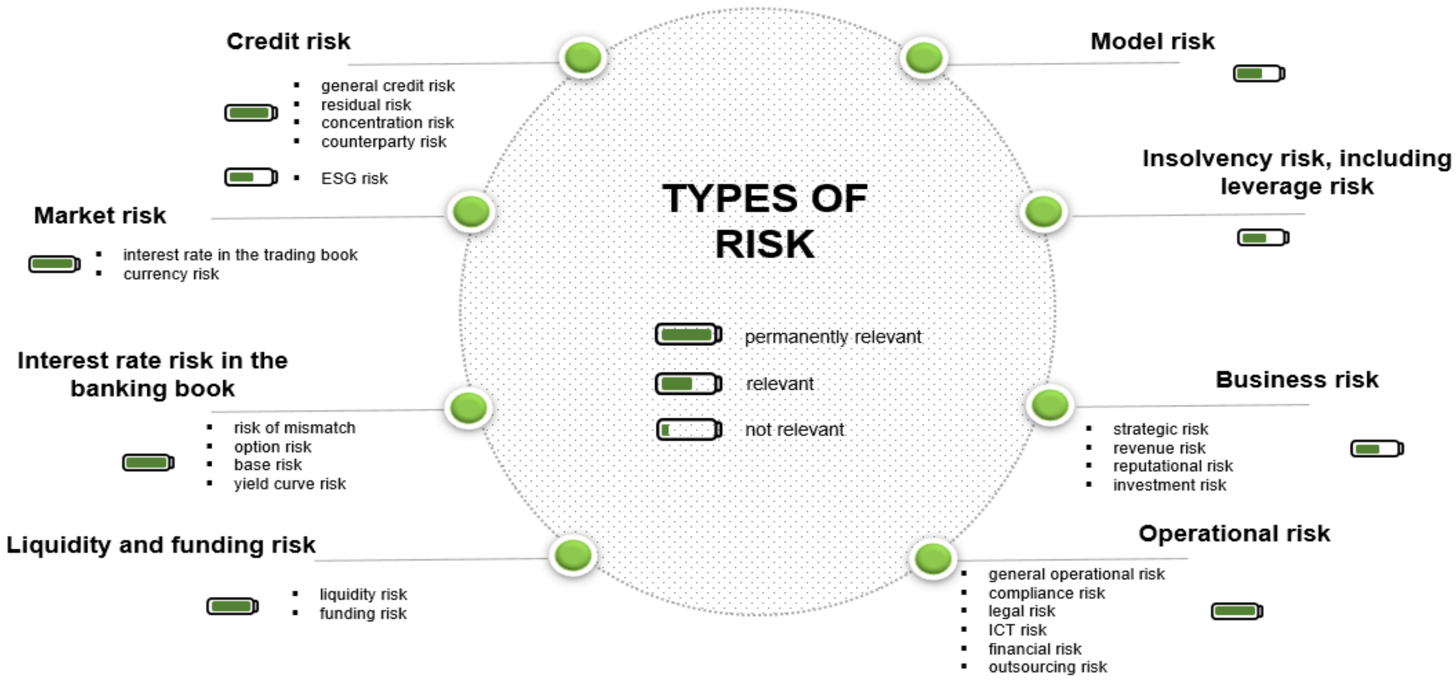
The process of determining the significance level of risks covers the risks identified in the risk identification process. In order to assess the significance of risks, the Bank:

- defines the concept of materiality of risks,
- defines the factors determining the significance of risks,
- assesses the significance of risks,
- prepares a report on the risk significance assessment performed.

The Bank identifies the following types of risks:

- permanently relevant - inherently related to the profile of the business (they do not require periodic materiality assessment),
- relevant - risks for which the Bank has incurred costs related to their realisation or exposure to risk in the past, the severity of losses and the lack of appropriate risk mitigation processes and procedures expose the Bank to incurring unexpected financial losses (risks for which the significance assessment is at the level of at least medium),
- not relevant - risks for which the assessment of significance is at a low level.

As a result of the risk identification and significance assessment process carried out in 2022 the structure of the identified risks is as follows:



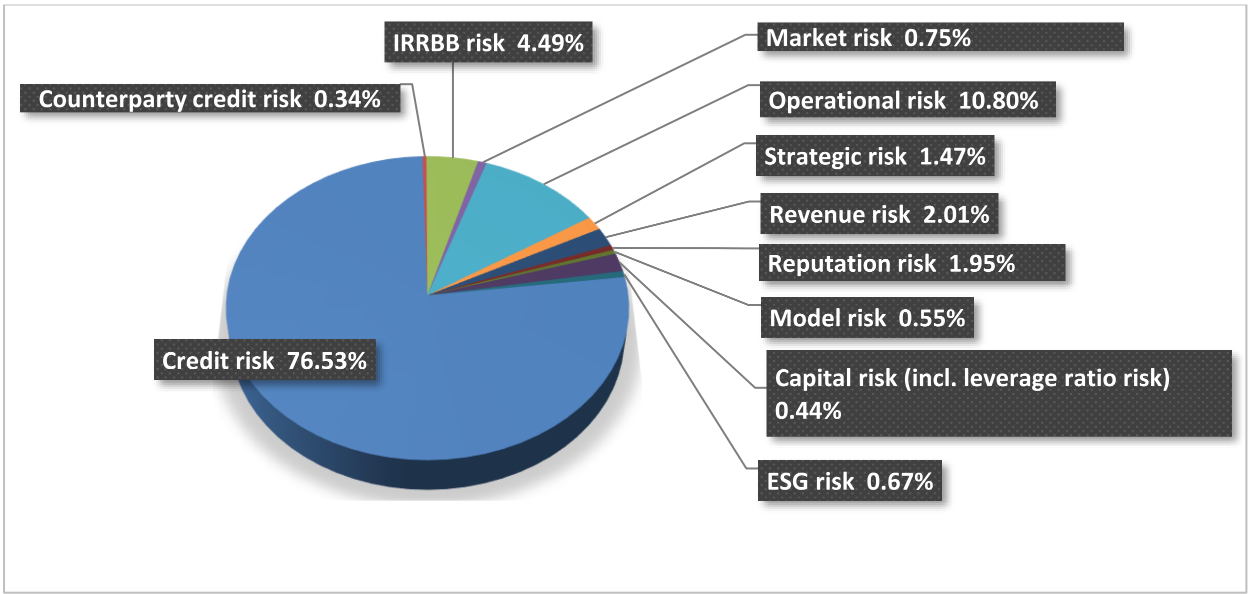

In 2022, none of the identified risks was assessed as immaterial. Internal capital reporting is focused on the presentation of the results of internal capital level monitoring and the main factors determining its level. The reports are presented at the Risk Management Committee meetings on a monthly basis and on a quarterly basis for the Management Board and the Supervisory Board.

Once a year, a review of the capital adequacy process is carried out, and the report on the review is submitted to the Management Board and the Supervisory Board. In addition, internal audit regularly carries out an independent review of the ICAAP process.

In order to measure risk, the Bank uses two approaches: quantitative and qualitative. The use of a specific approach is related to the risk characterization. Where the Bank has information on risk execution and is able to measure a quantitative feature, the risk is qualified for measurement using quantitative methods. If the Bank does not have information on the historical realization of the risk or the volatility effect of the risk measure is determined by many risk factors, among which the Bank is not able to isolate the effect related to the source of the assessed risk, the Bank considers the risk to be difficult to measure and performs the assessment using the qualitative method, presenting the qualitative features of risk realization.

The credit, counterparty, operational, market and interest rate of the banking book risks are measured by quantitative models. Measurement of difficult to measure risks, which include the following risks: business risk (including strategic risk, revenue risk and reputational risk), model risk, insolvency risk (including the risk of excessive financial leverage) and ESG risk, is a combination of the qualitative and quantitative methods. Internal capital is estimated as the sum of capital to cover risks measured qualitatively and quantitatively.

The internal capital structure in the Group is as follows as at December 31, 2022:




## Risk appetite

For risks identified as material the Bank defines the risk appetite. When determining the risk appetite, the Bank defines its risk profile and the adopted risk attitude. The risk appetite determines the maximum level of risk that the Bank is ready to accept striving for implementation of the assumptions of the business strategy and financial plan.

The risk appetite, within the limits set by the risk tolerance, determines how the Bank uses its risk-taking capacity by determining, for each type of risk, the degree of risk exposure that a given area can take. The Bank determines the level of risk appetite in the form of risk measures that reflect the Bank's current and future risk appetite. All methods and procedures are periodically reviewed in terms of their adequacy and reliability. The level of risk appetite is determined by the Management Board and requires approval by the Supervisory Board.

In addition, the Bank monitors individual types of risks using a formal system of limits, which is set in a way ensuring:

- the Bank complies with supervisory standards,
- the desired risk profile defined in the Bank's business strategy and risk management strategy is maintained,
- the limits do not exceed the risk level acceptable to the BNP Paribas Group.

If the limits are exceeded, remedial actions are taken to reduce the value of a given risk in accordance with the procedures in place at the Bank. The information system used in risk management ensures the collection of data on operations and transactions and their impact on the Bank's risk profile. The Bank has rules of risk control and risk management covering the procedure in the ocuring of crisis events.

## Stress tests

According to the *Methodology of the stress test program at BNP Paribas Bank Polska S.A.* the Bank conducts, inter alia, the following types of bottom-up testing:

- stress tests based on recommendations of the Polish Financial Supervision Authority,
- business model stress tests,
- internal capital stress tests,
- stress testing within the recovery plan.

Stress tests are an important tool in the risk management process as they allow the risk measurement to be extended to include sensitivity to non-standard changes in market parameters, significantly different from changes observed in periods of normal financial market functioning. The purpose of the stress testing program is to estimate the potential risks to which the Bank and the Group is exposed under hypothetical market conditions developed by the Chief Economist. The stress testing program complies with the requirements of the EBA/GL/2018/04 Guidelines of 19 July 2018 on institutions' stress testing. The scope of the stress testing program covers:

- sensitivity analysis,
- scenario analysis,
- reverse stress test.

The Bank performs tests in relation to the level of risk appetite expressed in the form of risk appetite measures and capital goals set out in the *Capital Management Policy at BNP Paribas Bank Polska S.A.* The Bank uses stress tests to assess the credibility of its financial plan and capital plan under stress conditions to ensure that the Group meets the binding capital requirements. The Management Board approves the stress testing program and supervises its implementation and results.

### 3.1. CREDIT RISK

Credit risk is a possibility that a loss will be incurred due to a debtor's failure to timely repay a loan or other obligation, including interest and other charges. The effect of credit risk is an impairment of credit assets and contingent liabilities based on the concept of expected losses due to deterioration of the assessment of the debtor's credit quality. Credit risk is identified as the risk with the highest potential impact on the current and future earnings and capital of the Group.

As part of its credit risk management system, the Group has an operational architecture that is fully harmonised in terms of IT and operations. It consistently develops and adjusts the credit risk management system to the changing requirements by developing and implementing internal regulations, processes, tools and systems.

The Bank continually works on increasing the efficiency and tooling of processes and applications used in the area of credit risk.

The credit risk management system includes:

- the organisational structure with responsibilities and tasks assigned to the bodies, committees and organisational units of the Bank's Head Office/business units,
- policies, procedures and processes defining specific rules of risk identification, measurement, acceptance, control, monitoring and reporting,
- tools: the IT system, data warehouses, databases and IT applications supporting the risk management process.

## Risk management strategies and processes

The primary objective of credit risk management is to implement the Group's strategy through harmonious growth of the loan portfolio within an acceptable credit risk appetite. The credit risk management in the Group is guided by the following principles:

- each lending transaction requires a comprehensive credit risk assessment, reflected in an internal rating or scoring;
- credit risk is measured for lending transactions at the stage of processing a credit application and periodically, as part of monitoring, in consideration of changing external conditions and the borrowers' financial standing;
- a thorough and careful financial analysis is the basis for recognising the Customer's financial data and collateral value information as reliable; the Group's prudent analyses always take into consideration the necessary safety margin;
- the basis for Customer financing is, in principle, the Customer's ability to generate cash flows sufficient to repay their liabilities to the Group;
- the credit risk assessment is subject to additional verification by the credit risk assessment units independent of the business units;

- pricing terms of a lending transaction must cover the risk of such a transaction;
- credit risk is diversified in terms of geography, sectors of economy, products and Customers;
- credit decisions may only be made by authorised persons;
- the Group enters into lending transactions only with Customers whom it knows (such Customers' analysis has been conducted) and with whom it has long-term relationships,
- the Customer and transactions with such a Customer are monitored transparently and to strengthen the relationship with the Customer;
- depending on the credit risk level, the Bank accepts relevant collateral to minimise potential future losses.

The credit risk management process consists of the following stages:

- credit risk identification, which consists in recognition of sources of risk, its materiality and connections between particular risks,
- credit risk measurement, which includes specification of risk quantification methods, measurable risk-related parameters and risk cost measurement,
- risk monitoring, which includes mainly monitoring of the risk assumed and assessment of correctness and effectiveness of risk management and measurement tools used,
- credit risk reporting, which consists of information on the assumed risk type and level,
- taking actions to reduce the credit risk.

The Bank manages its credit risk on the basis of the Bank's policies and other internal regulations regarding risk identification, measurement, acceptance, control, monitoring and reporting, as approved by relevant decision-makers within their authorities. Credit policies refer to individual business segments, loan portfolios and banking product categories, and contain guidelines on defining areas where specific risks occur, risk measurement and also methods of risk mitigation to the level acceptable to the Bank. The Bank regularly reviews and updates credit policies, rules, principles and other internal regulations while adapting them to the BNP Paribas Group's strategy, the current situation in the macroeconomic environment and changes in the law and regulatory guidelines.

The Bank dynamically develops its credit risk assessment tools while adjusting them to the recommendations of the Polish Financial Supervision Authority (KNF), the European Banking Authority (EBA), the requirements of the International Accounting Standards/International Financial Reporting Standards and best industry practices. The Bank assesses the borrower's risk using the rating and scoring systems and risk classification according to IFRS. The implemented credit risk assessment models are applicable to the most significant loan portfolios, including corporate and specialised finance Customers, SMEs, Micro (including farmers), housing loans, cash loans, credit cards and others.

The Bank takes continuous measures to deliver superior lending services while adapting them to borrowers' expectations and ensuring the safe loan portfolio. To this end, the established authority system ensures that transaction risk approval functions are separated from sales and control functions.

Credit decisions are made according to the decision-making model approved by the Bank's Management Board and adjusted to the standards of the BNP Paribas Group. The decision-making model takes into consideration the employees' knowledge and experience and the business lines' structure, defines the number of decision-making levels and their authorities, as well as the rules, criteria and conditions of making credit decisions. Quantitative limits of decision-making authorisations depend on such criteria as the Customer segment, Customer risk profile and lending period. On all authority levels, credit decisions are made by two people (under the "four-eyes" principle) by a representative of the business line and a representative of the business unit responsible for a Customer and transaction risk assessment, independent of the business line. With respect to Customers for whom the credit risk is assessed using risk assessment models, including scoring models approved by the Risk Management Committee, Retail Banking Risk Committee or Personal Finance Risk Committee, as the case may be, credit decisions can be made by one person - a business line representative.

In order to ensure the effective credit risk management system, the Bank uses IT applications in particular to support the following processes: credit application analysis, risk assessment and acceptance, Customer risk profile monitoring, collateral establishment and renewal, collateral appraisal, monitoring of delays in debt repayment, debt restructuring and collection service, write-offs calculation and reporting. Advanced credit risk assessment tools used by the Bank allow for taking remedial actions in the case of first signs of changes in the quality or an undesirable structure of the loan portfolio.

The Bank continuously monitors Micro Customers and performs the so-called dynamic monitoring of SME and Corporate credit exposures described in internal regulations dedicated to particular business lines. The monitoring provides immediate information on higher risks identified so that a number of actions can be taken, such as, among others, updating the internal risk classification, defining the Customer strategy and detailed steps for its implementation, and setting the date of the next full review of the Customer's exposure.

Internal risk classification is verified and a new rating is assigned always when subsequent credit decisions are made, in particular decisions regarding granting or renewing of financing or performing a full Customer review.

The Bank regularly reviews credit exposures in order to establish the actual quality of the loan portfolio, collateral appraisal, correct classification and adequacy of impairment allowances, compliance with credit procedures and credit decisions made, as well as to ensure the objective assessment of professionalism in loan management.

As part of the credit risk management process, the Bank exercises oversight over the risk of its subsidiaries. The oversight is exercised by the Bank's organisation units responsible for managing individual risks and includes the following activities:

- issue of opinions and approval of methodologies and policies applied by the companies and modifications of the same, as well as presenting its recommendations in this respect,
- assessment of credit risk of new products,
- inclusion of the subsidiary's portfolio of credit risk-bearing exposures into the Bank's management information system allowing to reliably assess its risk and carry out stress-tests for such a portfolio,
- periodic inspection of the company (pursuant to the Code of Commercial Companies) by the Bank's employees holding powers of attorney to carry out inspections, granted to them by authorised representatives of the Bank.

The oversight over the subsidiary's risk is entrusted by way of resolution of the subsidiary's general meeting and resolution of the Bank's Supervisory Board on the division of authorities for the management of particular areas of the Bank's operations.

## Structure and organization of the process

The organisational structure of the credit risk management system covers the Supervisory Board, the Management Board, committees as well as organisational and business units under the business lines and the Risk Area.

A key function in the credit risk management system is performed by the Risk Area, which is organisationally separate and headed by the Vice President of the Management Board responsible for the Risk Area. The Risk Area exercises oversight over the credit risk management at the Bank, while the credit risk management process itself is organisationally adapted to the business line structure of the Bank. The Risk Area is responsible for the consolidated credit risk management process, including the management and oversight of the credit process, definition of the risk management strategy and credit policy, determination of risk appetite, provision of decision-making tools and credit risk measurement tools, control of the credit portfolio quality, and provision of reliable management information on the loan portfolio.

The Supervisory Board supervises that the Bank's credit risk policy is in line with the strategy and financial plan. The Management Board provides the Supervisory Board with periodic information on the level of risk of the Bank's lending activities.

The credit risk management is supported by the Risk Management Committee, Retail Banking Risk Committee, Personal Finance Risk Committee, Problem Loans Committee and the Credit Committee. The composition, tasks, authorities and rules of procedure of individual committees are laid down in the regulations of such committees. The main responsibilities of the Risk Management Committee are to monitor and supervision the main risks arising from the Bank's operations, including strategic aspects of credit risk. The Retail Banking Risk Committee and Personal Finance Risk Committee make an overall loan portfolio risk assessment in selected segments and approves proposed changes in policies. The Problem Loans Committee makes credit decisions and performs quarterly reviews of the Bank's portfolio of high-risk Customers, assesses the evolution of Customer risk, determines the Bank's actions with respect to individual Customers aimed to mitigate the risk or reduce the Bank's losses resulting from the loss of Customers' creditworthiness, and monitors the implementation of recommendations given and credit decisions made. The Credit Committee, besides the Management Board, is the Bank's top decision-making body authorised to make credit decisions.

The internal control system is a constituent of credit risk management. Credit process controls refer in particular to the examination of the correct process, making credit decisions at an appropriate level and by authorised persons, correct establishment of collateral, compliance with regulations, correct and complete Customer documentation, and compliance with external requirements. The controls also cover after-sales processes.

The first line of defence controls includes ongoing verification (carried out as part of daily routines of each employee, the so-called self-control or "four-eye" control) and horizontal testing, performed on the basis of annual control plans. The planning and implementation of controls under horizontal testing is the responsibility of the unit head who, on the basis of risk analysis of their area of responsibility, prepares subjects for control included in the control plan of the unit involved in the credit process.

As part of the second line of defence, internal control mechanisms have been implemented in the Risk Area. They include the identification and monitoring of potential threats resulting in the emergence of credit risk by carrying out checks on the correctness of the implementation of individual stages of the credit process by all its participants at the Bank. The implemented mechanisms are applicable both at the stage of starting the financing of the so-called a priori controls as well as as part of the after-sales process, in the form of the so-called a posteriori checks, Fundamental Control Points and thematic checks. The results of these controls are reported quarterly at the meetings of the Risk Management Committee.

The results of both first- and second-line controls are communicated on an ongoing basis to the participants of the process, among others via a dedicated application, where the controls are recorded and documented.

The third, independent line of defence consists of the activities performed by the Internal Audit Division.

The adequacy and effectiveness of the internal control system, including adequacy and effectiveness of the control function, the compliance unit and the internal audit unit, are assessed by the Supervisory Board on an annual basis.

The Bank implements all recommendations of the internal audit, the auditor and the regulator without delay.

## Scope and characteristic of credit risk reporting

Bank performs valuation of credit portfolio in line with IFRS9 and detailed information about valuation proces can be found in part 8.1. In terms of capital adequacy, the measurement of credit risk is based on the estimation of the size of risk weighted assets, with the applied risk weights resulting from the classification and category of credit exposure and taking into account both the probability of default and the amount of the loss that could be incurred in the event of a borrower's default.

Credit risk reporting for the Bank's internal and external needs is prepared in accordance with the Bank's internal procedures specifying the credit risk management information system, in particular the scope, mode, frequency and method of reporting.

Reporting of the credit risk level is prepared with such frequency as to enable registration of changes in the Bank's risk profile:

- the Management Board and the Supervisory Board - quarterly;
- the Risk Management Committee - monthly;
- for other units and persons involved in the process of managing the Bank's credit portfolio - daily, monthly, quarterly depending on the scope of information and the needs of report recipients.

The Bank also periodically carries out stress tests that check the sensitivity of the Bank's loan portfolio to changes in market parameters (e.g. an increase in interest rates, an increase in PLN exchange rates, etc.).

## Policies and processes for estimating and managing recognised collateral

The main techniques of limiting credit risk in the Bank are adequate assessment of the Client's and transaction risk, the system of internal limits and securing the credit transaction. The internal regulations in force at the Bank and relating to the collateral area define the rules for establishing, monitoring and assessing collateral, including updating its value, in order to hedge against risk.

The basis for assessing the value of real estate, tangible collateral and rights is mainly its market value. The market value of the collateral is determined on the basis of an estimate made at the Bank or a valuation prepared by an independent appraiser verified in accordance with separate regulations on the assessment of collateral, including property assessment.

The collateral assessment takes into account in particular:

- the property, economic and financial situation of entities providing personal collateral,
- the condition and market value of the objects of tangible collateral and their susceptibility to impairment in the period of maintaining the collateral,
- the condition and market value of real estate as well as other data enabling effective estimation of the level of risk related to the real estate,
- potential economic benefits resulting from a specific method of securing receivables, including, in particular, the possibility of reducing impairment losses,
- the method of establishing the collateral (its duration and the complexity of formal activities), as well as the necessary costs of establishing, maintaining and enforcing the collateral,
- complexity, time-consuming as well as economic and legal conditions for the effective implementation of collateral.

Accepting specific types of collateral depends on the product and Customer segment. When granting loans for the financing of residential and commercial real estate, collateral is obligatorily established in the form of a mortgage on the real estate. Until the collateral is effectively established (depending on the type of loan and its amount), a different form of temporary collateral may be accepted.

When granting car loans, the following collaterals are used: transfer of ownership of the credited vehicle, registered pledge on the credited vehicle, assignment of rights under the AC insurance policy of the credited vehicle.

The collateral for loans intended for the financing of companies and enterprises is established, inter alia, on business debts, bank accounts, movables, real estate or securities or in the form of guarantees.

## 3.2. COUNTERPARTY CREDIT RISK

### Risk management strategies and processes

Counterparty risk is the credit risk related to the risk of default by a counterparty (Client or other financial institution) with which the Bank enters into transactions for which the liability amount may assume different values over time, depending on market parameters. Therefore, the counterparty risk is related to transactions on financial 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.

Counterparty credit risk, for transactions which generate counterparty risk, is assessed using the same methodology as the one applied to credit products. This denotes that in the credit process, Bank estimates and applies limits, of which the value results directly from assessment of Customer creditworthiness, as well as considers transactions specific character in particular, their value fluctuating over time or their direct dependence on market parameters.

### Structure and organization of the process

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. In line with the adopted policy, the Bank is guided by the knowledge of the Customer and concludes all transactions on the basis of transaction limits individually assigned by the Bank. The Bank differentiate availability of products, which are offered to Customers depending on their knowledge and experience.

### Scope and nature of reporting and measurement systems

The Bank has advanced systems with which it measures and controls the counterparty risk. The measurement is based on estimating the probability of the maximum possible exposures arising from the transactions concluded. The Bank models the maximum exposures based on historical observations of the price volatility of the underlying assets.

The Bank has a separate organizational unit responsible for monitoring and reporting the counterparty risk, including whether the transaction limits have not been exceeded due to the concluded transactions.

### Hedging and risk mitigation strategies, effectiveness of hedging instruments and risk mitigation measures

The Bank has transparent rules for securing credit risk. By limiting the counterparty's credit risk, the Bank has the option of calling counterparties (the so-called Margin Call) to provide a variable collateral (the so-called Variation Margin), which has been agreed with the counterparty in the collateral agreement (the so-called CSA). Moreover, the risk of a counterparty with financial institutions may be limited by exchanging appropriately separated Initial Margin Deposits, and for other Clients by applying Entry Collateral (promissory note, declaration of submission to enforcement pursuant to Art. 777 of the Code of Civil Procedure), Fixed Collaterals (Cash collateral or asset collateral established in exceptional cases where, in the Bank's assessment, the Customer's financial condition deteriorates or there is a risk that the transactions will not be settled) or other Initial Collateral (Cash collateral established before each transaction is concluded).

Credit Valuation Adjustment / Debit Value Adjustment (CVA / DVA) is estimated for all derivatives outstanding on a given day. The adjustment is estimated based on the forecasted future exposure to a given instrument, the counterparty's rating reflecting its probability of default and the estimated recovery rate.

In the process of estimating the maximum exposure, the Bank offsets financial assets and liabilities resulting from transactions concluded for Customers with whom enforceable master agreements have been concluded. In the absence of master agreements, the effect of contractual netting of liabilities is not taken into account.

The Bank does not conclude credit derivatives to hedge and mitigate the counterparty risk.

The Bank estimates that if the assessment of its creditworthiness was lowered, the value of the collateral it would have to provide would be 1 978 mn PLN.

## 3.3. MARKET RISK

### Risk management strategies and processes

Bank manages the market risk by identification, measurement, control, reporting and monitoring and decision making. Risk identification is inseparably connected with introduction of new products and broadening of commercial activity. Before undertaking such activity Bank identifies all arising risks. Identification process is also performed for already started activities in normal periodic activity. On risk identification, materiality assessment is performed, followed by analysis and measurement, using appropriate methods and tools, which are under constant process of verification in order to ensure best standards and practices are in place. In this area Bank is also supported by BNP Paribas Group. Within risk measurement Bank performs stress test scenario analyses in order to enhance its ability to continue its business activities in severe circumstances.

