INTERIM CONSOLIDATED REPORT

FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2023

Consolidated Group BNP Paribas Bank Polska S.A.

BNP PARIBAS

SELECTED FINANCIAL DATA

Selected consolidated financial data		in PLN '000		in EUR '000	
Statement of profit or loss	**Note**	**HY 2023 from 01.01.2023 to 30.06.2023**	HY 2022 from 01.01.2022 to 30.06.2022	**HY 2023 from 01.01.2023 to 30.06.2023**	HY 2022 from 01.01.2022 to 30.06.2022
Net interest income	8	**2,439,313**	2,152,370	**528,791**	463,603
Net fee and commission income	9	**633,019**	595,623	**137,225**	128,292
Profit before tax		**1,300,406**	818,306	**281,900**	176,256
Profit after tax		**947,632**	535,409	**205,426**	115,323
Total comprehensive income		**1,351,505**	(175,335)	**292,977**	(37,766)
Cash flow		**HY 2023 from 01.01.2023 to 30.06.2023**	HY 2022 from 01.01.2022 to 30.06.2022	**HY 2023 from 01.01.2023 to 30.06.2023**	HY 2022 from 01.01.2022 to 30.06.2022
Total net cash flows		**4,683,803**	3,450,044	**1,015,349**	743,112
Ratios		**30.06.2023**	30.06.2022	**30.06.2023**	30.06.2022
Number of shares (items)	48	**147,676,946**	147,593,150	**147,676,946**	147,593,150
Earnings per share	18	**6.42**	3.63	**1.39**	0.78
Statement of financial position		**30.06.2023**	31.12.2022	**30.06.2023**	31.12.2022
Total assets		**150,561,628**	151,517,069	**33,831,793**	32,307,100
Loans and advances to customers measured at amortised cost	23	**87,787,952**	89,090,317	**19,726,300**	18,996,208
Loans and advances to customers measured at fair value through profit or loss	24	**785,242**	949,298	**176,447**	202,413
Total liabilities		**137,947,511**	140,254,848	**30,997,351**	29,905,723
Amounts due to customers	34	**117,911,920**	120,021,043	**26,495,274**	25,591,386
Share capital	48	**147,677**	147,593	**33,184**	31,470
Total equity		**12,614,117**	11,262,221	**2,834,442**	2,401,378
Capital adequacy		**30.06.2023**	31.12.2022	**30.06.2023**	31.12.2022
Total own funds		**14,974,645**	14,842,133	**3,364,862**	3,164,701
Total risk exposure		**91,562,026**	95,456,297	**20,574,349**	20,353,589
Total capital ratio		**16.35%**	15.55%	**16.35%**	15.55%
Tier 1 capital ratio		**12.13%**	11.28%	**12.13%**	11.28%

Selected separate financial data	in PLN '000		in EUR '000	
Statement of profit or loss	**HY 2023 from 01.01.2023 to 30.06.2023**	HY 2022 from 01.01.2022 to 30.06.2022	**HY 2023 from 01.01.2023 to 30.06.2023**	HY 2022 from 01.01.2022 to 30.06.2022
Net interest income	**2,389,942**	2,103,786	**518,088**	453,138
Net fee and commission income	**607,132**	560,442	**131,613**	120,715
Profit before tax	**1,282,794**	785,393	**278,082**	169,167
Profit after tax	**932,083**	508,622	**202,056**	109,553
Total comprehensive income	**1,335,956**	(202,122)	**289,607**	(43,535)
Cash flow	**HY 2023 from 01.01.2023 to 30.06.2023**	HY 2022 from 01.01.2022 to 30.06.2022	**HY 2023 from 01.01.2023 to 30.06.2023**	HY 2022 from 01.01.2022 to 30.06.2022
Total net cash flows	**4,714,120**	3,739,806	**1,021,921**	805,524
Ratios	**30.06.2023**	30.06.2022	**30.06.2023**	30.06.2022
Number of shares (items)	**147,676,946**	147,593,150	**147,676,946**	147,593,150
Earnings per share	**6.31**	3.45	**1.37**	0.74
Statement of financial position	**30.06.2023**	31.12.2022	**30.06.2023**	31.12.2022
Total assets	**145,440,968**	146,108,498	**32,681,160**	31,153,862
Loans and advances to customers measured at amortised cost	**82,891,269**	83,893,270	**18,625,996**	17,888,072
Loans and advances to customers measured at fair value through profit or loss	**785,242**	949,298	**176,447**	202,413
Total liabilities	**132,886,252**	134,893,224	**29,860,066**	28,762,495
Amounts due to customers	**117,862,504**	120,429,051	**26,484,171**	25,678,384
Share capital	**147,677**	147,593	**33,184**	31,470
Total equity	**12,554,716**	11,215,274	**2,821,094**	2,391,367
Capital adequacy	**30.06.2023**	31.12.2022	**30.06.2023**	31.12.2022
Total own funds	**14,969,904**	14,874,946	**3,363,796**	3,171,698
Total risk exposure	**88,260,395**	91,512,357	**19,832,460**	19,512,646
Total capital ratio	**16.96%**	16.25%	**16.96%**	16.25%
Tier 1 capital ratio	**12.58%**	11.80%	**12.58%**	11.80%

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

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

- as of 30.06.2023 – EUR 1 = PLN 4.4503
- as of 31.12.2022 – EUR 1 = PLN 4.6899

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

- for the period from 1.01.2023 to 30.06.2023 - EUR 1 = PLN 4.6130
- for the period from 1.01.2022 to 30.06.2022 - EUR 1 = PLN 4.6427

For details on calculation of profit (loss) per share please refer to Note 18.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Interest income	8	2,441,413	4,787,956	1,776,129	3,042,204
Interest income calculated with the use of effective interest rate method		2,307,150	4,550,120	1,689,161	2,882,577
interest income on financial instruments measured at amortised cost		2,158,023	4,245,927	1,608,096	2,743,726
interest income on financial instruments measured at fair value through other comprehensive income		149,127	304,193	81,065	138,851
Income of a similar nature to interest on instruments measured at fair value through profit or loss		134,263	237,836	86,968	159,627
Interest expense	8	(1,201,700)	(2,348,643)	(626,703)	(889,834)
Net interest income		**1,239,713**	**2,439,313**	**1,149,426**	**2,152,370**
Fee and commission income	9	371,876	760,485	361,414	723,720
Fee and commission expenses	9	(63,937)	(127,466)	(66,475)	(128,097)
Net fee and commission income		**307,939**	**633,019**	**294,939**	**595,623**
Dividend income		3,871	4,198	7,161	8,142
Net trading income (including result on foreign exchange)	10	249,443	484,031	118,776	269,610
Result on investment activities	11	6,053	(6,363)	32,763	30,501
Result on hedge accounting	22	1,343	(16,330)	(192)	19,524
Result on derecognition of financial assets measured at amortized cost due to significant modification		7,474	11,612	(2,379)	(2,379)
Net allowances on expected credit losses of financial assets and provisions for contingent liabilities	12	26,400	51,350	(85,599)	(164,727)
Result on provisions for legal risk related to foreign currency loans	51	(356,024)	(590,412)	(139,703)	(222,737)
General administrative expenses	13	(608,792)	(1,286,747)	(743,909)	(1,419,515)
Depreciation and amortization	14	(116,370)	(223,539)	(107,239)	(206,475)
Other operating income	15	63,805	119,672	38,175	111,842
Other operating expenses	16	(56,221)	(116,863)	(71,940)	(150,705)
Operating result		**768,634**	**1,502,941**	**490,279**	**1,021,074**
Tax on financial institutions		(99,703)	(202,535)	(106,915)	(202,768)
Profit before tax		**668,931**	**1,300,406**	**383,364**	**818,306**
Income tax expenses	17	(209,284)	(352,774)	(125,696)	(282,897)
Net profit		**459,647**	**947,632**	**257,668**	**535,409**
attributable to equity holders of the Group		459,647	947,632	257,668	535,409
Earnings (loss) per share (in PLN per one share)					
Basic	18	3.11	6.42	1.75	3.63
Diluted	18	3.11	6.42	1.75	3.63

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Net profit for the period		**459,647**	**947,632**	**257,668**	**535,409**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss upon fulfilment of certain conditions		**165,824**	**404,169**	**(316,663)**	**(711,255)**
Measurement of gross financial assets measured at fair value through other comprehensive income		184,997	456,295	(328,747)	(766,046)
Deferred income tax on the valuation of gross financial assets measured through other comprehensive income		(35,149)	(86,696)	62,462	145,549
Measurement of cash flow hedge accounting derivatives	22	19,723	42,679	(62,195)	(112,047)
Deferred income tax on valuation of gross derivatives hedging cash flows		(3,747)	(8,109)	11,817	21,289
Items that will not be reclassified to profit or loss		**854**	**(296)**	**662**	**511**
Actuary valuation of employee benefits	7e	1,055	(365)	817	631
Deferred income tax on actuarial valuation of gross personnel expenses		(201)	69	(155)	(120)
Other comprehensive income (net)		**166,678**	**403,873**	**(316,001)**	**(710,744)**
Total comprehensive income for the period		**626,325**	**1,351,505**	**(58,333)**	**(175,335)**
attributable to equity holders of the Group		626,325	1,351,505	(58,333)	(175,335)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	30 June 2023	31 December 2022
Cash and balances at Central Bank	19	6,971,609	2,718,307
Amounts due from banks	20	11,833,618	11,800,189
Derivative financial instruments	21	3,257,019	3,224,272
Adjustment of fair value of hedged and hedging item	22	32,618	33,025
Loans and advances to customers measured at amortised cost	23	87,787,952	89,090,317
Loans and advances to customers measured at fair value through profit or loss	24	785,242	949,298
Securities measured at amortised cost	25	25,299,601	22,167,261
Securities measured at fair value through profit or loss	26	270,197	316,593
Securities measured at fair value through other comprehensive income	27	10,756,338	17,384,793
Intangible assets	28	825,006	821,106
Property, plant and equipment	29	1,022,783	1,069,429
Deferred tax assets		849,596	966,436
Current tax assets		20,257	14,107
Other assets	31	849,792	961,936
Total assets		**150,561,628**	**151,517,069**

LIABILITIES	Note	30 June 2023	31 December 2022
Amounts due to Central Bank	32	-	8,713
Amounts due to other banks	33	7,058,586	7,158,024
Derivative financial instruments	21	3,142,164	3,147,855
Adjustment of fair value of hedging and hedged item	22	(275,213)	(451,646)
Amounts due to customers	34	117,911,920	120,021,043
Debt securities issued	35	-	364,633
Subordinated liabilities	36	4,337,381	4,416,887
Lease liabilities	30	674,283	718,892
Other liabilities	37	2,462,420	2,423,182
Current tax liabilities		202,796	223,527
Provisions	38	2,433,174	2,223,738
Total liabilities		**137,947,511**	**140,254,848**

EQUITY	Note	30 June 2023	31 December 2022
Share capital	48	147,677	147,593
Supplementary capital		9,110,976	9,110,976
Other reserve capital		3,521,971	3,142,098
Revaluation reserve		(745,913)	(1,149,786)
Retained earnings		579,406	11,340
retained profit		(368,226)	(430,157)
net profit for the period		947,632	441,497
Total equity		**12,614,117**	**11,262,221**
Total liabilities and equity		**150,561,628**	**151,517,069**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

					Retained earnings		
	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained profit	Net profit for the period	Total
Balance as of 1 January 2023	**147,593**	**9,110,976**	**3,142,098**	**(1,149,786)**	**(430,157)**	**441,497**	**11,262,221**
Total comprehensive income for the period	**-**	**-**	**-**	**403,873**	**-**	**947,632**	**1,351,505**
Net profit for the period	-	-	-	-	-	947,632	947,632
Other comprehensive income for the period	-	-	-	403,873	-	-	403,873
Distribution of retained earnings	**-**	**-**	**376,471**	**-**	**65,026**	**(441,497)**	**-**
Distribution of retained earnings intended for capital	-	-	376,471	-	65,026	(441,497)	-
Share issue	**84**	**-**	**-**	**-**	**-**	**-**	**84**
Management stock options*	**-**	**-**	**3,402**	**-**	**-**	**-**	**3,402**
Other adjustments	**-**	**-**	**-**	**-**	**(3,095)**	**-**	**(3,095)**
Balance as of 30 June 2023	**147,677**	**9,110,976**	**3,521,971**	**(745,913)**	**(368,226)**	**947,632**	**12,614,117**

* for details on the management stock options programme please refer to Note 40

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as of 1 January 2022	**147,519**	**9,110,976**	**2,946,115**	**(595,622)**	**(423,655)**	**176,298**	**11,361,631**
Total comprehensive income for the period	**-**	**-**	**-**	**(554,164)**	**-**	**441,497**	**(112,667)**
Net profit for the period	-	-	-	-	-	441,497	441,497
Other comprehensive income for the period	-	-	-	(554,164)	-	-	(554,164)
Distribution of retained earnings	**-**	**-**	**190,025**	**-**	**(13,727)**	**(176,298)**	**-**
Distribution of retained earnings intended for capital	-	-	190,025	-	(13,727)	(176,298)	-
Share issue	**74**	**-**	**-**	**-**	**-**	**-**	**74**
Management stock options*	**-**	**-**	**5,958**	**-**	**-**	**-**	**5,958**
Other adjustments	**-**	**-**	**-**	**-**	**7,225**	**-**	**7,225**
Balance as of 31 December 2022	**147,593**	**9,110,976**	**3,142,098**	**(1,149,786)**	**(430,157)**	**441,497**	**11,262,221**

* for details on the management stock options programme please refer to Note 40

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as of 1 January 2022	**147,519**	**9,110,976**	**2,946,115**	**(595,622)**	**(423,655)**	**176,298**	**11,361,631**
Total comprehensive income for the period	**-**	**-**	**-**	**(710,744)**	**-**	**535,409**	**(175,335)**
Net profit for the period	-	-	-	-	-	535,409	535,409
Other comprehensive income for the period	-	-	-	(710,744)	-	-	(710,744)
Distribution of retained earnings	**-**	**-**	**184,526**	**-**	**(8,228)**	**(176,298)**	**-**
Distribution of retained earnings intended for capital	-	-	184,526	-	(8,228)	(176,298)	-
Share issue	**74**	**-**	**-**	**-**	**-**	**-**	**74**
Management stock options*	**-**	**-**	**3,125**	**-**	**-**	**-**	**3,125**
Other adjustments	**-**	**-**	**-**	**-**	**(356)**	**-**	**(356)**
Balance as of 30 June 2022	**147,593**	**9,110,976**	**3,133,766**	**(1,306,366)**	**(432,239)**	**535,409**	**11,189,139**

* for details on the management stock options programme please refer to Note 40

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

CASH FLOWS FROM OPERATING ACTIVITIES:	Note	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Net profit (loss)		**947,632**	**535,409**
Adjustments for:		**461,487**	**2,317,389**
Income tax expenses		352,774	282,897
Depreciation and amortization	14	223,539	206,475
Dividend income		(4,198)	(8,142)
Interest income	8	(4,787,956)	(3,042,204)
Interest expense	8	2,348,643	889,834
Change in provisions		209,071	127,537
Change in amounts due from banks		394,351	(849,785)
Change in assets due to derivative financial instruments		(32,340)	(1,604,882)
Change in loans and advances to customers measured at amortised cost		1,254,298	(5,406,391)
Change in loans and advances to customers measured at fair value through profit or loss		164,056	129,141
Change in amounts due to banks		(81,722)	(1,052,680)
Change in liabilities due to derivative financial instruments		213,421	1,640,349
Change in amounts due to customers		(2,211,736)	8,233,080
Change in other assets and current tax assets		155,698	(197,148)
Change in other liabilities and provisions due to deferred tax		41,494	1,083,991
Other adjustments		(125,433)	50,493
Interest received		4,950,725	2,734,107
Interest paid		(2,245,603)	(790,777)
Tax paid		(357,056)	(107,852)
Lease payments for short-term leases not included in the lease liability measurement		(539)	(654)
Net cash flows from operating activities		**1,409,119**	**2,852,798**

CASH FLOWS FROM INVESTMENT ACTIVITIES:	Note	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Inflows		**71,258,455**	**47,826,617**
Sale and maturity of financial assets		71,250,772	47,814,337
Sale of intangible assets and property, plant and equipment		2,696	4,138
Dividends received and other inflows from investing activities		4,987	8,142
Outflows		**(67,520,600)**	**(47,477,308)**
Purchase of debt securities		(67,323,384)	(47,335,801)
Purchase of intangible assets and property, plant and equipment		(197,216)	(141,507)
Net cash flows from investment activities		**3,737,855**	**349,309**
CASH FLOWS FROM FINANCING ACTIVITIES:		HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Inflows		**756,196**	**1,125,911**
Long-term loans received and subordinated liabilities		756,112	1,125,837
Net proceeds from share issues and return of capital contributions		84	74
Outflows		**(1,219,367)**	**(877,974)**
Repayment of long-term loans received		(782,701)	(612,086)
Repayment of lease liability		(72,155)	(59,447)
Redemption of debt securities		(364,427)	(206,441)
Other financial expenses		(84)	-
Net cash flows from financing activities		**(463,171)**	**247,937**
TOTAL NET CASH AND CASH EQUIVALENTS		**4,683,803**	**3,450,044**
Cash and cash equivalents at the beginning of the period		**13,217,271**	**5,512,816**
Cash and cash equivalents at the end of the period:	39	**17,901,074**	**8,962,860**
Effect of exchange rate fluctuations on cash and cash equivalents		63,583	89,490

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. IDENTIFICATION DATA

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

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

2. DESCRIPTION OF THE CAPITAL GROUP

BNP Paribas operates within the BNP Paribas Capital Group with its registered office in Paris.

As of 30 June 2023, the BNP Paribas Bank Polska S.A. Capital Group comprised BNP Paribas Bank Polska S.A. as the parent and its subsidiaries. The Bank's share in the equity of subsidiaries is presented in brackets:

1. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI" 100%).
2. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING" 100%).
3. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC" 100%).
4. CAMPUS LESZNO SP. Z O.O. (100%).

On 27.03.2023 the securitisation programme has been completed and BGZ Poland ABS1 DAC (SPV) company has been no longer controlled by the Bank.

On 18.04.2023, the deletion of the company Bankowy Fundusz Nieruchomości Actus Sp. z.o.o. from the National Court Register became legally effective and this completed the process of its liquidation.

In accordance with the principles of International Financial Reporting Standards, the interim condensed consolidated financial statements covered all Subsidiaries as of 30 June 2023.

3. ACCOUNTING PRINCIPLES APPLIED FOR THE PURPOSE OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the first half of 2023 ended 30 June 2023 were prepared in accordance with the requirements of International Financial Reporting Standards, as adopted by the European Union ("EU IFRS"), in particular, in accordance with IAS 34. The accounting principles applied in the first half of 2023 do not differ from the principles applicable in 2022, which are described in detail in the Consolidated financial statements of Bank BNP Paribas S.A. Capital Group for the year ended 31 December 2022.

The Interim condensed consolidated financial statements do not include all information and disclosures required in annual consolidated financial statements, and, therefore, should be read in conjunction with the Consolidated financial statements of BNP Paribas Bank Polska S.A. Capital Group for the year ended 31 December 2022.

The present Interim condensed consolidated financial statements include the requirements of all International Accounting Standards approved by the European Union ("IAS"), International Financial Reporting Standards ("EU IFRS") and interpretations related to these standards, except for the standards and interpretations listed below that are awaiting approval by the European Union or have been approved, but entered into or will enter into force only after the balance sheet date.

In the period covered by the Interim condensed consolidated financial statements, the Group did not use the option of earlier application of standards and interpretations, which were approved by the European Union, but will enter into force only after the balance sheet date.

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

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

4. GOING CONCERN

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

5. APPROVAL OF THE FINANCIAL STATEMENTS

The Interim condensed consolidated report of the BNP Paribas Bank Polska S.A. Capital Group for the first half of 2023 ended 30 June 2023 was approved for publication by the Management Board on 09 August 2023.

6. SEASONAL AND CYCLICAL NATURE OF BUSINESS

There are no significant seasonal or cyclical phenomena in the Group's operations.

7. ESTIMATES

The Group makes estimates and assumptions that affect the values of assets and liabilities reported in the following period. Estimates and assumptions, which are subject to ongoing assessment, are based on historical experience and other factors, including expectations of future events that appear reasonable in the circumstances.

a. Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

Criteria for classification to stages

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

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

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

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

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

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

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

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

- suspicion of fraud (including economic crime or any other criminal offence related to the credit exposure),
- information has been received about the submission of an application for restructuring proceedings within the meaning of the Act on Restructuring Law,
- filing of an application for commencing enforcement proceedings by the Group or becoming aware of the fact that enforcement proceedings against the debtor are being conducted in the amount which, in the opinion of the Bank, may result in the loss of creditworthiness,
- becoming aware of the fact of filing of an application for declaring the debtor bankrupt (liquidation, consumer), putting the debtor into liquidation, dissolution or cancellation of the company, appointment of a curator, appointment of a receiver over the debtor's activity,
- filing of an application for bankruptcy proceedings, a declaration of bankruptcy or becoming aware of the dismissal of the bankruptcy application due to the fact that the debtor's assets are insufficient or sufficient only to meet the costs of the bankruptcy proceedings,
- termination of the credit agreement,
- submission by the Bank of an application to initiate enforcement proceedings against the customer,
- granting of a public moratorium pursuant to Article 31fa of the Act of 2 March 2020, on special arrangements for the prevention, counteraction and control of covid-19, other infectious diseases and emergencies caused by them,
- financial difficulties identified during the customer monitoring/review process or on the basis of information obtained from the customer in the course of other activities,
- significant deterioration in customer rating.

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

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

1) the amount of past due liabilities exceeds PLN 400 for retail exposures or PLN 2.000 for non-retail exposures, and
2) the share of past due liabilities in the exposure is greater than 1%.

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

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

With regard to the criteria for assignment to Stages, the Group implemented a premise based on the assessment of the relative change in the PD lifetime parameter.

Due to the ongoing war in Ukraine and the economic sanctions issued against Russia and Belarus, the Bank analysed credit exposures directly related to these countries and, based on this, did not identify any significant exposures both in the portfolio of business and retail clients. At the same time, the Bank monitors the situation of customers on an ongoing basis with a view to securing the credit portfolio by adequately reflecting the level of risk on these customers in the amount of allowances. The Bank has identified institutional customers who are vulnerable to the effects of the situation in Ukraine, including, in particular, customers whose business is linked to the economies of the above countries (and thus may be exposed to the effects of war and imposed sanctions) and whose business is vulnerable to the embargo on Russian gas. These customers accounted for PLN 1,394,936 thousand of exposure as of 30 June 2023, and were classified in Stage 2, as customers for whom there was a significant increase in credit risk. Due to the recognition of an allowance for expected credit losses for these customers over the entire remaining expected life, the level of the allowance for these customers increased by PLN 31,867 thousand relative to the allowance over a 12-month horizon.

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

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

The cumulative effect of these actions on other segments resulted in the inclusion in Stage 2 of exposures in the amount of PLN 952,998 thousand and the recognition of PLN 20,576 thousand in allowances on this account (including the transfer to Stage 2 of exposures in the amount of PLN 375,539 thousand and as a result recognition of an additional allowance in the amount of PLN 6,687 thousand on the portfolio of loans secured by real estate in PLN).

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

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

The following assets are measured collectively:

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

The amount of collective impairment allowances is determined with the application of statistical methods for defined exposure portfolios which are homogenous from the perspective of credit risk. Homogeneous exposure portfolios are defined based on, among others, customer segment and type of credit products.

