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Bank Polski

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

SELECTED FINANCIAL DATA DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN million			EUR million		
	2023	2022	Change % (A-B)/B	2023	2022	Change % (D-E)/E
	A	B	C	D	E	F
Net interest income	18,318	11,424	60.3%	4,045	2,437	65.9%
Net fee and commission income	4,626	4,498	2.8%	1,022	959	6.7%
Net expected credit losses and net impairment allowances on non-financial assets	(1,373)	(1,564)	(12.2%)	(303)	(334)	(9.3%)
Administrative expenses	(7,635)	(7,769)	(1.7%)	(1,686)	(1,657)	1.8%
Profit before tax	8,562	4,767	79.6%	1,891	1,017	85.9%
Net profit (including non-controlling shareholders)	5,505	3,312	66.2%	1,216	706	72.2%
Net profit attributable to the parent company	5,502	3,312	66.1%	1,215	706	72.1%
Earnings per share for the period - basic (in PLN/EUR)	4.40	2.65	66.0%	0.97	0.57	70.2%
Earnings per share for the period - diluted (in PLN/EUR)	4.40	2.65	66.0%	0.97	0.57	70.2%
Net comprehensive income	11,120	16	6,940.0%	2,456	3	8,176.0%
Total net cash flows	(667)	11,220	(105.9%)	(147)	2,393	(106.1%)

SELECTED FINANCIAL DATA	PLN million			EUR million		
	31.12.2023	31.12.2022	Change % (A-B)/B	31.12.2023	31.12.2022	Change % (D-E)/E
	A	B	C	D	E	F
Total assets	501,516	431,447	16.2%	115,344	91,995	25.4%
Total equity	45,227	35,707	26.7%	10,402	7,614	36.6%
Share capital	1,250	1,250	-	287	267	7.5%
Number of shares (in million)	1,250	1,250	-	1,250	1,250	-
Book value per share (in PLN/EUR)	36.18	28.57	26.6%	8.32	6.09	36.6%
Diluted number of shares (in million)	1,250	1,250	-	1,250	1,250	-
Diluted book value per share (in PLN/EUR)	36.18	28.57	26.6%	8.32	6.09	36.6%
Total Capital Ratio (%)	18.65	19.07	(2.2%)	18.65	19.07	(2.2%)
Tier 1	41,727	41,175	1.3%	9,597	8,780	9.3%
Tier 2	2,080	2,584	(19.5%)	478	551	(13.3%)

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

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CONSOLIDATED INCOME STATEMENT

INCOME STATEMENT	Note	2023	2022 (restated)**
Net interest income	17	18,318	11,424
Interest and similar income		31,217	19,751
of which calculated under the effective interest rate method		30,668	19,196
Interest expense		(12,899)	(8,327)
Net fee and commission income	18	4,626	4,498
Fee and commission income		6,301	6,059
Fee and commission expense		(1,675)	(1,561)
Other net income		1,188	1,287
Net income from insurance business, of which:	39	711	779
Insurance revenue (net of reinsurance)		1,242	1,174
Cost of insurance activities (net of reinsurance)		(389)	(324)
Dividend income	19	14	51
Gains/(losses) on financial transactions	20	167	358
Foreign exchange gains/ (losses)	21	99	(73)
Gains/(losses) on derecognition of financial instruments	22	57	(26)
of which measured at amortized cost		24	15
Net other operating income and expense	23	140	198
Result on business activities		24,132	17,209
Net allowances for expected credit losses	24	(1,265)	(1,501)
Net impairment losses on non-financial assets	25	(108)	(63)
Cost of legal risk of mortgage loans in convertible currencies	26	(5,430)	(1,914)
Administrative expenses	27	(7,635)	(7,769)
of which net regulatory charges		(622)	(1,887)
Tax on certain financial institutions	28	(1,231)	(1,266)
Share in profits and losses of associates and joint ventures	42	99	71
Profit before tax		8,562	4,767
Income tax expense	29	(3,057)	(1,455)
Net profit/(loss) (including non-controlling interest)		5,505	3,312
Profit (loss) attributable to non-controlling shareholders		3	-
Net profit attributable to equity holders of the parent company		5,502	3,312
Earnings per share	30		
– basic earnings per share for the period (PLN)		4.40	2.65
– diluted earnings per share for the period (PLN)*		4.40	2.65
Weighted average number of ordinary shares during the period (in million)*		1,250	1,250

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

** The Income statement for 2022 was restated due to the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)")

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	2023	2022 (restated)*
Net profit (including non-controlling shareholders)		5,505	3,312
Other comprehensive income		5,615	(3,296)
Items which may be reclassified to profit or loss		5,618	(3,289)
Cash flow hedges (net)	33	3,358	(1,519)
Cash flow hedges (gross)		4,146	(1,901)
Deferred tax	29	(788)	382
Hedges of net investments in foreign operations		-	4
Fair value of financial assets measured at fair value through other comprehensive income (net)	33	2,440	(1,676)
Remeasurement of fair value, gross		3,029	(2,112)
Gains /losses transferred to the profit or loss (on disposal)		(33)	41
Deferred tax	29	(556)	395
Currency translation differences on foreign operations		(124)	(87)
Share in other comprehensive income of associates and joint ventures		(31)	(18)
Finance income and costs from insurance business, net	39	(25)	7
Finance income and costs from insurance business, gross		(31)	9
Deferred tax		6	(2)
Items which cannot be reclassified to profit or loss		(3)	(7)
Actuarial gains and losses (net)		(3)	(7)
Actuarial gains and losses (gross)	45	(4)	(9)
Deferred tax	29	1	2
Total net comprehensive income		11,120	16
Total net comprehensive income, of which attributable to:		11,120	16
equity holders of the parent		11,117	16
non-controlling interest		3	-

* The Statement of comprehensive income for 2022 was restated due to the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)")

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.2023	31.12.2022 (restated)*	01.01.2022 (restated)*
ASSETS		501,516	431,447	418,668
Cash and balances with Central Bank	31	17,813	15,917	11,587
Amounts due from banks	32	14,438	16,101	9,010
Hedging derivatives	33	1,174	1,042	933
Other derivative instruments	33	8,406	13,162	10,903
Securities	34	197,484	135,632	135,440
Reverse repo transactions		372	7	0
Loans and advances to customers	35	245,776	232,959	235,695
Assets in respect of insurance activities	39	90	115	128
Property, plant and equipment under operating lease	74	2,117	1,764	1,371
Property, plant and equipment	41	3,203	2,917	3,108
Non-current assets held for sale		19	10	18
Intangible assets	40	3,918	3,512	3,443
Investments in associates and joint ventures	42	284	285	285
Current income tax receivable		6	52	36
Deferred tax assets	29	4,000	5,187	4,116
Other assets	43	2,416	2,785	2,595
LIABILITIES AND EQUITY		501,516	431,447	418,668
Liabilities		456,289	395,740	380,689
Amounts due to Central bank		10	9	8
Amounts due to banks	36	3,423	3,011	3,821
Hedging derivatives	33	2,992	7,469	4,806
Other derivative instruments	33	9,291	12,978	11,008
Amounts due to customers	37	399,193	338,868	321,266
Liabilities in respect of insurance activities	39	2,915	2,878	3,317
Loans and advances received	38	1,489	2,294	2,461
Securities in issue	38	17,201	15,510	23,872
Subordinated liabilities	38	2,774	2,781	2,716
Other liabilities	44	11,007	7,010	5,360
Current income tax liabilities		1,117	765	18
Deferred tax liabilities	29	712	77	379
Provisions	45	4,165	2,090	1,657
EQUITY		45,227	35,707	37,979
Share capital		1,250	1,250	1,250
Reserves and accumulated other comprehensive income		27,676	22,239	25,330
Retained earnings		10,810	8,920	6,539
Net profit or loss for the year		5,502	3,312	4,874
Capital and reserves attributable to equity holders of the parent company		45,238	35,721	37,993
Non-controlling interests		(11)	(14)	(14)

* The statement of financial position as at 1 January 2022 and 31 December 2022 was restated due to the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)")

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023	Share capital	Reserves and accumulated other comprehensive income					Retained earnings	Net profit or loss for the period	Total capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Reserves and accumulated other comprehensive income					
		Supplementary capital	General banking risk fund	Other reserves							
As at the beginning of the period, after changes in accounting policies	1,250	23,085	1,070	7,091	(9,007)	22,239	8,920	3,312	35,721	(14)	35,707
Transfer from retained earnings	-	-	-	-	-	-	3,312	(3,312)	-	-	-
Transfer from retained earnings to equity	-	115	-	1,647	-	1,762	(1,762)	-	-	-	-
Dividend, including interim dividend	-	-	-	(1,600)	-	(1,600)	-	-	(1,600)	-	(1,600)
Comprehensive income	-	-	-	-	5,615	5,615	-	5,502	11,117	3	11,120
Offset of accumulated losses	-	(340)	-	-	-	(340)	340	-	-	-	-
As at the end of the period	1,250	22,860	1,070	7,138	(3,392)	27,676	10,810	5,502	45,238	(11)	45,227

FOR THE YEAR ENDED 31 DECEMBER 2023	Accumulated other comprehensive income						
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Finance income and costs from insurance business	Actuarial gains and losses	Currency translation differences on foreign operations	Total
As at the beginning of the period, after changes in accounting policies	(35)	(3,461)	(5,218)	24	(21)	(296)	(9,007)
Comprehensive income	(31)	2,440	3,358	(25)	(3)	(124)	5,615
As at the end of the period	(66)	(1,021)	(1,860)	(1)	(24)	(420)	(3,392)



FOR THE YEAR ENDED 31 DECEMBER 2022	Share capital	Reserves and accumulated other comprehensive income					Retained earnings	Net profit or loss for the period	Total capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Reserves and accumulated other comprehensive income					
		Supplementary capital	General banking risk fund	Other reserves							
As at the beginning of the period	1,250	23,003	1,070	6,968	(5,728)	25,313	6,270	4,874	37,707	(14)	37,693
Changes in accounting policies*	-	-	-	-	17	17	269	-	286	-	286
As at the beginning of the period, after policy changes	1,250	23,003	1,070	6,968	(5,711)	25,330	6,539	4,874	37,993	(14)	37,979
Transfer from retained earnings	-	-	-	-	-	-	4,874	(4,874)	-	-	-
Transfer from retained earnings to equity	-	82	-	123	-	205	(205)	-	-	-	-
Dividend	-	-	-	-	-	-	(2,288)	-	(2,288)	-	(2,288)
Comprehensive income	-	-	-	-	(3,296)	(3,296)	-	3,312	16	-	16
As at the end of the period	1,250	23,085	1,070	7,091	(9,007)	22,239	8,920	3,312	35,721	(14)	35,707

*For details on the impact of the implementation of IFRS 17 on the Group's equity, see Note „IFRS 17 Insurance contracts”

FOR THE YEAR ENDED 31 DECEMBER 2022	Accumulated other comprehensive income								Total
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Hedges of net investments in foreign operations	Finance income and costs from insurance business	Actuarial gains and losses	Currency translation differences on foreign operations		
As at the beginning of the period	(17)	(1,785)	(3,699)	(4)	-	(14)	(209)	(5,728)	
Changes in accounting policies*	-	-	-	-	17	-	-	17	
As at the beginning of the period, after policy changes	(17)	(1,785)	(3,699)	(4)	17	(14)	(209)	(5,711)	
Comprehensive income	(18)	(1,676)	(1,519)	4	7	(7)	(87)	(3,296)	
As at the end of the period	(35)	(3,461)	(5,218)	-	24	(21)	(296)	(9,007)	

*For details on the impact of the implementation of IFRS 17 on the Group's equity, see Note „IFRS 17 Insurance contracts.”

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2023	2022 (restated)*
Cash flows from operating activities			
Profit before tax		8,562	4,767
Income tax paid		(1,793)	(1,429)
Total adjustments:		40,108	15,205
Depreciation and amortization	27, 18	1,371	1,267
(Gains)/losses on investing activities	71	(87)	(97)
Interest and dividends received	71	(6,549)	(3,758)
Interest paid	71	754	581
Change in:			
amounts due from banks	71	(905)	(213)
hedging derivatives		(4,609)	2,554
other derivative instruments		1,069	(289)
securities	71	(6,360)	(4,288)
loans and advances to customers	71	(13,282)	1,686
reverse repo transactions		(365)	(7)
assets in respect of insurance activities		24	13
property, plant and equipment under operating lease		(353)	(640)
non-current assets held for sale	71	(8)	8
other assets	71	360	(216)
accumulated allowances for expected credit losses	71	381	1,191
accumulated allowances on non-financial assets and other provisions	71	2,222	270
amounts due to the Central Bank		1	1
amounts due to banks		412	(810)
amounts due to customers		60,325	17,602
liabilities in respect of insurance activities		37	(439)
loan and advances received	71	335	(35)
liabilities in respect of debt securities in issue	71	(500)	742
subordinated liabilities	71	(7)	65
other liabilities	71	2,662	1,905
Other adjustments	71	3,180	(1,888)
Net cash from/used in operating activities		46,877	18,543

* The Statement of cash flows for 2022 was restated due to the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)")

	Note	2023	2022 (restated)*
Cash flows from investing activities			
Inflows from investing activities		788,046	102,154
Redemption of securities measured at fair value through other comprehensive income		774,906	89,661
Redemption of securities measured at amortized cost		6,371	7,765
Interest received on securities measured at fair value through other comprehensive income		4,396	1,987
Interest received on securities measured at amortized cost		2,139	1,720
Proceeds from disposal of intangible assets, property, plant and equipment and assets held for sale		142	255
Other inflows from investing activities including dividends	71	92	766
Outflows on investing activities		(835,624)	(97,116)
Increase in equity of joint ventures		-	-
Purchase of securities measured at fair value through other comprehensive income		(810,745)	(92,919)
Purchase of securities measured at amortized cost		(23,111)	(2,452)
Purchase of intangible assets and property, plant and equipment		(1,768)	(1,038)
Other outflows on investing activities	71	-	(707)
Net cash from/used in investing activities		(47,578)	5,038

* The Statement of cash flows for 2022 was restated due to the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)")

	Note	2023	2022 (restated)*
Cash flows from financing activities			
Payment of dividends		-	(2,288)
Proceeds from debt securities in issue	71	13,105	8,421
Redemption of debt securities	71	(10,914)	(17,525)
Taking up loans and advances	71	12	620
Repayment of loans and advances	71	(1,152)	(753)
Payment of lease liabilities	71	(266)	(255)
Repayment of interest on long-term liabilities	71	(751)	(581)
Net cash from financing activities		34	(12,361)
Total net cash flows		(667)	11,220
of which foreign exchange differences on cash and cash equivalents		(872)	100
Cash and cash equivalents at the beginning of the period		31,995	20,775
Cash and cash equivalents at the end of the period	71	31,328	31,995

* The Statement of cash flows for 2022 was restated due to the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)")

GENERAL INFORMATION ABOUT THE GROUP

1. ACTIVITIES OF THE GROUP

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

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

Country of registration	Poland
Registered office	Warsaw
Address of the registered office of the entity	Puławska street 15, 02-515 Warsaw

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

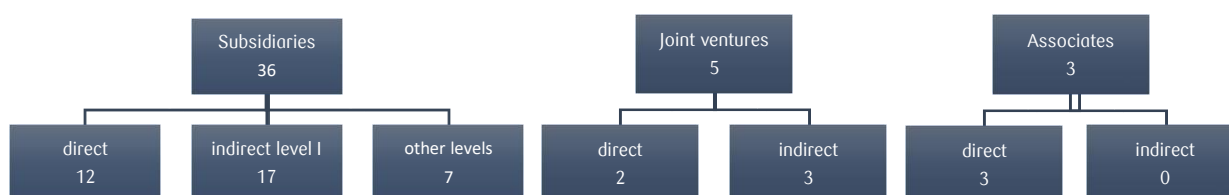
The Powszechna Kasa Oszczędnościowa Bank Polski Spółka Akcyjna Group ("**THE PKO BANK POLSKI S.A. GROUP**", "**THE BANK'S GROUP**", "**THE GROUP**") conducts its operations within the territory of the Republic of Poland and through subsidiaries in Ukraine, Sweden and Ireland; it also has branches in the Federal Republic of Germany ("the German Branch"), the Czech Republic ("the Czech Branch") and in the Slovak Republic ("the Slovak Branch").

PKO Bank Polski S.A., as the parent company, is a universal deposit and credit bank which services both Polish and foreign individuals, legal and other entities. The Bank may hold and trade in cash in foreign currencies, as well as conduct foreign exchange and foreign currency transactions, open and maintain bank accounts in banks abroad, and deposit foreign currency in those accounts.

Through its subsidiaries, the Group offers mortgage loans, provides specialized financial services related to leases, factoring, debt collection, investment funds, pension funds and insurance, as well as provides services related to car fleet management, transfer agent, technological solutions, IT outsourcing and business support, real estate management and also conducts banking operations and provides debt collection and financing services in Ukraine.

In 2023 and 2022, the Bank did not change the name of the reporting unit or other identification data.

PKO BANK POLSKI S.A. – the parent company



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

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

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

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

^{*} share of direct parent in the entity's equity

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

The Group has the following associates and joint ventures:

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

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

2. CHANGES IN THE GROUP COMPANIES

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

- In January 2023, the placing of Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A. w likwidacji (in liquidation) and Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A. w likwidacji (in liquidation) (entities from the Merkury fiz an portfolio) was entered in the National Court Register.
- In September 2023, the Bank's Management Board approved the merger of the investment funds NEPTUN - fiz an (the acquiring fund) and Merkury - fiz an (the acquired fund) by transferring the assets of the acquired fund to the existing acquiring fund and allocating investment certificates of the acquired fund to a participant of the acquiring fund in exchange for investment certificates of the acquired fund. This merger was effected on 30 January 2024. In the Bank's annual separate financial statements, Mercury - fiz an, in accordance with International Financial Reporting Standard 5, is reported as an asset held for sale and in the Group's annual consolidated financial statements, the fund and its subsidiaries are included in the consolidation.
- "KREDOLEASING" sp. z o.o., a subsidiary of KREDOBANK S.A., commenced leasing activities. The company launched operations to a limited extent due to the war in Ukraine, where it is based.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The resolutions on the aforementioned recalls became effective upon adoption.

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

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

4. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. REPRESENTATION BY THE MANAGEMENT BOARD

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

6. STATEMENT OF COMPLIANCE

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

7. GOING CONCERN

The financial statements have been prepared on the basis of the assumption that the Bank's Group will continue as a going concern for a period of at least 12 months from the date of approval for publication by the Management Board, i.e. from 5 March 2024. As at the date of signing of these financial statements, the Management Board of the Bank did not identify any facts or circumstances which would indicate any threats to the Group's ability to continue in operation as a going concern for at least 12 months after the publication as a result of intended or forced discontinuing or significantly curtailing the existing operations of the Bank's Group.

The Bank's Management Board considered the impact of: current situation in Ukraine, legal risk of mortgage loans in convertible currencies and planned amendments to the Act on crowdfunding for business ventures and assistance to borrowers in respect of the new credit holiday programme and assessed that these factors do not cause significant uncertainty in the Group's ability to continue as a going concern.

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

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

8. THE BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the PKO Bank Polski S.A. Group cover the year ended 31 December 2023 and include comparative data for the year ended 31 December 2022. The financial data is presented in millions of Polish zloty (PLN), unless otherwise indicated.

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

When preparing the financial statements, the Group makes estimates and adopts assumptions which directly affect both the financial statements and the supplementary information included therein. The estimates and assumptions applied by the Capital Group to report the value of assets and liabilities, as well as income and expenses are made using historical data and other factors that are available and considered appropriate in particular circumstances. Assumptions regarding the future and the available data are used for assessing the carrying amounts of assets and liabilities which cannot be clearly determined using other sources. In making estimates, the Group takes into consideration the reasons and sources of the uncertainties that are anticipated at the end of the reporting period. Actual results may differ from estimates.

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

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies and estimates and judgments applied in the preparation of these financial statements are presented in this Chapter and in individual notes further in the financial statements. In all years presented, these accounting policies are applied consistently, with the exception of issues described in the note "[IFRS 17 Insurance contracts](#)".

As a result of the entry into force on 1 January 2023 of the amendments to IAS 1 "Presentation of Financial Statements" concerning the introduction of disclosure requirements for significant accounting policies, the Group, as a result of its analyses and reviews, has modified the information on accounting policies contained in the financial statements with a view to the relevance of the information for users of the financial statements. The Group was guided by the assumption that information on accounting policies for immaterial transactions should not be disclosed unless the information is material given the nature of the related transactions, other events or conditions, even if the amounts are immaterial.

In addition, the Group has reviewed its accounting policy disclosures taking into account the fact that, in accordance with the interpretation of the amendments to IAS 1, specific information is more useful than disclosures that contain only standard information or duplications or summaries of the requirements of the IFRSs, and information on specific accounting policies is particularly relevant when it relates to an area where the Group exercises its own judgement.

9. FUNCTIONAL CURRENCY, PRESENTATION CURRENCY AND FOREIGN CURRENCIES

The functional currency of the parent and other entities included in these financial statements, except for the German Branch, the Czech Branch, the Slovak Branch and entities conducting their activities outside of the Republic of Poland, is the Polish zloty. The functional currency of the entities operating in Ukraine is the Ukrainian hryvnia, the functional currency of the German Branch, the Slovak Branch and the entities operating in Sweden and Ireland is the euro, and the functional currency of the Czech Branch is the Czech koruna.

• TRANSACTIONS AND BALANCES IN FOREIGN CURRENCIES

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

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

UAH/PLN	2023	2022
Foreign exchange rates as at the end of the period	0.1037	0.1258
Arithmetic mean of exchange rates as at the last day of each month in the period	0.1153	0.1354
The highest exchange rate during the period	0.1258	0.1467
The lowest exchange rate during the period	0.1037	0.1258

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

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

10. BASIS OF CONSOLIDATION

10.1. SUBSIDIARIES

Subsidiaries are entities controlled by the parent company, which means that the parent company has a direct or indirect impact on the financial and operating policy of the given entity in order to gain economic benefits from its operations.

In the case of PKO Leasing S.A. (PKOL, the Company), control of Polish Lease Prime 1 DAC is exercised despite not holding an equity interest. Polish Lease Prime 1 DAC is a special purpose vehicle (SPV) formed to securitise receivables arising from PKOL's leases, which include car, truck, plant and equipment leases.

The SPV meets the definition of a structured entity subject to consolidation (under IFRS 12). PKOL's power is manifested, among other things, in the fact that the Company acts as the Servicer and therefore has influence over the SPV's key activities (providing funds for the SPV's ongoing debt service). The results of the SPV's operations are, in principle, determined by the performance of the portfolio subject to the securitisation transaction, and the maintenance of the portfolio's profitability is determined by PKOL through its debt collection activities (the Company decides on its own on the activities, including the initiation of hard debt collection measures). In addition, the receivables portfolio's loss ratio does not exceed the share of Junior Funding received from PKOL and therefore it is PKOL that is exposed to the credit risk arising from the receivables.

The PKO Bank Polski SA Group does not meet the definition of "an investment entity".

10.2. CONSOLIDATION

All subsidiaries of the PKO Bank Polski S.A. Group are consolidated using the acquisition method. The following items are eliminated in full: mutual receivables and payables, income and expenses, and mutual cash flows in the statement of cash flows, of consolidated entities, e.g. from mutual financing agreements, cash deposits, IT services, , derivative transactions, fixed asset leases, transfers of loan receivables portfolios and settlements of agency fees from the sale of insurance.

In other comprehensive income, the Group recognises finance income and expenses from insurance business and foreign exchange differences arising from the translation of foreign operations into Polish currency at an exchange rate representing the arithmetic mean of the average exchange rates prevailing on the last day of each month of the financial period as quoted by the National Bank of Poland.

The consolidated statement of cash flows is prepared on the basis of the consolidated statement of financial position, consolidated income statement and additional notes and explanations.

Financial statements of subsidiaries are prepared for the same reporting periods as the financial statements of the parent company. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

10.3. ACQUISITION OF SUBSIDIARIES (BUSINESS COMBINATIONS)

The acquisition of subsidiaries by the Group is accounted for under the acquisition method.

In respect of mergers of the Group companies, i.e. the so-called transactions under joint control, the predecessor accounting method is applied, i.e. the acquired subsidiary is recognized at the carrying amount of its assets and liabilities recognized in the Group's consolidated financial statements in respect of the given subsidiary, including the goodwill arising from the acquisition of that subsidiary.

10.4. ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures are accounted in accordance with the equity method and are initially stated at cost. At each balance sheet date, the Group makes an assessment of whether there is any evidence of impairment of investments in associates and joint ventures. If any such evidence exists, the Group estimates the recoverable amount, i.e. the value in use of the investment or the fair value of the investment less costs to sell, whichever of these values is higher.

The value in use of investments is determined based on the present value of the estimated expected future cash flows from the continued use of these assets, using models dedicated to each individual entity. These cash flows are discounted at a discount rate based on the cost of equity estimated on a case-by-case basis for each investment. The current bid price received or the value estimated on the basis of valuation techniques commonly used by market participants (including valuations provided by a specialised third party) is accepted as the fair value of the investment.

If the carrying amount of an asset exceeds its recoverable amount, the Group recognizes an impairment allowance in the income statement.

11. GENERAL ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS

11.1. ACCOUNTING FOR TRANSACTIONS

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

11.2. OFFSETTING FINANCIAL INSTRUMENTS

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

11.3. DERECOGNITION OF FINANCIAL INSTRUMENTS FROM THE STATEMENT OF FINANCIAL POSITION

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

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

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

11.4. THE PRINCIPLES FOR CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Group classifies financial assets into the following categories:

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

The Group classifies financial liabilities into the following categories:

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

Classification of financial assets as at the date of their acquisition or origin depends on the business model adopted by the Group to manage a given group of assets and the characteristics of the contractual cash flows from a single asset or group of assets. The Group identifies the following business models:

- the “HELD TO COLLECT” cash flows model, in which financial assets originated or acquired are held in order to collect benefits from contractual cash flows – this model is typical for lending activities;
- the “HELD TO COLLECT AND SELL” cash flows model, in which financial assets originated or acquired are held to collect benefits from contractual cash flows, but they may also be sold (frequently and in transactions of a high volume) – this model is typical for liquidity management activities;
- THE RESIDUAL MODEL – other than the “held to collect” or the “held to collect and sell” cash flows model.
- BUSINESS MODEL

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

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

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

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

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

- ASSESSMENT OF CONTRACTUAL CASH FLOW CHARACTERISTICS

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

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

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

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

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

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

The Group analyses, among other things, the following features of financial assets which result in the SPPI test being failed:

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

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

11.5. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

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

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

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

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

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

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

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

- the financial asset is held in accordance with the business model aimed at both receiving contractual cash flows and selling the asset; and
- the terms and conditions of an agreement concerning the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding (the SPPI test is passed).

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

For methods of determining fair value, see note “[FAIR VALUE HIERARCHY](#)”.

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

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

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

11.7. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

If financial assets do not meet the aforementioned qualification criteria to be measured at amortized cost or at fair value through other comprehensive income, the Group classifies them as financial assets measured at fair value through profit or loss.

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

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

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

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

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

11.8. EQUITY INSTRUMENTS

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

11.9. RECLASSIFICATION OF FINANCIAL ASSETS

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

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

11.10. MODIFICATIONS – CHANGES IN CONTRACTUAL CASH FLOWS

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

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

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

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

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

The following **QUALITATIVE CRITERIA** have been adopted:

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

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

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

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

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

11.11. MEASUREMENT OF PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI)

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

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

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

11.12. MEASUREMENT OF FINANCIAL LIABILITIES

Liabilities in respect of a short position in securities and some of the liabilities in respect of insurance products are measured at fair value through profit or loss.

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

12. ENVIRONMENTAL ISSUES

The nature of the business activities means that the direct impact of the Bank and the Bank's Group on the natural environment is limited. Indirect environmental impact involves the Bank's provision of financing the Group's product offering.

The Group mitigates its direct impact on the environment and adjusts its lending policies addressed to the various sectors of the economy in order to also motivate its customers to mitigate their environmental impact.

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

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

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

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

- **SOURCES OF UNCERTAINTY OF ESTIMATES, SIGNIFICANT JUDGMENTS AND THE ABILITY TO CONTINUE AS A GOING CONCERN**

The Group is exposed to climate risk, including:

- physical risk (e.g. risk arising from more frequent/serious weather phenomena); and
- economic transformation risk (e.g. risk associated with transition to less polluting, low-emission economy, extremization of the seasons).

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

As detailed below, there were no significant climate-related estimates or judgements in the Group that would materially affect the values recognised in these financial statements.

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

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

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

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

For the moment, the Group does not isolate specific climate risk scenarios because the impact of climate-related risk factors on the Group's expected loan losses is potentially limited as the Group, given the relatively short-term duration of many of its bank loan portfolios, expects the most significant effects of climate change to appear in the mid- and long-term perspective, thus potentially reducing the current impact on ECL. At the same time, it is important to monitor the rate and scale of such changes and their possible effect on the measurement of the allowances for expected credit losses. The Group is in the process of implementing internal tools and methods to assess the impact of extreme climate events on its corporate and enterprise segment customer portfolios and on its mortgage-backed portfolio. The Group pays particular attention to such elements as greenhouse gas (GHG) emission allowance prices, energy efficiency of buildings, floods and droughts.

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

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

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

- **PROPERTY, PLANT AND EQUIPMENT, PROPERTY, PLANT AND EQUIPMENT LEASED OUT UNDER OPERATING LEASE AND INTANGIBLE ASSETS**

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

It should be noted, though, that the potential impact of climate change risk, understood as a sudden, rapid transformation of the economy towards lower emissions (a rapid generation change of a significant class of assets in financing) may ultimately be important for the Group's lease entities.

- **INVENTORIES** – Climate-related issues do not affect the carrying amount of the inventories held by the Group as at 31 December 2023 and 2022.
- **TAXES** Climate-related issues do not affect deferred income tax assets recognized by the Group as at 31 December 2023 and 2022.

- **PROVISIONS AND LITIGATION** – AS AT 31 DECEMBER 2023 AND 2022, THERE WERE NO PROCEEDINGS INVOLVING ANY CLIMATE OR ENVIRONMENTAL ISSUES AT THE GROUP. IN THE YEARS 2023-2022, THERE WERE NO ADMINISTRATIVE PROCEEDINGS RELATING TO VIOLATIONS OF ENVIRONMENTAL REGULATIONS OR THE GROUP'S IMPACT ON CLIMATE THAT WOULD LEAD TO ANY FINES BEING IMPOSED ON THE GROUP.

- **INSURANCE ACTIVITIES**

Intensification of extreme weather phenomena, including in particular the risk of flood, is a specific instance of physical risk to insurance activities. The effect of this risk on the financial results and solvency is mitigated mainly by risk selection and a properly structured reinsurance programme. Insurance companies calculate the capital requirement for catastrophic risk and analyse the stress test scenarios for flood risk.

At present, insurance companies do not have environmental taxonomy for investment assets due to the fact that they do not offer new investment products.

In the case of insurance activities (property insurance), climate risk is taken into account in the valuation of liabilities, i.e. it is taken into account in the amount of the premium. In particular, flood risk provisions as at 31 December 2023 were estimated at PLN 5 million (as at 31 December 2022 - PLN 8 million). The decrease in the provision during the year, despite the increase in the residential insurance portfolio, is due to the update of the flood model (risk reduction). The model currently used to determine the risk of flooding takes into account additional variables (e.g. storeys), the absence of which in previous years resulted in an increased valuation of the risk (precautionary approach). In addition, the reduction in valuation is due to the inclusion of lower levels of materialisation in damage for lower flood return periods (more frequent floods, with reduced impact).

Upon the occurrence of an event constituting materialization of climate risk, insurance companies also recognize provisions for losses.

In the case of life insurance activities, the said risk is not sufficiently material to allow quantification of liabilities - they are valued based on an assessment of the cumulative probability of occurrence of insured events.

The ESG measures taken by the Group's insurance companies are described in note “**ESG RISK MANAGEMENT**”.

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

Following the implementation of IFRS 17 as of 1 January 2023, changes have also been made to the comparative figures for 2022, as detailed in note IFRS 17 “Insurance Contracts”. In 2023 the Group implemented amendments to IAS 12 Income Taxes, whose impact was only of a presentational nature, i.e. the recognition of deferred tax on leasing transactions in, respectively, deferred tax assets and deferred tax liabilities (see note [Income taxes](#)).