### Structure and organization of the process

Market risk management is an integral part of the whole Bank management system. Apart from legal and regulatory requirements, business scale and complicity is the main driver behind risk management system. The main role in market risk management system in the Bank is fulfilled by Management Board, which decides on policy and approves rules of risk management. Direct supervision of realization of the policy is in hands of dedicated committees responsible for decisions according to mandate delegated by Management Board. Dedicated units responsible for risk management and control ensure that all material risks are measured and limited and business activity is evaluated on risk-return perspective.

The Supervisory Board constantly monitors the risk management system. It approves risk strategy, key risk management policies and risk appetite levels. Supervisory Board evaluates Management Board activities related to control over Bank activities and their compliance with the policy.

The Risk Committee supports the Supervisory Board with its supervisory responsibilities in the risk area, especially by giving its opinion o Bank's current and future ability to undertake the risk, evaluation of risk management strategy set by the Management Board and its realization.

The Management Board ensures an appropriate level of the market risk incurred by the Bank and the effectiveness of the risk management methods. It allocates and delegates responsibilities to units involved in market risk management process, including dedicated committees. The Management Board approves market risk limits.

Risk Management Committee is responsible for allocation of market risk limits for trading book within the risk granted risk appetite. It also approves market risk limits for trading book, analyses limit breaches and recommends contingency actions.

Internal Audit Line performs periodic controls over risk management process, including verification of Bank's processes and policies versus legal requirements. It also analyses and evaluates the efficiency of risk management systems and control mechanisms and recommends relevant actions if necessary.

Product, Service, Transaction and Business Acceptance Committee (TAC/NAC) gives opinions and approves of new products, services, transactions and types of the Bank's activities, affecting, inter alia, the level of the market risk position and its management process.

Integrated Risk Management Line is responsible for direct supervision over interest rate and FX risk management process. It formulates independent opinions and recommendations for Risk Management Committee, Asset and Liabilities Committee or the Management Board on market risk policy, risk measurement methodology, structure and levels of limits.

Global Markets Line is responsible for operational and transactional risk management of trading book interest rate risk and FX risk at the Bank's level.

### Scope and nature of reporting and measurement systems

In order to avoid excessive risk Bank implemented a set of market risk limits and warning levels adequate to its scale and complexity. The system of limits results from the accepted risk level (risk appetite) adopted by the Bank. The acceptable level of risk has been formulated on the basis of assumptions reflecting the Bank's risk objectives and is consistent with the strategy and business plans. The Bank also defined the procedure to be followed in the event of exceeding the limits, the methods of eliminating these exceedings and the measures to prevent similar situations in the future.

Market risk is reported with frequency enabling Management Board, Supervisory Board and relevant committees to be properly informed on Bank’s risk profile.

### Strategies for the hedging and liquidity risk mitigation, the effectiveness of the hedging instruments and risk mitigation measures

Trading activity that generates market risk in the Bank is treated as supplementary, aiming at supporting sales of financial instruments to corporate, non-banking financial (directly) and retail Customers (by means of structured products). Opening market risk positions, Bank generates additional income due to short term changes in market parameters (such as FX or interest rates), while maintaining exposure within pre-approved level of limits. Bank offers commodity products, but does not open position in these instruments.

Within general exposure towards interest rate risk, which is the main exposure in trading portfolio, Bank used IRS, OIS, CIRS, FRA, basis swaps and purchase and sale of interest rate options. Interest rate risk profile was also impacted by FX swaps and FX forwards. Bank maintains open interest rate risk position, within granted limits, in order to optimize its P&L by generating additional income by lack of necessity of instant closing of Customer driven position on the interbank market. Bank’s priority is to hedge interest rate and FX risk by maintaining relatively low open positions enabling optimization of offer its Customers.

## 3.4. LIQUIDITY RISK

### Liquidity risk strategies and processes

Bank Strategy regarding liquidity risk management focus on:

- sustainable, organic growth of the Bank’s balance sheet (Assets growth in line with funding sources growth throughout stable liabilities) and off balance sheet transactions and liabilities;
- limitation of Bank’s dependence on external conditions and ensure, that in the crisis situation – local, global or related directly to the Bank- Bank will be able, in the short time horizon fulfill its obligations with no limitations of the Bank’s offer spectrum and no need to initiate changes in the Bank’s basic activity. In case of long term crisis situation, Bank’s policy assumes maintenance of the liquidity, and considers some modifications of the development directions and implementation of the costly processes of the Banks profile activity adjustments.
- active limitation of the probability of the adverse events, that may influence of the Bank’s liquidity. In particular, that refers to the reputational risk. Bank will take appropriate steps in order to restore the trust of Clients, Clients and financial institutions as quickly as possible
- ensuring high quality standards of the liquidity managements processes. Activities leading to quality processes improvement regarding liquidity management have highest priority in the Bank.

The main source of funding are liabilities due to Customers, supplemented with mid and long term loans and capital type liabilities. Mid and long term credit lines (including subordinated loans) and funding obtained throughout securitization of the loan book come mainly from the BNP Paribas Group as well as European Bank for Reconstruction and Development, European Investment Bank, Council of the Europe Development Bank and others financial institutions. Bank’s policy allows as well other funding sources, like own debt issuance or structural transactions.

Liquidity risk, that is a risk of inability to fulfill own payments obligations by the Bank. Management of that risk in the Bank contains several processes: immediate liquidity management (intraday) as well as future (current, short term, as well as structural mid and long term liquidity), including funding sources concentration as well as liquidity monitoring of the market and ability to obtain funds. That process is adequate to the character and scale of the Bank’s activity, as well as regulatory requirements that Bank has to fulfill.

The primary goals of the liquidity management process are:

- ensuring appropriate liquidity level of the Bank, throughout ensuring ability to fulfill current and future obligations
- crisis situations prevention
- building up solutions and action plans to survive during crisis situations, in case they occur.

## Structure and organization of the process

Liquidity management in the Bank is performed thought-out balance sheet shaping and funding structure (reflected in the financial statement of the Bank) that consist balance sheet as well as off-balance sheet items. The process is centralized. The Supervisory Board leads supervising role and approves risk appetite levels, that determinate remaining limits parameters in the liquidity management process. Board of Management determines risk appetite levels and is responsible for adequate liquidity management system, throughout building up appropriate organizational structure, ensuring internal regulations and procedures and approval of the liquidity limits, which enable to limit risk exposure of the Bank. The committee set aside from the Bank – Assets and Liabilities Committee (TAC/NAC) on monthly meetings analyzes the liquidity situation of the Bank and verifies effectiveness of the liquidity management process in the Bank.

Bank ensures separation and independence of the operational functions, risk management functions, control and reporting ones. In particular, for the concluding transactions with counterparties and Customers the business areas are responsible, confirmations and settlements of the transactions are performed in the Operations Line area, for immediate and future liquidity management Assets and Liabilities Management area is responsible, for the current supervision of the risk level and fulfillment of the limits the Risk Area is responsible, while the independent reporting of the regulatory measures the Financial Area.

Funding for the other Group's unit are provided by the parent unit - BNP Paribas SA.

## Scope and reporting and risk measurement systems characteristic

In the liquidity risk measurement scope Bank uses list of measures and indicators monitoring liquidity situation both those required by the regulator as well as internally defined in the Bank, including the internaly set up limits levels. Liquidity parameters are calculated accordingly with the required frequency – daily or quarterly. Internal measures are calculated based on the daily reporting.

Based on the daily reports liquidity gap reports are generated – contractual and realistic one, that takes into account modeling of the no maturity profile products, as well as behavioral aspects for the balance and off-balance sheet items i.e. early repayments of loans by the Bank's Customers. Those reports are generated for the overall balance and off balance sheet of the Bank in all currencies together, as well as separate for the main Bank's currencies: PLN, EUR, USD CHF and remaining currencies together. Early Warning Indicators defined and set up in the Liquidity Contingency Plan are monitored on the daily basis, which monitor Bank situation, interbank market as well as Customers of the Bank. In the monthly cycle Bank analyzes as well specific liquidity measures, that are monitored in the Recovery Plan. Complementary to those reporting and monitoring processes are reports and measures prepared for the monthly TAC/NAC meetings, that widen up among others the funding concentration level, cost of funding from the non-bank Customers.

In the liquidity management measures scope there is as well surplus of liquidity measure for 7 and 30 days' horizon. That measure is reported on the daily basis. As of 31st December 2022 that surplus reached respectively PLN 31.811 bn and PLN 31.815 bn. The liquidity surplus measure consists of following items:

- central bank account balance, nostro accounts balances and deposits placed in other banks up to 7 days (26,6% of the surplus)
- high iquidity assets (73,4% of the surplus)
- other securities (0% of the surplus)
- assets available for sale in the tenor 8-30 days (0% of the 30 days' surplus)

Apart of above mentioned reporting scope, Bank periodicaly, at least once a month Bank carries out stress tests, to verify Bank's resistance in that moment for occurance of the crisis situations for liquidity risk. The measurement is performed in 3 scenarios: crisis related to internal situation in the Bank, market crisis or the combination of those two situations together. In the scope of the scenarios Bank considers among others: increased level of the outflow of the deposits, depending on the business line, type of Client and product, increased level of utilization of the off-balace sheet obligations to the Customers, decreased level of the inflows from loans repayments and applies adequate to the particular scenario parameters, that are established based on the observed historical events or expert judgement. The results of stress tests are used as one of the early warning indicatiors in the Liquidity Contingency Plan launch, as well as calibration of the internal liquidity risk limits, to ensure that even in the stress situation Bank can continue commercial activity without mayor disorders. The liquidity stress tests results are regulary reported to TAC/NAC Committee and Supervisory Board, that enables those bodies estimate the liquidity security of the Bank. Liquidity risk level reporting is performed with the frequency that enable to register the change in the liquidity risk profile of the Bank:

- Board of Management and Supervisory Board – quarterly
- TAC/NAC Committee – monthly
- other units and people involved in the liquidity management process and monitoring – daily.

## Strategies for the hedging and liquidity risk mitigation, the effectiveness of the hedging instruments and risk mitigation measures

Bank has as a base of diversified funding sources, that ensure stable liquidity situation. Bank has as well high quality liquid assets, that in case of need can be source of funding for the Bank and enables to obtain liquidity with in one day. That ensures secure liquidity management both in the normal situation as well as in the crisis or extraordinary one. That portfolio allows as well to fulfill regulatory and internal liquidity requirements. Excess of the liquidity in the Bank is placed into high quality liquid assets.

The biggest share in the funding pool has non bank Customers deposits base, that consists of all Customers' segments, however retail Customer share is dominant. Stability of the deposit base is assured by attractive and complex offer for the Customers from one side, and from the other by monitoring and verifying its stability in the models for all business lines. Bank cooperates as well with the supranational financial institutions that provide funding to the Bank dedicated to specific projects or products for the Customers.

Due to currency structure of the Bank's balance sheet, there is need to manage currency volumes both on the liabilities or assets side. Bank ensures funding appropriate to the assets in the currencies via directly funding in that currency or derivatives transactions like CIRS or FX swap. Closing of the currency mismatch via derivatives allows to close Bank's needs in various currencies and in the term structure adequate to the risk profile in specific currencies, and that has positive impact of the liquidity profile in that currency.

### 3.5. INTEREST RATE RISK IN THE BANK BOOK

## Strategy and processes of the risk management

The base business activity of the Bank – granting loans and taking deposits from the Customers leads to open interest rate positions, that are transferred from the business lines into the portfolios managed by the Assets and Liabilities Management area, using internal transfer pricing system.

The structural elements (stable, non sensitive to interest rates movements part of the current accounts and capital) are hedged with the longer term transactions. On the remaining part of the portfolio the intention of the Bank is to close the interest rate risk.

Bank, defining the interest rate risk profile takes into account not only contractual parameters, but also real characteristic of the product as the result of behavior aspects and embedded options, by using modeling for example for current accounts, saving accounts, fixed rate loans, credit cards. Modeling of the products behavior depending on the business line enables to distinguish stable and unstable parts, that react differently for the interest rate changes. Maturity profiles for the undefined maturity deposits are assigned according to existing models. Those profiles may change depending on the pace of changes in the balances, number of Customers or the macro economic situation. As of December 31st 2022 the average maturity tenor of the deposits for all business lines and currencies was 2.52 years. The maximum tenor for the maturity profile was 15 years.

The Bank's policy for the interest rate risk defines interest income sensitivity as well as fair value sensitivity of the portfolio. Analysis are performed for all currencies together as well as for the main currencies separately.

The regulatory measure in the interest rate risk area is sensitivity of the economic value of the capital (EVE). That is a measure of the current net value of the interest rate sensitive instruments in the remaining tenor of the instrument coming from the interest rate changes, taking into account all banking book items excluding capital.

The changes in the economic value of the capital adjusted, calculated according to the internal prices in the contracts, according to six regulatory scenarios for the interest rate changes are presented in the table:

**Table 5 Economic value changes in the scenarios**

| | 31 December 2022 | | 30 June 2022 | |
|---|---|---|---|---|
| Scenario | % change for Tier I | Change to the base scenario (in mln PLN) | % change for Tier I | Change to the base scenario (in mln PLN) |
| Constant parallel shift up | -567 | -5.3% | -616 | -5.7% |
| Constant paralel shift down | -302 | -2.8% | -428 | -4.0% |
| Increase short term rates | -575 | -5.3% | -491 | -4.5% |
| Decrease short term rates | 254 | 2.4% | 126 | 1.2% |
| Decrease short term and increase long term rates | 200 | 1.9% | 131 | 1.2% |
| Increase short term rates and decrease long term rates | -493 | -4.6% | -362 | -3.3% |

Bank set up internal critical value for this measure as of -13% of the Tier I capital of the Bank. During the observation period of 2022 there were no excesses observed. The analysis of the economic sensitivity of capital is performed on a monthly basis.

Changes in the net interest income, calculated according to two stress scenarios used for regulatory purpose:

**Table 6 Changes in the nett interest income in the scenarios**

| | 31 December 2022 | | 30 June 2022 | |
|---|---|---|---|---|
| Scenario | Change in the interest income (mn PLN) | % of change of the interest incme | Change in the interest income (mn PLN) | % of change of the interest income |
| Parallel +200 bps | 614 | 12.7% | 272 | 6.8% |
| Parallel -200 bps | -600 | -12,4% | -319 | -8.0% |

Due to hedging of the structural elements with mid and long term transactions the fluctuations of the Bank result on interest rate changes is limited. The interest income sensitivity on the rising interest rates is positive and negative on falling interest rates. Lack of symmetry in the interest income changes in the hike and decrease of the interest rates comes from the options embedded in the Customers' contracts (i.e. floor on 0% on deposits).

The Bank takes into account changes of the balance sheet structure (remunerated and non-remunerated deposits) as well as reflection of the interest rate changes in the deposits pricing in the analysis of the interest income sensitivity. Interest income sensitivity analysis is performed on monthly basis.

## 3.6. OPERATIONAL RISK

### Strategies and processes in operational risk management

The Bank manages the operational risk based on the approved strategy and policy.

Operational risk is defined as the possibility to incur losses or an unjustified cost resulting from inadequate or failed internal processes, people, systems or influence of external events. Legal risk is included into the operational risk, whereas reputational and strategic risks related with business risk are excluded.

The objective of the operational risk management is to ensure the top quality standards of services rendered by the Bank, to ensure their security and compliance with the binding regulations and the best standards and lowering the losses and costs caused by the operational risk at the same time. Organizational culture in operational risk management plays an important role for the Bank. The key element is employees' awareness about the risk and their share in the responsibility for its reduction. Operational risk is commonly present in the banking activity, what means that each of the employees and each of the organizational units is responsible for operational risk identification within their scope of responsibilities and taking actions aimed at risk reduction.

Operational risk management process includes the following stages:

1) risk identification,
2) defining risk causes (sources),
3) assessment of the risk amount and setting its acceptable level,
4) analysis of possible solutions to reduce the identified risk,
5) taking a decision to reduce risk,
6) taking necessary actions,
7) control and assessment of applied risk reduction tools.

### Organization of the operational risk management process

The operational risk management process is carried out under three lines of defence. The first line of defence consists of risk management in the operational activity of the Bank. The second line of defence consists of risk management performed by employees at specifically appointed positions or in organizational units (i.e. Operational Risk, Internal Control and Fraud Prevention Area, Compliance Area, Legal Area, Finance Area), regardless of the risk management at the first line of defence. The third line of defence consists of the activity of the internal audit unit.

Operational risk management system is integrated. It means that all actions and functions concerning operational risk management are combined in one, consistent, transparent, complete and efficient system. In order to avoid a potential conflict of interests and in order to ensure objectivity, operational risk assessment function in the Bank is separated from the function responsible for making business decisions. Operational risk control function is autonomous and placed in Risk Area. Operational risk management is closely connected with the management of other kinds of risk due to the fact that a substantial part of the operational risk losses occurs at the intersection of operational risk and credit risk or financial risk or other banking risks.

Actions directly aimed at operational risk mitigation are taken by units responsible for individual areas exposed to operational risk (first line of defence).

## Scope and types of risk reporting and measuring systems

One of the operational risk management stages is taking actions aimed at risk reduction. Those actions consist in preventing the threat or reducing the consequences of the event as well as carrying out system actions aimed at elimination of causes of the events. Systemic actions consist in e.g. eliminating the gaps in internal regulations and procedures, preparing new or changing the existing tools, introducing changes to work organization, improving control mechanisms, application of existing controls and introducing changes to IT systems. Before taking such actions, their costs are analysed as well as potential losses that can be borne without implementing the suggested solution.

For the operational risk monitoring and assessment, the Bank applies among others: self-assessment method, Key Risk Indicators (KRI) as well as the data about identified operational risk events and threats, incl. operational risk losses – using the internal and external data. The Bank decides on its risk tolerance (operational risk appetite) and takes appropriate actions when the accepted risk level is exceeded.

The Management Board and appointed Committees are regularly informed about the level of operational risk as well as about actions taken due to identified operational risk events and threats.

Control mechanisms are documented in the matrix of the control function and they are tested in accordance with the rules adopted at the Bank.

The Bank applies insurance cover within the framework of risk transfer.

The gross losses resulting from the operational risk events recognized in 2022 have been presented in the table below by event types and categories. The amount of gross loss means a sum of losses resulting from the operational risk incidents registered in the Bank's internal database, without taking into account reductions resulting from amounts recovered from the insurance and recovered from other sources. Data include the operational risk losses connected to the credit risk and financial risk.

**Table 7 Gross losses resulting from operational risk events recognized in 2022**

| | |
|---|---|
| **Internal frauds** | **13 023** |
| Unauthorised activity | -20 |
| Theft and internal fraud | 13 043 |
| **External frauds** | **26 550** |
| Theft and external fraud | 25 918 |
| Systems security | 632 |
| **Employment practices and workplace safety** | **350** |
| Employee relations | 67 |
| Safe Environment | 273 |
| Diversity & Discrimination | 8 |
| **Clients, products and business practices** | **768 537** |
| Suitability, disclosure & fiduciary | 4 110 |
| Improper business or market practices | 764 379 |
| Product defects | 3 |
| Bank advisory activity deficiency | 43 |
| **Damages to physical assets** | **174** |
| Disasters and other events | 174 |
| **Business disruption and system failures** | **-14** |
| Systems | -15 |
| **Execution, Delivery and Process Management** | **2 388** |
| Transaction capture, execution & maintenance | 1 523 |
| Monitoring and reporting | 183 |
| Customer intake and documentation | 596 |
| Customer account management | 209 |
| Trade counterparties | -150 |
| Vendors & Suppliers | 23 |
| **Total** | **811 012** |

In order to mitigate risk, the Bank strengthens processes and mechanisms aimed at limiting level of risk, this includes amongst others prevention of frauds resulting from internal as well as external causes and includes control of correctness of execution of processes in which the irregularities are identified, especially by developing IT system functionalities and processes reorganization. Moreover, the Bank regularly verifies and assesses the internal control environment as well as determines actions improving the control mechanisms efficiency.

### Strategy in scope of hedging and risk mitigation, effectiveness of hedging instruments and risk mitigation measures

One of the priorities of the operational risk management strategy is to ensure that the Bank achieves its business goals in a safe way, accepting the level of risk only within the approved risk appetite, eliminating unacceptable events, limiting the possibility of unexpected events with severe consequences for the Bank and actively reacting and responding to identified events that may cause such consequences. This leads to the reduction of losses and costs caused by operational risk, as well as the achievement of high quality and safety standards in the Bank's operations. In the case of significant events that could not be avoided, the required standard is the analysis of the causes of the event and taking actions to reduce the risk of a similar event occurring in the future. The effectiveness of the Bank's security and risk mitigation solutions is monitored by comparing the level of registered operational losses with the operational risk appetite approved by the Bank and by monitoring key risk indicators. Moreover, the risk control mechanisms are tested in accordance with the requirements of Recommendation H of the Polish Financial Supervision Authority.

# 4. KEY METRICS

Implementing the requirement specified in art. 447 and art. 438(d) of the Regulation (EU) No 575/2013, the Group publishes aggregate data on own funds, own funds requirements, risk-weighted exposures, combined buffer requirement, leverage ratio and liquidity ratios - liquidity coverage ratio and stable net funding. Detailed information on particular positions is presented in the following chapters of the report.

**Table 8 EU KM1 – Key metrics template as of 31 December 2022**

| | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | | 31 December 2022 | 30 September 2022 | 30 June 2022 | 31 March 2022 | 31 December 2021 |
| | **Available own funds (amounts)** | | | | | |
| 1 | Common Equity Tier 1 (CET1) capital | 10 763 140 | 10 716 728 | 10 798 069 | 10 838 219 | 11 303 787 |
| 2 | Tier 1 capital | 10 763 140 | 10 716 728 | 10 798 069 | 10 838 219 | 11 303 787 |
| 3 | Total capital | 14 842 133 | 14 922 112 | 14 958 769 | 15 013 493 | 15 502 699 |
| | **Risk-weighted exposure amounts** | | | | | |
| 4 | Total risk-weighted exposure amount | 95 456 297 | 100 415 006 | 98 371 967 | 95 362 058 | 91 651 096 |
| | **Capital ratios (as a percentage of risk-weighted exposure amount)** | | | | | |
| 5 | Common Equity Tier 1 ratio (%) | 11,28% | 10,67% | 10,98% | 11,37% | 12,33% |
| 6 | Tier 1 ratio (%) | 11,28% | 10,67% | 10,98% | 11,37% | 12,33% |
| 7 | Total capital ratio (%) | 15,55% | 14,86% | 15,21% | 15,74% | 16,91% |
| | **Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)** | | | | | |
| EU-7a | Additional CET1 SREP requirements (%) | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% |
| EU-7b | Additional AT1 SREP requirements (%) | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% |
| EU-7c | Additional T2 SREP requirements (%) | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% |
| EU-7d | Total SREP own funds requirements (%) | 8,00% | 8,00% | 8,00% | 8,00% | 8,00% |
| | **Combined buffer requirement (as a percentage of risk-weighted exposure amount)** | | | | | |
| 8 | Capital conservation buffer (%) | 2,50% | 2,50% | 2,50% | 2,50% | 2,50% |
| EU-8a | Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%) | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% |
| 9 | Institution specific countercyclical capital buffer (%) | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% |
| EU-9a | Systemic risk buffer (%) | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% |
| 10 | Global Systemically Important Institution buffer (%) | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% |
| EU-10a | Other Systemically Important Institution buffer | 0,25% | 0,25% | 0,25% | 0,25% | 0,25% |
| 11 | Combined buffer requirement (%) | 2,75% | 2,75% | 2,75% | 2,75% | 2,75% |
| EU-11a | Overall capital requirements (%) | 10,75% | 10,75% | 10,75% | 10,75% | 10,75% |
| 12 | CET1 available after meeting the total SREP own funds requirements (%) | 5,28% | 4,67% | 4,98% | 5,37% | 6,33% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | **Leverage ratio** | | | | | |
| 13 | Leverage ratio total exposure measure | 163 441 430 | 157 900 727 | 154 772 167 | 150 980 074 | 145 088 356 |
| 14 | Leverage ratio | 6,59% | 6,79% | 6,98% | 7,18% | 7,79% |
| | **Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)** | | | | | |
| EU-14a | Additional CET1 leverage ratio requirements (%) | - | - | - | - | - |
| EU-14b | Additional AT1 leverage ratio requirements (%) | - | - | - | - | - |
| EU-14c | Total SREP leverage ratio requirements (%) | - | - | - | - | - |
| | **Total SREP leverage ratio requirements (%)** | | | | | |
| EU-14d | Applicable leverage buffer | 0,00% | 0,00% | 0,00% | 0,00% | 0,00% |
| EU-14e | Overall leverage ratio requirements (%) | 3,00% | 3,00% | 3,00% | 3,00% | 3,00% |
| | **Liquidity Coverage Ratio** | | | | | |
| 15 | Total high-quality liquid assets (HQLA) (Weighted value -average) | 36 705 120 | 27 655 536 | 29 361 868 | 32 170 250 | 33 099 674 |
| EU-16a | Cash outflows - Total weighted value | 48 226 495 | 37 552 919 | 43 081 970 | 38 449 981 | 35 596 084 |
| EU-16b | Cash inflows - Total weighted value | 26 604 463 | 19 652 217 | 22 465 945 | 15 756 884 | 12 871 563 |
| 16 | Total net cash outflows (adjusted value) | 21 622 032 | 17 900 703 | 20 616 025 | 22 693 097 | 22 724 521 |
| 17 | Liquidity coverage ratio (%) | 169,76% | 154,49% | 142,42% | 141,76% | 145,66% |
| | **Net Stable Funding Ratio** | | | | | |
| 18 | Total available stable funding | 107 760 077 | 108 638 030 | 105 086 096 | 101 989 631 | 99 097 193 |
| 19 | Total required stable funding | 82 579 989 | 84 807 190 | 83 525 683 | 80 044 510 | 75 553 961 |
| 20 | NSFR ratio (%) | 130,49% | 128,10% | 125,81% | 127,42% | 131,16% |

# 5. OWN FUNDS

## 5.1. OWN FUNDS STRUCTURE

Pursuant to the provisions of Banking law, the act of August 29, 1997 (Journal of Laws of 2021 item 2439 (hereinafter referred to as "Banking law") and Regulation (EU) No 575/2013, own funds of the Bank for the purposes of the capital adequacy calculation include:

- Tier I capital
- Tier II capital

Tier I capital includes:

- Common Equity Tier I capital – the sum of the Common Equity Tier I items after application of the required adjustments as well as deductions and exemptions
- Additional Tier I capital – the Bank does not have instruments in this category.

