INTERIM CONSOLIDATED REPORT

FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2023

Consolidated Group BNP Paribas Bank Polska S.A.

BNP PARIBAS

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SELECTED FINANCIAL DATA

Selected consolidated financial data		in PLN ‘000		in EUR ‘000	
Statement of profit or loss	**Note**	**for the period from 1.01.2023 to 31.03.2023**	for the period from 1.01.2022 to 31.03.2022	**for the period from 1.01.2023 to 31.03.2023**	for the period from 1.01.2022 to 31.03.2022
Net interest income	8	**1,199,600**	1,002,944	**255,207**	215,817
Net fee and commission income	9	**325,080**	300,684	**69,159**	64,702
Profit before tax		**631,475**	434,942	**134,342**	93,592
Profit after tax		**487,985**	277,741	**103,816**	59,765
Total comprehensive income		**725,180**	(117,002)	**154,277**	(25,177)
Statement of cash flows		**for the period from 1.01.2023 to 31.03.2023**	for the period from 1.01.2022 to 31.03.2022	**for the period from 1.01.2023 to 31.03.2023**	for the period from 1.01.2022 to 31.03.2022
Total net cash flows		**3,035,632**	2,133,788	**645,810**	459,156
Ratios		**31.03.2023**	31.03.2022	**31.03.2023**	31.03.2022
Number of shares (items)	48	**147,593,150**	147,518,782	**147,593,150**	147,518,782
Earnings per share	18	**3.31**	1.88	**0.70**	0.41
Statement of financial position		**31.03.2023**	31.12.2022	**31.03.2023**	31.12.2022
Total assets		**148,179,538**	151,517,069	**31,692,768**	32,307,100
Loans and advances to customers measured at amortised cost	23	**88,392,107**	89,090,317	**18,905,381**	18,996,208
Loans and advances to customers measured at fair value through profit or loss	24	**860,314**	949,298	**184,005**	202,413
Total liabilities		**136,193,303**	140,254,848	**29,129,142**	29,905,723
Amounts due to customers	34	**116,912,395**	120,021,043	**25,005,325**	25,591,386
Share capital	48	**147,593**	147,593	**31,567**	31,470
Total equity		**11,986,235**	11,262,221	**2,563,626**	2,401,378
Capital adequacy		**31.03.2023**	31.12.2022	**31.03.2023**	31.12.2022
Total own funds		**15,000,399**	14,842,133	**3,208,298**	3,164,701
Total risk exposure		**94,496,307**	95,456,297	**20,210,952**	20,353,589
Total capital ratio		**15.87%**	15.55%	**15.87%**	15.55%
Tier 1 capital ratio		**11.65%**	11.28%	**11.65%**	11.28%

Selected separate financial data	in PLN '000		in EUR '000	
Statement of profit or loss	**for the period from 1.01.2023 to 31.03.2023**	for the period from 1.01.2022 to 31.03.2022	**for the period from 1.01.2023 to 31.03.2023**	for the period from 1.01.2022 to 31.03.2022
Net interest income	**1,177,095**	979,219	**250,419**	210,712
Net fee and commission income	**312,148**	278,398	**66,407**	59,907
Profit before tax	**624,833**	419,964	**132,929**	90,369
Profit after tax	**482,048**	265,959	**102,552**	57,230
Total comprehensive income	**719,243**	(128,784)	**153,014**	(27,712)
Statement of financial position	**for the period from 1.01.2023 to 31.03.2023**	for the period from 1.01.2022 to 31.03.2022	**for the period from 1.01.2023 to 31.03.2023**	for the period from 1.01.2022 to 31.03.2022
Total net cash flows	**3,065,170**	2,414,010	**652,094**	519,455
Ratios	**31.03.2023**	31.03.2022	**31.03.2023**	31.03.2022
Number of shares (items)	**147,593,150**	147,518,782	**147,593,150**	147,518,782
Earnings per share	**3.27**	1.80	**0.69**	0.39
Statement of financial position	**31.03.2023**	31.12.2022	**31.03.2023**	31.12.2022
Total assets	**142,850,450**	146,108,498	**30,552,978**	31,153,862
Loans and advances to customers measured at amortised cost	**83,280,294**	83,893,270	**17,812,062**	17,888,072
Loans and advances to customers measured at fair value through profit or loss	**860,314**	949,298	**184,005**	202,413
Total liabilities	**130,914,005**	134,893,224	**28,000,001**	28,762,495
Amounts due to customers	**116,845,915**	120,429,051	**24,991,106**	25,678,384
Share capital	**147,593**	147,593	**31,567**	31,470
Total equity	**11,936,445**	11,215,274	**2,552,977**	2,391,367
Capital adequacy	**31.03.2023**	31.12.2022	**31.03.2023**	31.12.2022
Total own funds	**14,934,656**	14,874,946	**3,194,237**	3,171,698
Total risk exposure	**90,431,079**	91,512,357	**19,341,478**	19,512,646
Total capital ratio	**16.51%**	16.25%	**16.51%**	16.25%
Tier 1 capital ratio	**12.10%**	11.80%	**12.10%**	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 31.03.2023 - EUR 1 = PLN 4.6755
- 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 31.03.2023 - EUR 1 = PLN 4.7005
- for the period from 1.01.2022 to 31.03.2022 - EUR 1 = PLN 4.6472

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Interest income	8	2,346,543	1,266,075
Interest income calculated with the use of effective interest rate method		2,242,970	1,193,416
interest income on financial instruments measured at amortised cost		2,087,904	1,135,630
interest income on financial instruments measured at fair value through other comprehensive income		155,066	57,786
Income of a similar nature to interest on instruments measured at fair value through profit or loss		103,573	72,659
Interest expense	8	(1,146,943)	(263,131)
Net interest income		**1,199,600**	**1,002,944**
Fee and commission income	9	388,609	362,306
Fee and commission expenses	9	(63,529)	(61,622)
Net fee and commission income		**325,080**	**300,684**
Dividend income		327	981
Net trading income	10	234,588	150,834
Result on investment activities	11	(12,416)	(2,262)
Result on hedge accounting	22	(17,673)	19,716
Result on derecognition of financial assets measured at amortized cost due to significant modification		4,138	-
Net allowances on expected credit losses of financial assets and provisions for contingent liabilities	12	24,950	(79,128)
Result on provisions for legal risk related to foreign currency loans	51	(234,388)	(83,034)
General administrative expenses	13	(677,955)	(675,606)
Amortization	14	(107,169)	(99,236)
Other operating income	15	55,867	73,667
Other operating expenses	16	(60,642)	(78,765)
Operating result		**734,307**	**530,795**
Tax on financial institutions		(102,832)	(95,853)
Profit before tax		**631,475**	**434,942**
Income tax expenses	17	(143,490)	(157,201)
Net profit		**487,985**	**277,741**
attributable to equity holders of the Group		487,985	277,741
Earnings (loss) per share (in PLN per one share)			
Basic	18	3.31	1.88
Diluted	18	3.30	1.88

In the first quarter of 2023, the BNP Paribas Bank Polska Group generated a net profit of PLN 487,985 thousand, by PLN 210,244 thousand (i.e. by 75.7%) lower than that generated in the first quarter of 2022. The Group's result on banking activities in the analysed period amounted to PLN 1,728,869 thousand and was higher by PLN 261,070 thousand (i.e. by 17.8% YoY).

The most important events affecting the level of the result on banking activities in the first quarter of 2023 and its comparability with the previous year were implications of the changes in the macroeconomic situation, including, above all, the largest increase in inflation in several decades, which became apparent in the fourth quarter of 2021 and accelerated markedly with the outbreak of the war in Ukraine at the end of the first quarter of 2022. These were accompanied by changes in economic and monetary policy, which had a very significant impact on the determinants of banking activities. The most significant impacts on the Group's financial performance were:

- the high level of interest rates as a consequence of the Monetary Policy Council's (hereinafter: MPC) tightening of monetary policy. From 6 October 2021 to the end of September 2022, the MPC made eleven interest rate increases totalling 665 bps to 6.75% for the reference rate (higher by 325 bps compared to the end of the first quarter of 2022). From October 2022, MPC kept the NBP’s rates unchanged. Statements by the President of the NBP suggest that the MPC has not completed the monetary tightening cycle yet, however no more interest rate increases are expected, and decrease is probable, but only if there is a certainty of decreasing inflation rate. Net interest income in the first quarter of 2023 amounted to PLN 1,199,600 thousand, higher by 196,656 thousand (i.e. by 19.6% YoY),
- negative and lower compared to the first quarter of 2022, the result on hedge accounting related to the pace and direction of changes in interest rates. The change in the fair value measurement of hedging transactions is recognised in the result on hedge accounting, which was lower by PLN 37,389 thousand in the first quarter of 2023 YoY, the interest result from IRS transactions (including also cash flow value hedge derivatives) is recognised in the interest result and was lower by PLN 195,700 thousand in the first quarter of 2023 YoY,
- decreasing demand from individual customers for credit products in 2022 (along with the deterioration of the macroeconomic situation) remaining at a relatively low level in the first quarter of 2023 (compared to the previous year). The decrease in demand is related to a significant decrease in consumption dynamics, reflecting the negative impact of high inflation rate and interest rates on the level and structure of expenditures and the deterioration of the economic situation of households. This trend was mostly observed in the case of the PLN housing loan market where the decrease in customer’s demand and creditworthiness resulted in a significant reduction of sales and, as a result, to a nominal decrease in the value of the portfolio of these loans on a sector-wide scale. The aforementioned factors also affected the decrease in sales of consumer loans compared to 2022, slowing down the rate of growth of fee and commission income.

Elements of the regulatory environment that positively affected the results of the first quarter of 2023 compared to the same period last year included a reduction in the total value of BGF contributions (lower annual contribution to the forced restructuring fund and lack of quarterly contribution to the bank guarantee fund). BGF costs incurred in the first quarter of 2023 were by PLN 1,713 thousand lower compared to the first quarter of 2022.

As a result, despite inflationary pressures translating into an increase in staff costs and other categories of operating expenses, the total administrative expenses and depreciation and amortization costs incurred in the first quarter of 2023 were higher by only PLN 10,282 thousand (i.e.1.3%) compared to the first quarter of 2022.

A factor significantly affecting the Group's net result in the first quarter of 2023 and its comparability to the first quarter of 2022 remains the cost of legal risk provisions related to foreign currency loans. In the first quarter of 2023 these costs burdened the Group's results with PLN 234,388 thousand (PLN 151,354 thousand higher (i.e. by 182.3% YoY)).

Ongoing good quality of the loan portfolio had a positive impact on the results in the first quarter of 2023. The result of impairment allowances on financial assets and provisions for contingent liabilities in the first quarter of 2023 was positive and amounted to PLN 24,950 thousand (compared to a negative result of PLN 79,128 thousand recorded in the first quarter of 2022).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Net profit for the period		**487,985**	**277,741**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions		**238,345**	**(394,592)**
Measurement of financial assets measured through other comprehensive income	27	271,298	(437,299)
Deferred income tax		(51,547)	83,087
Measurement of derivatives hedging gross cash flows	22	22,956	(49,852)
Deferred income tax		(4,362)	9,472
Items that will not be reclassified to profit or loss		**(1,150)**	**(151)**
Actuary valuation of employee benefits	7e	(1,420)	(186)
Deferred income tax		270	35
Other comprehensive income (net)		**237,195**	**(394,743)**
Total comprehensive income for the period		**725,180**	**(117,002)**
attributable to equity holders of the Group		725,180	(117,002)

The Group's comprehensive income in the first quarter of 2023 was positive at PLN 725,180 thousand compared to a negative of PLN -117,002 thousand in the first quarter of 2022 (an improvement of PLN 842,182 thousand).

The above was the result of an improvement of PLN 708,597 thousand in the valuation of financial assets measured by other comprehensive income (positive impact of PLN +271,298 thousand in the first quarter of 2023 vs a negative impact of PLN - 437,299 thousand in the first quarter of 2022. This improvement is related to the suspension of the monetary tightening cycle by the Monetary Policy Council.

The second element that improved the Group's total income was the net financial result, which at the end of the first quarter of 2023 was higher by PLN 210,244 thousand (i.e. 75.7%) compared with the end of the first quarter of 2022.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31 March 2023	31 December 2022
Cash and balances at Central Bank	19	4,360,017	2,718,307
Amounts due from banks	20	12,977,201	11,800,189
Derivative financial instruments	21	2,988,424	3,224,272
Adjustment of fair value of hedging item	22	18,789	33,025
Loans and advances to customers measured at amortised cost	23	88,392,107	89,090,317
Loans and advances to customers measured at fair value through profit or loss	24	860,314	949,298
Securities measured at amortised cost	25	24,311,008	22,167,261
Securities measured at fair value through profit or loss	26	301,637	316,593
Securities measured at fair value through other comprehensive income	27	10,350,737	17,384,793
Intangible assets	28	803,323	821,106
Property, plant and equipment	29	1,063,160	1,069,429
Deferred tax assets		898,540	966,436
Current tax assets		18,202	14,107
Other assets	31	836,079	961,936
Total assets		**148,179,538**	**151,517,069**

LIABILITIES	Note	31 March 2023	31 December 2022
Amounts due to the Central Bank	32	-	8,713
Amounts due to other banks	33	6,666,424	7,158,024
Derivative financial instruments	21	2,931,864	3,147,855
Adjustment of fair value of hedging and hedged item	22	(365,682)	(451,646)
Amounts due to customers	34	116,912,395	120,021,043
Debt securities issued	35	-	364,633
Subordinated liabilities	36	4,404,398	4,416,887
Lease liabilities	30	719,532	718,892
Other liabilities	37	2,320,595	2,423,182
Current tax liabilities		280,936	223,527
Provisions	38	2,322,841	2,223,738
Total liabilities		**136,193,303**	**140,254,848**

EQUITY	Note	31 March 2023	31 December 2022
Share capital	48	147,593	147,593
Supplementary capital		9,110,976	9,110,976
Other reserve capital		3,144,026	3,142,098
Revaluation reserve		(912,591)	(1,149,786)
Retained earnings		496,231	11,340
retained profit		8,246	(430,157)
net profit for the period		487,985	441,497
Total equity		**11,986,235**	**11,262,221**
Total liabilities and equity		**148,179,538**	**151,517,069**

The Group's total assets as at 31 March 2023 amounted to PLN 148,179,538 thousand, down by PLN 3,337,531 thousand, or 2.2%, compared to year-end 2022 as a result of a reduction in the size of the securities portfolio measured at fair value through other comprehensive income.

The most important change in the Group's asset structure compared to year-end 2022 was an increase in the share of cash and balances with the Central Bank and receivables from banks (by a total of 2.1 p.p.) and in the share of the loan portfolio (the sum of portfolios measured at amortised cost and at fair value), which increased by 0.8 p.p. while the share of the securities portfolio decreased (by 2.7 p.p.).

The Group's asset structure was dominated by loans and advances to customers (sum of portfolios measured at amortised cost and at fair value), which accounted for 60.2% of total assets at the end of March 2023, compared to 59.4% at the end of 2022. The volume of net loans and advances decreased by PLN 787,194 thousand (i.e. 0.9%). The decrease concerned the portfolio of Private Customers (-2.3%), with a simultaneous stabilisation of the value of the portfolio of Institutional Customers (+0.1%). The decisive factor in the size of the Individual clients' loans portfolio is the decrease in the value of the real estate loans portfolio (by 2.7%) as a result of limited demand and sales of PLN loans and the appreciation of the PLN against the CHF, which (together with the natural process of repayment) reduced the value of housing currency loans.

The second largest asset item was securities, which accounted for 23.6% of total assets at the end of March 2023 (at the end of 2022: 26.3%). Compared to the end of 2022, the size of the securities portfolio decreased by PLN 4,905,265 thousand (i.e. by 12.3%). The decrease mainly concerned securities measured at fair value through other comprehensive income (NBP money bills - which are an instrument for investing short-term liquidity surpluses).

The third largest asset item was receivables from banks, whose share in assets increased from 7.8% to 8.8% (an increase of PLN 1,177,012 thousand, or 10.0%). Compared to the end of 2022, the share of the item cash and balances with the Central Bank also increased from 1.8% to 2.9% (an increase of PLN 1,641,710 thousand, or 60.4%).

As at 31 March 2023, the Group's total liabilities amounted to PLN 136,193,303 thousand, an increase of PLN 4,061,545 thousand or 2.9% compared to the end of 2022. There were no significant changes in the structure of liabilities. The share of liabilities in the Group's total liabilities and equity amounted to 91.9% in the analysed period and decreased by 0.7 p.p compared to the end of 2022.

The structure of liabilities is dominated by liabilities to customers. Their share as at 31 March 2023 increased to 85.8% (+0.3 p.p.). In value terms, the volume of these liabilities decreased by PLN 3,108,648 thousand, i.e. by 2.6% compared to December 2022, to PLN 116,912,395 thousand. Deposits from both Institutional Customers (-2.9%) and Individual Customers (-2.2%) were lower.

Amounts owed to banks recorded a decrease of PLN 491,600 thousand, or 6.9%, compared with the end of 2022. Their share in total liabilities amounted to 4.9% (compared with 5.1% at the end of last year).

The Group's equity as at 31 March 2023 amounted to PLN 11,986,235 thousand and increased by PLN 724,014 thousand, or 4.4%, compared with 31 December 2022. This increase was the result of higher retained earnings by PLN 484,891 thousand and an improvement of PLN 237,195 thousand in the revaluation reserve. The share of total equity in the Group's total liabilities and equity at the end of March 2023 amounted to 8.1% (compared with 7.4% at the end of last year).