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

14. IFRS 17 “INSURANCE CONTRACTS”

International Financial Reporting Standard 17 Insurance Contracts ('IFRS 17') was published by the International Accounting Standards Board in May 2017 and amended by it in June 2020 and in December 2021¹. IFRS 17 was endorsed for use in European Union countries on 19 November 2021 by Regulation 2021/2036 of the European Union.

The aim of the new standard is to introduce new uniform rules for the measurement of insurance and reinsurance contracts, ensuring greater comparability of reporting between providers of insurance products, and to provide a number of new disclosures for the use of financial statement users.

This standard is mandatorily applicable from 1 January 2023. IFRS 17 replaced IFRS 4 “Insurance Contracts”, which enabled entities to recognize insurance contracts according to the accounting principles based on the national standards.

¹The amendment to the transition requirements in IFRS 17 allows companies to overcome one-time classification differences of comparative information of the previous reporting period upon initial application of IFRS 17 and IFRS 9 Financial Instruments.

IFRS 17 changed the recognition, measurement, presentation and disclosure of insurance contracts distributed by Group companies, both as products linked to, among others, mortgage loans, cash loans and leasing products, and as stand-alone products.

The Group has implemented the standard in the retrospective full and modified approach for the part of the portfolio.

The implementation of IFRS 17 as at 1 January 2022 resulted in an increase in the Group's assets by PLN 582 million, liabilities by PLN 296 million and equity by PLN 286 million.

14.1. MEASUREMENT AND PRESENTATION OF INSURANCE PRODUCTS

The key differences in the measurement and presentation of insurance products that apply to the Group and that came into effect upon implementation of IFRS 17 are presented below.

- **KEY ASSUMPTIONS**

The standard applies to insurance contracts, reinsurance contracts and investment contracts with direct participation features.

The new standard defines an insurance contract as a contract in which one party accepts a significant insurance risk from the policyholder and undertakes to compensate the insured for an adverse effect arising from, an uncertain future event. This definition is in principle consistent with the definition in IFRS 4

The standard does not apply to, among others, investment contracts, product guarantees issued by the manufacturer, loan guarantees, catastrophe bonds and so-called weather derivatives (contracts that require a payment based on a climatic, geological or other physical variable that is not specific to a party to the contract).

The biggest impact on the occurrence of differences compared to the current IFRS 4 have:

- the valuation of liabilities and assets under insurance contracts, which:
 - is based on the value of the best estimate of future cash flows;
 - reflects the time value of money;
 - includes the risk adjustment for non-financial risk;
 - includes the expected value of future profits;
- recognition of expected profits for the group of insurance contracts over time, in proportion to the so-called coverage units, corresponding to the level of service provided by the insurance company in each reporting period;
- recognition of entire expected loss on insurance contracts at the point at which the entity assesses that the contract is onerous, which may be at the date of initial recognition of that contract or at subsequent measurement;
- separate (from direct business contracts) measurement of liabilities and assets for outward reinsurance.

- **THE MODEL FOR THE MEASUREMENT AND RECOGNITION OF INSURANCE PRODUCTS, INCLUDING THOSE LINKED TO LOANS AND ADVANCES APPLIED UNTIL 31 DECEMBER 2022**

Until the implementation of the new standard, the Group recognised net income on insurance activities under commission income – in the line “offering insurance products” which comprised premium income, costs of insurance activities, claims and change in technical reserves, and the impact of the reinsurer's share in the aforementioned items.

Due to the fact that the Group offers insurance products along with loans and advances and lease products and it is impossible to purchase from the Group an insurance product that is identical as to the legal form, conditions and economic content without purchasing a loan, an advance or a lease product, the payments received by the Group for the insurance products sold were treated as an integral part of the remuneration for the financial instruments offered. All premium received by the Group split in accordance with Recommendation U on the basis of the relative fair value model into a portion relating to:

- the insurance product - measured using an actuarial model in accordance with the requirements of IFRS 4 (recognised in commission income, line "offering insurance products")
- the portion relating to the credit product - settled using the effective interest rate method and recognized in interest income and, in the part corresponding to the performance of the agency service, if the insurer is a Group company, accounted for using the straight line method during the term of the insurance product and is recognized as commission income (line: offering insurance products).

Costs directly attributable to selling insurance products were accounted for as a component of the amortized cost of a financial instrument or on a one-off basis. The provision for future refunds was allocated to the financial instrument and insurance service in accordance with the relative fair value model.

The Group presented its insurance activities under the following headings in the statement of financial position:

- **ASSETS FROM INSURANCE ACTIVITIES** - receivables on account of reinsurance and share of reinsurers in technical reserves.
- **LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES** - technical reserves to cover current and future claims and costs which may arise from the insurance contracts concluded, i.e. unearned premium and unexpired risk reserves, outstanding claims and benefits reserve, reserve for bonuses and discounts for the insured, as well as deferred reinsurance commission and reinsurance related liabilities.
- **AMOUNTS DUE TO CUSTOMERS - "LIABILITIES IN RESPECT OF INSURANCE PRODUCTS"**: liabilities from unit-linked products, safe capital product, structured products and insurance deposits.
 - **MEASUREMENT AND RECOGNITION OF INSURANCE PRODUCTS OFFERED BY THE GROUP, INCLUDING THOSE LINKED TO LOANS AND ADVANCES IN ACCORDANCE WITH IFRS 17**

In accordance with IFRS 17, all insurance products offered by the Group are recognized and measured under this standard as insurance products. At the consolidated Group level, the premium received by the Group is no longer split in accordance with Recommendation U on the basis of the relative fair value model (this model was maintained for the Bank's separate financial statements).

The components of the net insurance income, including the portion that formed part of the Group's interest income, commission income or administrative expenses and related directly to insurance contracts, is measured using an actuarial model and presented in the "Net income from insurance business" and, as appropriate, in the lines "Insurance revenue (net of reinsurance)" and "Cost of insurance activities (net of reinsurance)".

The implementation of IFRS 17 at the consolidated level also affected the carrying amount of loans and advances to customers. The premium element recognised under the relative fair value model, adjusting the gross carrying amount of loans at the Bank level, at the consolidated level is an element of the assets and liabilities arising from insurance activities, measured in accordance with the principles set out in IFRS 17.

Starting from 1 January 2023, products i.e. liabilities from unit-linked products, "safe capital", previously recognised under IFRS 9, are measured under IFRS 17 as part of liabilities from insurance activities (previously presented under "Amounts due to customers" - "Liabilities in respect of insurance products"). On the other hand, structured products and insurance deposits, as investment products, continue to be recognised in accordance with IFRS 9 in the line "Amounts due to customers".

- **TRANSITION DATE**

The Group applied IFRS 17 for the first time in the period beginning 1 January 2023. The Group has implemented IFRS 17 in the retrospective full and modified approach for the part of the portfolio (MRA approach). Due to the need to prepare comparative data, 1 January 2022 is assumed as the date of transition to the new standard.

Detailed accounting policies and financial information for the insurance business are described in note [INSURANCE BUSINESS](#).

14.2. IMPACT ASSESSMENT - CLASSIFICATION AND MEASUREMENT

The following tables present the cumulative effect of adjustments resulting from the implementation of IFRS 17 on the Group's assets, liabilities and equity as at 1 January 2022.

DATE OF TRANSITION TO THE NEW STANDARD	31.12.2021 (pursuant to IFRS 4)	Adjustment due to implementation of IFRS 17	01.01.2022 (pursuant to IFRS 17)
TOTAL ASSETS, of which:	418,086	582	418,668
Loans and advances to customers	234,300	1,395	235,695
Assets in respect of insurance activities	911	(783)	128
Intangible assets	3,463	(20)	3,443
Other assets	2,605	(10)	2,595
TOTAL LIABILITIES AND EQUITY	418,086	582	418,668
TOTAL LIABILITIES, of which:	380,393	296	380,689
Amounts due to customers	322,296	(1,030)	321,266
Liabilities in respect of insurance activities	2,008	1,309	3,317
Other liabilities	5,366	(6)	5,360
Deferred tax liabilities	356	23	379
EQUITY, of which:	37,693	286	37,979
Reserves and accumulated other comprehensive income	25,313	17	25,330
Unappropriated profit (taking into account profit or loss for 2021)	11,144	269	11,413
Capital and reserves attributable to equity holders of the parent company	37,707	286	37,993

- The increase in equity by PLN 286 million, of which PLN 269 million in retained earnings, results from a retrospective change in the recognition of historically collected insurance premiums and a change in the measurement methodology for insurance liabilities. Until the implementation of IFRS 17, the entire premium received by the Group was split in accordance with Recommendation U on the basis of the relative fair value model into an insurance product portion - measured using an actuarial model in accordance with the requirements of IFRS 4 - and a credit product portion - accounted for using the effective interest rate method. With the implementation of IFRS 17, insurance premiums were recognised in full as insurance component measured using the general model (GMM model). As a consequence, the rate of revenue recognition and therefore the historically recognised profit included in retained earnings has changed.

The value of the insurance premium previously recognised as a component of the gross carrying amount of loans and advances to customers and accounted for over the life of the loan product, now representing part of the insurance business measured using the new methodology under IFRS 17 is recognised over the life of the insurance product, which has translated into a positive increase in equity.

- The increase in other capital by PLN 17 million related to the recognition of part of the finance income and costs from insurance business in other comprehensive income (a new element introduced by IFRS 17). Under IFRS 17, the Group used the option to split the finance income and costs of its insurance business into the portions recognized in profit or loss and other comprehensive income. By using this option, the Group can reduce the volatility of the income statement resulting from fluctuations in the interest rate structure. The change in contractual service margin (CSM) value is calculated using a fixed locked-in discount rate structure corresponding to the structure at the time the cohort was recognised. The difference between the calculation based on locked-in curves and the current curves at the time of calculation is presented in other comprehensive income. This approach also ensures consistent presentation of income statement items resulting from changes in liabilities and segregated assets.
- Loans and advances to customers increased by PLN 1,395 million, due to the discontinuation of the premium element accounted for using the effective interest rate method and adjusting the gross carrying amount of loans. The value of this premium previously recognised as a component of the gross carrying amount of loans and advances to customers is now part of the insurance business measured using the new methodology under IFRS 17, thereby translating into an increase in the balance of liabilities in respect of insurance activities.

- In accordance with IFRS 17, the liability from insurance operations as at 1 January 2022 increased by PLN 1,309 million to PLN 3,317 million, of which liability for remaining coverage (LRC) is PLN 3,143 million and liability for incurred claims (LIC) is PLN 174 million.
- There was also a decrease of PLN 783 million in the line of assets in respect of insurance activities, which is primarily due to the adoption of a different method of determining insurance assets and liabilities with the reinsurer's share (previously, receivables on account of reinsurance and share of reinsurers in technical reserves were presented under this item). In accordance with IFRS 17, the value of assets in respect of insurance activities as at 1 January 2022 amounts to 128 million and applies to outward reinsurance contracts measured using the GMM model, of which liability for remaining coverage (LRC) amounts to PLN 107 million and liability for incurred claims (LIC) amounts to PLN 21 million.
- In intangible assets, the Group recognised future gains on insurance contracts (hereinafter Value in force, VIF) resulting from the settlement of the acquisition on 1 April 2014 of "Nordea Polska Towarzystwo Ubezpieczeń na Życie" SA (currently PKO Życie Towarzystwo Ubezpieczeń S.A.). Following the implementation of IFRS 17, VIF amounts to PLN 2 million as at 1 January 2022 (negative adjustment of PLN 20 million). The remeasurement is due to the fact that a significant part of the products for which VIF has been recognised are subject to the requirements of IFRS 17, so that VIF for this part of the portfolio is replaced by the contractual service margin (CSM). The amount of contractual service margin from the acquired portfolio subject to measurement in accordance with IFRS 17 is higher than the value of the recognised VIF, due to the prudential valuation that was applied for liability measurement purposes at the time of the transaction. The new VIF value has been limited to policies subject to measurement in accordance with IFRS 9 and has been calculated in line with the original recognition of the VIF (i.e. measurement of the VIF at the time of the transaction and adoption of an amortisation pattern based on the distribution of projected future profits).
- A significant part of the products, i.e. the liabilities from the majority of unit-linked products and the "safe capital" product was presented under "Amounts due to customers" – "Liabilities in respect of insurance products". Following the implementation of IFRS 17, these products are treated as part of liabilities in respect of insurance activities and measured in accordance with the new standard. The value of the adjustment to the item "Amounts due to customers" on this account amounted to a negative PLN 1,030 million. The carrying amount of the liabilities in respect of insurance products presented under "Amounts due to customers" amounts to PLN 175 million after adjustments and relates to structured products and insurance deposits which are treated as investment products measured in accordance with IFRS 9.

The Group analysed the performance guarantees to ensure that they met the definition of an insurance contract under IFRS 17. As this type of contract only involves credit risk related to the non-recovery of funds from customers, but no insurance risk, the Group recognises and measures performance guarantees in accordance with IFRS 9.

The following tables present the cumulative impact of the adjustments due to the implementation of IFRS 17 on the Group's assets, liabilities and equity as at 31 December 2022, the items of comprehensive income including the income statement and the items of the statement of cash flows for the period of 2022.

31 December 2022	published	Adjustment due to implementation of IFRS 17	restated
ASSETS, of which:	430,683	764	431,447
Loans and advances to customers	231,721	1,238	232,959
Assets in respect of insurance activities	555	(440)	115
Intangible assets	3,527	(15)	3,512
Other assets	2,804	(19)	2,785
LIABILITIES AND EQUITY	430,683	764	431,447
Liabilities, of which:	395,248	492	395,740
Amounts due to customers	339,582	(714)	338,868
Liabilities in respect of insurance activities	1,732	1,146	2,878
Other liabilities	7,014	(4)	7,010
Deferred tax liabilities	13	64	77
EQUITY, of which:	35,435	272	35,707
Reserves and accumulated other comprehensive income	22,215	24	22,239
Retained earnings	8,651	269	8,920
Net profit or loss for the year	3,333	(21)	3,312
Capital and reserves attributable to equity holders of the parent company	35,449	272	35,721

INCOME STATEMENT (selected items) – 2022	published	Adjustment due to implementation of IFRS 17	restated
Net interest income	11,813	(389)	11,424
Interest and similar income	20,140	(389)	19,751
of which calculated under the effective interest rate method	19,580	(384)	19,196
Net fee and commission income	4,951	(453)	4,498
Fee and commission income	6,515	(456)	6,059
Fee and commission expense	(1,564)	3	(1,561)
Other net income	508	779	1,287
Net income from insurance business, of which:	-	779	779
Insurance revenue (net of reinsurance)	-	1,174	1,174
Cost of insurance activities (net of reinsurance)	-	(324)	(324)
Result on business activities	17,272	(63)	17,209
Administrative expenses	(7,850)	81	(7,769)
of which net regulatory charges	(1,889)	2	(1,887)
Profit before tax	4,749	18	4,767
Income tax expense	(1,416)	(39)	(1,455)
Net profit (including non-controlling shareholders)	3,333	(21)	3,312
Net profit attributable to equity holders of the parent company	3,333	(21)	3,312

STATEMENT OF COMPREHENSIVE INCOME (selected items) – 2022	published	Adjustment due to implementation of IFRS 17	restated
Net profit (including non-controlling shareholders)	3,333	(21)	3,312
Other comprehensive income	(3,303)	7	(3,296)
Items which may be reclassified to profit or loss	(3,296)	7	(3,289)
Finance income and costs from insurance business, gross	-	9	9
Deferred tax	-	(2)	(2)
Finance income and costs from insurance business, net	-	7	7
Total net comprehensive income	30	(14)	16
Total net comprehensive income, of which attributable to:	30	(14)	16
equity holders of the parent	30	(14)	16

CASH FLOWS – SELECTED CONSOLIDATED DATA – 2022	published	Adjustment due to implementation of IFRS 17	restated
Profit before tax	4,749	18	4,767
Total adjustments	15,223	(18)	15,205
Depreciation and amortization	1,278	(11)	1,267
Change in loans and advances to customers	1,529	157	1,686
Change in asset in respect of insurance activities	356	(343)	13
Change in amounts due to customers	17,286	316	17,602
Change in liabilities in respect of insurance activities	(276)	(163)	(439)
Change in other liabilities	1,903	2	1,905
Other adjustments	(1,912)	24	(1,888)
Net cash from/used in operating activities	18,543	-	18,543

14.3. IMPACT OF IFRS 17 ON OWN FUNDS AND CAPITAL ADEQUACY MEASURES

According to CRR Regulation, prudential consolidation is used for capital adequacy purposes, which unlike consolidation in accordance with IFRS, covers only subsidiaries that meet the definition of an institution, financial institution or any ancillary services enterprise. Therefore, the following insurance companies of the Group are excluded from prudential consolidation: PKO Towarzystwo Ubezpieczeń S.A. and PKO Życie Towarzystwo Ubezpieczeń S.A. The insurance companies are measured using the equity method.

Thus, the implementation of IFRS 17 at the date of the opening balance sheet affects the value of equity investments recognised (own funds requirements for credit risk), as well as retained earnings and accumulated other comprehensive income from the remeasurement of insurance companies measured using the equity method.

The total impact of the adjustments on the total capital ratio is +0.01 b.p. as at 31 December 2022.

15. NEW STANDARDS AND INTERPRETATIONS AND THEIR AMENDMENTS

• STANDARDS AND INTERPRETATIONS AND THEIR AMENDMENTS EFFECTIVE FROM 1 JANUARY 2023

STANDARDS AND INTERPRETATIONS *	DESCRIPTION OF CHANGES AND IMPACT
IFRS 17 "INSURANCE CONTRACTS" (1.01.2023/ 19.11. 2021) AND AMENDMENTS TO IFRS 17 (1.01.2023/ 8.09.2022)	For details, see Note 14 " IFRS 17 Insurance contracts "
AMENDMENTS TO IAS 1 "PRESENTATION OF FINANCIAL STATEMENTS" AND IAS 8 "ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS" (1.01.2023/2.03.2022))	<p>Amendments to IAS 1 contain guidelines on the application of the term "material" in disclosures of the accounting policies. Instead of significant accounting policies, the amendments require disclosure of material information about accounting policies, with explanations and examples of how an entity can identify material information about accounting policies.</p> <p>The amendments to IAS 8 introduce a new definition of accounting estimates. Under the new definition, accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The introduction of the definition of accounting estimates and other amendments to IAS 8 are intended to help entities distinguish between changes in accounting policies and changes in accounting estimates.</p> <p>The amendments to IAS 1 affect the scope of information presented in the Group's annual financial statements for 2023.</p> <p>For details, see "BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS".</p>
AMENDMENTS TO IAS 1 - CLASSIFICATION OF LIABILITIES (1.01.2024/ 19.12.2023)	<p>The changes relate to the classification of liabilities in the statement of financial position as short-term or long-term. They clarify that the classification of liabilities as short-term or long-term should take into account, as at the classification date, the existence of a debt extension, regardless of the entity's intention to use it for a period longer than 12 months, and should take into account the fulfillment of the conditions of such extension as at the date of assessment, if it is conditional.</p> <p>The Group does not have any agreements containing the aforementioned provisions and therefore the Group is not affected by the amendment.</p>
AMENDMENTS TO IAS 12 "INCOME TAXES" (1.01.2023/11.08.2022)	<p>Amendments to IAS 12 require that the entities recognise in the financial statements deferred tax assets and liabilities resulting from transactions, other than business combinations, in which equal amounts of deductible and taxable temporary differences arise on initial recognition.</p> <p>The amendment is presentational in nature.</p> <p>For details, see note: "INCOME TAX".</p>
AMENDMENTS TO IAS 12 "INCOME TAXES" (1.01.2023/8.11.2023)	<p>The amendments apply to entities for which OECD Pillar 2 tax regulations apply, i.e. the introduction of global minimum taxation for the largest groups earning profits in different tax jurisdictions ("Pillar"). Among other things, the amendments introduce an exception to the requirements of IAS 12, whereby entities do not recognise and disclose deferred tax assets and liabilities related to the Pillar. The application of the exception must be disclosed by entities. In addition, the amendments also introduce, among other things, a requirement for separate disclosure of current tax expense related to the Pillar.</p> <p>The provisions for a global minimum tax have not yet been implemented in Poland. They have also not been implemented in certain jurisdictions where the Group operates (Ukraine, Sweden). From 2024 onwards, they will apply in tax jurisdictions where the Group operates in the form of foreign branches (Germany, Czech Republic, Slovakia, Romania).</p> <p>The Group is currently evaluating the future impact on the consolidated financial statements.</p>

<p>AMENDMENT TO IFRS 16 "LEASES" (1.01.2024/20.11.2023)</p>	<p>The amendments clarify how a seller-lessee should measure sale and leaseback transactions that meet the requirements of IFRS 15 to recognise an asset as a sale.</p> <p>The amendments concern cases where the instalments payable under a leaseback agreement are variable, i.e. other than based on a rate or index.</p> <p>The amendments require the seller-lessee to measure the lease liability in such a way that the differences between the actual variable amounts paid under the agreement and the amounts included in the initial measurement of the liability are recognised directly through profit or loss.</p> <p>A retrospective approach applies to these amendments.</p> <p>The Group does not currently have sale and leaseback transactions with variable lease instalments other than those based on a rate or index, and therefore the Group is not affected by the amendment.</p>
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* The effective date in EU / date of endorsement by EU is provided in parentheses

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

STANDARDS AND INTERPRETATIONS *	DESCRIPTION OF CHANGES AND IMPACT
<p>AMENDMENTS TO IAS 7 "STATEMENT OF CASH FLOWS" AND AMENDMENTS TO IFRS 7 "FINANCIAL INSTRUMENTS: DISCLOSURES" (1.01.2024/ NO DATA)</p>	<p>The amendments require additional disclosures for reverse factoring agreements. Entities will be required to disclose information in financial statements to enable users of financial statements:</p> <ul style="list-style-type: none"> • an assessment of how the aforementioned agreements affect the entity's liabilities and cash flows; and • understanding the impact of the aforementioned agreements on the entity's exposure to liquidity risk and the impact when the agreements expire. <p>In addition, the amendments complement the current IFRS requirements by adding additional disclosure requirements to IAS 7 on, among other things:</p> <ul style="list-style-type: none"> • terms and conditions of reverse factoring agreements; • disclosures at the beginning and end of the reporting period of the carrying amount of the aforementioned liabilities, the value of liabilities paid, the timing of payments. <p>The IASB has decided that, in most cases, entities can present aggregated information on the above matters.</p> <p>The Group does not currently have any reverse factoring transactions relating to the above amendments and therefore the Group should not be affected by the amendment.</p>

* the expected effective date in EU / date of endorsement by EU is provided in parentheses

SUPPLEMENTARY NOTES TO THE INCOME STATEMENT

16. SEGMENT REPORTING

ACCOUNTING POLICIES:

The segmentation note was prepared on the basis of the internal reporting system, i.e. information provided to the Management Board of PKO Bank Polski S.A., which is used to assess the achieved results and allocate resources.

The principles of identifying revenues and costs as well as assets and liabilities applied in the segmentation report are consistent with the accounting principles described in these financial statements. The presented assets and liabilities of the segment are operating assets and liabilities used by the segment in its operating activities. The values of assets and liabilities as well as revenues and costs for individual segments are based on internal management information. The segment results, assets and liabilities also include items that can be assigned based on rational assumptions. On this basis, the segments recognize the impact of significant one-off events, such as negative goodwill arising from the acquisition of the company, goodwill impairment losses, impairment losses on associates, and the cost of legal risk of the portfolio of mortgage loans in convertible currencies.

Share of profits and losses of associates and joint ventures, profits and losses of non-controlling shareholders, income tax charge for the presentation of the result and deferred tax assets, current income tax receivables, current income tax liabilities and provisions due to deferred income tax in the presentation of the statement of financial position were recognized at the Group level (unallocated assets and liabilities).

The Group settles transactions between segments as if they were related to unrelated entities, using internal settlement rates based on market rates for a given currency and maturity date, taking into account liquidity margins. Transactions between the segments are carried out on normal commercial terms.

Following the introduction of the disclosures in respect of IFRS 17 as of 1 January 2023, corresponding changes have been made to the comparative figures for 2022 (as detailed in note [IFRS 17 "Insurance Contracts"](#)).

The PKO Bank Polski S.A. Group conducts business activities within segments offering specific products and services addressed to specific groups of customers. The manner in which the business segments are divided ensures consistency with the sales management model and offers customers a comprehensive product mix comprising both traditional banking products and more complex investment products, as well as services provided by the Group entities.

The segmentation note presented below is included in the internal reporting system, i.e. information presented to the Management Board of PKO Bank Polski S.A., which is used to assess the achieved results and allocate resources.

The segment report presented below reflects the internal organizational structure of the PKO Bank Polski S.A. Group.

The Group operates in three main segments:

<p>RETAIL SEGMENT</p>	<p>The retail segment offers a full range of services to individuals as part of retail, private and mortgage banking. It also comprises transactions concluded with legal persons, i.e. firms and enterprises. The products and services offered to customers in this segment include, among other things: current accounts, savings accounts, term deposits, private banking services, investment and insurance products, investment funds, credit and debit cards, electronic and mobile banking services. With regard to financing, this segment offers consumer loans, mortgage loans, including those offered by PKO Bank Hipoteczny S.A., as well as Corporate loans for firms and enterprises, developers, cooperatives and property managers, and leases and factoring offered by the PKO Leasing S.A. Group. In addition, the results of the retail segment comprise the results of the following companies: PKO TFI S.A., PKO BP BANKOWY PTE S.A., PKO Życie Towarzystwo Ubezpieczeń S.A., PKO Towarzystwo Ubezpieczeń S.A., PKO BP Finat sp. z o.o.</p>
<p>CORPORATE AND INVESTMENT SEGMENT</p>	<p>The corporate and investment segment comprises transactions concluded with large corporate customers and financial institutions. This segment offers the following products and services: maintaining current accounts and term deposits, cash management and trade finance services, safekeeping of securities, currency products and derivatives, corporate loans, leasing and factoring offered by the PKO Leasing S.A. Group. As part of this segment's activities, the Group also concludes, on its own or in consortiums with other banks, agreements for financing large projects in the form of loans and issues of non-Treasury securities. The segment also comprises own activities, i.e. investing activities, brokerage activities, interbank transactions, as well as transactions in derivative instruments and debt securities. The results of the corporate and investment segments also comprise the results of the companies operating in Ukraine and companies conducting technological services, real estate development and real estate management activities as well as funds investing money collected from investment fund participants.</p>
<p>TRANSFER CENTER AND OTHER</p>	<p>The transfer & other activities centre comprises the result on internal settlements related to funds transfer pricing, the result on the Group's investment portfolio of debt securities, the result on long-term sources of financing and the result on positions classified for hedge accounting, as well as the results not allocated to any other segment. Internal funds transfer is based on arm's length transfer pricing. Long-term external financing includes issuing securities, including mortgage covered bonds, subordinated liabilities and loans received from financial institutions. The results of PKO Finance AB are presented as part of this segment.</p>

FINANCIAL INFORMATION

The tables below present data on revenues, costs, profits / losses as well as assets and liabilities of the individual reporting segments of the Group for the periods ended 31 December 2023 and 31 December 2022.

Income statement by segment	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer center and other	Total operations of the Group
2023				
Net interest income	15,143	6,348	(3,173)	18,318
Net fee and commission income	3,555	1,124	(53)	4,626
Other net income	1,011	224	(47)	1,188
Net income from insurance business	696	15	-	711
Dividend income	-	14	-	14
Gains/(losses) on financial transactions	40	98	29	167
Foreign exchange gains/ (losses)	116	4	(21)	99
Gains/(losses) on derecognition of financial instruments	25	19	13	57
Net other operating income and expense	114	94	(68)	140
Income/(expenses) relating to internal customers	20	(20)	-	-
Result on business activities	19,709	7,696	(3,273)	24,132
Net allowances for expected credit losses	(993)	(272)	-	(1,265)
Net impairment losses on non-financial assets	(6)	(53)	(49)	(108)
Cost of legal risk of mortgage loans in convertible currencies	(5,430)	-	-	(5,430)
Administrative expenses, of which:	(6,313)	(1,320)	(2)	(7,635)
depreciation and amortization	(938)	(149)	-	(1,087)
net regulatory charges	(444)	(176)	(2)	(622)
Tax on certain financial institutions	(754)	(439)	(38)	(1,231)
Share in profits and losses of associates and joint ventures	-	-	-	99
Segment profit/(loss)	6,213	5,612	(3,362)	8,562
Income tax expense (tax burden)				(3,057)
Net profit (including non-controlling shareholders)				5,505
Profit (loss) attributable to non-controlling shareholders				3
Net profit attributable to equity holders of the parent company				5,502

Income statement by segment	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer center and other	Total operations of the Group
2022				
Net interest income	7,711	3,892	(179)	11,424
Net fee and commission income	3,408	1,097	(7)	4,498
Other net income	1,185	483	(381)	1,287
Net income from insurance business	772	7	-	779
Dividend income	-	51	-	51
Gains/(losses) on financial transactions	172	200	(14)	358
Foreign exchange gains/ (losses)	87	196	(356)	(73)
Gains/(losses) on derecognition of financial instruments	(1)	(23)	(2)	(26)
Net other operating income and expense	129	78	(9)	198
Income/(expenses) relating to internal customers	26	(26)	-	-
Result on business activities	12,304	5,472	(567)	17,209
Net allowances for expected credit losses	(959)	(542)	-	(1,501)
Net impairment losses on non-financial assets	(41)	(1)	(21)	(63)
Cost of legal risk of mortgage loans in convertible currencies	(1,914)	-	-	(1,914)
Administrative expenses, of which:	(6,404)	(1,333)	(32)	(7,769)
depreciation and amortization	(880)	(139)	-	(1,019)
net regulatory charges	(1,475)	(380)	(32)	(1,887)
Tax on certain financial institutions	(737)	(382)	(147)	(1,266)
Share in profits and losses of associates and joint ventures	-	-	-	71
Segment profit/(loss)	2,249	3,214	(767)	4,767
Income tax expense (tax burden)				(1,455)
Net profit (including non-controlling shareholders)				3,312
Net profit attributable to equity holders of the parent company				3,312

INTEREST INCOME BY SEGMENT	2023			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans and other amounts due from banks and the Central Bank	13	963	762	1,738
Debt securities	96	4,518	2,298	6,912
Loans and advances to customers (excluding finance lease receivables)	15,897	5,093	-	20,990
Finance lease receivables	1,107	470	-	1,577
Total	17,113	11,044	3,060	31,217

INTEREST INCOME BY SEGMENT	2022			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans and other amounts due from banks and the Central Bank	11	587	560	1,158
Debt securities	56	2,047	1,734	3,837
Loans and advances to customers (excluding finance lease receivables)	9,937	3,506	-	13,443
Finance lease receivables	978	306	-	1,284
Amounts due to customers (excluding loans and advances received)	-	29	-	29
Total	10,982	6,475	2,294	19,751

FEE AND COMMISSION INCOME BY SEGMENT	2023			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans, insurance, operating leases and fleet management	768	467	-	1,235
lending	542	379	-	921
offering insurance products	73	19	-	92
operating leases and fleet management	153	69	-	222
Investment funds, pension funds and brokerage activities	675	119	-	794
servicing investment funds and OFE (including management fees)	435	5	-	440
servicing and selling investment and insurance products	4	-	-	4
brokerage activities	236	114	-	350
Cards	2,118	56	-	2,174
Margins on foreign exchange transactions	489	232	-	721
Bank accounts and other	1,012	365	-	1,377
servicing bank accounts	796	178	-	974
cash operations	51	57	-	108
servicing foreign mass transactions	86	50	-	136
customer orders	16	38	-	54
fiduciary services	-	9	-	9
other	63	33	-	96
Total	5,062	1,239	-	6,301

FEE AND COMMISSION INCOME BY SEGMENT	2022			
	Retail segment	Corporate and investment segment	Transfer center and other	Total
Loans, insurance, operating leases and fleet management	767	386	-	1,153
lending	542	324	-	866
offering insurance products	102	15	-	117
operating leases and fleet management	123	47	-	170
Investment funds, pension funds and brokerage activities	650	122	-	772
servicing investment funds and OFE (including management fees)	381	8	-	389
servicing and selling investment and insurance products	2	-	-	2
brokerage activities	267	114	-	381
Cards	1,906	83	-	1,989
Margins on foreign exchange transactions	521	290	-	811
Bank accounts and other	991	343	-	1,334
servicing bank accounts	801	178	-	979
cash operations	37	52	-	89
servicing foreign mass transactions	69	43	-	112
customer orders	27	36	-	63
fiduciary services	-	9	-	9
other	57	25	-	82
Total	4,835	1,224	-	6,059

Assets and liabilities by segment	Retail segment	Corporate and investment segment	Transfer center and other	Total operations of the Group
31.12.2023				
Assets	182,510	205,155	109,561	497,226
Investments in associates and joint ventures	-	-	-	284
Unallocated assets	-	-	-	4,006
Total assets	182,510	205,155	109,561	501,516
Liabilities	338,611	90,016	25,833	454,460
Unallocated liabilities	-	-	-	1,829
Total liabilities	338,611	90,016	25,833	456,289

Assets and liabilities by segment	Retail segment	Corporate and investment segment	Transfer center and other	Total operations of the Group
31.12.2022				
Assets	176,655	157,849	91,419	425,923
Investments in associates and joint ventures	-	285	-	285
Unallocated assets	-	-	-	5,239
Total assets	176,655	158,134	91,419	431,447
Liabilities	288,718	79,423	26,757	394,898
Unallocated liabilities	-	-	-	842
Total liabilities	288,718	79,423	26,757	395,740

INFORMATION ON GEOGRAPHICAL AREAS

The PKO Bank Polski S.A. Group also divides its operations into geographical segments. The PKO Bank Polski S.A. Group conducts its operations in the Republic of Poland, as well as in Ukraine (through the KREDOBANK S.A. Group, "Inter-Risk Ukraina" company with additional liability, Finansowa Kompania "Prywatne Inwestycje" sp. z o.o., KREDOLEASING sp. z o.o. and Finansowa Kompania "Idea Kapital" sp. z o.o.), in Sweden (through PKO Finance AB and PKO Leasing Sverige AB) and in Ireland (through Polish Lease Prime 1 DAC1). PKO Bank Polski S.A. also has foreign corporate branches in the Federal Republic of Germany, the Czech Republic and the Slovak Republic.