The criteria applied by the Group to define homogeneous portfolios are aimed at grouping exposures so that the credit risk profile is reflected as accurately as practicable and, consequently, so as to estimate the level of allowances for the expected credit losses on financial assets as objectively and adequately as possible. The amount of the allowance for expected credit losses in the collective method is determined under three macroeconomic scenarios. The final value of the allowance is determined as the average of these three calculations weighted by the probability of occurrence of a given scenario. The weight of the base scenario is 50%, the weight of the negative scenario is estimated based on the ratio of the current projected loss to the long-term average for the segment, and the weight of the positive scenario is derived from the weight of the negative scenario. In addition, an assumption is made that the weight of none of the scenarios can be less than 10%. The weight of the negative scenario, depending on the segment as at 30 June 2023, ranged from 10.00% to 18.67%.

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

1) probability of default (PD)

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

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

2) loss given default (LGD) ratio

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

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

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

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

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

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

4) prepayment expectation factor (PPF)

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

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

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

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

In the first half of 2023, the Group made the following changes to the allowance calculation process:

- With regard to the portfolio of loans to individuals secured on real estate, the Bank took into account all the relevant macroeconomic variables affecting the following:
  - PD level: This change had a neutral impact on the level of provisions (a PLN 11,730 thousand tie-up with a simultaneous release of Post Model Adjustment provisions of PLN 11,730 thousand). This change resulted in a reduction in the level of Post Model Adjustment provisions related to risk factors affecting default risk not directly included in the macroeconomic model to PLN 139,740 thousand against PLN 151,470 thousand as at 31 December 2022.
  - LGD level: Together with the adjustment of the expected selling prices of the NPL portfolios based on current forward-looking information, this change resulted in the release of a provision of PLN 11,745 thousand (creation of additional provisions of PLN 26,755 thousand with a simultaneous release of Post Model Adjustment provisions of PLN 38,500 thousand). The remaining balance of the allowance in this respect (PLN 15,200 thousand) relates to a subsidiary of the Bank.

Additionally, in the first half of 2023, the level of allowances was affected by the updating of the level of provisions in the form of Post Model Adjustments maintained in connection with the risk of customers particularly sensitive to changes in the economic environment and parameter adjustments for sensitive customers taking advantage of credit holidays - the Bank released a net PLN 224 thousand of provisions created for this purpose (including a release of PLN 3,900 thousand on exposures of customers particularly sensitive to changes in the economic environment and PLN 3,676 thousand in the form of parameter adjustments for sensitive customers taking advantage of credit holidays).

Taking into account the elements described above, in the first half of 2023 the Group released PLN 50,454 thousand of additional provisions (in the form of Post Model Adjustments). The balance of these additional provisions as at 30 June 2023 amounted to PLN 256,617 thousand, while the balance as at 31 December 2022 was PLN 307,071 thousand.

Type of Post Model Adjustment *(data in PLN thousand)*	**Balance as of 31.12.2022**	**Change**	**Balance as of 30.06.2023**
Risk factors not included in the macroeconomic model	151,470	(11,730)	139,740
Clients particularly sensitive to changes in the economic environment	25,000	(3,900)	21,100
Planned changes to the LGD model	53,700	(38,500)	15,200
Adjustment of parameters for sensitive customers using credit holidays	76,901	3,676	80,577
Total	**307,071**	**(50,454)**	**256,617**

In the first half of 2023, as part of the adjustment of the level of allowances to expectations of the future macroeconomic situation, the level of provisions decreased by PLN 35,815 thousand, which resulted from the update of forecasts of macroeconomic variables included in the IFRS9 model used.

Sensitivity of allowances

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

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

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

Analysis/scenario	Change in the amount of allowance	The percentage change in the amount of allowance
Pessimistic scenario – considering pessimistic and baseline scenarios only (optimistic scenario 0%, baseline scenario 50%, pessimistic scenario 50%)	252,891	11%
Optimistic scenario – considering optimistic and baseline scenarios only (optimistic scenario 50%, baseline scenario 50%, pessimistic scenario 0%)	(104,464)	-4%
Baseline scenario – uniform distribution of optimistic and pessimistic scenarios(optimistic scenario 25%, baseline scenario 50%, pessimistic scenario 25%)	74,213	3%

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

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

Analysis/scenario	Change in the amount of allowance	The percentage change in the amount of allowance
PD decrease by 10%	(106,586)	-4%
PD increase by 10%	106,347	4%
LGD decrease by 10%	(238,109)	-10%
LGD increase by10%	219,310	9%

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

Analysis/scenario	Change in the amount of allowance	The percentage change in the amount of allowance for individually measured exposures
Decrease in present value of estimated future cash flows for individually assessable exposures by 10%	33,737	5%
Increase in present value of estimated future cash flows for individually assessable exposures by 10%	(33,034)	-5%

Climate issues

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

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

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

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

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

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

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

b. Classification of financial instruments

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

c. Fair value of financial instruments

The fair value measurement of financial instruments classified as level 2 or 3 in the fair value hierarchy is estimated using valuation techniques (mark-to-model) that are in line with market practice and are parameterized on the basis of reliable sources of market data obtained, among others, from Refinitiv and Bloomberg information systems.

For linear and non-linear OTC derivatives, valuation methods are used based on replicating the payoffs of valued instruments using other instruments with similar characteristics for which market quotes from an active market are available. A Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) are also determined for this category of instruments, which are estimated based on the projected future exposure resulting from the transaction, the Bank's and the counterparty's credit ratings and the collateral submitted/accepted. In addition, the materiality of other fair value adjustments (X-Value Adjustments, XVA) is verified.

The fair value measurement of unquoted debt instruments and loans and advances is determined using a method based on the present value of projected future cash flows or a method based on the expected recovery of the exposure, which take into account estimates of unobservable risk factors, i.e. the size of the credit margin, the probability of default of the obligor and the recovery rate.

For equity instruments not quoted in an active market, the fair value measurement is determined using a method based on market multipliers or a method based on the present value of projected future cash flows, which take into account estimates of unobservable risk factors, i.e. limited liquidity of the instrument, uncertainty related to the realization of assumed financial projections, the market risk premium associated with an investment in a particular category of financial instruments.

The fair value measurement is regularly reviewed by a separate organizational unit which is independent of the entities performing the transactions. The review includes an assessment of the alignment of valuations with market transaction prices and the appropriateness of the valuation methods with respect to the changes in the financial markets.

d. Impairment of fixed assets and investments in subsidiaries

At the end of each reporting period, the Group assesses the existence of an indication of whether fixed assets and investments in subsidiaries are impaired. If such an indication is identified, the Group estimates the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell or the value in use of the asset or cash-generating unit. Estimating the value in use of a non-current asset involves, among other things, making assumptions about estimates of the amounts, timing of future cash flows that the Group may derive from the fixed assets. In estimating fair value less costs to sell, the Group relies on available market data on the subject or valuations prepared by independent experts, which are also generally based on estimates.

Where such a premise exists for investments in subsidiaries, the Group estimates the value in use and, if the carrying amount of the asset exceeds its recoverable amount, the Group recognises an impairment loss in the income statement. Estimating value in use requires assumptions to be made regarding, among other things, future cash flows and the discount rate.

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

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

The anticipated severance pay is calculated as the resultant of:

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

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

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

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

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

Provisions resulting from actuarial valuation are updated quarterly.

f. Restructuring provision

On 18 December 2020, the Group finalized negotiations with trade union organizations operating in the Group and concluded an agreement on defining the rules with reference to the matters concerning employees in connection with the collective redundancies process, for the period 2021-2023, resulting from the adaptation of the Group's business model in relation to the change of business environment. In connection with the agreement concluded in December 2020, the Group created restructuring provision to cover the costs of employment reduction. As at 30.06.2023, the balance sheet value of the provision created for liabilities to employees due to restructuring, amounted to PLN 25,605 thousand (compared with PLN 31,062 thousand as at 31.12.2022).

g. Asset and provision for deferred income tax

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

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

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

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

In the first quarter, the Bank decided to create an additional asset in relation to provisions made in connection with the settlement process and the possibility of taking advantage of tax preferences (abandonment of collecting CIT on forgiven loans under the Regulation of the Minister of Finance of March 11, 2022, as amended). Details can be found in Note 51 Disputes

In the first half of 2023 and 2022, current income tax and deferred tax provision were calculated using the 19% rate.

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

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

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

As a result of the analysis concerning the impact of the judgment on the Bank’s revenues, in particular on relations expired before the judgment was issued, in 2019 the Bank decided to create a provision for a proportional refund of commission in the event of early repayment of the loan in the amount of PLN 48,750 thousand. As at 30 June 2023 the provision amounted to PLN 13,139 thousand (as at 31 December 2022 the provision amounted to 14,583 thousand). The provision was estimated based on the estimation of the total amount of the provision for the early repaid loans and the expected percentage of customers who will claim for a refund of the due part of the commission. Assuming that the percentage of customers would be 5 p.p. higher than the assumed level, the amount of the provision would be higher by PLN 12.5 million.

Simultaneously, the Group recognises its liability due to the proportional reimbursement of commissions in the event of their early repayment in the period from the date of the judgment of the CJEU on 11 September 2019 to 31 December 2019. As of 30 June 2023, this liability amounted to PLN 2,281 thousand (PLN 2,300 thousand as of 31 December 2022).

Additionally, the Group created a provision to cover the partial reimbursements of loan commissions in the event of their early repayment. The estimate of the provision is based on the difference between the value of commissions to be reimbursed and the balance of unsettled commissions as at the expected date of early loan repayment. This provision is calculated as a percentage of commissions charged to the customer, which reflects the expected average difference between the amounts of commissions to be refunded to customers and the balance of outstanding commissions at the expected time of early repayment of the loan. This percentage is calculated based on the estimated level of early repayments and the expected timing of repayment. In the event of early loan repayment, this provision is released and for newly sold loans a provision will be created on an ongoing basis. As of 30 June 2023, the provision amounted to PLN 36,105 thousand (PLN 36,327 thousand as of 31 December 2022).

The total amount of provisions related to the CJEU judgment as of 30 June 2023 was PLN 51,525 thousand (as of 31 December 2022, the provision was PLN 53,211 thousand).

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

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

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

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

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

Based on the observed and projected number of suspension requests, the Bank recognised a PLN 895 million negative impact on the Bank's result in 2022, reducing the gross carrying amount of loans by the mentioned amount.

Based on data on customers' use of the option to suspend performance of contracts, in the first half of 2023 the Bank revised its estimates and adjusted the impact of the suspension recognized in 2022 by PLN 22 million. This adjustment had a positive impact on net interest income in the first half of 2023.

In the first half of 2023, customers accounting for about 72% of the volume of the PLN mortgage portfolio in the Bank requested suspension of contracts. The Bank estimates that customers with about 81% of the volume of credit portfolio will apply for suspension in the remaining quarters of 2023. The Bank carried out a sensitivity analysis of the estimate of customer participation in the second half of 2023 on the Bank's result. A +/- 10 p.p. change in the customer participation rate would have an impact of PLN -30/+30 million on the Bank's result.

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

The suspension of contracts did not change the classification of exposures into different credit risk stages or the assignment of the forbearance flag at the end of the first half of 2023, except when the Bank had information indicating a material increase in risk or impairment.

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

Provision for potential claims resulting from proceedings related to CHF loan agreements and model used by the Group were presented in Note 51 Litigation and claims.

8. NET INTEREST INCOME

Interest income	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Amounts due from banks	138,752	276,203	83,460	107,416
Loans and advances to customers measured at amortised cost, including:	1,793,548	3,583,520	1,374,789	2,338,595
non-banking financial institutions	44,338	84,856	10,004	15,945
retail customers	770,343	1,559,650	634,532	1,094,883
economic operators	871,337	1,730,712	657,689	1,104,786
including retail farmers	162,482	326,699	144,372	249,424
public sector institutions	1,195	2,421	1,013	2,051
leasing receivables	106,335	205,881	71,551	120,930
Loans and advances to customers measured at amortised cost through profit or loss	21,709	44,815	22,480	35,407
Debt instruments measured at amortised cost	187,011	343,893	149,781	297,648
Debt instruments measured at fair value through profit or loss	1,663	3,658	2,134	3,701
Debt instruments measured at fair value through other comprehensive income	149,127	304,193	81,065	138,851
Derivative instruments as part of fair value hedge accounting	107,992	183,597	59,485	114,784
Derivative instruments as part of cash flow hedge accounting	2,899	5,766	2,868	5,735
Securities purchased under repurchase agreements	38,712	42,311	67	67
Total interest income	**2,441,413**	**4,787,956**	**1,776,129**	**3,042,204**

Interest expense	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Amounts due to banks	(161,693)	(321,515)	(112,212)	(185,055)
Debt securities issued	-	(3,154)	(5,379)	(8,935)
Amounts due to customers, including:	(691,941)	(1,353,062)	(293,200)	(370,287)
non-banking financial institutions	(25,515)	(53,472)	(10,751)	(18,461)
retail customers	(315,315)	(632,579)	(107,404)	(131,311)
economic operators	(319,443)	(606,831)	(144,618)	(185,731)
including retail farmers	(4,206)	(8,938)	(833)	(881)
public sector institutions	(31,668)	(60,180)	(30,427)	(34,784)
Lease liabilities	(7,397)	(14,522)	(3,903)	(6,136)
Derivative instruments as part of fair value hedge accounting	(328,002)	(630,699)	(197,985)	(293,105)
Derivatives under cash flow hedge accounting	(11,366)	(22,970)	(6,149)	(9,324)
Securities sold subject to repurchase agreements	(1,301)	(2,721)	(7,366)	(15,821)
Other related to financial assets	-	-	(509)	(1,171)
Total interest expense	**(1,201,700)**	**(2,348,643)**	**(626,703)**	**(889,834)**
Net interest income	**1,239,713**	**2,439,313**	**1,149,426**	**2,152,370**

9. NET FEE AND COMMISSION INCOME

Fee and commission income	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
loans, advances and leases	89,019	171,300	85,889	164,783
account maintenance	56,447	114,071	62,704	133,678
cash service	8,718	17,046	8,530	21,812
cash transfers and e-banking	25,618	51,801	24,278	46,678
guarantees and documentary operations	17,980	34,832	14,764	27,557
asset management and brokerage operations	24,445	50,712	31,879	74,246
payment and credit cards	92,652	199,133	83,280	163,565
insurance mediation activity	49,254	94,563	42,550	75,481
product sale mediation and customer acquisition	3,932	6,915	4,068	8,318
other commissions	3,811	20,112	3,472	7,602
Total fee and commission income	**371,876**	**760,485**	**361,414**	**723,720**

Fee and commission expense	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
loans, advances and leases	(60)	(252)	161	(91)
account maintenance	(2,255)	(4,783)	(2,426)	(4,644)
cash service	(6,272)	(12,131)	(5,080)	(11,966)
cash transfers and e-banking	(687)	(1,323)	(5,765)	(6,463)
asset management and brokerage operations	(865)	(2,926)	(1,348)	(2,626)
payment and credit cards	(28,217)	(56,418)	(28,471)	(54,145)
insurance mediation activity	(6,704)	(12,401)	(5,085)	(11,480)
product sale mediation and customer acquisition	(5,292)	(10,735)	(5,725)	(11,984)
other commissions	(13,585)	(26,497)	(12,736)	(24,698)
Total fee and commission expense	**(63,937)**	**(127,466)**	**(66,475)**	**(128,097)**
Net fee and commission expense	**307,939**	**633,019**	**294,939**	**595,623**

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

Net trading income	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Equity instruments measured at fair value through profit or loss	16,466	19,282	(11,480)	(10,453)
Debt instruments measured at fair value through profit or loss	1,190	1,245	(684)	(1,896)
Derivative instruments and result on foreign exchange transactions	231,787	463,504	130,940	281,959
Result on financial instruments measured at fair value through profit or loss and foreign exchange differences, total	**249,443**	**484,031**	**118,776**	**269,610**
including margin on foreign exchange and derivative transactions with customers	192,148	386,076	195,750	374,160

11. RESULT ON IVESTMENT ACTIVITIES

Result on investment activities	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Equity instruments measured at fair value through other comprehensive income	2,008	2,008	-	-
Debt instruments measured at fair value through other comprehensive income	1,288	1,288	(30)	3,286
Loans and advances to customers measured at fair value through profit or loss	2,757	(9,659)	32,793	27,215
Result on investment activities, total	**6,053**	**(6,363)**	**32,763**	**30,501**

During the first half of 2023, the Group has not reclassified any financial assets measured at amortised cost to financial assets measured at fair value through other comprehensive income.

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

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

HY 2023 from 01.01.2023 to 30.06.2023	Stage 1	Stage 2	Stage 3	Total	including POCI
Amounts due from banks	(911)	-	-	(911)	-
Loans and advances to customers measured at amortised cost	34,710	43,873	(51,045)	27,538	(27,449)
Contingent commitments granted	(9,024)	(16,311)	3,132	(22,203)	2,214
Securities measured at amortised cost	32	(387)	47,281	46,926	47,281
Total net impairment allowances on financial assets and provision on contingent liabilities	**24,807**	**27,175**	**(632)**	**51,350**	**22,046**

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

HY 2022 from 01.01.2022 to 30.06.2022	Stage 1	Stage 2	Stage 3	Total	including POCI
Amounts due from banks	(4,316)	-	-	(4,316)	-
Loans and advances to customers measured at amortised cost	167,536	(277,174)	(98,092)	(207,730)	(12,839)
Contingent commitments granted	36,622	(17,161)	25,769	45,230	318
Securities measured at amortised cost	129	318	1,642	2,089	1,642
Total net impairment allowances on financial assets and provision on contingent liabilities	**199,971**	**(294,017)**	**(70,681)**	**(164,727)**	**(10,879)**

In the first half of 2023, the Bank entered into agreements regarding the sale of credit receivables, described in detail in the Note 44 Loan portfolio sale.

The result on loan portfolio sale is recognised under Result of expected credit losses of financial assets and provisions on contingent liabilities.

13. GENERAL ADMINISTRATIVE COSTS

General administrative expenses	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Personnel expenses	(354,740)	(696,834)	(317,380)	(630,717)
Marketing expenses	(21,566)	(35,269)	(32,333)	(52,909)
IT and telecom expenses	(62,899)	(121,703)	(58,490)	(116,751)
Short-term lease and operating costs	(20,891)	(41,755)	(17,450)	(32,217)
Other non-personnel expenses	(119,083)	(236,767)	(113,481)	(211,413)
Business travels	(4,054)	(7,353)	(3,360)	(5,066)
ATM and cash handling expenses	(6,730)	(13,227)	(6,341)	(13,100)
Costs of outsourcing services related to leasing operations	(712)	(1,727)	(770)	(1,398)
Borrowers' Support Fund (BSCF) fee	-	-	(2,652)	(9,001)
Bank Guarantee Fund fee	(13,909)	(123,909)	-	(151,713)
Commercial Banks Protection Scheme fees	(275)	(275)	(188,017)	(188,017)
Polish Financial Supervision Authority fee	(3,933)	(7,928)	(3,635)	(7,213)
Total general administrative expenses	**(608,792)**	**(1,286,747)**	**(743,909)**	**(1,419,515)**

The Other non-personnel expenses line presents costs related to legal services for CHF loan litigation in the amount of PLN 44,672 thousand in the first half of 2023 (the first half of 2022: PLN 35,046 thousand).

14. DEPRECIATION AND AMORTISATION

Depreciation and amortization	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Property, plant and equipment	(52,761)	(104,218)	(52,543)	(105,787)
Intangible assets	(63,609)	(119,321)	(54,696)	(100,688)
Total depreciation and amortization	**(116,370)**	**(223,539)**	**(107,239)**	**(206,475)**

15. OTHER OPERATING INCOME

Other operating income	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Sale or liquidation of property, plant and equipment and intangible assets	1,115	3,312	5,824	7,270
Release of write-offs on other receivables	814	1,747	2,269	5,777
Sale of goods and services	1,366	4,182	(596)	871
Release of provisions for litigation and claims and other liabilities	28,972	43,553	2,912	36,360
Recovery of debt collection costs	5,209	9,735	4,304	9,321
Recovered indemnities	83	259	119	223
Income from leasing operations	11,968	29,134	12,267	31,647
Other operating income	14,278	27,750	11,076	20,373
Total other operating income	**63,805**	**119,672**	**38,175**	**111,842**

16. OTHER OPERATING EXPENSES

Other operating expenses	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Loss on sale or liquidation of property, plant and equipment and intangible assets	(1,117)	(3,270)	(7,926)	(9,424)
Impairment allowance on other receivables	(1,162)	(2,256)	(3,439)	(6,192)
On account of provisions for litigation and other liabilities	(10,562)	(20,792)	(23,583)	(29,534)
Debt collection	(10,084)	(19,582)	(8,095)	(16,714)
Donations granted	(2,889)	(4,464)	(2,228)	(3,687)
Costs of leasing operations	(6,264)	(19,390)	(7,361)	(22,489)
Indemnities, penalties and fines	(447)	(1,404)	(366)	(954)
Other operating income	(23,696)	(45,705)	(18,942)	(61,711)
Total other operating expenses	**(56,221)**	**(116,863)**	**(71,940)**	**(150,705)**

17. INCOME TAX EXPENSE

	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Current income tax	(199,438)	(330,612)	(173,808)	(292,554)
Deferred income tax	(9,846)	(22,162)	48,112	9,657
Total income tax expense	**(209,284)**	**(352,774)**	**(125,696)**	**(282,897)**
Profit before income tax	668,931	1,300,406	383,364	818,306
Statutory tax rate	19%	19%	19%	19%
Income taxes on gross profit	**(127,097)**	**(247,077)**	**(72,839)**	**(155,478)**
Taxable permanent differences, including:	**(82,187)**	**(105,696)**	**(52,857)**	**(127,419)**
Receivables written-off	(4,448)	(5,964)	(14,126)	(21,473)
Representation costs	114	(476)	236	(376)
PFRON	(455)	(920)	(486)	(918)
Prudential fee to the Bank Guarantee Fund	(2,643)	(23,543)	871	(28,825)
Tax on financial institutions	(18,944)	(38,482)	(20,314)	(38,526)
Research and development relief	15,524	15,524	7,015	7,015
Provisions for claims on CHF loans	(93,537)	(67,702)	(14,466)	(30,323)
Provisions for legal risks	5,014	6,450	(2,925)	2,165
Other differences	17,188	9,417	(8,662)	(16,158)
Total income / tax expense of the Group	**(209,284)**	**(352,774)**	**(125,696)**	**(282,897)**

18. EARNINGS PER SHARE

	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Basic		
Net profit	947,632	535,409
Weighted average number of ordinary shares (units)	147,633,428	147,555,009
Basic earnings (loss) per share (in PLN per one share)	6.42	3.63
Diluted		
Net profit used in determining diluted earnings per share	947,632	535,409
Weighted average number of ordinary shares (units)	147,633,428	147,555,009
Adjustments for:		
- stock options	80,757	99,753
Weighted average number of ordinary shares for the diluted earnings per share (units)	147,714,184	147,654,761
Diluted earnings (loss) per share (in PLN per one share)	6.42	3.63

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

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

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

19. CASH AND CASH BALANCES AT CENTRAL BANK

Cash and cash equivalents	30.06.2023	31.12.2022
Cash and other balances	2,573,295	2,669,617
Account in the National Bank of Poland	4,399,102	48,699
Gross cash and cash equivalents	**6,972,397**	**2,718,316**
Allowances on expected credit losses	(788)	(9)
Total cash and cash equivalents	**6,971,609**	**2,718,307**

Change of allowances on expected credit losses of amounts due from Central Bank	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Opening balance	**(9)**	**(283)**
Increases due to acquisition or origination	(8)	(2,395)
Decreases due to derecognition	774	2,447
Net changes in credit risk	(1,545)	(3)
Closing balance	**(788)**	**(234)**

20. AMOUNTS DUE FROM BANKS

Amounts due from banks	30.06.2023			31.12.2022		
	Gross balance sheet value	Impairment allowance	Net balance sheet value	Gross balance sheet value	Impairment allowance	Net balance sheet value
Current accounts	10,870,612	(1,430)	10,869,182	9,058,686	(1,075)	9,057,611
Interbank deposits	82,457	(7)	82,450	1,626,427	(220)	1,626,207
Loans and advances	201,094	(130)	200,964	201,160	(133)	201,027
Other receivables	681,071	(49)	681,022	915,421	(77)	915,344
Total amounts due from banks	**11,835,234**	**(1,616)**	**11,833,618**	**11,801,694**	**(1,505)**	**11,800,189**

Change of allowances on expected credit losses of amounts due from banks	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Opening balance	**(1,505)**	**(5,443)**
Increases due to acquisition or origination	(2,105)	(735)
Decreases due to derecognition	2,516	612
Changes resulting from the change in credit risk (net)	(544)	(4,242)
Other changes (including foreign exchange differences)	22	(187)
Closing balance	**(1,616)**	**(9,995)**

As of 30 June 2023 and 31 December 2022, amounts due from other banks were classified as Stage 1.

21. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments	Nominal value	Fair value	
30.06.2023		Assets	Liabilities
Currency derivatives			
Foreign Exchange Forward (FX Forward + NDF)	14,155,540	107,204	997,617
Currency Swap (FX Swap)	24,591,011	1,237,185	285,411
Currency Interest Rate Swaps (CIRS)	7,546,151	158,742	97,484
OTC currency options	16,553,972	262,064	347,743
Total currency derivatives:	**62,846,674**	**1,765,195**	**1,728,255**
Interest rate derivatives			
Interest Rate Swap	58,241,961	1,314,475	1,238,189
OTC interest rate options	10,504,664	146,434	146,277
Total interest rate derivatives:	**68,746,625**	**1,460,909**	**1,384,466**
Other derivatives			
OTC commodity swaps	637,413	30,915	29,443
Currency Spot (FX Spot)	1,728,009	-	-
Total other derivatives:	**2,365,422**	**30,915**	**29,443**
Total trading derivatives:	**133,958,721**	**3,257,019**	**3,142,164**
including: measured using models	133,958,721	3,257,019	3,142,164

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

22. HEDGE ACCOUNTING

As of 30 June 2023, the Group used fair value hedge (macro fair value hedge).

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

IRS	Nominal value	Fair value	
		Assets	Liabilities
30.06.2023	15,886,759	18,746	957,454
31.12.2022	14,833,485	29,101	1,298,074

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

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

30.06.2023 - PLN 906,469 thousand

31.12.2022 - PLN 1,233,598 thousand

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

30.06.2023 - PLN 485,751 thousand

31.12.2022 - PLN 692,574 thousand

The below table presents derivative hedging instruments at their nominal value by residual maturity dates as of 30 June 2023 and 31 December 2022:

	30.06.2023							
Hedging derivatives	Fair value		Nominal value					
	positive	negative	from 1 month	From 1 to 3 months	From 3 months to 1 year	1-5 year	> 5 years	Total
Interest rate agreements								
Swap (IRS)	18,746	957,454	-	3,500,806	3,022,834	6,233,661	3,129,459	15,886,759
Hedging derivatives - total	**18,746**	**957,454**	**-**	**3,500,806**	**3,022,834**	**6,233,661**	**3,129,459**	**15,886,759**

	31.12.2022							
Hedging derivatives	Fair value		Nominal value					
	Fair value	Nominal value	Fair value	Nominal value	Fair value	1-5 year	> 5 years	Total
Interest rate agreements								
Swap (IRS)	29,101	1,298,074	-	1,196,899	5,606,850	4,867,771	3,161,966	14,833,485
Hedging derivatives - total	**29,101**	**1,298,074**	**-**	**1,196,899**	**5,606,850**	**4,867,771**	**3,161,966**	**14,833,485**

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

30.06.2023 PLN 8,649 thousand

31.12.2022 PLN 3,923 thousand

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

IRS	Nominal value	Fair value	
		Assets	Liabilities
30.06.2023	1,275,000	-	33,349
31.12.2022	250,000	-	3,773

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

The below table presents derivative hedging instruments at their nominal value by residual maturity dates as of 30 June 2023 and 31 December 2022:

	30.06.2023							
Hedging derivatives	Fair value		Nominal value					
	positive	negative	from 1 month	From 1 to 3 months	From 3 months to 1 year	1-5 year	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	33,349	-	-	-	1,275,000	-	1,275,000
Hedging derivatives - total	**-**	**33,349**	**-**	**-**	**-**	**1,275,000**	**-**	**1,275,000**

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

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	The hedged items are: Fixed rate bond EUR0233, EIBE0730.
Hedging instruments	Hedging instruments are the standard IRS transactions, i.e. plain vanilla IRS, denominated in EUR, in which the Bank receives a floating rate based on EUR ESTRS and pays a fixed interest rate.

IRS	Nominal value	Fair value	
		Assets	Liabilities
30.06.2023	769,902	5,223	2,257

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

The below table presents derivative hedging instruments at their nominal value by residual maturity dates as of 30 June 2023:

30.06.2023								
Hedging derivatives	Fair value		Nominal value					
	positive	negative	from 1 month	From 1 to 3 months	From 3 months to 1 year	1-5 year	> 5 years	Total
Interest rate agreements								
Swap (IRS)	5,223	2,257	-	-	-	-	769,902	769,902
Hedging derivatives - total	**5,223**	**2,257**	**-**	**-**	**-**	**-**	**769,902**	**769,902**

Amounts recognised in profit or loss from **fair value hedge** accounting

Fair value hedging	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Interest income on hedging derivatives	183,597	114,784
Interest expense on hedging derivatives	(630,699)	(293,105)
Change in fair value measurement of hedging transactions presented in Result on hedge accounting, including:	(16,330)	19,524
change in fair value of hedging instruments	308,531	(1,202,137)
change in fair value of hedged instruments	(324,861)	1,221,661

Additionally, the Group applies **cash flow hedge accounting** as of 30 June 2023.

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

IRS	Nominal value	Fair value	
		Assets	Liabilities
30.06.2023	625,000	-	123,947
31.12.2022	625,000	-	172,679

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

The below table presents derivative hedging instruments at their nominal value by residual maturity dates as of 30 June 2023 and 31 December 2022.

	30.06.2023							
Hedging derivatives	Fair value		Nominal value					
	positive	negative	to 1 month	from 1 to 3 months	from 3 months to 1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	123,947	-	-	-	-	625,000	625,000
Hedging derivatives - total	**-**	**123,947**	**-**	**-**	**-**	**-**	**625,000**	**625,000**

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

Cash flow hedges	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Interest income on hedging derivatives	5,766	5,735
Interest expense on hedging derivatives	(22,970)	(9,324)

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

Interest rate risk	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Balance at the beginning of the period	**(169,290)**	**(85,303)**
Hedging gains or losses recognised in other comprehensive income during the reporting period	42,679	(112,047)
Balance at the end of the period	**(126,611)**	**(197,350)**

23. LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST

	30.06.2023		
Loans and advances to customers measured at amortised cost	Gross balance sheet amount	Allowance	Net balance sheet amount
Loans and advances for:			
Non-banking financial entities	**2,029,018**	**(12,872)**	**2,016,146**
current account loans	1,822,563	(11,745)	1,810,818
investment loans	182,593	(473)	182,120
other loans	23,862	(654)	23,208
Retail customers	**37,513,395**	**(1,159,828)**	**36,353,567**
mortgage loans	25,270,694	(521,982)	24,748,712
other loans	12,242,701	(637,846)	11,604,855
Corporate customers	**45,403,751**	**(1,557,329)**	**43,846,422**
current account loans	20,222,958	(897,676)	19,325,282
investment loans	17,646,303	(505,230)	17,141,073
other loans	7,534,490	(154,423)	7,380,067
including retail farmers	**6,649,860**	**(420,597)**	**6,229,263**
current account loans	3,249,966	(217,315)	3,032,651
investment loans	3,388,034	(201,056)	3,186,978
other loans	11,860	(2,226)	9,634
Public sector institutions	**62,506**	**(963)**	**61,543**
current account loans	39,933	(848)	39,085
investment loans	22,278	(111)	22,167
other loans	295	(4)	291
Lease receivables	**5,623,525**	**(113,251)**	**5,510,274**
Total loans and advances to customers measured at amortised cost	**90,632,195**	**(2,844,243)**	**87,787,952**

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

Net loans and advances to customers by stage are presented below:

30.06.2023	Stage 1	Stage 2	Stage 3	Total	including POCI
Loans and advances for:	**76,941,144**	**10,836,945**	**2,854,106**	**90,632,195**	**166,980**
Non-banking financial entities	2,005,977	8,803	14,238	2,029,018	3,451
Retail customers	32,785,168	3,735,118	993,109	37,513,395	39,245
Corporate customers:	37,783,325	5,915,445	1,704,981	45,403,751	124,284
including retail farmers	5,164,537	975,493	509,830	6,649,860	2,968
Public sector entities	61,692	-	814	62,506	-
Lease receivables	4,304,982	1,177,579	140,964	5,623,525	-
Impairment allowance on loans and receivables for	**(336,265)**	**(781,999)**	**(1,725,979)**	**(2,844,243)**	**(38,507)**
Non-banking financial entities	(3,978)	(666)	(8,228)	(12,872)	(101)
Retail customers	(128,747)	(387,097)	(643,984)	(1,159,828)	(2,523)
Corporate customers:	(191,660)	(349,309)	(1,016,360)	(1,557,329)	(35,883)
including retail farmers	(41,608)	(93,674)	(285,315)	(420,597)	(137)
Public sector entities	(487)	-	(476)	(963)	-
Lease receivables	(11,393)	(44,927)	(56,931)	(113,251)	-
Net loans and advances to customers measured at amortised cost	**76,604,879**	**10,054,946**	**1,128,127**	**87,787,952**	**128,473**

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

Impairment allowance for loans and advances measured at amortised cost

Change in impairment allowances	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2023	**(373,569)**	**(831,097)**	**(1,801,257)**	**(3,005,923)**
Increase due to acquisition or origination	(79,883)	(73,638)	(22,881)	(176,402)
Decrease due to derecognition	20,319	25,082	119,818	165,219
Changes resulting from the change in credit risk (net)	94,276	91,922	(194,888)	(8,690)
Use of allowances	9	19	158,276	158,304
Other changes (including foreign exchange differences)	2,583	5,713	14,953	23,249
Balance as of 30 June 2023	**(336,265)**	**(781,999)**	**(1,725,979)**	**(2,844,243)**

Change in impairment allowances	Stage 1	Stage 2	Stage 3	Total
Balance as of 1 January 2022	**(615,798)**	**(507,388)**	**(1,839,327)**	**(2,962,513)**
Increase due to acquisition or origination	(143,753)	(79,075)	(30,695)	(253,523)
Decrease due to derecognition	16,869	25,805	49,533	92,207
Changes resulting from the change in credit risk (net)	294,427	(224,330)	(225,420)	(155,323)
Use of allowances	190	367	258,115	258,672
Other changes (including foreign exchange differences)	(1,829)	765	(13,899)	(14,963)
Balance as of 30 June 2022	**(449,894)**	**(783,856)**	**(1,801,693)**	**(3,035,443)**

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

Loans by currency	30.06.2023	31.12.2022
CHF	3,388,576	4,092,391
EUR	26,111	31,874
PLN	21,855,523	22,526,701
USD	484	598
Total	**25,270,694**	**26,651,564**

	30.06.2023			
Value of CHF loan portfolio	Gross balance sheet amount	including CHF exposures	Allowance	including CHF exposures
Loans and advances for:				
Non-banking financial entities	**2,029,018**	**52**	**(12,872)**	**-**
current account loans	1,822,563	52	(11,745)	-
investment loans	182,593	-	(473)	-
other loans	23,862	-	(654)	-
Retail customers	**37,513,395**	**3,423,197**	**(1,159,828)**	**(312,925)**
mortgage loans	25,270,694	3,388,576	(521,982)	(301,465)
other loans	12,242,701	34,621	(637,846)	(11,460)
Corporate customers	**45,403,751**	**50,929**	**(1,557,329)**	**(12,530)**
current account loans	20,222,958	42,356	(897,676)	(5,418)
investment loans	17,646,303	8,573	(505,230)	(7,112)
other loans	7,534,490	-	(154,423)	-
including retail farmers	**6,649,860**	**537**	**(420,597)**	**(35)**
current account loans	3,249,966	537	(217,315)	(35)
investment loans	3,388,034	-	(201,056)	-
other loans	11,860	-	(2,226)	-
Public sector institutions	**62,506**	-	**(963)**	-
current account loans	39,933	-	(848)	-
investment loans	22,278	-	(111)	-
other loans	295	-	(4)	-
Lease receivables	**5,623,525**	**27,566**	**(113,251)**	**(6,885)**
Total loans and advances	**90,632,195**	**3,501,744**	**(2,844,243)**	**(332,340)**

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

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

	30.06.2023	31.12.2022
Subsidized loans	785,242	949,298
Total loans and advances to customers measured at fair value through profit or loss	**785,242**	**949,298**

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

	Gross balance sheet value	Fair value
30.06.2023	870,548	785,242
31.12.2022	1,023,731	949,298

Subsidised loans at fair value	Stage 1	Stage 2	Stage 3	Total
30.06.2023	583,421	160,348	41,473	785,242
31.12.2022	681,103	207,147	61,048	949,298

25. SECURITIES MEASURED AT AMORTISED COST

	30.06.2023		
Securities	Gross balance sheet value	Impairment allowance	Net balance sheet value
issued by domestic banks – covered bonds	1,220	(6)	1,214
issued by domestic banks	4,304,045	-	4,304,045
issued by other financial entities	3,079,355	-	3,079,355
issued by central governments – treasury bonds	17,835,572	(101)	17,835,471
issued by non-financial entities – bonds	21,637	(5,232)	16,405
issued by local governments – municipal bonds	63,262	(151)	63,111
Total securities measured at amortised cost	**25,305,091**	**(5,490)**	**25,299,601**

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

30.06.2023	Stage 1	Stage 2	Stage 3	Total	including POCI
Securities	**25,283,454**	**16,792**	**4,845**	**25,305,091**	**691**
issued by domestic banks – covered bonds	1,220	-	-	**1,220**	-
issued by domestic banks	4,304,045	-	-	**4,304,045**	-
issued by other financial entities	3,079,355	-	-	**3,079,355**	-
issued by central governments – treasury bonds	17,835,572	-	-	**17,835,572**	-
issued by non-financial entities – bonds	-	16,792	4,845	**21,637**	691
issued by local governments – municipal bonds	63,262	-	-	**63,262**	-
Impairment allowances on securities	**(258)**	**(387)**	**(4,845)**	**(5,490)**	**(691)**
issued by domestic banks – covered bonds	(6)	-	-	**(6)**	-
issued by central governments – treasury bonds	(101)	-	-	**(101)**	-
issued by non-financial entities – bonds	-	(387)	(4,845)	**(5,232)**	(691)
issued by local governments – municipal bonds	(151)	-	-	**(151)**	-
Total net securities measured at amortised cost	**25,283,196**	**16,405**	**-**	**25,299,601**	**-**

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

26. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments measured at fair value through profit or loss	30.06.2023	31.12.2022
	Balance sheet value	
Treasury bonds issued by central government entities	-	4,907
Bonds issued by non-financial entities	-	26,005
Bonds convertible for non-financial entities bonds	55,658	56,160
Equity instruments	213,285	228,234
Units	460	450
Certificates issued by non-financial entities	794	837
Total financial instruments measured at fair value through profit or loss	**270,197**	**316,593**

27. SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Securities	30.06.2023	31.12.2022
NBP bills	-	8,495,585
Bonds issued by banks	2,461,762	2,251,139
Treasury bonds issued by central governments	5,164,700	4,141,351
Bonds issued by other financial institutions	3,129,876	2,496,718
Securities measured at fair value through other comprehensive income	**10,756,338**	**17,384,793**

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

28. INTANGIBLE ASSETS

Intangible assets	30.06.2023	31.12.2022
Licenses	618,015	604,313
Other intangible assets	51,174	39,153
Expenditure on intangible assets	155,817	177,640
Total intangible assets	**825,006**	**821,106**

In the first half of 2023, the net carrying amount of "Intangible assets" acquired by the Group amounted to PLN 142,416 thousand (in the first half of 2022: PLN 124,161 thousand, while the net balance sheet amount of the disposed of and liquidated components amounted to PLN 2,678 thousand (in the first half of 2022, it amounted to PLN 1,055 thousand)).

With regard to intangible assets that are not yet available for use, i.e. in progress, the Group identifies impairment triggers on an ongoing basis.

As of 30.06.2023, the Group had significant contractual obligations incurred in connection with the acquisition of intangible assets in the amount of PLN 9,872 thousand (PLN 14,615 thousand as of 31.12.2022).

29. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	30.06.2023	31.12.2022
Fixed assets, including:	415,815	402,972
land and buildings	94,436	95,279
IT equipment	141,881	118,902
office equipment	42,587	45,481
other, including leasehold improvements	136,911	143,310
Fixed assets under construction	8,392	44,502
Right of use, including:	598,576	621,955
land and buildings	572,768	596,181
cars	23,608	25,304
IT equipment	1,828	-
other, including leasehold improvements	372	470
Total property, plant and equipment	**1,022,783**	**1,069,429**

In the first half of 2023, the net balance sheet amount of the components included in property, plant and equipment acquired by the Group was PLN 54,179 thousand (in the first half of 2022 it amounted to PLN 16,416 thousand), while the net balance sheet value of sold and liquidated components amounted to PLN 2,654 thousand (in the first half of 2022 it amounted to PLN 5,522 thousand).

As of 30.06.2023, the Group had significant contractual liabilities incurred in connection with the acquisition of property, plant and equipment in the amount of PLN 4,622 thousand (PLN 569 thousand as of 31.12.2022).

30. LEASES

Group as a lessee

The Group is a party to lease agreements with respect to underlying asset components such as:

- real estate,
- motor vehicles,
- land, including the right of perpetual usufruct of land,
- CDMs,
- equipment items,
- IT equipment.

The lease period of motor vehicles ranges from 1 to 5 years. The contracts contain extension options. The Group also concludes leaseback agreements for motor vehicles.

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

The Group is a party to land lease agreements for an indefinite period, and the right of perpetual usufruct of land received for a period of 40 to 100 years. Lease payments are valorised in accordance with the Land Management Act.

	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Lease expenses recognized in the statement of profit or loss	**(69,562)**	**(62,749)**
- interest on lease liabilities	(14,522)	(6,136)
- depreciation of right of use assets	(54,449)	(56,587)
- expenses related to short-term lease (recognized in general administrative expenses)	(591)	(26)

Undiscounted lease payments by maturity	30.06.2023	31.12.2022
< 1 year	139,457	133,489
1-5 years	434,526	426,440
> 5 years	217,914	240,323
Total	**791,897**	**800,252**

	30.06.2023	31.12.2022
Book value of liabilities due to discounted lease payments	**674,283**	**718,892**

31. OTHER ASSETS

Other assets:	30.06.2023	31.12.2022
Receivables from contracts with customers:		
sundry debtors	312,708	321,595
accrued income	114,677	88,165
payment card settlements	20,997	17,195
social insurance settlements	2,491	3,012
Other:		
interbank and intersystem settlements	214,973	367,050
deferred expenses	103,447	78,588
tax and other regulatory receivables	43,571	30,905
other lease receivables	16,389	27,453
other	93,655	85,442
Total other assets (gross)	**922,908**	**1,019,405**
Impairment allowances on other receivables from sundry debtors	(73,116)	(57,469)
Total other assets (net)	**849,792**	**961,936**

32. AMOUNTS DUE TO CENTRAL BANK

Amounts due to Central Bank	30.06.2023	31.12.2022
Current account overdraft	-	8,713

33. AMOUNTS DUE TO OTHER BANKS

Amounts due to other banks	30.06.2023	31.12.2022
Current accounts	854,427	46,361
Interbank deposits	22,389	646,658
Loans and advances received	4,943,609	5,870,409
Other liabilities	1,238,161	594,596
Total amounts due to banks	**7,058,586**	**7,158,024**

"Other liabilities" as at 30.06.2023 included liabilities due to securities sold under repurchase agreements in the amount of PLN 9,909 thousand (as at 31.12.2022 the amount of such liabilities amounted to PLN 0).

There were no breaches of contractual provisions and covenants related to the financial situation of the Bank and disclosure obligations in the first half of 2023 and during 2022.

34. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers	30.06.2023	31.12.2022
NON-BANKING FINANCIAL INSTITUTIONS	**3,306,479**	**2,378,213**
Current accounts	1,980,562	1,043,816
Term deposits	847,481	841,098
Loans and advances received	476,338	491,823
Other liabilities	2,098	1,476
RETAIL CUSTOMERS	**48,102,351**	**49,020,456**
Current accounts	26,563,798	29,182,509
Term deposits	21,046,778	19,342,539
Other liabilities	491,775	495,408
CORPORATE CUSTOMERS	**63,470,362**	**66,040,455**
Current accounts	44,466,068	49,139,666
Term deposits	18,439,895	16,128,824
Other liabilities	564,399	771,965
Incl. RETAIL FARMERS	**3,233,803**	**3,021,185**
Current accounts	2,959,207	2,777,133
Term deposits	263,638	226,637
Other liabilities	10,958	17,415
PUBLIC SECTOR CUSTOMERS	**3,032,728**	**2,581,919**
Current accounts	1,324,969	1,683,350
Term deposits	1,706,991	895,643
Other liabilities	768	2,926
Total amounts due to customers	**117,911,920**	**120,021,043**

35. DEBT SECURITIES ISSUED

	30.06.2023	31.12.2022
Debt securities issued	-	364,633

Debt securities issued	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Opening balance	**364,633**	**722,628**
Redemption of debt securities	(364,427)	(206,441)
Changes in discount, interests, commission and fees on certificates of deposit amortized using EIR, foreign currency exchange differences	(206)	(111)
Closing balance of debt securities issued	**-**	**516,076**

In December 2017, SPV issued bonds for the total amount of PLN 2,180,850 thousand with the maximum original maturity by 27.04.2032. Collateral for the repayment of bonds are receivables from loans and borrowings subject to securitization.

The transaction was completed on 27 March 2023. The value of the repurchased portfolio amounted to PLN 310 million.

The transaction of securitization of the cash and car loan portfolio is described in Note 45.