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	**-**	**-**	**-**	**237,195**	**-**	**487,985**	**725,180**
Net profit for the period	-	-	-	-	-	487,985	487,985
Other comprehensive income for the period	-	-	-	237,195	-	-	237,195
Distribution of retained earnings	**-**	**-**	**-**	**-**	**441,497**	**(441,497)**	**-**
Distribution of retained earnings intended for capital	-	-	-	-	441,497	(441,497)	-
Management stock options*	**-**	**-**	**1,928**	**-**	**-**	**-**	**1,928**
Changes related to the liquidation of a subsidiary	**-**	**-**	**-**	**-**	**(1,372)**	**-**	**(1,372)**
Other adjustments	**-**	**-**	**-**	**-**	**(1,722)**	**-**	**(1,722)**
Balance as of 31 March 2023	**147,593**	**9,110,976**	**3,144,026**	**(912,591)**	**8,246**	**487,985**	**11,986,235**

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

					Retained earnings		
	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained profit	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)	-
Issuance of shares	**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

					Retained earnings		
	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained profit	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	**-**	**-**	**-**	**(394,743)**	**-**	**277,741**	**(117,002)**
Net profit for the period	-	-	-	-	-	277,741	277,741
Other comprehensive income for the period	-	-	-	(394,743)	-	-	(394,743)
Distribution of retained earnings	**-**	**-**	**-**	**-**	**176,298**	**(176,298)**	**-**
Distribution of retained earnings intended for capital	-	-	-	-	176,298	(176,298)	-
Management stock options*	**-**	**-**	**1,794**	**-**	**-**	**-**	**1,794**
Other adjustments	**-**	**-**	**-**	**-**	**(357)**	**-**	**(357)**
Balance as of 31 March 2022	**147,519**	**9,110,976**	**2,947,909**	**(990,365)**	**(247,714)**	**277,741**	**11,246,066**

* 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	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Net profit (loss)		**487,985**	**277,741**
Adjustments for:		**(2,129,491)**	**1,884,572**
Income tax expenses		143,490	157,201
Depreciation and amortization	14	107,169	99,236
Dividend income		(327)	(981)
Interest income	8	(2,346,543)	(1,266,075)
Interest expense	8	1,146,943	263,131
Change in provisions		97,683	20,465
Change in amounts due from banks		215,683	(492,318)
Change in assets due to derivative financial instruments		250,084	(957,984)
Change in loans and advances to customers measured at amortised cost		706,596	(3,001,051)
Change in loans and advances to customers measured at fair value through profit or loss		88,984	94,234
Change in amounts due to banks		(461,195)	(1,770,833)
Change in liabilities due to derivative financial instruments		(107,071)	938,380
Change in amounts due to customers		(3,172,404)	6,429,212
Change in other assets and current tax assets		163,216	(108,778)
Change in other liabilities and provisions due to deferred tax		(102,917)	738,673
Other adjustments	41	3,039	28,466
Interest received		2,294,907	1,009,357
Interest paid		(1,078,785)	(245,634)
Tax paid		(77,774)	(49 838)
Lease payments for short-term leases not included in the lease liability measurement		(269)	(291)
Net cash flows from operating activities		**(1,641,506)**	**2,162,313**

CASH FLOWS FROM INVESTMENT ACTIVITIES:		1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Investment activities inflows		**45,351,178**	**16,672,543**
Sale and maturity of financial assets		45,347,399	16,670,453
Sale of intangible assets and property, plant and equipment		3,078	1,109
Dividends received and other inflows from investing activities		701	981
Investment activities outflows		**(40,231,532)**	**(16,474,878)**
Purchase of debt securities		(40,135,998)	(16,436,337)
Purchase of intangible assets and property, plant and equipment		(95,534)	(38,541)
Net cash flows from investment activities		**5,119,646**	**197,665**

CASH FLOWS FROM FINANCING ACTIVITIES:		1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Financing activities inflows		**343,531**	**81,000**
Long-term loans received and subordinated liabilities		343,531	81,000
Financing activities outflows		**(786,039)**	**(307,190)**
Repayment of long-term loans received		(384,269)	(165,200)
Repayment of lease liability		(37,299)	(31,422)
Redemption of debt securities		(364,427)	(110,568)
Other financial expenses		(44)	-
Net cash flows from financing activities		**(442,508)**	**(226,190)**
TOTAL NET CASH AND CASH EQUIVALENTS		**3,035,632**	**2,133,788**
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	**16,252,903**	**7,646,604**
Effect of exchange rate fluctuations on cash and cash equivalents		36,111	15,164

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 31 March 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. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O. in liquidation („ACTUS" 100%).
2. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI" 100%).
3. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING" 100%).
4. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC" 100%).
5. 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.

In accordance with the principles of International Financial Reporting Standards, the interim condensed consolidated financial statements covered all Subsidiaries as of 31 March 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 quarter of 2023 ended 31 March 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 quarter 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 quarter of 2023 ended 31 March 2023 was approved for publication by the Management Board on 9 May 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 stage classification

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 Group, 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 provided under Article 31fa of the Act of 2 March 2020, on special arrangements for the prevention, prevention 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 925,029 thousand of exposure as of 31 March 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 23,868 thousand.

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 1,082,000 thousand and the recognition of PLN 26,351 thousand in allowances on this account (including the transfer to Stage 2 of exposures in the amount of PLN 422,000 thousand and as a result recognition of an additional allowance in the amount of PLN 5,651 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 31 March 2023, ranged from 13.02% to 15.25%.

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 quarter of 2023, the Group made the following changes to the allowance calculation process:

- With regard to the portfolio of loans granted to individuals secured by real estate, the Bank took into account all relevant macroeconomic variables affecting the level of LGD and adjusted the expected selling prices of NPL portfolios based on current forward-looking information. The change resulted in the creation of a provision amounting to PLN 11,745 thousand (additional PLN 50,245 thousand provisions with a simultaneous release of Post Model Adjustment provisions of PLN 38,500 thousand).

In the first quarter of 2023, as part of adjusting the level of allowances to expectations of the future macroeconomic situation, the level of provisions decreased by PLN 63,581 thousand, which was entirely due to the update of forecasts of macroeconomic variables included in the IFRS9 model used, in the amount of PLN 63,581 thousand. The Bank did not recognise changes in additional provisions related to risk factors affecting default risk not directly included in the macroeconomic model, maintaining the balance of these provisions at 31 March 2023 in the amount of PLN 151,470 thousand.

In the first quarter of 2023, the level of allowances was affected by the following movements on provisions held as Post Model Adjustments:

- release of Post Model Adjustment provisions in the amount of PLN 38,500 thousand related to the reflection in the LGD model of all significant macroeconomic variables affecting the level of this parameter. The remaining balance of allowances in this respect (PLN 15,200 thousand relates to the Bank's subsidiary where changes are in progress).

Taking into account the elements described above, in the first quarter of 2023 the Group released PLN 38,500 thousand in additional provisions (in the form of Post Model Adjustments). The balance of these additional provisions as of 31 March 2023 amounted to PLN 268,571 thousand, while the balance as of 31 December 2022 amounted to PLN 307,071 thousand.

Type of Post Model Adjustment *(data in PLN thousand)*	**Balance as of 31.12.2022**	**Change**	**Balance as of 31.03.2023**
Risk factors not included in the macroeconomic model	151,470	-	151,470
Clients particularly sensitive to changes in the economic environment	25,000	-	25,000
Planned changes to the LGD model	53,700	(38,500)	15,200
Adjustment of parameters for sensitive customers using credit holidays	76,901	-	76,901
Total	**307,071**	**(38,500)**	**268,571**

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%)	269,475	11%
Optimistic scenario – considering optimistic and baseline scenarios only (optimistic scenario 50%, baseline scenario 50%, pessimistic scenario 0%)	(110,166)	-5%
Baseline scenario – uniform distribution of optimistic and pessimistic scenarios(optimistic scenario 25%, baseline scenario 50%, pessimistic scenario 25%)	79,655	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%	(106,902)	-4%
PD increase by 10%	106,670	4%
LGD decrease by 10%	(242,582)	-10%
LGD increase by10%	222,832	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
Decrease in present value of estimated future cash flows for individually assessable exposures by 10%	39,008	5%
Increase in present value of estimated future cash flows for individually assessable exposures by 10%	(38,081)	-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 changing wind patterns	impact of fires
impact of changing rain/snow-fall patterns and types	impacts of storms, tornadoes, etc.
impact of sea level rise	impact of droughts
impact of water stress (reduced access to water)	impact of heavy rain/snow-falls
impact of soil and coastal erosion	impact of floods
impact of soil degradation	impact of landslides

In the 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 Bank estimates the value in use and, if the carrying amount of the asset exceeds its recoverable amount, the Bank 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 resulting from the adaptation of the Group’s business model in relation to the change of business environment. In connection with the agreement concluded in December 2020, the Group created restructuring provision to cover the costs of employment reduction. The negotiated collective redundancies programme was implemented on the beginning of 2021.

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 2023 and 2022 year, 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 31 March 2023 the provision amounted to PLN 13,741 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 31 March 2023, this liability amounted to PLN 2,285 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 31 March 2023, the provision amounted to PLN 35,310 thousand (PLN 36,327 thousand as of 31 December 2022).

The total amount of provisions related to the CJEU judgment as of 31 March 2023 was PLN 51,336 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 Bank 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 quarter of 2023 the Bank revised its estimates and adjusted the impact of the suspension recognized in 2022 by PLN 11 million. This adjustment had a positive impact on net interest income in the first quarter of 2023.

In the first quarter 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 80% of the volume of credit portfolio will apply for suspension in the remaining quarters of 2023.

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 quarter 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	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Amounts due from banks	137,451	23,956
Loans and advances to customers measured at amortised cost, including:	1,789,972	963,806
non-banking financial institutions	40,518	5,941
retail customers	789,307	460,351
economic operators	859,375	447,097
including retail farmers	164,217	105,052
public sector institutions	1,226	1,038
leasing receivables	99,546	49,379
Loans and advances to customers measured at amortised cost through profit or loss	23,106	12,927
Debt instruments measured at amortised cost	156,882	147,867
Debt instruments measured at fair value through profit or loss	1,995	1,567
Debt instruments measured at fair value through other comprehensive income	155,066	57,786
Derivative instruments as part of fair value hedge accounting	75,605	55,299
Derivative instruments as part of cash flow hedge accounting	2,867	2,867
Securities purchased under repurchase agreements	3,599	-
Total interest income	**2,346,543**	**1,266,075**

Interest expense	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Amounts due to banks	(159,822)	(72,843)
Debt securities issued	(3,154)	(3,556)
Amounts due to customers, including:	(661,121)	(77,087)
non-banking financial institutions	(27,957)	(7,710)
retail customers	(317,264)	(23,907)
economic operators	(287,388)	(41,113)
including retail farmers	(4,732)	(48)
public sector institutions	(28,512)	(4,357)
Lease liabilities	(7,125)	(2,233)
Derivative instruments as part of fair value hedge accounting	(302,697)	(95,120)
Derivatives under cash flow hedge accounting	(11,604)	(3,175)
Securities sold subject to repurchase agreements	(1,420)	(8,455)
Other related to financial assets	-	(662)
Total interest expense	**(1,146,943)**	**(263,131)**
Net interest income	**1,199,600**	**1,002,944**

Net interest income, which is the Group's main source of revenue, amounted to PLN 1,199,600 thousand in the first quarter of 2023 and was higher by PLN 196,656 thousand or 19.6% YoY. In the first quarter of 2023, compared to the first quarter of 2022, interest income was higher by PLN 1,080,468 thousand, i.e. by 85.3%, while interest expense increased by PLN 883,812 thousand, i.e. by 335.9%.

A significant external factor influencing the increase in the level of interest income and interest expense in the first quarter of 2023 compared to the first quarter of 2022 was the policy of the National Bank of Poland (NBP) regarding the formation of basic interest rates. In order to counteract the rise in inflation, the Monetary Policy Council continued in 2022 the monetary tightening cycle started in October 2021. By the end of third quarter of 2022, the MPC had made eleven interest rate increases totalling 665 bps. (to 6.75% in the case of the reference rate). At its meeting at the beginning of October 2022, the MPC did not change interest rates for the first time, so that their level at the end of the first quarter of 2023 was 325 bps higher than at the end of the first quarter of 2022. The NBP Governor's statement implies that the MPC has not yet completed the tightening cycle, but he suggested that no more hikes will be forthcoming and that cuts are likely, but only if there is confidence that inflation is falling. An estimate of the sensitivity of the Group's interest income to changes in interest rates is presented in Note 52 of the Consolidated Interim Report.

The increase in interest rates described above had a positive impact on the profitability of loan products in the first quarter of 2023 compared to the first quarter of 2022. As a result, total interest income on loans and advances to customers measured at amortised cost and at fair value through profit or loss amounted to PLN 1,813,078 thousand in the first quarter of 2023 and was higher by PLN 836,345 thousand, or 85.6%, than the income realised in the first quarter of 2022.

Among the factors that positively influenced the level of interest income in the first quarter of 2023 compared with the first quarter of 2022, an increase in the scale of operations should also be mention, and consequently, the increase in the average value of the securities portfolio (interest income from debt instruments measured at amortised cost and at fair value increased in the analysed period by a total of PLN 106,723 thousand, i.e. by 51.5%).

Due to the aforementioned increase in market interest rates between the first quarter of 2023 and the first quarter of 2022, the cost of raising deposits increased significantly. This process has been slower than the increase in loan yields, due, among other things, to the significant, although declining, share of current deposits in total deposits acquired from Customers (at the end of the first quarter of 2023 it amounted to 64.3% compared to 81.9% at the end of the first quarter of 2022), which is of particular importance in the case of deposits accumulated in current accounts of individual Customers.

The cost of interest on liabilities to customers amounted in the first quarter of 2023 to PLN 661,121 thousand and was higher by PLN 584,034 thousand, or 757.6%, than the cost incurred in the first quarter of 2022.

The level of interest income is affected by the Group's use of fair value hedge accounting and (to a much lesser extent) cash flow hedge accounting. The change in the fair value measurement of hedging transactions is recognised in the result on hedge accounting. Interest on IRS transactions and hedged items is recognised in net interest income. The net interest income on hedging relationships (the sum of interest income and interest expense on derivatives under fair value and cash flow hedge accounting) in the first quarter of 2023 was negative at PLN 235,829 thousand, compared to a negative impact of PLN 40,129 thousand in the first quarter of 2022 (a year-on-year increase in the negative impact of PLN 195,700 thousand).

In connection with the enactment of the Law on Community Financing for Economic Ventures and Borrower Assistance (the "Law"), allowing customers to suspend the performance of mortgage contracts granted in PLN between 1 August 2022 and 31 December 2023 (the "suspension"), based on the observed and projected number of suspension requests, the Bank recognised in 2022 an amount of PLN 895 million of negative impact on gross profit and reduced the gross carrying value of loans by this amount.

Based on data on customers' use of the option to suspend performance of contracts, in the first quarter of 2023, the Bank revised its estimates and adjusted the impact of suspension recognised in 2022 by PLN 11 million. This adjustment had a positive impact on net interest income in the first quarter of 2023. More detailed information is included in Note 7 i) Estimates of the Consolidated Interim Report.

9. NET FEE AND COMMISSION INCOME

Fee and commission income	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
loans, advances and leases	82,281	78,894
account maintenance	57,624	70,974
cash service	8,328	13,282
cash transfers and e-banking	26,183	22,400
guarantees and documentary operations	16,852	12,793
asset management and brokerage operations	26,267	42,367
payment and credit cards	106,481	80,285
insurance mediation activity	45,309	32,931
product sale mediation and customer acquisition	2,983	4,250
other commissions	16,301	4,130
Total fee and commission income	**388,609**	**362,306**

Fee and commission expense	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
loans, advances and leases	(192)	(252)
account maintenance	(2,528)	(2,218)
cash service	(5,859)	(6,886)
cash transfers and e-banking	(636)	(698)
asset management and brokerage operations	(2,061)	(1,278)
payment and credit cards	(28,201)	(25,674)
insurance mediation activity	(5,697)	(6,395)
product sale mediation and customer acquisition	(5,443)	(6,259)
other commissions	(12,912)	(11,962)
Total fee and commission expense	**(63,529)**	**(61,622)**
Net fee and commission expense	**325,080**	**300,684**

The Group's net fee and commission income in the first quarter of 2023 amounted to PLN 325,080 thousand and was by PLN 24,396 thousand (i.e. by 8.1%) higher than that obtained in the first quarter of 2022.

Fee and commission income amounted to PLN 388,609 thousand and was higher by PLN 26,303 thousand (i.e. by 7.3%) compared with the first quarter of 2022, while commission expenses amounted to PLN 63,529 thousand and were higher by PLN 1,907 thousand (i.e. by 3.1%).

The increase in fee and commission income related primarily to:

- payment and credit card processing by PLN 26,196 thousand, i.e. by 32.6%, primarily due to settlements relating to cooperation with Mastercard and Euronet. In addition, as a result of the growing number of card transactions, revenues from currency conversions, interchange fees, revenues related to the maintenance and use of debit cards (including fees for cash card transactions) increased,
- intermediation in the sale of insurance products by PLN 12,378 thousand, i.e. by 37.6% (inter alia due to higher revenues from the cooperation with Cardif and from home loan insurance),
- other commissions by PLN 12,171 thousand i.e. by 294.7% (mainly an increase in revenues for advisory services related to M&A transactions handled by CIB line),
- from guarantee commitments and documentary transactions by PLN 4,059 thousand i.e. 31.7% (as a result of higher commission income from corporate and CIB customers),
- execution of credit transfers and e-banking services by PLN 3,783 thousand, i.e. by 16.9% (as a result of higher commission income from foreign and domestic transfers resulting from, among other things, an increase in the volume of payments made by businesses),
- lending and leasing activity by PLN 3,387 thousand, i.e. 4.3% (inter alia, due to higher revenues for used commitments).

The decrease in fee and commission income related primarily to:

- asset management and brokerage operations by PLN 16,100 thousand, i.e. by 38.0% (mainly due to lower income from the sale of IBV certificates and for the management and sale of investment fund units),
- account servicing by PLN 13,350 thousand, i.e. by 18.8% (primarily due to lower income from fees for high balances on corporate accounts).

The increase in fee and commission expenses was mainly due to higher costs of payment and credit card processing by PLN 2,527 thousand, i.e. by 9.8% (due to higher costs of commissions paid to organisations and entities processing card transactions).

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

Net trading income	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Equity instruments measured at fair value through profit or loss	2,816	1,027
Debt instruments measured at fair value through profit or loss	55	(1,212)
Derivative instruments and result on foreign exchange transactions	231,717	151,019
Result on financial instruments measured at fair value through profit or loss and foreign exchange differences, total	**234,588**	**150,834**
including margin on foreign exchange and derivative transactions with customers	**193,928**	**178,410**

The result on trading activities in the first quarter of 2023 amounted to PLN 234,588 thousand and was higher by PLN 83,754 thousand, i.e. by 55.5% YoY. The level and volatility of this result is mainly shaped by the result on foreign exchange and derivative transactions with clients, the result on transactions concluded by CIB and the Asset and Liability Management Division and the valuation of equity instruments.

The increase in the result on trading activities in the first quarter of 2022 compared with the same period last year was related, among other things, to an improvement in the result on FX swaps entered into by the Asset and Liability Management Division and higher valuation of transactions hedging the valuation of the loan portfolio measured at fair value.

The result on equity instruments at fair value through profit or loss in the first quarter of 2023 was positive at PLN 2,816 thousand, vs PLN 1,027 thousand in the same period last year.