Common Equity Tier I capital includes the following items:

1) capital instruments,
2) share premium accounts related to instruments referred to in point 1),
3) retained earnings, reviewed by the statutory auditor and after the permission is granted by the competent authority or after the Bank has taken a formal decision confirming the final financial result of an institution for a given year,
4) accumulated other comprehensive income (pursuant to Article 4(1)(100) and Article 26(1)(d) of the Regulation (EU) No 575/2013),
5) reserve capital,
6) general risk fund for unidentified risk related to banking operations,
7) adjustments and deductions that constitute:
    a. losses for a current financial year,
    b. intangible assets,
    c. deferred tax assets that rely on future profitability,
    d. defined benefit pension fund assets,
    e. direct, indirect and synthetic holdings by the Bank of own Common Equity Tier I instruments, including own Common Equity Tier I instruments that an institution is under an actual or contingent obligation to purchase by virtue of an existing contractual obligation,
    f. additional value adjustments based on requirements for prudent valuation (AVA),
    g. other items pursuant to Article 36 of the Regulation (EU) No 575/2013,

h. additional value adjustments based on requirements for prudent valuation – pursuant to Article 34 and Article 105 of Regulation (EU) No 575/2013,
i. adjustments arising under IAS 9 in a transition period – as stipulated in Article 473a of Regulation (EU) No 575/2013
j. deduction for non-performing exposures defined in Article 47c of Regulation (EU) No 575/2013.

For the purpose of preparing the statement of Core Tier I and Tier II capital on a consolidated basis, shares in subsidiaries are excluded from the calculation.

Additional capital is established from net profit deductions in a fiscal year and a surplus obtained at issuing shares above their nominal value, remaining after covering the costs of issuance, from additional capital payments made by shareholders in exchange for assigning special rights to their existing shares without increasing the share capital. Additional capital may be earmarked for the coverage of balance sheet losses.

Reserve capital is established regardless of the additional capital from net profit deductions in a fiscal year, earmarked to cover the balance sheet loss.

The general risk fund for unidentified risk related to banking operations is established from net profit deductions in the amount resolved by the General Meeting. The general risk fund is earmarked for unidentified risk related to banking operations.

Unrealized gains and losses on financial instruments measured at fair value through other comprehensive income are recognized in own funds, in line with the instructions included in the Regulation (EU) No 575/2013 and the Banking Law Act.

Capital Tier II items, calculated based on the Regulation (EU) No 575/2013, (Articles 62 – 91), constitute subordinated loans – included in supplementary own funds in the amount and in accordance with the principles laid down in the decision of the Polish Financial Supervision Authority.

Capital instruments and subordinated loans qualify as instruments under Tier II, provided that the conditions specified in Article 63 of the Regulation (EU) No 575/2013 are met.

Information on adjustments and deductions for Common Equity Tier I used in the calculation as of December 31, 2021:

- deduction in accordance with Art. 34 of Regulation (EU) No 575/2013 of the additional value adjustments for prudent valuation are created for all assets measured at fair value with a value of PLN -28 544 ths was applied;
- derogation to Art. 35 of Regulation (EU) No 575/2013, a deduction in accordance with Art. 468 paragraph. 1 of Regulation (EU) No 575/2013 of the European Parliament and of the Council for the value of unrealized gains and losses measured at fair value through other comprehensive income worth PLN 373 716 ths was applied; the amount was calculated taking into account the changes introduced by Regulation (EU) No 873/2020 of June 24, 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 with regard to certain adjustments in response to the COVID-19 pandemic;
- deduction for core Tier I capital in accordance with Article 36(1)(b) of Regulation (EU) No 575/2013 for intangible assets in amount of PLN -434 632 ths was applied. The amount was calculated taking into account the changes introduced by Regulation (EU) No 2176/2020 of November 12, 2020 amending Delegated Regulation (EU) No 241/2014 with regard to the deduction of software assets from Common Equity Tier I items
- deduction for non-performing exposures of PLN -6 763 ths was applied
- after analysing the requirements set forth in Regulation (EU) No 2017/2395, the Bank decided to apply transition provisions provided for in the said Regulation, which means that for the purpose of the capital adequacy assessment, the full impact of the IFRS 9 implementation is not taken into account; based on the said decision and according to Regulation (EU) No 2017/2395 the adjustment to the Common Equity Tier I in the amount of PLN 307 555 ths was applied.
- not adjustments of the capital pursuant to Articles 32, 33, 47, 48, 56, 66 and 79 of Regulation (EU) No 575/2013 were applied in the Common Equity Tier I and Additional Tier I capital.

Information on adjustments and deductions for Tier 2 capital used in the calculation as at December 31, 2022:

- Tier II capital include subordinated loans received with a value of PLN 4 078 993 ths. This amount includes the amortized, non-Tier 2 subordinated loan in the amount PLN 314 172 ths.
- no deductions provided for in Regulation (EU) No 575/2013 were applied for Tier II funds and Tier II supplementary funds.

Information on own funds structure is presented in accordance with the template EU CC1 set out in Regulation (EU) No 2021/637, while the table presents only the rows relating to items included in the own funds structure.

**Table 9 EU CC1 – Composition of regulatory own funds as of 31 December 2022**

| | | (a) | (b) |
|---|---|---|---|
| | | **Amounts** | **Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation** |
| | **Common Equity Tier 1 (CET1) capital: instruments and reserves** | | |
| 1 | Capital instruments and the related share premium accounts | 7 406 909 | EU CC2 no. 6 / EU CC2 no 67a |
| 2 | Retained earnings | - 431 229 | EU CC2 no 9 |
| 3 | Accumulated other comprehensive income (and other reserves) | 3 158 485 | EU CC2 no 7c / EU CC2 no 8 |
| EU-3a | Funds for general banking risk | 629 987 | EU CC2 no 7b |
| EU-5a | Independently reviewed interim profits net of any foreseeable charge or dividend | - | |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **10 764 153** | EU CC2 no 11 |
| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | |
| 7 | Additional value adjustments (negative amount) | -28 544 | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | - 439 502 | EU CC2 no 1 |
| 27 | Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount) | - | |
| 27a | Other regulatory adjustments to CET1 capital *(including IFRS 9 transitional adjustments when relevant)* | 467 033 | |
| 28 | Total regulatory adjustments to Common Equity Tier 1 (CET1) | -1 013 | |
| 29 | Common Equity Tier 1 (CET1) capital | 10 763 140 | |
| | **Additional Tier 1 (AT1) capital: instruments** | | |
| 36 | **Additional Tier 1 (AT1) capital before regulatory adjustments** | - | |
| | **Additional Tier 1 (AT1) capital: regulatory adjustments** | | |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **-** | |
| **44** | **Additional Tier 1 (AT1) capital** | **-** | |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | **10 763 140** | |
| | **Tier 2 (T2) capital: instruments** | | |
| 46 | Capital instruments and the related share premium accounts | 4 078 993 | EU CC2 no 5 |
| **551** | **Tier 2 (T2) capital before regulatory adjustments** | **4 078 993** | |
| | **Tier 2 (T2) capital: regulatory adjustments** | | |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | **-** | |
| **58** | **Tier 2 (T2) capital** | **4 078 993** | |
| **59** | **Total capital (TC = T1 + T2)** | **14 842 133** | |
| **60** | **Total Risk exposure amount** | **95 456 297** | |
| | **Capital ratios and buffers** | | |
| 61 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 11,28% | |
| 62 | Tier 1 (as a percentage of total risk exposure amount) | 11,28% | |
| 63 | Total capital (as a percentage of total risk exposure amount) | 15,55% | |
| 64 | Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount) | 7,25% | |
| 65 | of which: capital conservation buffer requirement | 2,50% | |
| 66 | of which: countercyclical buffer requirement | 0,00% | |
| 67 | of which: systemic risk buffer requirement | 0,00% | |
| EU-67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | 0,25% | |
| EU-67b | of which: additional own funds requirements to cover risks other than the risk of excessive leverage | 0,00% | |
| **68** | **Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements** | **5,28%** | |
| | **Amounts below the thresholds for deduction (before risk weighting)** | | |
| 73 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions) | - | |
| 75 | Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) | 855 272 | |

The table below presents a description of the main regulatory features of own funds instruments and eligible liability instruments according to the EU CCA template.

**Table 10 EU CCA: Main features of regulatory own funds instruments and eligible liabilities instruments as of 31 December 2022**

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Issuer | BNP Paribas Bank Polska S.A. | BNP Paribas S.A. Francja | BNP Paribas S.A. Francja | BNP Paribas S.A. Francja | BNP Paribas S.A. Francja | BNP Paribas S.A. Francja | BNP Paribas S.A. Francja | Lion International Investments S.A. Luxembourg | BNP Paribas S.A. Francja |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | ISIN: PLBGZ0000010 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 2a | Public or private placement | public | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 3 | Governing law(s) of the instrument | polish | polish | polish | polish | polish | polish | polish | polish | polish |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| | *Regulatory treatment* | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 4 | *Current treatment taking into account, where applicable, transitional CRR rules* | Common Equity Tier I | Tier II | Tier II | Tier II | Tier II | Tier II | Tier II | Tier II | Tier II |
| 5 | *Post-transitional CRR rules* | Common Equity Tier I | Tier II | Tier II | Tier II | Tier II | Tier II | Tier II | Tier II | Tier II |
| 6 | *Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated* | solo and consolidated | solo and consolidated | solo and consolidated | solo and consolidated | solo and consolidated | solo and consolidated | solo and consolidated | solo and consolidated | solo and consolidated |
| 7 | *Instrument type (types to be specified by each jurisdiction)* | Instrument type: ordinary shares Classification - Common Equity Tier I instrument in accordance with Article 28 of Regulation (EU) No. 575/2013. | Subordinated debt in accordance wit article 63 Regulation (EU) No 575/2013 | Subordinated debt in accordance wit article 63 Regulation (EU) No 575/2013 | Subordinated debt in accordance wit article 63 Regulation (EU) No 575/2013 | Subordinated debt in accordance wit article 63 Regulation (EU) No 575/2013 | Subordinated debt in accordance wit article 63 Regulation (EU) No 575/2013 | Subordinated debt in accordance wit article 63 Regulation (EU) No 575/2013 | Subordinated debt in accordance wit article 63 Regulation (EU) No 575/2013 | Subordinated debt in accordance wit article 63 Regulation (EU) No 575/2013 |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | PLN 15.09 mn (series A) PLN 7.81 mn (series B) PLN 0.25 mn (series C) PLN 3.22 mn (series D) PLN 10.64 mn (series E) PLN 6.13 mn (series F) PLN 8.00 mn (series G) PLN 5.00 mn (series H) PLN 28.10 mn (series I) PLN 2.50 | PLN 265.783 mn | PLN 113.318 mn | PLN 187.596 mn | PLN 284.351 mn | PLN 429.111 mn | PLN 279.699 mn | PLN 219.136 mn | PLN 2300 mn |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | mn (series J) PLN 10.80 mn (series K) PLN 49.88 mn (series L) PLN 0.09 mn (series M ) Registered shares of series B are preference shares. The privilege concerning the shares of series B, includes the right to receive payment of the full nominal amount per share in the event of liquidation of the Bank after satisfying creditors, first before payments attributable to ordinary shares, which are payments in face of execution of the privilege may not cover the nominal amount of those shares. The amount recognized in regulatory capital differs from the amount of the issued instrument. 4 registered shares of preference shares series B have been excluded from the amount recognized in regulatory capital.. | | | | | | | | |
| 9 | Nominal amount of instrument | PLN 147 518 782 | PLN 440 000 000 | EUR 40 000 000 | EUR 40 000 000 | CHF 60 000 000 | CHF 90 000 000 | EUR 60 000 000 | EUR 60 000 000 | PLN 2 300 000 000 |
| EU-9a | Issue price | 1 PLN | 100% nominal value | 100% nominal value | 100% nominal value | 100% nominal value | 100% nominal value | 100% nominal value | 100% nominal value | 100% nominal value |
| EU-9b | Redemption price | N/A | 100% nominal value | 100% nominal value | 100% nominal value | 100% nominal value | 100% nominal value | 100% nominal value | 100% nominal value | 100% nominal value |
| 10 | Accounting classification | Shareholders' equity | Liability - amortized cost | Liability - amortized cost | Liability - amortized cost | Liability - amortized cost | Liability - amortized cost | Liability - amortized cost | Liability - amortized cost | Liability - amortized cost |
| 11 | Original date of issuance | 09.09.1994. | 07.01.2016. | 07.01.2016. | 11.12.2018. | 20.12.2012. | 30.11.2019. | 20.12.2012. | 22.11.2016. | 10.12.2020. |
| 12 | Perpetual or dated | Perpetual | Dated | Dated | Dated | Dated | Dated | Dated | Dated | Dated |
| 13 | Original maturity date | No maturity | 07.01.2026. | 07.01.2026. | 11.12.2023. | 15.12.2022. | 30.11.2024. | 20.12.2022. | 22.11.2021. | 10.12.2025. |
| 14 | Issuer call subject to prior supervisory approval | N/A | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | N/A | 07.01.2021. | 07.01.2021. | 11.12.2028. | 15.12.2027. | 30.11.2029. | 20.12.2027. | 22.11.2026. | 10.12.2030. |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 16 | Subsequent call dates, if applicable | N/A | each interest period, every 3 months | each interest period, every 3 months | each interest period, every 3 months | each interest period, every 3 months | each interest period, every 3 months | each interest period, every 3 months | each interest period, every 3 months | each interest period, every 3 months |
| | *Coupons / dividends* | | | | | | | | | |
| 17 | Fixed or floating dividend/coupon | floating | floating | floating | floating | floating | floating | floating | floating | floating |
| 18 | Coupon rate and any related index | N/A | WIBOR 3M + magin | EURIBOR 3M + magin | EURIBOR 3M + magin | LIBOR 3M CHF + magin | LIBOR 6M CHF + magin | EURIBOR 3M + magin | EURIBOR 3M + magin | WIBOR 3M + magin |
| 19 | Existence of a dividend stopper | Yes | | | | | | | | |
| EU-20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | | | | | | | | |
| EU-20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary | | | | | | | | |
| 21 | Existence of step up or other incentive to redeem | No | No | No | No | No | No | No | No | No |
| 22 | Non-cumulative or cumulative | Non-cumulative | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 25 | If convertible, fully or partially | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 26 | If convertible, conversion rate | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 30 | Write-down features | No | No | No | No | No | No | No | No | No |
| 31 | If write-down, write-down trigger(s) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 32 | If write-down, full or partial | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 33 | If write-down, permanent or temporary | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 34a | Type of subordination (only for eligible liabilities) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | 1 priority rank | 3 priority rank | 3 priority rank | 3 priority rank | 3 priority rank | 3 priority rank | 3 priority rank | 3 priority rank | 3 priority rank |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | N/A | | | | | | | | |
| 36 | Non-compliant transitioned features | No | No | No | No | No | No | No | No | No |
| 37 | If yes, specify non-compliant features | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 37a | Link to the full term and conditions of the intrument (signposting) | | | | | | | | | |

### 5.2. RECONCILIATION OF OWN FUNDS

Reconciliation of balance sheet items included in the audited consolidated report of the BNP Paribas Bank Polska S.A. Capital Group used to calculate the value of own funds according to the methodology described in Annex VIII to Regulation (EU) No 2021/637 is presented in the table below.

**Table 11 EU CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements as of 31 December 2022**

| | | a | b | c |
|---|---|---|---|---|
| | | **Balance sheet as in published financial statements** | **Under regulatory scope of consolidation** | **Reference** |
| | | **As at period end** | **As at period end** | |
| | **Assets - Breakdown by asset classes according to the balance sheet in the published financial statements** | | | |
| 1 | Intangible assets | 821 106 | 439 502 | Consolidated financial statements of BNP Paribas Bank Polska S.A. Group for the year ended 31 December 2022 (Assets) |
| 2 | Assets due to deferred net income tax | | - | |
| | - of which net assets not exceeding the threshold defined in Art. 48(1)(a) | 966 436 | 855 272 | |
| | **Liabilities - Breakdown by liability classes according to the balance sheet in the published financial statements** | | | |
| 1 | Subordinated liabilities | 4 416 887 | | Consolidated financial statements of BNP Paribas Bank Polska S.A. Group for the year ended 31 December 2022 (Explanatory Note no 35) |
| | - of which loans qualified as Tier II | | 4 078 993 | |
| | **Shareholders' Equity** | | | |
| 1 | Share capital | 147 593 | 147 593 | Consolidated financial statements of BNP Paribas Bank Polska S.A. Group for the year ended 31 December 2022 (Equity) |
| 2 | Supplementary capital | 12 253 074 | 12 203 074 | |
| | - share premium | 7 259 316 | 7 259 316 | |
| | - general own funds | 627 154 | 627 154 | |
| | - other reserve capital | 4 366 604 | 4 316 604 | |
| 3 | Revaluation reserve | -1 149 786 | -1 149 787 | |
| 4 | Retained earnings | -430 157 | -430 157 | |
| 5 | Net profit for the period | 441 497 | 0 | |
| | **Total shareholders' equity** | 11 262 221 | 10 770 723 | |

# 6. OVERVIEW OF RISK-WEIGHTED AMOUNTS

Pursuant to art. 438(d) of Regulation (EU) no 575/2013, the Bank publishes information on risk exposure amounts.

**Table 12 EU OV1 - Overview of risk weighted exposure amounts as of 31 December 2022**

| | | Risk weighted exposure amounts (RWEAs) | | Total own funds requirements |
|---|---|---|---|---|
| | | a | b | c |
| | | 31 December 2022 | 30 September 2022 | 31 December 2022 |
| **1** | **Credit risk (excluding CCR)** | **83 788 850** | **87 099 071** | **6 703 108** |
| 2 | Of which the standardised approach | 83 788 850 | 87 099 071 | 6 703 108 |
| 3 | Of which the foundation IRB (FIRB) approach | - | - | - |
| 4 | Of which slotting approach | - | - | - |
| EU 4a | Of which equities under the simple risk weighted approach | - | - | - |
| 5 | Of which the advanced IRB (AIRB) approach | - | - | - |
| **6** | **Counterparty credit risk - CCR** | **1 572 720** | **2 971 610** | **125 818** |
| 7 | Of which the standardised approach | 1 514 145 | 2 912 587 | 121 132 |
| 8 | Of which internal model method (IMM) | - | - | - |
| EU 8a | Of which exposures to a CCP | 1 711 | 2 214 | 137 |
| EU 8b | Of which credit valuation adjustment - CVA | 56 865 | 56 809 | 4 549 |
| **15** | **Settlement risk** | **-** | **-** | **-** |
| **16** | **Securitisation exposures in the non-trading book (after the cap)** | **-** | **-** | **-** |
| 17 | Of which SEC-IRBA approach | - | - | - |
| 18 | Of which SEC-ERBA (including IAA) | - | - | - |
| 19 | Of which SEC-SA approach | - | - | - |
| EU 19a | Of which 1250%/ deduction | - | - | - |
| **20** | **Position, foreign exchange and commodities risks (Market risk)** | **1 307 210** | **1 556 809** | **104 577** |
| 21 | Of which the standardised approach | 1 307 210 | 1 556 809 | 104 577 |
| 22 | Of which IMA | - | - | - |

| | | | | |
|---|---|---|---|---|
| EU 22a | **Large exposures** | - | - | - |
| 23 | **Operational risk** | 8 787 516 | 8 787 516 | 703 001 |
| EU 23a | Of which basic indicator approach | 237 208 | 237 208 | 18 977 |
| EU 23b | Of which standardised approach | 8 550 308 | 8 550 308 | 684 025 |
| EU 23c | Of which advanced measurement approach | - | - | - |
| 24 | **Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)** | 2 138 179 | 2 479 850 | 171 054 |
| 29 | **Total** | 95 456 297 | 100 415 006 | 7 636 504 |

The table below presents elements of own funds requirements for market risk under the standardized method.

**Table 13 EU MR1 - Market risk under the standardised approach as of 31 December 2022**

| | | a |
|---|---|---|
| | | RWEAs |
| | **Outright products** | |
| 1 | Interest rate risk (general and specific) | 1 298 487 |
| 2 | Equity risk (general and specific) | - |
| 3 | Foreign exchange risk | - |
| 4 | Commodity risk | - |
| | **Options** | |
| 5 | Simplified approach | - |
| 6 | Delta-plus approach | 8 723 |
| 7 | Scenario approach | - |
| 8 | Securitisation (specific risk) | - |
| 9 | **Total** | 1 307 210 |

For the purpose of calculating the minimum own funds requirements for operational risk, the Bank uses the standardized approach (STA), but on a consolidated basis, the Bank calculates the capital requirement as the sum of the capital requirement for the Bank determined using the standard method and the capital requirement for the consolidated capital (as defined in accounting regulations) of the Bank's subsidiaries determined using the base ratio method.

**Table 14 EU OR1 - Operational risk own funds requirements and risk-weighted exposure amounts**

| | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | | | | Relevant indicator | | |
| | **Banking activities** | Year-3 | Year-2 | Last year | Own funds requirements | Risk weighted exposure amount |
| 1 | Banking activities subject to basic indicator approach (BIA) | 90 417 | 137 208 | 151 908 | 18 977 | 237 208 |
| 2 | Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches | 4 624 677 | 4 696 844 | 4 840 724 | 684 025 | 8 550 308 |
| 3 | *Subject to TSA:* | 4 624 677 | 4 696 844 | 4 840 724 | | |
| 4 | *Subject to ASA:* | - | - | - | | |
| 5 | Banking activities subject to advanced measurement approaches AMA | - | - | - | - | - |

## Internal capital adequacy assessment

Pursuant to Art. 438 of Regulation (EU) No 575/2013, the Bank publishes a brief description of the adequacy of internal capital in order to support its current and future activities. Internal capital adequacy assessment is performed as part of the annual review process of the principles and assumptions of the internal capital adequacy assessment. By risk identification, significance assessment of identified risks, measuring significant risks, capital aggregation, capital allocation and capital planning, the Bank ensures the level of own funds adequate to the level of risk incurred. The capital plan includes the assessment of internal capital, ensuring the level of own funds adequate to the level of risk incurred and the set capital goals. The Group conducts internal capital stress tests by stressing those types of risks for which internal capital is maintained. Stress tests take into account the cumulative impact of all risks on the total value of internal capital, and their purpose is to test the capital target specified in the capital plan.

The Bank monitors and reports monthly capital consumption in the context of capital goals and cross-sections defined in the capital plan, capital limits and ratios triggering the capital contingency plan.

# 7. CAPITAL BUFFERS

The minimum levels of capital ratios applicable to the Bank and the Bank's Capital Group result from Article 92 of Regulation (EU) No 575/2013 and the Act of August 5, 2015 on macroprudential supervision over the financial system and crisis management in the financial system (Journal of Laws of 2017, item 1934), hereinafter referred to as the "Macroprudential Act" introducing the obligation to maintain the requirement of combined buffer.

The combined buffer consists of:

- conservative buffer of 2.5% - based on Article 19(1) of the Macroprudential Act, an additional amount of Common Equity Tier I capital to be maintained, additional to the Common Equity Tier I capital for the purposes of meeting the own funds requirement, referred to in Article 92 paragraph 1 of Regulation (EU) No 575/2013, in the amount of 2.5% of the total risk exposure amount calculated in accordance with Article 92 paragraph 3 of this Regulation on an individual and consolidated level;
- buffer of other systemically important institution in the amount of 0.25% - The Polish Financial Supervision Authority in the announcement of December 21, 2022, informed that, pursuant to the provisions of the Act of August 5, 2015 on macroprudential supervision over the financial system and crisis management in the financial system and taking into account the opinion of the Financial Stability Committee, confirmed the identification of ten banks as other systemically important institutions (O-SII). As a result of the review, the Commission concluded that there were no grounds justifying the repeal or amendment of the Commission's decision of October 4, 2016, in the wording established by the Commission decision of December 19, 2017 on imposing on the Bank (on a consolidated and individual basis) a buffer of another institution with systemically important in the amount equivalent to 0.25% of the total risk exposure amount calculated in accordance with Art. 92 sec. 3 of Regulation (EU) No 575/2013;
- systemic risk buffer of 0% - on March 19, 2020, the Regulation of the Minister of Finance (Journal of Laws of 2020, item 473) of March 18, 2020, repealing the regulation on the systemic risk buffer, entered into force;
- institution-specific countercyclical buffer of 0% - according to Article 21(1) of the Macroprudential Act, the Bank maintains the amount of Common Equity Tier I capital referred to in Article 92 paragraph 1 of Regulation (EU) No 575/2013, at the level of the total risk exposure amount calculated in accordance with Article 92 paragraph 3 of this Regulation, multiplied by the weighted average of countercyclical buffer rates calculated in accordance with Art. 83 of the Macroprudential Act.

Based on Article 83 of the Macroprudential Act starting from January 1, 2016, the countercyclical buffer ratio is 0% for credit exposures in the territory of the Republic of Poland. As a consequence, the countercyclical buffer rate as at December 31, 2022 was 0 p.p.

On 23rd December 2022, Bank received a letter from the Polish Financial Supervision Authority ("PFSA") with the recommendation to limit the risk in the Bank's activities by maintaining own funds to cover the capital add-on ("P2G") at 0.77 p.p. on consolidated and 0.80 p.p. on individual level in order to absorb potential losses resulting from occurrence of stress conditions. The recommendation should be fulfilled above the total capital ratio referred to in Article 92.1c of Regulation No. 575/2013, increased by the additional own funds requirement, referred to in Article 138.2.2 of the Banking Law Act and the combined buffer requirement, referred to in Article 55.4 of the Act on macroprudential supervision. The P2G capital add-on should be made up of the Common Equity Tier 1 capital only.

Pursuant to Art. 440 of Regulation (EU) No 575/2013, the Bank discloses the geographic distribution of exposure amounts and riskweighted exposure amounts for credit exposures, which is the basis for calculating countercyclical buffer. Details of the distribution of credit exposures for the purposes of calculating the countercyclical buffer in tables below have been prepared in accordance with Annex XI of Regulation (EU) No 2021/637.