36. SUBORDINATED LIABILITIES

Subordinated liabilities	30.06.2023	31.12.2022
	4,337 381	**4,416,887**

Change in the balance of subordinated liabilities	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Opening balance	**4,416,887**	**4,334,572**
Change in the balance of interest, commissions and fees settled by EIR	169	10,473
Foreign exchange differences	(79,675)	52,830
Closing balance	**4,337,381**	**4,397,875**

37. OTHER LIABILITIES

Other liabilities	30.06.2023	31.12.2022
Liabilities due to contracts with customers		
Sundry creditors	172,349	185,355
Payment card settlements	169,491	172,479
Deferred income	77,744	83,508
Escrow account liabilities	459	488
Social insurance settlements	29,431	25,559
Other liabilities		
Interbank and intersystem settlements	1,020,145	997,337
Provisions for non-personnel expenses	574,658	486,249
Provisions for other employees-related liabilities	157,566	240,835
Provision for unused annual holidays	43,898	43,801
Other regulatory liabilities	79,903	75,056
Other lease liabilities	45,655	28,961
Other	91,121	83,554
Total other liabilities	**2,462,420**	**2,423,182**

38. PROVISIONS

	30.06.2023	31.12.2022
Provision for restructuring	39,501	45,843
Provision for retirement benefits and similar obligations	20,602	18,994
Provision for contingent financial liabilities and guarantees granted	120,127	99,657
Provisions for litigation and claims	2,244,654	2,050,954
Other provisions	8,290	8,290
Total provisions	**2,433,174**	**2,223,738**

Provisions for restructuring	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Opening balance	**45,843**	**56,280**
Provisions recognition	46	5,280
Provisions utilization	(6,388)	(14,634)
Provisions released	-	(220)
Closing balance	**39,501**	**46,706**

Provision for retirement benefits and similar obligations	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Opening balance	**18,994**	**15,858**
Provisions recognition	2,951	1,218
Provisions utilization	(288)	(268)
Provisions released	(1,055)	(817)
Closing balance	**20,602**	**15,991**

Expected credit losses of contingent liabilities	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Opening balance	**99,657**	**155,638**
Provisions recognition	30,199	30,058
Provisions released	(7,301)	(15,744)
Changes resulting from changes in credit risk (net)	(695)	(59,543)
Other changes	(1,733)	258
Closing balance	**120,127**	**110,667**

Provisions for litigation and claims	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Opening balance	**2,050,954**	**1,463,347**
Provisions recognition	604,404	250,410
Provisions utilization	(291,420)	(137,427)
Provisions released	(33,618)	(4,412)
Other changes, including foreign exchange differences	(85,666)	73,188
Closing balance	**2,244,654**	**1,645,106**

Other provisions	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Opening balance	**8,290**	**8,229**
Provisions recognition	21	15
Provisions utilization	(21)	(1)
Closing balance	**8,290**	**8,243**

39. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents	30.06.2023	31.12.2022
Cash and balances at Central Bank (Note 19)	6,971,609	2,718,307
Current accounts of banks and other receivables	10,869,534	9,057,717
Interbank deposits	59,931	1,441,247
Total cash and cash equivalents	**17,901,074**	**13,217,271**

40. SHARE-BASED PAYMENTS

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

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

Pursuant to the current "Remuneration Policy for Individuals with Significant Influence on the Risk Profile of BNP Paribas Bank S.A." as of 2020 (excluding individuals who have terminated their relationship with the Bank), the applicable financial instrument in which part of the variable remuneration is paid is ordinary shares (change from phantom shares).

The 2022 variable remuneration convertible into a financial instrument was granted in actual shares of the Bank.

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

Phantom share-based programme

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

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

Financial instruments (phantom shares) - programme amendments in the 2023.

	30.06.2023		31.12.2022	
	Financial instrument		Financial instrument	
	units	value (PLN ‘000)	units	value (PLN ‘000)
Opening balance	**38,166**	**2,897**	**117,770**	**5,616**
executed during the period	(34,904)	(1,953)	(79,604)	(5,109)
current valuation *	-	(762)	-	2,390
Closing balance	**3,262**	**182**	**38,166**	**2,897**

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

In 2023 the Bank performed payments due to exercising rights to deferred phantom shares (under the programme for 2018 and 2019) in the amount of PLN 1,953 thousand.

The table below presents the terms of the Stock Purchase Plan in 2023

Type of transaction under IFRS 2	Cash-settled share-based payment transactions
Date of publication of the programme	21 June 2012 - entry into force of the Resolution of the Supervisory Board approving the Remuneration Policy.
Date of commencement of phantom share granting	28 February 2023
End date of phantom share granting	3 March 2023

Programme based on the Bank's shares

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

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

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

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

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

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

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

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

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

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

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

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

The number of shares awarded in June 2023, as part of the non-deferred part of variable compensation for 2022, amounted to 78.316.

In 2023, for the variable remuneration granted for 2019, 2020 and 2021 and in connection with the forecast of the variable remuneration for 2023, which will be granted in 2024, in the part concerning shares to be issued in the future, the Bank has recognized in the capitals an amount of PLN 3,402 thousand. At the same time, an amount of PLN 19,559 thousand (recognised in the previous years) is presented in capital. The actuarial value of the shares issued in 2023 of PLN 5,384 thousand is already included in the mentioned amounts.

Financial instruments (shares – deferred part) changes in the first half of 2023 determined in relation to the deferred part of the variable remuneration for 2019, 2020, 2021 and 2022.

	30.06.2023		31.12.2022	
	financial instrument		financial instrument	
	units	value (PLN ‘000))	units	value (PLN ‘000))
Opening balance	**121,760**	**8,487**	**108,851**	**7,403**
granted in a given period	57,711	2,802	37,191	2,718
realised in a given period	(37 151)	(2 528)	(24 282)	(1 634)
Closing balance	**142,320**	**8,761**	**121,760**	**8,487**

The table below presents the terms and conditions of the Share/Warrants Purchase Plan for 2023

Type of transaction under IFRS 2	Share-based payment transactions
Program announcement date	31 January 2020 – entry into force of the Supervisory Board Resolution approving the Remuneration Policy.
The commencement date for granting of phantom shares	28 February 2023
End date for granting phantom shares	23 March 2023

41. ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOW

Cash flows from operating activities – other adjustments	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
FX differences from subordinated loans	(79,675)	52,830
Securities measurement through profit or loss	(1,696)	10,284
Allowance for securities	(39,489)	(2,088)
Other adjustments	(4,583)	(10,533)
Cash flows from operating activities – total other adjustments	**(125,433)**	**50,493**

42. CONTINGENT LIABILITIES

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

Contingent liabilities	30.06.2023	31.12.2022
Contingent commitments granted	**45,952,725**	**42,977,848**
financial commitments	30,234,251	30,486,679
guarantees	15,718,474	12,491,169
Contingent commitments received	**59,111,055**	**58,068,966**
financial commitments	12,860,957	14,511,914
guarantees	46,250,098	43,557,052

43. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1
Assets and liabilities measured on the basis of market quotations available on active markets for identical instruments.

Level 2
Assets and liabilities measured using valuation techniques based on directly or indirectly observed market quotations or other information based on market quotations.

Level 3

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

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

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

In the first half of 2023, the Group did not make any changes in the rules of classification into valuation levels.

As of 30.06.2023, particular instruments were included in the following valuation levels:

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

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

30.06.2023	Level 1	Level 2	Level 3	Total
Assets measured at fair value:	**10,757,592**	**2,978,898**	**1,356,275**	**15,092,766**
Derivative financial instruments	-	2,954,929	302,090	3,257,019
Hedging instruments	-	23,969	-	23,969
Financial instruments measured at fair value through other comprehensive income	10,756,338	-	-	10,756,338
Financial instruments measured at fair value through profit or loss	1,254	-	268,943	270,197
Loans and advances to customers measured at fair value through profit or loss	-	-	785,242	785,242
Liabilities measured at fair value:	**-**	**3,793,759**	**465,411**	**4,259,170**
Derivative financial instruments	-	2,764,340	377,824	3,142,164
Hedging instruments	-	1,029,419	87,587	1,117,007

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

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

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

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

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

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

30.06.2023	Derivative financial instruments – assets	Financial assets measured at fair value	Derivative financial instruments – liabilities	Hedging instruments – liabilities
Opening balance	**266,207**	**1,260,534**	**262,516**	**115,074**
Total gains/losses recognized in:	35,883	(14,899)	115,307	(27,486)
statement of profit or loss	35,883	(14,899)	115,307	(27,486)
Purchase/Granting	-	12,819	-	-
Sale	-	(7,699)	-	-
Settlement / Expiry	-	(196,570)	-	-
Closing balance	**302,090**	**1,054,185**	**377,823**	**87,588**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period				
	35,883	**(14,899)**	**115,307**	**(27,486)**

30.06.2022	Derivative financial instruments – assets	Financial assets measured at fair value	Derivative financial instruments – liabilities	Hedging instruments – liabilities
Opening balance	**554,509**	**1,539,243**	**(459,745)**	**(60,399)**
Total gains/losses recognized in:	266,749	23,529	1,056,230	253,073
statement of profit or loss	266,749	23,529	1,056,230	253,073
Purchase/Granting	-	3 444	-	-
Settlement / Expiry	-	(183,164)	-	-
Closing balance	**821,258**	**1,383,052**	**596,485**	**192,674**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period				
	266,749	**23,529**	**1,056,230**	**253,073**

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

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

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

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

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

The following table presents the book and fair values of those financial assets and liabilities which have not been presented in the Group's statement of financial position at fair value, along with the measurement classification level.

30.06.2023	Book value	Fair value	Level
Financial assets			
Cash and cash balances at Central Bank	6,971,609	6,971,609	3
Amounts due from banks	11,833,618	10,956,885	3
Loans and advances to customers measured at amortised cost	87,787,952	87,433,125	3
Securities measured at amortised cost	25,299,601	22,525,216	1.3
Other financial assets	494,442	494,442	3
Financial liabilities			
Amounts due to banks	7,058,585	7,073,706	3
Amounts due to customers	117,911,920	116,754,111	3
Subordinated liabilities	4,337,381	4,313,490	3
Leasing liabilities	674,283	674,283	3
Other financial liabilities	1,437,530	1,437,530	3

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

a) Amounts due from banks and amounts due to banks

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

b) Loans and advances to customers

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

The fair value of loans and advances to customers covered by the law on community financing for economic ventures and borrower assistance takes into account the impact of changes in repayment schedules resulting from the introduction of credit holiday.

c) Securities measured at amortised cost

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

d) Liabilities due to subordinated loan

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

e) Liabilities due to customers

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

f) Lease liabilities

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

g) Debt securities issued

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

44. LOAN PORTFOLIO SALE

In the first half of 2023, the Group concluded agreements for the sale of the retail and SME loan portfolio.

The gross carrying amount of the sold portfolio measured at amortised cost was PLN 106,560 thousand, the amount of impairment allowances created was PLN 82,706 thousand.

The contractual price for the sale of these portfolios was set at PLN 34,444 thousand. The net impact on the Group's result due to the sale of portfolios amounted to PLN 10,590 thousand and is presented in the line Result of impairment allowances on financial assets and provisions for contingent liabilities.

45. SECURITIZATION

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

As a result of the securitization the Bank obtained financing for its operations in exchange for giving away rights to future flows resulting from the securitized loan portfolio in the total amount of PLN 4.5 billion. The maximum term of the full redemption of bonds and loan repayment was set for 27 April 2032.

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

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

Due to decreasing balance of the securitized loan portfolio and decreasing positive impact on capital adequacy ratios, the Bank decided to exercise its clean-up option and repurchase active loans from the SPV and terminate the securitization program. The transaction was completed on 27 March 2023 and had no impact on the consolidated statement of financial position, as the securitized loan portfolio was not derecognised from the statement of financial position at the time of the transaction.

The value of the repurchased portfolio amounted to PLN 310 million.

46. RELATED PARTY TRANSACTIONS

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

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

The ultimate parent company is BNP Paribas S.A., based in Paris. As of 30 June 2023, the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A. as the parent company, and its subsidiaries:

1. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI").
2. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING").
3. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC").
4. CAMPUS LESZNO SP. Z O.O.

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

Transactions with shareholders of BNP Paribas Bank Polska S.A. and related parties are presented in the table below:

30.06.2023	BNP Paribas S.A. Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
Assets	**13,683,082**	**1,202**	**164,565**	**408**	**13,849,257**
Receivables on current accounts, loans and deposits	11,233,313	377	139,487	408	**11,373,585**
Derivative financial instruments	2,425,794	825	186	-	**2,426,805**
Derivative hedging instruments	23,969	-	-	-	**23,969**
Other assets	6	-	24,892	-	**24,898**
Liabilities	**11,069,852**	**536,479**	**1,091,000**	**1,180**	**12,698,512**
Loans and advances received	3,989,543	-	442,581	-	**4,432,124**
Current accounts and deposits	1,015,822	536,415	376,871	1,180	**1,930,288**
Subordinated liabilities	4,071,059	-	266,322	-	**4,337,381**
Derivative financial instruments	876,420	64	3,641	-	**880,125**
Derivative hedging instruments	1,117,007	-	-	-	**1,117,007**
Leasing liabilities	-	-	1,376	-	**1,376**
Other liabilities	2	-	209	-	**211**
Contingent liabilities					
Financial commitments granted	-	-	57,446	681	**58,127**
Guarantee commitments	201,185	130,153	1,563,596	-	**1,894,934**
Commitments received	795,526	185,598	1,906,768	-	**2,887,892**
Derivative instruments (nominal value)	64,897,394	610,002	91,736	-	**65,599,132**
Hedging derivative instruments (nominal value)	18,556,660	-	-	-	**18,556,660**
Statement of profit or loss	**351,599**	**(1,005)**	**(32,389)**	**(72)**	**318,133**
HY 2023 from 01.01.2023 to 30.06.2023					
Interest income	140,703	533	21,672	13	**162,921**
Interest expense	(276,914)	(1,538)	(36,751)	(85)	**(315,288)**
Fee and commission income	-	-	1,454	-	**1,454**
Net trading income	533,329	-	-	-	**533,329**
Other operating income	-	-	26,614	-	**26,614**
Other operating expenses	-	-	(5,082)	-	**(5,082)**
General administrative expenses	(45,519)	-	(40,296)	-	**(85,815)**

31.12.2022	BNP Paribas S.A. Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
Assets	**13,360,399**	**4,733**	**292,838**	**770**	**13,658,740**
Receivables on current accounts, loans and deposits	10,973,541	291	266,687	770	**11,241,289**
Derivative financial instruments	2,357,757	4,442	-	-	**2,362,199**
Derivative hedging instruments	29,101	-	-	-	**29,101**
Other assets	-	-	26,151	-	**26,151**
Liabilities	**11,752,445**	**48,670**	**1,872,514**	**2,478**	**13,676,107**
Loans and advances received	4,234,652	-	522,921	-	**4,757,573**
Current accounts and deposits	765,040	48,670	1,068,439	2,478	**1,884,627**
Subordinated liabilities	4,136,961	-	279,926	-	**4,416,887**
Derivative financial instruments	1,141,266	-	-	-	**1,141,266**
Derivative hedging instruments	1,474,526	-	-	-	**1,474,526**
Leasing liabilities	-	-	1,067	-	**1,067**
Other liabilities	-	-	161	-	**161**
Contingent liabilities					
Financial commitments granted	-	-	325,018	651	**325,669**
Guarantee commitments	118,801	127,380	1,580,487	-	**1,826,668**
Commitments received	300,334	184,046	1,943,450	-	**2,427,830**
Derivative instruments (nominal value)	58,170,836	2,195,441	-	-	**60,366,277**
Derivative hedging instruments (nominal value)	15,708,485	-	-	-	**15,708,485**
Statement of profit or loss	**(974,019)**	**(261)**	**(52,147)**	**8**	**(1,026,419)**
HY 2022 from 01.01.2022 to 30.06.2022					
Interest income	27,936	74	2,429	16	**30,455**
Interest expense	(154,905)	(335)	(18,458)	(8)	**(173,706)**
Fee and commission income	-	-	1,676	-	**1,676**
Net trading income	(791,772)	-	21	-	**(791,751)**
Other operating income	-	-	4,789	-	**4,789**
General administrative expenses	(55,278)	-	(42,604)	-	**(97,882)**

Remuneration of the Management Board and Supervisory Board

Management Board	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Short-term employee benefits	12,116	10,835
Long-term benefits	2,601	2,757
Termination benefits	43	-
Share-based payments*	3,492	3,314
Issued shares**	2,279	1,405
Total	**20,531**	**18,311**

*includes the amount related to the Bank's shares taken up in the future (in accordance with the variable remuneration policy) in the Bank's equity

**the value of shares issued based on actuarial valuation

Supervisory Board	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Short-term employee benefits	846	792
Total	**846**	**792**

47. OPERATING SEGMENTS

Segment reporting

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

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

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

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

Description of operating segments

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

- entrepreneurs whose annual net income for the preceding financial year is below PLN 4 million, conducting full financial reporting, whose credit exposure is lower than PLN 1.2 million,
- entrepreneurs conducting simplified financial reporting,
- housing communities and property managers,
- non-profit organisations,
- individual farmers, regardless of production volume, whose credit exposure is below PLN 3 million, individual farmers, regardless of production volume, whose credit exposure is between PLN 3 million and PLN 4 million, if the collateral on arable lands covers at least 50% of credit exposure,
- diocesan parishes of the Catholic Church,
- legal persons of churches and religious associations with income up to PLN 4 million.

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

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

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

SME Banking provides services to:

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

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

- Polish corporations, i.e. Polish entities (or groups of Polish affiliated entities) with annual sales revenues of more than EUR 150 million or large Polish corporations with annual revenues of less than EUR 150 million if characterised by one of the following features: listed company status, cross-selling potential, business growth of more than 50% in the last 3 years.
- Others: public sector entities, local government units with a budget greater than or equal to PLN 100 million, financial and insurance institutions, foundations and non-profit organisations, legal entities of the Catholic Church and other churches and religious associations, commercial law companies owned by legal entities of the Catholic Church.

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

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

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

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

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

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

Once a year, client re-segmentation between business segments is carried out. Clients are migrated between segments when they begin to meet the criteria for assignment to a segment other than their current segment. The re-segmentation is aimed at correctly assigning a client to a business line and ensuring the highest quality of service tailored to their individual needs.

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss for HY 2023 from 01.01.2023 to 30.06.2023*								
Net interest income	1,396,103	229,460	645,973	52,513	115,265	**2,439,313**	311,558	364,755
external interest income	2,103,527	310,138	931,917	245,945	1,196,429	**4,787,956**	636,381	681,857
external interest expenses	(781,962)	(207,813)	(410,570)	(4,071)	(944,225)	**(2,348,643)**	(265,639)	(88,130)
internal interest income	1,478,980	351,056	848,748	4,642	(2,683,425)	**-**	393,729	-
internal interest expenses	(1,404,441)	(223,921)	(724,121)	(194,003)	2,546,486	**-**	(452,912)	(228,972)
Net fee and commission income	335,977	72,924	185,275	39,366	(525)	**633,019**	78,470	74,881
Dividend income	-	-	1,890	-	2,308	**4,198**	284	-
Net trading income	66,074	43,124	204,458	140,329	30,046	**484,031**	46,671	(58)
Result on investment activities	-	-	-	-	(6,363)	**(6,363)**	-	-
Result on hedge accounting	-	-	-	-	(16,330)	**(16,330)**	-	-
Other operating income and expenses	9,276	(1,331)	(1,034)	-	(4,102)	**2,809**	(753)	(7,725)
Result on derecognition of financial assets measured at amortized cost due to material modification	11,612	-	-	-	-	**11,612**	-	-
Result of allowance for expected credit losses on financial assets and provisions for contingent liabilities	(43,470)	38,147	53,663	4,354	(1,344)	**51,350**	78,697	(14,472)
Result on provisions for legal risk related to foreign currency loans	(590,412)	-	-	-	-	**(590,412)**	-	-
General administrative expenses	(544,239)	(69,008)	(180,553)	(54,620)	(438,327)	**(1,286,747)**	(9,291)	(141,521)
Depreciation and amortization	(56,544)	(1,107)	(28,246)	(7,307)	(130,336)	**(223,539)**	(137)	(7,427)
Expense allocation (internal)	(369,889)	(95,485)	(83,758)	3,223	545,910	**-**	-	(61,281)
Operating result	**214,488**	**216,724**	**797,668**	**177,858**	**96,202**	**1,502,941**	**505,499**	**207,152**
Tax on financial institutions	(85,660)	(12,587)	(54,897)	(8,182)	(41,209)	**(202,535)**	-	(20,962)
Profit before income tax	**128,828**	**204,137**	**742,771**	**169,676**	**54,993**	**1,300,406**	**505,499**	**186,190**
Income tax expense	-	-	-	-	-	(352,774)	-	-
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**947,632**	**-**	-
Statement of financial position as of 30.06.2023*								
Segment assets	46,424,385	6,864,912	28,643,103	5,584,701	63,044,526	**150,561,628**	13,352,476	1,230,278
Segment liabilities	62,818,086	16,906,491	40,325,704	-	17,897,231	**137,947,511**	17,724,020	-

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

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss for HY 2022 from 01.01.2022 to 30.06.2022*								
Net interest income	1,154,582	144,453	372,548	33,156	447,632	**2,152,370**	228,472	348,030
external interest income	1,524,568	204,025	517,628	127,959	668,024	**3,042,204**	439,365	533,356
external interest expenses	(195,812)	(65,986)	(174,851)	(501)	(452,684)	**(889,834)**	(81,887)	(50,328)
internal interest income	669,107	141,015	374,664	836	(1,185,622)	**-**	145,283	-
internal interest expenses	(843,281)	(134,601)	(344,894)	(95,138)	1,417,914	**-**	(274,288)	(134,998)
Net fee and commission income	323,674	69,056	183,483	20,678	(1,268)	**595,623**	79,056	64,023
Dividend income	-	-	2,854	-	5,288	**8,142**	255	-
Net trading income	69,573	50,063	179,923	131,324	(161,272)	**269,610**	42,860	36
Result on investment activities	-	-	-	-	30,501	**30,501**	-	-
Result on hedge accounting	-	-	-	-	19,524	**19,524**	-	-
Other operating income and expenses	(16,203)	(770)	(4,356)	-	(17,539)	**(38,863)**	(498)	(9,141)
Result on derecognition of financial assets/liabilities	(2,379)	-	-	-	-	**(2,379)**	-	-
Result of allowance for expected credit losses on financial assets and provisions for contingent liabilities	(230,251)	26,706	32,920	9,948	(4,051)	**(164,727)**	(18,447)	(60,566)
Result on provisions for legal risk related to foreign currency loans	(222,737)	-	-	-	-	**(222,737)**	-	-
General administrative expenses	(644,502)	(94,034)	(241,389)	(56,056)	(383,529)	**(1,419,515)**	(9,408)	(156,106)
Depreciation and amortization	(51,821)	(1,034)	(21,660)	(7,118)	(124,843)	**(206,475)**	(130)	(7,113)
Expense allocation (internal)	(328,602)	(89,811)	(84,932)	9,415	493,930	**-**	-	(55,463)
Operating result	**51,334**	**104,629**	**419,391**	**141,347**	**304,373**	**1,021,074**	**322,160**	**123,700**
Tax on financial institutions	(103,409)	(14,875)	(49,410)	(9,069)	(26,005)	**(202,768)**	-	(23,968)
Profit before income tax	**(52,075)**	**89,754**	**369,981**	**132,278**	**278,368**	**818,306**	**322,160**	**99,732**
Income tax expense	-	-	-	-	-	**(282,897)**	-	-
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**535,409**	**-**	**-**
Statement of financial position 31.12.2022*								
Segment assets	48,181,105	7,391,648	28,721,144	5,236,106	61,987,067	**151,517,069**	14,402,543	13,633,804
Segment liabilities	63,818,863	16,588,586	44,870,774	-	14,976,627	**140,254,848**	16,438,498	-

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

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

The table below presents the Bank's shareholding structure as at 30 June 2023, distinguishing shareholders who held at least 5% of the total number of votes at the general meeting:

Shareholder	Number of shares	Percentage interest in share capital	Number of votes at the general shareholders' meeting	Percentage share in the total number of votes at the general shareholders' meeting
BNP Paribas, total:	128,991,553	87.35%	128,991,553	87.35%
BNP Paribas directly	93,501,327	63.31%	93,501,327	63.31%
BNP Paribas Fortis SA/NV directly	35,490,226	24.03%	35,490,226	24.03%
Other shareholders	18,685,393	12.65%	18,685,393	12.65%
Total	**147,676,946**	**100.00%**	**147,676,946**	**100.00%**

As of 5 April 2023, the Bank's share capital amounts to PLN 147,676,946.