In addition, an improvement in the margin on foreign exchange and derivative transactions with customers, related, among other things, to higher business activity compared with the first quarter of 2022, contributed to the increase in the trading result. This result in the first quarter of 2023 was PLN 15,518 thousand (i.e. 8.7%) higher than that obtained in the corresponding period of 2022.

11. RESULT ON INVESTMENT ACTIVITIES

Result on investment activities	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Debt instruments measured at fair value through other comprehensive income	-	3,316
Loans and advances to customers measured at fair value through profit or loss	(12,416)	(5,578)
Result on investment activities, total	**(12,416)**	**(2,262)**

In the first quarter 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.

The result on investing activities in the first quarter of 2023 was negative at PLN 12,416 thousand, compared with a negative result of PLN 2,262 thousand in the same period last year.

The decrease in the result on investing activities was mainly related to the negative result on valuation of the portfolio of loans and advances to customers measured at fair value through profit or loss, which was lower by PLN 6,838 thousand (a deterioration of 122.6% compared with the same period of the previous year).

In addition, in the first quarter of 2023, no result was realised on debt instruments measured at fair value through other comprehensive income. The lack of comparable results is mainly the result of changes in yields on securities as a consequence of rising interest rates.

12. RESULT OF ALLOWANCE FOR EXPECTED CREDIT LOSSES OF FINANCIAL ASSETS AND PROVISION FOR CONTINGENT LIABILITIES

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

1Q 2023 from 01.01.2023 to 31.03.2023	Stage 1	Stage 2	Stage 3	Total	including POCI
Amounts due from banks	312	-	-	312	-
Loans and advances to customers measured at amortised cost	30,943	17,384	(20,757)	27,570	(27,174)
Contingent commitments granted	(5,901)	(1,546)	3,552	(3,895)	2,140
Securities measured at amortised cost	14	(387)	1,336	963	1,336
Total net allowances on expected credit losses of financial assets and provisions on contingent liabilities	**25,368**	**15,451**	**(15,869)**	**24,950**	**(23,698)**

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

1Q 2022 from 01.01.2022 to 31.03.2022	Stage 1	Stage 2	Stage 3	Total	including POCI
Amounts due from banks	(2,988)	-	-	(2,988)	-
Loans and advances to customers measured at amortised cost	(63,772)	(68,141)	37,968	(93,945)	850
Contingent commitments granted	20,229	(5,603)	1,912	16,538	147
Securities measured at amortised cost	40	318	909	1,267	909
Total net allowances on expected credit losses of financial assets and provisions on contingent liabilities	**(46,491)**	**(73,426)**	**40,789**	**(79,128)**	**1,906**

The result of the allowance for expected credit losses of financial assets and provisions for contingent liabilities in the first quarter of 2023 was a positive and amounted to PLN 24,950 thousand compared with a negative result of PLN 79,128 thousand in the first quarter of 2022 (improvement of PLN 104,078 thousand YoY).

Considering the main operating segments:

- the Retail and Business Banking segment recorded a negative result in the amount of PLN 26,909 thousand (an improvement of PLN 111,942 thousand),
- the SME Banking segment - a positive result in the amount of PLN 17,491 thousand (decrease of the positive result by PLN 36,405 thousand), and
- the Corporate Banking segment (including CIB) – a positive result in the amount of PLN 34,129 thousand (improvement of the positive result by PLN 25,385 thousand).

The level of the cost of risk in the first quarter of 2023 was influenced by the continued good quality of loan servicing and the positive impact of the updated forecasts of macroeconomic variables included in the IFRS9 model used. The biggest impact on the development of the cost of risk in the first quarter of 2023 was:

- release of provisions amounting to PLN 63,581 thousand as part of adjustment of the level of write-downs to expectations regarding the future macroeconomic situation, which was entirely due to updating forecasts of macroeconomic variables included in the IFRS9 model used,

- release of provisions in the amount of PLN 37,130 thousand, relating to one institutional customer (Agro segment) in connection with the repayment of receivables,
- an increase in provisions of PLN 18,500 thousand (including PLN 4,812 thousand for institutional customer loans and PLN 13,687 thousand for individual customer loans) as a result of parameter updates and model changes (including adaptation of the LGD model to current recovery expectations).

In the first quarter of 2023 and in the first quarter of 2022, the Bank did not enter into any significant agreements regarding the sale of credit receivables.

The cost of credit risk, expressed as the ratio of the allowance result to the average gross loans and advances to customers measured at amortised cost (calculated on an end-of-quarter basis), was positive 0.11% in the first quarter of 2023, compared with a negative 0.36% in the first quarter of 2022.

13. GENERAL ADMINISTRATIVE COSTS

General administrative expenses	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Personnel expenses	(342,094)	(313,337)
Marketing expenses	(13,703)	(20,576)
IT and telecom expenses	(58,804)	(58,261)
Short-term lease and operating costs	(20,864)	(14,767)
Other non-personnel expenses	(117,684)	(97,932)
Business travels	(3,299)	(1,706)
ATM and cash handling expenses	(6,497)	(6,759)
Costs of outsourcing services related to leasing operations	(1,015)	(628)
Borrowers' Support Fund (BSCF) fee	-	(6,349)
Bank Guarantee Fund fee	(110,000)	(151,713)
Polish Financial Supervision Authority fee	(3,995)	(3,578)
Total general administrative expenses	**(677,955)**	**(675,606)**

The Other non-personnel expenses line presents costs related to legal services for CHF loan litigation in the amount of PLN 22,338 thousand in the first quarter of 2023 (in the first quarter of 2022: PLN 17,714 thousand).

The Group's general administrative expenses (including depreciation and amortisation) in the first quarter of 2023 amounted to PLN 785,124 thousand, an increase of PLN 10,282 thousand, or 1.3%, compared with the first quarter of 2022.

Costs of fees for the BGF, booked as expenses of the Bank in the first quarter of 2023, amounted to PLN 110,000 thousand and were lower by PLN 41,713 thousand compared to the same period of the previous year, including:

- the annual contribution to the banks' forced restructuring fund amounted to PLN 110,000 thousand (in the first quarter of 2022 - PLN 125,919 thousand); according to the information received from BFG on 27 April 2023 the Bank's annual contribution for 2023 amounted to PLN 123,909 thousand
- in the first quarter of 2023, the Bank did not pay a contribution to the banks' guarantee fund (in the first quarter of 2022 it amounted to PLN 25,794 thousand); the BFG decided to suspend the collection of this contribution from the second quarter of 2022.

Marketing costs in the first quarter of 2023 were lower by PLN 6,873 thousand compared to the same period last year, mainly due to lower costs incurred for the production of advertising and lower activity in the areas of sponsorship, cooperation with contractors, market research and organisation of events and meetings.

The Bank did not incur costs related to the fee for the Borrowers' Support Fund in the first quarter of 2023; in the same period last year, these amounted to PLN 6,349 thousand.

The largest increase in costs by type - by PLN 28,757 thousand YoY or 9.2 per cent - concerned employee costs. This was mainly due to an increase in base salaries in March this year, the launch of wage regulations related to the Gender Pay Gap in the fourth quarter of 2022 and retention increases for key employees. The aforementioned actions increased the cost of salary mark-ups, and the costs of bonuses, overtime and training were also higher. At the same time, the capitalisation of salaries of employees involved in development work at the Bank increased by PLN 6,994 thousand y-o-y, which reduced employee costs.

An increase in the level of costs in the first quarter of 2023 compared to the first quarter of 2022 was also noted in:

- other non-personnel expenses - an increase of PLN 19,752 thousand, of which:
  - advisory and consulting expenses incurred by the Bank - an increase of PLN 6,261 thousand, including an increase in legal costs by PLN 1,945 thousand (related mainly to court proceedings regarding CHF loans: PLN 14,479 thousand in the first quarter of 2023 and PLN 13,255 thousand in the first quarter 2022),
  - notary and court fees by PLN 3,381 thousand (increase mainly related to CHF loans: PLN 7,859 thousand in the first quarter of 2023 and PLN 4,459 thousand in the first quarter of 2022)
  - other non-personnel expenses incurred by the leasing company higher by PLN 2,635 thousand due to the increase in the scale of operations.
- short-term lease and operating expenses - an increase of PLN 6,097 thousand, of which the costs of utilities (electricity, heating, water consumption, municipal waste) at the Bank increased by PLN 5,808 thousand.

14. DEPRECIATION AND AMORTISATION

Amortization	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Property, plant and equipment	(51,457)	(53,244)
Intangible assets	(55,712)	(45,992)
Total Amortization	**(107,169)**	**(99,236)**

Depreciation and amortisation expenses at the end of 31 March 2023 amounted to PLN 107,169 thousand and were higher by PLN 7,933 thousand (i.e. by 8.0%) compared with the first quarter of 2022. The increase was mainly due to the Bank's further transformation and digitalisation and the capital expenditure incurred for this purpose. Depreciation and amortisation expenses in Group companies remained at a comparable YoY level.

The Bank's capital expenditure in the first quarter of 2023 amounted to PLN 55,571 thousand and was higher by PLN 32,328 thousand, i.e. by 58.2%, compared with the same period last year. The increase in capital expenditure occurred in the items of computer hardware, software and capitalisation of development costs of the Bank's employees. The volume of capital expenditure is adapted to the Bank's current needs and capabilities. All projects are analysed from the point of view of rationality and impact on the financial and business situation of the Bank and the Group.

15. OTHER OPERATING INCOME

Other operating income	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Sale or liquidation of property, plant and equipment and intangible assets	2,197	1,446
Release of write-offs on other receivables	933	3,508
Sale of goods and services	2,816	1,467
Release of provisions for litigation and claims and other liabilities	14,581	33,448
Recovery of debt collection costs	4,526	5,017
Recovered indemnities	176	104
Income from leasing operations	17,166	19,380
Other operating income	13,472	9,297
Total other operating income	**55,867**	**73,667**

Other operating income in the first quarter of 2023 amounted to PLN 55,867 thousand was lower by PLN 17,800 thousand, i.e. 24.2%, compared with the same period in 2022.

The level of other operating income was mainly influenced by:

- lower income from the release of provisions for litigation and other liabilities by PLN 18,867 thousand (i.e. by 56.4%) resulting, inter alia, from the absence in the first quarter of 2023 of comparable income to the release of provisions as a result of the termination in the first quarter of 2022 of former cases concerning 3 corporate clients. The associated higher level of other operating expenses in the first quarter of 2022 can be seen in the Other operating expenses category,

- lower by PLN 2,575 thousand (i.e. 73.4%) income from released impairment losses on other receivables,
- lower revenue from leasing activities by PLN 2,214 thousand (i.e. 11.4%).

16. OTHER OPERATING EXPENSES

Other operating expenses	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Loss on sale or liquidation of property, plant and equipment and intangible assets	(2,153)	(1,498)
Impairment allowance on other receivables	(1,094)	(2,753)
On account of provisions for litigation and other liabilities	(10,230)	(5,951)
Debt collection	(9,498)	(8,619)
Donations granted	(1,575)	(1,459)
Costs of leasing operations	(13,126)	(15,128)
Indemnities, penalties and fines	(957)	(588)
Other operating income	(22,009)	(42,769)
Total other operating income	**(60,642)**	**(78,765)**

Other operating expenses in the first quarter of 2023 amounted to PLN 60,642 thousand, down by PLN 18,123 thousand (i.e. 23.0%) compared with the same period in 2022.

The level of other operating expenses was mainly influenced by:

- lower other operating expenses by PLN 20,760 thousand, i.e. by 48.5%, resulting, inter alia, from the absence in the first quarter of 2023 of costs comparable to those incurred in the first quarter of 2022 in connection with the termination of former cases involving 3 corporate clients. The associated higher level of other operating income in the first quarter of 2022 can be seen in the category Release of litigation provisions and other liabilities,
- higher costs of provisions for litigation and other liabilities by PLN 4,279 thousand (i.e. by 71.9%),
- lower costs from leasing activities by PLN 2,002 thousand (i.e. by 13.2%).

17. INCOME TAX EXPENSE

	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Current income tax	(131,174)	(118,746)
Deferred income tax	(12,316)	(38,455)
Total income tax expense	**(143,490)**	**(157,201)**
Profit before income tax	631,475	434,942
Statutory tax rate	19%	19%
Income taxes on gross profit	**(119,980)**	**(82,639)**
Taxable permanent differences, including:	**(23,510)**	**(74,562)**
Receivables written-off	(1,516)	(7,347)
Representation costs	(590)	(612)
PFRON	(465)	(432)
Prudential fee to the Bank Guarantee Fund	(20,900)	(29,696)
Tax on financial institutions	(19,538)	(18,212)
Provisions for claims on CHF loans	25,835	(15,857)
Provisions for legal risks	1,436	5,090
Other differences	(7,772)	(7,496)
Total income / tax expense of the Group	**(143,490)**	**(157,201)**

18. EARNINGS PER SHARE

	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Basic		
Net profit	487,985	277,741
Weighted average number of ordinary shares (units)	147,593,150	147,518,782
Basic earnings (loss) per share (in PLN per one share)	3.31	1.88
Diluted		
Net profit used in determining diluted earnings per share	487,985	277,741
Weighted average number of ordinary shares (units)	147,593,150	147,518,782
Adjustments for:		
- stock options	80,757	95,398
Weighted average number of ordinary shares for the diluted earnings per share (units)	147,673,907	147,614,180
Diluted earnings (loss) per share (in PLN per one share)	3.30	1.88

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	31.03.2023	31.12.2022
Cash and other balances	2,463,647	2,669,617
Account in the National Bank of Poland	1,896,711	48,699
Gross cash and cash equivalents	**4,360,358**	**2,718,316**
Allowances on expected credit losses	(341)	(9)
Total cash and cash equivalents	**4,360,017**	**2,718,307**

Change of allowances on expected credit losses of amounts due from Central Bank	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Opening balance	**(9)**	**(283)**
Increases due to acquisition or origination	(9)	(953)
Decreases due to derecognition	315	1,210
Net changes in credit risk	(638)	(486)
Closing balance	**(341)**	**(512)**

20. AMOUNTS DUE FROM BANKS

Amounts due from banks	31.03.2023			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	11,367,418	(640)	11,366,778	9,058,686	(1,075)	9,057,611
Interbank deposits	605,952	(32)	605,920	1,626,427	(220)	1,626,207
Loans and advances	201,091	(123)	200,968	201,160	(133)	201,027
Other receivables	803,597	(62)	803,535	915,421	(77)	915,344
Total amounts due from banks	**12,978,058**	**(857)**	**12,977,201**	**11,801,694**	**(1,505)**	**11,800,189**

Change of allowances on expected credit losses of amounts due from banks	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Opening balance	**(1,505)**	**(5,443)**
Increases due to acquisition or origination	(756)	(562)
Decreases due to derecognition	1,425	337
Changes resulting from the change in credit risk (net)	(25)	(2,533)
Other changes (including foreign exchange differences)	4	(65)
Closing balance	**(857)**	**(8,266)**

As of 31 March 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	
31.03.2023		Assets	Liabilities
Currency derivatives			
Foreign Exchange Forward (FX Forward + NDF)	15,437,906	253,108	692,726
Currency Swap (FX Swap)	24,135,190	810,880	280,476
Currency Interest Rate Swaps (CIRS)	8,081,445	205,412	191,956
OTC currency options	14,115,907	121,101	154,869
Total currency derivatives:	**61,770,448**	**1,390,501**	**1,320,027**
Interest rate derivatives			
Interest Rate Swap	51,043,004	1,421,222	1,436,567
OTC interest rate options	11,573,474	139,595	139,536
Total interest rate derivatives:	**62,616,478**	**1,560,817**	**1,576,103**
Other derivatives			
OTC commodity swaps	726,566	37,106	35,734
Currency Spot (FX Spot)	1,166,017	-	-
Total other derivatives:	**1,892,583**	**37,106**	**35,734**
Total trading derivatives:	**126,279,509**	**2,988,424**	**2,931,864**
including: measured using models	126,279,509	2,988,424	2,931,864

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

IRS	Nominal value	Fair value	
		Assets	Liabilities
31.03.2023	16,369,886	13,235	1,075,727
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 instruments is recognised in the Result on hedge accounting. Interest on IRS transactions and current accounts is recognised in Interest income.

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

31.03.2023 - PLN 1,020,703 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

31.03.2023 - PLN 588,030 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 31 March 2023 and 31 December 2022:

31.03.2023								
Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	from 1 to 3 months	from 3 months to 1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	13,235	1,075,727	-	2,064,401	5,285,188	5,829,677	3,190,621	16,369,886
Hedging derivatives - total	**13,235**	**1,075,727**	**-**	**2,064,401**	**5,285,188**	**5,829,677**	**3,190,621**	**16,369,886**

31.12.2022								
Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 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:

31.03.2023 - PLN 31 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
31.03.2023	1,275,000	5,585	5,230
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 31 March 2023 and 31 December 2022:

31.03.2023								
Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	from 1 to 3 months	from 3 months to 1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	5,585	5,230	-	-	-	1,275,000	-	1,275,000
Hedging derivatives - total	**5,585**	**5,230**	**-**	**-**	**-**	**1,275,000**	**-**	**1,275,000**

31.12.2022								
Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	from 1 to 3 months	from 3 months to 1 year	1-5 years	> 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.
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
31.03.2023	247,802	-	3,611

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 31 March 2023:

31.03.2023								
Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	from 1 to 3 months	from 3 months to 1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	3,611	-	-	-	247,802	-	247,802
Hedging derivatives - total	**-**	**3,611**	**-**	**-**	**-**	**247,802**	**-**	**247,802**

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

Fair value hedging	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Interest income on hedging derivatives	75,605	55,299
Interest expense on hedging derivatives	(302,697)	(95,120)
Change in fair value measurement of hedging transactions presented in Result on hedge accounting, including:	(17,673)	19,716
change in fair value of hedging instruments	195,342	(638,557)
change in fair value of hedged instruments	(213,015)	658,273

Additionally, the Group applies **cash flow hedge accounting** as of 31 March 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
31.03.2023	625,000	-	158,483
31.12.2022	625,000	-	172,679

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

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

31.03.2023								
Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	from 1 to 3 months	from 3 months to 1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	158,483	-	-	-	-	625,000	625,000
Hedging derivatives - total	**-**	**158,483**	**-**	**-**	**-**	**-**	**625,000**	**625,000**

31.12.2022								
Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 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**

Hedging cash flows	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Interest income on hedging derivatives	2,867	2,867
Interest expense on hedging derivatives	(11,604)	(3,175)

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

Interest rate risk	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Balance at the beginning of the period	**(169,290)**	**(85,303)**
Hedging gains or losses recognised in other comprehensive income during the reporting period	22,956	(49,852)
Balance at the end of the period	**(146,334)**	**(135,155)**

23. LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST

	31.03.2023		
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	**1,470,695**	**(12,613)**	**1,458,082**
current account loans	1,176,634	(10,956)	1,165,678
investment loans	203,980	(615)	203,365
other loans	90,081	(1,042)	89,039
Retail customers	**38,018,948**	**(1,202,790)**	**36,816,158**
mortgage loans	25,960,229	(529,989)	25,430,240
other loans	12,058,719	(672,801)	11,385,918
Corporate customers	**46,133,737**	**(1,603,743)**	**44,529,994**
current account loans	20,988,377	(933,653)	20,054,724
investment loans	17,630,517	(509,113)	17,121,404
other loans	7,514,843	(160,977)	7,353,866
including retail farmers	**6,650,510**	**(449,203)**	**6,201,307**
current account loans	3,160,025	(234,549)	2,925,476
investment loans	3,477,555	(212,344)	3,265,211
other loans	12,930	(2,310)	10,620
Public sector institutions	**59,798**	**(972)**	**58,826**
current account loans	39,207	(855)	38,352
investment loans	20,293	(112)	20,181
other loans	298	(5)	293
Lease receivables	**5,644,737**	**(115,690)**	**5,529,047**
Total loans and advances to customers measured at amortised cost	**91,327,915**	**(2,935,808)**	**88,392,107**

	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**

At the end of March 2023, gross loans and advances to customers (the sum of portfolios measured at amortised cost and measured at fair value) amounted to PLN 92,276,009 thousand and decreased by PLN 843,962 thousand, i.e. by 0.9% compared with the end of 2022.