For presentation purposes, the results of the companies operating in Sweden and Ireland and of the Bank's branches operating in Germany, the Czech Republic and Slovakia were recognized in the geographic area "Poland" due to their impact on the scale of the operations of the PKO Bank Polski S.A. Group.

The results of the companies recognized in the segment "Ukraine" include intercompany transactions with other companies of the PKO Bank Polski S.A. Group operating in Ukraine. Intercompany transactions with other companies of the PKO Bank Polski S.A. Group and consolidation adjustments are presented in the results of the segment "Poland".

2023	Poland	Ukraine	Total
Net interest income	17,945	373	18,318
Net fee and commission income	4,516	110	4,626
Other net income	1,181	7	1,188
Net income from insurance business	711	-	711
Dividend income	14	-	14
Gains/(losses) on financial transactions	167	-	167
Foreign exchange gains/ (losses)	97	2	99
Gains/(losses) on derecognition of financial instruments	55	2	57
Net other operating income and expense	137	3	140
Result on business activities	23,642	490	24,132
Net allowances for expected credit losses	(1,244)	(21)	(1,265)
Net impairment losses on non-financial assets	(108)	-	(108)
Cost of legal risk of mortgage loans in convertible currencies	(5,430)	-	(5,430)
Administrative expenses, of which:	(7,433)	(202)	(7,635)
depreciation and amortization	(1,051)	(36)	(1,087)
net regulatory charges	(607)	(15)	(622)
Tax on certain financial institutions	(1,231)	-	(1,231)
Share in profits and losses of associates and joint ventures	99	-	99
Segment profit/(loss)	8,295	267	8,562
Income tax expense (tax burden)			(3,057)
Net profit (including non-controlling shareholders)			5,505
Profit (loss) attributable to non-controlling shareholders			3
Net profit attributable to equity holders of the parent company			5,502

31.12.2023	Poland	Ukraine	Total
Assets, of which:	491,452	5,774	497,226
Loans and advances to customers	244,479	1,297	245,776
Investments in associates and joint ventures	284	-	284
Current income tax receivables and deferred income tax asset	3,970	36	4,006
Total assets	495,706	5,810	501,516
Liabilities, of which:	449,384	5,076	454,460
Amounts due to customers	394,375	4,818	399,193
Current income tax liabilities and deferred income tax liabilities	1,725	104	1,829
Total liabilities	451,109	5,180	456,289

2022	Poland	Ukraine	Total
Net interest income	11,149	275	11,424
Net fee and commission income	4,350	148	4,498
Other net income	1,280	7	1,287
Net income from insurance business	779	-	779
Dividend income	51	-	51
Gains/(losses) on financial transactions	358	-	358
Foreign exchange gains/ (losses)	(75)	2	(73)
Gains/(losses) on derecognition of financial instruments	(27)	1	(26)
Net other operating income and expense	194	4	198
Income/(expenses) relating to internal customers	-	-	-
Result on business activities	16,779	430	17,209
Net allowances for expected credit losses	(1,276)	(225)	(1,501)
Net impairment losses on non-financial assets	(63)	-	(63)
Cost of legal risk of mortgage loans in convertible currencies	(1,914)	-	(1,914)
Administrative expenses, of which:	(7,583)	(186)	(7,769)
depreciation and amortization	(978)	(41)	(1,019)
net regulatory charges	(1,874)	(13)	(1,887)
Tax on certain financial institutions	(1,266)	-	(1,266)
Share in profits and losses of associates and joint ventures	71	-	71
Segment profit/(loss)	4,748	19	4,767
Income tax expense (tax burden)			(1,455)
Net profit (including non-controlling shareholders)			3,312
Net profit attributable to equity holders of the parent company			3,312

31.12.2022	Poland	Ukraine	Total
Assets, of which:	421,052	4,871	425,923
Loans and advances to customers	231,382	1,577	232,959
Investments in associates and joint ventures	285	-	285
Current income tax receivables and deferred income tax asset	5,231	8	5,239
Total assets	426,568	4,879	431,447
Liabilities, of which:	390,533	4,365	394,898
Amounts due to customers	334,729	4,139	338,868
Current income tax liabilities and deferred income tax liabilities	841	1	842
Total liabilities	391,374	4,366	395,740

17. INTEREST INCOME AND EXPENSE

ACCOUNTING POLICIES

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

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

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

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

Interest income also includes:

- the effect of the fair value measurement of financial assets acquired as part of business combinations between subsidiaries
- the impact of the European Union Court of Justice's ruling on consumer rights to reduce the cost of loans repaid before maturity by deducting interest income, as the estimated difference between the outstanding commission at the effective interest rate at the date of the expected early repayment of the loan and the commission that would have been accounted for on a straight-line basis, according to which the Bank reimburses the commission. The estimates are based on historical early repayment periods and their probability;

- effect of statutory credit holidays, introduced by the Act on crowdfunding for business ventures and assistance to borrowers, recognised in the second half of 2022 in correspondence with the gross carrying amount of mortgage loans granted in PLN (Note „[Loans and advances to customers](#)”).
- the impact of the amendment of the Act of 23 March 2017 on mortgage credit and supervision of mortgage credit intermediaries and agents (Journal of Laws of 2020, items 1027 and 2320 and of 2022, items 872 and 1488), concerning the reimbursement of the additional mortgage cost associated with waiting for the mortgage to be registered in the mortgage register, borne by the customer until the mortgage is registered in the mortgage register by deducting interest income, as the value of the estimated return of the margin for customers calculated until the date of registration of the mortgage in the mortgage register.

FINANCIAL INFORMATION:

INTEREST AND SIMILAR INCOME	2023	2022
Loans and other amounts due from banks and the Central Bank¹	1,738	1,158
Debt securities²	6,912	3,837
measured at amortized cost	2,239	1,487
measured at fair value through other comprehensive income	4,629	2,315
measured at fair value through profit or loss	44	35
Loans and advances to customers^{2,3}	20,990	13,443
measured at amortized cost	20,485	12,925
measured at fair value through profit or loss	505	518
Finance lease receivables³	1,577	1,284
Amounts due to customers	-	29
Total	31,217	19,751
of which: interest income on impaired financial instruments	601	438
Interest income calculated using the effective interest rate method on financial instruments measured:		
at amortized cost	30,668	19,196
at fair value through other comprehensive income	26,039	16,881
at fair value through profit or loss	4,629	2,315
Income similar to interest income on instruments measured at fair value through profit or loss	549	555
Total	31,217	19,751

¹ Under this item, in 2023, the Group recognised interest income on funds in call accounts (central clearing through a clearing broker) of PLN 205 million (PLN 297 million in the corresponding period) and interest income on funds in the current account with the NBP of PLN 762 million (PLN 560 million in the corresponding period).

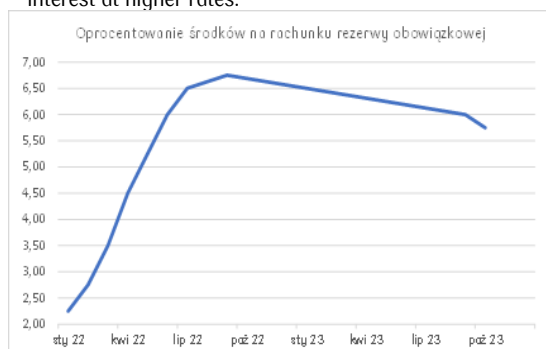
² The increase in interest income is mainly due to the higher level of market interest rates, increase in the securities portfolio and a change in the structure of the average volume of the loan portfolio (increase in the share of corporate and consumer loans at the expense of the share of housing loans in foreign currencies and PLN). The interest income from loans and advances to customers in the 12 months ended 31 December 2022 includes the effect of the Act on crowdfunding for business ventures and assistance for borrowers (so-called "credit holidays") in the amount of PLN 3,111 million (note "Loans and advances to customers").

³ Interest income on loans advanced to customers and finance lease receivables for 2022 has been adjusted by PLN 389 million for the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)").

INTEREST EXPENSE	2023	2022
Hedging derivatives ¹	(3,817)	(3,580)
Amounts due to banks	(87)	(134)
Interbank deposits	-	(6)
Loans and advances received	(93)	(83)
Leases	(35)	(19)
Amounts due to customers ²	(7,901)	(3,720)
Issues of securities	(739)	(621)
Subordinated liabilities	(227)	(164)
Total	(12,899)	(8,327)

¹ The increase in interest expense related to hedging derivatives of PLN 237 million relates mainly to IRS transactions (payments made at a floating rate exceed those received at a fixed rate).

² The increase in costs by PLN 4,181 million is mainly related to an increase in average interest rates on deposits associated with increases in PLN interest rates following the MPC's decisions and changes in the term structure involving an increase in the share of term deposits bearing interest at higher rates.



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

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

18. FEE AND COMMISSION INCOME AND EXPENSES

ACCOUNTING POLICIES:

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

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

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

The following items are also included in commission income:

- net income on operating leases, short-term rental and net income on the provision of fleet management services – in the line “operating leases and fleet management” – see note “[Leases](#)”;
- foreign exchange margin included in the exchange rates offered to the Bank's customers when providing foreign currency purchase/sale services is presented in the line “margin on foreign exchange transactions”. The exchange rate margin in customer transactions is calculated as the difference between the exchange rate at which the foreign exchange transaction was executed (the buy/sell rate from the bank's table of exchange rates,

the negotiated rate, the rate from Table C of the National Bank of Poland) and the averaged current day buy and sell rate from the bank's table of exchange rates, with the exception of exchange office transactions and spot foreign exchange transactions, for which the exchange rate margin is calculated as the difference between the rate at which the foreign exchange position is closed and the transaction rate determined upon conclusion of the transaction.

FINANCIAL INFORMATION

FEE AND COMMISSION INCOME	2023	2022
Loans, insurance, operating leases and fleet management	1,235	1,153
lending	921	866
offering insurance products ¹	92	117
operating leases and fleet management	222	170
Investment funds, pension funds and brokerage activities	794	772
servicing investment funds and OFE (including management fees)	440	389
servicing and selling investment and insurance products ¹	4	2
brokerage activities	350	381
Cards	2,174	1,989
Margins on foreign exchange transactions	721	811
Bank accounts and other	1,377	1,334
servicing bank accounts	974	979
cash operations	108	89
servicing foreign mass transactions	136	112
customer orders	54	63
fiduciary services	9	9
other	96	82
Total, of which:	6,301	6,059
income from financial instruments not measured at fair value through profit or loss	5,808	5,607

¹ Fee and commission income from offering insurance products and servicing and selling investment and insurance products for 2022 has been adjusted by PLN 456 million for the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)").

FIDUCIARY ACTIVITIES

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

FEE AND COMMISSION EXPENSE	2023	2022
Loans and insurance	(115)	(97)
commission paid to external entities for product sales	(24)	(20)
cost of construction project supervision and property appraisal	(41)	(28)
fees to Biuro Informacji Kredytowej	(25)	(23)
loan handling	(25)	(26)
Investment funds, pension funds and brokerage activities	(47)	(44)
Cards	(1,296)	(1,257)
Bank accounts and other	(217)	(163)
clearing services	(62)	(56)
commissions for operating services provided by banks	(14)	(16)
sending short text messages (SMS)	(55)	(50)
selling banking products	(1)	(1)
servicing foreign mass transactions	(22)	(22)
inne ¹	(63)	(18)
Total	(1,675)	(1,561)

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

NET INCOME ON OPERATING LEASES AND FLEET MANAGEMENT	2023	2022
Income on operating leases and fleet management	574	513
Costs of operating leases and fleet management	(68)	(95)
Depreciation of property, plant and equipment under operating leases	(284)	(248)
Net income on operating leases and fleet management	222	170

19. DIVIDEND INCOME

ACCOUNTING POLICIES:

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

FINANCIAL INFORMATION

DIVIDEND INCOME	2023	2022
from financial assets held for trading	1	1
from financial instruments not held for trading, measured at fair value through profit or loss	13	50
Total	14	51

20. GAINS/(LOSSES) ON FINANCIAL TRANSACTIONS

ACCOUNTING POLICIES:

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

RELATED NOTES: "[Hedge accounting and other derivative instruments](#)", "[Securities](#)", "[Loans and advances to customers](#)"

FINANCIAL INFORMATION

GAINS/(LOSSES) ON FINANCIAL TRANSACTIONS	2023	2022
Financial instruments held for trading, of which:	114	400
Derivatives ¹	93	400
Equity instruments	4	(2)
Debt securities	16	2
Other	1	-
Financial instruments not held for trading, measured at fair value through profit or loss, of which:	62	(26)
Equity instruments	99	11
Debt securities	10	8
Loans and advances to customers	(47)	(45)
Hedge accounting	(9)	(16)
Total	167	358

¹ Of which due to stock options and stock exchange indices PLN 86 million (in 2022 - PLN 212 million) and IRS: PLN 66 million (in 2022 - PLN 145 million).

21. FOREIGN EXCHANGE GAINS/ (LOSSES)

ACCOUNTING POLICIES:

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

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

FINANCIAL INFORMATION

	2023	2022
Foreign exchange gains/ (losses)	99	(73)

An increase in net foreign exchange income results mainly from an improvement in the net income on currency derivatives.

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

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

RELATED NOTES: "[Consolidated statement of comprehensive income](#)",

FINANCIAL INFORMATION

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS	2023	2022
Measured at fair value through other comprehensive income	33	(41)
Measured at amortized cost	24	15
Total	57	(26)

23. OTHER OPERATING INCOME AND EXPENSES

ACCOUNTING POLICIES:

Other operating income comprises income not directly related to banking activities. Other operating income mainly includes gains on the sale of investments in residential real estate, sale/scraping of property, plant and equipment, intangible assets and assets held for sale, damages, fines and penalties received, and income from lease/rental of properties. In the Group companies, other operating income also include, respectively, revenue from the sale of finished goods, goods for resale and materials. Other operating income also includes reversed provisions for legal claims, excluding legal claims relating to mortgage loans in foreign currencies and income in respect of the valuation and sale of CO₂ emission allowances.

Other operating expenses include mainly costs of donations given, ancillary expenses, penalties, damages and fines given, losses on sale/scraping of property, plant and equipment, intangible assets and assets repossessed for debt. In the Group companies, other operating expenses also include, cost of finished goods, goods for resale and materials. Other operating expenses also include provisions recognized for legal claims, excluding legal claims relating to mortgage loans in foreign currencies, costs of provisions for refunds to customers on early repayment of consumer and mortgage loans before the CJEU ruling (see note "[Provisions](#)") and costs in respect of the valuation and sale of CO₂ emission allowances.

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

FINANCIAL INFORMATION

OTHER OPERATING INCOME	2023	2022
Net revenues from the sale of products and services	146	118
Gains on sale or scrapping of property, plant and equipment, property, plant and equipment leased out under operating lease, intangible assets and assets held for sale	95	108
Damages, compensation and penalties received	51	47
Ancillary income	6	11
Recovery of receivables expired, forgiven or written off	9	2
Reversal of provision for future payments	5	2
Reversal of provision recognized for legal claims excluding legal claims relating to repaid mortgage loans in convertible currencies	3	7
Income from sale of CO ₂ emission allowances	17	43
Inne1	82	90
Total	414	428

¹ including, with regard to leasing activities, revenue from early termination of agreements in the amount of PLN 14 million (in 2022 - PLN 15 million), result on settlement of damages and expired operating lease agreements in the amount of PLN 8 million (in 2022 - PLN 8 million).

OTHER OPERATING EXPENSES	2023	2022
Cost of products and services sold	(1)	(1)
Losses on sale or scrapping of property, plant and equipment, property, plant and equipment leased out under operating lease, intangible assets and assets held for sale	(8)	(11)
Damages, compensation and penalties paid	(6)	(1)
Donations made	(29)	(54)
Sundry expenses	(19)	(15)
Recognition of provision for potential refunds of fees and commission to customers	-	(13)
Recognition of provision for future payments	(1)	(2)
Recognition of provision for legal claims excluding legal claims relating to repaid mortgage loans in convertible currencies	(17)	(12)
Costs from sale of CO ₂ emission allowances	(44)	(25)
Inne ¹	(149)	(96)
Total	(274)	(230)

¹ including costs of external services incurred in connection with debt collection in the amount of PLN 26 million (in 2022 - PLN 20 million) and litigation costs, including legal representation, reimbursed to borrowers under settlements concerning loans granted in CHF in the amount of PLN 29 million (in 2022 - PLN 0 million), remarketing costs of PLN 24 million (PLN 23 million in 2022).

24. NET ALLOWANCES FOR EXPECTED CREDIT LOSSES

ACCOUNTING POLICIES:

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

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

ESTIMATES AND JUDGMENTS:

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

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

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

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

- debt financial instruments comprising credit exposures and securities;
- lease receivables;

- other financial assets;
- off-balance sheet financial and guarantee liabilities.

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

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

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

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

- **MORTGAGE AND OTHER RETAIL EXPOSURES**

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

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

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

According to data as at the end of 2023, an increase in the PD parameter of at least 2.5 compared to the value at the time of its recognition in the Group's accounting records in respect of mortgage exposures and an increase of at least 2.5 in respect of other retail exposures constitutes a premise of a significant deterioration in credit quality.

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

- **EXPOSURES TO INSTITUTIONAL CUSTOMERS**

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

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

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

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

¹ average values (the ranges are determined separately for homogeneous groups of customers)

² deterioration of the risk category is a direct indication of impairment

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

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

- **IMPAIRED LOANS AND DEFINITION OF DEFAULT**

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

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

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

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

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

- **CALCULATION OF THE EXPECTED CREDIT LOSS**

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

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

The Group calculates expected credit losses on an individual and on a portfolio basis.

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

THE PORTFOLIO METHOD is applied to exposures that are not individually significant and in the event of a failure to identify premises of impairment.

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

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

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

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

The scope of the projected indicators includes:

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

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

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

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

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

The share of the scenarios for the GDP path (**GDP GROWTH RATE**) that falls between the optimistic and the pessimistic scenario is referred to as the probability of the baseline scenario. Such an assumption is used to project GDP growth, using a potential rate of growth of the Polish economy that varies over time, calculated with the use of quarterly data provided by the Central Statistical Office. The values of other macroeconomic variables used in the scenarios (rate of unemployment, property price index) are estimated after the extreme paths of GDP growth are defined.

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

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

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

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

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

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

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

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

The applied approach to the impact of macroeconomic forecasts on risk parameters describes the situation simultaneously in all branches of the economy and may not take into account the problems of individual industries caused by the pandemic, which is why the Group has conducted additional analyses of the loan portfolio, including leasing portfolio. These analyses, carried out by risk experts, mainly included an assessment of the impact of specific macroeconomic conditions not taken into account in the portfolio approach and helped identify clients and industries particularly affected by the current economic situation.

For the loan and advances portfolio, this is particularly the case in the construction, automotive, office and retail rental sectors, organic fertiliser production and energy-intensive industries. Exposures with highest PD values (D rating or worse) belonging to identified industries were marked with the indication of "significant increase in credit risk" and covered by increased write-downs. In 2023, as a result of the above measures, the Group increased the write-downs for expected credit losses by PLN 272 million, which represents approx. 16% of the value of write-downs on the entire portfolio of economic loans classified as Stage 2.

In the case of the portfolio of finance lease receivables, this relates to the following sectors: transport, construction, hotel, finishing, furniture, automotive, paper, agriculture, fertiliser and steel. For these sectors, the Group divided the portfolio into the portfolio of customers with a higher level of risk and the portfolio of standard customers, and for both these groups introduced adjustments to the model PD to increase the coverage of the write-down on this portfolio, with standard clients being lower than for customers with increased risk levels. The most numerous of the identified groups include the transport sector, which accounts for 24% of the healthy portfolio (of which 3% of the healthy portfolio is at a higher risk level), the remaining industries constitute 24% of a healthy portfolio. The introduced changes resulted in an increase in allowances by PLN 9 million for the steel and fertilizer industry in 2023, and by PLN 12 million for the agricultural sector. The industry add-ons applied in 2022 resulted in an increase in valuation allowances by PLN 11 million for the transport industry and PLN 27 million for other industries.

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

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

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

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

	31.12.2023		31.12.2022	
	optimistic	pessimistic	optimistic	pessimistic
estimated change in the level of allowances for expected credit losses for not impaired exposures due to the materialization of particular macroeconomic scenarios (in PLN million)	(702)	624	(290)	527

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

ESTIMATED CHANGE IN EXPECTED CREDIT LOSSES RESULTING FROM MATERIALIZATION OF A SCENARIO OF THE RISK PARAMETERS, THE DETERIORATION OR IMPROVEMENT, OF WHICH: ¹	31.12.2023		31.12.2022	
	+10% scenario	(10%) scenario	+10% scenario	(10%) scenario
changes in the present value of estimated cash flows for the Bank's portfolio of individually impaired loans and advances assessed on an individual basis				
THE SECURITIES	-	-	(37)	49
Stage 1	-	-	-	12
Stage 3	-	-	(37)	37
LOANS AND ADVANCES TO CUSTOMERS	(71)	107	(92)	138
Stage 3	(71)	107	(92)	138
Changes in the probability of default				
THE SECURITIES	9	(9)	9	(9)
Stage 1	8	(8)	8	(8)
Stage 2	1	(1)	1	(1)
LOANS AND ADVANCES TO CUSTOMERS	233	(256)	201	(237)
Stage 1	116	(116)	101	(107)
Stage 2	117	(140)	100	(130)
Changes in recovery rates				
THE SECURITIES	(9)	9	(9)	9
Stage 1	(7)	7	(8)	8
Stage 2	(2)	2	(1)	1
LOANS AND ADVANCES TO CUSTOMERS	(570)	571	(545)	546
Stage 1	(168)	168	(163)	163
Stage 2	(215)	215	(215)	216
Stage 3	(187)	188	(167)	167

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

RELATED NOTES: "[Amounts due from banks](#)", "[Securities](#)", "[Loans and advances to customers](#)", "[Credit risk – financial information](#)", "[Other assets](#)", "[Provisions](#)"

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NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	2023	2022
Amounts due from banks	(7)	(2)
Debt securities	(54)	19
measured at fair value through other comprehensive income	(50)	34
measured at amortized cost	(4)	(15)
Loans and advances to customers	(1,269)	(1,347)
measured at amortized cost	(1,269)	(1,347)
housing loans	(168)	(126)
business loans	(361)	(391)
consumer loans	(681)	(684)
factoring receivables	(3)	(5)
finance lease receivables	(56)	(141)
Other financial assets	(8)	(14)
Provisions for financial liabilities and guarantees granted	73	(157)
Total	(1,265)	(1,501)

25. IMPAIRMENT OF NON-FINANCIAL ASSETS

ESTIMATES AND JUDGMENTS:

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

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

RELATED NOTES: [“Intangible assets”](#), [“Property, plant and equipment”](#), [“Investments in associates and joint ventures”](#), [“Other assets”](#), [“Leases”](#)

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NET IMPAIRMENT OF NON-FINANCIAL ASSETS	2023	2022
Property, plant and equipment ¹	(41)	(3)
Assets held for sale	(1)	-
Intangible assets ²	(1)	(21)
Investments in associates and joint ventures	(11)	-
Other non-financial assets, including inventories ³	(54)	(39)
Total	(108)	(63)

¹ of which PLN 38 million in 2023 relates to the allowance recognised on the Group's property.

² the Group recognised impairment of intangible assets – customer relationships in the amount of PLN 1 million (PLN 21 million in 2022)

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

CHANGE IN ACCUMULATED IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS	Opening balance	Impairment of non-financial assets	Other	Closing balance
2023				
Property, plant and equipment under operating lease	(3)	-	-	(3)
Property, plant and equipment	(102)	(41)	8	(135)
Non-current assets held for sale	(1)	(1)	2	-
Intangible assets	(382)	(1)	1	(382)
Investments in associates and joint ventures	(264)	(11)	-	(275)
Other non-financial assets, including inventories	(337)	(54)	33	(358)
Total	(1,089)	(108)	44	(1,153)

CHANGE IN ACCUMULATED IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS	Opening balance	Impairment of non-financial assets	Other	Closing balance
2022				
Property, plant and equipment under operating lease	(3)	-	(1)	(4)
Property, plant and equipment	(100)	(3)	1	(102)
Non-current assets held for sale	(1)	-	-	(1)
Intangible assets	(396)	(21)	35	(382)
Investments in associates and joint ventures	(264)	-	-	(264)
Other non-financial assets, including inventories	(354)	(39)	56	(337)
Total	(1,118)	(63)	91	(1,090)

26. COST OF THE LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES

ACCOUNTING POLICIES AND ESTIMATES AND JUDGMENTS:

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

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

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

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

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

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

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

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

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

In the judgment referred to above, the CJEU also indicated that, as regards analogous claims by consumers against banks, the provisions of the Directive do not preclude consumers from bringing such claims against banks, provided that the objectives of Directive 93/13 and the principle of proportionality are respected. In the Group's opinion, on the grounds of national legislation and the principle of proportionality, the customers cannot make additional claims against the Group, primarily because they have not provided the Group with a financial service consisting in the provision of capital. Nor is it reasonable to conclude that the Group has enriched itself at the expense of the customer and the customer has been impoverished. With the funds obtained, the customer met its housing needs and the Group bore the costs of raising the funds, making them available and servicing the loan over the years. The Group assesses that, at this stage, the likelihood of outcomes that are favourable to consumers, including a claim for additional compensation, generating a material adverse financial impact is difficult to estimate and, in addition, there are uncertainties as to how the level of such compensation to the customer should be calculated. This approach is supported by the fact that there have been no adverse court decisions for the Group relating to this issue.

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

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

In 2023, the Group recognised the cost of legal risk of PLN 5,430 million.

The Group has analysed the model's sensitivity to changes in key parameters:

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

RELATED NOTES: [“Loans and advances to customers”](#), [“Other assets”](#), [“Provisions”](#), [“Legal claims”](#) and [„Management of currency risk associated with mortgage loans for individuals”](#).

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

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

In 2023, the Group continued to encourage customers to join the programme.

IMPACT OF LEGAL RISK OF MORTGAGE LOANS IN CONVERTIBLE CURRENCIES	Gross carrying amount of mortgage loans in convertible currencies net of the cost of legal risk of mortgage loans in convertible currencies	Accumulated cost of legal risk of mortgage loans in convertible currencies	Gross carrying amount of mortgage loans in convertible currencies including the cost of legal risk of mortgage loans in convertible currencies
as at 31.12.2023			
Loans and advances to customers/adjustment reducing the carrying amount of loans, of which:	14,945	8,306	6,639
- related to the portfolio of mortgage loans in CHF	13,096	8,306	4,790
Provisions		3,001	
Total		11,307	
as at 31.12.2022			
Loans and advances to customers/adjustment reducing the carrying amount of loans, of which:	19,015	7,378	11,637
- related to the portfolio of mortgage loans in CHF	16,731	7,378	9,353
Provisions		851	
Adjustment to the gross carrying amount of other assets		94	
Total		8,323	

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

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

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

27. ADMINISTRATIVE EXPENSES

ACCOUNTING POLICIES:

EMPLOYEE BENEFITS

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

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

For additional information, see also the note "[Provisions](#)".

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

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

DEPRECIATION AND AMORTISATION

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

Costs of depreciation of tangible fixed assets under operating leases are recognised in fee and commission income in the line "operating leases and fleet management" as a component of the net income from operating leases and fleet management.

Depreciation and amortization is charged using the straight-line method, consisting in a systematic, even distribution of the initial value of a fixed asset, the right to use and an intangible asset over the specified depreciation/amortization period, regardless of any possible periods of the assets not being used.

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

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

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

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

ESTIMATES AND JUDGMENTS:

In estimating useful lives of particular types of property, plant and equipment, including assets leased out under operating lease, intangible assets and investment properties, the following factors are considered:

- expected physical wear and tear estimated based on the average periods of use recorded to date, reflecting the rate of wear and tear, intensity of use etc.;
- technical or market obsolescence;
- legal and other limitations of the asset’s use;
- expected usage of the asset;
- climate-related issues, i.e. the climate factors potentially affecting the useful lives of assets (e.g. ageing, legal limitations or unavailability of assets);
- other factors that may affect the useful economic life of the asset type concerned.

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

Depreciation /amortization periods applied by the PKO Bank Polski S.A. Group:

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

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

CHANGE IN THE USEFUL LIVES OF DEPRECIATED ASSETS CLASSIFIED AS LAND AND BUILDINGS	31.12.2023		31.12.2022	
	+10 years scenario	-10 years scenario	+10 years scenario	-10 years scenario
Depreciation costs	(28)	162	(30)	165

RELATED NOTES: [“Intangible assets”](#), [“Property, plant and equipment”](#), [“Provisions”](#), [“Benefits for the PKO Bank Polski SA key management.”](#), [“Leases”](#)

FINANCIAL INFORMATION

ADMINISTRATIVE EXPENSES ¹	2023	2022
Employee benefits	(4,140)	(3,403)
Overheads, of which:	(1,786)	(1,460)
Rent	(116)	(98)
IT	(455)	(386)
Depreciation and amortization	(1,087)	(1,019)
property, plant and equipment, of which:	(532)	(527)
right-of-use assets	(244)	(232)
IT	(125)	(120)
investment properties	-	(1)
intangible assets, of which:	(555)	(492)
IT	(547)	(480)
Costs of regulatory charges	(622)	(1,887)
Total	(7,635)	(7,769)

¹ Administrative expenses for 2022 have been adjusted by PLN 81 million for the implementation of IFRS 17 "Insurance Contracts" (see note [“IFRS 17 Insurance Contracts”](#))

EMPLOYEE BENEFITS	2023	2022
Wages and salaries, including:¹	(3,454)	(2,843)
costs of contributions to the employee pension plan	(90)	(75)
Social security, of which:¹	(570)	(470)
contributions for disability and retirement benefits	(480)	(408)
Other employee benefits	(116)	(90)
Total	(4,140)	(3,403)

¹ Employee benefit expense 2022 has been adjusted by PLN 48 million for the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)")

NET REGULATORY CHARGES	2023	2022
Contribution and payments to the Bank Guarantee Fund (BFG), of which:	(280)	(409)
to the Resolution Fund	(280)	(291)
to the Bank Guarantee Fund	-	(118)
Fees to the PFSA ¹	(55)	(49)
Fee for the assistance fund operated by System Ochrony Banków Komercyjnych S.A.	-	(956)
Borrower Support Fund	-	(313)
Flat rate income tax	-	(5)
Other taxes and fees ¹	(287)	(155)
Total	(622)	(1,887)

¹ Fees to the PFSA for 2022 have been adjusted by PLN 2 million for the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)")

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

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

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

- FEE FOR THE BORROWER SUPPORT FUND:**

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

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

From this, the Fund has been injected with additional funds of approximately PLN 1.4 billion until the end of 2022. In 2022, the Group recognised a cost in respect of additional payments to the Borrower Support Fund of 313 million.