**Table 15 EU CCyB2 – Amount of institution-specific countercyclical capital buffer as of 31 December 2022**

| | | a |
|---|---|---|
| 1 | Total risk exposure amount | 95 456 297 |
| 2 | Institution specific countercyclical capital buffer rate | 0,0000% |
| 3 | Institution specific countercyclical capital buffer requirement | - |

**Table 16 EU CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer as of 31 December 2022**

| | | a | b | c | d | e | f | g | h | i | j | k | l | m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | General credit exposures | | Relevant credit exposures – Market risk | | Securitisation exposures Exposure value for non-trading book | Total exposure value | Own fund requirements | | | | Risk-weighted exposure amounts | Own fund requirements weights (%) | Countercyclical buffer rate (%) |
| | | Exposure value under the standardised approach | Exposure value under the IRB approach | Sum of long and short positions of trading book exposures for SA | Value of trading book exposures for internal models | | | Relevant credit risk exposures - Credit risk | Relevant credit exposures – Market risk | Relevant credit exposures – Securitisation positions in the non-trading book | Total | | | |
| 010 | Breakdown by country: | | | | | | | | | | | | | |
| 0101 | PL | 106 538 907 | | 92 936 459 | | | 79 110 966 | 6 328 878 | 103 951 | | 6 432 829 | 80 410 348 | 98,3794% | 0,00% |
| 0102 | LU | 870 063 | | | | | 786 285 | 62 903 | | | 62 903 | 786 285 | 0,9620% | 0,50% |
| 0103 | NL | 227 580 | | | | | 220 998 | 17 680 | | | 17 680 | 220 998 | 0,2704% | 0,00% |
| 0104 | GB | 69 196 | | | | | 73 265 | 5 861 | | | 5 861 | 73 265 | 0,0896% | 1,00% |
| 0105 | AT | 67 901 | | | | | 67 875 | 5 430 | | | 5 430 | 67 875 | 0,0830% | 0,00% |
| 0106 | MX | 50 316 | | | | | 41 534 | 3 323 | | | 3 323 | 41 534 | 0,0508% | 0,00% |
| 0107 | DE | 41 613 | | | | | 43 215 | 3 457 | | | 3 457 | 43 215 | 0,0529% | 0,00% |
| 0108 | CZ | 33 460 | | | | | 33 448 | 2 676 | | | 2 676 | 33 448 | 0,0409% | 1,00% |
| 0109 | DK | 20 623 | | | | | 20 623 | 1 650 | | | 1 650 | 20 623 | 0,0252% | 2,00% |
| 0110 | US | 17 518 | | | | | 17 518 | 1 401 | | | 1 401 | 17 518 | 0,0214% | 0,00% |
| 0111 | FI | 15 001 | | | | | 15 001 | 1 200 | | | 1 200 | 15 001 | 0,0184% | 0,00% |
| 0112 | RU | 1 809 | | | | | 1 809 | 145 | | | 145 | 1 809 | 0,0022% | 0,00% |
| 0113 | BE | 1 690 | | | | | 1 549 | 124 | | | 124 | 1 549 | 0,0019% | 0,00% |
| 0114 | CH | 537 | | | | | 535 | 43 | | | 43 | 535 | 0,0007% | 0,00% |
| 0115 | SE | 436 | | | | | 636 | 51 | | | 51 | 636 | 0,0008% | 0,00% |
| 0116 | LT | 82 | | | | | 64 | 5 | | | 5 | 64 | 0,0001% | 0,00% |
| 0117 | CY | 57 | | | | | 57 | 5 | | | 5 | 57 | 0,0001% | 0,00% |
| 0118 | EE | 34 | | | | | 34 | 3 | | | 3 | 34 | 0,0000% | 1,00% |
| 0119 | MT | 14 | | | | | 14 | 1 | | | 1 | 14 | 0,0000% | 0,00% |
| 0120 | SK | 13 | | | | | 13 | 1 | | | 1 | 13 | 0,0000% | 1,00% |
| 0121 | BG | 13 | | | | | 13 | 1 | | | 1 | 13 | 0,0000% | 0,00% |
| 0122 | LV | 12 | | | | | 12 | 1 | | | 1 | 12 | 0,0000% | 0,00% |
| 0123 | GE | 9 | | | | | 9 | 1 | | | 1 | 9 | 0,0000% | 0,00% |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 0124 | IE | 8 | | 8 | 1 | | 1 | 8 | 0,0000% | 0,00% |
| 0125 | HK | 7 | | 7 | 1 | | 1 | 7 | 0,0000% | 1,00% |
| 0126 | GI | 6 | | 6 | 1 | | 1 | 6 | 0,0000% | 0,00% |
| 0127 | FR | 5 | | 5 | 0 | | 0 | 5 | 0,0000% | 0,00% |
| 0128 | VG | 5 | | 5 | 0 | | 0 | 5 | 0,0000% | 0,00% |
| 0129 | SG | 4 | | 4 | 0 | | 0 | 4 | 0,0000% | 0,00% |
| 0130 | SC | 4 | | 4 | 0 | | 0 | 4 | 0,0000% | 0,00% |
| 0131 | UA | 4 | | 4 | 0 | | 0 | 4 | 0,0000% | 0,00% |
| 0132 | ES | 4 | | 4 | 0 | | 0 | 4 | 0,0000% | 0,00% |
| 0133 | HU | 4 | | 4 | 0 | | 0 | 4 | 0,0000% | 0,00% |
| 0134 | SI | 3 | | 3 | 0 | | 0 | 3 | 0,0000% | 0,00% |
| 0135 | MY | 2 | | 2 | 0 | | 0 | 2 | 0,0000% | 0,00% |
| 0136 | NO | 2 | | 2 | 0 | | 0 | 2 | 0,0000% | 2,00% |
| 0137 | CA | 2 | | 2 | 0 | | 0 | 2 | 0,0000% | 0,00% |
| 0138 | IT | 2 | | 2 | 0 | | 0 | 2 | 0,0000% | 0,00% |
| 0139 | HR | 1 | | 1 | 0 | | 0 | 1 | 0,0000% | 0,00% |
| 0140 | IN | 1 | | 1 | 0 | | 0 | 1 | 0,0000% | 0,00% |
| 0141 | RO | 1 | | 1 | 0 | | 0 | 1 | 0,0000% | 0,50% |
| 0142 | AE | 1 | | 1 | 0 | | 0 | 1 | 0,0000% | 0,00% |
| 0143 | CN | 1 | | 1 | 0 | | 0 | 1 | 0,0000% | 0,00% |
| 0144 | MC | 1 | | 1 | 0 | | 0 | 1 | 0,0000% | 0,00% |
| 0145 | KZ | 1 | | 1 | 0 | | 0 | 1 | 0,0000% | 0,00% |
| 0146 | TR | 1 | | 1 | 0 | | 0 | 1 | 0,0000% | 0,00% |
| 020 | Ogółem | 107 956 954 | 92 936 459 | 80 435 543 | 6 434 843 | 103 951 | 6 538 794 | 81 734 925 | 100,0000% | - |

# 8. CREDIT RISK

## 8.1. EXPOSURE TO CREDIT RISK

### Definition of past due and impaired assets

The financial instruments measured at amortized cost are classified to one of three Stages based on assessment of changes in the credit quality observed since the initial recognition:

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

  If credit risk did not increase significantly from the date of the initial recognition, and a default event was not identified from the moment of initial recognition, the Group recognises an allowance for the expected credit loss related to the probability of default within the next 12 months.

- 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 default was identified.

  In the case of an exposure for which credit risk has increased significantly since the moment of its initial recognition, but no default event was identified, an impairment allowance is created for the expected credit loss for the entire financing period, taking into account the probability of default.

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

  In case of defaulted financial assets, an allowance is created for the expected credit loss for the entire financing period.

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, information on delay in repayments and information from internal credit risk monitoring systems, such as early warning signals and information about restructuring.

For exposures classified to Stage 2, if in the following reporting dates, the credit quality of the financial instrument improves and assumptions regarding increase in credit risk since initial recognition are reverted, the exposure is reclassified from Stage 2 to Stage 1 and the allowance is calculated for a 12-month horizon.

In case of full accountancy corporate Clients, the Group defined a list of evidences of impairment, which include financial difficulties, deterioration of rating, 90 days past due criterion (or 30 days for exposures subject to concessions) understood as a delay in repayment of a material part of the financial obligation.

In case of individual Clients and microenterprises with no full accountancy the key evidence of impairment is 90 days past due criterion (or 30 days for exposures subject to concessions) understood as a delay in repayment of a material part of the financial obligation. Additional evidences are applied including: restructuring and fraud.

The Group applies a uniform definition of defaulted assets and impaired loans (Stage 3).

Exposures are considered as past due (over 90 days), and in consequence considered as impaired when a delay in repayment of a material amount of interest or capital is recognized.

The assessment of materiality of past due is based on relative and absolute thresholds resulting from the Regulation of the Minister of Finance, Investment and Development of 3 October 2019 on the materiality level of a past due credit obligation for the purposes of identifying material past due.

A past due credit obligation is considered material when both materiality thresholds are exceeded in aggregate:

- the amount of past due liabilities exceeds PLN 400 for retail exposures or PLN 2000 for non-retail exposures, and
- the share of past due liabilities in the total exposure of the obligor is greater than 1%.

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

Reclassification from Stage 3 to Stage 2 or 1 is performed taking into consideration appropriate quarantine periods, meaning an impaired credit exposure may by reclassified to Stage 2 or 1, when the Client meets financial obligations for a defined number of months. The minimum quarantine period is differentiated depending on type of Client. The length of the quarantine period is defined based on historical observations, in particular an assessment when the probability of redefault, decreases to a level similar to other the level for other categories of non impaired assets.

## Allowance for expected credit losses

**Individual assessment**

The individual assessment is performed for individually significant assets, for which a default event was recognized (Stage 3) and is based on an individual valuation of expected credit losses. Individually significant assets are assets where the total engagement of the Client exceeds 4 mln PLN. 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 (including recoveries from collateral).

**Collective (portfolio) approach**

The collective valuation is applied to assets classified as:

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

The value of the allowance for the expected credit losses depends amongst others on type of credit exposure, Customer rating and collateral type and value (for selected portfolios) which are reflected in the value of risk parameters: probability of default (PD), loss given default (LGD) 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 taking into account Customer segments and types of credit products. The criteria applied to define homogeneous portfolios are aimed at grouping exposures so that the credit risk profile is reflected as accurately as practicable and, consequently, so as to estimate the level of allowances for the expected credit losses on financial assets as objectively and adequately as possible.

The applied definition regarding restructured exposures is in line with the definition set in Resolution (EU) No 2021/451.

## Quantitative information on credit risk adjustments

The tables below present detailed quantitative information on credit risk adjustments as required by Article 442 of Regulation (EU) No 575/2013, based on the formulas set out in Regulation (EU) No 2021/637.

The Group does not present the table EU CQ4 - Quality of NPEs broken down geographically due to the fact that exposures in foreign countries do not exceed 10% of total exposures.

**Table 17 EU CR2 - Changes in the stock of non-performing loans and advances as of 31 December 2022**

| | | a |
|---|---|---|
| | | Gross carrying amount |
| 010 | Initial stock of non-performing loans and advances | 3 289 200 |
| 020 | Inflows to non-performing portfolios | 2 397 715 |
| 030 | Outflows from non-performing portfolios | -2 597 559 |
| 040 | Outflows due to write-offs | -44 813 |
| 050 | Outflow due to other situations | -2 552 745 |
| 060 | Final stock of non-performing loans and advances | 3 089 356 |

**Table 18 EU CR2a – Changes in the stock of non-performing loans and advances and related net accumulated recoveries as of 31 December 2022**

| | | a | b |
|---|---|---|---|
| | | Gross carrying amount | Related net accumulated recoveries |
| 010 | **Initial stock of non-performing loans and advances** | **3 289 200** | |
| 020 | Inflows to non-performing portfolios | 2 397 715 | |
| 030 | Outflows from non-performing portfolios | -2 597 559 | |
| 040 | Outflow to performing portfolio | -369 215 | |
| 050 | Outflow due to loan repayment, partial or total | -1 257 401 | |
| 060 | Outflow due to collateral liquidations | - | - |
| 070 | Outflow due to taking possession of collateral | - | - |
| 080 | Outflow due to sale of instruments | -385 647 | 108 435 |

| | | | |
|---|---|---|---|
| 090 | Outflow due to risk transfers | - | - |
| 100 | Outflows due to write-offs | -44 813 | |
| 110 | Outflow due to other situations | -540 483 | |
| 120 | Outflow due to reclassification as held for sale | - | |
| 130 | **Final stock of non-performing loans and advances** | **3 089 356** | |

**Table 19 EU CR1-A - Maturity of exposures as of 31 December 2022**

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | | Net exposure value | | | | | |
| | | On demand | <= 1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total |
| 1 | Loans and advances | - | 13 845 144 | 32 939 405 | 45 790 052 | 138 073 | 92 712 674 |
| 2 | Debt securities | - | 9 644 869 | 15 967 259 | 14 027 834 | | 39 639 962 |
| **3** | **Total** | **-** | **23 490 013** | **48 906 664** | **59 817 886** | **138 073** | **132 352 636** |

**Table 20 EU CR1 - Performing and non-performing exposures and related provisions as of 31 December 2022**

| | | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | | | Accumulated partial write-off | Collateral and financial guarantees received | |
| | | Performing exposures | | | Non-performing exposures | | | Performing exposures – accumulated impairment and provisions | | | Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | On performing exposures | On non-performing exposures |
| | | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | | |
| 005 | Cash balances at central banks and other demand deposits | 9 174 527 | 9 174 527 | - | - | - | - | -1 084 | -1 084 | - | - | - | - | | - | - |
| 010 | Loans and advances | 92 629 670 | 81 452 046 | 10 233 804 | 3 089 356 | 5 618 | 2 912 092 | -1 203 995 | -373 988 | -829 478 | -1 802 357 | -1 091 | -1 762 304 | - | 27 117 295 | 585 561 |
| *020* | *Central banks* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *030* | *General governments* | 58 160 | 58 159 | 0 | 796 | - | 796 | -502 | -502 | 0 | - 419 | - | - 419 | - | 155 | 280 |
| *040* | *Credit institutions* | 2 673 487 | 2 673 487 | - | - | - | - | -430 | -430 | - | - | - | - | - | - | - |
| *050* | *Other financial corporations* | 1 388 647 | 1 388 191 | 456 | 1 927 | - | 1 830 | -1 635 | -1 602 | -33 | -1 698 | 0 | -1 614 | - | 2 058 | - |
| *060* | *Non-financial corporations* | 50 110 526 | 42 874 082 | 6 323 719 | 2 086 429 | 4 834 | 1 921 144 | -622 129 | -208 835 | -412 920 | -1 168 267 | -943 | -1 130 990 | - | 17 332 781 | 463 095 |
| *070* | *Of which SMEs* | 25 931 407 | 20 776 895 | 4 267 615 | 1 762 203 | 4 834 | 1 623 523 | -408 586 | -124 014 | -284 298 | -985 175 | -943 | -954 767 | - | 13 081 134 | 432 657 |
| *080* | *Households* | 38 398 851 | 34 458 129 | 3 909 629 | 1 000 203 | 784 | 988 321 | -579 298 | -162 619 | -416 525 | -631 973 | -148 | -629 280 | - | 9 782 301 | 122 186 |
| 090 | Debt securities | 39 546 464 | 39 484 561 | 0 | 138 478 | - | 4 155 | -290 | -290 | 0 | -44 689 | - | -4 155 | - | - | - |
| *100* | *Central banks* | 8 500 492 | 8 495 586,00 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *110* | *General governments* | 21 274 720 | 21 274 720 | - | - | - | - | -275 | -275 | - | - | - | - | - | - | - |
| *120* | *Credit institutions* | 6 086 229 | 6 086 229 | - | - | - | - | -15 | -15 | - | - | - | - | - | - | - |
| *130* | *Other financial corporations* | 3 628 027 | 3 628 027 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *140* | *Non-financial corporations* | 56 996 | 0 | 0 | 138 478 | - | 4 155 | 0 | 0 | 0 | -44 689 | - | -4 155 | - | - | - |
| 150 | Off-balance-sheet exposures | 40 886 020 | 37 516 841 | 3 358 396 | 94 105 | 1 037 | 87 258 | 82 149 | 33 891 | 47 881 | 17 509 | 18 | 15 409 | | 1 036 371 | 1 411 |
| *160* | *Central banks* | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| *170* | *General governments* | 118 773 | 118 773 | - | - | - | - | 284 | 284 | - | - | - | - | | - | - |
| *180* | *Credit institutions* | 2 864 156 | 2 864 156 | - | - | - | - | 4 682 | 4 682 | - | - | - | - | | - | - |
| *190* | *Other financial corporations* | 1 872 733 | 1 812 458 | 60 274 | - | - | 0 | 405 | 285 | 120 | - | - | - | | 79 401 | - |
| *200* | *Non-financial corporations* | 32 832 151 | 29 643 015 | 3 185 012 | 81 723 | 1 037 | 75 148 | 70 240 | 26 406 | 43 508 | 17 509 | 18 | 15 409 | | 951 049 | 1 411 |
| *210* | *Households* | 3 198 207 | 3 078 438 | 113 110 | 12 383 | 0 | 12 110 | 6 538 | 2 234 | 4 253 | 0 | 0 | 0 | | 5 922 | - |
| **220** | **Total** | **182 236 682** | **167 627 977** | **13 592 200** | **3 321 939** | **6 655** | **3 003 506** | **-1 123 220** | **-341 472** | **-781 597** | **-1 829 538** | **-1 073** | **-1 751 050** | **-** | **28 153 667** | **586 972** |

**Table 21 EU CQ1 - Credit quality of forborne exposures as of 31 December 2022**

| | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount of exposures with forbearance measures | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | Collateral received and financial guarantees received on forborne exposures | |
| | | | Non-performing forborne | | | | | | Of which collateral and financial guarantees received on non-performing exposures with forbearance measures |
| | | Performing forborne | | Of which defaulted | Of which impaired | On performing forborne exposures | On non-performing forborne exposures | | |
| 005 | Cash balances at central banks and other demand deposits | - | - | - | - | - | - | - | - |
| 010 | Loans and advances | 511 615 | 896 626 | 896 626 | 805 608 | -40 954 | -459 859 | 401 417 | 213 341 |
| *020* | *Central banks* | - | - | - | - | - | - | - | - |
| *030* | *General governments* | - | - | - | - | - | - | - | - |
| *040* | *Credit institutions* | - | - | - | - | - | - | - | - |
| *050* | *Other financial corporations* | - | 17 | 17 | 17 | - | -14 | - | - |
| *060* | *Non-financial corporations* | 276 098 | 542 758 | 542 758 | 458 995 | -22 416 | -280 122 | 267 612 | 144 871 |
| *070* | *Households* | 235 516 | 353 850 | 353 850 | 346 596 | -18 537 | -179 723 | 133 805 | 68 470 |
| 080 | Debt Securities | - | 134 323 | 134 323 | - | - | -40 535 | - | - |
| 090 | Loan commitments given | 22 707 | 8 257 | 8 257 | 8 257 | 1 026 | 1 780 | - | - |
| **100** | **Total** | **534 321** | **1 039 205** | **1 039 205** | **813 865** | **-39 928** | **-498 614** | **401 417** | **213 341** |

**Table 22 EU CQ2 - Quality of forbearance as of 31 December 2022**

| | | a |
|---|---|---|
| | | Gross carrying amount of forborne exposures |
| 010 | Loans and advances that have been forborne more than twice | 1 686 |
| 020 | Non-performing forborne loans and advances that failed to meet the non-performing exit criteria | 338 971 |

**Table 23 EU CQ3 - Credit quality of performing and non-performing exposures by past due days**

| | | a | b | c | d | e | f | g | h | i | j | k | l |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount/nominal amount | | | | | | | | | | | |
| | | Performing exposures | | | Non-performing exposures | | | | | | | | |
| | | | Not past due or past due ≤ 30 days | Past due > 30 days ≤ 90 days | | Z Unlikely to pay that are not past due or are past due ≤ 90 days | Past due > 90 days ≤ 180 days | Past due > 180 days ≤ 1 year | Past due > 1 year ≤ 2 years | Past due > 2 years ≤ 5 years | Past due > 5 years ≤ 7 years | Past due > 7 years | Of which defaulted |
| 005 | Cash balances at central banks and other demand deposits | 9 174 527 | 9 174 527 | - | - | - | - | - | - | - | - | - | - |
| 010 | Loans and advances | 92 629 670 | 92 481 253 | 148 417 | 3 089 356 | 1 173 346 | 159 601 | 274 262 | 339 090 | 738 855 | 198 489 | 205 713 | 3 082 928 |
| *020* | *Central banks* | - | 0 | - | - | - | - | - | - | - | - | - | - |
| *030* | *General governments* | 58 160 | 58 160 | - | 796 | - | 796 | - | - | - | - | - | 796 |
| *040* | *Credit institutions* | 2 673 487 | 2 673 487 | - | - | - | - | - | - | - | - | - | - |
| *050* | *Other financial corporations* | 1 388 647 | 1 388 647 | - | 1 927 | 16 | 221 | - | 20 | 1 592 | 53 | 25 | 1 927 |
| *060* | *Non-financial corporations* | 50 110 526 | 50 009 552 | 100 975 | 2 086 429 | 821 570 | 86 315 | 163 510 | 193 468 | 564 796 | 135 227 | 121 544 | 2 080 786 |
| *070* | *Of which SMEs* | 25 931 407 | 25 864 366 | 67 042 | 1 762 203 | 678 048 | 85 407 | 151 810 | 155 115 | 436 710 | 134 140 | 120 973 | 1 756 560 |
| *080* | *Households* | 38 398 851 | 38 351 408 | 47 443 | 1 000 203 | 351 759 | 72 269 | 110 753 | 145 602 | 172 466 | 63 210 | 84 144 | 999 419 |
| 090 | Debt securities | 39 546 464 | 39 546 464 | - | 138 478 | 135 069 | - | - | - | 3 409 | - | - | 138 478 |
| *100* | *Central banks* | 8 500 492 | 8 500 492 | - | - | - | - | - | - | - | - | - | - |
| *110* | *General governments* | 21 274 720 | 21 274 720 | - | - | - | - | - | - | - | - | - | - |
| *120* | *Credit institutions* | 6 086 229 | 6 086 229 | - | - | - | - | - | - | - | - | - | - |
| *130* | *Other financial corporations* | 3 628 027 | 3 628 027 | - | - | - | - | - | - | - | - | - | - |
| *140* | *Non-financial corporations* | 56 996 | 56 996 | 0 | 138 478 | 135 069 | - | - | - | 3 409 | - | - | 138 478 |
| 150 | Off-balance-sheet exposures | 40 886 020 | | | 94 105 | | | | | | | | 93 029 |
| *160* | *Central banks* | - | | | - | | | | | | | | - |
| *170* | *General governments* | 118 773 | | | - | | | | | | | | - |
| *180* | *Credit institutions* | 2 864 156 | | | - | | | | | | | | - |
| *190* | *Other financial corporations* | 1 872 733 | | | 0 | | | | | | | | - |
| *200* | *Non-financial corporations* | 32 832 151 | | | 81 723 | | | | | | | | 80 646 |
| *210* | *Households* | 3 198 207 | | | 12 383 | | | | | | | | 12 383 |
| **220** | **Total** | **182 236 682** | **141 202 244** | **148 417** | **3 321 939** | **1 308 415** | **159 601** | **274 262** | **339 090** | **742 264** | **198 489** | **205 713** | **3 314 435** |

**Table 24 EU CQ5 - Credit quality of loans and advances to non-financial corporations by industry as of 31 December 2022**

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | | Gross carrying amount | | | | | |
| | | | Of which non-performing | | | | |
| | | | | Of which defaulted | Of which loans and advances subject to impairment | Accumulated impairment | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
| 010 | Agriculture, forestry and fishing | 9 260 819 | 712 386 | 698 169 | 8 324 965 | -557 663 | - |
| 020 | Mining and quarrying | 83 446 | 1 884 | 1 334 | 83 446 | -739 | - |
| 030 | Manufacturing | 12 660 614 | 320 537 | 289 268 | 12 659 140 | -297 850 | - |
| 040 | Electricity, gas, steam and air conditioning supply | 1 095 963 | 3 404 | 3 400 | 1 095 963 | -6 890 | - |
| 050 | Water supply | 201 905 | 3 528 | 3 365 | 201 905 | -3 465 | - |
| 060 | Construction | 3 521 938 | 188 989 | 175 774 | 3 521 791 | -174 245 | - |
| 070 | Wholesale and retail trade | 8 439 054 | 342 429 | 323 395 | 8 432 128 | -295 518 | - |
| 080 | Transport and storage | 2 693 419 | 65 667 | 43 590 | 2 693 368 | -62 741 | - |
| 090 | Accommodation and food service activities | 329 452 | 58 753 | 57 060 | 329 426 | -53 752 | - |
| 100 | Information and communication | 2 831 681 | 51 246 | 47 509 | 2 831 681 | -43 678 | - |
| 110 | Financial and insurance actvities | 378 768 | 61 727 | 60 640 | 378 751 | -36 043 | - |
| 120 | Real estate activities | 5 261 204 | 132 065 | 131 035 | 5 259 579 | -85 327 | - |
| 130 | Professional, scientific and technical activities | 3 373 422 | 61 098 | 52 843 | 3 373 141 | -85 136 | - |
| 140 | Administrative and support service activities | 676 729 | 43 837 | 38 743 | 676 603 | -30 245 | - |
| 150 | Public administration and defense, compulsory social security | 512 | - | - | 512 | -3 | - |
| 160 | Education | 122 756 | 5 667 | 4 331 | 122 756 | -5 573 | - |
| 170 | Human health services and social work activities | 1 066 716 | 24 541 | 23 085 | 1 066 716 | -40 587 | - |
| 180 | Arts, entertainment and recreation | 30 305 | 2 057 | 1 630 | 30 290 | -1 833 | - |
| 190 | Other services | 168 252 | 6 612 | 4 775 | 168 242 | -9 108 | - |
| **200** | **Total** | **52 196 955** | **2 086 429** | **1 959 947** | **51 250 404** | **-1 790 396** | **-** |

**Table 25 EU CQ6 - Collateral valuation - loans and advances as of 31 December 2022**

| | | a | b | c | d | e | f | g | h | i | j | k | l |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Loans and advances | | | | | | | | | | | |
| | | | Performing | | Non-performing | | | | | | | | |
| | | | | | | | Past due > 90 days | | | | | | |
| | | | | Of which past due > 30 days ≤ 90 days | | Unlikely to pay that are not past due or are past due ≤ 90 days | | Of which past due > 90 days ≤ 180 days | Of which: past due > 180 days ≤ 1 year | Of which: past due > 1 years ≤ 2 years | Of which: past due > 2 years ≤ 5 years | Of which: past due > 5 years ≤ 7 years | Of which: past due > 7 years |
| 010 | Gross carrying amount | 95 719 027 | 92 629 670 | 148 417 | 3 089 356 | 1 173 346 | 1 916 010 | 159 601 | 274 262 | 339 090 | 738 855 | 198 489 | 205 713 |
| *020* | *Of which secured* | 72 561 175 | 70 308 911 | 99 388 | 2 252 264 | 908 110 | 1 344 154 | 89 310 | 144 296 | 197 754 | 570 832 | 163 309 | 178 653 |
| *030* | *Of which secured with immovable property* | 49 521 853 | 47 680 308 | 56 316 | 1 841 545 | 741 520 | 1 100 026 | 53 291 | 118 411 | 143 219 | 485 238 | 129 725 | 170 141 |
| *040* | *Of which instruments with LTV higher than 60% and lower or equal to 80%* | 14 487 210 | 14 259 627 | | 227 583 | 82 084 | 145 499 | | | | | | |
| *050* | *Of which instruments with LTV higher than 80% and lower or equal to 100%* | 2 573 004 | 2 398 468 | | 174 536 | 71 156 | 103 381 | | | | | | |
| *060* | *Of which instruments with LTV higher than 100%* | 6 943 506 | 6 543 042 | | 400 464 | 119 821 | 280 643 | | | | | | |
| 070 | Accumulated impairment for secured assets | -2 053 481 | -817 468 | -18 959 | -1 236 012 | -276 491 | -959 521 | -42 871 | -83 174 | -131 888 | -393 551 | -142 188 | -165 850 |
| 080 | Collateral | | | | | | | | | | | | |
| *090* | *Of which value capped at the value of exposure* | *25 989 426* | 25 451 278 | 45 715 | 538 148 | 317 938 | 220 210 | 26 959 | 39 876 | 46 286 | 94 317 | 10 987 | 1 786 |
| *100* | *Of which immovable property* | *18 786 718* | 18 322 008 | 26 467 | 464 710 | 259 253 | 205 457 | 20 742 | 35 663 | 43 725 | 92 836 | 10 705 | 1 786 |
| *110* | *Of which value above the cap* | *198 689 934* | 191 000 221 | 152 646 | 7 689 713 | 3 278 358 | 4 411 355 | | | | | | |
| *120* | *Of which immovable property* | *128 437 900* | 121 872 440 | 146 178 | 6 565 461 | 2 628 350 | 3 937 111 | | | | | | |
| 130 | Financial guarantees received | *1 713 431* | 1 666 018 | 6 110 | 47 413 | 28 959 | 18 454 | 8 319 | 6 076 | 3 810 | 249 | - | - |
| 140 | Accumulated partial write-off | - | - | - | - | - | - | - | - | - | - | - | - |

**Information on collateral obtained by taking possession and execution processes.**

The Bank is cautious about the possibility of taking over the property after unsuccessful enforcement proceedings. The value of the acquired real estate is small in relation to the Bank's scale. As at 31 December 2022 the net value of the properties taken over by the Bank is PLN 0, which is 100% covered by the write-down. The Bank takes a similar cautious approach in the case of debt conversion into stocks or shares in companies. The Bank, usually as part of restructuring proceedings, converts part of its receivables into shares / stocks in companies. The value of shares / stocks as at the reporting date is small in terms of the Bank's operations, and also in terms of recoveries made on the portfolio of impaired loans. The value of provisions covers 83% of the initial value from the date of acquisition. Movable property that is collateral of the contracts is also taken over in collection process.