The gross portfolio of loans and advances measured at amortised cost in the period under review amounted to PLN 91,327,915 thousand and decreased by PLN 768,325 thousand, i.e. by 0.8% compared to year-end 2022.

Structure of gross loans and advances measured at amortised cost

Gross loans and advances to retail customers amounted to PLN 38,018,948 thousand at the end of March 2023 (down by PLN 824,912 thousand, or 2.1%, compared with the end of 2022). Their share in the loan portfolio measured at amortised cost during the period under review was 41.6% (down 0.5 p.p. compared with end-2022). More than two-thirds (68.3%) of the credit exposure of individual customers is represented by real estate loans, which amounted to PLN 25,960,229 thousand at the end of March 2023. In the structure of housing loans, 85.2% are loans granted in PLN, while 14.8% are loans granted in CHF (compared to the end of last year, the share of CHF fell by 1.6 p.p.).

The gross portfolio of loans and advances to businesses (excluding farmers) amounted to PLN 39,483,227 thousand (a decrease of PLN 494,834 thousand, or 1.2%, compared with the end of 2022). Their share in the analysed loan portfolio at the end of March 2023 was 43.2% (-0.2 p.p. compared with the end of 2022). Overdrafts account for 45.2% of the loan portfolio and investment loans for 35.8% (up 0.8 p.p. compared to the end of last year).

The volume of loans to individual farmers at the end of March 2023 amounted to PLN 6,650,510 thousand, recording a 2.7% decrease compared to December 2022.

Lease receivables amounted to PLN 5,644,737 thousand (up 2.1% compared to the end of 2022). Their share in the loan portfolio measured at amortised cost in the period under review was 6.2% compared with 6.0% at the end of 2022.

The volume of loans granted to non-bank financial entities and budget sector institutions totalled PLN 1,530,493 thousand, recording a 67.8% increase compared with December 2022.

Net loans and advances to customers by Stage

31.03.2023	Stage 1	Stage 2	Stage 3	Total	including POCI
Loans and advances for:	**77,983,499**	**10,430,265**	**2,914,151**	**91,327,915**	**169,860**
Non-banking financial entities	1,386,251	70,377	14,067	1,470,695	2,935
Retail customers	33,106,929	3,884,744	1,027,275	38,018,948	37,864
Corporate customers:	38,972,370	5,434,503	1,726,864	46,133,737	129,061
including retail farmers	5,115,374	987,307	547,829	6,650,510	1,018
Public sector entities	58,984	-	814	59,798	-
Lease receivables	458,965	1,040,641	145,131	5,644,737	-
Allowances on expected credit losses of loans and advances for:	**(342,291)**	**(812,725)**	**(1,780,792)**	**(2,935,808)**	**(38,909)**
Non-banking financial entities	(3,060)	(774)	(8,779)	(12,613)	(194)
Retail customers	(137,120)	(406,555)	(659,115)	(1,202,790)	(2,561)
Corporate customers:	(191,452)	(360,584)	(1,051,707)	(1,603,743)	(36,154)
including retail farmers	(40,694)	(101,309)	(307,200)	(449,203)	(40)
Public sector entities	(501)	-	(471)	(972)	-
Lease receivables	(10,158)	(44,812)	(60,720)	(115,690)	-
Net loans and advances to customers measured at amortised cost	**77,641,208**	**9,617,540**	**1,133,359**	**88,392,107**	**130,951**

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	-
Allowances on expected credit losses of loans and advances 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 of allowances on expected credit losses	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2023	**(373,569)**	**(831,097)**	**(1,801,257)**	**(3,005,923)**
Increases due to acquisition or origination	(38,783)	(37,315)	(10,495)	(86,593)
Decreases due to derecognition	11,977	15,585	89,732	117,294
Net changes in credit risk	57,748	38,853	(89,621)	6,980
Use of allowances	8	7	26,196	26,211
Other changes (including foreign exchange differences)	328	1,242	4,653	6,223
Balance as at 31 March 2023	**(342,291)**	**(812,725)**	**(1,780,792)**	**(2,935,808)**

Change of allowances on expected credit losses	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2022	**(615,798)**	**(507,388)**	**(1,839,327)**	**(2,962,513)**
Increases due to acquisition or origination	(76,762)	(28,257)	(12,019)	(117,038)
Decreases due to derecognition	8,893	14,599	20,575	44,067
Net changes in credit risk	4,096	(54,376)	(2,998)	(53,278)
Use of allowances	18	80	37,051	37,149
Other changes (including foreign exchange differences)	(1,239)	1,772	(5,204)	(4,671)
Balance as at 31 March 2022	**(680,792)**	**(573,570)**	**(1,801,922)**	**(3,056,284)**

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

Loans by currency	31.03.2023	31.12.2022
CHF	3,822,259	4,092,391
EUR	28,444	31,874
PLN	22,108,983	22,526,701
USD	543	598
Total	**25,960,229**	**26,651,564**

	31.03.2023			
Value of CHF loan portfolio	Gross balance sheet amount	including CHF exposures	Allowance	including CHF exposures
Loans and advances for:				
Non-banking financial entities	**1,470,695**	**-**	**(12,613)**	**-**
current account loans	1,176,634	-	(10,956)	-
investment loans	203,980	-	(615)	-
other loans	90,081	-	(1,042)	-
Retail customers	**38,018,948**	**3,859,268**	**(1,202,790)**	**(307,813)**
mortgage loans	25,960,229	3,822,259	(529,989)	(296,368)
other loans	12,058,719	37,009	(672,801)	(11,445)
Corporate customers	**46,133,737**	**53,847**	**(1,603,743)**	**(12,719)**
current account loans	20,988,377	44,873	(933,653)	(5,411)
investment loans	17,630,517	8,913	(509,113)	(7,308)
other loans	7,514,843	61	(160,977)	-
including retail farmers	**6,650,510**	**647**	**(449,203)**	**(43)**
current account loans	3,160,025	640	(234,549)	(43)
investment loans	3,477,555	7	(212,344)	-
other loans	12,930	-	(2,310)	-
Public sector institutions	**59,798**		**(972)**	**-**
current account loans	39,207	-	(855)	-
investment loans	20,293	-	(112)	-
other loans	298	-	(5)	-
Lease receivables	**5,644,737**	**27,138**	**(115,690)**	**(6,865)**
Total loans and advances	**91,327,915**	**3,940,253**	**(2,935,808)**	**(327,397)**

	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

	31.03.2023	31.12.2022
Subsidized loans	860,314	949,298
Total loans and advances to customers measured at fair value through profit or loss	**860,314**	**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
31.03.2023	948,094	860,314
31.12.2022	1,023,731	949,298

Subsidised loans at fair value	Stage 1	Stage 2	Stage 3	Total
31.03.2023	633,324	179,543	47,447	860,314
31.12.2022	681,103	207,147	61,048	949,298

25. SECURITIES MEASURED AT AMORTISED COST

	31.03.2023		
Securities	Gross balance sheet value	Impairment allowance	Net balance sheet value
issued by domestic banks – covered bonds	1,246	(11)	1,235
issued by domestic banks	4,295,073	-	4,295,073
issued by other financial entities	1,774,150	-	1,774,150
issued by central governments – treasury bonds	18,090,769	(99)	18,090,670
issued by non-financial entities – bonds	129,293	(43,740)	85,553
issued by local governments – municipal bonds	64,493	(166)	64,327
Total securities measured at amortised cost	**24,355,024**	**(44,016)**	**24,311,008**

	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**

31.03.2023	Stage 1	Stage 2	Stage 3	**Total**	including POCI
Securities	**24,225,731**	**16,801**	**112,492**	**24,355,024**	**108,337**
issued by domestic banks – covered bonds	1,246	-	-	**1,246**	-
issued by domestic banks	4,295,073	-	-	**4,295,073**	-
issued by other financial entities	1,774,150	-	-	**1,774,150**	-
issued by central governments – treasury bonds	18,090,769	-	-	**18,090,769**	-
issued by non-financial entities – bonds	-	16,801	112,492	**129,293**	108,337
issued by local governments – municipal bonds	64,493	-	-	**64,493**	-
Impairment allowances on securities:	**(276)**	**(387)**	**(43,353)**	**(44,016)**	**(39,198)**
issued by domestic banks – covered bonds	(11)	-	-	**(11)**	-
issued by central governments – treasury bonds	(99)	-	-	**(99)**	-
issued by non-financial entities – bonds	-	(387)	(43,353)	**(43,740)**	(39,198)
issued by local governments – municipal bonds	(166)	-	-	**(166)**	-
Total net securities measured at amortised cost	**24,225,455**	**16,414**	**69,139**	**24,311,008**	**69,139**

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 institutions	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	31.03.2023	31.12.2022
	Balance sheet value	
Treasury bonds issued by central governments	4,979	4,907
Bonds issued by non-financial entities	26,667	26,005
Bonds convertible for non-financial entities bonds	53,874	56,160
Equity instruments	214,814	228,234
Units	468	450
Certificates issued by non-financial entities	835	837
Total financial instruments measured at fair value through profit or loss	**301,637**	**316,593**

27. SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt securities	31.03.2023	31.12.2022
NBP bills	-	8,495,585
Bonds issued by banks	2,380,976	2,251,139
Treasury bonds issued by central governments	5,393,104	4,141,351
Bonds issued by other financial institutions	2,576,657	2,496,718
Securities measured at fair value through other comprehensive income	**10,350,737**	**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	31.03.2023	31.12.2022
Licenses	597,614	604,313
Other intangible assets	43,141	39,153
Expenditure on intangible assets	162,568	177,640
Total intangible assets	**803,323**	**821,106**

In the first quarter of 2023, the net carrying amount of "Intangible assets" acquired by the Group amounted to PLN 57,369 thousand (in the first quarter of 2022: PLN 33,019 thousand), while the net balance sheet amount of the disposed of and liquidated components amounted to PLN 1,193 thousand (in the first quarter of 2022 there were no disposals and liquidations of "Intangible assets").

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 31.03.2023, the Group had significant contractual obligations incurred in connection with the acquisition of intangible assets in the amount of PLN 12,671 thousand (PLN 14,615 thousand as of 31.12.2022).

29. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	31.03.2023	31.12.2022
Fixed assets, including:	424,764	402,972
land and buildings	94,192	95,279
IT equipment	144,133	118,902
office equipment	44,237	45,481
other, including leasehold improvements	142,202	143,310
Fixed assets under construction	13,262	44,502
Right of use, including:	625,134	621,955
land and buildings	599,614	596,181
cars	23,171	25,304
IT equipment	1,951	-
other, including leasehold improvements	398	470
Total property, plant and equipment	**1,063,160**	**1,069,429**

In the first quarter of 2023, the net balance sheet amount of the components included in property, plant and equipment acquired by the Group was PLN 38,187 thousand (in the first quarter of 2022 it amounted to PLN 5,145 thousand), while the net balance sheet value of sold and liquidated components amounted to PLN 1,867 thousand (in the first quarter of 2022 it amounted to PLN 42,899 thousand).

As of 31.03.2023, the Group had significant contractual liabilities incurred in connection with the acquisition of property, plant and equipment in the amount of PLN 4,223 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.

	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Lease expenses recognized in the statement of profit or loss	**(34,221)**	**(31,069)**
- interest on lease liabilities	(7,125)	(2,233)
- depreciation of right of use assets	(26,944)	(28,639)
- expenses related to short-term lease (recognized in general administrative expenses)	(152)	(197)

Undiscounted lease payments by maturity	31.03.2023	31.12.2022
< 1 year	143,976	133,489
1-5 years	456,516	426,440
> 5 years	243,602	240,323
Total	**844,094**	**800,252**

	31.03.2023	31.12.2022
Book value of liabilities due to discounted lease payments	**719,532**	**718,892**

31. OTHER ASSETS

Other assets:	31.03.2023	31.12.2022
Receivables from contracts with customers:		
sundry debtors	325,086	321,595
accrued income	99,432	88,165
payment card settlements	18,434	17,195
social insurance settlements	3,703	3,012
Other:		
interbank and intersystem settlements	196,246	367,050
deferred expenses	110,395	78,588
tax and other regulatory receivables	35,379	30,905
other lease receivables	23,697	27,453
other	89,177	85,442
Total other assets (gross)	**901,549**	**1,019,405**
Impairment allowances on other receivables from sundry debtors	(65,470)	(57,469)
Total other assets (net)	**836,079**	**961,936**

32. AMOUNTS DUE TO CENTRAL BANK

Amounts due to Central Bank	31.03.2023	31.12.2022
Current account overdraft	-	8,713

33. AMOUNTS DUE TO OTHER BANKS

Amounts due to other banks	31.03.2023	31.12.2022
Current accounts	533,611	46,361
Interbank deposits	113,195	646,658
Loans and advances received	5,156,190	5,870,409
Other liabilities	863,428	594,596
Total amounts due to banks	**6,666,424**	**7,158,024**

"Other liabilities" as at 31.03.2023 included liabilities due to securities sold under repurchase agreements in the amount of PLN 40,202 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 quarter of 2023 and during 2022.

34. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers	31.03.2023	31.12.2022
NON-BANKING FINANCIAL INSTITUTIONS	**3,492,920**	**2,378,213**
Current accounts	2,057,466	1,043,816
Term deposits	946,736	841,098
Loans and advances received	484,089	491,823
Other liabilities	4,629	1,476
RETAIL CUSTOMERS	**47,940,532**	**49,020,456**
Current accounts	26,400,890	29,182,509
Term deposits	21,051,436	19,342,539
Other liabilities	488,206	495,408
CORPORATE CUSTOMERS	**62,699,315**	**66,040,455**
Current accounts	44,895,380	49,139,666
Term deposits	17,083,824	16,128,824
Other liabilities	720,111	771,965
Incl. RETAIL FARMERS	**3,143,280**	**3,021,185**
Current accounts	2,875,526	2,777,133
Term deposits	256,061	226,637
Other liabilities	11,693	17,415
PUBLIC SECTOR CUSTOMERS	**2,779,628**	**2,581,919**
Current accounts	1,512,939	1,683,350
Term deposits	1,265,989	895,643
Other liabilities	700	2,926
Total amounts due to customers	**116,912,395**	**120,021,043**

Liabilities to customers at the end of March 2023 amounted to PLN 116,912,395 thousand, down by PLN 3,108,648 thousand or 2.6% compared to the end of 2022.

By entity, a decrease in liabilities of business entities and individual customers was recorded. The largest volume decrease concerned business entities, whose liabilities amounted to PLN 62,699,315 thousand and decreased by PLN 3,341,140 thousand, i.e. by 5.1% compared with the balance as at the end of 2022, as a result of the decrease in the volume of funds held in current accounts (by PLN 4,244,286 thousand), partially offset by the increase in time deposits (by PLN 955,000 thousand). The share of this segment in the structure of total amounts due to customers decreased to 53.6% against 55.0% at the end of December 2022.

Liabilities to individual customers decreased by PLN 1,079,924 thousand, i.e. by 2.2% compared with the end of last year, and amounted to PLN 47,940,532 thousand at the end of March 2023. At the same time, the share of deposits from individual customers in the structure of liabilities to total customers increased slightly to 41.0% against 40.8% at the end of 2022.

The volumes of liabilities to budget sector institutions as well as liabilities to non-bank financial entities increased in the first quarter of 2023 compared to the end of 2022 by: PLN 197,709 thousand (i.e. by 7.7%) and PLN 1,114,707 thousand (i.e. by 46.9%), respectively.

The share of current accounts in the structure of total liabilities to customers amounted to 64.0% at the end of March 2023, registering a decrease of 3.5 p.p. compared with the end of 2022. Funds deposited in current accounts amounted to PLN 74,866,675 thousand and decreased by PLN 6,182,666 thousand or 7.6%. The decrease was influenced by: lower balances in the accounts of business entities (by PLN 4,244,286 thousand, i.e. 8.6%) and individual customers (by PLN 2,781,619 thousand, i.e. 9.5%).

The share of term deposits in the structure of liabilities to customers in the analysed period amounted to 34.5% and increased by 3.5 percentage points compared to the end of 2022. In value terms, time deposits increased by PLN 3,139,881 thousand to PLN 40,347,985 thousand, up 8.4% compared to December 2022.

The share of other liabilities and loans and advances received in total in the structure of liabilities to customers amounted to 1.5% and remained unchanged compared to the end of 2022. Their total volume amounted to PLN 1,697,735 thousand.

35. DEBT SECURITIES ISSUED

	31.03.2023	31.12.2022
Debt securities issued	-	364,633

Debt securities issued	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Opening balance	**364,633**	**722,628**
Redemption of certificates of deposit	(364,427)	(110,568)
Changes in discount, interests, commission and fees on certificates of deposit amortized using EIR, foreign currency exchange differences	(206)	(103)
Closing balance of debt securities issued	**-**	**611,957**

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 of securitization of the cash and car loan portfolio is described in Note 44.