The share capital consists of 147,676,946 shares with the par value of PLN 1.00 each, including: 15,088,100 A series shares, 7,807,300 B series shares, 247,329 C series shares, 3,220,932 D series shares, 10,640,643 E series shares, 6,132,460 F series shares, 8,000,000 G series shares, 5,002,000 H series shares, 28,099,554 I series shares, 2,500,000 J series shares, 10,800,000 K series shares, 49,880,600 L series shares and 258,028 M series shares.

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

The total number of votes resulting from all the Bank's shares is 147,676,946 votes. The number of votes resulting from the 2023 M series shares granted is 83,796 votes and the total number of votes resulting from the M series shares granted is 258,028 votes.

The amount of the conditional share capital increase after the issue of M series shares is PLN 317,972.

Changes in shareholder structure in the first half of 2023.

On 5 April 2023, the Bank's share capital was increased from PLN 147,593,150 to PLN 147,676,946 as a result of the subscription of 83,796 series M shares in exercise of the rights from the series A3 registered subscription warrants taken up earlier.

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

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

Shareholding of BNP Paribas Bank Polska S.A. shares by members of the Bank's Supervisory Board and members of the Bank's Management Board

A summary of the Bank's shareholdings and share entitlements of the members of the Bank's Management Board and Supervisory Board as at the date of the submission of the Financial Report for the first quarter of 2023 (10 May 2023) and the Report for the first half of 2023 (10 August 2023) is presented below.

MEMBER OF THE BANK'S MANAGEMENT BOARD	SHARES[1]	SUBSCRIPTION WARRANTS[2]	SALE OF SHARES	SHARES	SUBSCRIPTION WARRANTS
	10.05.2023	10.05.2023		10.08.2023	10.08.2023
Przemysław Gdański	26,473	12,893	-	26,473	12,893
Jean-Charles Aranda[3]	5,340	4,495	3,500	1,840	4,495
André Boulanger	10,210	7,987	10,210	-	7,987
Przemysław Furlepa	6,798	5,811	3,798	3,000	5,811
Wojciech Kembłowski	7,245	5,628	7,245	-	5,628
Kazimierz Łabno	4,147	3,205	4,147	-	3,205
Magdalena Nowicka	2,046	3,210	-	2,046	3,210
Volodymyr Radin	2,125	1,972	-	2,125	1,972
Agnieszka Wolska	614	3,481	-	614	3,481

1) series M shares subscribed for on 5.04.2023 in exercise of the rights attached to series A3 warrants (series A3 registered subscription warrants were subscribed for on 25.03.2022) and series M shares subscribed for on 4.04.2022 in exercise of the rights attached to series A2 warrants (series A2 registered subscription warrants were subscribed for on 25.03.2021); one warrant entitled to subscribe for one series M ordinary bearer share of BNP Paribas Bank Polska S.A, at the issue price of PLN 1.00 per share); in the case of Mr Przemysław Gdański, the number of M-series shares subscribed for by exercising the rights attached to A3-series warrants was 9.336 pcs, the number of M-series shares subscribed for by exercising the rights attached to A2-series warrants was 9,148 pcs, the number of M-series shares subscribed for by exercising the rights attached to A1-series warrants was 7,489 pcs, the number of shares purchased on the WSE stock market was 500 pcs.

2) A4 series subscription warrants taken up on 27.03.2023. - one A4 series warrant entitles to acquire one M series ordinary bearer share of BNP Paribas Bank Polska S.A., at the issue price of PLN 1.00 per share and B1 series subscription warrants taken up on 27.03.2023. - one B1 series warrant entitles to take up one N series ordinary bearer share of BNP Paribas Bank Polska S.A., at the issue price of PLN 1.00 per share

3) Mr. Jean-Charles Aranda until 31/07/2023 was a member of the Management Board of the Bank, and from 1/08/2023 he is a member of the Supervisory Board of the Bank.

Members of the Bank's Supervisory Board did not declare holding shares/entitlements to shares of the Bank as at June 30, 2023. As at the date of submitting this Report, i.e. August 10, 2023, shares/entitlements to shares held by Mr. Jean-Charles Aranda - member of the Supervisory Board from August 1, 2023 - are presented above. The other members of the Supervisory Board did not declare holding shares/entitlements to the Bank's shares as at August 10, 2023, which has not changed since the date of submission of the Financial Statements for the first quarter of 2023, i.e. May 10, 2023.

49. DIVIDEND PAID

The Group did not pay any dividends for 2022.

50. DISTRIBUTION OF RETAINED EARNINGS

Pursuant to Resolution No. 2 of the Bank's Annual General Meeting of 30 June 2023, the Bank's profit after tax (net profit) for the completed financial year 2022, amounting to PLN 370,892 thousand, was transferred in full to reserve capital.

51. LITIGATION AND CLAIMS

Legal risk

As of 30 June 2023, there were no proceedings in the court, arbitration tribunal or state administration authorities regarding liabilities or receivables of the Bank, the value of which would exceed 10% of the Bank's equity.

Court decision regarding calculation of the interchange fee

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

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

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

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

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

Corporate claims against the Bank (interchange fee)

As of 30 June 2023 the Bank received:

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

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

As of 30 June 2023, the Bank had received a total of 128 individual lawsuits and one collective lawsuit by investment fund participants, related to the performance of the function of investment fund depositary (including the performance of this function by Raiffeisen Bank Polska S.A.). The total amount of claims covered by the above-mentioned lawsuits is PLN 161.7 million. The vast majority of the lawsuits were filed by participants of the Retail Parks Fund Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in Liquidation (hereinafter RPF Fund) and participants of the EPEF Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and EPEF2 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The collective lawsuit was filed on behalf of 397 participants of the RPF Fund, and concerns claims in the total amount of PLN 96,221 thousands. The allegations raised by the plaintiffs in the lawsuits focus, in particular, on the improper performance by Raiffeisen Bank Polska S.A., and then the Bank, of its obligations to ensure that the value of an investment fund's net assets and the value of net assets per investment certificate are calculated in accordance with the law and the investment fund's statute, and the obligation to verify the compliance of an investment fund's operations with the law governing investment funds or with the statute. The Bank's position is that the claims of fund participants are unfounded. All legal proceedings are pending before courts of first instance.

No verdict has yet been issued in any of the cases.

Proceedings regarding recognizing a standard contract as prohibited

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

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

The Bank filed an appeal against the decision within the statutory deadline. The Bank has made a provision for the above penalty in full. On 5 October 2022. The Court of Competition and Consumer Protection handed down a judgment in which it overturned the decision of the UOKiK. Both the President of the UOKiK and the Public Prosecutor filed appeals against the judgment.

The Bank replied to both appeals.

On 12 May 2023. The Court of Appeal partially upheld the appeal of the President of the UOKiK, while significantly reducing the penalty imposed on the Bank - to the amount of PLN 6,656 thousand. The Bank filed a motion to suspend the effectiveness of the ruling, which the Court dismissed on 26 May 2023. Thus, the decision, as resulting from the judgment, became final on 12 May 2023. The Bank paid the penalty, published information about the decision and its content on the Bank's website, by 12 August this year. The Bank will send the required communications to customers. At the same time, the Bank is preparing a cassation appeal.

Proceedings on practices violating collective consumer interests - unauthorised transactions

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

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

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

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

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

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

By the letter dated 06.04.2023 the UOKIK notified about the extension of the deadline for the completion of the proceedings until 11.08.2023.

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

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

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

<u>On 17 January 2023, the Bank received the Decision of the UOKiK, in which:</u>

- it recognized the questioned practice as violating the collective interests of consumers;
- the practice was found to be abandoned;
- it ordered publication of the decision;
- it imposed a penalty on the Bank in the amount of PLN 2,721 thousand (reduced by 50% (30% - for cessation of the practice, 20% as a result of initiating a meeting and expressing willingness to cooperate).

On 17 February 2023, the Bank has appealed the decision to the Competition and Consumer Protection Court.

The Bank has created a provision in the amount of the penalty imposed.

Lawsuits concerning mortgage loan agreements with interest rates based on WIBOR

In the first quarter of 2022, the first media reports of lawsuits against banks challenging WIBOR in loan agreements (with allegations that clauses relating to WIBOR are abusive, or alternatively that the agreement is invalid) appeared in Poland. These lawsuits seek to challenge WIBOR as the basis for variable interest rates.

In January 2023, the Bank received the first lawsuits challenging the WIBOR and variable interest rate clauses based on the WIBOR benchmark in the mortgage loan agreements.

By 30 June 2023, the Bank had received a total of nine lawsuits. All lawsuits were filed on behalf of consumers and relate to mortgage loan agreements in PLN, concluded in 2020 – 2021 (1 claim relates to a contract concluded in 2015) and also contain a request for security of action.

It should be emphasised that in the case of the Bank's products offered to consumers, only mortgage loans and certain products for Wealth customers are based on the WIBOR reference index, mortgage loans account for approximately 51% of the Bank's retail PLN loan exposure. The total amount of claims covered by the lawsuits received amount to PLN 2.30 million. All court proceedings are pending before courts of first instance.

Along with the lawsuits, applications for security of action are filed. In seven court proceedings, such motions were resolved in favour of the Bank (in six cases the motions were dismissed, and in 1 case, as a result of a complaint filed by the Bank, the previously granted security was revoked). In 1 court proceeding, the application for security has not yet been decided by the court. In 1 court proceeding, security was granted (the complaint filed by the Bank has not yet been recognised).

In addition, in 5 debt collection cases brought by the Bank, customers have raised arguments challenging WIBOR as a reference index.

The Bank's position is that the clients' claims are unjustified, in particular in view of the fact that WIBOR is an official index whose administrator has received the relevant approvals required by law, among others from the Financial Supervision Commission, and the process of its determination, carried out by the administrator (an independent entity not affiliated with the Bank), is in accordance with the law and is also subject to supervisory assessment by the Financial Supervision Commission. The Commission confirmed WIBOR's compliance with the requirements of the law. An analogous position was also presented by the Financial Stability Committee, which comprises representatives of: the National Bank of Poland, the Financial Supervision Authority, the Ministry of Finance and the Bank Guarantee Fund.

On 29 June 2023, the Financial Supervisory Commission published an assessment of WIBOR's ability to measure the market and economic realities, concluding that WIBOR has the ability to measure the market and economic realities it was designed to measure and responds appropriately to changing liquidity conditions, changes in central bank rates and economic realities.

On 26 July 2023, the Polish Financial Supervision Authority ("PFSA") published a position paper on legal and economic concerns relating to mortgage loan agreements in Polish currency in which the WIBOR interest rate benchmark is used. The position paper contains an explicit statement that WIBOR meets all the requirements prescribed by law and that, in the PFSA's view, there are no grounds to question the reliability and legality of WIBOR, in particular in the context of the use of this index in Polish currency mortgage contracts. PFSA indicated that its position could be used by banks in court proceedings.

According to data from the of Polish Bank Association (as at the end of May 2023), 155 court proceedings have been initiated against banks. In 5 cases, the courts of first instance ruled in favour of the banks, and 1 proceeding was legally concluded with a ruling in favour of the Bank. No rulings unfavourable to banks.

Litigation concerning CHF credit agreements in the banking sector

Following the judgment of the Court of Justice of the European Union in the CHF-indexed mortgage case (C-260/18), the number of lawsuits related to CHF mortgage loans against banks is gradually increasing. According to data from the Polish Bank Association (ZBP), the number of pending lawsuits relating to CHF-indexed/denominated loan agreements at the end of May 2023 was nearly 127 thousand compared to over 110 thousand at the end of 2022. In the first five months of 2023, there were more than 16 thousand new foreign currency loan cases in banks.
This has resulted in an increase in provisions for these proceedings created by banks with CHF mortgage loan portfolios.
The amount of provisions created by the largest listed banks in 2022 was around PLN 11.6 billion and in the first quarter of 2023 around PLN 3.4 billion, translating into total provisions for this purpose of PLN 29.1 billion at the end of 2022 and over PLN 30.2 billion at the end of the first quarter of 2023.

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

The gross balance sheet value of mortgage and housing loans granted to individual customers in CHF as of 30 June 2023 amounted to PLN 3.39 billion, compared to PLN 4.09 billion at the end of 2022.

As of 30 June 2023 the Bank was the defendant in 4,507 (1,311 new cases in 2023) pending court proceedings (including validly closed cases, clients brought a total of 5,130 claims against the Bank), in which the Bank's customers demanded the annulment of mortgage loan agreements regarding foreign currency loans or loans denominated in CHF, or declaration that the contract is permanently ineffective. The claims are based in particular on a contravention of Article 69 of the Banking Act or on the occurrence of abusive clauses which cause the contract cannot be remained in force (article 353^1 of the Civil Code). The Bank is not a party to any collective claim regarding these loans. The total value of claims pursued in the currently pending cases as of 30 June 2023 was PLN 2.163 million (as of 31 December 2022 was PLN 1,549.46 million), and in legally binding cases PLN 233.98 million (PLN 150.36 million as of 31 December 2022).

As of 30 June 2023, the following judgments have been issued in 623 proceedings that have been legally concluded: 176 judgments in favour of the Bank, including 117 proceedings in case of which a court settlement agreement was concluded, and in 447 cases the courts ruled against the Bank by declaring the loan agreement invalid or permanently ineffective.

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

The total value of provisions created as at 30 June 2023 amounted to PLN 2,123.8 million (as at 31 December 2022 it amounted to PLN 1,892.4 million), with an impact on the Bank's income statement of PLN 590.4 million in the first half of 2023 (in 2022 it amounted to PLN 740 million). An increase in the level of provisions in the first half of 2023 was primarily due to an inflow of new lawsuits and an update of the estimate of projected number of lawsuits.

At the same time, the Bank considered the right to recognize a deferred tax asset due to the entitlement valid until the end of 2024 to apply a tax preference to settlements covered by the scope of the Regulation of the Minister of Finance of 11 March 2022, amended by the Regulation of 20 December 2022, on the abandonment of the collection of income tax on certain income (revenue) related to a residential mortgage loan. The Bank recognised PLN 59.04 million deferred tax assets in the first quarter, of which PLN 27.49 million were realised as at 30.06.2023. The remaining asset value is PLN 31.55 million.

The provision is created in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets'. Provision for pending cases is calculated on an individual basis, while for future cases using the portfolio method. While calculating the provision, the Bank takes into account, inter alia, the number of certificates downloaded by clients for trial purposes, the estimated probability of clients filing cases, the estimated number of future claims, the number of claims filed, the probability of losing the case, and the Bank's estimated loss in the event of an unfavourable judgment. In addition, the Bank included in the provisioning model the estimated number of settlements to be signed with customers. The amount of the provision for the estimated settlements was PLN 218.5 million from the total balance of provisions.

It should be stressed that the Polish courts, despite contrary indications arising from CJEU rulings (C-19/20 and C-932/19), in the vast majority rule that credit agreements are invalid or ineffective. A number of Supreme Court judgments have been handed down in recent months (according to data at the end of June, there were approx. 100 judgements), most of them already have written justifications.

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

In estimating the loss in the event of a judgment declaring the loan invalid, the Bank assumes that the customer is obliged to return the capital paid out without taking into account other benefits from the consumer (remuneration for the use of the capital or valorisation), that the Bank is obliged to return the sum of the capital and interest instalments repaid together with the statutory default interest awarded in the case of pending cases and that the Bank writes off the credit exposure.

The accounting effect of signing a settlement agreement with a customer is the derecognition of a CHF loan, recognition of a new loan in PLN and the recognition of a result from the derecognition as well as the use of a provision for legal risk of CHF loans. In the first half of 2023, the Bank used PLN 213.8 million of the provision for legal risk of CHF loans in connection with the concluded settlements (in 2022 Bank used PLN 150 million of the provision).

The accounting effect of the final judgment declaring the loan agreement invalid is the derecognition of CHF loan exposure as well as the utilization of the provision for legal risk of CHF loans. In the first half r of 2023, the Bank used PLN 59.5 million of the provision for legal risk of CHF loans in connection with the receipt of final judgments declaring loan agreements invalid (in 2022 Bank used PLN 85 million for the same provision).

Should the assumed average loss change by +/- 5%, with all other significant assumptions unchanged, the amount of the provision would change by +/- PLN 83 million.

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

Parameter	Scenario	Impact on Bank's loss due to legal risk
Percentage of lawsuits lost	+5 p.p.	+72 mln PLN
	-5 p.p.	-79 mln PLN

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

Parameter	Scenario	Impact on Bank's loss due to legal risk
Percentage of future lawsuits	+20%	+88 mln PLN
	-20%	-88 mln PLN

Additionally, according to the Bank's assessment if 1% of customers with CHF loans filed a lawsuit against the Bank, the loss due to legal risk would increase by approx. PLN 30 million.

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

The current line of jurisprudence in cases involving actions by CHF borrowers is unfavourable to banks, but nevertheless some legal issues are still not clarified, in particular the qualification of loans as foreign currency loans or the possibility for banks to claim retention. Furthermore, despite the CJEU's judgment of 15 June 2023 in Case C-520/21, indicating that a bank cannot claim compensation from a consumer beyond the return of the principal, the possibility for banks to claim the valorisation of the capital paid out is still unsettled, as is whether and what claims a consumer can make under national law. The above issues are important for assessing the risks involved in the proceedings in question.

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

CJEU case law (judgments made in 2023)

On 16 March 2023, the CJEU's ruling in Case C-6/22 was issued, from which it follows that:

- the protection granted to consumers by Directive 93/13 is not limited only to the duration of the contract, but also applies after the completion of the contract (this may increase the risk of lawsuits on loans that have already been repaid);
- for the assessment of the consequences, with regard to the situation of the consumer caused by the cancellation of the entire contract, the will expressed by the consumer in this regard is decisive (if the consumer demands the cancellation of the contract, the national court cannot refuse, even if the court informs the consumer that the consequences are particularly unfavourable for him);

The CJEU confirmed that the national court cannot fill the gap created after the removal of an abusive term by a provision other than a dispositive provision, even if the cancellation of the contract has negative consequences for the consumer. However, in such a situation, the national court should take all necessary measures to protect the consumer, in particular, call on the parties to negotiate in order to establish a real balance of the rights and obligations of the contractual parties..

- in the event of cancellation of the contract it is not possible to apply national law providing for an equal division of losses between the parties.

On 8 June 2023, **in Case C-570/21**, the CJEU favoured a broad interpretation of the definition of consumer, indicating that:

- the concept of 'consumer' within the meaning of Article 2(b) of Directive 93/13 is objective in nature and independent of the particular knowledge which a person may have or of the information which he actually possesses;
- a person who has concluded a contract for purposes falling partly within the scope of his commercial or professional activity is to be regarded as a consumer if the purpose of the commercial or professional activity is so limited as not to be predominant in the overall context of that contract;
- in the context of a credit agreement concluded with an entrepreneur, an individual person in the position of co-debtor is covered by the concept of 'consumer' within the meaning of Article 2(b) of Directive 93/13 when he is acting for purposes which are outside his commercial or professional activities and should, when he is in a situation analogous to that of the debtor vis-à-vis that entrepreneur, benefit, together with the latter, from the protection provided by that directive;
- the national court must examine, taking into account all the evidence and, in particular, the wording of that contract, whether the person who is party to it can be classified as a 'consumer', as well as taking into account all the circumstances of the case, in particular the nature of the good or service which is the subject of the contract in question.

On 15 June 2023, **the CJEU has ruled on Case C-520/21** concerning whether, in the event of the cancellation of a credit agreement, the parties have any claim for the use of capital by the other party. The CJEU has reformulated the content of the questions originally asked by the Referring Court. The CJEU's answers therefore relate to the reformulated and not to the original version of the questions.

With regard to the consumer's claims against a bank, the CJEU held that the provisions of Directive 93/13 do not preclude a judicial interpretation of national law according to which the consumer is entitled to claim compensation from the credit institution over and above the reimbursement of monthly instalments and costs paid for the performance of that contract and over and above the payment of statutory default interest from the date of the demand for payment, provided that the objectives of Directive 93/13 and the principle of proportionality are respected.

With regard to the possibility for banks to pursue claims of a similar nature against consumers, the CJEU held that the provisions of Directive 93/13 preclude a judicial interpretation of national law according to which a credit institution is entitled to seek compensation from a consumer over and above the reimbursement of the capital paid in performance of that contract and over and above the payment of statutory default interest from the date of the demand for payment.

The concept of 'compensation' is not defined in the cited judgment, nor is it defined in Polish law. As the CJEU points out, however, in paragraph 78 of the judgment: "Similarly, an interpretation of national law according to which a credit institution is entitled to demand from a consumer compensation that goes beyond the return of the capital paid out for the performance of that contract, and thus to receive remuneration for the use of that capital by the consumer, would contribute to eliminating the deterrent effect on entrepreneurs by declaring that contract void." At the same time, the CJEU did not explicitly refer to the valorisation of the bank's benefit.

The Bank points out that remuneration for the use of capital for the Bank is not a parameter used in the Bank's current provisioning model and does not have a direct impact on the Bank's risk as expressed by the level of provisions for the effects of voided loan agreements. In contrast, the Bank's previous models did not take into account the remuneration to the customer for the Bank's use of the instalments of a loan repaid by the customer that has been declared invalid. The estimation of the amount of potential costs associated with this risk requires a refinement of the assumptions on the basis of the developed future line of case law based on the CJEU judgment of 15 June 2023.

The CJEU still has one outstanding preliminary question relating to a bank's ability to assert claims for the use of capital (case reference C-756/22).

Supreme Court case law on CHF denominated and foreign currency loans - key findings:

- it is not justifiable to extend the Code concept of a consumer by distinguishing direct and indirect links with the conduct of a business or professional activity. If such a relationship exists (also on the part of e.g. a spouse), there are no grounds for extending protection to such a person (Judgment of the Supreme Court of 18 May 2022 (II CSKP 362/22 [mBank]) / noting that on 08 June 2023, in Case C-570/21, the CJEU opted for a broad interpretation of the definition of consumer;
- the consumer's previous experience with credit products (including those linked to a foreign currency) is not legally relevant (Supreme Court judgment of 13 May 2022 (II CSKP 464/22);
- the possibility to convert the loan does not constitute a means of reducing the risk for the consumer (Judgment of the Supreme Court (SSN) of 13 May 2022 (II CSKP 464/22);
- currency risk clauses, understood as clauses introducing an economic risk for the consumer, are subject to abusiveness testing, and there can be no question of clarity/transparency of such clauses unless the entrepreneur can show that the consumer was fully aware that a strong depreciation of the domestic currency may have consequences that are difficult to bear. General risk instructions, even fulfilling Recommendation S, are insufficient to assume compliance with the instruction standard (e.g. II CSKP 382/22; II CSKP 464/22; I CSK 1867/22);
- spread clauses (both concerning loan drawdown and loan repayment) referring to bank tables as abusive require confirmation by the consumer, otherwise they are ineffective (e.g. I CSK 1867/22; II CSKP 163/22; II CSKP 382/22);
- it is not possible to "supplement" a credit agreement by introducing an alternative means of determining the exchange rate, e.g. on the basis of Article 358 § 2 of the Civil Code. - this would be contrary to the preventive objectives of the directive (e.g. I CSK 1867/22, II CSKP 163/22, II CSKP 382/22);
- the inability to complete the contract, in the absence of the consumer's will to the contrary, leads to the demise of the contract, both in the case of indexed and denominated loans. The only exception that emerges from the case law is the credit agreement of Bank BPH, where the collapse of the margin clause, while the reference to the NBP average exchange rate is left in the agreement, makes it possible (within the scope of this element) to continue the agreement (e.g. II CSKP 364/22, I CSK 55/22);
- the assessment of the advantage/disadvantage of the collapse of the contract is made by the consumer (Order of the Supreme Court of 19 May 2022 (I CSK 55/22);
- the Supreme Court opted for a two-condition theory in the event that a credit agreement is declared invalid. At the same time, the Supreme Court pointed out in a written justification that the risks associated with the insolvency of one of the mutually enriched parties are largely prevented by the right to retain the consideration received until the other party either offers to return the consideration received or secures a claim for repayment (Resolution of 16 February 2021 (III CZP 11/20, III CZP 6/21));
- in disputes with consumers, the provision of Article 385(1) of the Civil Code constitutes lex specialis in relation to Article 353(1) of the Civil Code. Consequently, when the prerequisites for the application of both of the above-mentioned legal norms exist, the court should apply the sanction of ineffectiveness of the contractual provision, without ruling on its invalidity on general principles (Resolution of 28 April 2022, III CZP 40/22).