**Table 26 EU CQ7 - Collateral obtained by taking possession and execution processes as of 31 December 2022**

| | | a | b |
|---|---|---|---|
| | | Collateral obtained by taking possession | |
| | | Value at initial recognition | Accumulated negative changes |
| 010 | Property, plant and equipment (PP&E) | - | - |
| 020 | Other than PP&E | 5 052 | -4 155 |
| *030* | *Residential immovable property* | - | 0 |
| *040* | *Commercial Immovable property* | - | - |
| *050* | *Movable property (auto, shipping, etc.)* | 60 | - |
| *060* | *Equity and debt instruments* | 4 992 | -4 155 |
| *070* | *Other collateral* | - | - |
| **080** | **Total** | **5 052** | **-4 155** |

**Table 27 EU CQ8 - Collateral obtained by taking possession and execution processes – vintage breakdown**

| | | a | b | c | d | e | f | g | h | i | j | k | l |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Debt balance reduction | | Total collateral obtained by taking possession | | | | | | | | | |
| | | | | | | Foreclosed ≤ 2 years | | Foreclosed > 2 years ≤ 5 years | | Foreclosed > 5 years | | Of which non-current assets held-for-sale | |
| | | Gross carrying amount | Accumulated negative changes | Value at initial recognition | Accumulated negative changes | Value at initial recognition | Accumulated negative changes | Value at initial recognition | Accumulated negative changes | Value at initial recognition | Accumulated negative changes | Value at initial recognition | Accumulated negative changes |
| 010 | Collateral obtained by taking possession classified as PP&E | - | - | - | - | | | | | | | | |
| 020 | Collateral obtained by taking possession other than that classified as PP&E | 5 052 | -4 155 | 5 052 | -4 155 | 897 | - | - | - | 4 155 | - 4 155 | - | - |
| *030* | *Residential immovable property* | - | - | - | - | - | - | - | - | - | - | - | - |
| *040* | *Commercial immovable property* | - | - | - | - | - | - | - | - | - | - | - | - |
| *050* | *Movable property (auto, shipping, etc.)* | 60 | - | 60 | - | 60 | - | - | - | - | - | - | - |
| *060* | *Equity and debt instruments* | 4 992 | -4 155 | 4 992 | -4 155 | 837 | - | - | - | 4 155 | - 4 155 | - | - |
| *070* | *Other collateral* | - | - | - | - | - | - | - | - | - | - | - | - |
| **080** | **Total** | 5 052 | -4 155 | 5 052 | -4 155 | 897 | - | - | - | 4 155 | - 4 155 | - | - |

## 8.2. CREDIT RISK MITIGATION TECHNIQUES

In order to decrease the capital requirement, the Bank applies credit risk reduction techniques in the form of funded credit protection and unfunded credit protection. The Bank applies a simplified method of recognizing financial collateral when calculating the capital requirement for credit risk.

In the case of unfunded credit protection, borrowers covered by credit protection in the form of a guarantee receive the guarantor's risk weight - assigned to the entity granting the guarantee. The largest group of providers of unfunded credit protection are banks, including Bank Gospodarstwa Krajowego, KUKE and the Ministry of Finance.

The Bank does not identify risk concentration as part of the credit risk mitigation measures taken.

### On- and off-balance sheet netting

The Bank uses both on-balance sheet netting and off-balance netting techniques.

Netting is a method of calculating the credit exposure for which the actual exposure is lower than the sum of the exposures resulting from each transaction as it takes into account netting between positive and negative exposures and is an important means of mitigating the credit and credit risk of the counterparty.

The bank uses on-balance netting with its parent company - BNP Paribas S.A. and it consists in netting the credit lines used by the Bank (the Bank's liabilities) with deposits placed with BNP Paribas S.A. (Bank receivables).

Off-balance sheet netting is used by the Bank in the case of derivative transactions, concluded under signed master agreements with financial institutions and Clients from the corporate, SME and Micro segments. A master agreement is an agreement in which both parties agree that, in the event of either of them default, the negative valuations of the transaction will compensate with the positive valuations of the transaction. The sum of the valuations (negative and positive) is therefore the total amount of receivables / liabilities for two parties to the transactions. This agreement is an important factor limiting the counterparty's credit risk. In the absence of a master agreement or master agreement with non-netting provisions, the risk of all positively valued transactions is not reduced by negatively valued transactions.

The Bank periodically assesses the used master agreements in terms of the legal force and enforceability of netting and exchange of collateral.

### Policies and processes for estimating and managing recognised collateral

The Bank's collateral model assumes a division of responsibilities for correct conduct of the collateral establishment and operation processes. The owner of the procedure describing legal standards for using collateral for claims, including model collateral agreements, is the Legal Division.

The Risk Processes and Reporting Department is responsible for the Policy of valuation of real estate constituting collateral for credit exposures as well as for maintenance and development of the Instructions for securing lending transactions, which lay down specific rules of establishing, monitoring and assessing the collateral for lending transactions processed by the Bank's business and organisational units.

In the area of real estate collateral, the Policy of valuation of lays down framework requirements, with which the Bank's other internal regulations should be compliant, where such regulations lay down the rules for appraisal of real estate to secure the Bank's claims, verification and approval of the same, specifying among others the following aspects:

- valuation of mortgage collateral on real estate in the process of granting a loan and during the term of the loan agreement,
- monitoring of the value of real estate during the term of the loan agreement,
- recording information/data on real estate constituting mortgage collateral for credit exposure in the Bank's IT systems/applications,
- cooperation with entities/appraisers making real estate appraisals.

Specific rules and requirements for appraisal of real estate, as well as approval and verification of real estate constituting mortgage collateral for credit exposures are laid down in the Bank's separate internal regulations, which are developed and updated under the responsibility of:

- the Credit Methodology and Policy Department - with respect to real estate accepted as mortgage collateral for loans granted to retail Customers (including Wealth Management) and Customers classified to the Business Customer Segment (Micro Enterprises),
- the Credit Control, Collateral and Personal Data Protection Department - with respect to real estate accepted as mortgage collateral for loans granted to SME and Corporate Customers.

In the period of loan utilisation and repayment, the Bank may require the borrower to establish additional collateral apart from the collateral specified in the loan agreement, if - in the opinion of the Bank - the value of established collateral has decreased, the economic or financial standing of the borrower or another obligor has deteriorated or there are grounds to believe that such deterioration will occur.

The actions taken with regard to collateral are aimed to properly secure the Bank's interest, including to establish collateral to ensure the highest possible recovery of claims should it be necessary to apply debt collection measures.

The choice of the relevant scope and mode of operation to satisfy the Bank's claims from collateral depends on the type of collateral. In the basic scenario, the Bank seeks amicable satisfaction from the collateral, under a negotiation process. If the collateral provider is unwilling to cooperate, the Bank's rights in this respect are exercised in accordance with applicable laws and internal regulations, by way of enforcement and bankruptcy proceedings.

The scope of data on collateral recorded in the Bank's IT systems makes it possible to generate information and reports that allow to monitor the portfolio of secured credit exposures, identify risk sources and factors, mitigate the risk and enable appropriate corrective and preventive actions.

## Major types of collateral and basic requirements

The Bank grants loans to Customers that have creditworthiness and, to improve the safety of exposed funds, it establishes relevant collateral. The collateral accepted by the Bank to mitigate the effects of credit risk can be divided into personal collateral, physical collateral and other collateral, which include, among others:

Personal collateral:

- civil law guarantee
- promissory note
- promissory note guarantee
- assignment of claims
- bank guarantee.

Physical collateral:

- transfer of title as collateral
- registered pledge
- mortgage on residential/commercial real estate
- security deposit
- hold on funds in bank accounts.

Other collateral:

- assignment of claims under insurance policy
- loan insurance
- power of attorney to administer a bank account.

The Bank determines the form of collateral, taking into consideration, among others:

- the type and value of secured claims,
- the lending period,
- the borrower's financial standing,
- risks related to the transaction and loan agreement performance,
- features of the collateral arising from relevant applicable laws and agreement on establishment of the collateral,
- the possibility to satisfy the Bank's claims from the collateral in the shortest possible time,
- the legal status of the obligor,
- the value of the collateral asset,
- the existing encumbrance of the collateral asset,
- the cost of collateral.

**Civil law guarantee -** by way of a guarantee agreement, the guarantor commits to the Bank to repay the debt if the Customer defaults on their obligation. The Bank accepts guarantees for liabilities existing at the time of issuing a guarantee as well as those that may arise in the future under lending transactions made with the Customer. When accepting a guarantee, the Bank determines whether the guarantor meets the approval criteria in accordance with the Bank's internal regulations on Customer lending rules. The Bank accepts guarantees:

- for a specific term - i.e. with the expiration date specified in the guarantee agreement, equal to 36 months after the debt repayment deadline laid down in the loan/credit facility agreement,
- for a specific amount - i.e. up to the amount corresponding to 150% of the loan/credit facility limit secured with the guarantee.

**Promissory note -** the Bank accepts promissory notes issued on the Bank's forms. Together with a promissory note, the issuer is obliged to submit a promissory note declaration. When accepting this type of collateral, the Bank assesses the economic and financial standing of the promissory note issuer in order to determine their capacity to repay the lending transaction which the promissory note is to secure. As a rule, the Bank does not accept a Customer's blank promissory note as independent collateral for a lending transaction.

**Promissory note guarantee** - the Bank prefers promissory note guarantees for the repayment of the entire obligation under a promissory note. The Bank requires that the promissory note guarantor submit a promissory note declaration prepared in accordance with the Bank's template. The Bank determines whether the promissory note guarantor meets the approval criteria in accordance with the Bank's internal regulations on Customer lending rules.

**Assignment of claims as collateral** - it is an agreement between an assignor (Customer or third party) and the Bank, under which cash claims due to the assignor are assigned to the Bank, with a reservation that the assignment becomes effective if the debt is not repaid within the time limit laid down in the loan agreement or in the Bank's notice of termination of the loan agreement. The Bank accepts assignments of cash claims as collateral only if such assignments are not restricted or excluded by generally applicable laws or the agreement between the assignor and the claim debtor, with a reservation that claims assignable upon a party's approval may be assigned if such an approval has been obtained prior to making the assignment agreement.

**Bank guarantee** for loan repayment is a unilateral commitment of the bank - guarantor towards the Bank to repay the debt if the Customer defaults on their obligation under the loan agreement, on first written demand of the Bank. The Bank accepts as collateral the bank guarantees which are:

- unconditional, payable on first written demand,
- irrevocable,
- granted by banks for which the Bank has set a financial exposure limit.

For a bank guarantee, the assessment of the debtor's economic and financial standing under the collateral is replaced by confirmation that the Bank has set a financial exposure limit for the guarantor.

**Transfer of title as collateral** consists in transferring the title to a movable asset by the Customer or a third party (the transferor) to the Bank, with a reservation that if the debt is repaid within the time limit laid down in the loan agreement or in the Bank's notice of termination of the loan agreement, the title to such a movable asset is transferred automatically to the transferor. The Bank makes title transfer agreements only for unencumbered assets, the transferability of which is not restricted by generally applicable laws or the agreement, without any possibility of derogations in this respect. The Bank does not accept a transfer of title interest or a transfer of title to livestock as collateral. The Bank requires that, during the entire lending period, the transferred asset be insured against fire and other fortuitous events and that the transferor transfer the rights under the insurance policy to the Bank.

**Registered pledge** is a limited right in rem established to secure a specified cash claim of the Bank, under which the Bank will have the right to satisfy its claim from the pledged asset with priority over other creditors, except for those creditors who have a special priority right under the law. To establish a registered pledge, it is necessary to make a registered pledge agreement and an entry in the pledge register.

**Mortgage** is a limited property right that allows the Bank to satisfy its secured claims from the mortgaged asset, regardless of whose property it is and with priority over personal creditors of the mortgagor. The Bank does not accept as collateral any mortgage on:

- real estate located outside the country,
- the fractional part of real estate, however this exclusion does not apply to mortgage on participation in the access road to real estate, multi-car garage or the common part of real estate, as well as special cases, as laid down in the credit decision,
- real estate under construction, extension, reconstruction, renovation, modernization or restoration, unless such construction, extension, reconstruction, renovation, modernization or restoration is a project financed by the Bank.

The Bank prefers that a mortgage in favour of the Bank be entered as first-priority mortgage in Section IV of the Land and Mortgage Register, which is possible if:

- Section IV of the Land and Mortgage Register does not contain any mortgage or a mention of a mortgage application filed, or
- the Land and Mortgage Register shows the right of the real estate owner to dispose of the vacated first-priority mortgage entry and the Customer establishes a mortgage in favour of the Bank on such a vacated mortgage entry.

A mortgage in favour of the Bank may be entered with further priority if the real estate appraisal and the amount of first-priority mortgage encumbrances show that the Bank will be able to effectively satisfy its claim, subject to the Bank's separate internal regulations, in particular product regulations providing for the requirement to enter first-priority mortgage in favour of the Bank.

**Security deposit** is a transfer by the Customer or a third party (the person making the deposit) of title to a specified amount of cash in PLN or in convertible currency to the Bank, with a reservation that the Bank commits to return such an amount plus an agreed fee after the debt has been repaid in full. The assessment of collateral in the form of a security deposit is made by the Bank employees and consists in verifying the adequacy of the amount of funds paid as a security deposit in relation to the amount of the secured transaction.

**Hold on funds in a bank account** - to secure the repayment of debt, the holder of a bank account maintained by the Bank or another bank may put an irrevocable hold on funds in the account until the debt is repaid in full and at the same time grant an irrevocable power of attorney to the Bank to collect the funds on hold for the purpose of repaying such a debt. During the period of the hold, the account holder may not use the funds on hold without the Bank's approval. The hold on funds in a bank account may be made on any account, whether in PLN or in convertible currencies, held by the Customer or a third party, provided that a power of attorney may be granted to administer the account. The Bank requires that the funds be put on hold until the debt is repaid in full. The assessment of collateral in the form of hold of funds in a bank account is made by the competent Bank employees and consists in verifying the adequacy of the amount of cash in the bank account in relation to the amount of the loan.

**Assignment of claims under insurance policy** for the collateral asset is an agreement between the insured and the Bank, under which the insured (assignor) transfers claims against the insurer to the Bank as collateral for the loan obligation, with a reservation that when the debt is repaid, the assignment becomes null and void and the insured is restored to the status of beneficiary under the insurance, with no need to make a separate agreement. Claims under the insurance policy are assigned where the insured asset is the asset under collateral in the form of a registered pledge or a mortgage.

**Loan insurance** - the Bank accepts loan insurance as collateral only on the basis of a general agreement between the Bank and an insurer from the list of insurers approved by the Bank.

**Power of attorney to administer a bank account** - the Bank may accept a power of attorney to administer the bank account of a Customer or a third party who is the Bank's debtor under collateral if the debt is not repaid on time. A power of attorney to administer a bank account may not constitute independent collateral for a lending transaction. The decision on the collateral for a specific lending transaction is a component of a credit decision. When calculating a percentage coverage of the credit exposure with the collateral value, only the collateral meeting the following requirements may be considered:

- the Bank has to have a duly documented and enforceable legal title to the collateral,
- the collateral must have durable internal value and, for at least the term of the loan agreement, be regularly monitored and appraised,
- the collateral must be converted into cash in reasonable time, based on documented court decisions,
- there should not be a strong correlation between the collateral value and the borrower's financial standing.

## Collateral monitoring and review

Collaterals for lending transactions are monitored by:

- a business analyst, an Account Manager - as part of monitoring the Customer and lending transactions made with them;
- the Credit Control, Collateral and Personal Data Protection Department with respect to collateral that has expired/is to expire/has not been established for lending transactions made by SME or Corporate Customers;
- the Retail Operations Department with respect to collateral for mortgage loans.

The monitoring process is supported by banking systems such as the Monitoring Card, dedicated applications and numerous reports. The collateral monitoring processes also use channels for automated Customer notification of collateral with the approaching date of collateral establishment or renewal. The monitoring also includes periodic reviews of collateral. The scope and frequency of such reviews, performed at least once a year, depend on the type of collateral asset and include:

- determination of collateral value and its changes since the last review,
- correctness, completeness and validity of documents related to the collateral established,
- correctness, completeness and validity of insurance documents related to physical collateral (review of insurance policies, ways to pay for the same, validity terms).

**Monitoring of the value of real estate collateral**

When monitoring the value of real estate collateral, the Bank monitors the value of such real estate at least once every three years for exposures with the current LTV ratio below 80%. In other cases, the value is monitored in annual cycles. The real estate value is monitored based on a real estate revaluation made using a statistical method and an individual method, in line with the “Rules for Portfolio Revaluation of Real Estate Collateral for Credit Exposures of BNP Paribas Bank Polska S.A.” and the “Rules for valuation of real estate mortgage collateral for loans granted to SME and Corporate Customers at BNP Paribas Bank Polska S.A.”.

The revaluation of real estate during the lending period is aimed, among others, at:

- taking actions to mitigate a potential risk related to the lack of collateral with the value adequate to the transaction amount,
- identifying mortgage-secured lending transactions for which the LTV ratio levels acceptable to the Bank have been exceeded.

The Bank assesses the adequacy of collateral for a credit exposure through the LTV ratio, which is calculated before the credit decision is made, as well as during the monitoring process throughout the term of the agreement. When calculating the LTV ratio during the monitoring of the loan granted, the Bank takes into consideration the present value of real estate, including the value revaluated using the statistical method.

**Methodology of real estate appraisal**

Any real estate used as collateral should have its market value estimated and recorded. The market value of real estate means an estimated amount that can be obtained for the real estate on the appraisal date in an arm’s length sales transaction between a buyer and a seller who have a firm intention to make an agreement, act knowledgeably and with prudence, and are not in a forced situation. The market value of real estate may be determined using the comparative or income method, and the appraisal itself should be performed in accordance with the factual and legal status of the real estate. For real estate during an investment process, the appraisal determines the market value of such real estate in its current condition and the future value of such real estate after the completion of construction works, according to the relevant architectural and construction documentation. The value of real estate should be estimated prudently and carefully, should not deviate from the average prices/rent rates of real estate in the market or a parallel market.

For non-retail Clients, every external appraisal is verified internally in accordance with rules specified in internal procedures. For important mortgage-secured loan exposures such verification is carried out by experts from the Collateral Team who hold the titles of valuation experts. The post-verification value of collaterals taken for internal purposes of the Bank may, therefore, differ from those presented in external valuations. Additionally, the Bank has a list of real estates that are unacceptable or conditionally acceptable, which means that regardless of an external valuation, in external cases, the Bank may consider a mortgage on such a real estate as a comfort factor (zero value).

In the area of individual Customers and Micro Customers, the Bank has put in place the rules for accepting and verifying the real estates accepted as collateral for loans granted to retail Customers and Micro Customers. The rules specify the boundary conditions concerning the acceptance of credited/collateralized real estates, contain a list of acceptable and unacceptable real estate types, the basic requirements with respect to the necessary documents pertaining to the real estates, the rules for verifying such documents, the ways in which the mortgage collateral value may be appraised and the rules for verifying the value of real estates collateralized by the Bank.

A real estate collateralized for a loan must have a specified market value that is subject to verification. Verification is carried out based on offered prices, transaction prices set based on a credible source by comparing real estate of similar characteristics. For this purpose, the Bank uses information from internal databases, external databases and web portals. The real estate value to be accepted for internal purposes of the Bank may be accepted at a level lower than the value indicated in the valuation.

**Methodology for the valuation of collateral in the form of movable property**

For collateral in the form of new movables, at the time of loan granting, the Bank determines the value of collateral on the basis of the purchase invoice, the sales agreement or an executive estimate, subject to verification of the arm’s length nature for each such case. For used passenger cars and trucks, at the time of granting the financing to retail and micro-enterprise Customers, the verification of the vehicle value is based on comparison of the transaction price with the market value of the vehicle established on the basis of information in the Info-Ekspert/Eurotax database. Data obtained from other reliable databases and sources, such as industry catalogues or expert appraisals, may also be used to determine the collateral value. On the other hand, in the process of monitoring used passenger cars and trucks (for all Customer segments), the Bank relies on the revaluation of vehicles made using the statistical method. For other collateral in the form of used movables, where their value is below the estimated value threshold, the Bank uses a twofold approach to appraisal - based on the current insurance policy/sales agreement/invoice or based on the depreciation table for a specific type of collateral. For collateral with the value above the threshold determined in accordance with the proportionality principle, the movable collateral specified in the internal regulations is appraised by an appraiser at the time of granting the financing.

The tables below contain data on collaterals in accordance with Regulation (EU) No 2021/637.

**Table 28 EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques as of 31 December 2022**

| | | Unsecured carrying amount | Secured carrying amount | | | |
|---|---|---|---|---|---|---|
| | | | | Of which secured by collateral | Of which secured by financial guarantees | |
| | | | | | | Of which secured by credit derivatives |
| | | a | b | c | d | e |
| 1 | Loans and advances | 74 183 261 | 27 702 857 | 25 989 426 | 1 713 431 | - |
| 2 | Debt securities | 39 639 962 | - | - | - | |
| 3 | Total | 113 823 223 | 27 702 857 | 25 989 426 | 1 713 431 | - |
| 4 | *Of which non-performing exposures* | 795 226 | 585 561 | 538 148 | 47 413 | - |
| EU-5 | *Of which defaulted* | 792 712 | 582 747 | | | |

The table below shows the effect of all credit risk mitigation techniques. The density of risk-weighted assets is a synthetic indicator of the risk level for individual portfolios.

**Table 29 EU CR4 – Standardised approach – Credit risk exposure and CRM effects as of 31 December 2022**

| | | Exposures before CCF and before CRM | | Exposures post CCF and post CRM | | RWAs and RWAs density | |
|---|---|---|---|---|---|---|---|
| | | On-balance-sheet exposures | Off-balance-sheet exposures | On-balance-sheet exposures | Off-balance-sheet amount | RWAs | RWAs density (%) |
| | **Exposure classes** | a | b | c | d | e | f |
| 1 | Central governments or central banks | 30 676 410 | 27 | 40 329 700 | 702 | 2 151 421 | 5,33% |
| 2 | Regional government or local authorities | 123 759 | 89 564 | 123 759 | 44 182 | 33 588 | 20,00% |
| 3 | Public sector entities | 181 | 13 103 | 181 | 2 800 | 1 491 | 50,00% |
| 4 | Multilateral development banks | 1 326 621 | - | 1 326 621 | - | - | 0,00% |
| 5 | International organisations | - | - | - | - | - | 0,00% |
| 6 | Institutions | 10 940 284 | 2 862 986 | 11 021 979 | 856 876 | 2 529 720 | 21,30% |
| 7 | Corporates | 32 552 653 | 18 736 553 | 23 766 206 | 7 305 012 | 29 518 220 | 95,00% |
| 8 | Retail | 21 539 548 | 5 468 628 | 20 901 830 | 1 626 976 | 15 524 750 | 68,91% |
| 9 | Secured by mortgages on immovable property | 42 817 638 | 4 753 457 | 42 487 484 | 2 107 367 | 29 014 406 | 65,06% |
| 10 | Exposures in default | 2 146 319 | 76 357 | 2 113 939 | 32 739 | 2 708 255 | 126,16% |
| 11 | Exposures associated with particularly high risk | - | - | - | - | - | 0,00% |
| 12 | Covered bonds | - | - | - | - | - | 0,00% |
| 13 | Institutions and corporates with a short-term credit assessment | - | - | - | - | - | 0,00% |
| 14 | Collective investment undertakings | - | - | - | - | - | 0,00% |
| 15 | Equity | 215 357 | - | 215 357 | - | 215 357 | 100,00% |
| 16 | Other items | 5 873 845 | 1 204 | 5 925 561 | 69 582 | 2 091 641 | 34,89% |
| **17** | **TOTAL** | **148 212 617** | **32 001 879** | **148 212 617** | **12 046 235** | **83 788 850** | **52,28%** |

## 8.3. APPLICATION OF THE STANDARD METHOD

The risk weights used in the calculation of the capital requirement for credit risk according to the standardized approach are based on the provisions of Chapter 2, Title II, Part III of Regulation (EU) No 575/2013. Risk weight is assigned according to the category to which the exposure belongs and the level of credit quality of the exposure or entity.