36. SUBORDINATED LIABILITIES

Subordinated liabilities	31.03.2023	31.12.2022
	4,404,398	**4,416,887**

Change in the balance of subordinated liabilities	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Opening balance	**4,416,887**	**4,334,572**
Change in the balance of interest, commissions and fees settled by EIR	2,736	5,702
Foreign exchange differences	(15,225)	21,317
Closing balance	**4,404,398**	**4,361,591**

37. OTHER LIABILITIES

Other liabilities	31.03.2023	31.12.2022
Liabilities due to contracts with customers		
Sundry creditors	179,893	185,355
Payment card settlements	165,059	172,479
Deferred income	81,906	83,508
Escrow account liabilities	503	488
Social insurance settlements	29,332	25,559
Other liabilities		
Interbank and intersystem settlements	895,016	997,337
Provisions for non-personnel expenses	543,812	486,249
Provisions for other employees-related liabilities	123,418	240,835
Provision for unused annual holidays	43,921	43,801
Other regulatory liabilities	144,491	75,056
Other lease liabilities	33,990	28,961
Other	79,254	83,554
Total other liabilities	**2,320,595**	**2,423,182**

38. PROVISIONS

	31.03.2023	31.12.2022
Provision for restructuring	41,608	45,843
Provision for retirement benefits and similar obligations	20,979	18,994
Provision for contingent financial liabilities and guarantees granted	103,338	99,657
Provisions for litigation and claims	2,148,636	2,050,954
Other provisions	8,280	8,290
Total provisions	**2,322,841**	**2,223,738**

Provisions for restructuring	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Opening balance	**45,843**	**56,280**
Provisions recognition	24	360
Provisions utilization	(4,259)	(7,686)
Closing balance	**41,608**	**48,954**

Provision for retirement benefits and similar obligations	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Opening balance	**18,994**	**15,858**
Provisions recognition	2,155	673
Provisions utilization	(170)	(133)
Closing balance	**20,979**	**16,398**

Expected credit losses of contingent liabilities	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Opening balance	**99,657**	**155,638**
Provisions recognition	16,645	15,582
Provisions released	(4,716)	(10,699)
Changes resulting from changes in credit risk (net)	(8,035)	(21,421)
Other changes	(213)	(205)
Closing balance	**103,338**	**138,895**

Provisions for litigation and claims	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Opening balance	**2,050,954**	**1,463,347**
Provisions recognition	241,706	88,588
Provisions utilization	(98,163)	(59,704)
Provisions released	(12,949)	(3,595)
Other changes, including foreign exchange differences	(32,912)	19,338
Closing balance	**2,148,636**	**1,507,974**

Other provisions	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Opening balance	**8,290**	**8,229**
Provisions recognition	11	7
Provisions utilization	(21)	-
Closing balance	**8,280**	**8,236**

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	31.03.2023	31.12.2022
Cash and balances at Central Bank (Note 19)	4,360,017	2,718,307
Current accounts of banks and other receivables	11,367,085	9,057,717
Interbank deposits	525,801	1,441,247
Total cash and cash equivalents	**16,252,903**	**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 the 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 a significant impact on the risk profile of BNP Paribas Bank S.A., from 2020 (excluding persons who have terminated their cooperation with the Bank) the applicable financial instrument in which part of the variable remuneration is paid is ordinary shares (change from phantom shares).

The 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 2023.

	31.03.2023		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	(33,699)	(1,885)	(79,604)	(5,109)
current valuation *	-	(762)	-	2,390
expired	-	-	-	-
Closing balance	**4,467**	**250**	**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 1,885 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
Program announcement date	21 June 2012 - entry into force of the Resolution of the Supervisory Board approving the Remuneration Policy.
Date of publication of the programme	28 February 2023
Date of commencement 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 March 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 1,928 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 which will be issued in 2023 is already included in the mentioned amounts.

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

	31.03.2023		**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	-	-	(24,282)	(1,634)
Closing balance	**179,471**	**11,289**	**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	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
FX differences from subordinated loans	(15,225)	21,317
Securities measurement through profit or loss	10,381	(1,560)
Allowance for securities	(963)	(1,267)
Other adjustments	8,846	9,976
Cash flows from operating activities – total other adjustments	**3,039**	**28,466**

42. CONTINGENT LIABILITIES

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

Contingent liabilities	31.03.2023	31.12.2022
Contingent commitments granted	**45,763,233**	**42,977,848**
financial commitments	29,304,893	30,486,679
guarantees	16,458,340	12,491,169
Contingent commitments received	**58,681,582**	**58,068,966**
financial commitments	13,396,971	14,511,914
guarantees	45,284,611	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 quarter of 2023, the Group did not make any changes in the rules of classification into valuation levels.

As of 31.03.2023, 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:

31.03.2023	Level 1	Level 2	Level 3	Total
Assets measured at fair value:	**10,357,019**	**2,758,204**	**1,404,709**	**14,519,932**
Derivative financial instruments	-	2,739,384	249,040	2,988,424
Hedging instruments	-	18,820	-	18,820
Financial instruments measured at fair value through other comprehensive income	10,350,737	-	-	10,350,737
Financial instruments measured at fair value through profit or loss	6,282	-	295,355	301,637
Loans and advances to customers measured at fair value through profit or loss	-	-	860,314	860,314
Liabilities measured at fair value:	**-**	**3,806,154**	**368,762**	**4,174,916**
Derivative financial instruments	-	2,657,173	274,691	2,931,864
Hedging instruments	-	1,148,981	94,071	1,243,052

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**
Derivatives	-	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.

31.03.2023	Derivative financial instruments – assets	Hedging 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:	(17,167)	-	(25,390)	12,175	(21,003)
statement of profit or loss	(17,167)	-	(25,390)	12,175	(21,003)
statement of comprehensive income	-	-	-	-	-
Purchase/Granting	-	-	8,028	-	-
Sale	-	-	(7,699)	-	-
Settlement / Expiry	-	-	(79,804)	-	-
Closing balance	**249,040**	**-**	**1,155,669**	**274,691**	**94,071**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period					
	(17,167)	**-**	**(25,390)**	**12,175**	**(21,003)**

31.03.2022	Derivative financial instruments – assets	Hedging 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:	126,800	-	(1,129)	1,020,846	179,177
statement of profit or loss	126,800	-	(1,129)	1,020,846	179,177
statement of comprehensive income	-	-	-	-	-
Purchase/ Granting	-	-	3,444	-	-
Sale	-	-	-	-	-
Settlement / Expiry	-	-	(91,191)	-	-
Closing balance	**681,309**	**-**	**1,450,367**	**561,101**	**118,778**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period					
	126,800	**-**	**(1,129)**	**1,020,846**	**179,177**

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.

31.03.2023	Book value	Fair value	Level
Financial assets			
Cash and cash balances at Central Bank	4,360,017	4,360,017	3
Amounts due from banks	12,977,201	12,082,948	3
Loans and advances to customers measured at amortised cost	88,392,107	87,026,397	3
Securities measured at amortised cost	24,311,008	21,061,562	1.3
Other financial assets	501,696	501,696	3
Financial liabilities			
Amounts due to banks	6,666,424	6,653,708	3
Amounts due to customers	116,912,395	115,882,780	3
Subordinated liabilities	4,404,398	4,377,940	3
Leasing liabilities	719,532	719,532	3
Other financial liabilities	1,303,793	1,303,793	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 Central Bank	8,713	8,713	3
Amounts due to 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
Amounts due to 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. 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. The value of the repurchased portfolio amounted to PLN 310 million.

45. 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 31 March 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. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O. in liquidation („ACTUS" 100%).
2. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI").
3. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING").
4. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC").
5. CAMPUS LESZNO SP. Z O.O.

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

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

31.03.2023	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	**14,287,001**	**124**	**135,734**	**375**	**14,423,234**
Receivables on current accounts, loans and deposits	11,983,481	124	110,563	375	**12,094,543**
Derivative financial instruments	2,284,700	-	318	-	**2,285,018**
Derivative hedging instruments	18,820	-	-	-	**18,820**
Other assets	-	-	24,853	-	**24,853**
Liabilities	**11,223,975**	**33,060**	**1,563,634**	**3,154**	**12,823,823**
Loans and advances received	4,135,918	-	475,426	-	**4,611,344**
Current accounts and deposits	789,097	32,108	801,590	3,154	**1,625,949**
Subordinated liabilities	4,122,373	-	282,025	-	**4,404,398**
Derivative financial instruments	933,535	952	3,353	-	**937,840**
Derivative hedging instruments	1,243,052	-	-	-	**1,243,052**
Leasing liabilities	-	-	1,008	-	**1,008**
Other liabilities	-	-	232	-	**232**
Contingent liabilities					
Financial commitments granted	-	-	324,153	700	**324,853**
Guarantee commitments	196,485	136,066	2,529,336	-	**2,861,887**
Commitments received	799,857	192,452	1,898,177	-	**2,890,486**
Derivative instruments (nominal value)	62,468,296	935,100	77,449	-	**63,480,845**
Hedging derivative instruments (nominal value)	18,517,687	-	-	-	**18,517,687**
Statement of profit or loss		**135,617**	**59**	**(12,051)**	**(68)**
1Q 2023 from 01.01.2023 to 31.03.2023					
Interest income	41,658	503	17,572	3	**59,736**
Interest expense	(134,842)	(444)	(21,826)	(71)	**(157,183)**
Fee and commission income	-	-	740	-	**740**
Net trading income	249,394	-	-	-	**249,394**
Other operating income	-	-	14,454	-	**14,454**
General administrative expenses	(20,593)	-	(19,522)	-	**(40,115)**

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	**(386,711)**	**(91)**	**(24,363)**	**4**	**(411,161)**
1Q 2022 from 01.01.2022 to 31.03.2022					
Interest income	-	-	458	4	**462**
Interest expense	(58,138)	(91)	(7,319)	-	**(65,548)**
Fee and commission income	-	-	876	-	**876**
Net trading income	(307,426)	-	6	-	**(307,420)**
Other operating income	-	-	2,112	-	**2,112**
General administrative expenses	(21,147)	-	(20,496)	-	**(41,643)**

Remuneration of the Management Board and Supervisory Board

Management Board	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Short-term employee benefits	6,896	6,230
Long-term benefits	1,752	1,999
Termination benefits	43	-
Share-based payments*	5,113	2,674
Issued shares**	-	1,405
Total	**13,804**	**12,308**

*includes a provision for deferred phantom shares and 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	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Short-term employee benefits	423	396
Total	**423**	**396**

46. CONSOLIDATED CAPITAL ADEQUACY RATIO

	31.03.2023	31.12.2022
Total own funds	15,000,399	14,842,133
Total risk exposure	94,496,307	95,456,297
Total capital ratio	15.87%	15.55%
Tier 1 capital ratio	11.65%	11.28%

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 clients are divided into four basic groups:

- Polish corporations with annual net sales revenue from PLN 60 million to PLN 600 million or with credit exposure greater or equal to PLN 18 million (or, in the case of businesses operating in the agricultural sector, with credit exposure greater or equal to PLN 40 million),
- International clients (companies belonging to international capital groups),
- the largest Polish corporations with net sales revenue exceeding PLN 600 million,
- public sector entities and financial institutions.

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 1Q to 31.03.2023*								
Net interest income	689,824	109,055	315,792	23,575	61,354	**1,199,600**	149,269	183,396
external interest income	1,063,839	156,193	458,961	119,298	548,250	**2,346,543**	324,189	336,301
external interest expenses	(392,420)	(98,776)	(196,804)	(1,495)	(457,447)	**(1,146,943)**	(120,541)	(44,307)
internal interest income	721,130	165,535	407,232	1,718	(1,295,616)	-	177,100	-
internal interest expenses	(702,726)	(113,898)	(353,597)	(95,947)	1,266,167	-	(231,479)	(108,598)
Net fee and commission income	174,799	37,731	93,028	18,671	849	**325,080**	40,753	39,732
Dividend income	-	-	148	-	179	**327**	71	-
Net trading income	35,402	21,365	95,036	72,497	10,288	**234,588**	23,965	8
Result on investment activities	-	-	-	-	(12,416)	**(12,416)**	-	-
Result on hedge accounting	-	-	-	-	(17,673)	**(17,673)**	-	-
Other operating income and expenses	(2,159)	(152)	(826)	-	(1,635)	**(4,775)**	(795)	(3,810)
Result from derecognition of financial assets measured at amortized cost due to material modification	4,138	-	-	-	-	**4,138**	-	-
Result of allowance for expected credit losses on financial assets and provisions for contingent liabilities	(26,909)	17,491	29,923	4,207	239	**24,950**	68,544	(12,378)
Result on provisions for legal risk related to foreign currency loans	(234,387)	-	-	-	-	**(234,388)**	-	-
General administrative expenses	(292,407)	(40,222)	(107,647)	(27,787)	(209,893)	**(677,955)**	(4,398)	(76,915)
Depreciation and amortization	(26,317)	(552)	(13,394)	(3,297)	(63,610)	**(107,169)**	(69)	(3,628)
Expense allocation (internal)	(177,863)	(46,418)	(41,006)	1,774	263,513	-	-	(28,588)
Operating result	**144,121**	**98,298**	**371,054**	**89,640**	**31,195**	**734,307**	**277,340**	**97,817**
Tax on financial institutions	(43,755)	(6,386)	(27,538)	(4,134)	(21,019)	**(102,832)**	-	(10,643)
Profit before income tax	**100,366**	**91,912**	**343,516**	**85,506**	**10,176**	**631,475**	**277,340**	**87,174**
Income tax expense	-	-	-	-	-	(143,490)	-	-
Net profit for the period						**487,985**		
Statement of financial position as of 31.03.2023*								
Segment assets	46,984,125	7,094,651	29,088,931	5,403,343	59,608,490	**148,179,538**	278,204	1,256,038
Segment liabilities	62,432,055	16,626,985	42,067,865	-	15,066,400	**136,193,303**	17,819,908	-

* 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 1Q to 31.03.2022*								
Net interest income	542,069	68,187	166,422	15,777	210,487	**1,002,944**	107,665	170,642
external interest income	641,805	81,967	203,428	48,825	290,049	**1,266,075**	177,058	249,131
external interest expenses	(46,838)	(16,530)	(37,306)	(149)	(162,308)	**(263,131)**	(19,021)	(20,097)
internal interest income	263,684	51,431	121,184	185	(436,485)	**-**	47,712	-
internal interest expenses	(316,582)	(48,681)	(120,884)	(33,084)	519,231	**-**	(98,083)	(58,393)
Net fee and commission income	164,851	34,762	92,404	8,836	(168)	**300,684**	40,176	28,738
Dividend income	-	-	961	-	19	**981**	42	-
Net trading income	37,060	25,059	78,813	62,727	(52,826)	**150,834**	20,205	14
Result on investment activities	-	-	-	-	(2,262)	**(2,262)**	-	-
Result on hedge accounting	-	-	-	-	19,716	**19,716**	-	-
Other operating income and expenses	(6,260)	(14)	(2,029)	-	3,207	**(5,098)**	54	(7,074)
Result of allowance for expected credit losses on financial assets and provisions for contingent liabilities	(138,850)	53,895	7,276	1,468	(2,918)	**(79,128)**	39,193	(77,338)
Result on provisions for legal risk related to foreign currency loans	(83,034)	-	-	-	-	**(83,034)**	-	-
General administrative expenses	(316,192)	(43,127)	(105,920)	(26,958)	(183,410)	**(675,606)**	(4,100)	(73,673)
Depreciation and amortization	(25,249)	(520)	(9,836)	(3,206)	(60,425)	**(99,236)**	(62)	(3,391)
Expense allocation (internal)	(146,392)	(42,432)	(36,851)	7,158	218,517	**-**	-	(23,915)
Operating result	**28,003**	**95,810**	**191,240**	**65,802**	**149,937**	**530,795**	**203,173**	**14,003**
Tax on financial institutions	(48,722)	(7,016)	(23,398)	(4,333)	(12,384)	**(95,853)**	-	(11,416)
Profit before income tax	**(20,719)**	**88,794**	**167,842**	**61,469**	**137,553**	**434,942**	**203,173**	**2,587**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**(157,201)**	**-**	**-**
Net profit for the period	**(20,719)**	**88,794**	**167,842**	**61,469**	**137,553**	**277,741**	**203,173**	**2,587**
Statement of financial position 31.12.2022*								
Segment assets	50,342,935	7,492,170	26,744,721	5,243,571	48,185,746	**151,517,069**	14,932,026	13,669,760
Segment liabilities	59,064,549	14,473,142	39,583,376	-	13,642,011	**140,254,848**	12,347,295	-

* 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 31 March 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	87.40%	128,991,553	87.40%
BNP Paribas directly	93,501,327	63.35%	93,501,327	63.35%
BNP Paribas Fortis SA/NV directly	35,490,226	24.05%	35,490,226	24.05%
Other shareholders	18,601,597	12.60%	18,601,597	12.60%
Total	**147,593,150**	**100.00%**	**147,593,150**	**100.00%**

There were no changes in the Bank's shareholder's structure in the first quarter of 2023.

As of 31 March 2023, the Bank's share capital amounts to PLN 147,593 thousand.

The share capital consists of 147,593,150 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 174,232 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 147,593,150 votes. The number of votes resulting from the 2022 M series shares granted is 74,368 votes and the total number of votes resulting from the M series shares granted is 174,232 votes.

The amount of the conditional share capital increase after the issue of M series shares is PLN 401,768.

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

The shareholding structure of the Bank and rights to shares owned by the members of the Bank's Management Board and Supervisory Board as at the date of presenting the report for 2022 (1 March 2023) and the report for the first quarter of 2023 (10 May 2023) are presented below.

MEMBER OF THE BANK'S MANAGEMENT BOARD	SHARES[1] 1.03.2023	SUBSCRIPTION WARRANTS[2] 1.03.2023	SHARES[3] 10.05.2023	SUBSCRIPTION WARRANTS[4] 10.05.2023
Przemysław Gdański	17,137	9,336	26,473	12,893
Jean-Charles Aranda	2,338	3,002	5,340	4,495
André Boulanger	3,129	7,081	10,210	7,987
Przemysław Furlepa	2,722	4,076	6,798	5,811
Wojciech Kembłowski	3,195	4,050	7,245	5,628
Kazimierz Łabno	1,862	2,285	4,147	3,205
Magdalena Nowicka	-	2,046	2,046	3,210
Volodymyr Radin	895	1,230	2,125	1,972
Agnieszka Wolska	-	614	614	3,481

1) series M shares subscribed on 4.04.2022 by exercising rights attached to A2 series warrants (A2 series registered subscription warrants were subscribed on 25.03.2021; one warrant entitled to subscribe for one M series 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 series M shares acquired by exercising the rights attached to

the A2 series warrants was 9,148, the number of series M shares acquired by exercising the rights attached to the A1 series warrants was 7,489, the number of shares purchased on the WSE share market was 500.