There is still no uniformity on the definition of foreign currency credit. On 20 May 2022, the Supreme Court issued its first ruling on a foreign currency loan granted by the Bank (II CSKP 713/22). According to the Supreme Court, a foreign currency loan exists only if the agreement unambiguously establishes the amount of the loan granted and actually disbursed to the borrower exclusively in a foreign currency and provides for repayment of instalments exclusively in the currency of the loan granted. According to the Court, the parties entered into a loan agreement denominated in CHF, and nothing in the agreement directly provided for the client's claim for payment of the amount of loan made available in CHF.

However, it should be noted that in another decision, the Supreme Court took a different stance (decision of 24 June 2022, I CSK 2822/22), stating that the features of a foreign currency loan are the expression of the amount of the loan granted in a foreign currency and the repayment of the loan instalments in that currency, while not indicating as a characteristic the making of the loan payment in a foreign currency.

In a judgement of 31 January 2023 (II CSKP 334/22), the Supreme Court indicated that a loan in which, on the one hand, a foreign currency is indicated in the agreement as the so-called loan amount, but the disbursement, i.e. the bank's performance, is to take place in the Polish currency pursuant to the agreement, is not a foreign currency loan. The recognition of a provision providing for disbursement of a loan in Polish currency as prohibited means that the Court *merit*i must assess the impact of its ineffectiveness towards the consumer on the content of the entire agreement (the remaining provisions), and in particular whether this means that the parties could remain bound by the agreement to the remaining extent. It is not possible to continue to operate an agreement which, once the unauthorised provisions (which may, after all, under certain conditions relate to the main benefits of the parties) have been excluded from it, cannot be enforced - to determine the manner and amount of the parties' performance.

In a case III CZP 89/22, the Supreme Court is to decide whether a loan agreement is a reciprocal contract and, if so, whether it will be effective for the attorney-in-fact to raise a plea of retention (based on a power of attorney) and whether it is possible to formulate a plea of retention as an alternative claim. However, the hearing scheduled for 7 February 2023 has been postponed due to the pendency of the proceedings pending the decision of the CJEU in Case C 28/22 (the question in that case concerning the right of retention). Similar issues will be decided in case III CZP 126/22 (the Supreme Court is to decide whether a bank credit agreement, as a named agreement regulated outside the Civil Code in the Banking Law, is a reciprocal agreement or a bilateral but not reciprocal agreement - the hearing scheduled for 12 July 2023 was postponed by the Supreme Court until 6 October 2023, due to many threads that need to be resolved) and in case III CZP 152/22 (the Supreme Court is to decide whether an indexed bank credit agreement is a reciprocal agreement within the meaning of art. 487 § 2 of the Civil Code), as well as in case III CZP 31/23 (the Supreme Court is to decide whether a party is entitled to a right of retention if the recoverable consideration of both parties to the agreement is monetary).

On 5 April 2023, the Supreme Court, in its judgment in case II NSNc 89/23, dismissed the extraordinary appeal of the Public Prosecutor General against the judgment of the Court of Appeal in Kraków of 11 December 2019. (I ACa 100/19) concerning a denominated loan agreement. The Court of Appeal in Kraków dismissed the borrower's appeal, finding that some of the regulations contained in the agreement were abusive, but could not affect the determination of her situation. Indeed, the reason for the termination of the agreement was the borrower's cessation of payment of subsequent loan instalments. It should be noted that, according to the loan agreement, the disbursement of the loan could be made in zloty or in another currency, while the borrower could make repayments of the loan instalments in the currency of the loan or also in another foreign currency. The Supreme Court held that:

(1) in the case at hand, the key issue to be decided is not whether the agreement concluded between the plaintiff and the defendant contained abusive clauses, but whether the appellate court correctly verified their impact on the situation of the borrower. The Supreme Court held that the appellate court did not commit the failings alleged in the extraordinary complaint in this respect;

(2) the fact that there are abusive clauses in a contract does not automatically render the entire contract invalid. The court examining the case is obliged to verify whether, due to their elimination from the content of the contract, it is possible to further assert the claims raised. There is no doubt that if the elimination of the prohibited contractual provision would lead to such a deformation of the contractual regulation that on the basis of its remaining content it would not be possible to reconstruct the rights and obligations of the parties, it would become inadmissible to state that the parties remain bound by the remaining part of the contract;

(3) the extraordinary complaint concerned the legal situation of a consumer - an entity which, as the weaker party to a civil law relationship, is entitled to a special type of protection. At the same time, however, it was emphasised that this protection is not unlimited, and the mere fact that a party has the status of a consumer does not mean that there cannot be an unfavourable decision in his case. Indeed, the consumer still remains a party to the legal relationship and is not exempt from the obligation to comply with the law. When giving a ruling in which one of the parties is a consumer, the court cannot at the same time disregard the interest of the other party.

It should also be pointed out that the legal questions posed to the full panel of the Civil Chamber by the First President of the Supreme Court on key legal issues relating to the problem of CHF loans have still not been resolved.

As of the end of June 2023, 188 cassation appeals have been filed with the Supreme Court in cases of CHF loans granted by the Bank, 16 appeals have been accepted by the Supreme Court for examination and are awaiting substantive decision, as to 31 cassation appeals, the Supreme Court has issued a decision on refusal to accept for examination. Three cases have been sent back for examination, while in one it dismissed the cassation appeal.

Individual settlements offered by the Bank

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

Following the CJEU judgment of 15 June 2023 in case C-520/21, the Bank has observed slight changes in customer behaviour (inter alia, related to the withdrawal of some customers from a settlement, despite their previous acceptance of its terms), which affect the parameters and assumptions made so far, including the propensity of customers to settle.

As of 30 June 2023, the Bank has made individual settlement proposals to 12,120 Customers and 3,399 Customers accepted the terms of the proposals presented out of which 2,617 settlements were signed.

52. RISK MANAGEMENT

The most important changes in the approach to credit risk management, basic measures of market risk, liquidity risk, country and counterparty risk as well as changes in the approach to operational risk management introduced as at the end of June 2023 are described below.

CREDIT RISK

Credit risk is inherent in the core financial operations of the Group, the scope of which includes both lending and providing funding with the use of capital market products. Consequently, credit risk is identified as the risk with the highest potential to affect the present and future profits and equity of BNP Paribas Bank Polska S.A. The materiality of credit risk is confirmed by 73% share in the total internal capital estimated by the Group for purposes of covering major risks involved in the Bank's operations, in addition to its 88% share in the total value of regulatory capital.

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

Credit risk management principles adopted by the Group include:

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

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

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

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

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

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

The limits, defined in Article 395 of the Regulation No. 575/2013, at the Group level, had not been exceeded as at the end of June 2023. The Group's exposure represented 20.7% of Tier 1 capital on a consolidated basis.

With regard to the exposure limits on entities outside the BNP Paribas S.A. Group, the limits were not exceeded, with the largest exposure representing 11.7% of Tier 1 capital on a consolidated basis.

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

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

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

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

Systemic measures that limit concentration risk include:

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

A concentration analysis by industry, conducted by the Group, focuses on all credit exposures of the Group to institutional customers. The Group defines industries based on Polish statistical classification of economic activities. The Group's exposure to industries analysed at the end of June 2023, similarly as at the end of December 2022, is concentrated in the following industries: Agriculture, Forestry, Hunting and Fishing, manufacturing. As at the end of June 2023, the share of manufacturing decreased by 1 p.p. to 22% compared to the end of 2022, while the share of agriculture, forestry and fishing decreased by 1 p.p. as compared to the end of 2022 to the level of 17% of industrial exposure.

The table below presents a comparison of the share of impaired loans in industries (gross balance sheet value) as at 30 June 2023 and 31 December 2022.

	Exposure*		Share of non-performing loans	
Sector	30.06.2023	31.12.2022	30.06.2023	31.12.2022
AGRICULTURE, FORESTRY, HUNTING AND FISHING	8,828,342	9,293,333	6.7%	7.7%
MINING AND QUARRYING	42,432	79,683	2.4%	2.3%
INDUSTRIAL PROCESSING	11,413,896	12,365,311	2.6%	2.5%
PRODUCTION AND SUPPLY OF ELECTRICITY, GAS, STEAM, HOT WATER AND AIR TO SYSTEMS	1,091,651	1,092,049	0.3%	0.3%
WATER SUPPLY; SEWAGE AND WASTE MANAGEMENT AS WELL AS REMEDIATION ACTIVITIES	255,599	190,385	1.4%	1.8%
CONSTRUCTION	2,960,958	3,293,737	6.3%	5.5%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES, INCLUDING MOTORBIKES	8,069,014	8,110,750	3.5%	4.1%
TRANSPORT AND STORAGE	2,566,167	2,546,054	2.4%	2.3%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	264,038	280,128	20.4%	20.6%
INFORMATION AND COMMUNICATION	2,954,476	2,686,342	1.6%	1.8%
FINANCIAL AND INSURANCE ACTIVITIES	2,888,623	1,689,167	0.6%	3.7%
REAL ESTATE ACTIVITIES	5,669,851	5,761,289	2.2%	2.3%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	3,311,904	3,119,349	1.6%	1.6%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	1,328,274	1,083,990	2.9%	3.8%
PUBLIC ADMINISTRATION AND DEFENCE; COMPULSORY SOCIAL SECURITY	57,027	54,892	0.0%	0.0%
EDUCATION	75,984	76,405	5.8%	8.6%
HEALTH CARE AND SOCIAL ASSISTANCE	891,788	847,363	8.3%	2.8%
CULTURE, ENTERTAINMENT AND RECREATION ACTIVITIES	16,568	18,741	7.1%	8.7%
OTHER ACTIVITIES	96,269	114,436	5.9%	4.0%
Total	**52,782,861**	**52,703,402**	**3.5%**	**3.9%**

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

The Group also manages the risk of collateral concentration. For this purpose, the Group introduced limits for the involvement of particular types of collateral, ensuring their appropriate diversification. As at the end of June 2023, as well as at the end of 2022, the limits were not exceeded.

The structure of overdue receivables

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

	30.06.2023					
Structure of overdue receivables (net balance sheet value)*	without impairment				with impairment	Total
	0 days	1-30 days	31-60 days	61-90 days		
Mortgage loans and advances	24,609,565	74,280	13,188	4,260	190,076	24,891,369
Cash loans	8,846,357	72,885	9,025	4,645	131,330	9,064,242
Car loans	1,761,710	4,133	942	281	12,665	1,779,731
Credit cards	854,018	7,709	1,214	589	20,077	883,607
Investment loans	23,785,588	272,157	7,507	3,901	280,378	24,349,531
Limits in current account	11,316,427	113,936	4,543	2,290	139,352	11,576,548
Working capital loans to companies	9,936,785	145,225	12,123	6,021	287,241	10,387,395
Leasing	5,316,030	86,425	14,050	9,737	84,034	5,510,276
Other	75,886	24,518	3,528	2,116	24,447	130,495
Total	**86,502,366**	**801,268**	**66,120**	**33,840**	**1,169,600**	**88,573,194**

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

	31.12.2022					
Structure of overdue receivables (net balance sheet value)*	without impairment				with impairment	Total
	0 days	1-30 days	31-60 days	61-90 days		
Mortgage loans and advances	25,983,101	96,966	9,857	4,490	198,927	26,293,341
Cash loans	8,789,784	84,523	11,527	4,447	143,937	9,034,218
Car loans	1,673,748	5,688	1,029	694	12,214	1,693,373
Credit cards	871,162	10,190	2,002	690	20,429	904,473
Investment loans	22,821,582	1,431,021	11,874	1,599	337,492	24,603,568
Limits in current account	11,104,687	134,661	15,271	1,409	156,574	11,412,602
Working capital loans to companies	9,110,133	722,720	29,731	7,511	301,573	10,171,668
Leasing	5,193,511	127,812	9,015	5,509	89,234	5,425,081
Other	461,516	13,837	1,932	2,716	21,290	501,291
Total	**86,009,224**	**2,627,418**	**92,238**	**29,065**	**1,281,670**	**90,039,615**

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

With regard to the mortgage loan portfolio, the Bank defines the DTI (debt to income) ratio as the ratio of the monthly credit charges and financial charges, which are permanent and irrevocable in nature, and the instalment of the requested Loan (taking into account the interest rate risk buffer) to the amount of average monthly net income. In accordance with the mortgage lending policy, the Bank sets maximum DTI levels at 0.65 or 0.50 depending on the customer's income, and follows the requirements of Recommendation S. The Bank monitors the level of DTI/DSTI ratios during annual credit policy reviews as well as through dedicated ad hoc analyses.

The Bank has noticed increasing DTI/DSTI ratios, which is a result of rising interest rates and increasing instalments for mortgages. In 2022, credit policy changes were introduced to limit the availability of mortgages with DTI ratios exceeding 50% for selected customer groups. At the same time, the business offer was restricted resulting in a significant reduction in loan production. From the beginning of 2023, the variable interest rate formula was also temporarily withdrawn from the Bank's offer.

At the end of June 2023, the Bank does not observe increased credit risk for new loan production as well as for the existing mortgage loan portfolio. Both Vintage ratios and NPL (non-performing loan) levels in the mortgage segment are stable, at the levels not higher than those observed in the Polish banking market.

Forbearance practices

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

Due to the ongoing war in Ukraine and the economic sanctions issued against Russia and Belarus, the Bank has analysed exposures directly linked to these countries and on this basis has not identified material exposures in both the corporate and retail client portfolios.

At the same time, the Bank monitors the situation of clients on an ongoing basis with a view to safeguarding the credit portfolio and maintaining its high quality. Preventive measures taken in the first quarter of 2022 are being continued. As part of these activities, institutional clients whose business activities are:

1) related to the economies of the above countries and thus may be exposed to the effects of war and imposed sanctions;
2) particularly sensitive to inflation;
3) vulnerable to the Russian gas embargo.

For the purpose of selecting the war-exposed loan portfolio, the Bank considers the following factors (among others):

1) exports/imports to/from countries at risk;
2) capital or organizational relations with citizens of Russia or Belarus;
3) transportation services provided in countries at risk or logistic channels passing through countries at risk;
4) production carried out in countries at risk;
5) investments in fixed assets and capital investments in risk countries;
6) existence of commercial contracts in risk countries (especially construction contracts);
7) employment of workers from Russia, Ukraine or Belarus;
8) distribution of Russian and Belarusian goods or services (risk of boycott of goods).

In the case of inflation, based on information provided by the Department of Economic and Sectoral Analysis, the Bank made a selection of particularly sensitive industries. The shares of energy and material prices in operating costs (as the main drivers of inflation) and gross margin were taken into account. A threshold of increased risk was defined for each of these factors. Information on the possibility of passing on price increases to customers was also included in the sensitivity assessment.

The group of customers selected on this basis was subjected to further detailed analysis to identify activities with higher risk levels. The risk assessment is updated on a semi-annual basis.

COUNTRY RISK

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

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

As at the end of June 2023, 77% of the Bank's exposure to countries other than Poland were transactions related to the Bank's foreign lending activities, treasury transactions (including placement and derivative transactions) accounted for 11% while the remaining part (12%) was related to foreign trade transactions (letters of credit and guarantees). France accounted for 43%, Italy for 18%, Luxembourg for 16%, the Netherlands for 11%, Austria for 4% and Belgium and Germany both for 2%. The remaining exposure was concentrated in Mexico, Czech Republic and Slovakia.

The Bank had no material credit exposures in Russia, Ukraine and Belarus.

COUNTERPARTY RISK

Counterparty risk is the credit risk concerning the counterparty transactions in case of which the amount of liability may change in time depending on market parameters.

The counterparty risk was calculated for the following types of transactions contained in the trading portfolio of the Bank: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.

At the end of June 2023, the Bank's exposure to counterparty risk from derivative transactions was PLN 2.2 billion. Corporate clients concentrated 69% of the exposure, while the remaining 31% was concentrated around banks.

In connection with the war in Ukraine and the economic sanctions taken against Russia and Belarus, the Bank is observing increased volatility in market risk parameters, which results in a fluctuation of counterparty risk exposure. The Bank assesses the counterparty risk on an on-going basis by reviewing the credit portfolio of customers with such risk. The Bank maintains the application of its basic principle "Know your customer". Due to the unique situation, some customers were requested to provide additional information related to the change in their business conditions. In risk assessment, the Bank also takes into account the higher volatility of the abovementioned parameters concluding new transactions.

The Bank has not observed significant changes in the counterparty risk materialisation so far.

INTEREST RATE RISK IN BANKING PORTFOLIO

As part of interest rate risk management in the banking portfolio, the Bank distinguishes structural elements consisting of interest-free current accounts and the Bank's capital as well as other commercial items. In terms of structural elements, the Bank secures a significant portion of long-term positions (bonds, interest rate exchange transactions). Regarding other commercial items, the Bank plans to reduce interest rate risk.

In order to limit the volatility of the Bank's result, fair value hedge accounting and cash flow hedge accounting are applied. The type of hedging relationship depends on the current balance sheet structure and the interest rate risk profile of the banking book.

The use of interest rate limits remained stable in the first half of 2023.

The table below presents - in PLN thousand - the sensitivity of interest income over a period of 1 year to an immediate shift in market rates by 100 basis points.

Immediate shift of interest rates by 100bps:	30.06.2023	31.12.2022
Up	232,993	261,059
Down	(200,439)	(194,206)

The war in Ukraine did not generally affect the way interest rate risk is managed in the banking book.

Impact of the benchmark reform on BNP Paribas The Bank Polska S.A.

In 2022, a plan was established to replace the WIBOR interest rate benchmark with a new reference index and thus an intensive effort was made to implement it. In this connection, a National Working Group ("NGR") was established to prepare measures for the smooth and safe implementation of the change. The work of the NGR is supervised and coordinated by the Steering Committee. The NGR Steering Committee has selected the WIRON index as an alternative interest rate benchmark. The input data for WIRON is information representing ON (overnight) transactions. The administrator of WIRON within the meaning of the BMR (Regulation of the European Parliament and of the Council (EU)) is the WSE Benchmark, registered with the European Securities and Markets Authority. The NGR Steering Committee approved a Roadmap for the process of replacing the WIBOR benchmarks with WIRON. The document sets out the basic assumptions for the work of the NGR, according to which it assumes the widespread use of WIRON and readiness to cease the calculation and publication of the WIBID and WIBOR Reference Rates in 2025.

The Steering Committee of the National Working Group on Benchmark Reform has taken a number of decisions on the use of WIRON in contracts and financial instruments.

To date, a recommendation for a standard OIS transaction based on WIRON has been adopted. A public consultation was held on a recommendation on the use of a proxy rate for the WIBOR benchmark in interest rate derivatives. A recommendation on WIRON in floating rate debt issues was adopted in March. Going forward, the NGR will develop conversion rules for existing debt issues where WIBOR is used.

The NGR also published recommendations on standards for the use of WIRON in new contracts in banking, leasing and factoring products. Thus, one of the milestones of the adopted Roadmap has been met. The next step for the NGR will be to develop analogous solutions for WIBOR-based portfolio conversion.

In addition, a glossary of terms has been developed, unifying the terminology and terms used in recommendations and other materials developed by the NGR.

As a consequence of the NGR's work, the first OIS transactions using WIRON were concluded on the domestic financial market, and the first banking products in which interest rates are calculated on the basis of this index appeared in the offer.

The Bank has set up a transversal initiative under which work is being carried out to adapt the Bank's operations to the changes associated with the replacement of the WIBOR interest rate benchmark. The work is supervised and coordinated by a dedicated Steering Committee. The Bank has identified delegated persons to participate in the work of the NGR, who actively participate in the discussions while overseeing the solutions and recommendations prepared. As part of the initiative, work is underway to implement the new indicator within documentation, communication, information systems. As envisaged, the Bank's adaptation in this area will take into account the decisions and recommendations of the NGR.

Currently, individual business lines/Tribes are working on changes to contracts, regulations. Relevant adaptation work (parameterisation, development) is already underway in most products. The individual streams/business lines have developed a work schedule as part of the initiative, which provides that the Bank will implement products based on the new indicator with a view to the deadlines arising from the NGR roadmap. The coming months will see an intensification of work related to the adaptation of documentation as well as changes to IT systems.

As at 30.06.2023 the Bank has identified:

- WIBOR-based financial assets in PLN million by index tenor:

ON	1W	1M	3M	6M	1Y	Total
427	1	11,279	31,455	10,035	21	53,219

- financial liabilities based on WIBOR and WIBID in PLN million, broken down by index tenor:

ON	1W	1M	3M	6M	1Y	Total
1,595	79	4,412	3,276	5	6	9,373

The Bank also had on its banking book interest rate swaps (CIRS/IRS) based on WIBOR 3M with a total nominal amount of PLN 1,275 million, of which PLN 1,275 million under fair value hedge accounting, and based on WIBOR 6M with a total nominal amount of PLN 7,838 million, of which PLN 5,738 million under hedge accounting.

Until 30 June 2023, the Bank did not have WIRON-based products in its offering. Implementation in this area is planned to commence in the second half of 2023. When entering into new agreements for WIRON-based products in PLN, the Bank intends to use the principles and methods of applying the benchmark developed by NGR.

The Bank has a Contingency Plan for the continuity of the reference indices used in contracts and financial instruments, applies so-called fallback clauses regulating how to establish substitute (alternative) indices to those currently in use, and has developed changes to the Bank's IT systems allowing for the multivariate use of substitute indices in the event of an event of the discontinuation of a given reference index. The Bank assumes that the replacement of the WIBOR interest rate reference index with the WIRON reference index will be carried out in an orderly manner, in accordance with the formal requirements of the BMR Regulation, and will include all references to the reference index in the contracts and financial instruments indicated in the BMR Regulation. In the Bank's view, it is of utmost importance to establish an appropriate method for determining the spread adjustment and to apply it, in order to take into account the effects of the change in the reference index. In the Bank's view, all of the above aspects would guarantee the mitigation of a number of risks associated with the planned reform. A hasty and disorderly implementation of the reform may cause:

- the lack of a transition period to allow an efficient derivatives market to take shape for the new indicator,
- high uncertainty regarding the valuation of on-balance sheet and off-balance sheet items,
- early closure of IRS contracts by central clearing houses in the case of absence of valuation options,
- abrupt and difficult to manage changes in financial institutions' interest rate risk exposures,
- questioning of flows arising from the application of spread adjustments that do not ensure economic equivalence in settlements between parties.

The Bank assesses that the potential risks that may materialise during the implementation of the reform related to the replacement of the WIBOR interest rate with the new reference rate may consequently lead to significant systemic disruptions in the functioning of the entire national economy.