- for defaulted exposures, the risk weight is based on the principles set out in Art. 127 of Regulation (EU) No 575/2013;

- for exposures secured by a mortgage on residential real estate, where the amount of the principal or interest installment does not depend on changes in the exchange rate of the currency or currencies other than the currency of the debtor's revenues, in accordance with Art. 125 sec. 2 of Regulation (EU) No 575/2013, the Bank assigns a preferential risk weight of 35% to the part of the exposure that is fully and completely secured by a mortgage on residential real estate and the value of which does not exceed 80% of the market value of the real estate;
- for exposures secured by a mortgage on a commercial real estate, pursuant to Art. 126 of Regulation (EU) No 575/2013 and the Regulation of the Minister of Finance, Funds and Regional Policy of October 8, 2020. amending the Regulation on a higher risk weight for exposures secured by mortgages on real estate, the Bank identifies exposures effectively secured with a commercial mortgage established on real estate used by the borrower to conduct his own business and not generating income generated by rent or profits from their sale, for which preferential risk weights apply;
- for exposures secured by a mortgage on residential real estate, where the amount of the principal or interest installment depends on changes in the exchange rate or currencies other than the currency of the debtor's income pursuant to the Regulation of the Minister of Development and Finance of May 25, 2017. regarding a higher risk weight for exposures secured by mortgages on real estate, the Bank assigns a risk weight of 150%.

Bank for the purposes of determining risk weights for institutions and enterprises, central governments and banks, local government units and local authorities, multilateral development banks, public sector entities, exposures in the form of covered bonds, exposures in the form of participation units and certificates of investment funds uses External Credit Assessment Institutions ratings (ECAI ratings) by: Moody's Investors Service.

If a financial instrument or issue program to which a given exposure belongs has a rating, it is used to determine the weight for this exposure. If an exposure does not have such a rating, but there is a general credit rating of the issuer and there is a rating for a specific financial instrument issue program to which this exposure does not belong, the Bank selects a rating indicating a higher risk weight. However, if there is only one rating - of the issuer or the issue program / financial instrument to which this exposure does not belong, the Bank selects this rating. The selected rating is the basis for determining the risk weight for the exposure, provided that it translates into a higher weight than the weight set for the unclassified exposure.

The table below aims to provide the standardise approach exposures broken down by asset class and risk weight.

**Table 30 EU CR5 – Standardised approach as of 31 December 2022**

| | | Risk weight | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 250% | 370% | 1250% | Inne | Total | Of which unrated |
| | Exposure classes | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o | p | q |
| 1 | Central governments or central banks | 39 408 918 | - | - | - | 66 212 | - | - | - | - | - | - | 855 272 | - | - | - | 40 330 402 | 40 330 402 |
| 2 | Regional government or local authorities | - | - | - | - | 167 941 | - | - | - | - | - | - | - | - | - | - | 167 941 | - |
| 3 | Public sector entities | - | - | - | - | - | - | 2 981 | - | - | - | - | - | - | - | - | 2 981 | - |
| 4 | Multilateral development banks | 1 326 621 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 326 621 | 1 326 621 |
| 5 | International organisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0 | - |
| 6 | Institutions | - | 7 657 | - | - | 11 555 574 | - | 192 921 | - | - | 122 703 | - | - | - | - | - | 11 878 855 | 53 620 |
| 7 | Corporates | - | - | - | - | - | - | 68 | - | - | 31 071 150 | - | - | - | - | - | 31 071 218 | 1 869 687 |
| 8 | Retail exposures | - | - | - | - | - | - | - | - | 22 528 805 | - | - | - | - | - | - | 22 528 805 | 1 829 127 |
| 9 | Exposures secured by mortgages on immovable property | - | - | - | - | - | 15 221 964 | 4 669 062 | - | 9 636 082 | 11 245 482 | 3 822 261 | - | - | - | - | 44 594 850 | 3 568 330 |
| 10 | Exposures in default | - | - | - | - | - | - | - | - | - | 1 023 522 | 1 123 156 | - | - | - | - | 2 146 678 | - |
| 11 | Exposures associated with particularly high risk | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 12 | Covered bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 13 | Exposures to institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Units or shares in collective investment undertakings | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 15 | Equity exposures | - | - | - | - | - | - | - | - | - | 215 357 | - | - | - | - | - | 215 357 | 215 357 |
| 16 | Other items | 3 586 115 | - | - | - | 395 776 | - | - | - | - | 2 013 252 | - | - | - | - | - | 5 995 143 | 6 450 604 |
| 17 | TOTAL | 44 321 655 | 7 657 | - | - | 12 185 503 | 15 221 964 | 4 865 032 | - | 32 164 887 | 45 691 465 | 4 945 417 | 855 272 | - | - | - | 160 258 852 | 55 643 748 |

## 8.4. EXPOSURES SUBJECT TO MEASURES APPLIED IN RESPONSE TO THE COVID-19 CRISIS

In response to the need to address negative economic consequences of COVID-19 pandemic, the European Union (EU) and Member States have introduced a wide range of mitigating measures to support the real economy and the financial sector. As part of such measures, some Member States have introduced legislative moratoria on loan repayments granting the borrowers various forms of payment holidays on their existing loans. Various forms of public guarantees to be applied to new lending have been also introduced. Coordinating supervisory response to these measures, the European Banking Authority (EBA) issued guidelines of 2 April 2020 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 .

Due to the outbreak of the next wave of the COVID-19 pandemic, the EBA has issued an update of the above-mentioned guidelines. Under the EBA/GL/2020/15 guidelines of December 2, 2020 amending the EBA/GL/2020/02 guidelines, it was possible to offer non-statutory moratoria to borrowers until March 31, 2021. Currently, the Bank only monitors behavior of the exposure subject to moratoria, both statutory and non-statutory.

Application of payment moratoria and the public guarantees necessitates additional collection of information from the institutions for supervisory purposes, and also calls for public disclosure for the purposes of market discipline and transparency for investors and in the wider public interest. As a coordinated approach to the collection of information regarding the application of the payment moratoria to the existing loans and public guarantees to new lending in response to COVID-19 pandemic, the EBA has introduced additional reporting and disclosure covering both aspects by issuing guidelines EBA/GL/2020/07 of 2 June 2020 on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis.

In the tables below, the Bank presents information in accordance with the disclosure templates covering information on exposures subject to legislative and non-legislative moratoria and on newly originated exposures subject to public guarantee schemes, specified in Annex 3 of the EBA/GL/2020/07 guidelines. Since second quarter of 2021, only statutory payment moratoria are granted - introduced by the so-called Anti-Crisis shield 4.0 (“Act on interest subsidies for bank loans granted to entrepreneurs affected by COVID-19 and on simplified proceedings for approval of an arrangement in connection with the occurrence of COVID-19”, of 19 June 2020) as well as public guarantees limiting the effects of COVID-19.

**Table 31 Template 1 - Information on loans and advances subject to legislative and non-legislative moratoria as of 31 December 2022**

| | | Gross carrying amount | | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk | | | | | | | Gross carrying amount |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Performing | | | Non-performing | | | | Performing | | | Non-performing | | | |
| | | | | Of which: exposures with forbearance measures | Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2) | | Of which: exposures with forbearance measures | Of which: Unlikely to pay that are not past-due or past-due <= 90 days | | | Of which: exposures with forbearance measures | Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2) | | Of which: exposures with forbearance measures | Of which: Unlikely to pay that are not past-due or past-due <= 90 days | Inflows to non-performing exposures |
| 1 | Loans and advances subject to moratorium | 4 329 987 | 3 749 013 | 202 448 | 1 070 059 | 580 974 | 328 753 | 323 245 | -393 053 | -102 064 | -15 664 | -88 313 | -290 989 | -151 412 | -112 767 | 32 988 |
| 2 | of which: Households | 2 504 023 | 2 176 969 | 175 033 | 639 674 | 327 054 | 211 405 | 191 093 | -220 822 | -63 714 | -13 401 | -57 446 | -157 108 | -87 064 | -63 312 | 17 401 |
| *3* | *of which: Collateralised by residential immovable property* | 1 953 554 | 1 761 839 | 129 336 | 474 788 | 191 715 | 134 911 | 129 728 | -115 163 | -39 354 | -8 571 | -36 552 | -75 809 | -46 345 | -36 936 | 8 349 |
| 4 | of which: Non-financial corporations | 1 824 075 | 1 570 968 | 27 415 | 430 385 | 253 107 | 117 330 | 132 152 | -171 792 | -38 345 | -2 263 | -30 868 | -133 447 | -64 335 | -49 455 | 14 791 |
| *5* | *of which: Small and Medium-sized Enterprises* | 1 159 237 | 942 612 | 20 781 | 326 925 | 216 625 | 104 254 | 115 473 | -146 378 | -32 060 | -2 094 | -26 528 | -114 318 | -55 714 | -42 798 | 14 791 |
| *6* | *of which: Collateralised by commercial immovable property* | 1 340 742 | 1 180 465 | 21 084 | 315 021 | 160 276 | 85 658 | 85 897 | -104 228 | -25 366 | -1 462 | -20 492 | -78 862 | -43 804 | -29 390 | 10 637 |

**Table 32 Template 2 - Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria as of 31 December 2022**

| | | | Gross carrying amount | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Residual maturity of moratoria | | | | |
| | | Number of obligors | | Of which: legislative moratoria | Of which: expired | <= 3 months | > 3 months <= 6 months | > 6 months <= 9 months | > 9 months <= 12 months | > 1 year |
| 1 | Loans and advances for which moratorium was offered | 30 | 4 329 987 | | | | | | | |
| 2 | Loans and advances subject to moratorium (granted) | 30 | 4 329 987 | 199 612 | 4 329 987 | - | - | - | - | - |
| 3 | of which: Households | | 2 504 023 | 199 163 | 2 504 023 | - | - | - | - | - |
| *4* | *of which: Collateralised by residential immovable property* | | 1 953 554 | 107 231 | 1 953 554 | - | - | - | - | - |
| 5 | of which: Non-financial corporations | | 1 824 075 | 450 | 1 824 075 | - | - | - | - | - |
| *6* | *of which: Small and Medium-sized Enterprises* | | 1 159 237 | 450 | 1 159 237 | - | - | - | - | - |
| *7* | *of which: Collateralised by commercial immovable property* | | 1 340 742 | 145 | 1 340 742 | - | - | - | - | - |

**Table 33 Template 3 - Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis as of 31 December 2022**

| | | a | b | c | d |
|---|---|---|---|---|---|
| | | Gross carrying amount | | Maximum amount of the guarantee that can be considered | Gross carrying amount |
| | | | of which: forborne | Public guarantees received | Inflows to non-performing exposures |
| 1 | **Newly originated loans and advances subject to public guarantee schemes** | 2 549 440 | 26 263 | 1 896 119 | 43 930 |
| *2* | of which: Households | - | | | - |
| *3* | of which: Collateralised by residential immovable property | - | | | - |
| *4* | of which: Non-financial corporations | 2 548 458 | 26 263 | 1 895 334 | 43 930 |
| *5* | of which: Small and Medium-sized Enterprises | 1 676 597 | | | 43 930 |
| *6* | of which: Collateralised by commercial immovable property | 850 023 | | | 26 818 |

# 9. COUNTERPARTY CREDIT RISK

Counterparty risk exposure and risk-weighted assets are calculated on the basis of the standardized approach (SACCR) in line with Regulation (EU) No 575/2013. As part of counterparty credit risk mitigation, the Bank uses contractual netting in accordance with Articles 295-298 of Regulation (EU) No 575/2013.

The methodology of calculating internal capital for counterparty credit risk is closely related to the methodology of measuring this risk at the Bank and takes into account the current valuation of contracts, their potential change (the so-called "Potential Future Exposure"), as well as the value of the probability of a default event of individual contractors (so-called PD) estimated by the Bank.

The tables below present information on the Bank's counterparty credit risk in accordance with Annex XXV to Regulation (EU) No 2021/637.

**Table 34 EU CCR1– Analysis of CCR exposure by approach as of 31 December 2022**

| | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | | Replacement cost (RC) | Potential future exposure (PFE) | EEPE | Alpha used for computing regulatory exposure value | Exposure value pre-CRM | Exposure value post-CRM | Exposure value | RWEA |
| EU-1 | EU - Original Exposure Method (for derivatives) | - | - | | 1.4 | - | - | - | - |
| EU-2 | EU - Simplified SA-CCR (for derivatives) | - | - | | 1.4 | - | - | - | - |
| 1 | SA-CCR (for derivatives) | 614 053 | 1 044 067 | | 1.4 | 3 553 884 | 2 321 368 | 2 085 707 | 1 515 856 |
| 2 | IMM (for derivatives and SFTs) | | | - | - | - | - | - | - |
| 2a | *Of which securities financing transactions netting sets* | | | - | | - | - | - | - |
| 2b | *Of which derivatives and long settlement transactions netting sets* | | | - | | - | - | - | - |
| 2c | *Of which from contractual cross-product netting sets* | | | - | | - | - | - | - |
| 3 | Financial collateral simple method (for SFTs) | | | | | - | - | - | - |
| 4 | Financial collateral comprehensive method (for SFTs) | | | | | - | - | - | - |
| 5 | VaR for SFTs | | | | | - | - | - | - |
| 6 | **Total** | | | | | **3 553 884** | **2 321 368** | **2 085 707** | **1 515 856** |

**Table 35 EU CCR2– Transactions subject to own funds requirements for CVA risk as of 31 December 2022**

| | | a | b |
|---|---|---|---|
| | | Exposure value | RWEA |
| 1 | Total transactions subject to the Advanced method | - | - |
| 2 | (i) VaR component (including the 3× multiplier) | | - |
| 3 | (ii) stressed VaR component (including the 3× multiplier) | | - |
| 4 | Transactions subject to the Standardised method | 413 088 | 56 865 |
| EU-4 | Transactions subject to the Alternative approach (Based on the Original Exposure Method) | - | - |
| 5 | **Total transactions subject to own funds requirements for CVA risk** | **413 088** | **56 865** |

**Table 36 EU CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights as of 31 December 2022**

| | | Risk weight | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k | l |
| | Exposure classes | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Others | Total exposure value |
| 1 | Central governments or central banks | - | - | - | - | - | - | - | - | - | - | - | - |
| 2 | Regional government or local authorities | - | - | - | - | - | - | - | - | - | - | - | - |
| 3 | Public sector entities | - | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Multilateral development banks | - | - | - | - | - | - | - | - | - | - | - | - |
| 5 | International organisations | - | - | - | - | - | - | - | - | - | - | - | - |
| 6 | Institutions | - | 35 446 | - | - | 568 154 | 77 205 | - | - | - | - | - | 680 805 |
| 7 | Corporates | - | - | - | - | - | - | - | - | 1 369 378 | - | - | 1 369 378 |
| 8 | Retail | - | - | - | - | - | - | - | 35 525 | - | - | - | 35 525 |
| 9 | Institutions and corporates with a | - | - | - | - | - | - | - | - | - | - | - | - |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | short-term credit assessment | | | | | | | | | | | | |
| 10 | Other items | - | - | - | - | - | - | - | - | - | - | - | - |
| 11 | **Total exposure value** | **-** | **35 446** | **-** | **-** | **568 154** | **77 205** | **-** | **35 525** | **1 369 378** | **-** | **-** | **2 085 707** |

**Table 37 EU CCR5 – Composition of collateral for CCR exposures as of 31 December 2022**

| | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | | Collateral used in derivative transactions | | | | Collateral used in SFTs | | | |
| | Collateral type | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | | Fair value of posted collateral | |
| | | Segregated | Unsegregated | Segregated | Unsegregated | Segregated | Unsegregated | Segregated | Unsegregated |
| 1 | Cash – domestic currency | - | 23 744 | 737 510 | 2 245 | - | - | - | - |
| 2 | Cash – other currencies | 5 906 | 623 278 | 120 980 | 52 100 | - | - | - | - |
| 3 | Domestic sovereign debt | - | - | 94 241 | - | - | - | - | - |
| 4 | Other sovereign debt | 503 738 | - | - | - | - | - | - | - |
| 5 | Government agency debt | - | - | - | - | - | - | - | - |
| 6 | Corporate bonds | - | - | - | - | - | - | - | - |
| 7 | Equity securities | - | - | - | - | - | - | - | - |
| 8 | Other collateral | - | - | - | - | - | - | - | - |
| 9 | **Total** | **509 644** | **647 022** | **952 732** | **54 345** | **-** | **-** | **-** | **-** |

**Table 38 EU CCR8 – Exposures to CCPs as of 31 December 2022**

| | | a | b |
|---|---|---|---|
| | | Wartość ekspozycji | Kwoty ekspozycji ważonej ryzykiem |
| 1 | **Ekspozycje wobec kwalifikujących się kontrahentów centralnych (ogółem)** | | **1 711** |
| 2 | Ekspozycje z tytułu transakcji wobec kwalifikujących się kontrahentów centralnych (z wyłączeniem początkowego depozytu zabezpieczającego i wkładów do funduszu na wypadek niewykonania zobowiązania); w tym: | 39 458 | 1 691 |
| 3 | (i) instrumenty pochodne będące przedmiotem obrotu poza rynkiem regulowanym; | 39 458 | 1 691 |
| 4 | (ii) giełdowe instrumenty pochodne; | - | - |
| 5 | (iii) transakcje finansowe z użyciem papierów wartościowych | - | - |
| 6 | (iv) pakiety kompensowania, dla których zatwierdzono kompensowanie międzyproduktowe | - | - |
| 7 | Wyodrębnione początkowe depozyty zabezpieczające | 69 851 | - |
| 8 | Niewyodrębnione początkowe depozyty zabezpieczające | - | - |
| 9 | Wniesione z góry wkłady do funduszu na wypadek niewykonania zobowiązania | 1 000 | 20 |
| 10 | Niewniesione wkłady do funduszu na wypadek niewykonania zobowiązania | - | - |
| 11 | **Ekspozycje wobec niekwalifikujących się kontrahentów centralnych (ogółem)** | | **-** |
| 12 | Ekspozycje z tytułu transakcji wobec niekwalifikujących się kontrahentów centralnych (z wyłączeniem początkowego depozytu zabezpieczającego i wkładów do funduszu na wypadek niewykonania zobowiązania); w tym: | - | - |
| 13 | (i) instrumenty pochodne będące przedmiotem obrotu poza rynkiem regulowanym; | - | - |
| 14 | (ii) giełdowe instrumenty pochodne; | - | - |
| 15 | (iii) transakcje finansowe z użyciem papierów wartościowych | - | - |
| 16 | (iv) pakiety kompensowania, dla których zatwierdzono kompensowanie międzyproduktowe | - | - |
| 17 | Wyodrębnione początkowe depozyty zabezpieczające | - | |
| 18 | Niewyodrębnione początkowe depozyty zabezpieczające | - | - |
| 19 | Wniesione z góry wkłady do funduszu na wypadek niewykonania zobowiązania | - | - |
| 20 | Niewniesione wkłady do funduszu na wypadek niewykonania zobowiązania | - | - |

# 10. LIQUIDITY REQUIREMENTS

The Bank discloses information on liquidity requirements pursuant to Art. 451a of the Regulation (EU) No 575/2013.

Disclosing the information required in template EU LIQ1, the Bank provides the values and numerical data required for each of the four calendar quarters (January-March, April-June, July-September, October-December) preceding the disclosure date. Values presented are calculated as aritmeetical mean from the end of month observations for 12 months preceding end of each quarter.

**Table 39 EU LIQ1 - Quantitative information of LCR**

| Scope of consolidation: consolidated | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | | Total unweighted value (average) | | | | Total weighted value (average) | | | |
| EU 1a | Quarter ending on (DD Month YYY) | 31 December 2022 | 30 September 2022 | 30 June 2022 | 31 March 2022 | 31 December 2022 | 30 September 2022 | 30 June 2022 | 31 March 2022 |
| EU 1b | Number of data points used in the calculation of averages | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| **HIGH-QUALITY LIQUID ASSETS** | | | | | | | | | |
| 1 | Total high-quality liquid assets (HQLA) | | | | | 30 439 096 | 31 254 105 | 33 249 643 | 35 143 579 |
| **CASH - OUTFLOWS** | | | | | | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 71 528 391 | 70 225 605 | 67 828 945 | 66 710 913 | 5 678 522 | 5 633 222 | 5 425 933 | 5 331 684 |
| 3 | *Stable deposits* | 43 185 175 | 42 643 062 | 41 820 564 | 41 688 130 | 2 159 259 | 2 132 153 | 2 091 028 | 2 084 406 |
| 4 | *Less stable deposits* | 27 467 943 | 26 900 145 | 25 074 971 | 24 053 742 | 3 519 263 | 3 501 069 | 3 334 905 | 3 247 278 |
| 5 | Unsecured wholesale funding | 40 073 023 | 37 370 591 | 35 730 935 | 33 466 644 | 15 556 284 | 14 395 822 | 13 767 248 | 12 955 943 |
| 6 | *Operational deposits (all counterparties) and deposits in networks of cooperative banks* | 11 347 743 | 11 344 128 | 11 186 030 | 10 194 936 | 2 836 936 | 2 836 032 | 2 796 508 | 2 548 734 |
| 7 | *Non-operational deposits (all counterparties)* | 28 703 304 | 26 001 894 | 24 517 472 | 23 241 226 | 12 697 372 | 11 535 222 | 10 943 309 | 10 376 727 |
| 8 | *Unsecured debt* | 21 977 | 24 569 | 27 432 | 30 482 | 21 977 | 24 569 | 27 432 | 30 482 |
| 9 | Secured wholesale funding | | | | | - | - | - | - |
| 10 | Additional requirements | 40 889 809 | 41 039 702 | 41 098 153 | 40 340 184 | 15 958 453 | 15 370 017 | 15 217 114 | 14 302 275 |
| 11 | *Outflows related to derivative exposures and other collateral requirements* | 13 322 496 | 12 536 328 | 12 236 591 | 11 165 110 | 13 322 496 | 12 536 328 | 12 236 591 | 11 165 110 |
| 12 | *Outflows related to loss of funding on debt products* | - | - | - | - | - | - | - | - |
| 13 | *Credit and liquidity facilities* | 27 567 313 | 28 503 374 | 28 861 562 | 29 175 074 | 2 635 957 | 2 833 689 | 2 980 523 | 3 137 165 |
| 14 | Other contractual funding obligations | 5 803 147 | 5 029 156 | 4 148 202 | 3 449 152 | 2 491 503 | 1 719 172 | 1 027 105 | 563 336 |
| 15 | Other contingent funding obligations | 16 577 043 | 16 932 262 | 17 291 559 | 17 401 657 | 25 360 | 21 044 | 15 192 | 7 209 |
| 16 | TOTAL CASH OUTFLOWS | | | | | 39 710 122 | 37 139 279 | 35 452 592 | 33 160 447 |
| **CASH - INFLOWS** | | | | | | | | | |
| 17 | Secured lending (e.g. reverse repos) | - | - | - | - | - | - | - | - |
| 18 | *Inflows from fully performing exposures* | 8 617 737 | 5 875 490 | 3 894 710 | 2 993 940 | 7 446 878 | 4 805 366 | 2 916 193 | 2 049 786 |
| 19 | *Other cash inflows* | 12 747 178 | 11 981 418 | 11 706 842 | 10 670 387 | 12 747 178 | 11 981 418 | 11 706 842 | 10 670 387 |
| EU-19a | (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies) | | | | | 0 | 0 | 0 | 0 |
| EU-19b | (Excess inflows from a related specialised credit institution) | | | | | 0 | 0 | 0 | 0 |
| 20 | TOTAL CASH INFLOWS | 21 364 915 | 17 856 908 | 15 601 552 | 13 664 327 | 20 194 056 | 16 786 784 | 14 623 034 | 12 720 172 |
| EU-20a | *Fully exempt inflows* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EU-20b | *Inflows subject to 90% cap* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EU-20c | *Inflows subject to 75% cap* | 21 364 915 | 17 856 908 | 15 601 552 | 13 664 327 | 20 194 056 | 16 786 784 | 14 623 034 | 12 720 172 |
| **TOTAL ADJUSTED VALUE** | | | | | | | | | |
| EU-21 | LIQUIDITY BUFFER | | | | | 30 439 096 | 31 254 105 | 33 249 643 | 35 143 579 |
| 22 | TOTAL NET CASH OUTFLOWS | | | | | 19 516 065 | 20 352 494 | 20 829 558 | 20 440 275 |
| 23 | LIQUIDITY COVERAGE RATIO | | | | | 157,71% | 154,58% | 160,62% | 173,48% |

The Bank collects diversified sources of funds, that ensure stable liquidity situation. The Bank holds as well high liquid assets portfolio, that can be used as the source of liquidity in case of need and ensure access to the liquidity during one day. Above mentioned elements enable stable liquidity management both in the normal situation as well as in the crisis or emergency one. High share of liquid assets (Level 1 only) ensures compliance with the regulatory and internal liquidity requirements.

The main aspects having impact on the LCR measure is funding structure of the Bank and size of the high liquid assets portfolio, in particular its liquidity level. In the funding structure on the one side the funding sources structure is important (segment of the

Customer) and from the other product type of the liability. Diversification scale of the funding sources and relationship with the Customers ensure high stability of the funding.

The consolidated LCR measures for the ends of each quarter remains on the safe level. During the calendar year LCR measure for the Group varied from the level of 136.5% to 189.6%. The average LCR for the Group based on the monthly data was 157.7%. Changes in the measure value were caused mainly due to non bank customer deposits changes as well as technical changes related to mandatory reserve management and repo transactions over month ends.