2) A3 series subscription warrants taken up on 25.03.2022 - one A3 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.

3) 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.

4) 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

Members of the Bank's Supervisory Board did not declare holding any shares/privileges of the Banks as of 31 March 2023 and as at the preparation date of the present Report, i.e. 10 May 2023, and there was no change in this respect from the date of presenting the Report for 2022, i.e. 1 March 2023.

49. DIVIDEND PAID

The Group did not pay any dividends for 2022.

50. DISTRIBUTION OF RETAINED EARNINGS

In accordance with the Management Board’s motion to be presented to the Annual General Meeting of the Bank, the profit of the Bank after tax (net profit) for 2022 in the amount of PLN 370,892 thousand is planned to be fully allocated to the reserve capital.

51. LITIGATION AND CLAIMS

Legal risk

As of 31 March 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.

Corporate claims against the Bank (interchange fee)

As of 31 March 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 31 March 2023, the Bank had received a total of 108 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 156.2 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 appealed against the decision within the statutory deadline. The Bank has established a provision for the above penalty in full amount. The first hearing was set for 29 June 2022. The court requested the Bank to submit additional explanations and documents and adjourned the hearing until 21 September 2022, on which the court delivered his judgment and annulled the decision of UOKiK. Both the President of UOKiK and Prosecutor filed appeals against the judgment. The Bank replied to both appeals.

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).

On 17 January 2023, the Bank received the Decision of the UOKiK, in which:

- 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.

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. There have also been reports of injunctive relief being granted by the courts as requested by the claimants.

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, but without alleging that the loan agreement was invalid.

By 31 March 2023, the Bank had received a total of five lawsuits. All lawsuits were filed on behalf of consumers and relate to mortgage loan agreements in PLN, concluded in 2020 - 2021, 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 726,836. All court proceedings are pending before courts of first instance.

In addition, in 4 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.

Litigation concerning CHF credit agreements in the banking sector

After the judgment of the Court of Justice of the European Union in the CHF-indexed mortgage case (C-260/18), the number of lawsuits related to CHF mortgages against banks is gradually increasing. According to the Association of Polish Banks (ZBP), the number of pending lawsuits related to CHF loan agreements at the end of January 2023 reached almost 113 thousand compared to 110 thousand at the end of 2022. During 2022, over 33 thousand new claims related to foreign currency loans were issued against the banks. This resulted in an increase in provisions for these proceedings created by banks having CHF mortgage loan portfolios. The amount of these provisions created by the biggest listed banks in 2022 amounted to approximately PLN 11.6 billion, contributing to the total value of provisions created for this purpose in the amount of PLN 30.7 billion.

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

The gross balance sheet value of mortgage and housing loans granted to individual customers in CHF as of 31 March 2023 amounted to PLN 3.82 billion, compared to PLN 4.09 billion at the end of 2022.

As of 31 March 2023 the Bank was the defendant in 4,009 (678 new cases in 2023) pending court proceedings (including validly closed cases, clients brought a total of 4,497 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 31 March 2023 was PLN 1,856 million (as of 31 December 2022 was PLN 1,549.46 million), and in legally binding cases PLN 192.91 million (PLN 150.36 million as of 31 December 2022).

As of 31 March 2023, the following judgments have been issued in 488 proceedings that have been legally concluded: 140 judgments in favour of the Bank, including 87 proceedings in case of which a court settlement agreement was concluded, and in 348 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 31 March 2023 amounted to PLN 2,003.3 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 234.4 million in the first quarter of 2023 (in 2022 it amounted to PLN 740 million). 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 amount of recognized asset on this account amounted to PLN 59.04 million as of 31 March 2023.

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 400.3 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 March, there were 90 judgements); more than half of these 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 principal paid without taking into account the remuneration for the use of the principal, the Bank is obliged to return the sum of the principal and interest instalments paid by the client, together with the statutory interest for late payment in a case of ongoing cases, and the Bank writes down the loan 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 quarter of 2023, the Bank used PLN 60.4 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 quarter of 2023, the Bank used PLN 30.2 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 81 million.

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

Parameter	Scenario	Impact on Bank's loss due to legal risk
Percentage of lawsuits lost	+5 p.p.	PLN +67 million
	-5 p.p.	PLN -81 million

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	Parameter
Percentage of future lawsuits	+20%	PLN +76 million
	-20%	PLN -76 million

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 33 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 borrowers is unfavourable to the banks, but it is important to note a number of still unclarified legal issues relating to foreign currency-linked loans, in particular relating to the effects of declaring a loan agreement invalid, including the banks' ability to demand remuneration for the use of capital. The above issues are important for assessing the risks associated with 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.

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

There was one ruling before the CJEU in 2022 concerning the issues related to CHF loans. On 8 September 2022, the CJEU handed down a judgment in three joined cases concerning indexed and denominated loans granted in Poland (C-80/21 to C-82/21). The Court confirmed that:

- a national court may not replace an abusive contract term (in order to avoid the invalidity of the contract) **by an interpretation of the parties' statement of intent or by a provision of national law of a dispositive nature.**
- it is possible to declare only part of a contract term abusive, provided that that abusive part can be severed in a way which does not affect the substance of the rest of the contract term. If the deletion would amount to altering the content of the term by changing its essence, this is prohibited. It is for the national court to examine in this respect.
- the limitation period for a consumer's claims for reimbursement of sums unduly paid on the basis of an abusive contractual term starts to run from the time when the consumer became aware, or should have become aware, of the unfair nature of the contractual term. On the other hand, it is for the national court to determine that point in time, taking into account the circumstances of the particular case.

Pending at the CJEU is the preliminary question in Case C-520/21 of Millennium Bank, which concerns whether, in the event of the cancellation of a loan agreement, the parties have any claim for the use of the capital by the other party (including the entrepreneur as well as the consumer). The question relates to any possible claim by both parties (remuneration, compensation, reimbursement of expenses or valorisation of the benefit) when the court finds that the contract has collapsed. The hearing was held on 12 October 2022. The hearing was attended by representatives of the European Commission, the Polish government, the Financial Ombudsman, the Ombudsman, the Polish Financial Supervision Authority (among others).

In December 2022, the CJEU received another preliminary question relating to the ability of a bank to assert claims for the use of capital (the case was designated sig. C-756/22).

In an opinion issued on 16 February 2023 in a case C-520/21 , the Ombudsman General of the CJEU pointed out that Directive 93/13 does not specify what are the effects of declaring that a consumer contract becomes legally non-existent once unfair terms are removed from it. These effects are determined by member states on the basis of their national law in a manner consistent with the Union law.

With regard to the consumer's claims against the Bank, the Ombudsman General assumed that the provisions of Directive 93/13 do not preclude a judicial interpretation of national law, according to which, if a credit agreement concluded between a consumer and a bank is declared invalid from the outset because it contains fraudulent contractual terms, the consumer, in addition to a refund of the money paid under the agreement and the payment of statutory interest for late payment from the time of the demand for payment, may, following such a declaration, also claim additional benefits from the bank. It is for the national court to determine, in light of national law, whether consumers are entitled to assert such claims and, if so, to rule on their merits.

With regard to the Bank's ability to assert claims of a similar nature against consumers, the Ombudsman General proposed that the Court rule that bank cannot assert claims against consumers that go beyond the return of the transferred loan capital and the payment of statutory interest for late payment from the moment of the payment notice.

According to the Ombudsman General, the proposed solutions are in line with the purpose of the directive, i.e. to grant consumers a high level of protection.

The Ombudsman General's opinion does not prejudge the outcome and is not binding on the CJEU. The date of the CJEU's judgment is unknown.

In view of the fact that the Ombudsman's opinion is not binding, does not prejudge the outcome, leaves wide room for interpretation, the CJEU ruling is impossible to predict, as is the application of this ruling by national courts, the opinion cannot be used as a basis for changing the level of provisions for legal risk associated with CHF mortgage loans in these financial statements.

Under the assumption that the future CJEU ruling will be entirely consistent with the theses of the above-mentioned Ombudsman General's opinion and will conclude that there is no right of banks to remuneration for the use of capital, the Bank points out that remuneration for the use of capital for the Bank is not a parameter used in the current provisioning model and has no direct impact on the Bank's risk reflected in the level of provisions for the effects of the cancellation of loan agreements. In contrast, the Bank's existing models did not take into account the remuneration to a customer for the use by the Bank of instalments on a loan repaid by the customer that had been declared invalid. Estimating the amount of potential costs associated with this risk requires clarification of the assumptions based on the establishment of the legal interpretation and subsequently the line of jurisprudence, and will be possible at the earliest after the issuance of a ruling by the CJEU.

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.

Currently, the theses of the resolution of the 7 judges of the Civil Chamber of the Supreme Court of 7 May 2021 in the case ref. III CZP 6/21 (resolution having the force of legal principle) are taken into account in judicial decisions. In the ruling responding to a legal issue presented by the Financial Ombudsman, the Supreme Court indicated by reasoning the grounds that:

(1) the borrower may agree to the continued validity of terms which may be unfair, in which case they take effect from the date of conclusion of the contract,

(2) if the contract falls due to the unfair terms contained therein, each party has a claim for repayment of the performance made by that party (the so-called two-condition theory),

(3) the limitation period for the Bank's claims for reimbursement of the principal begins to run only from the moment when the agreement has become definitively ineffective (the basis for the performance has been lost),

(4) the agreement becomes permanently ineffective from the moment when the borrower, having been informed of all the consequences of the failure of the agreement, including the possible specific negative consequences of such a failure, makes a declaration to not keep the agreement in force. The borrower should be informed of the consequences of the failure of the agreement by the court in the course of the proceedings.

The meeting of the full bench of the Civil Chamber of the Supreme Court concerning the legal issues presented on 29 January 2021 by the First President of the Supreme Court in the case III CZP 11/21 (the current signature is III CZP 25/22) was postponed without a date, following the Supreme Court's formulation of preliminary questions to the CJEU. The preliminary questions are aimed to establish whether the Civil Chamber in its current composition can be regarded as an independent court and thus whether it has the capacity to pass a resolution on the legal questions posed at all.

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

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

If the answer to the above question is negative:

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

3. If it is not possible to establish a foreign currency exchange rate in a loan agreement denominated in a foreign currency, can the parties remain bound by the agreement?

Irrespective of the answers to questions 1 to 3:

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

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

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

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

On 28 April 2022, the Supreme Court (composed of 3 judges) adopted a resolution with a signature III CZP 40/22, according to which: "Contrary to the nature of the legal relationship of a loan indexed to a foreign currency are provisions in which the lender is authorised to unilaterally determine the exchange rate of the currency relevant for calculating the amount of the borrower's obligation and for determining the amount of the loan instalments, if objective and verifiable criteria for determining this rate do not arise from the content of the legal relationship. If the provisions meet the criteria for being considered prohibited contractual provisions, they are not invalid, but are not binding on the consumer within the meaning of Article 385(1) of the Civil Code." An analysis of the justification of the Supreme Court's resolution, indicates that when there occur the prerequisites for the application of the provision of Article 385(1) and Article 353(1) of the Civil Code, the court should apply the sanction of ineffectiveness of the contractual provision, without ruling it invalid on general principles. Although the ruling was issued in a case concerning indexed credit, it can also be applied to denominated and foreign currency loans, which was confirmed on 9 September 2022 by the Supreme Court, reversing the ruling in one of the Bank's cases as a result of the Bank's cassation appeal and referring the case back for reconsideration (II CSKP 794/22), broadly referring to the resolution of 28 April 2022 (III CZP 40/22).

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. The above shows that there is no clear position of the Supreme Court in this regard.

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 loan agreement, as a named contract regulated outside the Civil Code in the Banking Law, is a reciprocal contract or a bilateral but not reciprocal contract) and Case III CZP 152/22 (the Supreme Court is to decide whether an index-linked bank loan agreement is a reciprocal contract within the meaning of Article 487 § 2 of the Civil Code).

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.

As of the end of March 2023, 174 cassation appeals have been filed with the Supreme Court in cases of CHF loans granted by the Bank, 12 appeals have been accepted by the Supreme Court for examination and are awaiting substantive decision, as to 22 cassation appeals, the Supreme Court has issued a decision on refusal to accept for examination. Two cases have been sent back for examination.

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 issuance of the CJEU's Ombudsman opinion on 16 February 2023, the Bank has not observed a change in customer behaviour that would affect the parameters and assumptions made so far, including the customers' willingness to reach settlements.

As of 31 March 2023, the Bank has made individual settlement proposals to 11,227 Customers and 2,793 Customers accepted the terms of the proposals presented out of which 1,592 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 March 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 74% 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 March 2023. The Group's exposure represented 19% 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 14% 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 (NACE/PKD 2007). The Group's exposure to industries analysed at the end of March 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 March 2023, the share of manufacturing increased by 1 p.p. to 24% 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 31 March 2023 and 31 December 2022.

	Exposure*		Share of non-performing loans	
Sector	31.03.2023	31.12.2022	31.03.2023	31.12.2022
AGRICULTURE, FORESTRY, HUNTING AND FISHING	8,938,685	9,293,333	7.1%	7.7%
MINING AND QUARRYING	56,565	79,683	2.7%	2.3%
INDUSTRIAL PROCESSING	12,511,456	12,365,311	2.5%	2.5%
PRODUCTION AND SUPPLY OF ELECTRICITY, GAS, STEAM, HOT WATER AND AIR TO SYSTEMS	1,031,645	1,092,049	0.3%	0.3%
WATER SUPPLY; SEWAGE AND WASTE MANAGEMENT AS WELL AS REMEDIATION ACTIVITIES	193,318	190,385	1.8%	1.8%
CONSTRUCTION	3,099,060	3,293,737	6.0%	5.5%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES, INCLUDING MOTORBIKES	8,128,466	8,110,750	3.6%	4.1%
TRANSPORT AND STORAGE	2,577,790	2,546,054	2.4%	2.3%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	278,252	280,128	20.8%	20.6%
INFORMATION AND COMMUNICATION	2,866,883	2,686,342	1.8%	1.8%
FINANCIAL AND INSURANCE ACTIVITIES	2,029,756	1,689,167	0.8%	3.7%
REAL ESTATE ACTIVITIES	5,809,052	5,761,289	2.2%	2.3%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	3,272,009	3,119,349	1.7%	1.6%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	1,048,198	1,083,990	4.0%	3.8%
PUBLIC ADMINISTRATION AND DEFENCE; COMPULSORY SOCIAL SECURITY	53,748	54,892	0.0%	0.0%
EDUCATION	70,528	76,405	7.3%	8.6%
HEALTH CARE AND SOCIAL ASSISTANCE	837,227	847,363	3.2%	2.8%
CULTURE, ENTERTAINMENT AND RECREATION ACTIVITIES	17,775	18,741	8.9%	8.7%
OTHER ACTIVITIES	106,911	114,436	4.8%	4.0%
Total	**52,927,322**	**52,703,402**	**3.6%**	**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 March 2023, as well as at the end of 2022, the limits were not exceeded

The structure of overdue receivables

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

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

Structure of overdue receivables (net balance sheet value)*	31.03.2023 without impairment				with impairment	Total
	0 days	1-30 days	31-60 days	61-90 days		
Mortgage loans and advances	25,290,734	79,133	12,646	4,432	191,476	25,578,421
Cash loans	8,686,504	62,745	10,360	4,666	144,877	8,909,152
Car loans	1,718,489	3,799	1,045	434	12,143	1,735,910
Credit cards	829,123	9,034	1,490	674	21,035	861,356
Investment loans	23,875,810	269,443	5,604	6,638	303,735	24,461,230
Limits in current account	11,610,096	105,274	5,756	2,711	150,857	11,874,694
Working capital loans to companies	9,466,152	139,233	13,058	4,844	253,509	9,876,796
Leasing	5,279,271	133,416	16,178	15,802	84,162	5,528,829
Other	389,036	14,025	3,642	318	19,012	426,033
Total	**87,145,215**	**816,102**	**69,779**	**40,519**	**1,180,806**	**89,252,421**

* 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.

Structure of overdue receivables (net balance sheet value)*	31.12.2022 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.

At the end of March 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 March 2023, 75% of the Bank’s exposure to countries other than Poland were transactions related to the Bank’s foreign lending activities, treasury transactions (including placement and derivative transactions) accounted for 14% while the remaining part (11%) was related to foreign trade transactions (letters of credit and guarantees). France accounted for 37%, Luxembourg for 28%, Italy for 15%, the Netherlands for 10%, Austria for 3% and Belgium and Germany both for 2%. The remaining exposure was concentrated in Mexico, Czech Republic and Sweden.

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 March 2023, the Bank's exposure to counterparty risk from derivative transactions was PLN 2.5 billion. Corporate clients concentrated 70% of the exposure, while the remaining 30% 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 quarters 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:	31.03.2023	31.12.2022
Up	272,457	261,059
Down	(222,662)	(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 SA.

In 2021 BNP Paribas Bank Polska S.A. (the "Bank") completed a project related to the implementation of IBOR Reform and adjustment to the requirements of the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (the "BMR Regulation").

The project concerned the liquidation of LIBOR rates for EUR, GBP, CHF, JPY and USD (ON, SW, 2M, 1Y) at the end of 2021 and LIBOR USD rate (1M, 3M, 6M) on 30.06.2023.

As at 31 March 2023 the Bank held:
- USD LIBOR-based financial assets of USD 38.0 million, of which USD 34.9 million maturing beyond 30.06.2023,
- USD LIBOR based financial liabilities of USD 0.5 million maturing in full before 30.06.2023.

As at 31 March 2023 the Bank also held interest rate swaps (IRS) under fair value hedge accounting based on USD LIBOR for USD 70.0 million, of which USD 55.0 million matures beyond 30.06.2023.

The Bank has a Contingency Plan for the continuity of benchmarks used in financial contracts and instruments, uses so-called "fallback clauses" to regulate the establishment of substitute (alternative) indicators to those currently in use, and has developed appropriate changes to the IT systems that allow for a multi-variant use of indicators in the event of cessation of the development of a given reference indicator.

In the case of hedging instruments, the Bank, as recommended by the PFSA, has joined the ISDA IBOR Fallbacks Supplement and Protocol and is actively working with its counterparties to introduce the rules in line with this methodology.