28. TAX ON CERTAIN FINANCIAL INSTITUTIONS

ACCOUNTING POLICIES:

As of 1 February 2016, the Act of 15 January 2016 on tax on certain financial institutions came into force, which covered, among other things, banks and insurance companies. The tax is charged on the surplus of a Bank's total assets above PLN 4 billion, based on the trial balance as at the end of each month. The tax base of insurance companies within one Group is determined jointly as the surplus of total assets over PLN 2 billion. Banks are entitled to reduce the tax base by deducting, among other things, own funds and the value of Treasury securities held. Additionally, banks reduce the tax base by the value of assets acquired from the NBP, constituting collateral of a refinancing loan granted by the NBP.

Insurance companies are entitled to reduce their tax base by the value of assets accumulated under the contracts for Employee Capital Plans that they service, as referred to in the Act on Employee Capital Plans of 4 October 2018. As a result of the amendment to the Act on taxation of certain financial institutions, effective from 7 May 2022, both banks and insurance companies may reduce the tax base by the value of bonds purchased and loans or advances, respectively, issued or granted by the Bank Guarantee Fund or an asset management entity referred to in the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution. Act of 16 November 2022 amending the Act on tax on selected financial institutions and certain other acts expanded the catalogue of items by which a bank may reduce the tax base, including, in particular, the value of treasury securities covered by a statutory guarantee of the State Treasury (the amendments entered into force on 1 January 2023).

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

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

FINANCIAL INFORMATION

TAX ON CERTAIN FINANCIAL INSTITUTIONS	2023	2022
PKO Bank Polski S.A.	(1,166)	(1,190)
PKO Życie Towarzystwo Ubezpieczeń S.A.	(3)	(3)
PKO Bank Hipoteczny S.A.	(58)	(70)
PKO Towarzystwo Ubezpieczeń S.A.	(4)	(3)
Total	(1,231)	(1,266)

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

29. INCOME TAX

ACCOUNTING POLICIES:

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

- **CURRENT TAX**

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

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

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

Group companies are corporate income tax payers. The amount of the companies' current tax liability is transferred to offices of the tax administration authorities with jurisdiction over their location within the statutory deadlines.

- **DEFERRED INCOME TAX**

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

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

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

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

FINANCIAL INFORMATION:

- **TAX EXPENSE**

TAX EXPENSE	2023	2022
Income tax expense recognized in the income statement¹	(3,057)	(1,455)
Current income tax expense	(2,572)	(2,052)
Deferred income tax on temporary differences	(485)	597
Income tax expense recognized in other comprehensive income in respect of temporary differences	(1,337)	777
Total	(4,394)	(678)

¹ the tax expense recognised in the income statement for 2022 was adjusted by PLN 39 million for the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance contracts](#)").

- RECONCILIATION OF THE EFFECTIVE TAX RATE

RECONCILIATION OF THE EFFECTIVE TAX RATE	2023	2022
Profit or loss before tax	8,562	4,767
Tax at the statutory rate in force in Poland (19%)	(1,627)	(906)
Effect of different tax rates of foreign entities	(82)	1
Effect of permanent differences between profit before income tax and taxable income, including:	(1,348)	(549)
cost of legal risk of mortgage loans in convertible currencies	(993)	(143)
tax on certain financial institutions	(234)	(240)
contributions and payments to the Bank Guarantee Fund	(53)	(78)
Borrower Support Fund	-	(60)
non-deductible impairment losses on investments in subordinates	-	(10)
non-deductible allowances for expected credit losses on credit exposures	(28)	(44)
dividend income	3	3
interest on foreign exchange gains in Sweden	-	27
reversal of assets from reclassification of temporary differences to permanent differences	(37)	-
other permanent differences	(6)	(4)
Income tax expense recognized in the income statement	(3,057)	(1,455)
Effective tax rate (%)	35.70	30.52

• NET DEFERRED TAX ASSETS

DEFERRED TAX LIABILITIES AND ASSETS 2023	31.12.2022	Effect of amendments to IAS 12*	01.01.2023 taking into account amendments to IAS 12	Income statement	Other comprehensive income	31.12.2023
Interest accrued on receivables (loans)	368	-	368	(5)	-	363
Interest on securities	222	-	222	8	-	230
Valuation of securities	-	-	-	12	6	18
Valuation of derivative financial instruments	40	-	40	(5)	(21)	14
Difference between carrying amount and tax base of property, plant and equipment and intangible assets, including leased assets*	223	160	383	44	-	427
Taxable income on the reversal of IBNR allowance, which was previously tax deductible, on implementation of IFRS 9	26	-	26	(13)	-	13
Prepaid costs	29	-	29	(24)	-	5
Other taxable temporary differences	121	-	121	(16)	(6)	99
Deferred tax liabilities, gross	1 029	160	1 189	1	(21)	1 169
Interest accrued on liabilities	214	-	214	153	-	367
Valuation of derivative financial instruments	1 389	-	1 389	3	(809)	583
Valuation of securities	872	-	872	(41)	(550)	281
Provision for employee benefits	103	-	103	16	1	120
Allowances for expected credit losses	1 477	-	1 477	95	-	1 572
Fair value measurement of loans	157	-	157	33	-	190
Commissions to be settled in time using the straight-line valuation method and effective interest rate	1 133	-	1 133	(442)	-	691
Other deductible temporary differences	38	-	38	10	-	48
Provision for costs to be incurred	73	-	73	1	-	74
Tax loss brought forward	1	-	1	(1)	-	-
Impact of legal risk of mortgage loans in convertible currencies	321	-	321	(212)	-	109
Premium on securities	122	-	122	(49)	-	73
Foreign exchange differences	239	160	399	(50)	-	349
Difference between carrying amount and tax base of property, plant and equipment and intangible assets, including leased assets	6 139	160	6 299	(484)	(1 358)	4 458
Total effect of temporary differences	5 110	-	5 110	(485)	(1 337)	3 288
Deferred income tax liabilities (presented in the statement of financial position)	49	160	209	524	(21)	712
Deferred tax assets (presented in the statement of financial position)	5 159	160	5 319	39	(1 358)	4 000

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

DEFERRED TAX LIABILITIES AND ASSETS 2022*	01.01.2022	Income statement	Other comprehensive income	31.12.2022
Interest accrued on receivables (loans)	235	133	-	368
Interest on securities	158	64	-	222
Valuation of securities	20	(19)	(1)	-
Valuation of derivative financial instruments	34	23	(17)	40
Difference between carrying amount and tax base of property, plant and equipment and intangible assets, including leased assets	206	17	-	223
Taxable income on the reversal of IBNR allowance, which was previously tax deductible, on implementation of IFRS 9	39	(13)	-	26
Prepaid costs	60	(31)	-	29
Interest on foreign exchange gains in Sweden	288	(288)	-	-
Other taxable temporary differences	49	101	(1)	149
Deferred tax liabilities, gross	1,089	(13)	(19)	1,057
Interest accrued on liabilities	40	174	-	214
Valuation of derivative financial instruments	952	76	361	1,389
Valuation of securities	459	18	395	872
Provision for employee benefits	102	(1)	2	103
Allowances for expected credit losses	1,341	136	-	1,477
Fair value measurement of loans	146	11	-	157
Commissions to be settled in time using the straight-line valuation method and effective interest rate	877	284	-	1,161
Other deductible temporary differences	36	2	-	38
Provision for costs to be incurred	61	12	-	73
Tax loss brought forward	6	(5)	-	1
Impact of legal risk of mortgage loans in convertible currencies	342	(21)	-	321
Premium on securities	76	46	-	122
Foreign exchange differences	-	-	-	-
Difference between carrying amount and tax base of property, plant and equipment and intangible assets, including leased assets	387	(148)	-	239
Deferred tax liabilities, gross	4,825	584	758	6,167
Total effect of temporary differences	3,736	597	777	5,110
Deferred income tax liabilities (presented in the statement of financial position)	379	(285)	(17)	77
Deferred tax assets (presented in the statement of financial position)	4,115	312	760	5,187

* Comparative figures for 2022 were restated for the implementation of IFRS 17 "Insurance contracts" (see note "IFRS 17 Insurance contracts").

- **TAX GROUP**

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

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

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

- **TAX POLICY**

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

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

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

Corporate income tax	2023	2022
Capital Group	2,572	2,052
Poland	2,426	1,791
Sweden	-	258
Germany	9	-
Czech Republic	6	-
Ukraine	131	3

Tax systems of countries in which the Bank and the PKO Bank Polski S.A. Group entities have their registered offices or branches are often subject to amendments to laws, including as a result of operations aimed at tightening the tax system, both at national and international level.

In addition, understanding of some of the regulations of the tax law, due to their ambiguity, may in practice lead to inconsistent individual interpretations of the tax authorities, differing from the interpretation by the taxpayer, and the resulting disputes may only be resolved by the national or European courts. Therefore, interpretations of the tax law by the tax authorities differing from the practices implemented by the Bank or the PKO Bank Polski S.A. Group entities cannot be eliminated and may have a significant unfavourable impact on their operations and financial condition, despite the various actions aimed at mitigating this risk, which are regularly undertaken and allowed by law.

On 8 December 2023, an increased corporate income tax rate on the bank's total profits was introduced in Ukraine. Instead of the standard corporate tax rate of 18%, banks have been taxed at 50% of the total profit earned in the fiscal year 2023. In subsequent years, a rate of 25% will apply. The corporate income tax expense of Kredobank in Ukraine for 2023 was determined at the new rate of 50% (for details, see table [RECONCILIATION OF EFFECTIVE TAX RATE](#)).

On 23 December 2021, PKO Finance AB (hereinafter “Company”) received from the Swedish tax authorities a negative decision concerning the long-standing dispute relating to doubts about taxation in Sweden of foreign exchange gains on loans granted to the Bank and liabilities in respect of the issue. Based on this decision, the Company must pay SEK 160,726,808 in additional income tax and interest for the fiscal year 2019. On 13 February 2023, the Company paid the tax for 2022 in the amount of SEK 446,665,741, following the interpretation of the Swedish tax authorities in order to avoid potential penalty interest of 3.75 p.a. Despite having made the payments, the Company disagrees with the verdicts of the Swedish tax office and intends to use the appeal procedure to regain the amounts mentioned above. As potential tax liabilities of PKO Finance AB for 2015-2016 have become time-barred, the Group has decided to reverse the deferred income tax liabilities for 2015-2016 in the amount of PLN 74 million in 2022.

30. EARNINGS PER SHARE

INCOME STATEMENT	2023	2022
Net profit attributable to equity holders of the parent company	5,502	3,312
Weighted average number of ordinary shares during the period (in million)	1,250	1,250
Earnings per share		
- basic earnings per share for the period (PLN)	4.40	2.65
- diluted earnings per share for the period (PLN)	4.40	2.65

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

SUPPLEMENTARY NOTES TO THE STATEMENT OF FINANCIAL POSITION – FINANCIAL INSTRUMENTS

31. CASH AND BALANCES WITH CENTRAL BANK

ACCOUNTING POLICIES:

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

FINANCIAL INFORMATION:

CASH AND BALANCES WITH CENTRAL BANK	31.12.2023	31.12.2022
Current account with the Central Bank	9,679	7,750
Cash	4,382	4,215
Deposits with the Central Bank	3,752	3,951
Other	-	1
Total	17,813	15,917

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

32. AMOUNTS DUE FROM BANKS

ACCOUNTING POLICIES:

Valuation and classification into categories is carried out in accordance with the principles for determining the business model and assessing the characteristics of contractual cash flows referred to in note “[GENERAL ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS](#)”.

FINANCIAL INFORMATION

For more information on credit risk exposures, see note "[CREDIT RISK – FINANCIAL INFORMATION](#)".

AMOUNTS DUE FROM BANKS	31.12.2023	31.12.2022
Measured at amortized cost	14,447	16,103
Deposits with banks	11,994	13,374
Current accounts	1,676	2,215
Loans and advances granted	776	513
Cash in transit	1	-
Gross carrying amount	14,447	16,103
Allowances for expected credit losses	(9)	(2)
Net carrying amount	14,438	16,101

AMOUNTS DUE FROM BANKS BY MATURITY	31.12.2023	31.12.2022
up to 1 month	14,064	15,935
1 to 3 months	276	102
3 months to 1 year	89	56
1 to 5 years	8	8
more than 5 years	1	-
Total	14,438	16,101

33. HEDGE ACCOUNTING AND OTHER DERIVATIVE INSTRUMENTS

ACCOUNTING POLICIES:

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

The Group most often uses the following derivative instruments: IRS, CIRS, FX Swap, options, commodity swap, FRA, Forward and Futures.

Derivative financial instruments are stated at fair value from the transaction date.

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

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

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

Interest rate risk includes in particular:

- the risk related to the repricing (change in interest rates) frequency and dates mismatch of the assets and liabilities, and of off-balance sheet items (repricing date mismatch risk);
- the risk following from the change in the angle of inclination and shape of the yield curve (yield curve risk);

- the risk resulting from an imperfect match between the reference rates used in respect of banking products and the changes in the market rates, or from imperfect transmission systems of changes in market interest rates on those products (base risk);
- risks resulting from options, including embedded options, e.g. restrictions on interests on loans (option risk).

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

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

Foreign exchange risk arising from the Group's activities is managed, where required, by specialized units as part of their own operations based on the data received on open currency positions.

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

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

- **CASH FLOW HEDGES**

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

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

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

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

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

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

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

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

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

- **FAIR VALUE HEDGES**

Changes in the fair value of a derivative hedging instrument designated as fair value hedge are recognized in "[Gains/\(losses\) financial transactions](#)", net of the interest component. The interest component is presented in the same line item as interest income on the hedged item, i.e. in "[Net interest income](#)".

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

A change in the fair value adjustment to the hedged item is recognized in "[Gains/\(losses\) financial transactions](#)".

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

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

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

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

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

ESTIMATES AND JUDGMENTS

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

The fair value of derivative instruments accounts for DVA (debit value adjustment), and CVA (credit value adjustment). The process of calculation of CVA and DVA adjustments includes the selection of a method for determining the spread of the counterparty's or the Group's credit risk (e.g. a market price method based on the continuous price quotations of debt instruments issued by the counterparty, a method of spread implied from Credit Default Swap contracts), an estimation of the probability of default by the counterparty or the Group and the recovery rate, as well as the calculation of CVA and DVA adjustments.

The Group made simulations to assess the potential impact of changes in the yield curves on the transaction value.

ESTIMATED CHANGE IN VALUATION OF HEDGING DERIVATIVES OTHER THAN OPTIONS FOLLOWING A PARALLEL SHIFT IN YIELD CURVES:	31.12.2023		31.12.2022	
	+50bp scenario	scenario -50bp	+50bp scenario	scenario -50bp
IRS	(547)	556	(741)	755
CIRS	(12)	12	(5)	5
other instruments	(4)	4	(5)	5
Total	(563)	572	(751)	765

ESTIMATED CHANGE IN VALUATION OF DERIVATIVES OTHER THAN OPTIONS FOLLOWING A PARALLEL SHIFT IN YIELD CURVES:	31.12.2023		31.12.2022	
	+50bp scenario	scenario -50bp	+50bp scenario	scenario -50bp
IRS	(529)	538	(723)	737
CIRS	(18)	18	(33)	33
other instruments	(4)	4	(7)	7
Total	(551)	560	(763)	777

33.1. HEDGE ACCOUNTING – FINANCIAL INFORMATION

TYPES OF HEDGING STRATEGIES APPLIED BY THE GROUP

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

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

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

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

No other changes were made to other active hedging strategies in 2023.

In 2022, the Group introduced two new hedging strategies to hedge fair value volatility.

The tables below summarize the types of strategies applied by the Group.

TYPE OF HEDGING STRATEGY	CASH FLOW HEDGES (STRATEGIES NO: 1, 5,6,7,9,14,15,19)
RISK HEDGED	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	float – float CIRSs fixed – float CIRSs
HEDGED ITEM	<ul style="list-style-type: none"> • the portfolio of floating interest loans in foreign currencies and • the portfolio of short-term negotiated deposits in PLN, including their future renewals. In designating the hedged item, the Group used the IAS39 AG 99C in the version adopted by the European Union, or • fixed interest rate financial liability denominated in foreign currency or • the portfolio of floating interest rate regular savings products in PLN or • a financial liability in foreign currencies •
SOURCES OF HEDGE INEFFECTIVENESS	<ul style="list-style-type: none"> • margin on the hedging instrument • differences in discount on the hedged item and the hedging instrument • CVA/DVA adjustment of the hedging instrument
THE PERIOD IN WHICH CASH FLOWS ARE EXPECTED TO OCCUR AND AFFECT THE FINANCIAL RESULTS:	January 2024 – February 2025
STRATEGY NO	STRATEGY NAME
1	Hedges against fluctuations in cash flows on variable interest CHF loans, resulting from interest rate risk and currency risk, and hedging against fluctuations in cash flows on negotiated deposits in PLN, resulting from interest rate risk, using CIRS transactions (inactive)
5	Hedges against fluctuations in cash flows on variable interest loans in convertible currencies, resulting from interest rate risk and currency risk, and hedging against fluctuations in cash flows on a fixed-rate financial liability in a convertible currency resulting from foreign currency risk, using CIRS transactions.
6	Hedges against fluctuations in cash flows on variable interest loans in convertible currencies other than CHF, resulting from interest rate risk and currency risk, and hedging against fluctuations in cash flows on negotiated deposits in PLN, resulting from interest rate risk, using CIRS transactions (inactive).
7	Hedges against fluctuations in cash flows on variable interest loans in convertible currencies, resulting from interest rate risk and currency risk, and hedging against fluctuations in cash flows on regular savings bank products in PLN, resulting from interest rate risk, using CIRS transactions (inactive).
9	Hedges against fluctuations in cash flows on variable interest PLN loans, resulting from interest rate risk, and hedging against fluctuations in cash flows on a fixed-rate financial

	liability in a convertible currency resulting from foreign currency risk, using CIRS or CIRS-EP transactions.
14	Hedges against fluctuations in cash flows on variable interest PLN loans, resulting from interest rate risk, and hedging against fluctuations in cash flows on financial liabilities in a convertible currency resulting from foreign currency risk, using two CIRS transactions.
15	Hedges against fluctuations in cash flows on variable interest PLN loans, resulting from interest rate risk, and hedging against fluctuations in cash flows on financial liabilities in a convertible currency resulting from foreign currency risk, using two CIRS transactions (inactive)
19	Hedges against fluctuations in cash flows on variable interest PLN loans, resulting from interest rate risk, and hedging against fluctuations in cash flows on a fixed-rate financial liability in a convertible currency resulting from foreign currency risk, using CIRS transactions.

TYPE OF HEDGING STRATEGY	Cash flow hedges (Strategies No: 2,3,4,16)
RISK HEDGED	interest rate risk
HEDGING INSTRUMENT	fixed - float IRSs
HEDGED ITEM	the portfolio of loans in PLN or foreign currencies indexed to a floating interest rate
SOURCES OF HEDGE INEFFECTIVENESS	<ul style="list-style-type: none"> • change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge • differences in discount on the hedged item and the hedging instrument • CVA/DVA adjustment of the hedging instrument
THE PERIOD IN WHICH CASH FLOWS ARE EXPECTED TO OCCUR AND AFFECT THE FINANCIAL RESULTS:	January 2024 – June 2032
STRATEGY NO	Strategy Name
2	Hedges against fluctuations in cash flows from variable interest loans in PLN, resulting from interest rate risk, using IRS transactions.
3	Hedges against fluctuations in cash flows from variable interest loans in convertible currencies, resulting from interest rate risk, using IRS transactions.

4	Hedges against fluctuations in cash flows from variable interest loans in convertible currencies, resulting from interest rate risk, using IRS transactions.
16	Hedges against fluctuations in cash flows on deposits in PLN, resulting from interest rate risk, using IRS transactions (inactive).

TYPE OF HEDGING STRATEGY	FAIR VALUE VOLATILITY HEDGES (STRATEGY NO: 8,10,11,12,17,18)
RISK HEDGED	interest rate risk
HEDGING INSTRUMENT	fixed - float IRSs
HEDGED ITEM	interest rate risk component relating to a fixed interest rate loan or security in a foreign currency or in PLN, which corresponds to the market IRS rate interest rate risk component of a portfolio of financial liabilities replicated by a portfolio of fixed-rate instruments measured at amortised cost, corresponding to the market IRS rate
SOURCES OF HEDGE INEFFECTIVENESS	<ul style="list-style-type: none"> change in market parameters between the moment of determining the terms and conditions relating to the hedged item and the moment of concluding the hedge CVA/DVA adjustment of the hedging instrument difference between the present value of the floating leg of IRS and the present value of the nominal value of a security
STRATEGY NO	STRATEGY NAME
8	Hedges against fair value volatility of fixed-interest-rate loans in convertible currencies resulting from interest rate risk, using IRS transactions.
10	Hedges against fair value volatility of fixed-interest-rate security in convertible currencies measured at amortised cost, resulting from interest rate risk, using IRS transactions.
11	Hedges against fair value volatility of fixed-interest-rate security measured at fair value through other comprehensive income in convertible currencies resulting from interest rate risk, using IRS transactions.
12	Hedges against fair value volatility of fixed-interest-rate FVOCI security in PLN resulting from interest rate risk, using IRS transactions.
17	Hedges against fluctuations in the fair value of a portfolio of financial liabilities in PLN measured at amortized cost, resulting from interest rate risk, using IRS transactions
18	Hedges against fluctuations in the fair value of a portfolio of financial liabilities in convertible currencies measured at amortized cost, resulting from interest rate risk, using IRS transactions

• CARRYING AMOUNT OF HEDGING INSTRUMENTS

CARRYING AMOUNT OF HEDGING INSTRUMENTS	31.12.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	473	2,972	888	7,336
interest rate risk – IRS	147	2,167	31	6,507
IRS PLN (strategy 2.16)	112	2,127	31	6,331
IRS EUR (strategy 3.4)	35	40	-	176
foreign exchange risk and interest rate risk – CIRS	326	805	857	829
CIRS CHF/USD (strategy 5.15)		46	-	32
CIRS PLN/EUR (strategy 9)	55		181	-
CIRS PLN/CHF (strategy 14.15)	271		676	-
CIRS CHF/EUR (strategy 14)		552	-	797
CIRS PLN/EUR (strategy 19)		207	-	-
Fair value hedges	701	20	154	133
interest rate risk – IRS	701	20	154	133
IRS EUR (strategy 8,10,11,18)	92	19	75	91
IRS USD (strategy 8; 11.18)	4	1	14	-
IRS PLN (strategy 12.17)	605		65	42
Total	1,174	2,992	1,042	7,469

• CASH FLOW HEDGES

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES	2023	2022
Accumulated other comprehensive income at the beginning of the period, net	(5,218)	(3,699)
Impact on other comprehensive income during the period, gross	4,146	(1,901)
Gains/losses recognized in other comprehensive income during the period	(425)	(6,525)
Amounts transferred from other comprehensive income to the income statement, of which:	4,571	4,624
- net interest income	3,758	3,588
- net foreign exchange gains/ (losses)	813	1,036
Tax effect	(788)	382
Accumulated other comprehensive income at the end of the period, net	(1,860)	(5,218)

INEFFECTIVE PORTION OF CASH FLOW HEDGES	2023	2022
Ineffective portion of cash flow hedges recognized in the income statements, including in:	(2)	(5)
Foreign exchange gains/ (losses)	(1)	(5)
CIRS CHF/USD (strategy 5.15)	2	(2)
CIRS PLN/CHF (strategy 14.15)	(8)	(8)
CIRS CHF/EUR (strategy 14)	5	5
Gains/(losses) on financial transactions	(1)	-
IRS PLN (strategy 2.16)	(1)	-

• FAIR VALUE HEDGES

INTEREST RATE AND FOREIGN EXCHANGE RISK HEDGES	31.12.2023	31.12.2022
Fair value measurement of the hedging derivative instrument	681	20
Interest rate risk hedge – fixed - float IRSs	681	20
Fair value adjustment of the hedged instrument attributable to the hedged risk	(461)	(51)
Interest rate risk hedge, of which:	(461)	(51)
Securities	(21)	(30)
Loans and advances to customers	(2)	(8)
Fair value adjustment recognized in OCI	(26)	(69)
Amounts due to customers	(412)	56
FAIR VALUE ADJUSTMENT OF THE HEDGED INSTRUMENT ATTRIBUTABLE TO THE HEDGED RISK BY TYPE OF HEDGING INSTRUMENT	31.12.2023	31.12.2022
IRS EUR (strategy 8,10,11,18)	(41)	25
IRS USD (strategy 8; 11.18)	(4)	(18)
IRS PLN (strategy 12.17)	(416)	(58)
Total	(461)	(51)

• NOMINAL VALUE OF HEDGING INSTRUMENTS BY MATURITY

Strategy No	Hedging derivative	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total	Change in the fair value since designation	Nominal-weighted average fixed interest rate/ Nominal-weighted average margin
31.12.2023									
Hedge type: Cash flow hedges									
Hedged risk: interest rate risk									
2.16	PLN fixed - float IRSs	705	4,950	6,796	30,840	177	43,468	(2,060)	2.7097%
3.4	EUR fixed - float IRSs	-	630	130	4,944	222	5,926	(25)	2.0611%
Risk hedged: foreign exchange and interest rate risks									
14	Float CHF/float PLN CIRSs								
	float CHF	-	-	2,702	-	-	2,702	254	0.3596%
	float PLN	-	-	2,418	-	-	2,418		0.5292%
5	CIRS fixed USD/float CHF								
	fixed USD	153	-	307	-	-	460	(43)	0.4142%
	float CHF	164	-	328	-	-	492		-
9	Float PLN/float EUR CIRSs								
	float PLN	2,101	-	-	-	-	2,101	65	-
	fixed EUR	2,170	-	-	-	-	2,170		0.7690%
19	Float PLN/float EUR CIRSs								
	float PLN	-	-	-	2,595	-	2,595	(226)	-
	fixed EUR	-	-	-	2,391	-	2,391		1.8935%
14	CIRS fixed EUR/float CHF								
	fixed EUR	-	-	2,174	-	-	2,174	(540)	0.7640%
	float CHF	-	-	2,702	-	-	2,702		-
Hedge type: Fair value hedges									
Hedged risk: interest rate risk									
12.17	PLN fixed - float IRSs	-	-	-	5,960	2,091	8,051	386	5.9261%
11.18	USD fixed - float IRSs	319	-	-	236	-	555	1	2.6551%
8,10,11,18	EUR fixed - float IRSs	0	152	696	3,404	548	4,800	9	2.2604%

Strategy No	Hedging derivative	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total	Change in the fair value since designation	Nominal-weighted average fixed interest rate/ Nominal-weighted average margin
31.12.2022									
Hedge type: Cash flow hedges									
Hedged risk: interest rate risk									
2.16	PLN fixed - float IRSs	-	1,501	29,674	42,269	1,278	74,722	(5,928)	2.5090%
3.4	EUR fixed - float IRSs	-	-	703	5,206	253	6,162	(65)	1.6952%
Risk hedged: foreign exchange and interest rate risks									
14.15	Float CHF/float PLN CIRSs								
	float CHF	2,551			2,751		5,302	671	0.3555%
	float PLN	2,204	-	-	2,418	-	4,622		0.4614%
5.15	CIRS fixed USD/float CHF								
	fixed USD	-	-	585	511		1,096	(21)	0.3871%
	float CHF	-	-	572	501		1,073		-
9	Float PLN/fixed EUR CIRSs								
	float PLN	-	-	-	2,101	-	2,101	199	-
	fixed EUR	-	-	-	2,340		2,340		0.7690%
14	CIRS fixed EUR/float CHF								
	fixed EUR	2,345			2,345		4,690	(656)	0.6970%
	float CHF	2,551			2,751		5,302		-
Hedge type: Fair value hedges									
Hedged risk: interest rate risk									
12.17	PLN fixed - float IRSs	-	-	-	-	2,841	2,841	30	6.2990%
11.18	USD fixed - float IRSs	-	-	-	357		357	3	1.5128%
8,10,11,18	EUR fixed - float IRSs	-	-	469	3,508	591	4,568	(6)	1.5789%

• FINANCIAL INFORMATION ON HEDGED ITEMS (IN ORIGINAL CURRENCIES)

HEDGED ITEM 31.12.2023	CARRYING AMOUNT OF THE HEDGED ITEM	ITEM OF THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM*	STRATEGY NO
Cash flow hedges				
Loans in PLN	43,467	Loans and advances to customers	2,080	2
Loans in EUR	1,363	Loans and advances to customers	26	3; 4
Loans in CHF	105	Loans and advances to customers	43	5
Financial liability in USD	116	Amounts due to customers		
Loans in PLN	2,101	Loans and advances to customers		
Financial liability in EUR	499	Securities in issue	(61)	9
Loans in PLN	5,013	Loans and advances to customers		
Financial liability in EUR	1,050	Securities in issue	517	14
Fair value hedges				
Loans in EUR	11	Loans and advances to customers	(1)	8
Security in EUR	30	Securities measured at amortized cost	(5)	10
Security in EUR	62	Securities measured at fair value through other comprehensive income	(2)	11
Security in PLN	-	Securities measured at fair value through other comprehensive income	(15)	12
Portfolio of financial liabilities in PLN	8,051	Amounts due to customers	(403)	17
Portfolio of financial liabilities in EUR	1,001	Amounts due to customers	(2)	18
Portfolio of financial liabilities in USD	60	Amounts due to customers	(1)	18

*in a cash flow hedge, the change in fair value of the hedged item reflects the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period

HEDGED ITEM 31.12.2022	CARRYING AMOUNT OF THE HEDGED ITEM	ITEM OF THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF THE HEDGED ITEM*	STRATEGY NO
Cash flow hedges				
Loans in CHF	225	Loans and advances to customers	19	5
Financial liability in USD	249	Amounts due to customers		
Loans in PLN	74,721	Loans and advances to customers	5,969	2
Loans in EUR	1,314	Loans and advances to customers	64	3; 4
Loans in PLN	2,101	Loans and advances to customers	(195)	9
Financial liability in EUR	499	Securities in issue		
Loans in PLN	4,622	Loans and advances to customers	(8)	14
Financial liability in EUR	999	Securities in issue		
Fair value hedges				
Security in EUR	30	Securities measured at amortized cost	(6)	10
Security in EUR	202	Securities measured at fair value through other comprehensive income	(8)	11
Security in USD	81	Securities measured at fair value through other comprehensive income	(3)	11
Loans in EUR	13	Loans and advances to customers	(1)	8
Security in PLN	-	Securities measured at fair value through other comprehensive income	(21)	12
Portfolio of financial liabilities in PLN	2,841	Amounts due to customers	(38)	17
Portfolio of financial liabilities in EUR	729	Amounts due to customers	20	18

* in a cash flow hedge, the change in fair value of the hedged item reflects the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period

33.2. OTHER DERIVATIVE INSTRUMENTS – FINANCIAL INFORMATION

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	31.12.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
IRS	4,398	5,153	8,275	8,101
CIRS	46	49	408	350
FX Swap	1,648	1,942	1,245	1,039
Options	952	1,051	842	926
Commodity swap ¹	167	157	1,380	1,384
FRA	31	30	24	24
Forward	930	695	577	799
Commodity Forward ²	234	213	404	355
Other	-	1	7	-
Total	8,406	9,291	13,162	12,978

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

² The item includes valuation of contracts for CO₂ emission allowances.