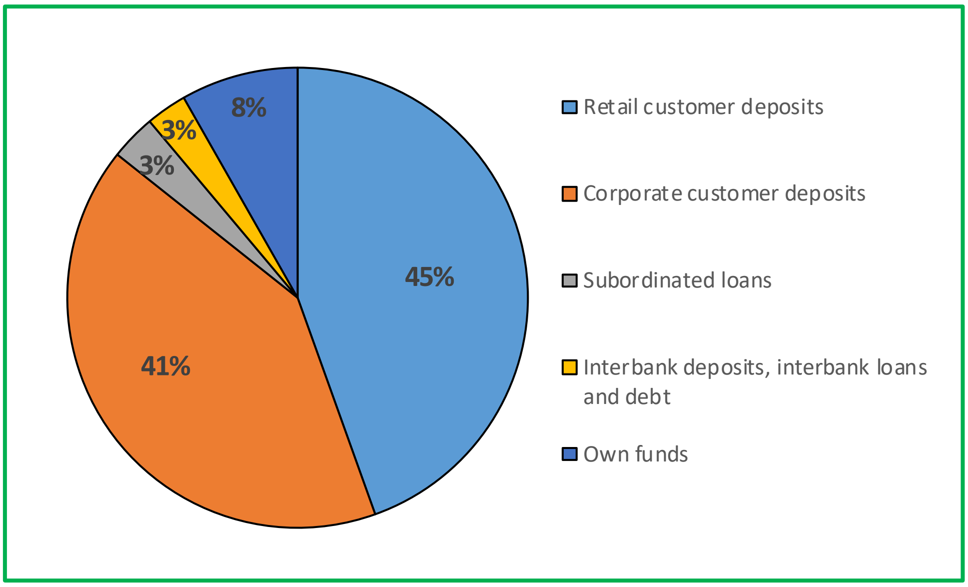
The Bank implemented additional set of the measurements for the liquidity risk management, which ensure stable and well balanced development of the balance sheet, adequate and approved by the management units' risk level and stable liquidity situation in short, mid and long term time horizon. Those measures are approved by TAC/NAC Committee or Board of Management and support the management and financial planning of the liquidity. Additional measures implemented are:

- loans to deposits ratio for all currencies and for PLN,
- 1-year liquidity gap for all currencies and separately for main Bank's currencies PLN, EUR, CHF,
- liquidity surplus for 7 and 30 days,
- concentration limit for corporate and retail segment deposits, sector concentration,
- volume of off-balance sheet exposure.

Limit values and critical values set up for those measures reflect size and structure of the balance sheet of the Bank, as well as Customer structure and specific products exposures. Throughout control of those measures Bank ensures safe and adequate balance sheet structure and stable funding structure. In the liquidity limits and critical values review set up for particular liquidity measures the stress tests results are considered, so in the occurance of these scenarios, the liquidity measures still fulfil regulatory criteria as well as internal levels of the measures in the risk apetite scheme and the recovery plan.

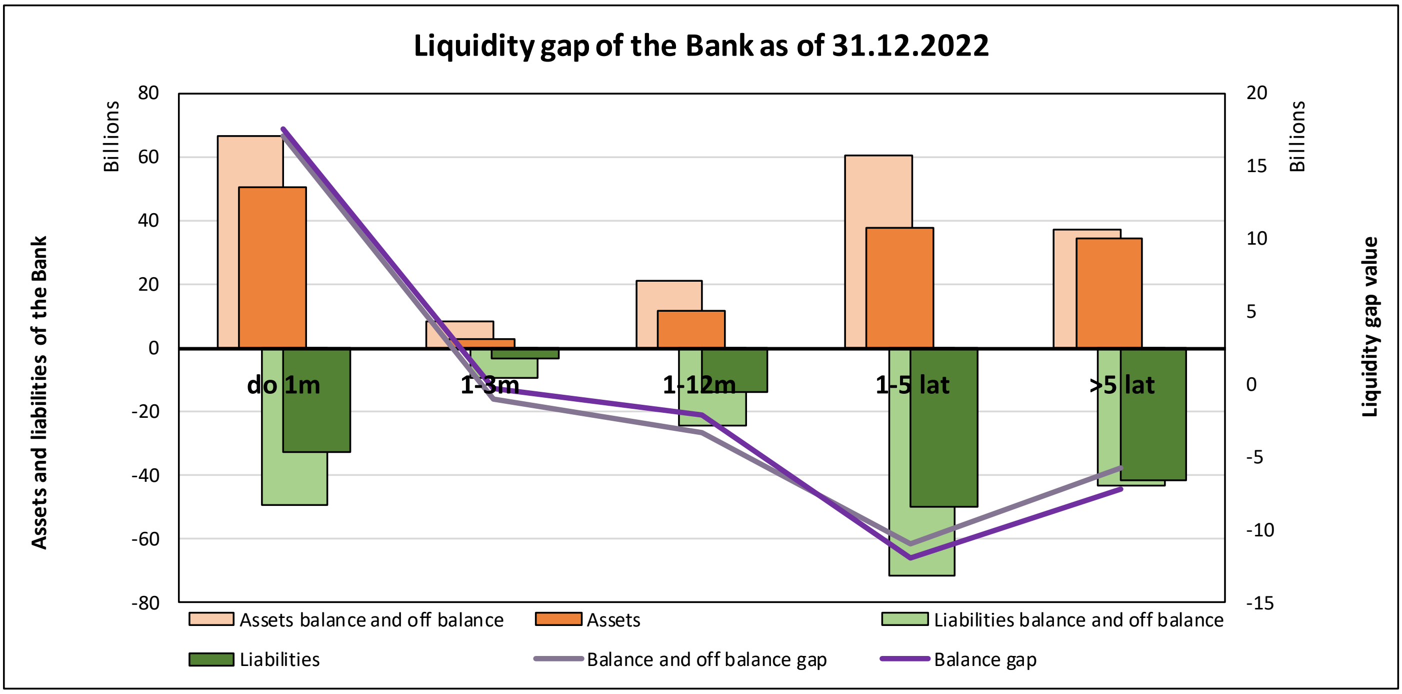
## Funding and liquidity sources concentration

The biggest share in the Bank's funding is non-bank deposits base, that comes from all segments of Clients, however the retail segment has dominant share (private individuals and Micro business line). The stability of deposit base is ensured by attractive and complex offer to the Customers on one side, and monitored and analyzed of the stability of liabilities modeling for each business lines from the other. The Bank cooperates as well with the supranational financial institutions, that provide stable funding to specific projects or specific offer to the Customers. Complete funding structure is presented on the chart below:




The Bank monitors concentration of the funding sources from non-bank Customers and presents analysis on the ALCO Committee on the monthly basis. The Bank established internal critical values for funding concentration both for corporate and retail segment. There was no excess event of the concentration critical value during last calendar year of the observation.

As of 31 December 2022 liquidity gap chart based on the daily liquidity gap report, which considers modeling of the products is presented below:




The iimitations in the funds transfer between Group units come from the need to comply liquidity norms, interest rate, capital etc, but above all from the need to comply with the internaly set up exposure limits for the counterparty and regulatory limitations for capital exposure for single counterparty.

## Derivative instruments exposure and potential collateral calls

Due to currency structure of the Bank's balance sheet there is required to match appropriate level both on assets and liabilities side of the balance sheet. The Bank ensures funding that fits to the required level of assets either via funding drawn in that currency or via using derivatives transactions such as CIRS or FX SWAP. Closing currency gaps throughout derivatives enables to close Bank's needs in the various currencies and term structure adequate to the liquidity risk profile of the respective currencies, and that has positive impact for the liquidity profile in respective currency. The Bank monitors liquidity in PLN and basic foreign currencies: EUR, CHF, USD and all remaining currencies as total. In case of the gap of liabilities in foreign currencies the Bank concludes off-balance sheet exchange of currencies transactions with the BNPP Group's units: FX SWAPS and CIRS, from the currencies Bank has excess of liabilities as first and complementary from PLN. As of 31 December the Bank acquired using above mentioned transactions funds in CHF for mortgage loans funding in that currency. Due to uncertainty of the further development of the situation regarding that product, Bank acquired funding in the relatively short term funding tenor, to be able to adopt balance sheet structure quickly to the potential changes regarding CHF mortgage loans portfolio.

Off-balance sheet transactions collaterals are mainly assets Level 1 type: cash and government securities. The change of collateral change is performed exclusively within that type of assets. In the ISDA and ZBP agreements there might be some clauses about "Credit Event upon merger", as that may result in the worsening of the rating. However, that is not implicating additional collateral requirement, but the possible closing of the transaction.

The Bank does not have any agreements with the conterparts that would require additional collateral in case of worsening the Bank's rating.

## Currency mismatch in the Liquidity Coverage Ratio

The Bank calculates LCR measure in the following currencies: PLN, EUR, CHF and all currencies together in the Bank approach as well as consolidated approach. Apart of PLN the main currency is EUR. For the EUR and CHF Bank shows mismatch in the Liquidity Coverage Ratio, but in case of gap in the liabilities Bank concludes with the Group unit off-balance sheet transactions FX swaps and CIRS mainly from the currencies that Bank has liabilities surplus and as complementary in PLN.

**Table 40 EU LIQ2 - Net Stable Funding Ratio**

| | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | | Unweighted value by residual maturity | | | | |
| | | No maturity | < 6 months | 6 months to < 1yr | ≥ 1yr | Weighted value |
| | **Available stable funding (ASF) Items** | | | | | |
| **1** | **Capital items and instruments** | **10 764 153** | **-** | **-** | **4 078 993** | **14 843 146** |
| 2 | *Own funds* | 10 764 153 | - | - | 4 078 993 | 14 843 146 |
| 3 | *Other capital instruments* | - | - | - | - | - |
| **4** | **Retail deposits** | - | 63 425 584 | 2 609 404 | 320 608 | 62 086 501 |
| 5 | *Stable deposits* | - | 44 496 190 | 2 191 898 | 276 462 | 44 630 145 |
| 6 | *Less stable deposits* | - | 18 929 394 | 417 506 | 44 146 | 17 456 356 |
| **7** | **Wholesale funding:** | - | 54 181 806 | 1 294 589 | 5 398 229 | 30 830 430 |
| 8 | *Operational deposits* | - | 10 685 041 | - | - | 5 342 520 |
| 9 | *Other wholesale funding* | - | 43 496 766 | 1 294 589 | 5 398 229 | 25 487 910 |
| **10** | **Interdependent liabilities** | - | - | - | - | - |
| **11** | **Other liabilities:** | - | 6 737 359 | - | - | - |
| 12 | *NSFR derivative liabilities* | - | - | - | - | - |
| 13 | *All other liabilities and capital instruments not included in the above categories* | - | 6 737 359 | - | - | - |
| **14** | **Total available stable funding (ASF)** | **-** | **-** | **-** | **-** | **107 760 077** |
| | **Required stable funding (RSF) Items** | | | | | |
| **15** | **Total high-quality liquid assets (HQLA)** | - | - | - | - | 2 955 296 |
| **EU-15a** | **Assets encumbered for more than 12m in cover pool** | - | 359 477 | - | - | 305 555 |
| **16** | **Deposits held at other financial institutions for operational purposes** | - | - | - | - | - |
| **17** | **Performing loans and securities:** | - | 20 881 468 | 10 477 762 | 69 332 445 | 68 973 635 |
| 18 | *Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut* | 0 | - | - | - | - |
| 19 | *Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions* | 0 | 10 235 072 | 178 383 | 1 877 833 | 2 990 532 |
| 20 | *Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:* | 0 | 10 165 486 | 9 872 831 | 41 745 521 | 43 676 648 |
| 21 | *With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk* | 0 | 147 950 | 129 559 | 9 748 123 | 6 475 035 |
| 22 | *Performing residential mortgages, of which:* | 0 | 474 596 | 397 417 | 25 479 454 | 22 093 542 |
| 23 | *With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk* | 0 | - | - | - | - |
| 24 | *Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products* | 0 | 6 314 | 29 131 | 229 637 | 212 914 |
| **25** | **Interdependent assets** | 0 | - | - | - | - |
| **26** | **Other assets:** | - | 1 002 007 | - | 8 284 706 | 8 809 142 |
| 27 | *Physical traded commodities* | 0 | - | - | - | - |
| 28 | *Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs* | | 0 | | - | - |
| 29 | *NSFR derivative assets* | | 46 864 | | - | 46 864 |
| 30 | *NSFR derivative liabilities before deduction of variation margin posted* | | 0 | | - | - |
| 31 | *All other assets not included in the above categories* | 0 | 955 142 | - | 8 284 706 | 8 762 277 |
| **32** | **Off-balance sheet items** | **-** | **30 727 215** | **-** | - | **1 536 361** |
| **33** | **Total RSF** | 0 | - | - | - | **82 579 989** |
| **34** | **Net Stable Funding Ratio (%)** | | | | | **130,49%** |

### Funding contingency plans outline

The Bank prepared and approved contingency procedures for liquidity management. They refer to immediate liquidity – intraday liquidity management- as well as mid and long term liquidity. In the Liquidity Contingency Plan, the Bank defined the set of various indicators, which are monitored on the daily basis as measures of the situation that threatens Bank's liquidity. They refer to the internal measures and to the external ones of the financial environment. Market liquidity risk (product) is observed in the Early Warning Indicatiors set in the Liquidity Contingency Plan throughout price changes of the products versus normal market situation. Stress tests results are as well observed in the EVI set on the monthly basis and presented on the TAC/NAC Committee meetings. There is a team managing the liquidity contingency plan actions defined in the regulation and specific tasks related to specific Bank's units. Liquidity contingency plan is being reviewed once a year and updated if needed. Additionally, once a year Bank performs the test of the liquidity contingency plan. As far as long term liquidity situation is concern the Bank monitors the situation on the monthly TAC/NAC Committee the longer term liquidity situations, long term liquidity measures, liquidity gap profile and mid and long term funding maturity profile, including maturity profile of the off balance sheet transactions used for managing of the balance sheet currency mismatch.

# 11. LEVERAGE RATIO

The Bank discloses information on its leverage ratio pursuant to Art. 451 of the Regulation (EU) No 575/2013.

The calculation of the leverage ratio of the Group as at December 31, 2022 was based on the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms amending the Regulation (EU) No 648/2012 as amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of May 20, 2019. The leverage ratio is the percentage of the Tier I capital ratio and the total exposure measure as at the end of the reporting period, while the total exposure measure is the sum of the exposure values determined for all assets and off-balance sheet items not deducted in determining the Tier I capital measure.

The reconciliation of the total exposure for the calculation of the leverage ratio with the value of assets in the published consolidated annual report, pursuant to Article 451 of Regulation (EU) No 575/2013, is presented in accordance with the formulas defined in Regulation (EU) No 2021/637

Items included in template EU LR2 and not disclosed in Table 42 do not apply to the Bank.

**Table 41 EU LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures as of 31 December 2022**

| | | a |
|---|---|---|
| | | Applicable amount |
| 1 | Total assets as per published financial statements | 151 517 070 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation | -10 136 |
| 3 | (Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference) | -403 978 |
| 4 | (Adjustment for temporary exemption of exposures to central banks (if applicable)) | 0 |
| 5 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) CRR) | 0 |
| 6 | Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting | 0 |
| 7 | Adjustment for eligible cash pooling transactions | -134 |
| 8 | Adjustment for derivative financial instruments | -247 802 |
| 9 | Adjustment for securities financing transactions (SFTs) | 0 |
| 10 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 12 553 194 |
| 11 | (Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital) | - |
| EU-11a | (Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR) | 0 |
| EU-11b | (Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR) | 0 |
| 12 | Other adjustments | 33 215 |
| 13 | Total exposure measure | 163 441 430 |

**Table 42 EU LR2 - LRCom: Leverage ratio common disclosure**

| | | CRR leverage ratio exposures | |
|---|---|---|---|
| | | a | b |
| | | 31 December 2022 | 30 June 2022 |
| | On-balance sheet exposures (excluding derivatives and SFTs) | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs, but including collateral) | 147 970 667 | 139 122 405 |

| | | | |
|---|---|---|---|
| 3 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | -101 637 | -296 480 |
| 6 | (Asset amounts deducted in determining Tier 1 capital) | - | - |
| **7** | **Total on-balance sheet exposures (excluding derivatives and SFTs)** | **147 869 031** | **138 825 924** |
| | **Derivative exposures** | | |
| 8 | Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin) | 757 439 | 1 630 778 |
| EU-8a | Derogation for derivatives: replacement costs contribution under the simplified standardised approach | - | - |
| 9 | Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions | 2 261 766 | 2 244 052 |
| **13** | **Total derivatives exposures** | **3 019 205** | **3 874 830** |
| | **Securities financing transaction (SFT) exposures** | | |
| **18** | **Total securities financing transaction exposures** | **-** | **-** |
| | **Other off-balance sheet exposures** | | |
| 19 | Off-balance sheet exposures at gross notional amount | 32 086 529 | 33 877 150 |
| 20 | (Adjustments for conversion to credit equivalent amounts) | 19 533 335 | 21 805 737 |
| **22** | **Off-balance sheet exposures** | **12 553 194** | **12 071 413** |
| | **Excluded exposures** | | |
| **EU-22k** | **(Total exempted exposures)** | **-** | **-** |
| | **Capital and total exposure measure** | | |
| 23 | Tier 1 capital | 10 763 140 | 10 798 069 |
| **24** | **Total exposure measure** | **163 441 430** | **154 772 167** |
| | **Leverage ratio** | | |
| 25 | Leverage ratio (%) | 6,59% | 6,98% |
| EU-25 | Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%) | 6,59% | 6,98% |
| 25a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%) | 6,59% | 6,98% |
| 26 | Regulatory minimum leverage ratio requirement (%) | 3,00% | 3,00% |
| EU-26a | Additional own funds requirements to address the risk of excessive leverage (%) | 0,00% | 0,00% |
| EU-26b | of which: to be made up of CET1 capital | 0,00% | 0,00% |
| 27 | Leverage ratio buffer requirement (%) | 0,00% | 0,00% |
| EU-27a | Overall leverage ratio requirement (%) | 3,00% | 3,00% |
| | **Choice on transitional arrangements and relevant exposures** | | |
| EU-27b | Choice on transitional arrangements for the definition of the capital measure | transitional | transitional |
| | **Disclosure of mean values** | | |
| 28 | Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable | 369 120 | 490 148 |
| 29 | Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables | - | - |
| 30 | Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 163 810 550 | 155 262 316 |
| 30a | Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 163 810 550 | 155 262 316 |
| 31 | Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 6,57% | 6,89% |
| 31a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 6,57% | 6,89% |

**Table 43 EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

| | | a |
|---|---|---|
| | | **CRR leverage ratio exposures** |
| **EU-1** | **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | **147 869 031** |
| EU-2 | Trading book exposures | - |
| EU-3 | Banking book exposures, of which: | 147 869 031 |
| EU-4 | Covered bonds | - |
| EU-5 | Exposures treated as sovereigns | 32 124 084 |
| EU-6 | Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns | 123 940 |
| EU-7 | Institutions | 10 882 470 |
| EU-8 | Secured by mortgages of immovable properties | 42 817 638 |
| EU-9 | Retail exposures | 21 539 548 |
| EU-10 | Corporates | 32 550 221 |
| EU-11 | Exposures in default | 2 146 316 |
| EU-12 | Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 5 684 813 |

Excessive leverage risk is defined as the risk of an insufficient leverage ratio being achieved, caused by a decrease in the own funds as a result of expected or incurred losses (decrease in the numerator) or by an unexpected and unmanageable increase in total exposure (increase in the denominator).

Excessive leverage risk management is identified as an important element of the Bank's management, having its source in the development of business activity. Hence, the excessive leverage risk management process is incorporated into the Bank's risk management concept and is included in the capital management process, in the stress testing process, in the limits system and the management information system.

Identification of the risk of excessive leverage takes place as part of the risk identification process in the Bank. The risk of excessive leverage is measured by the value of the leverage ratio, which is one of the basic indicators monitored by the Bank. This ensures the Bank to have necessary information to avoid breaching the safe level of leverage. The leverage ratio is taken into account in the capital planning, where it directly depends on the financial amounts assumed in the financial plan and in the Bank's capital plan. Moreover, as part of ICAAP process for coverage of insolvency risk (incl.excessive leverage risk) internal capital is calculated. Value of internal capital due to excessive leverage is taken into account in the capital planning and in capital goals.

The Bank provides ongoing monitoring of the financial leverage ratio, including forecasts of the ratio and includes the ratio in stress tests program. The leverage ratio is subject to a system of limits. The limits are adapted to the risk profile and take into account the risk appetite. The limits apply to current and forecasted values, both on an individual and consolidated basis.

As at December 31, 2022, the Group's leverage ratio was 7.79% and decreased compared to June 30, 2022 by 0.66 pp. The decrease in the leverage ratio results from:

- decrease in the amount of Tier I capital caused mainly by a decrease in the valuation of financial instruments measured at fair value through other comprehensive income;
- an increase in the value of the total exposure measure. This increase is due to the evolution of the Group's business

# 12. ENCUMBERED AND UNENCUMBERED ASSETS

An asset should be considered encumbered when it is the subject of a pledge or any contract to protect, hedge or support the credit quality of a transaction, which cannot be freely withdrawn, as withdrawal or replacement by other assets requires prior approval by the other party of transactions.

As a part of liquidity management, the Bank secures liabilities by encumbering assets due to:

- lombard and technical credit,
- REPO operations,
- the Bank Guarantee Fund,
- other operations to obtain liquidity or to guarantee settlements.

The Bank also uses assets encumbering as an important parameter that reduces the cost of obtaining financing. The level of encumbrance of the Bank's assets is low and is irrelevant to the Bank's business model.

The Bank has collaterals established in the settlement systems, in the relation with central counterparties or other institutions creating infrastructure as a condition for the access to the service. Collateral placed in the Central Depository Register (KDPW) is in the amount of PLN 1mn and in KDPW CCP in amount of PLN 0.1mn.

**Table 44 EU AE1 – Encumbered and unencumbered assets**

| | | Carrying amount of encumbered assets | | Fair value of encumbered assets | | Carrying amount of unencumbered assets | | Fair value of unencumbered assets | |
|---|---|---|---|---|---|---|---|---|---|
| | | | of which notionally eligible EHQLA and HQLA | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA | | of which EHQLA and HQLA |
| | | 010 | 030 | 040 | 050 | 060 | 080 | 090 | 100 |
| **010** | **Assets of the reporting institution** | 2 247 008 | 1 468 375 | - | - | 149 259 926 | 38 020 803 | - | - |
| 030 | Equity instruments | - | - | - | - | 228 684 | - | 228 684 | - |
| 040 | Debt securities | 1 468 375 | 1 468 375 | - | - | 38 171 588 | 38 020 803 | 38 171 588 | 38 020 803 |
| 050 | of which: covered bonds | - | - | - | - | - | - | - | - |
| 060 | of which: securitisations | - | - | - | - | - | - | - | - |
| 070 | of which: issued by general governments | 1 468 375 | 1 468 375 | - | - | 19 806 070 | 19 806 070 | 19 806 070 | 19 806 070 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 080 | of which: issued by financial corporations | - | - | - | - | 9 714 241 | 9 714 241 | 9 714 241 | 9 714 241 |
| 090 | of which: issued by non-financial corporations | - | - | - | - | 150 784 | - | 150 784 | - |
| 120 | **Other assets** | 778 634 | - | | | 110 859 654 | - | | |

**Table 45 EU AE2 – Collateral received and own debt securities issued**

| | | | | Unencumbered | |
|---|---|---|---|---|---|
| | | Fair value of encumbered collateral received or own debt securities issued | | Fair value of collateral received or own debt securities issued available for encumbrance | |
| | | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA |
| | | 010 | 030 | 040 | 060 |
| 130 | Collateral received by the reporting institution | - | - | 55 064 326 | - |
| 140 | Loans on demand | - | - | | - |
| 150 | Equity instruments | - | - | | - |
| 160 | Debt securities | - | - | | - |
| 170 | of which: covered bonds | - | - | | - |
| 180 | of which: securitisations | - | - | | - |
| 190 | of which: issued by general governments | - | - | | - |
| 200 | of which: issued by financial corporations | - | - | | - |
| 210 | of which: issued by non-financial corporations | - | - | | - |
| 220 | Loans and advances other than loans on demand | - | - | 13 437 718 | - |
| 230 | Other collateral received | - | - | 41 626 608 | - |
| 240 | Own debt securities issued other than own covered bonds or securitisations | - | - | - | - |
| 241 | Own covered bonds and asset-backed securities issued and not yet pledged | | | - | - |
| 250 | TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED | 2 247 008 | 1 468 375 | | |

**Table 46 EU AE3 – Sources of encumbrance**

| | | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered |
|---|---|---|---|
| | | 010 | 030 |
| 010 | **Carrying amount of selected financial liabilities** | **1 827 652** | **1 810 129** |

# 13. INFORMATION ON THE REMUNERATION POLICY

In fulfilment of the disclosure obligation arising from Regulation (EU) No 575/2013 information on the Remuneration Policy for 2022 is presented below.

The Bank implemented the "Remuneration Policy for persons having material impact on the risk profile of BNP Paribas Bank Polska S.A." (hereinafter referred to as "the Remuneration Policy"), "Regulations of awarding and payment of variable remuneration components to Members of the Management Board of BNP Paribas Bank Polska S.A." and "Regulations of awarding and payment of the variable remuneration components to persons having material impact on the Bank's risk profile other than the Members of the Management Board of BNP Paribas Bank Polska S.A." are valid at the Bank. The above regulations constitute a document superior to other documents at the Bank regarding remuneration policy and rules applicable to employees whose professional activity has a significant impact on the Bank's risk profile.

The basic assumptions of the Remuneration Policy:

1. The Remuneration Policy supports appropriate and effective risk management and ensures that persons identified as having material impact on the Bank's risk profile are not encouraged to take excessive and inadequate risk.