At present, it is not possible to identify any rationale for ending the publication of the EURIBOR index. Thus, the flows resulting from this index are exchanged between the counterparties under the current rules.

MARKET RISK

Exposure to market risk in the trading book in the first half of 2023 was kept at a relatively low level. Interest rate risk in the trading book, measured by sensitivity to 1 basis point movement of interest rate curves in the reported period, amounted a maximum for PLN 82 thousand and for EUR 55 thousand. The VaR measure of interest rate risk increased compared to the previous half by approximately 11%, to PLN 4.2 million, which did not result from an increase in open positions but from increased volatility in financial markets. Nevertheless the average utilisation of the VaR limit for the open interest rate position in the trading book was at the level of below 50% of the allocated limits.

Foreign exchange risk was kept at a low level, i.e. an average of 9% utilisation of the allocated VaR limit, and, as with interest rate risk, did not make a significant contribution to the overall risk level. The Bank maintained a small open position in foreign exchange and interest rate options to ensure the serviceability of customer transactions.

Despite the dynamic global environment and high volatility in the financial markets, the Bank takes a conservative, prudent approach to market risk management, keeping its risk profile at a relatively low level, thereby protecting itself against the negative consequences of unexpected events.

LIQUIDITY RISK

In the first half of 2023, the Bank maintained Group's supervisory measures of short- and long-term liquidity above regulatory and internal limits. The LCR averaged 178.9% during the six months of the year. The maximum LCR was 204.9% and the minimum was 153.6%.

The Bank's main sources of funding are liabilities to customers and the Bank's capital. To a lesser extent, medium and long-term credit lines received, including subordinated loans, mainly from the BNP Paribas Group.

Throughout the period, the Bank's liquidity ratios were at a very safe level. During the first half of 2023, the Bank recorded a decrease in deposits: corporate deposits of PLN 1.191 billion and retail deposits of PLN 0.918 billion. Net loans fell by PLN 1.302 billion in the first half of the year, an increase of PLN 0.009 billion for companies, a decrease of PLN 1.311 billion for individual customers. The decrease is mainly due to high prepayments of the mortgage portfolio, small new mortgage production in line with the Bank's policy .The Bank's objective was to optimise its portfolio of non-bank customer deposits, which are still its primary source of funding.

At the end of Q1.2023, the Bank made an early repayment of the securitisation liabilities and thus completed the transaction.

The impact of the war in Ukraine has no implications on the Bank's liquidity position.

OPERATIONAL RISK

The Bank's operational risk is defined in accordance with the requirements of the Polish Financial Supervision Authority included in Recommendation M as the risk of incurring a loss through the fault of inappropriate or unreliable internal processes, people, technical systems or as a result of external factors. It comprises legal but not strategic risk. The Bank also recognizes as operational risk events and losses the consequences of the materialization of compliance risk[1]. Operational risk as such is inherent in any banking operations. The Bank identifies the operational risk as permanently significant.

Operational risk is managed with a view to reducing the losses and costs resulting from the aforesaid risk, ensuring top quality of the services provided by the Group in addition to security and compliance of the Group's operations with the applicable laws and standards.

Operational risk management strategy and policy

Operational risk management consists in employment of measures aimed at operational risk identification, analysis, monitoring, control, reporting and mitigating. Such measures take into account the structures, processes, resources and scopes of responsibilities for the said processes at various organizational levels, at three lines of defence. The operational risk management strategy has been described in the Operational Risk and Internal Control Management Strategy of BNP Paribas Bank Polska S.A., which is reviewed annually and approved by the Management Board of the Bank and accepted by the Supervisory Board. The Operational Risk Policy of BNP Paribas Bank Polska S.A., adopted by the Risk Committee of the Bank, constitutes organizational framework and standards for operational risk management. It addresses all aspects of the Bank's operations in addition to defining the Bank's objectives and the methods of their achievement as regards the quality of operational risk management as well as compliance with legal requirements set out in the recommendations and resolutions issued by national financial supervision authorities. The Bank's operational risk management objectives include, in particular, compliance with high operational risk management that guarantee security of customer deposits, the Bank's equity, stability of its financial performance as well as maintenance of the operational risk level within the range of the operational risk appetite and tolerance defined by the Bank. When developing the operational risk management system, the Bank complies with the applicable legal requirements, in particular, with the recommendations and resolutions of the national financial supervision and the standards adopted by the BNP Paribas Group.

In accordance with the Policy, the Bank's operational risk management instruments include:

- identification and assessment of operational risk, including through gathering information on operational events, assessment of the risk in processes and products, operational risk and control self-assessment, operational risk assessment for contracts with external suppliers (outsourcing) and determination of key risk indicators;
- setting the operational risk appetite and limits at the level of the whole Bank and individual business areas; analysing operational risk, including analysis of operational risk scenarios, its monitoring and ongoing control;
- operational risk reporting.

Compliance with the operational risk strategy is verified by the Bank's Management Board periodically and, if necessary, the required adjustments are made in order to improve the processes of operational risk management. To this end, the Management Board of the Bank is regularly provided with information concerning the scale and types of operational risk to which the Bank is exposed, its effects and methods of operational risk management. In particular, both the Bank's Management Board and Supervisory Board are informed on a regular basis of the development of the operational risk appetite measures set out in the Operational Risk Management Strategy.

As part of the implementation of the Operational Risk Management and Internal Control Strategy, the Bank in the first half 2023 undertook and continued to undertake a number of measures to mitigate operational risk, strengthening control mechanisms and processes over this type of risk. In particular, processes and tools to prevent and combat fraud against the Bank were strengthened, including, inter alia, the fight against credit fraud and phishing, also a continuation of fraud risk mitigation programme. The Bank monitored its exposure to legal risk on an ongoing basis, including risks arising from pending litigation on CHF-denominated loans, in order to respond adequately to changes in the level of risk. Due to the outbreak of war in Ukraine, the Bank monitored potential risks to the Bank on an ongoing basis, including those relating to security and ensuring business continuity.

The Bank's Management Board and the Risk Committee of the Supervisory Board are informed about the effectiveness of the solutions implemented by the Bank in this regard.

Due to the outbreak of war in Ukraine, the Bank monitored potential risks to the Bank on an ongoing basis, including those relating to security and ensuring business continuity.

The Bank's Management Board and the Risk Committee of the Supervisory Board are informed about the effectiveness of the solutions implemented by the Bank in this regard.

[1] Compliance risk refers to the risk of the consequences of non-compliance with laws, internal regulations and market standards in the processes operating at the Bank.

Internal environment

The Bank precisely defines the division of responsibilities for operational risk management, which is adapted to the organisational structure. As part of the second line of defence, comprehensive supervision of the organisation of operational risk management standards and methods is exercised by the Operational Risk, Internal Control and Anti-Fraud Division operating within the Risk area. The Division's responsibilities include operational risk management, anti-fraud issues against the Bank and the supervision of internal controls, including the control of personal data protection processes.

Development and implementation of the Bank's strategy with respect to insurance as a risk mitigation technique is the responsibility of the Real Estate and Administration Department, while the Security and Management of Business Continuity Division is in charge of business continuity management.

As part of the legal risk management process, the Legal Division monitors, identifies and performs analyses of changes to laws of general application and their effect on the Group's operations and is involved in court and administrative proceedings which affect the Group. The Compliance Monitoring Department is responsible for daily non-compliance risk analysis in addition to development of appropriate risk controls and their improvement.

Risk management

The Bank places a strong focus on identification and assessment of the factors that trigger its present exposure to operational risk in relation to banking products. It is the Bank's objective to reduce the operational risk level through improvement of its internal processes as well as mitigating the risk inherent in the process of launching new products and services and outsourcing operations to third parties.

In accordance with the Operational Risk Management Policy of BNP Paribas Bank Polska S.A., the operational risk analysis is aimed at acquiring an understanding of the interdependence between the risk generating factors and operational event types, and it is performed primarily with the objective to define the operational risk profile.

The operational risk profile is an assessment of the level of significance of this risk, understood as the scale and structure of operational risk exposures, determining the exposure levels to this risk (i.e. operational losses), expressed in the structural dimensions selected by the Bank and the scale dimensions. Periodic assessment and review of the Bank's operational risk profile is based on an analysis of the Bank's current risk parameters, changes and risks occurring in the Bank's environment, implementation of the business strategy, as well as the adequacy of the organizational structure and the effectiveness of the risk management and internal control system. The analysis of the operational risk profile also considers the Bank's subsidiaries.

Internal control system

The purpose of internal control is effective risk control, including risk prevention or early detection. The role of the internal control system is to achieve general and specific objectives of the internal control system, which should be considered at the design stage of control mechanisms. The principles of the internal control system are described in the "Policy on internal control at BNP Paribas Bank Polska S.A." document, approved by the Bank's Management Board. This document describes the main principles, organizational framework and standards for the functioning of the control environment at the Bank, complying with the PFSA requirements provided in Recommendation H and the Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system and the internal control system, the remuneration policy in banks. Detailed internal regulations concerning specific areas of the Bank's activity are adapted to the specifics of the Bank's operations. The appropriate organizational units of the Bank, in accordance with the scope of the tasks assigned to them, are responsible for developing detailed regulations relating to the area of internal control.

The internal control system at the Bank is based on the 3 defence lines model, which consists of:

- 1st line of defence, which consists of organizational units from particular areas of banking and support areas,
- 2nd line of defence, which consists of organizational units responsible for risk management, regardless of the risk management related to the first line defence, and the compliance unit,
- 3rd line of defence, which is independent and objective internal audit unit.

The Bank ensures internal control through independent monitoring of compliance with control mechanisms, including on-going verification and testing.

Monitoring and reporting

The Bank periodically monitors the efficiency of the operational risk management system and its appropriateness for its current risk profile. The organization of the operational risk management system is reviewed as part of periodic control exercised by the Internal Audit Division, which is not directly involved in the operational risk management process but provides professional and unbiased opinions supporting achievement of the Bank's objectives. The operational risk management system is overseen, and its appropriateness and efficiency are assessed by the Supervisory Board.

Capital requirements due to operational risk

The Bank estimates its regulatory capital necessary to cover operational risk in accordance with the applicable regulations. The said calculation is performed using the standard approach (STA). Requirements regarding Bank's subsidiaries, to be disclosed in the consolidated financial statements, are determined in accordance with the base indicator method (BIA).

Subsidiaries

In accordance with supervisory regulations, the Bank oversees the operational risks associated with the activities of its subsidiaries, covering them with an Operational risk management strategy and periodically assessing the consistency of the operational risk management strategies and policies of the entities within the Group. Operational risk management in subsidiaries is carried out within dedicated units/persons appointed for this purpose. The manner and methods of operational risk management in subsidiaries are organised adequately to the scope of activity of an entity and its business profile, in accordance with the rules in force in the Group.

Risks arising from the war in Ukraine

In terms of operational risk management, the Bank analyses the risks related to the consequences of the war activities in Ukraine (including, in particular, cyber or physical attacks targeting the payment or banking infrastructure that may result in business continuity disruptions) on an ongoing basis, and takes appropriate measures to ensure the security of both the Bank's employees and customers and to ensure the uninterrupted execution of processes related to its operations.

CAPITAL ADEQUACY

Own funds and capital ratios

Capital adequacy management is aimed to ensure the Bank's compliance with macro-prudential regulations defining capital requirements related to the risks incurred by the Bank, quantified in the form of the capital ratio.

Since 1 January 2014, banks have been subject to new principles applicable to calculation of capital ratios, following the implementation of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on macro-prudential requirements for credit institutions and investment firms, as amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 (CRR2) in relation to leverage ratio, net stable funding ratio, own funds and eligible liabilities requirements, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements.

On 27 June 2020, Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, amending Regulations (EU) No 272/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic, entered into force, allowing, inter alia, a reduction in risk weights for some SME loans, a temporary partial exclusion from the calculation of Common Equity Tier 1 items of the amount of unrealised profits or losses measured at fair value through other comprehensive income in relation to the COVID-19 pandemic. As of 1 January 2023, the option to exclude the portion of unrealised gains and losses measured at fair value from Common Equity Tier 1 capital items expired. The impact of the change on the Common Equity Tier 1 capital ratio was 42 bps.

On 23 December 2020, Commission Delegated Regulation (EU) 2020/2176 of 12 November 2020, amending Delegated Regulations (EU) No 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items, entered into force.

As at 30 June 2023 the adjustment in common equity Tier 1 capital related to other intangible assets amounted to 395,563 thousand.

The capital ratios, capital requirements and equity have been calculated in accordance with the aforesaid Regulation with the use of national options.

Pursuant to the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial sector (Journal of Laws 2015, item 1513, as amended), an additional buffer of 2.5% was introduced starting from 1 January 2019.

The Financial Supervision Authority, in a release dated 21 December 2022, announced that, based on the provisions of the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial system and after taking into account the opinion of the Financial Stability Committee, it confirmed the identification of ten banks as other systemically important institutions (O-SII).

As a result of the review, the Commission concluded that there are no reasons justifying the repeal or amendment of its previous decision of 4 October 2016, as amended by the Commission decision of 19 December 2017, concerning imposition of a buffer for another systemically important institution on the Bank (on a consolidated and separate basis) in the amount of 0.25% of the total risk exposure amount calculated in accordance with Article 92(3) of Regulation (EU) No 575/2013.

The Polish Financial Supervision Authority, by letter dated 23 December 2022, recommended that the risks inherent in the Bank's activities be mitigated by the Bank through maintenance of own funds to cover the additional capital charge to absorb potential losses arising from the occurrence of stressed conditions, at 0.80 p.p. at the individual level and 0.77 p.p. at the consolidated level over the total capital ratio referred to in Article 92(1)(c) of Regulation (EU) No 575/2013, plus the additional own funds requirement referred to in Article 138(2)(2) of the Banking Act and the combined buffer requirement referred to in Article 55(4) of the Macroprudential Supervision Act. The additional surcharge should consist entirely of Common Equity Tier 1 capital.

The countercyclical buffer ratio for credit exposures in the territory of the Republic of Poland, which applied at the end of 31 March 2023, was 0%. The Group-specific countercyclical buffer ratio, determined in accordance with the provisions of the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial system, as a weighted average of the countercyclical buffer ratios applicable in the jurisdictions in which the Group's relevant credit exposures are located, was 1 bps, as at 30 June 2023. The value of the ratio was mainly affected by exposures in Luxembourg, where the countercyclical buffer rate was 0.5%.

The level of Tier 1 capital ratio and total capital ratio (TCR) on a consolidated basis were above the requirements applicable to the Group as at 30 June 2023. Pursuant to the Resolution of the Bank's Annual General Meeting of 30 June 2023, the entire profit of the Bank for 2022, amounting to PLN 370,892 thousand, was allocated to reserve capital.

At the same time, the Bank meets the legal requirements under the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector.

30.06.2023	The minimum supervisory consolidated solvency ratios of the Group	Consolidated capital adequacy ratios of the Group
CET I	8.03%	12.13%
Tier I	9.53%	12.13%
Total Capital Ratio	11.53%	16.35%
31.12.2022		
CET I	8.02%	11.28%
Tier I	9.52%	11.28%
Total Capital Ratio	11.52%	15.55%

Requirement of a minimum level of own funds and eligible liabilities (MREL)

On 20 June 2023, the Bank received an announcement from the BGF regarding the joint decision of the resolution authorities, i.e. the Single Resolution Board (“SRB”) and the BGF on the minimum level of own funds and eligible liabilities ("MREL").

The joint decision indicates that the Group's restructuring plan envisages a Single Point of Entry (SPE) strategy for the mandatory restructuring. The Group's preferred tool for mandatory restructuring is the open bank bail-in tool).

The MREL requirement for the Bank has been set at an individual level at 16.11% of the total risk exposure ("TREA") and 5.91% of the total exposure measure ("TEM"). This requirement should be achieved by 31 December 2023.

In addition, the BGF has set a mid-term MREL target which: - in relation to TREA is: 12.05% as of the receipt of the BGF's letter, - in relation to TEM is: 4.46% as of the receipt of the BGF letter.

MREL requirement applies at individual level.

The entire MREL requirement should be met in the form of own funds and liabilities meeting the criteria set out in Article 98 of the BGF Act, which transposes Article 45f(2) BRRD. According to the BGF's expectations, the part of MREL corresponding to the recapitalisation amount ("RCA") will be met in the form of AT1, T2 instruments and other subordinated eligible liabilities acquired directly or indirectly by the parent company. At the same time, the BGF indicated that Common Equity Tier 1 ("CET1") instruments held by the Bank for the purposes of the combined buffer requirement cannot be counted towards the MREL requirement expressed as a percentage of TREA. This rule does not apply to the MREL requirement expressed as a TEM percentage.

As of 30 June 2023, the Bank meets the defined requirements of MREL-TREA and MREL-TEM.

Commercial Bank Protection Scheme

A group of 8 commercial banks ("Participating Banks"): BNP Paribas Bank Polska S.A. (the "Bank"), ING Bank Śląski S.A., Alior Bank S.A., Bank Millennium S.A., Bank Polska Kasa Opieki S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Santander Bank Polska S.A. decided to establish the Commercial Bank Protection Scheme ("CBPS"). On 14 June 2022, the Participating Banks established a joint stock company as the management entity of the Protection System (the "Management Unit"). The establishment of the Management Unit received approval from the Polish Financial Supervision Authority and approval for concentration from the President of the Competition and Consumer Protection Office. On 1 August 2022, the company was registered with the National Court Register.

The share capital of the Management Unit is PLN 1,000,000. The Bank subscribed for 9,441 shares in the Management Unit, with a total nominal value of PLN 94,410, representing 9.4% of its share capital. Investments in the CBPS are measured by the Bank at fair value through profit and loss and recognises under securities at fair value through profit and loss.

The purpose of the protection scheme is:

a) to ensure the liquidity and solvency of Participating Banks under the terms and conditions and to the extent set out in the protection scheme agreement;

and

b) to promote:

(i) the mandatory restructuring by the Bank Guarantee Fund of a bank that is a joint stock company; and

(ii) the acquisition of a bank that is a joint stock company pursuant to Article 146b(1) of the Banking Law.

Other national banks may join the CBPS, provided that they meet the conditions set out in the applicable legislation and in the protection scheme agreement.

An Assistance Fund was established in the Management Unit to provide resources to finance the tasks of the Protection Scheme. The Assistance Fund is created from the contributions of the Participating Banks in the amount of 0.4% of the guaranteed funds of the respective bank covered by the mandatory deposit guarantee scheme referred to in Article 2(34) of the Bank Guarantee Fund, Deposit Guarantee Scheme and Forced Restructuring Act of 10 June 2016 (the "BFG Act").

Based on the level of the Bank's guaranteed funds at the end of the first quarter of 2022, which amounted to PLN 47,004,279 thousand, the Bank has paid into the Assistance Fund the amount of PLN 188,017 thousand on 5 August 2022, which has been charged to the Bank's results (general administrative costs) in the second quarter of 2022.

On the basis of an unanimously adopted resolution of the General Meeting of the Management Unit, the Bank paid the amount of PLN 18,513 thousand into the Assistance Fund on 15 September 2022, which was charged to the Bank's results (general administrative expenses) in the third quarter of 2022.

Pursuant to the provision of Article 287(2) et seq. of the BFG Act, the BFG Council may decide to reduce the level of funds of the deposit guarantee scheme in banks, taking into account, inter alia, the amount of funds collected by the protection scheme. In addition, in accordance with the provision of Article 15(1h)(5) of the Corporate Income Tax Act of 15 February 1992, the contributions of the participants of the protection system to the Assistance Fund are tax deductible.

The liability of each Participating Bank, including BNP Paribas Bank Polska S.A., for obligations related to its participation in the protection scheme is limited to the amount of contributions that the respective Participating Bank is obliged to make in order to acquire shares in the Management Unit and contributions that the respective Participating Bank is obliged to make to the Assistance Fund.

Each Participant Bank will be able to terminate the protection scheme agreement by giving 24 months' notice. Upon termination, the agreement will continue to apply to the remaining Participating Banks.

53. MANAGEMENT OF BNP PARIBAS BANK POLSKA S.A.

Composition of the Bank's Supervisory Board as of 30 June 2023:

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

** Jean-Paul Sabet was a member of the Supervisory Board until 30 June 2023, i.e. until the date of the Annual General Meeting approving the financial statements for 2022.*

*** Sophie Heller assumed the position of Supervisory Board member as of 30 June 2023.*

Changes in the composition of the Bank's Supervisory Board in the period 1 January - 30 June 2023:

- 17 January 2023. The Extraordinary General Meeting of the Bank appointed Mr. **Grégory Raison** as a member of the Supervisory Board with effect from 17 January 2023 until the end of the current five-year joint term of office of the members of the Supervisory Board,
- 24 March 2023. Mr. **Grégory Raison** resigned as a member of the Bank's Supervisory Board. The reason for Mr Grégory Raison's resignation is his candidacy for the position of Vice-President of the Bank's Management Board,
- 28 February 2023. Mr. **Jean-Paul Sabet** resigned as a member of the Bank's Supervisory Board as from the date of the Annual General Meeting approving the financial statements for 2022 (30.06.2023),
- 30 June 2023. The Annual General Meeting of the Bank appointed Ms. **Sophie Heller** as a member of the Supervisory Board until the end of the current five-year joint term of office of the members of the Supervisory Board,
- 30 June 2023. The Bank's Annual General Meeting appointed Mr. **Jean - Charles Aranda** as a member of the Supervisory Board with effect from 1 August 2023 until the end of the current five-year joint term of office of the members of the Supervisory Board.

Composition of the Bank’s Management Board as of 30 June 2023:

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

Changes in the composition of the Bank's Management Board between 1 January and 30 June 2023:

- 24 March 2023. Mr. **Jean-Charles Aranda** resigned as Vice-President of the Management Board, effective 31 July 2023,
- May 2023. The Supervisory Board appointed Mr. **Gregory Raison** as Vice-President of the Management Board in charge of the Finance Area, with effect from 1 August 2023,
- 23 June 2023. Mr. **Grégory Raison** resigned as a member of the Bank's Executive Board. The reason for Mr. Grégory Raison's resignation is the end of his collaboration with the BNP Paribas Group and the assumption of new professional responsibilities.

Changes to the composition of the Bank's Management Board in the period after 30 June 2023

- 24 July 2023. The Bank's Supervisory Board appointed Mr. Piotr Konieczny as Vice-President of the Management Board responsible for the Finance Area, with effect from 1 September 2023.