	31.12.2023	31.12.2022
CVA and CDA adjustments	4	146

NOMINAL AMOUNTS OF UNDERLYING INSTRUMENTS (BUY AND SELL TOGETHER) other derivative instruments						
31.12.2023	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	more than 5 years	Total
IRS	5,294	21,658	86,536	211,422	41,800	366,710
Purchase	2,647	10,829	43,268	105,711	20,900	183,355
Sale	2,647	10,829	43,268	105,711	20,900	183,355
CIRS	-	-	-	6,726	2,044	8,770
Purchase	-	-	-	3,368	1,022	4,390
Sale	-	-	-	3,358	1,022	4,380
FX Swap	34,259	23,842	26,558	15,460	-	100,119
Purchase of currencies	17,160	11,834	13,138	7,694	-	49,826
Sale of currencies	17,099	12,008	13,420	7,766	-	50,293
Options	25,382	18,646	51,054	17,100	1,053	113,235
Purchase	12,751	9,362	25,591	8,339	525	56,568
Sale	12,631	9,284	25,463	8,761	528	56,667
FRA	-	-	32,463	10,079	-	42,542
Purchase	-	-	16,697	5,191	-	21,888
Sale	-	-	15,766	4,888	-	20,654
Forward	8,527	14,466	19,030	7,238	-	49,261
Purchase of currencies	4,246	7,368	9,538	3,664	-	24,816
Sale of currencies	4,281	7,098	9,492	3,574	-	24,445
Other, including commodity swap, commodity forward and futures	980	3,067	3,367	466	-	7,880
Purchase	494	1,591	1,636	234	-	3,955
Sale	486	1,476	1,731	232	-	3,925
Total	74,442	81,679	219,008	268,491	44,897	688,517

NOMINAL AMOUNTS OF UNDERLYING INSTRUMENTS (BUY AND SELL TOGETHER) other derivative instruments						
31.12.2022	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	more than 5 years	Total
IRS	6,730	16,972	88,148	236,010	53,496	401,356
Purchase	3,365	8,486	44,074	118,005	26,748	200,678
Sale	3,365	8,486	44,074	118,005	26,748	200,678
CIRS	14,124	-	2,870	31,020	2,168	50,182
Purchase	7,025	-	1,435	15,362	1,084	24,906
Sale	7,099	-	1,435	15,658	1,084	25,276
FX Swap	34,144	32,795	36,739	29,127	-	132,805
Purchase of currencies	17,045	16,362	18,356	14,769	-	66,532
Sale of currencies	17,099	16,433	18,383	14,358	-	66,273
Options	21,765	46,129	62,797	29,681	1,787	162,159
Purchase	10,817	22,857	31,486	14,871	892	80,923
Sale	10,948	23,272	31,311	14,810	895	81,236
FRA	-	-	38,913	1,910	-	40,823
Purchase	-	-	20,016	932	-	20,948
Sale	-	-	18,897	978	-	19,875
Forward	7,492	25,761	30,224	6,519	-	69,996
Purchase of currencies	3,752	12,891	15,150	3,120	-	34,913
Sale of currencies	3,740	12,870	15,074	3,399	-	35,083
Other, including commodity swap, commodity forward and futures	1,091	2,171	6,877	251	-	10,390
Purchase	546	1,108	3,431	126	-	5,211
Sale	545	1,063	3,446	125	-	5,179
Total	85,346	123,828	266,568	334,518	57,451	867,711

34. SECURITIES

ACCOUNTING POLICIES

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

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

FINANCIAL INFORMATION

For more information on credit risk exposures, see note “[CREDIT RISK – FINANCIAL INFORMATION](#)”.

SECURITIES	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2023					
Debt securities	546	592	108,054	87,227	196,419
NBP money bills	-	-	28,974	-	28,974
Treasury bonds (in PLN)	472	232	52,545	58,836	112,085
Treasury bonds (in foreign currencies)	1	295	4,574	1,439	6,309
corporate bonds (in PLN) secured with the State Treasury guarantees	9	-	10,180	13,619	23,808
municipal bonds (in PLN)	12	-	5,105	8,658	13,775
corporate bonds (in PLN) ¹	52	65	2,609	2,413	5,139
corporate bonds (in foreign currencies)	-	-	4,067	2,262	6,329
Equity securities	32	1,054	-	-	1,086
shares in other entities - not listed	-	342	-	-	342
shares in other entities - listed	30	124	-	-	154
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	588	-	-	590
Total (excluding adjustment relating to fair value hedge accounting)	578	1,646	108,054	87,227	197,505
Adjustment relating to fair value hedge accounting (note “ Hedge accounting and other derivative instruments ”)	-	-	-	(21)	(21)
Total	578	1,646	108,054	87,206	197,484

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

SECURITIES	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2022					
Debt securities	164	578	65,211	68,556	134,509
NBP money bills	-	-	80	-	80
Treasury bonds (in PLN)	89	191	43,066	45,893	89,239
Treasury bonds (in foreign currencies)	2	321	4,397	713	5,433
corporate bonds (in PLN) secured with the State Treasury guarantees	3	-	9,373	12,100	21,476
municipal bonds (in PLN)	14	-	5,054	6,182	11,250
corporate bonds (in PLN) ¹	56	66	2,852	1,989	4,963
corporate bonds (in foreign currencies)	-	-	389	1,679	2,068
Equity securities	29	1,124	-	-	1,153
shares in other entities - not listed	-	358	-	-	358
shares in other entities - listed	27	115	-	-	142
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	651	-	-	653
Total (excluding adjustment relating to fair value hedge accounting)	193	1,702	65,211	68,556	135,662
Adjustment relating to fair value hedge accounting (note " Hedge accounting and other derivative instruments ")	-	-	-	(30)	(30)
Total	193	1,702	65,211	68,526	135,632

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

Treasury bonds (in foreign currencies)	31.12.2023	31.12.2022
- Polish Treasury bonds	1,328	2,209
- Ukrainian Treasury bonds	836	420
- US Treasury bonds	3,633	2,804
- Treasury bonds of the Federal Republic of Germany	218	-
- French Treasury bonds	294	-
Total	6,309	5,433

	31.12.2023	31.12.2022
allowance not reducing the fair value of securities measured at fair value through other comprehensive income	101	62

SECURITIES BY MATURITY (excluding adjustments relating to fair value hedge accounting)	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2023					
without a stated maturity – equity securities	31	1,081	-	-	1,112
up to 1 month	61	3	35,184	21	35,269
1 to 3 months	-	-	4,360	475	4,835
3 months to 1 year	249	103	11,060	14,615	26,027
1 to 5 years	191	348	40,794	40,295	81,628
more than 5 years	46	111	16,656	31,821	48,634
Total	578	1,646	108,054	87,227	197,505

SECURITIES BY MATURITY (excluding adjustments relating to fair value hedge accounting)	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
31.12.2022					
without a stated maturity – equity securities	29	1,124	-	-	1,153
up to 1 month	19	46	3,222	1,514	4,801
1 to 3 months	-	-	278	211	489
3 months to 1 year	17	28	3,729	1,275	5,049
1 to 5 years	104	465	37,935	37,705	76,209
more than 5 years	24	39	20,047	27,851	47,961
Total	193	1,702	65,211	68,556	135,662

35. LOANS AND ADVANCES TO CUSTOMERS

ACCOUNTING POLICIES:

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

Loans and advances to customers include:

- amounts due from loans and advances granted,
- factoring receivables,
- and finance lease receivables.

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

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

- legal risk related to potential litigation for the portfolio of mortgage loans in convertible currencies and existing legal claims related to loan exposures recognized as at the balance sheet date in the statement of financial position (see "[Cost of legal risk of mortgage loans in convertible currencies](#)")
- the so-called statutory credit holidays, recognized in the second half of 2022.

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

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

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

By the end of December 2023, 298.5 thousand of the Group's customers applied for a suspension of mortgage repayment, representing 54% of the total number of loans and 64% of the gross carrying amount of total loans eligible for credit holidays. The total number of suspensions applied for as at 31 December 2023 was 2,055 thousand, representing 47% of the maximum number of instalments to be suspended for all eligible customers.

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

Based on the outcome of the aforementioned analysis, in 2023 the Group has remeasured the credit holiday loss and reduced, proportionally, the amortisation of this loss to date. The total effect recognised in the Group's accounting books on this account amounted to PLN 105 million (including a reduction in the loss recognised in July 2022 of PLN 130 million and a proportional reduction in amortisation to date of PLN 25 million) – which translated into an increase in net interest income and a decrease in the adjustment of the gross carrying amount of loans. The realised loss on statutory credit holidays, excluding the effect of amortisation, was, in the opinion of the Group, PLN 2,980 million compared to PLN 3,111 million recognised in July 2022.

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

In addition, the Group adjusts the gross carrying amount of residential and consumer loans measured at amortised cost by recognising the impact of potential commission reimbursements to customers for the expected early repayment of active consumer and mortgage loans in the future.

The recognition of finance lease receivables is described in note "Leases" Section "[Leases – Lessor](#)".

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

ESTIMATES AND JUDGMENTS: "[Net allowances for expected credit losses](#)", "[Cost of legal risk of mortgage loans in convertible currencies](#)".

FINANCIAL INFORMATION

For more information on credit risk exposures, see note "[CREDIT RISK – FINANCIAL INFORMATION](#)".

LOANS AND ADVANCES TO CUSTOMERS	31.12.2023	31.12.2022
real estate	112,514	109,141
consumer	32,263	30,883
business	76,515	71,188
factoring receivables	5,386	3,591
finance lease receivables	19,100	18,164
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	245,778	232,967
Adjustment relating to fair value hedge accounting (note " Hedge accounting and other derivative instruments ")	(2)	(8)
Total	245,776	232,959

LOANS AND ADVANCES TO CUSTOMERS 31.12.2023	not held for trading, measured at fair value through profit or loss	measured at amortized cost	Total
retail and private banking	2,790	136,902	139,692
real estate	1	107,332	107,333
consumer	2,789	29,474	32,263
finance lease receivables	-	96	96
companies and enterprises	54	31,434	31,488
real estate	-	5,055	5,055
business	54	13,746	13,800
factoring receivables	-	273	273
finance lease receivables	-	12,360	12,360
corporate	27	74,571	74,598
real estate	-	126	126
business	27	62,688	62,715
factoring receivables	-	5,113	5,113
finance lease receivables	-	6,644	6,644
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	2,871	242,907	245,778
Adjustment relating to fair value hedge accounting (note " Hedge accounting and other derivative instruments ")	-	(2)	(2)
Total	2,871	242,905	245,776

LOANS AND ADVANCES TO CUSTOMERS 31.12.2022	not held for trading, measured at fair value through profit or loss	measured at amortized cost	Total
retail and private banking	3,505	131,112	134,617
real estate	4	103,637	103,641
consumer	3,501	27,382	30,883
finance lease receivables	-	93	93
companies and enterprises	44	31,316	31,360
real estate	-	5,382	5,382
business	44	13,496	13,540
factoring receivables	-	243	243
finance lease receivables	-	12,195	12,195
corporate	41	66,949	66,990
real estate	-	118	118
business	41	57,607	57,648
factoring receivables	-	3,348	3,348
finance lease receivables	-	5,876	5,876
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	3,590	229,377	232,967
Adjustment relating to fair value hedge accounting (note " Hedge accounting and other derivative instruments ")	-	(8)	(8)
Total	3,590	229,369	232,959

¹ Loans and advances to customers as at 31 December 2022 have been adjusted by PLN 1,238 for the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)")

LOANS AND ADVANCES TO CUSTOMERS BY MATURITY (excluding adjustments relating to fair value hedge accounting)	not held for trading, mandatorily measured at fair value through profit or loss	measured at amortized cost	Total
31.12.2023			
up to 1 month	723	11,695	12,418
1 to 3 months	376	11,140	11,516
3 months to 1 year	1,442	38,157	39,599
1 to 5 years	315	78,849	79,164
more than 5 years	15	103,066	103,081
Total	2,871	242,907	245,778

LOANS AND ADVANCES TO CUSTOMERS BY MATURITY (excluding adjustments relating to fair value hedge accounting)	not held for trading, mandatorily measured at fair value through profit or loss	measured at amortized cost	Total
31.12.2022			
up to 1 month	755	12,012	12,767
1 to 3 months	453	9,581	10,034
3 months to 1 year	1,733	34,606	36,339
1 to 5 years	603	75,253	75,856
more than 5 years	46	97,925	97,971
Total	3,590	229,377	232,967

36. AMOUNTS DUE TO BANKS

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

FINANCIAL INFORMATION

AMOUNTS DUE TO BANKS	31.12.2023	31.12.2022
Measured at fair value through profit or loss:	25	2
Liabilities in respect of a short position in securities	25	2
Measured at amortized cost	3,398	3,009
Deposits from banks	1,120	1,936
Current accounts	2,240	1,057
Other monetary market deposits	38	16
Total	3,423	3,011

AMOUNTS DUE TO BANKS BY MATURITY	31.12.2023	31.12.2022
Measured at fair value through profit or loss:	25	2
up to 1 month	25	2
Measured at amortized cost:	3,398	3,009
up to 1 month	3,392	2,963
1 to 3 months	-	31
3 months to 1 year	6	15
Total	3,423	3,011

37. AMOUNTS DUE TO CUSTOMERS

ACCOUNTING POLICIES:

Valuation and classification into categories is carried out in accordance with the principles for determining the business model and assessing the characteristics of contractual cash flows referred to in note "[GENERAL ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS](#)". Detailed policies concerning "Liabilities in respect of insurance products" are described in note "[Insurance business](#)" and "[IFRS 17 Insurance contracts](#)".

The item "Amounts due to customers" also includes an adjustment relating to fair value hedge accounting for amounts due to customers representing hedged items (note "[Hedge accounting and other derivative instruments](#)").

FINANCIAL INFORMATION

AMOUNTS DUE TO CUSTOMERS	Amounts due to households	Amounts due to business entities	Amounts due to state budget entities	Total
31.12.2023				
Measured at fair value through profit or loss	165	277	-	442
Liabilities in respect of a short position in securities	-	277	-	277
Liabilities in respect of insurance products	165	-	-	165
Measured at amortized cost	306,450	76,372	15,517	398,339
Cash on current accounts and overnight deposits of which	201,238	55,097	14,551	270,886
savings accounts and other interest-bearing assets	49,845	18,765	9,956	78,566
Term deposits	104,689	20,450	927	126,066
Other liabilities	505	825	39	1,369
Liabilities in respect of insurance products	18	-	-	18
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	306,615	76,649	15,517	398,781
Adjustment relating to fair value hedge accounting (note " Hedge accounting and other derivative instruments ")	412	-	-	412
Total	307,027	76,649	15,517	399,193

AMOUNTS DUE TO CUSTOMERS	Amounts due to households	Amounts due to business entities	Amounts due to state budget entities	Total
31.12.2022				
Measured at fair value through profit or loss	149	5	-	154
Liabilities in respect of a short position in securities	-	5	-	5
Liabilities in respect of insurance products	149	-	-	149
Measured at amortized cost	262,948	58,634	17,188	338,770
Cash on current accounts and overnight deposits of which	180,298	40,290	16,224	236,812
savings accounts and other interest-bearing assets	41,953	12,933	11,615	66,501
Term deposits	82,127	17,748	913	100,788
Other liabilities	505	596	51	1,152
Liabilities in respect of insurance products ¹	18	-	-	18
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	263,097	58,639	17,188	338,924
Adjustment relating to fair value hedge accounting (note " Hedge accounting and other derivative instruments ")	(56)	-	-	(56)
Total	263,041	58,639	17,188	338,868

¹Liabilities in respect of insurance products as at 31 December 2022 have been adjusted by PLN 714 million for the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance Contracts](#)")

AMOUNTS DUE TO CUSTOMERS BY MATURITY (excluding adjustment relating to fair value hedge accounting)	31.12.2023	31.12.2022
Measured at fair value through profit or loss:	442	154
up to 1 month	277	5
Measured at amortized cost:	398,339	338,770
up to 1 month	308,655	272,203
1 to 3 months	35,935	29,307
3 months to 1 year	39,428	10,392
1 to 5 years	8,600	21,520
more than 5 years	5,721	5,348
Total	398,781	338,924

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	31.12.2023	31.12.2022
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	398,781	338,924
retail and private banking	275,458	234,382
corporate	69,502	55,812
companies and enterprises	53,636	48,562
other liabilities (including liabilities in respect of insurance products)	185	168
Adjustment relating to fair value hedge accounting (note " Hedge accounting and other derivative instruments ")	412	(56)
Total	399,193	338,868

38. FINANCING RECEIVED

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

FINANCIAL INFORMATION

FINANCING RECEIVED	31.12.2023	31.12.2022
Loans and advances received from:	1,489	2,294
banks	-	309
international financial organisations	1,478	1,972
other financial institutions	11	13
Liabilities in respect of debt securities in issue:	17,201	15,510
bonds issued by PKO Bank Polski S.A.	3,421	-
mortgage covered bonds issued by PKO Bank Hipoteczny S.A.	10,418	12,057
bonds issued by PKO Bank Hipoteczny S.A.	1,755	1,265
bonds issued by the PKO Leasing S.A. Group	1,607	2,188
Subordinated liabilities	2,774	2,781
Total	21,464	20,585

38.1. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED BY MATURITY	31.12.2023	31.12.2022
1 to 3 months	-	11
3 months to 1 year	-	1,107
1 to 5 years	1,489	1,176
Total	1,489	2,294

LOANS AND ADVANCES RECEIVED FROM BANKS

Date of receipt	Notional amount	Currency	Maturity	Carrying amount at 31.12.2023	Carrying amount at 31.12.2022
10.06.2019	150	PLN	15.06.2023	-	150
04.12.2019	500	PLN	04.12.2023	-	159
Total				-	309

LOANS AND ADVANCES RECEIVED FROM INTERNATIONAL FINANCIAL ORGANIZATIONS

Date of receipt of a loan or advance by the Group	Notional amount	Currency	Maturity	Carrying amount at 31.12.2023	Carrying amount at 31.12.2022
25.09.2013	70	EUR	25.09.2023	-	70
13.04.2018	40	EUR	31.03.2023	-	11
23.10.2018	646	PLN	23.10.2023	-	656
28.11.2018	50	EUR	30.11.2023	-	59
10.02.2021	50	EUR	02.02.2026	219	235
06.12.2021	50	EUR	27.11.2026	220	235
06.12.2021	50	EUR	27.11.2026	220	235
08.04.2022	100	EUR	02.04.2027	-	471
08.04.2022	200	EUR	08.12.2028	819	-
Total				1,478	1,972

LOANS AND ADVANCES RECEIVED FROM OTHER FINANCIAL INSTITUTIONS

Date of receipt	Notional amount	Currency	Maturity	Carrying amount at 31.12.2023	Carrying amount at 31.12.2022
25.10.2021	100	UAH	24.10.2023	-	13
06.12.2023	100	UAH	05.12.2025	11	-
Total				11	13

38.2. LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE

LIABILITIES IN RESPECT OF DEBT SECURITIES IN ISSUE BY MATURITY	31.12.2023	31.12.2022
Measured at amortized cost:		
up to 1 month	2,703	2,669
1 to 3 months	1,749	791
3 months to 1 year	4,594	2,851
1 to 5 years	8,155	9,138
more than 5 years	-	61
Total	17,201	15,510

- BONDS ISSUED BY PKO BANK POLSKI S.A.**

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

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

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

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

• **MORTGAGE-COVERED BONDS ISSUED BY PKO BANK HIPOTECZNY SA**

Issue date	Type of interest rate	Interest (index + margin)	Notional amount	Currency	Maturity	Carrying amount at 31.12.2023	Carrying amount at 31.12.2022
02.02.2017	fixed	0.82	25	EUR	02.02.2024	110	118
30.03.2017	fixed	0,625	500	EUR	24.01.2023	-	2,359
27.09.2017	fixed	0.75	500	EUR	27.08.2024	2,179	2,351
27.10.2017	variable	WIBOR3M +0.60	500	PLN	27.06.2023	-	500
22.03.2018	fixed	0.75	500	EUR	24.01.2024	2,188	2,360
27.04.2018	variable	WIBOR3M +0.49	698	PLN	25.04.2024	706	708
27.07.2018	variable	WIBOR3M +0.62	500	PLN	25.07.2025	506	507
24.08.2018	fixed	3.4875	60	PLN	24.08.2028	61	61
26.10.2018	variable	WIBOR3M +0.66	230	PLN	28.04.2025	233	233
10.06.2019	variable	WIBOR3M +0.60	245	PLN	30.09.2024	249	244
02.12.2019	variable	WIBOR3M +0.51	250	PLN	02.12.2024	251	251
04.07.2022	fixed	2,125	500	EUR	25.06.2025	2,195	2,365
09.02.2023	variable	WIBOR3M +0.85	499	PLN	09.02.2026	503	-
28.06.2023	variable	WIBOR3M +0.78	500	PLN	29.06.2026	500	-
02.11.2023	variable	WIBOR3M +0.78	730	PLN	02.11.2026	757	-
Total						10,418	12,057

• **BONDS ISSUED BY PKO BANK HIPOTECZNY S.A.**

Issue date	Type of interest rate	Interest (index + margin)	Notional amount	Currency	Maturity	Carrying amount at 31.12.2023	Carrying amount at 31.12.2022
24.01.2022	variable	WIBOR3M+0.28	124	PLN	25.07.2023	-	126
24.02.2022	variable	WIBOR3M+0.30	115	PLN	19.05.2023	-	116
03.10.2022	zero-coupon		293	PLN	03.04.2023	-	286
02.11.2022	zero-coupon		125	PLN	09.05.2023	-	121
02.11.2022	zero-coupon		100	PLN	03.04.2023	-	98
16.12.2022	zero-coupon		232	PLN	16.03.2023	-	228
16.12.2022	zero-coupon		300	PLN	16.06.2023	-	290
11.10.2023	zero-coupon		206	PLN	26.02.2024	203	-
16.11.2023	zero-coupon		237	PLN	26.02.2024	234	-
18.12.2023	zero-coupon		310	PLN	18.03.2024	306	-
11.10.2023	zero-coupon		349	PLN	11.04.2024	343	-
16.11.2023	zero-coupon		285	PLN	14.05.2024	279	-
18.12.2023	zero-coupon		400	PLN	07.06.2024	390	-
Total						1,755	1,265

- **BONDS ISSUED BY THE PKO LEASING SA GROUP**

Issue date	Type of interest rate	Interest rate (index + margin)	Notional amount	Currency	Maturity	Carrying amount at 31.12.2023	Carrying amount at 31.12.2022
26.09.20191	variable	WIBOR 3M + margin	1,060	PLN	28.12.2029	-	1,067
10.10.2022	variable	WIBOR 3M + margin	311	PLN	17.01.2023	-	310
24.10.2022	variable	WIBOR 3M + margin	164	PLN	01.02.2023	-	163
14.11.2022	variable	WIBOR 3M + margin	182	PLN	10.03.2023	-	179
28.11.2022	variable	WIBOR 3M + margin	225	PLN	27.03.2023	-	222
05.12.2022	variable	WIBOR 3M + margin	164	PLN	13.04.2023	-	161
22.12.2022	variable	WIBOR 3M + margin	88	PLN	24.04.2023	-	86
28.09.2023	variable	WIBOR 3M + margin	332	PLN	18.01.2024	331	-
18.10.2023	variable	WIBOR 3M + margin	195	PLN	30.01.2024	194	-
30.10.2023	variable	WIBOR 3M + margin	417	PLN	16.02.2024	414	-
01.12.2023	variable	WIBOR 3M + margin	490	PLN	05.03.2024	485	-
11.12.2023	variable	WIBOR 3M + margin	186	PLN	05.04.2024	183	-
Total						1,607	2,188

¹ The bonds issued as part of securitization of lease receivables taken up by the PKO Leasing SA Group as part of the acquisition of Raiffeisen Leasing Polska S.A. and issued as part of securitization of lease receivables conducted in September 2019. Bonds were secured with securitized lease receivables (see the Note "Information on securitization of the lease portfolio and portfolio sale of receivables").

38.3. SUBORDINATED LIABILITIES

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

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

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

39. INSURANCE ACTIVITIES

ACCOUNTING POLICIES:

39.1. TRANSITION DATE

The Group applied IFRS 17 for the first time in the period beginning 1 January 2023. Due to the need to prepare comparative data, 1 January 2022 is assumed as the date of transition to the new standard. The Group has implemented IFRS 17 as of 1 January 2023 using a full retrospective approach and a modified approach for part of its portfolio.

The risk-free interest rate curves published by EIOPA (European Insurance and Occupational Pensions Authority) were used for the measurement at the transition date.

39.2. MAIN ELEMENTS OF MEASUREMENT ACCORDING TO IFRS 17

The most significant elements of the IFRS 17 measurement and the main methodological decisions made by the Group are presented below.

39.2.1. IDENTIFICATION AND AGGREGATION OF INSURANCE CONTRACTS

In order to identify insurance contracts and inward reinsurance contracts that are within the scope of IFRS 17, the Group verifies whether, under a given contract, the entity accepts a significant insurance risk from the policyholder and undertakes to compensate the policyholder for an adverse effect defined as an uncertain future insurable event.

According to the analysis, all products of an insurance nature offered by the Group's insurance companies have been classified as insurance contracts and thus fall within the scope of IFRS 17. The exception to this is only a small proportion of policies with UFK (unit-linked insurance) contracts, which are classified as investment agreements and measured in accordance with IFRS 9.

The Group analysed the products, i.e. performance guarantees, to identify links with the requirements of IFRS 17. The analysis confirmed that these products do not meet the definition of an insurance contract under IFRS 17, due to the fact that there is no insurance risk in this type of contract, but rather credit risk related to the non-recovery of funds from customers. Accordingly, the Group recognises and measures performance guarantees in accordance with IFRS 9.

In the Group, the division of the portfolio into groups of insurance contracts will be determined taking into account the above dimensions:

- portfolio dimension - based on the risk characteristics of individual insurance contracts and based on existing insurance portfolio management processes;
- profitability dimension:
 - for life insurance - at the level of a single contract by measuring the given insurance contract;
 - for non-life insurance - all contracts are treated as profitable, unless there are facts or circumstances that indicate that they are not profitable. Profitability is assessed at the level of the IFRS 17 portfolio, while it is permissible to move the assessment to the level of the quarter or year cohorts;
- cohort dimension - the Group decided to use quarterly cohorts for both life and non-life insurance and reinsurance. The Group does not expect to apply the exemption from reporting under the requirement for annual cohorts.

The purpose of this aggregation is to ensure that profits are recognized over time in proportion to the insurance services provided, and losses are recognized immediately when the entity assesses that the concluded contract gives rise to a burden. The above aggregation makes it impossible to offset gains and losses between identified groups of insurance contracts, even within a single portfolio. Grouping of insurance contracts occurs upon initial recognition, and the Group will not reassess the groups in subsequent periods unless there is a rationale for discontinuing contract recognition as specified in IFRS 17, such as:

- when the obligation specified in the insurance contract expires or is discharged or cancelled; or
- the terms of an insurance contract are modified, for example by agreement between the parties to the contract or by a change in regulation, and the Group derecognises the original contract and recognise the modified contract as a new contract.

39.2.2. CONTRACT BOUNDARIES

For the purpose of measurement of liabilities, the value of financial flows within the contract boundaries is estimated. Contract boundaries cover the period during which the Group is obliged to provide the services covered by the insurance contract. This period may arise from premiums already paid or premiums in respect of which the insured may be liable to pay. Cash flows are treated as flows within the contract boundaries if they result from the insurance cover provided during the above period, even if the physical payment goes beyond the contract boundaries.

The service obligation defining the contract boundaries expires when there is a realistic possibility of a risk reassessment and tariff change. If there is no such practical possibility, the measurement of liabilities includes all future expected premiums.

In the Group the contract boundary approach is largely consistent with the Solvency II measurement approach used to date. The exceptions are contract boundaries applied in unit-linked products, where the guidelines for future cash flows derived from the “KNF Office's Position on the Contract Boundary for the Purpose of Determining Insurance or Reinsurance Liabilities” are used for measurement for the needs of Solvency II. In contrast, for the needs of IFRS 17, in unit-linked products with regular premiums, the future premium is modelled in accordance with the policyholder's liabilities described in the general terms and conditions of insurance and in the policy.

39.2.3. VALUATION METHODS

Under IFRS 17, contracts may be measured according to the following methods:

1) **GMM – general measurement model** – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of:

- a) discounted value of the best estimate of future cash flows - expected (probability-weighted) cash flows from premiums, claims, benefits, acquisition expenses and costs;
- b) risk adjustment for non-financial risk, RA – an individual estimate of the financial value of the offset for uncertainty related to the amount and timing of future cash flows, and
- c) contractual service margin, CSM – representing an estimate of future profits recognized during the policy term. The CSM value is sensitive to changes in estimates of cash flows, resulting e.g. from changed non-economic assumptions. CSM cannot be a negative value – any losses on the contracts shall be recognized immediately in the income statement (an exception is made for outward reinsurance contracts, for which the CSM may be negative);

2) **PAA – premium allocation approach**

The premium allocation approach (PAA), is a simplified approach where the measurement of liability for remaining coverage (LRC) is analogous to the provision for unearned premiums mechanism in IFRS 4 (without separate presentation of RA and CSM). The PAA method is applied for short-term contracts of up to 1 year and longer, as long as the relevant qualifying criteria for applying the simplification are satisfied, as specified in paragraphs 53 or 69 of IFRS 17. The measurement of liability for incurred claims (LIC) is carried out using the GMM model (without CSM calculations). At the time of implementation of IFRS 17, the PAA method is not used by the Group to measure insurance liabilities/assets;

3) **VFA – variable fee approach**

The liability measurement method used for IFRS 17 reporting of insurance contracts with direct profit sharing, where the measurement of liabilities is performed similarly to the GMM approach with the difference that changes in the contract margin component of the CSM in subsequent periods also include the impact of changes in economic factors, not just insurance factors.

Due to the specific nature of the insurance and reinsurance contracts in non-life insurance offered within the Group (insurance of several years), the criteria for applying the simplified valuation method based on premium allocation - PAA - were not met at the date of transition. Accordingly, both life insurance contracts and non-life insurance and reinsurance contracts are measured using the general model - GMM. The exception to this is direct profit-sharing insurance contracts, for which the Group uses the VFA model.

39.2.4. BEST ESTIMATE OF FUTURE CASH FLOWS

Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing.

The cash flows within the boundary include:

- premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums;
- payments to (or on behalf of) a policyholder, including claims that have already been reported but have not yet been paid (i.e. reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the entity has a substantive obligation;
- an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs;
- claim handling costs;
- costs the entity will incur in providing contractual benefits paid in kind;
- policy administration and maintenance costs;
- taxes on transactions.

Separate presentation of outward reinsurance contracts and insurance and reinsurance contracts is required under the new standard.

Within each of these two groups, separate presentation is required for assets and liabilities of portfolios depending on whether the sum of the balance sheet items making up the insurance portfolio measurement is a net asset or liability.

Estimates of future cash flows are updated upon each calculation, taking into account all historical data available at the time of valuation and expert assessments of future cash flows.

The individual assumptions, in particular loss ratios, mortality rates and lapse rates, are determined on the basis of an analysis of historical data, but at the same time taking into account their expected changes in the future, e.g. due to tariff modifications or the current economic situation.

The Group does not currently have insurance products with discretionary profit-sharing.

39.2.5. DISCOUNTING

The Group uses discount rate curves determined under the bottom-up approach (IFRS 17 paragraph B80), which assumes that discount curves are determined based on smooth risk-free rate curves.

Base discount curves are set at risk-free discount rates published by EIOPA (European Insurance and Occupational Pensions Authority). As part of the simplification adopted, no illiquidity premium was applied.

The table below shows the discount curves used to discount cash flows.

Breakdown of yield curves - PLN	Current reporting period					Comparable reporting period				
	1 year	5 years	10 years	15 years	20 years	1 year	5 years	10 years	15 years	20 years
Life – protection insurance	4.95%	4.85%	5.10%	5.11%	4.95%	6.40%	6.74%	6.65%	6.39%	6.01%
Property – protection insurance	4.95%	4.85%	5.10%	5.11%	4.95%	6.40%	6.74%	6.65%	6.39%	6.01%
Other	4.95%	4.85%	5.10%	5.11%	4.95%	6.40%	6.74%	6.65%	6.39%	6.01%

39.2.6. ADJUSTMENT FOR NON-FINANCIAL RISK

The Group includes a risk adjustment for non-financial risks in the measurement of insurance contracts. Due to the different risk characteristics for the portfolio of life and non-life insurance and for the future flows arising from the liabilities of payable claims and those arising from the remaining insurance period, the adjustment for non-financial risk for these liabilities is estimated independently.

For non-life insurance, the adjustment for future coverage is determined using the Value at Risk (VaR) method, using a modified Solvency Capital Requirement (SCR) calculation according to the Solvency II standard formula. Two approaches are used to determine the adjustment for the loss reserve: the VaR method analogous to the approach for future coverage and the bootstrap method (a method of estimating the distribution of estimation errors, by means of a multiple draw with return from a sample).