2. The Remuneration Policy meets the requirements in relation to the principles set out in 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 and the remuneration policy in banks, and Directive of the European Parliament and of the Council (EU) 2019/878 of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.
3. The main goals of the Remuneration Policy:
   - to support appropriate and effective governance of the Bank, the strategy of risk management at the Bank and to reduce conflict of interests;
   - to set forth basic principles for allocating and paying remuneration to employees identified as having material impact on the Bank's risk profile;
   - to encourage persons identified as having material impact on the Bank's risk profile to achieve targets set for them by using relevant remuneration categories, including performance-based remuneration;
   - to ensure that persons identified as having material impact on the Bank's risk profile are not encouraged to take excessive and inadequate risk;
   - to establish a legal framework for documentation defining a detailed mechanism of the allocation, acquisition of rights to remuneration and its payment under the principles specified in the Policy,
   - to ensure a sound, balanced and controllable Policy considering the principles of non-discrimination in employment, equal treatment in remuneration and gender neutrality.
4. Variable remuneration is not paid using constructs or methods designed to avoid the application of the principles of the Remuneration Policy and applicable laws and regulations.
5. Remuneration paid to persons having material impact on the Bank's risk profile shall be adequate, that is it shall reflect their contribution in achieving the Bank's goals, amount of labour and best market practice with respect to rewarding persons in similar positions adopted on the Polish market, and shall ensure proper balance between fixed remuneration and variable remuneration.
6. In order to guarantee the independence of persons holding control functions, the Policy sets out the following special conditions for remuneration paid to such persons:
   - the amount of fixed remuneration shall be sufficient to ensure the Bank's ability to attract skilled and experienced staff;
   - variable remuneration of persons holding control functions may not depend on financial results achieved in the Bank's areas controlled by them;
   - a majority of criteria and targets on which the acquisition of the right to variable remuneration depends shall be related to the position held;
   - the variable remuneration shall not be paid to persons holding control functions if the rating they received is lower than "satisfies requirements".
7. Remuneration shall be paid in a way non-discriminating any category of the Bank's employees, while retaining the right to equal remuneration for equal work.
8. The Supervisory Board is responsible for the approval of the Remuneration Policy and amendments thereto and periodically evaluates the implementation and application of the Remuneration Policy at the Bank.
9. All decisions pertaining to remuneration, including decisions on the allocation of variable remuneration, acquisition of the right to deferred variable remuneration and payment thereof, as well as the application of adjustment mechanisms with respect to this remuneration (Malus), shall be the responsibility of:
   - the Supervisory Board (after Remuneration Committee recommendation) – with respect to remuneration of Members of the Management Board;
   - the Management Board – with respect to remuneration of other Persons having material impact on the Bank's Risk Profile, after positive opinion of the Supervisory Board to annual financial statement.
10. The Remuneration Committee of the Supervisory Board supports the Supervisory Board in the process of approving the Remuneration Policy and evaluating its implementation and application at the Bank, and issues opinions and recommendations on the remuneration of members of the Management Board. The Remuneration Committee consists of at least three members. The Remuneration Committee meets at least once a year. In 2022, four meetings of the Remuneration Committee were held and six votes in circural mode on decisions taken by the Remuneration Committee.
11. The Policy shall be reviewed by the Remuneration Committee at least once a year, in particular with regard to:
    - the functioning of the Policy in accordance with its goals;
    - compliance of the Policy with the Polish law and European regulations;

- consistence of the Bank practice with the market practice.

12. A report on the Policy review performed at least once in the year and shall be submitted to the Supervisory Board for approval. On March 2, 2022, the Supervisory Board adopted the Report on the assessment of the functioning of the remuneration policy at BNP Paribas Bank Polska S.A. in 2021. The Report was adopted by the Extraordinary General Meeting on June 27, 2022.
13. In 2022 the Bank did not amend the Remuneration Policy.
14. The variable remuneration amount is determined on the basis of individual performance and the performance of the Bank as a whole. The main criteria included in the objectives of the Bank's Management Board:
    - net ROE
    - strategic financial goals of the Bank (net profit, NBI, C/I)
    - financial, specific goals defined for the area / business (e.g. business line NBI, area cost, impairment, business line ROE, RWA optimization, NPL)
    - strategic and non-financial goals
    - risk area specific objectives
15. In accordance with the resolution of the Extraordinary General Meeting of the Bank of 11 December 2018, the maximum level of the ratio of variable remuneration to fixed remuneration for the Members of the Management Board and the Executive Director of the Human Resources Area is 200%. For other employees covered by the Remuneration Policy, the maximum level of the ratio of variable to fixed remuneration is 100%.
16. Goals shall be set individually for each person having material impact on the Bank's risk profile, taking into account:
    - adjustment of these goals to the Bank's risk profile;
    - possibility of using risk adjustment mechanisms;
    - principles of transparency and openness.
17. Targets shall be set individually for each person having material impact on the Bank's risk profile taking into account:
    - possibility of using risk adjustment mechanisms;
    - principles of transparency and openness;
    - adjustment of these targets to the Bank's Risk Profile.
18. An evaluation of the individual performance of particular persons having material impact on the Bank's risk profile shall be performed after the end of each year during the evaluation period. Such an evaluation shall in particular take into consideration an annual compliance and risk assessment performed in accordance with separate internal regulations.
19. In order to create conditions encouraging special care for the long-term good of the Bank, employees whose variable remuneration exceeds EUR 50,000 or 1/3 of the total remuneration, at least 50% of the variable remuneration is assigned in the form of the Bank's shares.
20. Variable Remuneration in the form of the Bank's shares is subject to a retention period of one year.
21. In order to adopt the risk profile that will be appropriate for a long-term business strategy of the Bank and to adjust the variable remuneration to the risk profile, individual performance and the Bank's performance, as well as to secure the compliance with the principle of not rewarding for poor performance, the Bank shall apply ex ante and ex post mechanisms of assessment and adjustment of risk and variable remuneration.
22. In line with the Bank's risk management system, the risk appetite has been defined for the identified material risks. In order to measure risk, the Bank uses two approaches: quantitative and qualitative. The credit, counterparty, market and interest rate risks of the banking book are covered by quantitative models. Measurement of difficult-to-measure risks, which include the following risks: business risk (including strategic risk, revenue risk and reputational risk), models, insolvency (including the risk of excessive leverage) and ESG risk, is a combination of a qualitative and quantitative methods.
23. Employees having a significant impact on the Bank's risk profile are subject to individual risk assessment, which includes an analysis of the overall assessment of the employee's behavior made by the supervisor (manager) and independent risk management functions at the Bank, taking into account the following criteria:
    - awareness of the basic risks / threats related to the performed work, taking into account the risks occurring in everyday activities in the appropriate time perspective; the criterion takes into account the rules in force at the Bank, including those resulting from the requirements of the BNP Paribas Group regarding risk limits,
    - notifying, in a transparent manner and in a timely manner, the relevant units about noticed changes in the risk profile,
    - activity in optimizing control methods.

Where deficiencies of minor or moderate significance are identified, the premium is reduced, in the case of major deficiencies the bonus is not due.

24. Ex ante mechanisms shall be used prior to the allocation of variable remuneration to which persons having material impact on the Bank's risk may potentially acquire the right, in order to adjust this remuneration to all current and future risks, and they have an immediate effect on the maximum variable remuneration to which such persons may acquire the right for a particular evaluation period and on his/her risk-based behavior. Ex ante mechanisms shall include in particular:
    - an assessment whether the variable remuneration reflects the Bank's results, the organizational unit's results and the level of accomplishment of targets by persons having material impact on the Bank's risk profile;
    - risk measurement taking into account measures mitigating it in order to maintain the desired risk profile;
    - risk assessment taking into account both quantitative and qualitative risk adjustments;
    - compliance assessment,
    - inclusion of the cost of capital and avoidance of situations where the acquisition by persons having a material impact on the Bank's risk profile of the right to variable remuneration and the payment of that remuneration – both in the deferred part and in the remaining part – would restrict the possibilities of strengthening the regulatory capital, the solvency ratio and the Bank's equity.
25. Ex post mechanisms shall be used before the final determination of the amount of variable remuneration payable in order to guarantee that persons having a material impact on the Bank's risk profile are rewarded taking into account long-term effectiveness and consequences of decisions made in the past. Ex post mechanisms shall include in particular:
    - application of the deferral and retention period and separation of the deferred part of the variable remuneration;
    - payment of a portion of variable vemuneration in the form of the Bank's shares;
    - application of the Malus mechanism:
        - significant deterioration of the Bank's financial results, resulting in a change in the assessment of the original circumstances of determining the variable remuneration, in particular:
            - financial loss resulting from circumstances on which the person having a significant impact on the Bank's risk profile had an influence, including participation in activities which resulted in significant losses of the Bank, or was responsible for such activities (such a circumstance will not be a change in the law),
            - the situation referred to in Art. 142 sec. 1 of the Banking Law.
        - a significant negative change in the Bank's primary funds, resulting in a change in the assessment of the original circumstances of establishing the variable remuneration:
            - decrease in the capital adequacy ratio below the internal warning threshold of the Bank,
            - reduction of the solvency ratio below the supervisory standard,
            - lowering one of the liquidity measures (M1, M2, M3 and M4) below the supervisory standards.
        - significant failure of a given person having a significant impact on the Bank's risk profile regarding the principles of risk management, resulting in a change in the assessment of the original circumstances of determining the variable remuneration for the assessment period;
        - proven misconduct of a given person having a significant impact on the Bank's risk profile or committing material errors or failing to meet the applicable reputation standards, e.g. by acting in breach of the adopted code of conduct, codes of ethics, compliance guidelines or the Bank's core values;
        - a person having a significant impact on the Bank's risk profile did not meet the relevant standards regarding the guarantee of safe and prudent management of the Bank;
        - failure by a given person having a significant impact on the Bank's risk profile to meet the applicable standards in terms of competence and proper conduct;
        - determination of the variable remuneration on the basis of incorrect, misleading information or as a result of a deliberate action of a given person having a significant impact on the Bank's risk profile to the detriment of the Bank, having a significant impact on the assessment of the achievement of its goals in a given assessment period or deferral period;
    - withholding or reducing payment of variable remuneration in case of the Bank does not meet the combined buffer requirement within the meaning and on the terms set out in art. 55 and 56 of the Macroprudential Act.
26. The non-deferred part of the variable remuneration is payable after the level of achievement of the goals by individual employees identified as having an impact on the Bank's risk profile for a given assessment period has been assessed and the value of the variable remuneration has been determined. The deferred part of the variable remuneration is payable after the end of each annual accounting period falling within the given deferment period and after the verified amount of the variable remuneration has been determined. The amount of deferred variable remuneration shall be determined taking into account the circumstances, set out in the Remuneration Policy, resulting in its reduction or inability to acquire the right to deferred variable remuneration.

27. Variable remuneration that exceeds the equivalent of €50,000 or 1/3 of an employee's total remuneration shall be deferred. A deferred part of at least 40% of variable remuneration is determined after the end of the assessment period for which the remuneration is due. The deferral period amounts to a minimum of five years for senior executives and a minimum of four years and a maximum of five years for employees other than senior executives. The maximum deferral period of five years is applied in the case of an allocation of variable remuneration that exceeds a particularly high amount. Personal attitudes:
    - a significant failure of a particular person having material impact on the Bank's risk profile concerning the risk management principles, resulting in a change of the original circumstances of determining the variable remuneration for the evaluation period;
    - proven misconduct of a particular person having material impact on the Bank's risk profile or significant errors made or a failure to meet applicable standards related to reputation, e.g. through non-compliance with the code of conduct, codes of ethics, compliance guidelines or core values of the Bank;
    - a particular person having material impact on the Bank's risk profile does not meet relevant standards for the warranty of safe and prudent management of the Bank;
    - failure to meet by a particular person having material impact on the Bank's risk profile the applicable standards related to competence and proper conduct;
    - determination of variable remuneration on the basis of incorrect, misleading information or as a result of deliberate action of a particular person having material impact on the Bank's risk profile to the detriment of the Bank, having a considerable effect on the assessment of the accomplishment of its targets in a particular evaluation period or deferral period.
28. Persons covered by the Remuneration Policy are obliged not to use their own hedging strategies or insurance with respect to their remuneration and responsibility, which would neutralize the measures taken with respect to these persons under the Remuneration Policy, excluding the mandatory insurance arising from specific law provisions.

## Quantitative information for 2022 on the amount of remuneration of people covered by the Remuneration Policy

The information on compensation presented below includes the total of fixed and variable compensation, as well as benefits paid in 2022 to the employees covered by the Remuneration policy in 2022, whose job positions were identified in 2022 MRT. The amounts presented below represent the remuneration paid for the whole year, regardless of the time of holding a position covered by the Remuneration Policy for persons having material impact on the risk profile of BNP Paribas Bank Polska S.A. Under no circumstances, compensation with deferred payment granted in 2022 did not required revision based on results.

At the request of the relevant member state or competent authority, the bank will be ready to provide information on the total compensation for each member of the management body or senior management.

The Bank shall benefit from the derogation provided for in Article 94 (3) of Directive 2013/36/EU from the requirements of Article 94 (1) (l) and (m) of Directive 2013/36/EU.

The table below presents collective quantitative information on the remuneration awarded for a given financial year, i.e. fixed remuneration paid in 2022 and variable remuneration granted for 2020, table (EU REM1). Quantitative data on variable remuneration components for 2021 will be published together with the information on the capital adequacy of the BNP Paribas Bank Polska S.A. Capital Group as of 31 March 2023.

**Table 47 EU REM1 – Remuneration awarded for the financial year** *(ths PLN, the information on the number of employees is expressed as a full number)*

| | | | a | b | c | d |
|---|---|---|---|---|---|---|
| | | | MB Supervisory function | MB Management function | Other senior management | Other identified staff |
| 1 | Fixed remuneration | Number of identified staff | 12 | 9 | 10 | 122 |
| 2 | | Total fixed remuneration | 1 629 | 12 873 | 6 378 | 44 243 |
| 3 | | Of which: cash-based | 1 629 | 10 848 | 5 938 | 41 909 |
| 4 | | (Not applicable in the EU) | | | | |
| EU-4a | | Of which: shares or equivalent ownership interests | - | - | - | - |
| 5 | | Of which: share-linked instruments or equivalent non-cash instruments | - | - | - | - |
| EU-5x | | Of which: other instruments | - | - | - | - |
| 6 | | (Not applicable in the EU) | | | | |
| 7 | | Of which: other forms | - | 2 025 | 440 | 2 334 |
| 8 | | (Not applicable in the EU) | | | | |
| 9 | Variable remuneration | Number of identified staff | | | | |
| 10 | | Total variable remuneration | | | | |
| 11 | | Of which: cash-based | | | | |
| 12 | | Of which: deferred | | | | |
| EU-13a | | Of which: shares or equivalent ownership interests | | | | |
| EU-14a | | Of which: deferred | | | | |
| EU-13b | | Of which: share-linked instruments or equivalent non-cash instruments | | | | |
| EU-14b | | Of which: deferred | | | | |
| EU-14x | | Of which: other instruments | | | | |
| EU-14y | | Of which: deferred | | | | |
| 15 | | Of which: other forms | | | | |
| 16 | | Of which: deferred | | | | |
| 17 | Total remuneration (2 + 10) | | | | | |

**Table 48 EU REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)** *(ths PLN, the information on the number of employees is expressed as a full number)*

| | | a | b | c | d |
|---|---|---|---|---|---|
| | | MB Supervisory function | MB Management function | Other senior management | Other identified staff |
| | Guaranteed variable remuneration awards | | | | |
| 1 | Guaranteed variable remuneration awards - Number of identified staff | - | - | - | 1 |
| 2 | Guaranteed variable remuneration awards -Total amount | - | - | - | 146 |
| 3 | Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap | - | - | - | - |
| | Severance payments awarded in previous periods, that have been paid out during the financial year | | | | |
| 4 | Severance payments awarded in previous periods, that have been paid out during the financial year | - | - | - | - |
| 5 | Severance payments awarded in previous periods, that have been paid out during the financial year | - | - | - | - |
| | Severance payments awarded during the financial year | | | | |
| 6 | Severance payments awarded during the financial year - Number of identified staff | - | | | 1 |
| 7 | Severance payments awarded during the financial year - Total amount | - | | | 69 |
| 8 | Of which paid during the financial year | - | | | 69 |
| 9 | Of which deferred | - | | | |
| 10 | Of which severance payments paid during the financial year, that are not taken into account in the bonus cap | - | | | |
| 11 | Of which highest payment that has been awarded to a single person | - | | | |

**Table 49 EU REM3 – Deferred remuneration** (*ths PLN*)

| | | a | b | c | d | e | f | EU - g | EU - h |
|---|---|---|---|---|---|---|---|---|---|
| | Deferred and retained remuneration | Total amount of deferred remuneration awarded for previous performance periods | Of which due to vest in the financial year | Of which vesting in subsequent financial years | Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year | Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years | Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments) | Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year | Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods |
| 1 | MB Supervisory function | 36 | 36 | - | - | - | - | - | - |
| 2 | Cash-based | - | - | - | - | - | - | - | - |
| 3 | Shares or equivalent ownership interests | - | - | - | - | - | - | - | - |
| 4 | Share-linked instruments or equivalent non-cash instruments | 36 | 36 | - | - | - | - | - | - |
| 5 | Other instruments | - | - | - | - | - | - | - | - |
| 6 | Other forms | - | - | - | - | - | - | - | - |
| 7 | MB Management function | 7 099 | 1 671 | 5 428 | - | - | - | 720 | 610 |
| 8 | Cash-based | 3 320 | 951 | 2 369 | - | - | - | - | - |
| 9 | Shares or equivalent ownership interests | 3 226 | 389 | 2 838 | - | - | - | 389 | 389 |
| 10 | Share-linked instruments or equivalent non-cash instruments | 553 | 331 | 221 | - | - | - | 331 | 221 |
| 11 | Other instruments | - | - | - | - | - | - | - | - |
| 12 | Other forms | - | - | - | - | - | - | - | - |
| 13 | Other senior management | 2 595 | 854 | 1 741 | - | - | - | 432 | 264 |
| 14 | Cash-based | 1 140 | 422 | 719 | - | - | - | - | - |
| 15 | Shares or equivalent ownership interests | 1 039 | 128 | 911 | - | - | - | 128 | 153 |
| 16 | Share-linked instruments or equivalent non-cash instruments | 415 | 304 | 111 | - | - | - | 304 | 111 |
| 17 | Other instruments | - | - | - | - | - | - | - | - |
| 18 | Other forms | - | - | - | - | - | - | - | - |
| 19 | Other identified staff | 5 902 | 1 729 | 4 174 | - | - | - | 725 | 443 |
| 20 | Cash-based | 2 829 | 1 004 | 1 825 | - | - | - | - | - |
| 21 | Shares or equivalent ownership interests | 2 257 | 18 | 2 239 | - | - | - | 18 | 333 |
| 22 | Share-linked instruments or equivalent non-cash instruments | 816 | 706 | 110 | - | - | - | 706 | 110 |
| 23 | Other instruments | - | - | - | - | - | - | - | - |
| 24 | Other forms | - | - | - | - | - | - | - | - |
| **25** | **Total amount** | **15 633** | **4 290** | **11 343** | **-** | **-** | **-** | **1 913** | **1 317** |

There were no employees at the Bank whose total remuneration paid in 2022 exceeded EUR 1 000 000, hence the EU REM4 template does not apply.

**Table 50 EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)** *(ths PLN, the information on the number of employees is expressed as a full number)*

| | | a | b | c | d | e | f | g | h | i | j |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Management body remuneration | | | | | | | | Business areas | |
| | | MB Supervisory function | MB Management function | Total MB | Investment banking | Retail banking | Asset management | Corporate functions | Independent internal control functions | All other | **Total** |
| 1 | Total number of identified staff | 12 | 9 | 21 | 7 | 12 | 0 | 29 | 62 | 43 | **153** |
| 2 | Of which: members of the MB | 12 | 9 | 21 | 1 | 1 | 0 | 1 | 1 | 17 | **21** |
| 3 | Of which: other senior management | | | | 0 | 0 | 0 | 2 | 6 | 2 | **10** |
| 4 | Of which: other identified staff | | | | 6 | 11 | 0 | 26 | 55 | 24 | **122** |
| 5 | Total remuneration of identified staff | | | | | | | | | | |
| 6 | Of which: variable remuneration | | | | | | | | | | |
| 7 | Of which: fixed remuneration | 1 629 | 12 873 | 14 502 | 4 473 | 6 422 | 0 | 10 195 | 20 788 | 23 244 | **64 953** |

In 2022, the list of employees, who professional activity has an impact on Bank risk profile was prepared taking into account requirements of 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 and the remuneration policy in banks and Commission Delegated Regulation (EU) No 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit's risk profile, and setting out criteria for identifying staff members or categories of staff whose professional activities have an impact on the institution's risk profile that is comparably as material as that of staff members or categories of staff referred to in Article 92(3) of that Directive.

# 14. TRANSITIONAL PROVISIONS

This chapter presents a comparison of the Bank's own funds, capital ratio and leverage ratio with and without taking into account the application of transitional arrangements regarding IFRS 9 or similar expected credit losses and information on temporary treatment in accordance with Art. 468 of Regulation (EU) No 575/2013.

In accordance with Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of introducing IFRS 9 on own funds and for treatment as large exposures certain exposures to public sector entities denominated in the domestic currency of any Member State (hereinafter "Regulation (EU) 2017/2395") and guidelines EBA / GL / 2020/12, the Bank discloses to the public the amounts of own funds, Common Equity Tier I capital and Tier I capital, risk-weighted assets, Common Equity Tier I capital ratio, Tier I capital ratio, total capital ratio and leverage ratio that would apply if the Bank did not apply the transitional solutions resulting from the introduction of IFRS 9 and the corresponding expected credit losses, as well as the temporary treatment of unrealized gains and p at measured at fair value through other comprehensive income in connection with the COVID-19 pandemic in accordance with Art. 468 of Regulation (EU) No 575/2013.

As at the reporting date of 31 December 2021, the Bank applied a provisional treatment of unrealized gains and losses measured at fair value through other comprehensive income in accordance with Art. 468 of the Regulation (EU) No 575/2013. Reported capital ratios, including the leverage ratio and Tier I capital, take into account the application of Art. 468 of the Regulation (EU) No 575/2013.

The Bank, as the parent company, after analyzing the requirements of Regulation (EU) 2017/2395, decided to apply the transitional provisions provided for in this regulation, which means that for the purposes of assessing the capital adequacy of the Group the full impact of IFRS 9 implementation is not taken into account. The Bank fulfilled its obligations under Regulation (EU) 2017/2395 by informing the Polish Financial Supervision Authority of its intention to apply the transitional provisions by letter No. BZO / W / 15/2018 of January 29, 2018.

**Table 51 Comparison of Banks' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs , and with and without the application of the temporary treatment in accordance with Article 468 of the CRR as of 31 December 2022**

| | Available capital (amounts) | 31 December 2022 | 30 September 2022 | 30 June 2022 | 31 March 2022 |
|---|---|---|---|---|---|
| 1 | Common Equity Tier I (CET1) capital | 10 763 140 | 10 716 728 | 10 798 069 | 10 838 219 |
| 2 | Common Equity Tier I (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 10 662 943 | 10 616 531 | 10 697 873 | 10 738 023 |
| 2a | CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied | 10 389 423 | 10 300 607 | 10 371 007 | 10 492 861 |
| 3 | Tier I capital | 10 763 140 | 10 716 728 | 10 798 069 | 10 838 219 |
| 4 | Tier I capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 10 662 943 | 10 616 531 | 10 697 873 | 10 738 023 |
| 4a | Tier 1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 10 389 423 | 10 300 607 | 10 371 007 | 10 492 861 |
| 5 | Total capital | 14 842 133 | 14 922 112 | 14 958 769 | 15 013 493 |
| 6 | Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 14 741 937 | 14 821 915 | 14 858 573 | 14 913 296 |
| 6a | Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 14 468 417 | 14 505 991 | 14 531 707 | 14 668 135 |
| | **Risk-weighted assets (amounts)** | | | | |
| 7 | Total risk-weighted assets | 95 456 297 | 100 415 006 | 98 371 967 | 95 362 058 |
| 8 | Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 95 175 444 | 100 122 384 | 98 082 198 | 95 088 491 |
| | **Capital ratios** | | | | |
| 9 | Tier I (as a percentage of risk exposure amount) | 11,28% | 10,67% | 10,98% | 11,37% |
| 10 | Common Equity Tier I (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 11,20% | 10,60% | 10,91% | 11,29% |
| 10a | CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 10,86% | 10,23% | 10,54% | 11,00% |
| 11 | Tier I (as a percentage of risk exposure amount) | 11,28% | 10,67% | 10,98% | 11,37% |
| 12 | Tier I (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 11,20% | 10,60% | 10,91% | 11,29% |
| 12a | Tier 1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 10,86% | 10,23% | 10,54% | 11,00% |
| 13 | Total capital (as a percentage of risk exposure amount) | 15,55% | 14,86% | 15,21% | 15,74% |
| 14 | Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 15,49% | 14,80% | 15,15% | 15,68% |
| 14a | Total capital (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 15,12% | 14,41% | 14,77% | 15,38% |
| | **Leverage ratio** | | | | |
| 15 | Leverage ratio total exposure measure | 163 441 430 | 157 900 727 | 154 772 167 | 150 980 074 |
| 16 | Leverage ratio | 6,59% | 6,79% | 6,98% | 7,18% |
| 17 | Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 6,52% | 6,72% | 6,91% | 7,11% |
| 17a | Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 6,35% | 6,51% | 6,70% | 6,95% |

# 15. STATEMENT OF THE MANAGEMENT BOARD

Hereby, the Management Board of BNP Paribas Bank Polska S.A.

- declares that to the best of their knowledge, the information disclosed in accordance with part eight of Regulation (EU) No 575/2013 has been prepared in accordance with internal control processes;
- declares that, to the best of their knowledge, the adequacy of risk management arrangements ensures that the risk management systems used are appropriate from the point of view of the risk profile and strategy of the Bank and the Group;
- approves this *Capital adequacy information of the BNP Paribas Bank Polska S.A. Capital Group as of 31 December 2022*, which includes key indicators and figures that provide external stakeholders with a comprehensive view of risk profile determined by the Management Board and approved by the Supervisory Board.

## SIGNATURES OF MEMBERS OF THE MANAGEMENT BOARD OF BNP PARIBAS BANK POLSKA S.A

| | | |
|---|---|---|
| 28.02.2023 | **Przemysław Gdański**<br>*President of the Management Board* | *qualified electronic signature* |
| 28.02.2023 | **Agnieszka Wolska**<br>*Vice-President of the Management Board* | *qualified electronic signature* |
| 28.02.2023 | **Magdalena Nowicka**<br>*Vice-President of the Management Board* | *qualified electronic signature* |
| 28.02.2023 | **Jean-Charles Aranda**<br>*Vice-President of the Management Board* | *qualified electronic signature* |
| 28.02.2023 | **Andre Boulanger**<br>*Vice-President of the Management Board* | *qualified electronic signature* |
| 28.02.2023 | **Przemysław Furlepa**<br>*Vice-President of the Management Board* | *qualified electronic signature* |
| 28.02.2023 | **Wojciech Kembłowski**<br>*Vice-President of the Management Board* | *qualified electronic signature* |
| 28.02.2023 | **Kazimierz Łabno**<br>*Vice-President of the Management Board* | *qualified electronic signature* |
| 28.02.2023 | **Volodymyr Radin**<br>*Vice-President of the Management Board* | *qualified electronic signature* |

Warsaw, 28 February, 2023