In connection with the planned reform of reference indices leading to the replacement of the WIBOR interest rate reference index with a new reference index, a National Working Group ("NWG") has been established to prepare a schedule of activities for the smooth and safe implementation of the changes in this respect. The work of the NWG is supervised and coordinated by the Steering Committee. The NWG 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 (Regulation of the European Parliament and of the Council (EU)) is the WSE Benchmark, registered with the European Securities and Markets Authority. The NWG Steering Committee has approved a Roadmap for the process of replacing the WIBOR benchmarks with the WIRON index. The document sets out the basic assumptions for the work of the NWG, according to which an universal use of WIRON is assumed and a readiness to discontinue the calculation and publication of WIBID and WIBOR Reference Rates in 2025

The WIRON interest rate index was introduced as a component of performance fees in investment funds. Consequently, WIRON became an interest rate benchmark.

Following a public consultation, the Steering Committee of the National Working Group on reference index reform adopted a number of recommendations. A glossary of terms was developed, standardising the terminology and terms used in the recommendations and other materials produced by the NGR.

In January this year, the recommendation for a standard OIS transaction based on WIRON was adopted, and the first OIS transactions using WIRON were concluded in the domestic financial market. In March, a recommendation on WIRON in floating rate debt issues was adopted.

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 the WIBOR-based portfolio.

The Bank has established a team responsible for adapting its operations to the changes associated with the replacement of WIBOR interest rate benchmark. The work of the team is supervised and coordinated by a dedicated Steering Committee. As part of the team, persons delegated to participate in the work of the NGR have been identified and are responsible for carrying out the relevant changes in the Bank within documentation, communication, IT systems. As envisaged, the Bank's adjustment in this respect will take into account the decisions and recommendations of the NGR.

As at 31.03.2023 the Bank has identified:
- financial assets based on WIBOR in the amount of PLN 53,672.7 million
- financial liabilities based on WIBOR and WIBID in the amount of PLN 10,016.6 million

The Bank also had interest rate swaps (CIRS/IRS) based on WIBOR in the amount of PLN 8,557.5 million, of which PLN 6,462.5 million under fair value hedge accounting.

Until 31 March 2023, the Bank did not have any WIRON-based products in its product offering.

The Bank assumes that the replacement of the WIBOR interest rate reference index with a new reference index will be carried out in an orderly manner, in accordance with the formal requirements of the BMR Regulation, and will include all instances of the reference index used 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 its application, in order to take into account the effects of a change in the reference index. In the Bank's view, all of the above-mentioned aspects would ensure that a number of risks associated with the planned reform are limited. 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 quarter 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 61 thousand and for EUR 55 thousand. The VaR measure of interest rate risk increased compared to the previous quarter by approximately 19%, to PLN 3.7 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 40% of the allocated limits.

Foreign exchange risk was kept at a low level, i.e. around 8% of the limit utilisation, and similarly to interest rate risk, it 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 servicing of customer transactions.

Despite the dynamic global situation and high volatility on financial markets, the Bank, through an appropriate risk management process, maintains its market risk profile at a relatively low level.

LIQUIDITY RISK

During the first quarter of 2023, the Bank maintained supervisory measures of short- and long-term liquidity above regulatory and internal limits. The LCR averaged 178.7% during the three months of the year. The maximum LCR was 187.7% and the minimum was 169.9%.

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 quarter 2023, the Bank recorded a decrease in deposits: corporate deposits of PLN 2.38 trillion and retail deposits of PLN 0.9 trillion. Loans grew in the case of companies (PLN 0.47 trillion), while there was a decrease of PLN 1.53 trillion in the case of individual customers. This decrease is mainly due to high interest rates and a reduction in the creditworthiness of customers particularly in the case of mortgage loans. 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 not affected 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 Authorities and the standards adopted by the BNP Paribas Group.

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

- identification and assessment of operational risk, including through gathering information on operational events, assessment of the risk in processes and products, 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 quarter 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.

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.

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[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.

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

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 31 March 2023, the adjustment in common equity Tier 1 capital related to other intangible assets amounted to PLN 375,719 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 8 November 2021, announced that, based on the provisions of the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial system and after taking into account the opinion of the Financial Stability Committee, it confirmed the identification of ten banks as other systemically important institutions (O-SII).

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

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 rate for credit exposures in the territory of the Republic of Poland, which was applicable at the end of March 31, 2023, amounted to 0%. Group-specific countercyclical buffer rate, determined in accordance with the provisions of the Act of August 5, 2015 on macroprudential supervision over the financial system and crisis management in the financial system, as a weighted average of the countercyclical buffer rates applicable in jurisdictions where the Group's relevant credit exposures are located, as at March 31, 2023 amounted to 1 b.p. The value of the ratio was influenced primarily by exposures in Luxembourg, where the countercyclical buffer rate was 0.5%.

On 30 March 2023, the Bank received a decision from the PFSA approving the inclusion of the audited consolidated net profit of PLN 436,253,963, generated in the period from 1 January 2022 to 31 December 2022, in the consolidated Common Equity Tier 1 capital.

The level of Tier I capital ratio and the total capital ratio (TCR) on individual basis, were above the requirements for the Capital Group as at 31 March 2023.

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.

31.03.2023	The minimum supervisory consolidated solvency ratios of the Group	Consolidated capital adequacy ratios of the Group
CET I	8.02%	11.59%
Tier I	9.52%	11.59%
Total Capital Ratio	11.52%	15.80%
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 3 June 2022, the Bank received an announcement from the Bank Guarantee Fund ("BFG") regarding the joint decision of the resolution authorities, i.e. the Single Resolution Board (“SRB”), Central Bank of Hungary, Finanstilsynet, Bank of England and BFG, on the minimum level of own funds and eligible liabilities ("MREL").

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

The MREL target requirement set by the Fund, in consultation with the SRB, for BNP Paribas Bank Polska S.A. is:

- 15.99% of TREA, the total risk exposure amount (TREA) calculated in accordance with Article 92(3) and (4) of Regulation (EU) No 575/2013 (hereinafter MREL-TREA), and
- 5.91% of TEM, the total exposure measure (TEM) calculated in accordance with Articles 429 and 429a of Regulation (EU) No 575/2013 (hereinafter MREL-TEM)

at the individual level.

The Bank is required to meet the MREL requirement by 31 December 2023.

At the same time, on 3 June 2022, the Fund, in consultation with the SRB, has set interim targets for the Bank to meet by the end of each calendar year during the period of reaching the MREL target:

- in relation to TREA these are: 11.99% at the time of communicating to the Bank the agreement and joint decision on MREL and 13.99 % at the end of 2022,
- in relation to TEM these are: 3.00% at the time of communicating to the Bank the agreement and joint decision on MREL and 4.46% at the end of 2022.

On 22 September 2022, the Fund announced an update to the Methodology for the determination of MREL and, in particular, an update to the pathway to the target minimum level of own funds and eligible liabilities expressed as a percentage of total risk exposure (MREL-TREA). The Fund has adopted new assumptions for the determination of the interim MREL-TREA requirement for entities for which the mandatory restructuring plans or group mandatory restructuring plans ("plans") assume the use of the mandatory restructuring facility. For the current planning cycle, the Fund will determine the MREL-TREA interim requirement that entities should meet by 31 December 2022, based on the same formula as for the MREL-TREA interim requirement that entities are required to meet as of 1 January this year.

The Fund has indicated that it will apply the revised rules for determining the interim MREL requirement in accordance with the timetable for adopting reviews and updates of TREAs and group TREAs. For domestic entities that are subsidiaries in cross-border groups, for which the adoption of plans and the setting of minimum levels of own funds and eligible liabilities are made by way of a joint decision, it may be that the adoption of joint decisions incorporating the revised path to the MREL-TREA target level will occur after 1 January 2023.

In such cases, pending the adoption of new joint decisions taking into account the updated MREL-TREA interim requirements, the Fund will take into account the fact of pending changes to the MREL-TREA interim level when monitoring compliance with the MREL-TREA interim requirement.

In the context of the above, the Bank has assumed that the MREL-TREA requirement amounted to 11.99% at the end of 2022 until a new joint decision of the resolution authorities, i.e. the Single Resolution Board (SRB), the Central Bank of Hungary, Finanstilsynet, the Bank of England and the BFG, on the level of the minimum level of own funds and eligible liabilities ("MREL") is obtained.

The entire MREL requirement should be met in the form of own funds and liabilities meeting the criteria set out in Article 98 of the Act on the BGF, which transposes Article 45f(2) of the BRRD2. According to the decision, the part of MREL corresponding to the recapitalisation amount (RCA) will be met in the form of AT1, T2 instruments and other subordinated eligible liabilities acquired directly or indirectly by the parent company.

The Bank definitely complies with the defined MREL-TREA and MREL-TEM requirements as at 31 March 2023.

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 compulsory restructuring by the Bank Guarantee Fund ("BFG") 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 31 March 2023:

FULL NAME	OFFICE HELD IN THE SUPERVISORY 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
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

Changes in the composition of the Supervisory Board in the period from 1 January to 31 March 2023:

- On 17 January 2023, the Extraordinary General Meeting of the Bank appointed Mr Grégory Raison as a Member of the Supervisory Board as of 17 January 2023 until the end of the current five-year joint term of office.
- On 28 February 2023 Mr Jean-Paul Sabet resigned from the position of a Member of the Supervisory Board as of the date of the Bank's Annual General Meeting approving the financial statements for 2022.
- On 24 March 2023 Mr Grégory Raison resigned from the position of a Member of the Supervisory Board. The reason for Mr Grégory Raison's resignation is to run for the position of a Vice-President of the Management Board.

Composition of the Bank's Management Board as of 31 March 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 Management Board in the period from 1 January to 31 March 2023:

- On 24 March 2023 Mr Jean-Charles Aranda resigned from the position of a Vice-President of the Management Board as of 31 July 2023.

54. MAJOR EVENTS IN THE BNP PARIBAS BANK POLSKA S.A. CAPITAL GROUP IN THE FIRST QUARTER OF 2022

11.01.2023	**Extraordinary General Meeting of Shareholders** - adoption of resolutions on, inter alia: • to assess the collective adequacy of the Bank's Supervisory Board following the change in the composition of the Supervisory Board • to appoint Mr Grégory Raison as a member of the Bank's 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 Bank's 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 Board of Directors regarding the distribution of net profit for 2022** Recommendation of the Bank's Management Board to allocate the entire net profit of the Bank for the financial year 2022 to reserve capital. The Bank's Supervisory Board gave a positive opinion on the Management Board's proposal, which will be submitted to the Bank's Annual General Meeting. 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)

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

55. FACTORS WHICH, IN THE BANK'S OPINION, WILL AFFECT THE RESULT OF THE CAPITAL GROUP IN THE PERSPECTIVE OF AT LEAST THE FOLLOWING QUARTER

Key external factors that the Bank believes may affect the Group's performance in future periods include:

- **War in Ukraine.** According to estimates by the Kyiv School of Economics, the damage to infrastructure and buildings in Ukraine as a result of nearly a year of Russian military aggression has exceeded USD 120 billion. At the same time, the Ukrainian economy has fallen into a deep recession, with estimates of GDP showing a drop of one-third in the volume of goods and services produced. The impact of the war on the economies is also being felt in neighbouring countries, including Poland. For example, the surge in energy prices associated with the departure of European countries from imports of energy resources from Russia was one of the significant reasons for the sharp acceleration of inflation in Poland last year. The total impact of the war is still difficult to estimate and will depend on when it ends, the political resolution of the war, as well as what further sanctions will be imposed on Russia and Russia's response to them.

- **Global economic slowdown.** According to the International Monetary Fund ("IMF"), global economic growth is increasingly slowing down. The IMF estimates that GDP growth will slow to 2.8% in 2023 from 3.4% in 2022. The slowdown will mainly affect developed economies. The IMF forecasts a decline from 2.7% in 2022 to 1.3% in 2023. In the wake of shrinking economic activity, CPI inflation should also slow down. The IMF expects inflation to slow to 7.0% this year from a peak of 8.7% in 2022. In the euro area, detailed forecasts predict that GDP growth will slow to 0.8% in 2023 and accelerate to 1.4% the following year. The decline in activity in Western European countries will also affect economic growth in Poland. The IMF downgraded Poland's GDP growth prospects to 0.3% in 2023 and to 2.4% in 2024, against 0.5% and 3.1% assumed in its October report. Similar forecasts were published in February by the European Commission ("EC"). According to its estimates, the Eurozone's GDP dynamics will reach 0.9% in 2023, accelerating to 1.5% the following year. In the case of Poland, the forecasts of both institutions also coincide. According to the EC's forecasts, economic activity in Poland will increase by 0.4% this year and 2.5% the following year. With the recent increase in financial market volatility, uncertainty around the global economic outlook has increased. In 2023, the economy continues to be impacted by factors that influenced growth in 2022, i.e.: central banks' monetary policies to moderate inflation, spikes in commodity prices and events related to Russia's war in Ukraine, as well as China's economic reopening - seem likely in 2023.
- **Monetary policy by major central banks.** Apart from the geopolitical situation, the main factor influencing the pace of the global recovery is the policy of central banks. After a very hawkish 2022, this year has seen a gradual change in narrative. In March, the US Financial Reserve ('Fed') raised the main interest rate again, to a range of 4.75-5.00%. However, following an increase in concerns about the financial sector, there is no shortage of voices saying that the Fed will end the cycle in May and that interest rate cuts are possible from September onwards. The hawkish stance is still maintained by the European Central Bank ("ECB"). In March 2023, the ECB Governing Council raised the deposit rate by 50 bps, to 3.00%. According to the ECB's communications, further interest rate developments by the Governing Council will depend on incoming data and will be geared towards bringing inflation down to the 2% target in the medium term. The market assumes one more hike in May, followed by their stabilisation later in the year.
- **National Bank activities.** From October 2022. The Monetary Policy Council ("MPC") has kept interest rates unchanged with the main interest rate at 6.75%. The MPC has not officially announced the end of the monetary tightening cycle in Poland. However, according to Chairman Adam Glapiński, the Council will not return to hikes. He also suggested that cuts are likely but only if there is confidence that inflation is falling permanently. The Council believes that the expected weakening of the external environment of the Polish economy, together with the tightening of monetary policy by major central banks, will have a dampening effect on global inflation and commodity prices.
- **Behaviour of the zloty against key currencies.** In Q1, the zloty moved in a range of 4.68-4.78. In January and March, the exchange rate was rather stable. The most noticeable changes occurred in February, when EUR/PLN first rose to 4.80 and then fell back below 4.70. The initial sell-off of the zloty was due to the EUR/USD decline caused by stress in the global banking sector. Later, when US interest rate expectations were revalued downwards, EUR/USD rose and the zloty strengthened. In the following quarters, the zloty may continue to appreciate in the wake of a rising EUR/USD. The zloty's appreciation may be constrained by domestic factors, i.e. the pause in the cycle of interest rate rises, rising core inflation and limited progress in negotiations with the EU institution on funds from the National Recovery Plan.
- **Economic developments in Poland.** The Polish economy is in the midst of a significant downturn. According to the final data, GDP growth in the fourth quarter slowed to 2.3% YoY from 3.9% YoY, and in quarterly terms the volume of goods and services produced fell by 2.4%. As expected, GDP growth was driven primarily by an increase in inventories, which added more than 1.7p.p. to total GDP growth. The detailed breakdown also pointed to disappointing consumption, which declined by 1.1% YoY. The weak data most likely reflected the negative impact of high inflation and interest rates on household spending. Meanwhile, net exports recorded a surplus and contributed positively to annual GDP growth by adding 1.7 p.p. According to the NBP's tentacle forecasts, annual GDP growth will continue to slow gradually to -0.4% in the first quarter, before gradually accelerating. The year 2023 will close with economic growth at 0.9%, rising to 2.1% the following year. In the current year, economic growth will continue to be negatively impacted by the macroeconomic effects of the war in Ukraine, in particular the effects of the second round of significant increases in energy prices. According to the NBP, in the further horizon of the projection, domestic economic activity will be increasingly adversely affected by the expected slowdown in GDP growth in the main developed economies, high interest rates maintained by the main central banks and a significant decrease in the inflow of European funds after the end of the disbursement of funds from the 2014-2020 EU perspective.

- **Situation on the domestic labour market**. The situation on the Polish labour market is still good. Nominal wage dynamics remain at a high, double-digit level. In the first quarter of 2023, wage growth in the enterprise sector averaged around 13% YoY, compared to 12.3% YoY in the fourth quarter of 2022. This year, the dynamics of pay in the corporate sector may continue at a high level due to two increases in the minimum wage of nearly 20% in total. The Inflation Report published in March shows that average wage growth across the economy will be 12% this year. In the following years, the dynamics will decrease to 8.1% in 2024 and to 6.5% in 2025. The dynamic growth of wages is due, among other things, to the still good situation on the Polish labour market and high CPI inflation, which increases employees' wage demands. On the employment side, however, there are some signs of deceleration in the Polish labour market. Employment in the corporate sector increased by 0.9% YoY, which was a marked slowdown compared to the fourth quarter of last year (2.3% YoY). The decline in employment growth may be the first sign of market weakness. However, we do not expect a sharp rise in unemployment, but rather an adjustment of employment plans to current demand.
- **Increased inflation.** According to the NBP's forecasts, inflation will gradually decline in 2023 as the shocks caused by the war in Ukraine and demand factors fade. According to the NBP forecasts, inflation peaked in the first quarter of this year and will be in the region of 7.6% by the end of the year. However, assuming that the current level of interest rates is maintained, CPI inflation will not return to the target (2.5%, +/-1 p.p.) until the end of 2025. Deflation will be fostered by, inter alia, weakening economic activity in both the euro zone and Poland, as well as the stabilisation or even decline in energy commodity prices. Nevertheless, domestic factors, i.e. high inflation expectations and rising wages, may significantly inhibit a further slowdown in inflation. High inflation and a good labour market situation may translate into higher Bank costs.
- **Increasing imbalances in public finances.** The year 2022 closed with a general government deficit of PLN 115 billion, representing 3.7% of Polish GDP. In the following years, the European Commission forecasts a decrease in the deficit to 2.8% of GDP in 2023 and 2.3% of GDP in 2024. A major challenge for public finances this year will be the support measures introduced to mitigate the effects of high energy prices. These prices have been frozen for households within certain consumption limits and capped for utilities and small and medium-sized enterprises. Spending on people fleeing war-ravaged Ukraine is to continue. The government has also launched a large multi-year defence investment programme, increasing budget spending in this area to 3% of GDP per year.
- **Sentiment in major financial markets.** The main factors that will influence market sentiment in 2023 will be the monetary policy development of the major central banks. A softening stance and the possible announcement of interest rate cuts may stimulate risk appetite with a positive impact also on the markets of Central and Eastern Europe, including Polish zloty. Locally, the war in Ukraine and its possible escalation will also remain in the markets' focus. This is of particular importance in the context of the exchange rate of Polish currency. In the event of increased risk aversion, zloty, like other emerging market currencies, loses value.
- **Replacement of the WIBOR index**. Contrary to original announcements, implementation of the new index did not take place in full from the beginning of 2023. It was decided to conduct this process gradually, staggered until 2025.The new WIRON index was based on short-term ("overnight") transactions. From December 2022, it can be used in new financial instruments. According to the roadmap of the National Working Group on Reference Ratio Reform (NGR), WIRON-based consumer products would be offered from 2024, while the conversion of old WIBOR-based contracts is planned for 2025 and will include a corrective spread. This change in its current form can be described as almost neutral for the banking sector. According to year-end quotes, WIRON is 0.9 p.p. lower compared to the previous index. Due to the specifics of its calculation, the difference will further decrease during a period of stabilisation or falling interest rates. In addition, the EU BMR Regulation, which is supposed to ensure that the benchmark reflects its market and economic value, does not recognise a lower interest rate as a rationale for the replacement. Application of the spread should correct the value of WIRON index so that the economic impact of the changes is neutral for both contractual parties. It should be noted that, given the differences in construction of WIBOR, the new index has the potential for greater volatility. In the event of a liquidity shock scenario in the market, affecting large companies for example, there could be a rapid and strong increase of this index.
- **Capital position.** The capital position of Polish banking sector has improved significantly in recent months. Their value at the end of February amounted to PLN 216 billion, compared with PLN 204 billion in December 2022 and only PLN 190 billion in September 2022 (according to the PFSA data). The main reason for this change was continuation of the decreasing trend in government bond yields in the markets (increase in valuations), which is reflected in the update of their value in banks' portfolios. In addition, the sector gradually rebuilt the loss of capital by retaining profits from current activities, often severely underestimated by the need to absorb further provisions created for CHF loans. Despite the improvement, the sector's total equity was PLN 12 billion lower in January comparing to its peak two years ago. Moreover, from a risk management perspective, the problem of the sector's large exposure to the treasury securities portfolio still remains. Additionally, the sector cannot exclude a possibility of new and significant regulatory burdens. Uncertainty and a weakened capital position make it difficult for banks to finance the economy efficiently during the economic downturn.