For life insurance, for liabilities arising from the remaining insurance period, the adjustment is determined using the cost of capital (CoC) method, and for liabilities for payable claims using the bootstrap method.

The risk adjustment for non-financial risks at the entity level is determined as a simple sum of adjustments determined at the level of individual groups of contracts or business lines, and diversification is taken into account when determining the level of materiality at the entity level (bottom-up approach). At the Group level, the adjustment for non-financial risk is determined as a simple sum of adjustments for individual entities, and diversification between entities is not taken into account.

To determine adjustments for non-financial risks from reinsurance contracts, the Group applies these techniques both gross and net of reinsurance and derives the amount of risk transferred to the reinsurer as the difference between the two results.

Using the confidence level technique, the Group estimates the probability distribution of the expected present value of future cash flows from insurance contracts at each reporting date and calculates the adjustment for non-financial risks as the excess of the value at risk at the 75th percentile (target confidence level) over the expected present value of future cash flows.

Using the cost of capital technique, the Group determines the adjustment for non-financial risks by applying the cost of capital rate to the amount of capital required at each future reporting date and discounting the outcome using risk-free rates.

For the purposes of recognising the change in the risk adjustment for non-financial risks in the income statement, no disaggregation is made into an insurance service component and an insurance finance component, but it is presented in its entirety in the net income from insurance business.

39.2.7. CONTRACTUAL SERVICE MARGIN (CSM)

The contract margin is part of the liabilities (or assets) under insurance and reinsurance contracts. The contract margin reflects the outstanding profit for a group of insurance contracts and is therefore released as income in the income statement. The amount of margin release in a reporting period is determined as the value of unrecognised expected future profit attributable to the period in accordance with a pattern of so-called coverage units, which determine the volume of insurance service provided in each period.

The pattern of coverage units provided was estimated on the basis of sums insured (life insurance) or premiums earned assuming a pro rata approach (property insurance)

In contrast to the valuation of other components of the liability for remaining coverage, the CSM is determined in a recursive manner, i.e. its value at the end of a given reporting period depends on the value on the opening balance sheet.

The initial value of the contract margin for groups of non-onerous contracts is determined on initial recognition as the value that balances the liability for remaining coverage, i.e. such that the total liability for remaining coverage equals 0 and thus does not generate income or expenses. For onerous contracts, the CSM on initial recognition is equal to zero.

For insurance contracts without direct participation features, the carrying amount of the contractual service margin of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for:

- the effect of any new contracts added to the group;
- interest accreted on the carrying amount of the contractual service margin during the reporting period, measured at the discount rates at the time of initial recognition;

- the changes in fulfilment cash flows relating to future service, except to the extent that:
 - such increases in the fulfilment cash flows exceed the carrying amount of the contractual service margin, giving rise to a loss; or
 - such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage;
- the effect of any currency exchange differences arising on the contractual service margin; and
- the amount recognised as insurance revenue because of the insurance contract services provided in the period, determined by the allocation of the contractual service margin remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period.

Changes in expected future cash flows relating to a past or current service do not modify the CSM, but are recognised immediately in the income statement.

For groups of insurance contracts with direct participation features, the carrying amount of CSM of a group of contracts at the end of the reporting period equals the carrying amount of the CSM at the start of the reporting period adjusted for:

- the effect of new contracts added to the group;
- the amount of the entity's share of the fair value of the underlying instrument;
- the changes in fulfilment cash flows relating to future service;
- the effect of any currency exchange differences;
- the amount of the CSM recognised in the income statement as insurance revenue because of the insurance contract services provided in the period.

39.2.8. INSURANCE FINANCE INCOME OR EXPENSES

- **OCI OPTION** – the Group has exercised the option to disaggregate the finance income and costs of its insurance operations into the portions recognized in profit or loss and other comprehensive income for all IFRS 17 portfolios, except for contract portfolios containing direct profit sharing. The amount recognised in the income statement is determined by a systematic allocation of the expected total insurance finance income or expenses over the duration of the group of contracts. The value of insurance finance income and expenses reported in the income statement is determined on the basis of the discount rates from the time of initial recognition of the respective group of contracts. At the same time, the difference between the total insurance finance income and expenses and the amount reported in the income statement is presented in other comprehensive income.
- **INVESTMENT COMPONENT** – The main portfolio with a non-distinguishable investment component is the unit-linked insurance portfolio. The investment components excluded from insurance revenue and insurance service expenses are determined as the hypothetical surrender value (including the value of the life benefit) specified in the terms of the insurance contract.

39.2.9. OUTWARD REINSURANCE CONTRACTS

The Group values all outward reinsurance contracts using the general GMM model, on a similar basis to the valuation of the insurance portfolio. A key difference in the valuation of reinsurance contracts relative to the valuation of insurance contracts is that a loss component cannot be recognised, while a negative contract margin is allowed.

FINANCIAL INFORMATION

39.3. NET INCOME FROM INSURANCE BUSINESS AND FINANCE INCOME AND COSTS RECOGNISED IN OTHER COMPREHENSIVE INCOME

NET INCOME FROM INSURANCE BUSINESS AND FINANCE INCOME AND COSTS RECOGNISED IN OTHER COMPREHENSIVE INCOME FROM INSURANCE BUSINESS	2023	2022
Changes in the period recognised in the income statement and in other comprehensive income, of which:	680	788
1. Net income from insurance business (Income statement)	711	779
Insurance revenue (net of reinsurance)¹	1,241	1,172
Change in liability for remaining coverage (LRC)	1,210	1,145
The amount of the contractual service margin recognised in profit or loss because of the transfer of insurance contract services in the period (amortisation of contractual margin)	760	786
Change in risk adjustment for non-financial risk	41	44
Anticipated claims and other insurance service costs during the period	421	309
other amounts, for example, experience adjustments for premium receipts other than those that relate to future service	(12)	6
Allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows	31	27
Cost of insurance activities (net of reinsurance)²	(389)	(325)
Incurred claims (excluding investment components) and other incurred insurance service expenses	(365)	(283)
Amortisation of insurance acquisition cash flows	(31)	(27)
Changes that relate to future service, i.e. losses on onerous groups of contracts and reversals of such losses	(15)	(24)
Changes that relate to past service, i.e. changes in fulfilment cash flows relating to the liability for incurred claims	22	9
Investment components excluded from insurance revenue and insurance service expenses (net of reinsurance)³	(187)	47
Change in fair value of underlying items for contracts with direct participation features	(93)	88
Interest accrued (discount)	(94)	(41)
Net income from reinsurance business, of which:⁴	(47)	(29)
Interest accrued	(3)	(3)
Change in fair value of underlying assets for contracts with direct participation features⁵	93	(86)
2. Finance income and costs from insurance business recognised in other comprehensive income, including from⁶:	(31)	9
insurance activities (net of reinsurance)	(33)	9
reinsurance activities	2	-

¹ Insurance revenue include only revenue from gross business. The item arises from the decomposition of the premium for individual components of cost and profit into:

- amortisation of the contractual service margin,
- adjustment for non-financial risk (additional security add-on),
- anticipated claims and costs (the portion of the premium that is allocated to the payment of claims and benefits and costs),
- acquisition costs (the portion of the premium that is allocated to acquisition costs),
- other, e.g. experience-related adjustments (discrepancies between the expected premium and the premium actually earned).

² Costs from insurance activities only include costs from gross business. The item comprises the following components:

- Claims incurred and costs - the value of claims and costs incurred during the period (in the case of claims, claims incurred during the period are reported under this heading, regardless of whether they have been paid or remain in the loss reserve);
- Acquisition costs incurred - an item that mirrors the item "Allocation of the portion of the premiums that relate to the recovery of insurance acquisition cash flows"; the impact of acquisition costs on the result is included in the amortisation of the contract service margin;
- Changes related to the future service - losses (and their reversal) if a particular group of contracts is onerous, e.g. expected premiums will be lower than expected claims (losses are recognised in the income statement from a one-off basis and gains are deferred through gradual amortisation of the margin);
- Changes related to the past service (result on the loss reserve) - the difference between the estimate of the loss reserve for the opening balance and its realisation in the reporting period.

³ This item includes insurance finance income and expenses recognised in the income statement. The item mainly includes two components: changes on the discounting of reserves and, in the case of contracts with direct participation features, the net investment income on the underlying assets.

⁴ Net income from reinsurance business - reflects the net income from outward reinsurance

⁵ Change in fair value of underlying assets for contracts with direct participation features - result on units in investment funds and investment certificates (contracts with direct participation features)

⁶ Finance income and expenses recognised in other comprehensive income reflect the impact of changes in interest rates and other financial assumptions

39.4. CHANGE IN ASSETS AND LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES BROKEN DOWN BY LIABILITIES FOR REMAINING COVERAGE (LRC) AND LIABILITIES FOR INCURRED CLAIMS (LIC)

CHANGE IN LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES (NET OF REINSURANCE) DURING THE 12 MONTHS ENDED 31 DECEMBER 2023	Liability for remaining coverage (LRC)		Liabilities for incurred claims (LIC)	Total
	excluding the loss component	loss component		
Opening balance, net - 1 January 2023	2,690	19	169	2,878
Insurance revenue	(1,241)	-	-	(1,241)
Costs of insurance activities	31	(1)	359	389
incurred claims and other incurred insurance service expenses	-	(16)	381	365
amortisation of insurance acquisition cash flows	31	-	-	31
losses on onerous groups of contracts and reversals of such losses	-	15	-	15
changes in fulfilment cash flows relating to the liability for incurred claims	-	-	(22)	(22)
Investment components excluded from insurance revenue and insurance service expenses	44	1	142	187
Net income from insurance business (Income statement)	(1,166)	-	501	(665)
Insurance finance income or expenses recognised in other comprehensive income (gross)	33	-	-	33
Changes in the period recognised in the income statement and in other comprehensive income	(1,133)	-	501	(632)
premiums received for insurance contracts issued	1,185	-	-	1,185
incurred claims paid and other insurance service expenses paid for insurance contracts issued	-	-	(480)	(480)
insurance acquisition cash flows	(36)	-	-	(36)
Total cash flows	1,149	-	(480)	669
Closing balance, net - 31 December 2023	2,706	19	190	2,915
Property – protection insurance	1,169	-	91	1,260
Life – protection insurance	972	19	44	1,035
Other	565	-	55	620

CHANGE IN ASSETS IN RESPECT OF INSURANCE ACTIVITIES (REINSURANCE) DURING THE 12 MONTHS ENDED 31 DECEMBER 2023	Assets on account of reinsurance (for remaining coverage, LRC)		Assets for losses incurred (LIC)	Total
	excluding the loss component	loss component		
Opening balance, net - 1 January 2023	86	-	29	115
Allocation of reinsurance premiums paid	(102)	-	-	(102)
Amounts recoverable from reinsurers ¹	-	-	52	52
Investment components excluded from insurance revenue and insurance service expenses	3	-	-	3
Net income from insurance business (Income statement)	(99)	-	52	(47)
Insurance finance income or expenses recognised in other comprehensive income (gross)	2	-	-	2
Changes in the period recognised in the income statement and in other comprehensive income	(97)	-	52	(45)
premiums received for reinsurance contracts held	70	-	-	70
amounts received	-	-	(50)	(50)
Total cash flows	70	-	(50)	20
Closing balance, net - 31 December 2023	59	-	31	90
Property – protection insurance	56	-	27	83
Life – protection insurance	3	-	4	7

¹This item includes the recovery of claims incurred and other insurance service costs

CHANGE IN LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES (NET OF REINSURANCE) DURING THE 12 MONTHS ENDED 31 DECEMBER 2022	Liability for remaining coverage (LRC)		Liabilities for incurred claims (LIC)	Total
	excluding the loss component	loss component		
Opening balance, net - 1 January 2022	3,131	11	175	3,317
Insurance revenue	(1,172)	-	-	(1,172)
Costs of insurance activities	27	9	289	325
incurred claims and other incurred insurance service expenses	-	(15)	298	283
amortisation of insurance acquisition cash flows	27	-	-	27
losses on onerous groups of contracts and reversals of such losses	-	24	-	24
changes in fulfilment cash flows relating to the liability for incurred claims	-	-	(9)	(9)
Investment components excluded from insurance revenue and insurance service expenses	(264)	1	216	(47)
Net income from insurance business (Income statement)	(1,409)	10	505	(894)
Insurance finance income or expenses recognised in other comprehensive income (gross)	(7)	(2)	-	(9)
Changes in the period recognised in the income statement and in other comprehensive income	(1,416)	8	505	(903)
premiums received for insurance contracts issued	1,002	-	-	1,002
incurred claims paid and other insurance service expenses paid for insurance contracts issued	-	-	(511)	(511)
insurance acquisition cash flows	(27)	-	-	(27)
Total cash flows	975	-	(511)	464
Closing balance, net - 31 December 2022	2,690	19	169	2,878
Property - protection insurance	1,243	-	59	1,302
Life - protection insurance	849	19	47	915
Other	598	-	63	661

CHANGE IN ASSETS IN RESPECT OF INSURANCE ACTIVITIES (REINSURANCE) DURING THE 12 MONTHS ENDED 31 DECEMBER 2022	Assets on account of reinsurance (for remaining coverage, LRC)		Assets for losses incurred (LIC)	Total
	excluding the loss component	loss component		
Opening balance, net - 1 January 2022	107	-	21	128
Allocation of reinsurance premiums paid	(84)	-	-	(84)
Amounts recoverable from reinsurers ¹	-	-	52	52
Investment components excluded from insurance revenue and insurance service expenses	3	-	-	3
Net income from insurance business (Income statement)	(81)	-	52	(29)
Changes in the period recognised in the income statement and in other comprehensive income	(81)	-	52	(29)
premiums received for reinsurance contracts held	61	-	-	61
amounts received	-	-	(44)	(44)
Total cash flows	60	-	(44)	10
Closing balance, net - 31 December 2022	86	-	29	115
Property - protection insurance	83	-	25	108
Life - protection insurance	3	-	4	7

¹This item includes the recovery of claims incurred and other insurance service costs

39.5. CHANGE IN ASSETS AND LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES, WITH A BREAKDOWN OF THE COMPONENTS: ESTIMATES OF CASH FLOWS, ESTIMATES OF PRESENT VALUE OF FUTURE CASH FLOWS, RISK ADJUSTMENT FOR NON-FINANCIAL RISK AND CONTRACTUAL SERVICE MARGIN

CHANGE IN LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES (NET OF REINSURANCE) DURING THE 12 MONTHS ENDED 31 DECEMBER 2023	Estimates of present value of future cash flows	Non-financial risk adjustment	Contract margin	Total
Opening balance, net - 1 January 2023	1,468	73	1,337	2,878
Changes that relate to current service	64	(36)	(875)	(847)
change in contractual service margin	-	-	(762)	(762)
change in risk adjustment for non-financial risk	-	(42)	-	(42)
experience adjustments ¹	64	6	(113)	(43)
Changes that relate to future service	(657)	49	625	17
changes in estimates that adjust the contractual service margin	36	(3)	(32)	1
losses on onerous groups of contracts and reversals of such losses	3	-	-	3
the effects of contracts initially recognised in the period	(696)	52	657	13
Changes that relate to past service, i.e. changes in fulfilment cash flows relating to incurred claims	(17)	(5)	-	(22)
Investment components excluded from insurance revenue and insurance service expenses	120	-	67	187
Net income from insurance business (Income statement)	(490)	8	(183)	(665)
Insurance finance income or expenses recognised in other comprehensive income (gross)	33	-	-	33
Changes in the period recognised in the income statement and in other comprehensive income	(457)	8	(183)	(632)
Cash flows	669	-	-	669
Closing balance, net - 31 December 2023	1,680	81	1,154	2,915

¹this item reflects the difference between expected and realised premium cash flows for contract cohorts for which the difference is not recognised in the contractual service margin

CHANGE IN ASSETS IN RESPECT OF INSURANCE ACTIVITIES (REINSURANCE) DURING THE 12 MONTHS ENDED 31 DECEMBER 2023	Estimates of present value of future cash flows	Non-financial risk adjustment	Contract margin	Total
Opening balance, net - 1 January 2023	62	10	43	115
Changes that relate to current service	(2)	(3)	(38)	(43)
change in contractual service margin	-	-	(43)	(43)
change in risk adjustment for non-financial risk	-	(6)	-	(6)
experience adjustments ¹	(2)	3	5	6
Changes that relate to future service	(29)	5	24	-
changes in estimates that adjust the contractual service margin	(10)	-	10	-
the effects of contracts initially recognised in the period	(19)	5	14	-
Changes that relate to past service, i.e. changes in fulfilment cash flows relating to incurred claims	(6)	(1)	-	(7)
Investment components excluded from insurance revenue and insurance service expenses	1	-	2	3
Net income from insurance business (Income statement)	(36)	1	(12)	(47)
Insurance finance income or expenses recognised in other comprehensive income (gross)	2	-	-	2
Changes in the period recognised in the income statement and in other comprehensive income	(34)	1	(12)	(45)
Cash flows	20	-	-	20
Closing balance, net - 31 December 2023	48	11	31	90

¹this item reflects the difference between expected and realised premium cash flows for contract cohorts for which the difference is not recognised in the contractual service margin

CHANGE IN LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES (NET OF REINSURANCE) DURING THE 12 MONTHS ENDED 31 DECEMBER 2022	Estimates of present value of future cash flows	Non-financial risk adjustment	Contract margin	Total
Opening balance, net - 1 January 2022	1,806	82	1,429	3,317
Changes that relate to current service	11	(39)	(833)	(861)
change in contractual service margin	-	-	(790)	(790)
change in risk adjustment for non-financial risk	-	(44)	-	(44)
experience adjustments ¹	11	5	(43)	(27)
Changes that relate to future service	(719)	34	708	23
changes in estimates that adjust the contractual service margin	(74)	(6)	80	-
losses on onerous groups of contracts and reversals of such losses	14	-	-	14
the effects of contracts initially recognised in the period	(659)	40	628	9
Changes that relate to past service, i.e. changes in fulfilment cash flows relating to incurred claims	(5)	(4)	-	(9)
Investment components excluded from insurance revenue and insurance service expenses	(80)	-	33	(47)
Net income from insurance business (Income statement)	(793)	(9)	(92)	(894)
Insurance finance income or expenses recognised in other comprehensive income (gross)	(9)	-	-	(9)
Changes in the period recognised in the income statement and in other comprehensive income	(802)	(9)	(92)	(903)
Cash flows	464	-	-	464
Closing balance, net - 31 December 2022	1,468	73	1,337	2,878

¹this item reflects the difference between expected and realised premium cash flows for contract cohorts for which the difference is not recognised in the contractual service margin

CHANGE IN ASSETS IN RESPECT OF INSURANCE ACTIVITIES (REINSURANCE) DURING THE 12 MONTHS ENDED 31 DECEMBER 2022	Estimates of present value of future cash flows	Non-financial risk adjustment	Contract margin	Total
Opening balance, net - 1 January 2022	64	14	50	128
Changes that relate to current service	12	(3)	(39)	(30)
change in contractual service margin	-	-	(42)	(42)
change in risk adjustment for non-financial risk	-	(5)	-	(5)
experience adjustments ¹	12	2	3	17
Changes that relate to future service	(30)	-	30	-
changes in estimates that do not adjust the contractual service margin	(17)	(3)	20	-
the effects of contracts initially recognised in the period	(13)	3	10	-
Changes that relate to past service, i.e. changes in fulfilment cash flows relating to incurred claims	(1)	(1)	-	(2)
Investment components excluded from insurance revenue and insurance service expenses	1	-	2	3
Net income from insurance business (Income statement)	(18)	(4)	(7)	(29)
Changes in the period recognised in the income statement and in other comprehensive income	(18)	(4)	(7)	(29)
Cash flows	16	-	-	16
Closing balance, net - 31 December 2022	62	10	43	115

¹this item reflects the difference between expected and realised premium cash flows for contract cohorts for which the difference is not recognised in the contractual service margin

39.6. OTHER DISCLOSURES

CONTRACTUAL SERVICE MARGIN TO BE RECOGNISED IN THE INCOME STATEMENT - 31.12.2023	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5-10 years	above 10 years	Total
Insurance contracts								
Property - protection insurance	349	202	93	41	14	9	-	708
Life - protection insurance	219	93	51	27	13	12	1	416
Other	5	4	3	3	2	7	6	30
Total	573	299	147	71	29	28	7	1,154
Reinsurance contracts								
Property - protection insurance	15	7	2	1	-	-	-	25
Life - protection insurance	4	-	-	-	-	1	1	6
Total	19	7	2	1	-	1	1	31

CONTRACT MARGIN TO BE RECOGNISED IN THE INCOME STATEMENT - 31.12.2022	<1 year	1-2 years	2-3 years	3-4 years	4-5 years	5-10 years	above 10 years	Total
Insurance contracts								
Property - protection insurance	386	249	148	49	19	19	-	870
Life - protection insurance	194	102	62	36	20	20	2	436
Other	5	4	3	3	2	7	7	31
Total	585	355	213	88	41	46	9	1,337
Reinsurance contracts								
Property - protection insurance	23	11	5	1	-	-	-	40
Life - protection insurance	(1)	(1)	-	1	1	2	1	3
Total	22	10	5	2	1	2	1	43

FINANCIAL INSTRUMENTS RELATING TO CONTRACTS WITH DIRECT PARTICIPATION FEATURES	31.12.2023	31.12.2022
Deposits with financial institutions	23	20
Bonds	179	138
Equity securities	569	630
Total financial instruments - assets	771	788

40. INTANGIBLE ASSETS

ACCOUNTING POLICIES:

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

GOODWILL - Goodwill arising on acquisition of subsidiaries is recognized under “[Intangible assets](#)” and goodwill arising on acquisition of associates and joint ventures is recognized under “[Investments in associates and joint ventures](#)”. The test for goodwill impairment is carried out at least at the end of each year.

CUSTOMER RELATIONS AND VALUE IN FORCE - As a result of a settlement of the transaction, two components of intangible assets that are recognized separately from goodwill, i.e. customer relations and value in force, representing the present value of future profits from concluded insurance contracts, were identified. These components of intangible assets are amortized by declining balance method based on the rate of economic benefits consumption arising from their use.

OTHER INTANGIBLE ASSETS - Other intangible assets acquired by the Group are recognized at the cost of purchase or manufacture, less accumulated amortization and impairment losses.

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

The Group classifies the effects of in-house development work that can be used for the Group's operations as intangible assets.

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

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

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

RELATED NOTES:

- Useful lives - note “[Administrative expenses](#)”;
- Impairment losses - note “[Net impairment losses on non-financial assets](#)”

FINANCIAL INFORMATION

INTANGIBLE ASSETS	Software	Goodwill	Future profit on concluded insurance contracts	Customer relations	Other, including capital expenditure	of which: software	Total
2023							
Gross carrying amount at the beginning of the period	6,439	1,407	45	94	802	671	8,787
Purchase	55	-	-	-	853	853	908
Transfers from capital expenditure	894	-	-	-	(896)	(897)	(2)
Scrapping and sale	(32)	-	-	-	-	-	(32)
Other	10	-	-	-	44	43	54
Gross carrying amount at the end of the period	7,366	1,407	45	94	803	670	9,715
Accumulated amortization as at the beginning of the period	(4,663)	-	(44)	(90)	(96)	-	(4,893)
Amortization charge for the period	(547)	-	(3)	(2)	(3)	-	(555)
Scrapping and sale	30	-	2	-	-	-	32
Other	1	-	-	-	-	-	1
Accumulated amortization as at the end of the period	(5,179)	-	(45)	(92)	(99)	-	(5,415)
Impairment losses as at the beginning of the period	(18)	(354)	-	-	(10)	-	(382)
Recognized during the period	(1)	-	-	-	-	-	(1)
Other	1	-	-	-	-	-	1
Impairment losses as at the end of the period	(18)	(354)	-	-	(10)	-	(382)
Carrying amount as at the beginning of the period, net	1,758	1,053	1	4	696	671	3,512
Carrying amount as at the end of the period, net	2,169	1,053	-	2	694	670	3,918

INTANGIBLE ASSETS	Software	Goodwill	Future profit on concluded insurance contracts	Customer relations	Other, including capital expenditure	of which: software	Total
Gross carrying amount at the beginning of the period	5,908	1,407	44	158	776	642	8,293
Purchase	45	-	-	-	492	492	537
Transfers from capital expenditure	504	-	-	-	(504)	(504)	-
Scrapping and sale	(18)	-	-	(64)	-	-	(82)
Other	-	-	1	-	38	41	39
Gross carrying amount at the end of the period	6,439	1,407	45	94	802	671	8,787
Accumulated amortization as at the beginning of the period	(4,203)	-	(42)	(117)	(92)	-	(4,454)
Amortization charge for the period	(479)	-	(2)	(7)	(4)	-	(492)
Scrapping and sale	19	-	-	34	-	-	53
Accumulated amortization as at the end of the period	(4,663)	-	(44)	(90)	(96)	-	(4,893)
Impairment losses as at the beginning of the period	(18)	(354)	-	(9)	(15)	(2)	(396)
Recognized during the period	-	-	-	(21)	-	-	(21)
Other	-	-	-	30	5	2	35
Impairment losses as at the end of the period	(18)	(354)	-	-	(10)	-	(382)
Carrying amount as at the beginning of the period, net	1,687	1,053	2	32	669	640	3,443
Carrying amount as at the end of the period, net	1,758	1,053	1	4	696	671	3,512

The comparative figures for 2022 and the opening balances for 2023 have been similarly adjusted by PLN 15 million and PLN 20 million due to the implementation of IFRS 17 "Insurance Contracts" (see note "IFRS 17 Insurance Contract").

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

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

• GOODWILL

Net goodwill	31.12.2023	31.12.2022
Nordea Bank Polska S.A.	747	747
PKO Życie Towarzystwo Ubezpieczeń S.A.	91	91
Raiffeisen - Leasing Polska SA and its subsidiaries (PKO Leasing SA)	57	57
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	150	150
Assets taken over from CFP sp. z o.o.	8	8
Total	1,053	1,053

GOODWILL	IMPAIRMENT TEST – METHOD
NORDEA BANK POLSKA S.A.	<p>At the time of the acquisition, two cash-generating units ("CGUs") were distinguished to which the goodwill arising from the acquisition of Nordea Bank Polska SA was allocated – retail and corporate CGUs, corresponding to the operating segments.</p> <p>The Bank recognised an impairment loss on the goodwill attributable to the corporate CGU of PLN 117 million on 30 June 2020.</p> <p>Goodwill of Nordea Bank Polska S.A. of PLN 747 million belongs to the retail segment.</p> <p>The impairment test is performed by comparing the carrying amount of the CGUs with their recoverable amount. The residual value of a CGU has been calculated by extrapolating the cash flow projections beyond the projection period using the growth rate adopted at a level of 3.7%. Cash flow projections used in the impairment test covered a period of 10 years and are based on the assumptions included in the financial plan of the Bank for 2024. A discount rate of 12.48%, taking into account the risk-free rate and risk premium, was used for the discounting of the future cash flows.</p> <p>The impairment test of the goodwill arising from the acquisition of Nordea Bank Polska S.A. assigned to the retail CGU carried out as at 31 December 2023 did not indicate any impairment.</p>
PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A.	<p>The impairment test was carried out on the basis of the three-year financial forecast prepared by the Company based on the discounted dividend method, taking into account the residual value.</p> <p>No impairment of goodwill was identified.</p>
PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ S.A.	<p>The impairment test carried out was developed on the basis of the present value of expected future cash flows for the Bank, taking into account the residual value. Future cash flows were estimated on the basis prepared by the Company's 10 year financial forecast.</p> <p>No impairment of goodwill was identified.</p>
PKO LEASING PRO S.A.	<p>The goodwill arising on the acquisition of the Company was allocated to the whole of PKO Leasing S.A. as the immediate parent company, which acquired the assets of PKO Leasing Pro S.A. in the merger. The impairment test was prepared on the basis of the present value of the expected future cash flows generated by the Company, estimated on the basis of the financial forecast prepared by the Company for five years with the simultaneous fading out of activities thereafter.</p> <p>No further impairment was identified.</p>
RAIFFEISEN - LEASING POLSKA S.A. AND ITS SUBSIDIARIES (PKO LEASING S.A.)	<p>The goodwill that arose on the acquisition of these companies was allocated to the portion of the assets of the PKO Leasing S.A. Group that was separately recorded in the accounts as assets of the Raiffeisen-Leasing Polska S.A. Group that was acquired. The impairment test was carried out on the basis of the five-year financial forecast prepared by the Company based on the discounted dividend method, taking into account the residual value.</p> <p>No impairment of goodwill was identified.</p>

In the impairment tests described above, a discount rate of 7.555% (except for Nordea Bank Polska S.A.) was used to discount future cash flows, taking into account the risk-free rate equal to the yield of 10-year treasury bonds as at the date of valuation and a premium for market risk and risk ratio determined for projects of PKO Bank Polski S.A.

The valuation methods and forecast periods were adapted to the specific features of activities related to the assets or companies being valued.

41. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES:

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

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

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

Right-of-use assets are presented in the same items in which the underlying assets would be presented, if they were owned by the Group (note “[Leases](#)”).

RELATED NOTES:

- Useful lives – note “[Administrative expenses](#)”;
- Impairment losses – note “[Net impairment losses on non-financial assets](#)”

FINANCIAL INFORMATION

- **PROPERTY, PLANT AND EQUIPMENT**

PROPERTY, PLANT AND EQUIPMENT	Land and buildings	Machinery and equipment, including computer hardware	Fixed assets under construction	Other, including vehicles	Total
2023					
Gross carrying amount at the beginning of the period	4,121	1,832	154	903	7,010
Purchase, including modifications	467	26	343	36	872
Transfers from capital expenditure	39	138	(207)	31	1
Scrapping and sale	(80)	(65)	-	(15)	(160)
Other	(61)	(23)	(5)	3	(86)
Gross carrying amount at the end of the period	4,486	1,908	285	958	7,637
Accumulated amortization as at the beginning of the period	(2,056)	(1,398)	-	(537)	(3,991)
Amortization charge for the period	(318)	(157)	-	(57)	(532)
Scrapping and sale	69	64	-	35	168
Other	34	17	-	5	56
Accumulated amortization as at the end of the period	(2,271)	(1,474)	-	(554)	(4,299)
Impairment losses as at the beginning of the period	(97)	(1)	(3)	(1)	(102)
Recognized during the period	(38)	(4)	-	-	(42)
Reversed during the period	1	-	-	-	1
Other	7	1	-	-	8
Impairment losses as at the end of the period	(127)	(4)	(3)	(1)	(135)
Carrying amount as at the beginning of the period, net	1,968	433	151	365	2,917
Carrying amount as at the end of the period, net	2,088	430	282	403	3,203

PROPERTY, PLANT AND EQUIPMENT	Land and buildings	Machinery and equipment, including computer hardware	Fixed assets under construction	Other, including vehicles	Total
2022					
Gross carrying amount at the beginning of the period	3,977	1,768	217	909	6,871
Purchase, including modifications	165	37	175	28	405
Transfers from capital expenditure	50	142	(234)	42	-
Scrapping and sale	(46)	(92)	-	(58)	(196)
Other	(25)	(23)	(4)	(18)	(70)
Gross carrying amount at the end of the period	4,121	1,832	154	903	7,010
Accumulated amortization as at the beginning of the period	(1,789)	(1,352)	-	(522)	(3,663)
Amortization charge for the period	(314)	(153)	-	(60)	(527)
Scrapping and sale	29	91	-	31	151
Other	18	16	-	14	48
Accumulated amortization as at the end of the period	(2,056)	(1,398)	-	(537)	(3,991)
Impairment losses as at the beginning of the period	(95)	(1)	(4)	-	(100)
Recognized during the period	(3)	-	-	-	(3)
Other	1	-	1	(1)	1
Impairment losses as at the end of the period	(97)	(1)	(3)	(1)	(102)
Carrying amount as at the beginning of the period, net	2,093	415	213	387	3,108
Carrying amount as at the end of the period, net	1,968	433	151	365	2,917

Investment properties	31.12.2023	31.12.2022
Gross carrying amount	89	62
Accumulated depreciation	(16)	(23)
Impairment losses	(3)	(3)
Net carrying amount	70	36

42. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

42.1. JOINT VENTURES:

FINANCIAL INFORMATION

- CENTRUM ELEKTRONICZNYCH USŁUG PŁATNICZYCH ESERVICE SP. Z O.O.**

The Bank holds shares entitling to 34% votes at the General Meeting of Shareholders, and the second is a shareholder of EVO International Payments Acquisition GmbH in Germany.