54. MAJOR EVENTS IN THE BNP PARIBAS BANK POLSKA S.A. CAPITAL GROUP IN THE FIRST HALF OF 2023

11.01.2023	**Extraordinary General Meeting of Shareholders -** adoption of resolutions on, inter alia: • Assessment of the collective adequacy of the Bank's Supervisory Board following the change in the composition of the Supervisory Board • approval of the Policy for the Assessment of the Suitability of the Members of the Bank's Supervisory Board • amendments to the Bank's Statutes
1.03.2023	**Proposal of the Bank's Management Board regarding the distribution of net profit for 2022** The Bank's Supervisory Board gave a positive opinion on the Management Board's proposal, which was submitted to the Bank's Annual General Meeting on 30 June 2023. The General Meeting passed a resolution to allocate the Bank's entire profit for 2022, amounting to PLN 370,892 thousand, to reserve capital. On 31 March 2023, the Bank received the decisions of the Financial Supervision Authority to approve the inclusion of the verified net profit for 2022, at stand-alone (PLN 370,892 thousand) and consolidated (PLN 436,254 thousand) levels, in Tier 1 capital.
31.03.2023	**Entry into the National Court Register of the amendments to the Articles of Association of BNP Paribas Bank Polska S.A.** adopted by the Extraordinary General Meeting of the Bank on 17 January 2023 (Resolutions Nos. 6 and 7).
5.04.2023	**Issue of series M shares under the conditional share capital increase and change in the value of the share capital of BNP Paribas Bank Polska S.A.**

	In accordance with the statement of National Securities Depository S.A. ("NDS") No. 513/2021 of 31 March 2021 (Bank current report No. 15/2021) as amended by NDS statement No. 311/2022 of 31 March 2022 on amendment of the agreement between the NDS and the Bank on registration of the Series M Shares in the securities depository maintained by the NDS (Bank current report No. 11/2022) and by resolution of the Management Board of Warsaw Stock Exchange S.A. ("WSE") No. 348/2021 dated 31 March 2021 (Bank's current report No. 16/2021), on 5 April 2023, on the basis of settlement orders referred to in § 6 of the Detailed Rules of Operation of the NDS, 83.796 Series M ordinary bearer shares of the Bank with a nominal value of PLN 1 each ("Series M Shares") were registered with the NDS and admitted to trading by the WSE and Series M Shares were recorded on the securities accounts of the eligible persons. Series M Shares were issued as part of the Bank's conditional share capital increase pursuant to Resolution No. 5 of the Bank's Extraordinary General Meeting of 31 January 2020, as amended by Resolution No. 37 of the Bank's Annual General Meeting of 29 June 2020. The Series M Shares were subscribed for in exercise of the rights under the Series A3 registered subscription warrants subscribed for earlier, each of which entitled to subscribe for one Series M Share. Pursuant to Article 451 § 2, second sentence, of the Code of Commercial Companies, the grant of Series M Shares became effective upon their recording in the securities accounts of the eligible persons. Therefore, pursuant to Article 451 § 2 in conjunction with Article 452 § 1 of the Code of Commercial Partnerships and Companies, rights from a total of 83,796 Series M Shares with a total nominal value of PLN 83,796 were acquired and the Bank's **share capital was increased** from PLN 147,593,150 **to PLN 147,676,946**, which is divided into 147,676,946 shares with a nominal value of PLN 1.
18.04.2023	**Mandatory deletions from the KRS register of the company Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. ending the liquidation process** On 11 April 2023, the company was deleted from the KRS register.
27.04.2023	**Information on the amount of PLN 123 909 thousand of annual contribution to the banks' forced restructuring fund for 2023 determined by the Bank Guarantee Fund for BNP Paribas Bank Polska S.A.**
17.05.2023	**Entry in the National Court Register of amendments to the Statute of BNP Paribas Bank Polska S.A.,** i.e. an increase in the Bank's share capital up to PLN 147,676,946 as a result of the acquisition of series M shares by the eligible persons under the conditions specified in § 29a, item 2, point a) of the Bank's Statute.
20.06.2023	**Determination of the minimum level of own funds and eligible liabilities (MREL) by the BGF for BNP Paribas Bank Polska S.A.** The MREL requirement for the Bank has been set at an individual level at 16.11% of the total risk exposure (TREA) and 5.91% of the total exposure measure (TEM). This requirement should be achieved by 31 December 2023. In addition, the BGF has set a mid-term MREL target which: − in relation to TREA is: 12.05% as of the receipt of the BFG's letter, - in relation to TEM is: 4.46% as of the receipt of the BFG letter.
30.06.2023	**Annual General Meeting of Shareholders** - adoption of a resolution, i.a. on amendments to the Bank's Articles of Association subsequently registered by the National Court Register on 14.07.2023.

All changes to the composition of the Bank's Management Board and Supervisory Board in H1 2023 are described in Note 53 Management of BNP Paribas Bank Polska S.A.

55. SUBSEQUENT EVENTS

All changes to the composition of the Bank's Management Board in the first half of 2023 are described in Note 53.

II INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

Interim condensed separate statement of profit or loss

	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Interest income	2,341,138	4,589,306	1,696,733	2,907,707
Interest income calculated with the use of effective interest rate method	2,206,875	4,351,470	1,609,886	2,748,288
interest income on financial instruments measured at amortised cost	2,057,748	4,047,277	1,528,821	2,609,437
interest income on financial instruments measured at fair value through other comprehensive income	149,127	304,193	81,065	138,851
Income of a similar nature to interest on instruments measured at fair value through profit or loss	134,263	237,836	86,847	159,419
Interest expense	(1,128,291)	(2,199,364)	(572,166)	(803,921)
Net interest income	**1,212,847**	**2,389,942**	**1,124,567**	**2,103,786**
Fee and commission income	361,504	738,561	350,107	692,295
Fee and commission expense	(66,520)	(131,429)	(68,063)	(131,853)
Net fee and commission income	**294,984**	**607,132**	**282,044**	**560,442**
Dividend income	3,871	4,198	7,161	8,142
Net trading income (including result on foreign exchange)	250,265	484,701	118,666	269,643
Result on investment activities	6,053	(6,363)	29,822	27,560
Result on fair value hedge accounting	1,343	(16,330)	(192)	19,524
Result from derecognition of financial assets measured at amortized cost due to material modification	7,474	11,612	(2,379)	(2,379)
Result of allowance for expected credit losses of financial assets and provisions for contingent liabilities	29,365	58,701	(86,069)	(158,428)
Result on provisions for legal risk related to foreign currency loans	(356,024)	(590,412)	(139,703)	(222,737)
General administrative expenses	(579,762)	(1,229,828)	(718,282)	(1,369,085)
Depreciation and amortization	(116,340)	(223,525)	(107,289)	(206,553)
Other operating income	46,029	82,509	28,026	91,011
Other operating expenses	(42,441)	(87,008)	(64,028)	(132,765)
Operating result	**757,664**	**1,485,329**	**472,344**	**988,161**
Tax on financial institutions	(99,703)	(202,535)	(106,915)	(202,768)
Profit before tax	**657,961**	**1,282,794**	**365,429**	**785,393**
Income tax expenses	(207,926)	(350,711)	(122,766)	(276,771)
Net profit	**450,035**	**932,083**	**242,663**	**508,622**
attributable to equity holders of the Group	450,035	932,083	242,663	508,622
Earnings (loss) per share (in PLN per one share)				
Basic	3.05	6.31	1.64	3.45
Diluted	3.05	6.31	1.64	3.44

Interim condensed separate statement on comprehensive income

	2Q 2023 from 01.04.2023 to 30.06.2023	HY 2023 from 01.01.2023 to 30.06.2023	2Q 2022 from 01.04.2022 to 30.06.2022	HY 2022 from 01.01.2022 to 30.06.2022
Net profit for the period	**450,035**	**932,083**	**242,663**	**508,622**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss upon fulfilment of certain conditions	**165,824**	**404,169**	**(316,663)**	**(711,255)**
Measurement of gross financial assets measured at fair value through other comprehensive income	184,997	456,295	(328,747)	(766,046)
Deferred income tax on the valuation of gross financial assets measured through other comprehensive income	(35,149)	(86,696)	62,462	145,549
Measurement of cash flow hedge accounting derivatives	19,723	42,679	(62,195)	(112,047)
Deferred income tax on valuation of gross derivatives hedging cash flows	(3,747)	(8,109)	11,817	21,289
Items that will not be reclassified to profit or loss	**855**	**(296)**	**662**	**511**
Actuary valuation of employee benefits	1,055	(365)	817	631
Deferred income tax on actuarial valuation of gross personnel expenses	(200)	69	(155)	(120)
Other comprehensive income (net)	**166,679**	**403,873**	**(316,001)**	**(710,744)**
Total comprehensive income	**616,714**	**1,335,956**	**(73,338)**	**(202,122)**
attributable to equity holders of the Group	616,714	1,335,956	(73,338)	(202,122)

Interim condensed separate statement on financial position

ASSETS	30 June 2023	31 December 2022
Cash and balances at Central Bank	6,971,552	2,718,242
Amounts due from banks	11,773,328	11,709,582
Derivative financial instruments	3,257,019	3,224,272
Adjustment of hedged and hedging item fair value	32,618	33,025
Loans and advances to customers measured at amortised cost	82,891,269	83,893,270
Loans and advances to customers measured at fair value through profit or loss	785,242	949,298
Securities measured at amortised cost	25,299,601	22,167,261
Securities at fair value through profit or loss	269,737	311,236
Securities measured at fair value through other comprehensive income	10,756,338	17,384,793
Investments in subsidiaries	85,535	93,119
Intangible assets	829,670	825,196
Property, plant and equipment	1,013,408	1,059,703
Deferred tax assets	700,583	822,122
Other assets	775,068	917,379
Total assets	**145,440,968**	**146,108,498**
LIABILITIES	30 June 2023	31 December 2022
Amounts due to Central Bank	-	8,713
Amounts due to other banks	2,114,977	1,805,219
Derivative financial instruments	3,142,164	3,147,855
Adjustment of hedging and hedged item fair value	(275,213)	(451,646)
Amounts due to customers	117,862,504	120,429,051
Subordinated liabilities	4,337,381	4,416,887
Lease liabilities	674,169	718,724
Other liabilities	2,395,030	2,371,804
Current tax liabilities	202,561	223,326
Provisions	2,432,679	2,223,291
Total liabilities	**132,886,252**	**134,893,224**
EQUITY	30 June 2023	31 December 2022
Share capital	147,677	147,593
Supplementary capital	9,110,976	9,110,976
Other reserve capital	3,510,893	3,136,599
Revaluation reserve	(746,127)	(1,150,000)
Retained earnings	531,297	(29,894)
retained profit	(400,786)	(400,786)
net profit for the period	932,083	370,892
Total equity	**12,554,716**	**11,215,274**
Total liabilities and equity	**145,440,968**	**146,108,498**

Interim condensed separate statement of changes in equity

					Retained earnings		
	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained profit	Net profit for the period	Total
Balance as of 1 January 2023	**147,593**	**9,110,976**	**3,136,599**	**(1,150,000)**	**(400,786)**	**370,892**	**11,215,274**
Total comprehensive income for the period	**-**	**-**	**-**	**403,873**	**-**	**932,083**	**1,335,956**
Net profit for the period	-	-	-	-	-	932,083	932,083
Other comprehensive income for the period	-	-	-	403,873	-	-	403,873
Distribution of retained earnings	**-**	**-**	**370,892**	**-**	**-**	**(370,892)**	**-**
Distribution of retained earnings intended for capital	-	-	370,892	-	-	(370,892)	-
Share issue	**84**	**-**	**-**	**-**	**-**	**-**	**84**
Management stock options*	**-**	**-**	**3,402**	**-**	**-**	**-**	**3,402**
Balance as of 30 June 2023	**147,677**	**9,110,976**	**3,510,893**	**(746,127)**	**(400,786)**	**932,083**	**12,554,716**

* for details on the management stock options programme please refer to Note 40

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as of 1 January 2022	**147,519**	**9,110,976**	**2,946,115**	**(595,707)**	**(400,786)**	**184,526**	**11,392,643**
Total comprehensive income for the period	-	-	**-**	**(554,293)**	-	**370,892**	**(183,401)**
Net profit for the period	-	-	-	-	-	370,892	370,892
Other comprehensive income for the period	-	-	-	(554,293)	-	-	(554,293)
Distribution of retained earnings	**-**	**-**	**184,526**	**-**	**-**	**(184,526)**	**-**
Distribution of retained earnings intended for capital	-	-	184,526	-	-	(184,526)	-
Share issue	**74**	**-**	**-**	**-**	**-**	**-**	**74**
Management stock options*	**-**	**-**	**5,958**	**-**	**-**	**-**	**5,958**
Balance as of 31 December 2022	**147,593**	**9,110,976**	**3,136,599**	**(1,150,000)**	**(400,786)**	**370,892**	**11,215,274**

* for details on the management stock options programme please refer to Note 40

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as of 1 January 2022	**147,519**	**9,110,976**	**2,946,115**	**(595,707)**	**(400,786)**	**184,526**	**11,392,643**
Total comprehensive income for the period	**-**	**-**	**-**	**(710,744)**	**-**	**508,622**	**(202,122)**
Net profit for the period	-	-	-	-	-	508,622	508,622
Other comprehensive income for the period	-	-	-	(710,744)	-	-	(710,744)
Distribution of retained earnings	**-**	**-**	**184,526**	**-**	**-**	**(184,526)**	**-**
Distribution of retained earnings intended for capital	-	-	184,526	-	-	(184,526)	-
Share issue	**74**	**-**	**-**	**-**	**-**	**-**	**74**
Management stock options*	**-**	**-**	**3,125**	**-**	**-**	**-**	**3,125**
Balance as of 30 June 2022	**147,593**	**9,110,976**	**3,133,766**	**(1,306,451)**	**(400,786)**	**508,622**	**11,193,720**

* for details on the management stock options programme please refer to Note 40

Interim condensed separate statement on cash flows

CASH FLOWS FROM OPERATING ACTIVITIES:	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Net profit (loss)	**932,083**	**508,622**
Adjustments for:	**121,304**	**2,956,768**
Income tax expenses	350,711	276,771
Depreciation and amortization	223,525	206,553
Dividend income	(4,198)	(8,142)
Interest income	(4,589,306)	(2,907,707)
Interest expense	2,199,364	803,921
Change in provisions	209,023	128,274
Change in amounts due from banks	394,351	(849,785)
Change in assets due to derivative financial instruments	(32,340)	(1,604,882)
Change in loans and advances to customers measured at amortised cost	963,068	(4,956,662)
Change in loans and advances to customers measured at fair value through profit or loss	164,056	129,141
Change in amounts due to banks	301,078	(910,306)
Change in liabilities related to derivative financial instruments	213,421	1,640,349
Change in amounts due to customers	(2,669,160)	8,249,059
Change in other assets and receivables due to current income tax	186,687	(176,400)
Change in other liabilities and provisions due to deferred tax	26,734	1 077,392
Other adjustments	(127,293)	55,162
Interest received	4,752,864	2,599,856
Interest paid	(2,096,422)	(704,921)
Tax paid	(344,320)	(90 251)
Lease payments with reference to short-term leases not included in the lease liability measurement	(539)	(654)
Net cash flows from operating activities	**1,053,387**	**3,465,390**

CASH FLOWS FROM INVESTING ACTIVITIES:	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Investing activities inflows	**71,252,663**	**47,816,345**
Sale and repurchase of securities	71,245,772	47,804,100
Sale of intangible assets and property, plant and equipment	2,693	4,103
Dividends received and other inflows from investing activities	4,198	8,142
Investing activities outflows	**(67,519,980)**	**(47,482,798)**
Purchase of shares in subsidiaries	-	(6,000)
Purchase of securities	(67,323,384)	(47,336,221)
Purchase of intangible assets and property, plant and equipment	(196,596)	(140,577)
Net cash flows from investing activities	**3,732,683**	**333,547**

CASH FLOWS FROM FINANCING ACTIVITIES:	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Investing activities inflows	**84**	**74**
Net inflows from share issues and return of capital contributions	84	74
Investing activities outflows	**(72,034)**	**(59,205)**
Repayment of long-term loans	(193)	-
Repayment of the leasing liability	(71,841)	(59,205)
Net cash flows from financing activities	**(71,950)**	**(59,131)**
TOTAL NET CASH AND CASH EQUIVALENTS	**4,714,120**	**3,739,806**
Cash and cash equivalents at the beginning of the period	**13,126,607**	**5,152,220**
Cash and cash equivalents at the end of the period	**17,840,727**	**8,892,026**
Effect of exchange rate fluctuations on cash and cash equivalents	63,583	89,490

EXPLANATORY NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES APPLIED FOR THE PURPOSE OF PREPARATION OF THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

The interim condensed separate financial statements for the first half of 2023 ended 30 June 2023 were prepared in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), as adopted by the European Union as well as in accordance with other applicable regulations.

The interim condensed separate financial statements do not include all information and disclosures required for the annual financial statements, and therefore should be read in conjunction with the Interim condensed consolidated financial statements for the first half of 2023 and with the Separate financial statements of the BNP Paribas Bank Polska S.A. for the year ended 31 December 2022, which was approved by the Management Board of the Bank on 28 February 2023.

The accounting principles and methods of performing accounting estimates adopted in the preparation of the interim condensed separate financial statements of the Bank are consistent with the accounting principles adopted for the Group's interim condensed consolidated financial statements, which are described in Notes 3 and 7.

The following significant events regarding the interim condensed separate financial statements for the first half of 2023 were described in the Interim condensed consolidated financial statements for the first half of 2023:

- The most important events in BNP Paribas Bank Polska S.A. Capital Group in the first half of 2023 in Note 54,
- Subsequent events in Note 55.

2. RELATED PARTY TRANSACTIONS

BNP Paribas Bank Polska S.A. is a member of the 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

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

As of 30 June 2023 the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A. as the parent company and its subsidiaries:

1. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI”).
2. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING”).
3. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC”).
4. CAMPUS LESZNO SP. Z O.O.

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

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

30.06.2023	BNP Paribas Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
Assets	**13,683,082**	**1,202**	**118,331**	**408**	**1,109,513**	**14,912,722**
Receivables on current accounts, loans and deposits	11,233,313	377	99,438	408	1,108,328	**12,441,864**
Derivative financial instruments	2,425,794	825	186	-	-	**2,426,805**
Hedging derivative instruments	23,969	-	-	-	-	**23,969**
Other assets	6	-	18,893	-	1,185	**20,084**
Liabilities	**7,080,309**	**536,479**	**648,210**	**1,180**	**42,524**	**8,308,703**
Current accounts and deposits	1,015,822	536,415	376,871	1,180	41,988	**1,972,276**
Subordinated liabilities	4,071,059	-	266,322	-	-	**4,337,381**
Derivative financial instruments	876,420	64	3 641	-	-	**880,125**
Hedging derivative instruments	1,117,007	-	-	-	-	**1,117,007**
Lease liabilities	-	-	1,376	-	175	**1,551**
Other liabilities	2	-	-	-	361	**363**
Contingent liabilities						
Financial commitments granted	-	-	57,446	681	645,543	**703,670**
Guarantees granted	201,185	130,153	1,563,596	-	935,249	**2,830,183**
Commitments received	795,526	185,598	1,906,768	-	-	**2,887,892**
Derivative financial instruments (nominal value)	64,897,394	610,002	91,736	-	-	**65,599,132**
Derivative hedging financial instruments (nominal value)	18,556,660	-	-	-	-	**18,556,660**
Statement of profit or loss	**463,863**	**(1,005)**	**8,507**	**(72)**	**48,517**	**519,810**
HY 2023 from 01.01.2023 to 30.06.2023						
Interest income	140,703	533	20,159	13	30,111	**191,519**
Interest expense	(164,650)	(1,538)	(19,050)	(85)	-	**(185,323)**
Fee and commission income	-	-	-	-	261	**261**
Fee and commission expense	-	-	-	-	(4,418)	**(4,418)**
Net trading income	533,329	-	-	-	-	**533,329**
Other operating income	-	-	20,528	-	22,721	**43,249**
Other operating expenses	-	-	(5,032)	-	-	**(5,032)**
General administrative expenses	(45,519)	-	(8,098)	-	(158)	**(53,775)**

31.12.2022	BNP Paribas Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
Assets	**13,360,399**	**4,733**	**251,774**	**770**	**538,411**	**14,156,087**
Receivables on current accounts, loans and deposits	10,973,541	291	231,077	770	537,638	**11,743,317**
Derivative financial instruments	2,357,757	4,442	-	-	-	**2,362,199**
Hedging derivative instruments	29,101	-	-	-	-	**29,101**
Other assets	-	-	20,697	-	773	**21,470**
Liabilities	**7,517,793**	**48,670**	**1,349,432**	**2,478**	**147,968**	**9,066,341**
Current accounts and deposits	765,040	48,670	1,068,439	2,478	147,051	**2,031,678**
Subordinated liabilities	4,136,961	-	279,926	-	-	**4,416,887**
Derivative financial instruments	1,141,266	-	-	-	-	**1,141,266**
Hedging derivative instruments	1,474,526	-	-	-	-	**1,474,526**
Lease liabilities	-	-	1,067	-	231	**1,298**
Other liabilities	-	-	-	-	686	**686**
Contingent liabilities						
Financial commitments granted	-	-	325,018	651	-	**325,669**
Guarantees granted	118,801	127,380	1,580,487	-	985,565	**2,812,233**
Commitments received	300,334	184,046	1,943,450	-	514,662	**2,942,492**
Derivative financial instruments (nominal value)	58,170,836	2,195,441	-	-	-	**60,366,277**
Derivative hedging financial instruments (nominal value)	15,708,485	-	-	-	-	**15,708,485**
Statement of profit or loss	**(902,563)**	**(261)**	**(14,635)**	**8**	**9,765**	**(907,686)**
HY 2022 from 01.01.2022 to 30.06.2022						
Interest income	27,936	74	1,581	16	35	**29,642**
Interest expense	(83,449)	(335)	(4,332)	(8)	-	**(88,124)**
Fee and commission income	-	-	-	-	(3,916)	**(3,916)**
Fee and commission expense	-	-	-	-	(3,893)	**(3,893)**
Net trading income	(791,772)	-	-	-	-	**(791,772)**
Other operating income	-	-	-	-	17,546	**17,546**
Other operating expenses	-	-	-	-	(120)	**(120)**
General administrative expenses	(55,278)	-	(11,884)	-	113	**(67,049)**

Remuneration of the Management Board and Supervisory Board

Management Board	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Short-term employee benefits	10,889	10,211
Long-term benefits	2,601	2,757
Share-based payments*	3,492	3,314
Issued shares**	2,279	1,405
Total	**19,261**	**17,687**

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

Supervisory Board	HY 2023 from 01.01.2023 to 30.06.2023	HY 2022 from 01.01.2022 to 30.06.2022
Short-term employee benefits	846	792
Total	**846**	**792**

3. SEASONAL OR CYCLICAL NATURE OF BUSINESS

There are no significant seasonal or cyclical phenomena in the Bank's operations.

4. DIVIDEND PAID

In 2022, no dividend was paid out in the Bank.

5. DISTRIBUTION OF RETAINED EARNINGS

In accordance with the Resolution No. 2 of the Bank's General Meeting of 30 June 2023, the profit of the Bank after tax (net profit) for 2021 in the amount of PLN 370,892 thousand, was fully allocated to the reserve capital.

6. CONTINGENT LIABILITIES

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

Contingent liabilities	30.06.2023	31.12.2022
Contingent commitments granted	**44,010,216**	**40,980,850**
financial commitments	29,226,991	29,475,246
Guarantees	14,783,225	11,505,604
Contingent commitments received	**59,111,055**	**55,068,490**
financial commitments	12,860,957	13,482,568
Guarantees	46,250,098	41,585,922

7. SUBSEQUENT EVENTS

Subsequent events are described in Note 55 of the Interim consolidated report for the first half of 2023.

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

09.08.2023	**Przemysław Gdański** *President of the Management Board*	*qualified electronic signature*
09.08.2023	**André Boulanger** *Vice-President of the Management Board*	*qualified electronic signature*
09.08.2023	**Przemysław Furlepa** *Vice-President of the Management Board*	*qualified electronic signature*
09.08.2023	**Wojciech Kembłowski** *Vice-President of the Management Board*	*qualified electronic signature*
09.08.2023	**Kazimierz Łabno** *Vice-President of the Management Board*	*qualified electronic signature*
09.08.2023	**Magdalena Nowicka** *Vice-President of the Management Board*	*qualified electronic signature*
09.08.2023	**Volodymyr Radin** *Vice-President of the Management Board*	*qualified electronic signature*
09.08.2023	**Agnieszka Wolska** *Vice-President of the Management Board*	*qualified electronic signature*

Warsaw, 9 August 2023