- **Changing product structure:** The strong increase of interest rates has resulted in major changes in demand for different types of banking products. The changes are noticeable not only in current sales, but also at the level of sector volumes. According to NBP data for March 2023, in the household segment, there is a decline in both real estate loans (-5% YoY, PLN 28 billion) and consumer loans (-2% YoY, PLN 5 billion). This occurs despite the ability to finance consumer goods below the level of inflation. The situation is quite different in non-financial corporate segment, where the volume of loans recorded a marked increase of 7% YoY (PLN 26 billion). What is important, not only current loans are on an upward trajectory (+11% YoY, PLN 16 billion), but also an investment products (+5% YoY, PLN 10 billion). Higher interest rates resulted in return to more favourable offers on term deposits, to which customers responded dynamically. In the household segment, the volume of term deposits increased by 105% YoY (PLN 180 billion). Thus, the share of this category in total deposits increased from 17% to 31%. At the same time, this was not just a flow of funds, at the expense of current and savings accounts. During 12 months, the total deposits of this segment increased by PLN 98 billion. It is also worth noting the relatively high (13%) share of deposits in foreign currencies. This is the highest share of this category since 2006. A similar deposit situation occurred among non-financial corporations. Time deposits recorded an increase of 96% YoY (PLN 77 billion) and total deposits by 12% YoY (PLN 52 billion).
- **Foreign currency mortgages.** Information on the impact and current situation of CHF loans is described in the Note 51 Litigation and claims of the Consolidated Financial Statements.

56. SUBSEQUENT EVENTS

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 SA.** 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 annual contribution to the banks' forced restructuring fund for 2023 determined by the Bank Guarantee Fund for BNP Paribas Bank Polska S.A.** This contribution for the Bank was set by the BFG in the amount of PLN 123,909 thousand, of which PLN 110,000 thousand was recognised in general administrative expenses for the first quarter of 2023.

II INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

Interim condensed separate statement of profit or loss

	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Interest income	2,248,168	1,210,974
Interest income calculated with the use of effective interest rate method	2,144,595	1,138,402
interest income on financial instruments measured at amortised cost	1,989,529	1,080,616
interest income on financial instruments measured at fair value through other comprehensive income	155,066	57,786
Income of a similar nature to interest on instruments measured at fair value through profit or loss	103,573	72,572
Interest expense	(1,071,073)	(231,755)
Net interest income	**1,177,095**	**979,219**
Fee and commission income	377,057	342,188
Fee and commission expense	(64,909)	(63,790)
Net fee and commission income	**312,148**	**278,398**
Dividend income	327	981
Net trading income (including result on foreign exchange)	234,436	150,977
Result on investment activities	(12,416)	(2,262)
Result on fair value hedge accounting	(17,673)	19,716
Result from derecognition of financial assets measured at amortized cost due to material modification	4,138	-
Result of allowance for expected credit losses of financial assets and provisions for contingent liabilities	29,336	(72,359)
Result on provisions for legal risk related to foreign currency loans	(234,388)	(83,034)
General administrative expenses	(650,066)	(650,803)
Depreciation and amortization	(107,185)	(99,264)
Other operating income	36,480	62,985
Other operating expenses	(44,567)	(68,737)
Operating result	**727,665**	**515,817**
Tax on financial institutions	(102,832)	(95,853)
Profit before tax	**624,833**	**419,964**
Income tax expenses	(142,785)	(154,005)
Net profit	**482,048**	**265,959**
attributable to equity holders of the Group	482,048	265,959
Earnings (loss) per share (in PLN per one share)		
Basic	3.27	1.80
Diluted	3.26	1.80

Interim condensed separate statement on comprehensive income

	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Net profit for the period	**482,048**	**265,959**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss upon fulfilment of certain conditions	**238,345**	**(394,592)**
Measurement of gross financial assets measured at fair value through other comprehensive income	271,298	(437,299)
Deferred income tax on the valuation of gross financial assets measured through other comprehensive income	(51,547)	83,087
Measurement of cash flow hedge accounting derivatives	22,956	(49,852)
Deferred income tax on valuation of gross derivatives hedging cash flows	(4,362)	9,472
Items that will not be reclassified to profit or loss	**(1,150)**	**(151)**
Actuary valuation of employee benefits	(1,420)	(186)
Deferred income tax on actuarial valuation of gross personnel expenses	270	35
Other comprehensive income (net)	**237,195**	**(394,743)**
Total comprehensive income	**719,243**	**(128,784)**
attributable to equity holders of the Group	719,243	(128,784)

Interim condensed separate statement on financial position

ASSETS	31 March 2023	31 December 2022
Cash and balances at Central Bank	4,360,011	2,718,242
Amounts due from banks	12,916,081	11,709,582
Derivative financial instruments	2,988,424	3,224,272
Adjustment of hedged and hedging item fair value	18,789	33,025
Loans and advances to customers measured at amortised cost	83,280,294	83,893,270
Loans and advances to customers measured at fair value through profit or loss	860,314	949,298
Securities measured at amortised cost	24,311,008	22,167,261
Securities at fair value through profit or loss	296,190	311,236
Securities measured at fair value through other comprehensive income	10,350,737	17,384,793
Investments in subsidiaries	85,535	93,119
Intangible assets	808,340	825,196
Property, plant and equipment	1,053,556	1,059,703
Deferred tax assets	752,590	822,122
Other assets	768,581	917,379
Total assets	**142,850,450**	**146,108,498**
LIABILITIES	31 March 2023	31 December 2022
Amounts due to Central Bank	-	8,713
Amounts due to other banks	1,510,234	1,805,219
Derivative financial instruments	2,931,864	3,147,855
Adjustment of hedging and hedged item fair value	(365,682)	(451,646)
Amounts due to customers	116,845,915	120,429,051
Subordinated liabilities	4,404,398	4,416,887
Lease liabilities	719,532	718,724
Other liabilities	2,264,477	2,371,804
Current tax liabilities	280,897	223,326
Provisions	2,322,370	2,223,291
Total liabilities	**130,914,005**	**134,893,224**
EQUITY	31 March 2023	31 December 2022
Share capital	147,593	147,593
Supplementary capital	9,110,976	9,110,976
Other reserve capital	3,138,527	3,136,599
Revaluation reserve	(912,805)	(1,150,000)
Retained earnings	452,154	(29,894)
retained profit	(29,894)	(400,786)
net profit for the period	482,048	370,892
Total equity	**11,936,445**	**11,215,274**
Total liabilities and equity	**142,850,450**	**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	**-**	**-**	**-**	**237,195**	**-**	**482,048**	**719,243**
Net profit for the period	-	-	-	-	-	482,048	482,048
Other comprehensive income for the period	-	-	-	237,195	-	-	237,195
Distribution of retained earnings	**-**	**-**	**-**	**-**	**370,892**	**(370,892)**	**-**
Distribution of earnings intended for capital	-	-	-	-	370,892	(370,892)	-
Management stock options*	**-**	**-**	**1,928**	**-**	**-**	**-**	**1,928**
Balance as of 31 March 2023	**147,593**	**9,110,976**	**3,138,527**	**(912,805)**	**(29,894)**	**482,048**	**11,936,445**

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

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
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 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		Total
					Retained profit	Net profit for the period	
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	**-**	**-**	**-**	**(394,743)**	**-**	**265,959**	**(128,784)**
Net financial result for the period	-	-	-	-	-	265,959	265,959
Other comprehensive income for the period	-	-	-	(394,743)	-	-	(394,743)
Distribution of retained earnings	**-**	**-**	**-**	**-**	**184,526**	**(184,526)**	**-**
Distribution of earnings intended for capital	-	-	-	-	184,526	(184,526)	**-**
Management stock options*	**-**	**-**	**1,794**	**-**	**-**	**-**	**1 794**
Balance as of 31 March 2022	**147,519**	**9,110,976**	**2,947,909**	**(990,450)**	**(216,260)**	**265,959**	**11,265,653**

* 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:	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Net profit (loss)	**482,048**	**265,959**
Adjustments for:	**(2,496,378)**	**1,992,660**
Income tax expenses	142,785	154,005
Depreciation and amortization	107,185	99,264
Dividend income	(327)	(981)
Interest income	(2,248,168)	(1,210,974)
Interest expense	1,071,073	231,755
Change in provisions	97,659	20,569
Change in amounts due from banks	215,683	(492,318)
Change in assets due to derivative financial instruments	250,084	(957,984)
Change in loans and advances to customers measured at amortised cost	630,496	(2,788,067)
Change in loans and advances to customers measured at fair value through profit or loss	88,984	94,234
Change in amounts due to banks	(302,710)	(1,734,950)
Change in liabilities related to derivative financial instruments	(107,071)	938,380
Change in amounts due to customers	(3,646,891)	6,250,787
Change in other assets and receivables due to current income tax	186,287	(132,394)
Change in other liabilities and provisions due to deferred tax	(106,947)	797,746
Other adjustments	3,147	29,010
Interest received	2,196,906	954,343
Interest paid	(1,002,963)	(214,267)
Tax paid	(71,321)	(45,207)
Lease payments with reference to short-term leases not included in the lease liability measurement	(269)	(291)
Net cash flows from operating activities	**(2,014,330)**	**2,258,619**

CASH FLOWS FROM INVESTING ACTIVITIES:	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Investing activities inflows	**45,350,803**	**16,672,529**
Sale and repurchase of securities	45,347,399	16,670,453
Sale of intangible assets and property, plant and equipment	3,077	1,095
Dividends received and other inflows from investing activities	327	981
Investing activities outflows	**(40,231,554)**	**(16,480,385)**
Purchase of shares in subsidiaries	-	(6,000)
Purchase of securities	(40,135,998)	(16,436,221)
Purchase of intangible assets and property, plant and equipment	(95,556)	(38,164)
Net cash flows from investing activities	**5,119,249**	**192,144**

CASH FLOWS FROM FINANCING ACTIVITIES:	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Investing activities inflows	**-**	**-**
Investing activities outflows	**(39,749)**	**(36,753)**
Repayment of long-term loans	(2,608)	(5,447)
Repayment of the leasing liability	(37,141)	(31,306)
Net cash flows from financing activities	**(39,749)**	**(36,753)**
TOTAL NET CASH AND CASH EQUIVALENTS	**3,065,170**	**2,414,010**
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	**16,191,777**	**7,566,230**
Effect of exchange rate fluctuations on cash and cash equivalents	36,111	15,164

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 quarter of 2023 ended 31 March 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 quarter 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 sections 3 and 7.

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

- The most important events in BNP Paribas Bank Polska S.A. Capital Group in the first quarter of 2023 in Note 54,
- Subsequent events in Note 56.

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 31 March 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. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O. in liquidation („ACTUS”).
2. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI”).
3. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING”).
4. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC”).
5. CAMPUS LESZNO SP. Z O.O.

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.

31.03.2023	BNP Paribas Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
Assets	**14,287,001**	**124**	**91,275**	**375**	**755,641**	**15,134,416**
Receivables on current accounts, loans and deposits	11,983,481	124	71,141	375	753,639	**12,808,760**
Derivative financial instruments	2,284,700	-	318	-	-	**2,285,018**
Hedging derivative instruments	18,820	-	-	-	-	**18,820**
Other assets	-	-	19,816	-	2,002	**21,818**
Liabilities	**7,088,057**	**33,060**	**1,087,976**	**3,154**	**32,269**	**8,244,516**
Current accounts and deposits	789,097	32,108	801,590	3,154	26,780	**1,652,729**
Subordinated liabilities	4,122,373	-	282,025	-	-	**4,404,398**
Derivative financial instruments	933,535	952	3,353	-	-	**937,840**
Hedging derivative instruments	1,243,052	-	-	-	-	**1,243,052**
Lease liabilities	-	-	1,008	-	-	**1,008**
Other liabilities	-	-	-	-	5,489	**5,489**
Contingent liabilities						
Financial commitments granted	-	-	324,153	700	299,226	**624,079**
Guarantees granted	196,485	136,066	2,529,336	-	982,541	**3,844,428**
Commitments received	799,857	192,452	1,898 177	-	-	**2,890,486**
Derivative financial instruments (nominal value)	62,468,296	935,100	77,449	-	-	**63,480,845**
Derivative hedging financial instruments (nominal value)	18,517,687	-	-	-	-	**18,517,687**
Statement of profit or loss	**191,592**	**59**	**7,514**	**(68)**	**23,432**	**222,529**
1Q 2023 from 01.01.2023 to 31.03.2023						
Interest income	41,658	503	16,745	3	11,881	**70,790**
Interest expense	(78,867)	(444)	(12,546)	(71)	-	**(91,928)**
Fee and commission income	-	-	-	-	1,568	**1,568**
Fee and commission expense	-	-	-	-	(1,907)	**(1,907)**
Net trading income	249,394	-	-	-	-	**249,394**
Other operating income	-	-	10,962	-	11,960	**22,922**
Other operating expenses	-	-	(3,444)	-	-	**(3,444)**
General administrative expenses	(20,593)	-	(4,203)	-	(70)	**(24,866)**

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	**(363,639)**	**(91)**	**(6,301)**	**4**	**7,130**	**(362,897)**
1Q 2022 from 01.01.2022 to 31.03.2022						
Interest income	-	-	-	4	23	**27**
Interest expense	(35,066)	(91)	(1,651)	-	-	**(36,808)**
Fee and commission income	-	-	-	-	978	**978**
Fee and commission expense	-	-	-	-	(2,300)	**(2,300)**
Net trading income	(307,426)	-	-	-	-	**(307,426)**
Other operating income	-	-	-	-	8,519	**8,519**
General administrative expenses	(21,147)	-	(4,650)	-	(90)	**(25,887)**

Remuneration of the Management Board and Supervisory Board

Management Board	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Short-term employee benefits	6,294	5,850
Long-term benefits	1,752	1,999
Share-based payments*	5,113	2,674
Issued shares**	-	1,405
Total	**13,159**	**11,928**

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

** the value of shares issued based on actuarial valuation

Supervisory Board	1Q 2023 from 01.01.2023 to 31.03.2023	1Q 2022 from 01.01.2022 to 31.03.2022
Short-term employee benefits	423	396
Total	**423**	**396**

3. SEPARATE CAPITAL ADEQUACY RATIO

	31.03.2023	31.12.2022
Total own funds	14,934,656	14,874,946
Total risk exposure	90,431,079	91,512,357
Total capital ratio	16.51%	16.25%
Tier 1 capital ratio	12.10%	11.80%

4. SEASONAL OR CYCLICAL NATURE OF BUSINES

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

5. DIVIDEND PAID

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

6. DISTRIBUTION OF RETAINED EARNINGS

In accordance with the Management Board’s motion to be presented to the Annual General Meeting of the Bank, the profit of the Bank after tax (net profit) for 2022 in the amount of PLN 370,892 thousand is planned to be fully allocated to the reserve capital.

7. CONTINGENT LIABILITIES

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

Contingent liabilities	31.03.2023	31.12.2022
Contingent commitments granted	**44,272,250**	**40,980,850**
financial commitments	28,796,451	29,475,246
Guarantees	15,475,799	11,505,604
Contingent commitments received	**58,681,582**	**55,068,490**
financial commitments	13,396,971	13,482,568
Guarantees	45,284,611	41,585,922

8. SUBSEQUENT EVENTS

Subsequent events are described in Note 56 of the Interim consolidated report for the first quarter of 2023.

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

09.05.2023	**Przemysław Gdański** *President of the Management Board*	*qualified electronic signature*
09.05.2023	**Jean-Charles Aranda** *Vice-President of the Management Board*	*qualified electronic signature*
09.05.2023	**André Boulanger** *Vice-President of the Management Board*	*qualified electronic signature*
09.05.2023	**Przemysław Furlepa** *Vice-President of the Management Board*	*qualified electronic signature*
09.05.2023	**Wojciech Kembłowski** *Vice-President of the Management Board*	*qualified electronic signature*
09.05.2023	**Kazimierz Łabno** *Vice-President of the Management Board*	*qualified electronic signature*
09.05.2023	**Magdalena Nowicka** *Vice-President of the Management Board*	*qualified electronic signature*
09.05.2023	**Volodymyr Radin** *Vice-President of the Management Board*	*qualified electronic signature*
09.05.2023	**Agnieszka Wolska** *Vice-President of the Management Board*	*qualified electronic signature*

Warsaw, 9 May 2023