According to the agreement signed by the partners, regulating the principles of cooperation, decisions regarding the significant activities of the company require consent of both shareholders.

Both Shareholders have the right to appoint their representatives in the Supervisory Board: in the case of the Supervisory Board consisting of 5 members, PKO Bank Polski S.A. has the right to appoint 2 members (in the case of 7 members, PKO appoints 3 members). The Bank has two representatives on the Supervisory Board consisting of 7 people and indicates the independent member. Decisions reserved to the competence of the Supervisory Board regarding significant activities require the consent of at least one representative of PKO Bank Polski S.A. and one representative of the other shareholder.

- **OPERATOR CHMURY KRAJOWEJ SP. Z O.O.**

The Bank holds shares in the Company which carry 50% of votes at the Shareholders' Meeting, with Polski Fundusz Rozwoju S.A. being the other shareholder.

In accordance with the Company's Articles of Association:

- each of the shareholders is personally entitled to appoint and dismiss members of the Management Board and the Supervisory Board, with the Bank and PFR having the right to appoint an equal number of members of each of the said bodies;
- additionally, the Bank has the exclusive right to appoint the President of the Management Board and PFR has the exclusive right to appoint the Chair of the Supervisory Board;
- all key decisions relating to the Company's operations must be taken by a unanimous resolution of the Supervisory Board or by a unanimous resolution of the Shareholders' Meeting.

- **BSAFER SP. Z O.O.**

PKO VC - fizan (a subsidiary of PKO Bank Polski S.A.) holds the company's shares carrying 35.06% of votes at the Shareholders' Meeting, and the other majority shareholder of the company is Michał Pilch 59.740%.

Pursuant to the Articles of Association, decisions regarding the significant activities of the Company (i.e. activities that have a significant impact on the amount of returns generated by the Company, where returns are understood as e.g. dividends, increasing or decreasing the share capital of the Company, passing or returning additional payments, the value of the Company's shares in the balance sheet of the shareholder) were reserved to the competence of the General Shareholders' Meeting and require the consent of both shareholders.

JOINT VENTURES	31.12.2023	31.12.2022
"Centrum Obsługi Biznesu" sp. z o.o.	-	-
Acquisition price	17	17
Change in net investment	(17)	(17)
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o. Group	280	275
Value of shares as at the date of obtaining joint control	197	197
Change in net investment	139	130
Dividend	(57)	(53)
Operator Chmury Krajowej sp. z o.o.	4	10
Value of shares as at the date of obtaining joint control	61	61
Change in net investment	(57)	(51)
BSafer sp. z o.o.	-	-
Acquisition price	1	1
Impairment loss	(1)	(1)
Total	284	285

CHANGE IN INVESTMENTS IN JOINT VENTURES	2023	2022
Investments in joint ventures as at the beginning of the period	285	285
Share in profits and losses	56	53
Dividend	(57)	(53)
Investments in joint ventures as at the end of the period	284	285

SELECTED INFORMATION ON JOINT VENTURES

A summary of the financial data separately for each joint venture of the Group is presented below. The amounts presented are derived from the financial statements of the individual entities prepared in accordance with the IFRSs or the Polish Accounting Standards (PAS). In the case of companies which have subsidiaries, the presented data is derived from the consolidated financial statements of these companies. The data for 2022 is derived from audited financial statements.

Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	31.12.2023	31.12.2022
type of accounting standards – IFRSs		
Current assets	449	384
Non-current assets	164	184
Current liabilities	245	200
Non-current liabilities	23	39
	01.01-31.12.2023	01.01-31.12.2022
Revenue	643	621
Profit/(loss) for the period	185	182
Other comprehensive income	3	8
Total comprehensive income	188	190
Dividends received from the company	57	53

“Centrum Obsługi Biznesu” sp. z o.o.	31.12.2023	31.12.2022
type of accounting standards – PASs		
Current assets	7	4
Non-current assets	72	75
Current liabilities	82	85
Non-current liabilities	1	-
	01.01-31.12.2023	01.01-31.12.2022
Revenue	8,472	8,537
Profit/(loss) for the period	7,844	8,121

Operator Chmury Krajowej sp. z o.o.	31.12.2023	31.12.2022
type of accounting standards – PASs		
Current assets	185	130
Non-current assets	49	59
Current liabilities	62	119
Non-current liabilities	4	33
	01.01-31.12.2023	01.01-31.12.2022
Revenue	355	212
Profit/(loss) for the period	(13)	(20)

BSafer sp. z o.o. (in PLN thousand)	31.12.2023	31.12.2022
type of accounting standards – PAsS		
Current assets	10	10
Non-current assets	-	15
Current liabilities	160	35
Non-current liabilities	-	111
	01.01- 31.12.2023	01.01- 31.12.2022
Revenue	1	-
Profit/(loss) for the period	(30)	(50)

The Group did not recognize any additional impairment losses on goodwill and investments in joint ventures in 2023 and 2022.

42.2. ASSOCIATES

FINANCIAL INFORMATION

- BANK POCZTOWY S.A.**

PKO Bank Polski S.A. is a significant investor – it holds 25% plus 10 votes at the Company's shareholders' meeting. Poczta Polska S.A. is the other shareholder. Through its representatives on the Supervisory Board and the Company's Shareholders' Meeting, the Bank participates in the policymaking process, including decisions on dividends and other ways of profit distribution.

- "POZNAŃSKI FUNDUSZ PORĘCZEŃ KREDYTOWYCH" SP. Z O.O.**

PKO Bank Polski S.A. holds 33.33% votes at the Company's Shareholders' Meeting. The Bank has two representatives on the Company's Supervisory Board which consists of 4 people. Other shareholders have one representative each on the Supervisory Board. Through its representatives on the Supervisory Board and the Company's Shareholders' Meeting, the Bank participates in the policymaking process, including decisions on dividends and other ways of profit distribution.

- SYSTEM OCHRONY BANKÓW KOMERCYJNYCH S.A.**

PKO Bank Polski S.A. holds shares in the company carrying 21.1% of the votes at the Shareholders' Meeting. The remaining shares are held by: Alior Bank S.A. (8.1% of shares), Bank Polska Kasa Opieki S.A. (14.7% of shares), Bank Millenium S.A. (8.5% of shares), BNP Paribas Bank Polska S.A. (9.4% of shares), ING Bank Śląski S.A. (13.0% of shares), mBank S.A. (12.2% of shares), Santander Bank Polska S.A. (12.9% of shares).

In accordance with the Company's Articles of Association:

- key operational and financial decisions must be approved by the General Meeting, including, but not limited to, the following matters: granting of aid, granting of support, admission of a new bank to the protection scheme, making additional contributions to the aid fund, appointment and removal of the President of the Management Board, dissolution of the Company, cancellation of the liability for aid granted or any other act having such effect;
- the number of members of the Supervisory Board corresponds to the number of shareholders of the company,

ASSOCIATES	31.12.2023	31.12.2022
Bank Pocztowy S.A.	-	-
Acquisition price	184	184
Change in net investment	84	73
Impairment loss	(268)	(257)
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	-	-
Acquisition price	2	2
Change in net investment	5	4
Impairment loss	(7)	(6)
Total	-	-

CHANGE IN INVESTMENTS IN ASSOCIATES	2023	2022
Value of investments in associates at the beginning of the period	-	-
Share in profits and losses	41	19
Net impairment loss	(11)	-
Share in the change in other comprehensive income	(30)	(19)
Value of investments in associates at the end of the period	-	-

The impairment test performed as at 31 December 2023 maintained the carrying amount of Bank Pocztowy as at 31 December 2023 at the previous level, i.e. PLN 0.

As at 31 December 2023, and as at 31 December 2022, the parent entity did not have any share in contingent liabilities of associates acquired together with another investor.

SELECTED INFORMATION ON ASSOCIATES

A summary of the financial data separately for each associate of the Group was presented below. The amounts presented are derived from the financial statements of the individual entities prepared in accordance with the IFRSs or the Polish Accounting Standards (PAS). In the case of companies which have subsidiaries, the presented data is derived from the consolidated financial statements of these companies. The data for 2022 is derived from audited financial statements.

Bank Pocztowy S.A. (figures as published by the company)	31.12.2023	31.12.2022
type of accounting standards – IFRSs		
Total assets	8,472	8,537
Total liabilities	7,844	8,121
	01.01-31.12.2023	01.01-31.12.2022
Revenue	345	596
Profit/(loss) for the period	106	105
Other comprehensive income	105	(93)
Total comprehensive income	211	12

"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	31.12.2023	31.12.2022
type of accounting standards – PASs		
Current assets	39	38
Current liabilities	3	4
Non-current liabilities	15	15
	01.01-31.12.2023	01.01-31.12.2022
Revenue	3	2
Profit/(loss) for the period	-	-

System Ochrony Banków Komercyjnych S.A.	31.12.2023	31.12.2022
type of accounting standards – PASs		
Current assets	12	28
Non-current assets	-	343
Current liabilities	11	370
	01.01-31.12.2023	01.01-31.12.2022
Revenue	1	2
Profit/(loss) for the period	-	-

43. OTHER ASSETS

ACCOUNTING POLICIES:

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

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

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

INVENTORIES are measured at the lower of cost and net realisable value.

FINANCIAL INFORMATION

For more information on other financial assets in terms of credit risk exposure, see note [“CREDIT RISK – FINANCIAL INFORMATION”](#).

OTHER ASSETS	31.12.2023	31.12.2022*
Other financial assets	1,474	1,850
Settlements in respect of card transactions	480	620
Settlement of financial instruments	143	134
Receivables in respect of cash settlements	408	340
Receivables and settlements in respect of trading in securities	28	24
Sale of foreign currencies	30	-
Trade receivables	273	213
Other	112	401
Other non-financial assets	942	935
Inventories	206	287
Assets for sale	183	126
Prepayments and deferred costs	163	131
VAT receivable	33	45
Receivables from the State Budget in respect of flat-rate income tax	-	12
Receivables from settlements with the National Clearing House	-	1
Receivables from customers for whom the agreements have been legally declared invalid in respect of the principal originally disbursed to these customers.	217	186
Other	140	147
Total	2,416	2,785

*The comparative figures for 2022 have been adjusted by PLN 19 million for the implementation of IFRS 17 "Insurance Contracts" (see note "IFRS 17 Insurance Contracts").

- OTHER NON-FINANCIAL ASSETS**

OTHER NON-FINANCIAL ASSETS	31.12.2023	31.12.2022
Gross amount	1,300	1,274
Impairment losses	(358)	(337)
Net carrying amount	942	937

Other non-financial assets – CHANGES IN IMPAIRMENT LOSSES	2023	2022
As at the beginning of the period	(337)	(330)
Recognized during the period	(74)	(66)
Derecognition of assets and settlements	53	36
Reversed during the period	20	27
Other	(20)	(4)
As at the end of the period	(358)	(337)

- **MANAGEMENT OF FORECLOSED COLLATERAL – ITEM “ASSETS FOR SALE”**

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

- **OTHER NON-FINANCIAL ASSETS – INVENTORIES**

OTHER ASSETS – INVENTORIES	31.12.2023	31.12.2022
Goods	185	264
Materials	23	22
Inventory write-downs	(2)	1
Total	206	287

44. OTHER LIABILITIES

ACCOUNTING POLICIES:

Valuation and classification of other liabilities into categories is carried out in accordance with the principles referred to in note “[GENERAL ACCOUNTING POLICIES FOR FINANCIAL INSTRUMENTS](#)”.

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

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

FINANCIAL INFORMATION

OTHER LIABILITIES	31.12.2023	31.12.2022*
Other financial liabilities	6,084	4,385
Costs to be paid	812	781
Interbank settlements	1,011	868
Liabilities arising from investing activities and internal operations	395	134
Amounts due to suppliers	231	205
Liabilities and settlements in respect of trading in securities	745	354
Settlement of financial instruments	68	40
liabilities in respect of foreign exchange activities	721	762
Liabilities in respect of payment cards	980	315
Lease liabilities	1,088	896
Other	33	30
Other non-financial liabilities	4,923	2,625
Deferred income	620	560
Dividend payable to shareholders	1,600	-
Liability in respect of tax on certain financial institutions	111	105
Liabilities in respect of a contribution to the Bank Guarantee Fund maintained in the form of payment obligations	847	847
to the Resolution Fund	461	461
to the Bank Guarantee Fund	386	386
Liabilities under the public law	1,057	478
Commitments relating to the reimbursement of principal and interest instalments paid by customers on invalidated mortgage loan agreements in convertible currencies	165	132
Other	523	503
Total	11,007	7,010

*The comparative figures for 2022 have been adjusted by PLN 4 million for the implementation of IFRS 17 "Insurance Contracts" (see note "IFRS 17 Insurance Contracts").

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

45. PROVISIONS

ACCOUNTING POLICIES:

- PROVISIONS FOR FINANCIAL LIABILITIES AND GUARANTEES GRANTED**

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

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

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

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

The provisions for legal claims include disputes with business partners, customers and external institutions (e.g. UOKiK), and are created based on an evaluation of the probability of a court case being lost by the Group and the expected amount of payment (litigation pending has been discussed in the detail in the note "[Legal claims](#)"). Provisions for legal claims are recognized in the amount of expected outflow of economic benefits.

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

The provisions are described in the note "[Cost of the legal risk of mortgage loans in convertible currencies](#)".

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

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

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

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

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

- **PROVISION FOR ACCRUED HOLIDAY ENTITLEMENTS**

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

- **OTHER PROVISIONS**

Other provisions mainly include provisions for potential claims on the sale of receivables, described in detail in the Note "[Information on securitization of the lease portfolio and package sale of receivables](#)".

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

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

ESTIMATES AND JUDGMENTS:

The Group updated its estimates of provisions for pensions and other liabilities in respect of defined post-employment benefit plans as at 31 December 2023 using an external independent actuary's calculations.

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

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

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

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

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

FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2023	Provisions for financial liabilities and guarantees granted ¹	Provisions for legal claims, excluding legal claims relating to repaid mortgage loans in convertible currencies	Provisions for legal claims against the bank relating to mortgage loans in convertible currencies	Provisions for refunds of costs to customers on early repayment of consumer and mortgage loans	Provisions for pensions and other defined post- employment benefits	Restructuring	Provision for accrued holiday entitlements	Other provisions, including provisions for employee disputed claims	Total
As at the beginning of the period	833	103	851	18	66	35	119	65	2,090
Increases, including increases of existing provisions	9	17	2,384	-	14	-	36	29	2,489
Utilized amounts	-	(2)	(234)	(9)	(6)	(6)	(13)	(39)	(309)
Unused provisions reversed during the period	(82)	(3)	-	-	(2)	-	(3)	(6)	(96)
Other changes and reclassifications	(9)	(1)	-	1	-	-	(1)	1	(9)
As at the end of the period	751	114	3,001	10	72	29	138	50	4,165
Short-term provisions	595	7	-	9	13	29	138	8	799
Long-term provisions	156	107	3,001	1	59	-	-	42	3,366

¹ See note "[Credit risk – financial information](#)".



FOR THE YEAR ENDED 31 DECEMBER 2022	Provisions for financial liabilities and guarantees granted ¹	Provisions for legal claims, excluding legal claims relating to repaid mortgage loans in convertible currencies	Provisions for legal claims against the bank relating to mortgage loans in convertible currencies	Provisions for refunds of costs to customers on early repayment of consumer and mortgage loans	Provisions for pensions and other defined post- employment benefits	Restructuring	Provision for accrued holiday entitlements	Other provisions, including provisions for employee disputed claims	Total
As at the beginning of the period	675	106	595	17	57	47	111	49	1,657
Increases, including increases of existing provisions	159	12	383	13	16	-	36	51	670
Utilized amounts	-	(8)	(127)	(12)	(5)	(12)	(15)	(34)	(213)
Unused provisions reversed during the period	(2)	(7)	-	-	(1)	-	(13)	(2)	(25)
Other changes and reclassifications	1	-	-	-	(1)	-	-	1	1
As at the end of the period	833	103	851	18	66	35	119	65	2,090
Short-term provisions	688	6	-	17	10	35	119	7	882
Long-term provisions	145	97	851	1	56	-	-	58	1,208

¹ See note "[Credit risk – financial information](#)".

Provisions for disability and retirement benefits(actuarial provision)	2023	2022
Liability at the beginning of the period	63	53
Current service cost	2	3
Interest expense	4	2
Actuarial (gains) and losses recognized in other comprehensive income	4	9
Benefits paid	(4)	(4)
Liability at the end of the period (net)	69	63

Breakdown of actuarial gains and losses (actuarial provision)	Total amount of provisions	
	2023	2022
Change in financial assumptions	7	(10)
Change in demographic assumptions	1	-
Other changes	(4)	19
Total actuarial (gains) and losses	4	9

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

ACCOUNTING POLICIES:

For the principles of recognising provisions for off-balance sheet commitments granted, see the note "[Provisions](#)".

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

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

FINANCIAL INFORMATION

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

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

- **CONTRACTUAL COMMITMENTS**

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING	31.12.2023	31.12.2022
intangible assets	85	81
property, plant and equipment	98	141
Total	183	222

• FINANCIAL AND GUARANTEE COMMITMENTS GRANTED

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2023	Total	Provisions per IFRS 9	Net carrying amount
Credit lines and limits	79,038	(641)	78,397
real estate	6,898	(20)	6,878
business	56,333	(498)	55,835
consumer	10,780	(123)	10,657
in respect of factoring	4,289	-	4,289
in respect of finance leases	738	-	738
Other	3,884	-	3,884
Total financial commitments granted, including:	82,922	(641)	82,281
irrevocable commitments granted	29,830	(392)	29,438
POCI	2	-	2
Guarantees and sureties granted			
guarantees in domestic and foreign trading	10,615	(107)	10,508
to financial entities	2,679	-	2,679
to non-financial entities	7,807	(107)	7,700
to public entities	129	-	129
domestic municipal bonds (state budget entities)	243	-	243
letters of credit	1,277	(3)	1,274
to financial entities	30	-	30
to non-financial entities	1,247	(3)	1,244
payment guarantees to financial entities	101	-	101
Total guarantees and sureties granted, including:	12,236	(110)	12,126
irrevocable commitments granted	5,503	(94)	5,409
performance guarantee	3,592	(57)	3,535
POCI	452	(2)	450
Total financial and guarantee commitments granted	95,158	(751)	94,407

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2022	Total	Provisions per IFRS 9	Net carrying amount
Credit lines and limits	70,380	(590)	69,790
real estate	3,683	(21)	3,662
business	52,455	(414)	52,041
consumer	10,650	(155)	10,495
in respect of factoring	2,749	-	2,749
in respect of finance leases	843	-	843
Other	2,825	-	2,825
Total financial commitments granted, including:	73,205	(590)	72,615
irrevocable commitments granted	30,579	(301)	30,278
POCI	5	(1)	4
Guarantees and sureties granted			
guarantees in domestic and foreign trading	10,578	(236)	10,342
to financial entities	2,735	-	2,735
to non-financial entities	7,772	(236)	7,536
to public entities	71	-	71
domestic municipal bonds (state budget entities)	315	-	315
Letters of credit	1,514	(7)	1,507
to non-financial entities	1,514	(7)	1,507
payment guarantees to financial entities	71	-	71
Total guarantees and sureties granted, including:	12,478	(243)	12,235
irrevocable commitments granted	4,812	(234)	4,578
performance guarantee	3,640	(203)	3,437
POCI	284	(5)	279
Total financial and guarantee commitments granted	85,683	(833)	84,850

For more information on credit risk exposures, see note "[CREDIT RISK – FINANCIAL INFORMATION](#)".

• **NOMINAL VALUE OF COMMITMENTS GRANTED BY MATURITY**

COMMITMENTS GRANTED BY MATURITY AS AT 31.12.2023	up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	more than 5 years	Total
commitments granted – financial	17,208	4,606	32,016	17,464	11,628	82,922
commitments granted – guarantees and sureties	930	1,404	3,600	4,495	1,807	12,236
Total	18,138	6,010	35,616	21,959	13,435	95,158

COMMITMENTS GRANTED BY MATURITY AS AT 31.12.2022	up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	more than 5 years	Total
commitments granted – financial	14,588	5,101	26,792	18,860	7,864	73,205
commitments granted – guarantees and sureties	519	937	4,098	4,632	2,292	12,478
Total	15,107	6,038	30,890	23,492	10,156	85,683

- **OFF-BALANCE SHEET LIABILITIES RECEIVED**

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	31.12.2023	31.12.2022
Financial	132	110
Guarantees	19,361	9,516
Total	19,493	9,626

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

47. LEGAL CLAIMS

As at 31 December 2023, the total value of the subject matter of litigation in court proceedings (trials) pending in which the companies belonging to the PKO Bank Polski S.A. Group were defendants amounted to PLN 13,110 million (as at 31 December 2022: PLN 8,254 million), and the total value of the subject matter of litigation in court proceedings (trials) pending in which the companies belonging to the PKO Bank Polski S.A. Group were claimants as at 31 December 2023 was PLN 4,519 million (as at 31 December 2022: PLN 2,808 million).

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

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

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

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

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

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

If the above question is answered in the negative:

2. In the event that it is impossible to establish a foreign currency exchange rate binding on the parties in a loan agreement indexed to such a currency, can the remainder of the agreement still be binding for the parties?
3. If it is not possible to establish a binding rate for a foreign currency in a loan agreement denominated in a foreign currency, can the remainder of the agreement still be binding for the parties?

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

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

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

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

- 1) A prohibited contractual clause (Article 385¹ § 1 of the Civil Code) is, from the beginning, by operation of law, ineffective in favour of the consumer, who may however subsequently grant an informed and voluntary consent for such a clause and thus make it effective retrospectively.
- 2) If a loan agreement cannot be binding without the ineffective clause, the consumer and the lender are entitled to bring separate claims for repayment of the benefits provided in the performance of the agreement (Article 410 § 1 in conjunction with Article 405 of the Civil Code). The lender may claim repayment of the benefit from the moment the loan agreement became permanently ineffective.

The resolution has the force of a legal rule, which means that an ordinary panel of the Supreme Court may not withdraw from the interpretation presented in an earlier resolution that has the force of a legal rule. If any panel of the Supreme Court intends to withdraw from a legal rule, it must present the legal issue for resolution to the full panel of the Chamber. In its justification for the said resolution, the Supreme Court referred to an earlier opinion (resolution III CZP 11/20 dated 16 February 2021) that the period of limitation of claims resulting from a loan agreement which is invalid due to the elimination of abusive clauses commences after the consumer has expressed informed consent not to be bound by the abusive clauses.

The Supreme Court decided that since a consumer has the right to remedy an abusive contractual clause and express his/her willingness to be bound by it, the lender cannot be certain whether the agreement is effective until the consumer makes such a decision, and the agreement is ineffective (suspended) until such time. The lender's claims may not arise before such ineffectiveness (suspension) ceases to exist (which generally occurs as a result of the borrower's statement), and therefore the period of limitation commences at that moment.

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

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

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

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

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

As at 31 December 2023, 147 court proceedings were pending against the Group (as at 31 December 2022: 5 lawsuits), in which customers challenge that the mortgage agreement was based on a floating interest rate structure and the rules for setting the WIBOR benchmark rate. The Group disputes the validity of the claims raised in these cases.

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

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

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

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

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

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

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

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

- **PROCEEDINGS REGARDING MODIFICATION CLAUSES**

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

- **PROCEEDINGS REGARDING UNAUTHORIZED TRANSACTIONS**

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

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

that the consumer is liable for an unauthorised payment transaction, withdrawing the conditional return and deducting that amount from the consumer's current account or credit card account, except where there is a simultaneous return of that amount to the consumer under the so-called chargeback mechanism, which may breach Article 46(1) of the Act on payment services and harm the collective interests of consumers.

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

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

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

- **PROCEEDINGS ON SPREAD CLAUSES**

The proceedings were initiated by the Bank's appeal (submitted on 13 November 2020) against the decision of the President of UOKiK dated 16 October 2020. In the said decision, the President of UOKiK declared the provisions of the template agreement "Annex to the housing loan/mortgage loan agreement" in the section "Appendix to the annex 'Rules for determining foreign exchange spreads at PKO BP S.A.'" as inadmissible provisions and prohibited their use.

In addition, the President of UOKiK ordered that all consumers being parties to the assessed annexes about the decision to declare them inadmissible and its consequences be informed no later than within nine months from the effective date of the decision and ordered that a declaration be published whose text was indicated in the decision on the Bank's website not later than 1 month from the effective date of the decision and to keep it there for 4 months. Furthermore, the President of UOKiK imposed a fine on the Bank of PLN 41 million, payable to the Financial Education Fund.

In its appeal against that decision, the Bank requested that the decision be amended by finding that there had been no breach of the ban on the use of prohibited contractual clauses, or by discontinuing the proceedings. It was also requested that the decision be annulled or amended by waiving or substantially reducing the fine. The appeal raised a number of substantive and procedural grounds of appeal. The Bank's main arguments consist in pointing out that the decision of the President of UOKiK is a manifestation of unlawful and groundless interference with the Bank's pricing policy, pointing out that there are no substantive grounds for the intervention of the President of UOKiK, i.e. there are no grounds for concluding that the Bank applied prohibited contractual provisions, and pointing out that the penalty imposed on the Bank is abnormally high. In response to the appeal, the President of UOKiK sustained the position expressed in the decision appealed against. In a judgment of 10 October 2023, the Court of Competition and Consumer Protection overturned the decision of the UOKiK in its entirety.

The ruling was appealed by the President of the UOKiK and the public prosecutor. At 31 December 2023, the Bank recognises a provision for these proceedings of PLN 41 million (31 December 2022: PLN 41 million).

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

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

The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed "interchange" fees for transactions made using the Visa and Europay/Eurocard/Mastercard cards as well as limiting access to this market for external entities.

On 29 December 2006, the UOKiK recognised practices involving the joint determination of interchange fees as restrictive of competition and ordered them to be abandoned, at the same time imposing, inter alia, a fine of PLN 16.6 million on the Bank. The Bank appealed against the decision of the President of UOKiK to the Court for

Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów - SOKiK). In its ruling dated 21 November 2013, SOKiK reduced the penalty imposed on the Bank to PLN 10.4 million.

The parties to the proceedings appealed against the ruling. The Court of Appeal in Warsaw in its ruling dated 6 October 2015 reinstated the initial amount of the imposed fines set in the decision of the UOKiK, i.e. the fine of PLN 16.6 million (the fine imposed on PKO Bank Polski S.A.) and the fine of PLN 4.8 million (the fine imposed on Nordea Bank Polska S.A., and PKO Bank Polski S.A. is a legal successor of Nordea Bank Polska SA through a merger under Article 492 § 1(1) of the Commercial Companies Code). The Bank paid the fine in October 2015. As a result of a cassation appeal brought by the Bank, the Supreme Court in a ruling dated 25 October 2017 annulled the contested ruling of the Court of Appeal in Warsaw and submitted the case for re-examination. The fine paid by the Bank was reimbursed to the Bank on 21 March 2018. On 23 November 2020, the Court of Appeal in Warsaw issued a ruling in which it revoked the ruling of the District Court in Warsaw dated 21 November 2013 and submitted it for re-examination. The case is currently proceeding at first instance before the Warsaw District Court. At 31 December 2023, the Group recognises a provision for these proceedings of PLN 21 million (31 December 2022: PLN 21 million).

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

- Administrative proceedings initiated ex officio by the Polish Financial Supervision Authority (PFSA) are pending against the Bank. According to the PFSA's letters, irregularities have been identified which indicate that the Bank (as an insurance agent) has breached the legislation on the organisation and supervision of agency activities at the insurance agent's premises, to the extent related to the fulfilment of the obligation of professional development by individuals performing agency activities on behalf of the Bank. In the course of the proceedings, the Bank took steps to rectify the irregularities in the area of supervision of the performance of agency activities by individuals acting on behalf of the Bank, including with regard to compliance with the fulfilment of continuing professional development obligations by such individuals in subsequent years. The proceedings have been extended several times, most recently by an order of 30 November 2023 for an additional period of three months. Formally, the PFSA has not formulated the specific allegations underlying the proceedings. As at 31 December 2023, the Group had not set up a provision for these proceedings.
- The PFSA is conducting proceedings to impose an administrative penalty on the Bank, which conducts brokerage activities through an organisationally separate unit - the Brokerage Office - in connection with a suspected failure to comply with its obligations in the area of anti-money laundering and terrorist financing (hereinafter: "AML"). The Bank responded to the PFSA's request for written explanations regarding the scale of benefits achieved or losses avoided by the Bank in connection with violations of the AML Act, losses incurred by third parties in connection with violations of the AML Act, possible administrative penalties imposed under the provisions of the AML Act. In addition, the PFSA forwarded to the Bank's attention a letter addressed to the General Inspectorate of Financial Information (GIIF) requesting information on the Bank's violations of the AML Act to date. On 29 December 2023, the PFSA communicated a notice that, due to the need for an in-depth analysis of the evidence collected, the administrative proceedings are scheduled to be completed by 29 February 2024. As at 31 December 2023, the Group had not set up a provision for these proceedings.
- The PFSA is conducting proceedings to impose a monetary penalty on the Bank pursuant to Article 176i(1)(4) of the Act of 29 July 2005 on trading in financial instruments, in connection with the Bank's suspected breach of the management and control requirements set out in Article 16 of the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 2016 No 171, p. 1 as amended). By letter dated 19 January 2024, the PFSA informed that the administrative proceedings are expected to be completed in March 2024. As at 31 December 2023, the Group had not set up a provision for these proceedings.
- Administrative proceedings, initiated ex officio by the Polish Financial Supervision Authority are pending against PKO TFI S.A. (hereinafter: the Company) in respect of the imposition of an administrative penalty on PKO TFI S.A. under the provisions of the Act on counteracting money laundering and terrorist financing (hereinafter: the "Act"), in connection with the suspected failure to comply with the obligation set out in the Act by: (i) failure to properly apply financial security measures in the form of identification and verification of the customer when establishing economic relations via remote channels; (ii) failure to properly apply financial security measures in the form of identification and verification of the customer at the commencement of economic relations and failure to obtain data on the customer's country of birth; (iii) failure to properly apply financial security measures in the form of identifying the beneficial owner when establishing economic relations; failure to ensure that documents, data or information it holds relating to the business relationship are kept up to date; (iv) failure to apply enhanced financial security measures in cases of higher risk of money laundering or terrorist financing and in cases referred to in Articles 44 and 46 of the Act; (v) failure to introduce all necessary elements in the internal procedure

of the obliged institution. By letter dated 20 April 2023, PKO TFI S.A. responded to the request from the PFSA. By notice of 29 December 2023, the PFSA announced that the proceedings had been further extended until 29 February 2024. As at 31 December 2023 the Group recognised a provision for these proceedings in the amount of PLN 2 million.

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

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

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

- **RE-PRIVATIZATION CLAIMS RELATING TO PROPERTIES HELD BY THE GROUP**

As at the date of the consolidated financial statements, there are:

- two proceedings to which the Bank is a party. In one proceeding, the Bank filed a cassation appeal against an unfavourable final judgment dismissing the Bank's claims, which was accepted for consideration. The second proceeding, concerning the annulment of the decision refusing to grant the applicant temporary ownership of the Bank's property, is pending before the Supreme Administrative Court, as the other party has filed a cassation appeal.
- three proceedings, two of which are suspended, to which the other Bank Group companies are parties. Two proceedings are at the administrative stage, one at the judicial and administrative stage.

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

48. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

ACCOUNTING POLICIES:

Equity constitutes capital and reserves created in accordance with the legal regulations. The classification to particular components discussed below results from the Polish Commercial Companies Code, the Banking Law and the requirements of IAS 1.

Equity components of the subsidiaries other than share capital, in proportion to the parent's interest in the subsidiary, are added to respective equity components of the parent. The Group's equity includes only those parts of the equity of the subsidiaries which arose after the acquisition of shares by the parent. In accordance with the legislation in force in Poland, only the equity of the parent company and the equity of specific subsidiaries, determined on the basis of separate financial statements, are distributable.

Equity components:

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

FINANCIAL INFORMATION

• SHAREHOLDING STRUCTURE OF THE BANK

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

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

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

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

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

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

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

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

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

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

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

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

49. FAIR VALUE HIERARCHY

ACCOUNTING POLICIES:

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

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

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

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

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

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

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	VALUATION METHOD (TECHNIQUE)	OBSERVABLE INPUTS
CIRS, IRS, FRA	Discounted cash flow valuation model	Yield curves built on market data: money market rates, FRA, IRS, OIS, basis swap
FX FORWARDS AND FX SWAPS	Discounted cash flow valuation model	Yield curves built on market data: exchange rates, swap points, basis swaps
CURRENCY OPTIONS	Valuation models specific for particular type of a currency option.	Yield curves built on market data: exchange rates, swap points, basis swaps; volatility surfaces for relevant currency pairs
INTEREST RATE OPTIONS	Valuation model for the respective currency option type	Yield curves built on market data: money market rates, FRA, IRS, OIS, basis swap, caplet/floorlet volatility surfaces for relevant tenors
EQUITY OPTIONS	Valuation model for the respective equity option type	Yield curves built on market data: money market rates, FRA, IRS, OIS, basis swap; volatility surfaces determined using a local volatility model based on prices and volatilities of the relevant underlying instruments
COMMODITY SWAPS, COMMODITY FORWARDS	Discounted cash flow valuation model	Yield curves built on market data: money market rates, FRA, IRS, OIS, basis swap; forward curves for relevant commodities constructed based on futures prices and forward exchange rates (i.e. determined based on exchange rates, swap points)
COMMODITY OPTIONS	Valuation model for the respective commodity option type	Yield curves built on market data: money market rates, IRS; volatility surfaces for relevant commodities
EQUITY SWAPS	Discounted cash flow valuation model	Yield curves built on market data: money market rates, FRA, IRS, OIS, basis swap; forward curves for relevant underlying instruments based on futures prices
MUNICIPAL BONDS (IN PLN) CORPORATE BONDS	Yield curve and risk margin model.	Yield curves are built based on market rates, money market data, IRS transactions market.

NBP MONEY BILLS	Yield curve method	Yield curves built on money market and OIS transaction market data.
LIABILITIES IN RESPECT OF INSURANCE PRODUCTS MEASURED AT FAIR VALUE	The value of the liabilities is equal to the number of units accumulated in the individual insurance capital fund balance on the reporting date multiplied by the fund unit price on the valuation date	Number of fund units, unit price

• **LEVEL 3: OTHER VALUATION TECHNIQUES**

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

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

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

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	VALUATION METHOD (TECHNIQUE)	UNOBSERVABLE INPUT
FINANCIAL INSTRUMENTS NOT HELD FOR TRADING, MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
LOANS AND ADVANCES TO CUSTOMERS	Discounted cash flow method.	Effective margin on loans.
C-SERIES PREFERENCE SHARES OF VISA INC.	Estimation of the fair value based on the current market value of the listed ordinary shares of Visa Inc., including a discount which takes into account the limited liquidity of C-series shares and the terms and conditions of conversion of C-series shares into ordinary shares.	Discount taking into account the limited liquidity of C-series shares and the terms of converting the C-series shares into ordinary shares.
CORPORATE BONDS	Yield curve and risk margin model. Yield curves are built based on market rates, money market data and IRS transactions market data.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sectors).

SHARES IN BIURO INFORMACJI KREDYTOWEJ S.A.	Estimation of the fair value based on the present value of projected results of the company	Projected results of the company. Discount rate.
SHARES IN POLSKI STANDARD PŁATNOŚCI SP. Z O.O.	Estimation of the fair value based on the present value of projected results of the company	Projected results of the company. Discount rate.
SHARES IN SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION	Market value of the shares estimated by the company.	Market value estimated by the company. Discount rate.
SHARES IN KRAJOWA IZBA ROZLICZENIOWA SA	Estimation of the fair value based on the present value of projected results of the company	Projected results of the company. Discount rate.
SHARES IN WAŁBRZYSKA SPECJALNA STREFA EKONOMICZNA "INVEST-PARK" SP Z O.O.	Fair value determined by an appraiser using the net adjusted assets method.	Value of the company's net assets.
SHARES IN WIELKOPOLSKIA GILDIA ROLNO OGRODNICZA SA	Fair value determined by an appraiser using the net adjusted assets method.	Value of the company's net assets.
FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		
CORPORATE BONDS	Yield curve and risk margin model. Yield curves are built based on market rates, money market data and IRS transactions market data.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sectors).

FINANCIAL INFORMATION

ASSETS MEASURED AT FAIR VALUE 31.12.2023	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	1,174	-	1,174	-
Other derivative instruments	8,406	2	8,404	-
Securities	110,278	99,964	9,652	662
held for trading	578	578	-	-
debt securities	546	546	-	-
shares in other entities - listed	30	30	-	-
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	2	-	-
not held for trading, measured at fair value through profit or loss	1,646	1,132	128	386
debt securities	592	526	20	46
shares in other entities - listed	124	124	-	-
shares in other entities - not listed	342	-	2	340
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	588	482	106	-
measured at fair value through other comprehensive income	108,054	98,254	9,524	276
debt securities	108,054	98,254	9,524	276
Loans and advances to customers	2,871	-	-	2,871
not held for trading, measured at fair value through profit or loss	2,871	-	-	2,871
housing loans	1	-	-	1
business loans	81	-	-	81
consumer loans	2,789	-	-	2,789
Total financial assets measured at fair value	122,729	99,966	19,230	3,533

LIABILITIES MEASURED AT FAIR VALUE	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
31.12.2023				
Hedging derivatives	2,992	-	2,992	-
Other derivative instruments	9,291	-	9,291	-
Liabilities in respect of a short position in securities	302	302	-	-
Liabilities in respect of insurance products	165	-	165	-
Total financial liabilities measured at fair value	12,750	302	12,448	-

ASSETS MEASURED AT FAIR VALUE 31.12.2022	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	1,042	-	1,042	-
Other derivative instruments	13,162	1	13,161	-
Securities	67,106	52,864	13,198	1,044
held for trading	193	193	-	-
debt securities	164	164	-	-
shares in other entities - listed	27	27	-	-
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	2	2	-	-
not held for trading, measured at fair value through profit or loss	1,702	1,180	120	402
debt securities	578	511	22	45
shares in other entities - listed	115	115	-	-
shares in other entities - not listed	358	-	1	357
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	651	554	97	-
measured at fair value through other comprehensive income	65,211	51,491	13,078	642
debt securities	65,211	51,491	13,078	642
Loans and advances to customers	3,590	-	-	3,590
not held for trading, measured at fair value through profit or loss	3,590	-	-	3,590
housing loans	4	-	-	4
business loans	85	-	-	85
consumer loans	3,501	-	-	3,501
Total financial assets measured at fair value	84,900	52,865	27,401	4,634

LIABILITIES MEASURED AT FAIR VALUE	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
31.12.2022				
Hedging derivatives	7,469	-	7,469	-
Other derivative instruments	12,978	-	12,978	-
Liabilities in respect of a short position in securities	7	7	-	-
Liabilities in respect of insurance products	149	-	149	-
Total financial liabilities measured at fair value	20,603	7	20,596	-

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	31.12.2023		31.12.2022	
	Fair value in		Fair value in	
	positive scenario	negative scenario	positive scenario	negative scenario
Shares in Visa Inc. ¹	86	77	145	133
Other equity investments ²	238	215	189	171
Corporate bonds ³	326	325	681	679
Loans and advances to customers ⁴	2,727	3,015	3,770	3,410

¹ scenario assuming a discount rate in respect of the future conditions of converting C-series shares to ordinary shares at a level of 0%/100% respectively

² Scenario assuming a change in the discount rate of +/- 5%

³ scenario assuming a change in the credit spread of +/-10%

⁴ scenario assuming a change in the company's value of +/- 0.5p.p.

RECONCILIATION OF CHANGES DURING THE REPORTING PERIOD TO FAIR VALUE AT LEVEL 3	2023	2022
Opening balance at the beginning of the period	4,634	5,711
Increase in exposure to equity instruments	62	25
Decrease in exposure to equity instruments	(81)	(3)
Increase in exposure to corporate bonds	-	9
Decrease in exposure to corporate bonds	(295)	(74)
Increase in exposure to loans and advances to customers	707	775
Decrease in exposure to loans and advances to customers	(1,207)	(1,610)
Reclassification from "measured at fair value through profit or loss" to "measured at amortised cost"	(176)	(207)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	(74)	51
Change in the valuation recognized in OCI	-	(68)
Other, including exchange difference	(37)	25
Closing balance	3,533	4,634

50. FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT PRESENTED AT FAIR VALUE IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

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

ITEM	MAJOR METHODS AND ASSUMPTIONS USED WHEN ESTIMATING FAIR VALUES OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE
AMOUNTS DUE FROM AND TO BANKS	<ul style="list-style-type: none"> interbank placements and deposits – the model based on expected cash flows discounted using the current interbank market rates; interbank deposits and placements with maturities of up to 7 days or with variable interest, loans or advances granted and received on the interbank market with variable interest (with interest rate changes occurring every 3 months or less) – fair value equals the carrying amount.

<p>SECURITIES</p>	<ul style="list-style-type: none"> treasury bonds – market quotations; corporate bonds in PLN secured with the State Treasury guarantees – discounted cash flow method, calculated using yield curves, prices available from Bloomberg (BVAL – Bloomberg Valuation Service) and Refinitiv Eikon corporate and municipal bonds – discounted cash flow method, calculated using yield curves and credit margins
<p>LOANS AND ADVANCES TO CUSTOMERS</p>	<ul style="list-style-type: none"> not impaired: the model based on estimating the present value of future cash flows by discounting cash flows using current interest rates; the model takes into account the credit risk margin and adjusted maturities derived from the loan agreements. The current level of margins was determined for transactions concluded in the last quarter ending on the balance sheet date involving instruments with a similar credit risk profile. The current margin for loans in PLN adjusted for the cost of foreign currency acquisition in basis-swap transactions was applied to loans in foreign currencies. finance lease, loan and factoring receivables: the fair value of lease, loan and factoring receivables was estimated using a model based on the contractual present value of future cash flows discounted at current interest rates taking into account a margin for credit risk. Margins were taken into account while maintaining the division into main product groups, i.e. finance lease receivables with a floating interest rate, finance lease receivables with a fixed interest rate, finance lease receivables in respect of real estate. The model used to determine the fair value of lease, loan and factoring receivables uses valuation techniques based on parameters not derived from the market, and therefore it is included in the third valuation category. impaired: fair values are equal to carrying amounts; loans and advances to customers: a part of the housing loan portfolio (the “old” housing loan portfolio), loans with no specific repayment schedule, loans due as at the moment of valuation – fair values are equal to carrying amounts;
<p>AMOUNTS DUE TO CUSTOMERS</p>	<ul style="list-style-type: none"> deposits and other amounts due to customers other than banks, with fixed maturities: the model of expected cash flows discounted using current interest rates appropriate for the individual deposit products. The fair value is calculated for each deposit and liability, and then the fair values for the entire deposit portfolio are grouped by product type and by customer segment. amounts due to customers: liabilities with no specific repayment schedule, other specific products for which no active market exists – fair values are equal to carrying amounts.
<p>SECURITIES IN ISSUE</p>	<p>PKO Bank Hipoteczny S.A.</p> <ul style="list-style-type: none"> mortgage covered bonds – listed on the Luxembourg Stock Exchange (in EUR) and on the Warsaw Stock Exchange (in PLN); bonds under the Public Bond Issue Programme – listed on the Catalyst market; bonds of the Bond Issue Programme an individual agreement – the model of expected cash flows discounted using the current interbank market rates and market quotations. <p>PKO Bank Polski S.A. The model of expected cash flows discounted using the current interbank market rates and market quotations</p>

	PKO Leasing S.A. The model of expected cash flows discounted using the current market quotations
SUBORDINATED LIABILITIES	The model of expected cash flows discounted based on yield curves
CASH AND BALANCES WITH THE CENTRAL BANK AND AMOUNTS DUE TO THE CENTRAL BANK	Fair values are equal to carrying amounts.
OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES	Fair values are equal to carrying amounts.

31.12.2023	carrying amount	fair value		
		Level 1	Level 2	Level 3
Cash and balances with Central Bank	17,813	4,382	13,431	-
Amounts due from banks	14,438	-	14,436	-
Securities (excluding adjustments relating to fair value hedge accounting)	87,227	70,018	10,936	2,285
Treasury bonds (in PLN)	58,836	55,709	-	-
Treasury bonds (in foreign currencies)	1,439	1,441	-	-
corporate bonds (in PLN) secured with the State Treasury guarantees	13,619	12,868	-	-
municipal bonds (in PLN)	8,658	-	8,803	-
corporate bonds (in PLN)	2,413	-	-	2,285
corporate bonds (in foreign currencies)	2,262	-	2,133	-
Reverse repo transactions	372	-	372	-
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	242,907	-	-	245,291
housing loans*	112,513	-	-	111,723
business loans	76,434	-	-	78,801
consumer loans	29,474	-	-	30,285
factoring receivables	5,386	-	-	5,386
finance lease receivables	19,100	-	-	19,096
Other financial assets	1,474	-	-	1,474
Amounts due to Central bank	10	-	10	-
Amounts due to banks	3,423	-	3,423	-
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	398,339	-	-	398,708
amounts due to households	306,450	-	-	306,817
amounts due to business entities	76,372	-	-	76,375
amounts due to public sector	15,517	-	-	15,516
Loans and advances received	1,489	-	-	1,489
Securities in issue	17,201	10,330	5,237	1,607
Subordinated liabilities	2,774	-	2,804	-
Other financial liabilities	6,084	-	-	6,084

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

31.12.2022	carrying amount	fair value		
		Level 1	Level 2	Level 3
Cash and balances with Central Bank	15,917	4,215	11,702	-
Amounts due from banks	16,101	-	16,098	-
Securities (excluding adjustments relating to fair value hedge accounting)	68,556	49,891	7,779	1,733
Treasury bonds (in PLN)	45,893	38,773	-	23
Treasury bonds (in foreign currencies)	713	708	-	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12,100	10,410	-	-
municipal bonds (in PLN)	6,182	-	6,332	-
corporate bonds (in PLN)	1,989	-	-	1,710
corporate bonds (in foreign currencies)	1,679	-	1,447	-
Reverse repo transactions	7	-	7	-
Loans and advances to customers (excluding adjustment relating to fair value hedge accounting)	229,377	-	-	230,438
housing loans	109,137	-	-	108,642
business loans	71,103	-	-	72,955
consumer loans	27,382	-	-	27,152
factoring receivables	3,591	-	-	3,592
finance lease receivables	18,164	-	-	18,097
Other financial assets	1,850	-	-	1,850
Amounts due to Central bank	9	-	9	-
Amounts due to banks	3,011	-	3,009	-
Amounts due to customers (excluding adjustment relating to fair value hedge accounting)	338,770	-	-	337,983
amounts due to households	262,948	-	-	262,128
amounts due to business entities	58,634	-	-	58,667
amounts due to public sector	17,188	-	-	17,188
Loans and advances received	2,294	-	-	2,283
Securities in issue	15,510	11,798	1,265	2,187
Subordinated liabilities	2,781	-	2,603	-
Other financial liabilities	4,385	-	-	4,385

RISK MANAGEMENT WITHIN THE GROUP

51. RISK MANAGEMENT WITHIN THE GROUP

Risk management is one of the most important internal processes in both the Bank and other entities of the PKO Bank Polski S.A. Group.

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

The Group identifies risks in its operations and analyses the impact of each type of risk on its business. All the risks are managed; some of them have a material effect on the profitability and capital needed to cover them.

The following risks are considered material for the Group: credit risk, risk of foreign currency mortgage loans for households, currency risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk. The materiality of all the identified risks is assessed by the Group on a regular basis, at least annually.

A detailed description of the management policies for material risks is presented in the “[REPORT ON CAPITAL ADEQUACY AND OTHER INFORMATION SUBJECT TO PUBLICATION BY THE PKO BANK POLSKI S.A. GROUP](#)”.

RISK MANAGEMENT OBJECTIVE

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

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

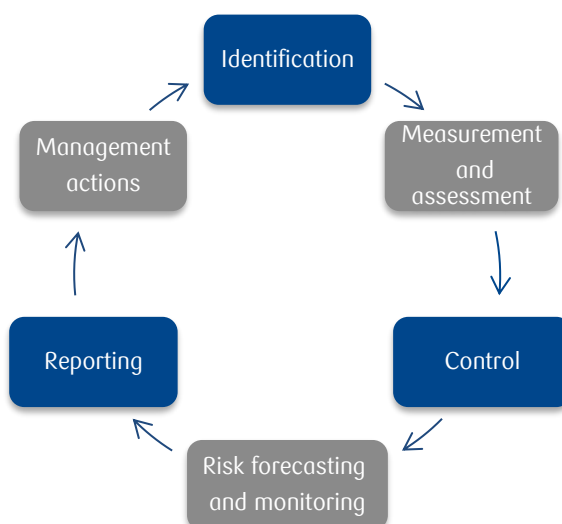
The risk management objectives are achieved, in particular, by providing appropriate information on the risks, so that decisions are made in full awareness of the particular risks involved.

MAIN PRINCIPLES OF RISK MANAGEMENT

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

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

RISK MANAGEMENT PROCESS



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

- **RISK IDENTIFICATION:**

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

- **RISK MEASUREMENT AND ASSESSMENT:**

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

As part of risk measurement, the Bank's Group carries out:

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

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

- **RISK CONTROL:**

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

- **RISK FORECASTING AND MONITORING:**

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

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

- **RISK REPORTING:**

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

- **MANAGEMENT ACTIONS:**

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

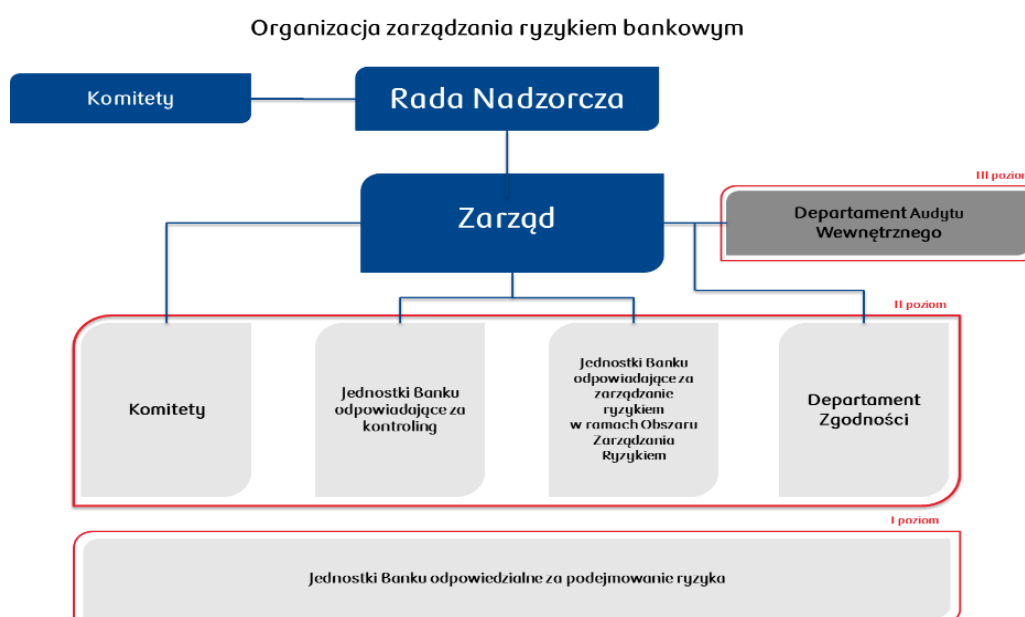
- acceptance of the risk – determining the acceptable risk level, taking into account business needs and developing management actions in the event that the level is exceeded;
- reduction of the risk – mitigation of the impact of the risk factors or effects of its materialization (e.g. By reducing or diversifying the risk exposure, determining limits, utilizing collaterals);

- transfer of the risk – transferring responsibility for covering potential losses (e.g. by transferring the risk to another entity with the use of legal instruments, such as insurance contracts, security services agreements for a building, accepting guarantees);
- risk avoidance – resignation from the risk-generating activity or elimination of the probability of materialization of the risk factor, including in particular determination of zero tolerance to risk.

ORGANIZATION OF RISK MANAGEMENT WITHIN THE GROUP

The Bank supervises the functioning of individual entities in the PKO Bank Polski S.A. Group. As part of its supervisory role, the Bank monitors their risk management systems and supports their development. In addition, the Bank takes into account the level of risk in particular Group companies for the purpose of the risk monitoring and reporting system at Group level. Risk management in the Bank takes place in all of the organizational units of the Bank.

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



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

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

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

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

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

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

At the same time, the Group entities and the Bank are obliged to have comparable and consistent systems for the risk assessment and control, taking into account the specific characteristics of each entity and its market.

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

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

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

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

RISK MANAGEMENT WITHIN THE GROUP

The Bank, as the parent company in the Bank's Group, determines the key risk management principles applied in the Bank's Group, supervises the implementation in the Group entities of the risk management principles resulting from the risk management strategy, taking into account the adequacy of these principles to the activities of the Bank's Group entities, and exercises control over the risk in the Bank's Group with respect to significant types of risk. Entities in the Bank's Group create and update internal regulations concerning the management of specific risks, upon consultation with the Bank and taking into account recommendations issued by the Bank and the Risk Management Strategy.

The risk management function in the Group entities is executed, in particular, by:

- participation of the units from the Bank's Risk Management Area or of the relevant committees of the Bank in consulting large transactions in the Group entities;
- the assessments and reviews of the internal regulations concerning risk management in individual Group entities by the Bank's units from Risk Management Area and the Compliance Department;
- reporting of the Group risks to the relevant committees of the Bank or to the Management Board;
- monitoring the strategic limits of risk tolerance for the Group.

52. SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT UNDERTAKEN BY THE GROUP N 2023

During the twelve months ended 31 December 2023:

- The Group monitored the situation of its customers and adjusted its credit policy with a view to securing a good quality loan portfolio. As part of the measurement of credit exposures, the Group specifically took into account information on customers' economic ties with counterparties in Ukraine, Belarus and Russia. For specific actions taken by the Group in the area of risk management in relation to the situation in Ukraine, see note ["IMPACT OF THE GEOPOLITICAL SITUATION IN UKRAINE ON PKO BANK POLSKI S.A. GROUP"](#).
- In terms of interest rate risk, the series of interest rate cuts initiated in the third quarter of 2023 reduced the reference rate to 5.75% at the end of 2023, which translated into an increase in valuations in the portfolio of debt instruments and derivatives that hedge the volatility of interest income. At the same time, the customers' interest in mortgage loans temporarily based on fixed interest rates, in particular the "Safe 2% Loan", continues, affecting the interest income sensitivity measures.
- The Group maintained a safe level of liquidity, allowing for a quick and effective response to potential threats. The Group structured its sources of funding accordingly by adjusting its deposit offering (in particular deposit interest rates) to meet current needs, while at the same time renewing long-term securities and covered bonds issued maturing in 2023 in the amount of approximately PLN 4.5 billion (including EUR 0.75 billion and PLN 1.25 billion).
- The tasks aimed at expanding the IT systems that enable the collection of ESG data, in particular on environmental risks, and preparing for the systemic disclosure of this data were carried out (see note [ESG Risk management](#)).

53. CREDIT RISK MANAGEMENT

• DEFINITION

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

• RISK MANAGEMENT OBJECTIVE

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

The Bank and the Group subsidiaries are guided mainly by the following credit risk management principles:

- every loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring;
- credit risk relating to loan transactions is measured at the stage of examining a loan application and on a regular basis, as part of the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers and links between the Group's customers;
- credit risk assessment of exposures is separated from the sales function by ensuring an appropriate organizational structure, independence in developing and validating tools supporting an assessment of credit risk and independence of decisions approving deviations from the suggestions resulting from using these tools;
- terms and conditions of a loan transactions offered to a customer depend on the assessment of credit risk level generated by the transaction;
- lending decisions are taken only by persons or bodies authorised to do so or are generated automatically on the basis of risk models approved by the Bank's Credit Committee;

- the cyclical measurement of portfolio credit risk is carried out on the total credit exposures of customers as well as on different cross-sections of the portfolio, such as customer groups, credit product groups,
- credit risk is diversified, in particular, in terms of geographical areas, industries, products and customers;
- an expected credit risk level is secured by collateral received by the Group, risk margins from customers and impairment allowances (provisions) for expected credit losses;
- an incentive system contributes to compliance with the credit risk management policies and principles adopted by the Group.

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

The Group entities which have significant credit risk levels (the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA and Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.) manage their credit risk individually, but the methods used for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski S.A., taking into account the specific nature of activities of these companies.

Any changes to the solutions used by the Group's subsidiaries must be agreed every time with the Bank's units responsible for risk management.

The aforementioned companies measure their credit risk regularly and the results of such measurements are submitted to the Bank.

Within the structures of PKO Bank Hipoteczny SA, the KREDOBANK SA Group and the PKO Leasing SA Group, there are organizational units in the risk management areas which are responsible, in particular, for:

- developing methodologies for credit risk assessment and recognition of provisions and allowances;
- control over and monitoring of credit risk in the lending process;
- quality and efficiency of the restructuring and debt collection processes;

In these companies, the credit decision limits depend primarily on: the amount of the exposure to a given customer, the amount of an individual credit transaction and the duration of the lending period.

The process of credit decision-making in PKO Bank Hipoteczny SA, the KREDOBANK SA Group and the PKO Leasing SA Group is supported by credit committees which are involved in the process for credit transactions which generate an increased credit risk level.

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

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

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

- probability of default (PD);
- loss given default (LGD);
- credit conversion factor (CCF);
- expected credit loss (ECL);
- credit value at risk (CVaR);
- the share and structure of impaired credit exposures;

- coverage ratio of impaired loans;
- cost of credit risk;
- stress testing.

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

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

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

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

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

The Group assesses the risk of individual credit transactions with the use of scoring and rating methods, which are supported by dedicated IT applications. The risk assessment method is defined in the Group's internal regulations whose main aim is to ensure a uniform and objective evaluation of credit risk during the lending process.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit risk monitoring at the portfolio level consists of:

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

- **REPORTING OF CREDIT RISK**

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

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

In addition to information for the Bank, the reports also include information on the level of credit risk in the Group entities where a material level of credit risk was identified (e.g. the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA).

- **MANAGEMENT ACTIONS RELATING TO CREDIT RISK**

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

The credit risk management actions include particularly:

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

The main credit risk management tools used by the Group include:

- strategic limits of tolerance to credit risk and concentration risk which set the maximum level of these risks the Bank, the Group entities and the Bank's Group are ready to accept. These limits take into account, among other things, the requirements of the CRR Regulation, the Polish Banking Law or Recommendations S and T.
- internal limits of tolerance to credit risk or concentration risk including:
 - limits determining the level of tolerance to portfolio credit risk and concentration risk;
 - industry-related limits, which reduce the risk level related to financing institutional customers conducting business activities in industries characterized by a high level of credit risk;
 - competence limits, which set the maximum level of competences to make lending decision with respect to customers, including customers shared by the entities belonging to the Bank's Group;
- verifying the quality of lending processes in order to identify the causes of late repayments and inadequacies in the lending process,
- branch rating representing a synthetic assessment of the quality of the branch's work in lending processes.
- threshold amounts which trigger involvement of risk analysts in the credit risk assessment, including with respect to transactions with customers shared by the entities belonging to the Bank's Group.

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

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

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

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

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

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

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

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

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

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

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

The collateral for loans intended for the financing of small- and medium-sized enterprises as well as corporate customers is established, among other things: on receivables from business operations, bank accounts, movables, real estate or securities. The collateral management policy is set out in the internal regulations of the Group's subsidiaries.

When concluding lease agreements, the PKO Leasing SA Group, as the owner of the assets leased, treats the assets leased as collateral.

See also the information in the note "[COLLATERAL](#)".

54. CREDIT RISK – FINANCIAL INFORMATION

54.1. FINANCIAL ASSETS BY STAGE

- AMOUNTS DUE FROM BANKS

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

- SECURITIES

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount	107,649	393	12	108,054	-
NBP money bills	28,974	-	-	28,974	-
Treasury bonds (in PLN)	52,545	-	-	52,545	-
Treasury bonds (in foreign currencies)	4,485	89	-	4,574	-
corporate bonds (in PLN) secured with the State Treasury guarantees	10,180	-	-	10,180	-
municipal bonds (in PLN)	4,831	274	-	5,105	-
corporate bonds (in PLN)	2,567	30	12	2,609	-
corporate bonds (in foreign currencies)	4,067	-	-	4,067	-
Net carrying amount	107,649	393	12	108,054	-
NBP money bills	28,974	-	-	28,974	-
Treasury bonds (in PLN)	52,545	-	-	52,545	-
Treasury bonds (in foreign currencies)	4,485	89	-	4,574	-
corporate bonds (in PLN) secured with the State Treasury guarantees	10,180	-	-	10,180	-
municipal bonds (in PLN)	4,831	274	-	5,105	-
corporate bonds (in PLN)	2,567	30	12	2,609	-
corporate bonds (in foreign currencies)	4,067	-	-	4,067	-
Measurement method: at amortized cost					
Gross carrying amount	86,900	399	-	87,299	-
Treasury bonds (in PLN)	58,839	-	-	58,839	-
Treasury bonds (in foreign currencies)	1,439	-	-	1,439	-
corporate bonds (in PLN) secured with the State Treasury guarantees	13,622	-	-	13,622	-
municipal bonds (in PLN)	8,536	159	-	8,695	-
corporate bonds (in PLN)	2,319	109	-	2,428	-
corporate bonds (in foreign currencies)	2,145	131	-	2,276	-
Allowances for expected credit losses	(54)	(18)	-	(72)	-
Treasury bonds (in PLN)	(3)	-	-	(3)	-
corporate bonds (in PLN) secured with the State Treasury guarantees	(3)	-	-	(3)	-
municipal bonds (in PLN)	(35)	(2)	-	(37)	-
corporate bonds (in PLN)	(4)	(11)	-	(15)	-
corporate bonds (in foreign currencies)	(9)	(5)	-	(14)	-

Net carrying amount	86,846	381	-	87,227	-
Treasury bonds (in PLN)	58,836	-	-	58,836	-
Treasury bonds (in foreign currencies)	1,439	-	-	1,439	-
corporate bonds (in PLN) secured with the State Treasury guarantees	13,619	-	-	13,619	-
municipal bonds (in PLN)	8,501	157	-	8,658	-
corporate bonds (in PLN)	2,315	98	-	2,413	-
corporate bonds (in foreign currencies)	2,136	126	-	2,262	-
Total securities					
Gross carrying amount	194,549	792	12	195,353	-
Allowances for expected credit losses	(54)	(18)	-	(72)	-
Net carrying amount	194,495	774	12	195,281	-

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount	64,413	422	374	65,209	359
NBP money bills	80	-	-	80	-
Treasury bonds (in PLN)	43,066	-	-	43,066	-
Treasury bonds (in foreign currencies)	3,977	420	-	4,397	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9,373	-	-	9,373	-
municipal bonds (in PLN)	5,052	2	-	5,054	-
corporate bonds (in PLN)	2,476	-	374	2,850	359
corporate bonds (in foreign currencies)	389	-	-	389	-
Allowances for expected credit losses	-	-	2	2	2
corporate bonds (in PLN)	-	-	2	2	2
Net carrying amount	64,413	422	376	65,211	361
NBP money bills	80	-	-	80	-
Treasury bonds (in PLN)	43,066	-	-	43,066	-
Treasury bonds (in foreign currencies)	3,977	420	-	4,397	-
corporate bonds (in PLN) secured with the State Treasury guarantees	9,373	-	-	9,373	-
municipal bonds (in PLN)	5,052	2	-	5,054	-
corporate bonds (in PLN)	2,476	-	376	2,852	361
corporate bonds (in foreign currencies)	389	-	-	389	-
Measurement method: at amortized cost					
Gross carrying amount	68,290	336	-	68,626	-
Treasury bonds (in PLN)	45,898	-	-	45,898	-
Treasury bonds (in foreign currencies)	713	-	-	713	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12,108	-	-	12,108	-
municipal bonds (in PLN)	6,206	-	-	6,206	-
corporate bonds (in PLN)	1,817	195	-	2,012	-
corporate bonds (in foreign currencies)	1,548	141	-	1,689	-

Allowances for expected credit losses	(45)	(25)	-	(70)	-
Treasury bonds (in PLN)	(5)	-	-	(5)	-
corporate bonds (in PLN) secured with the State Treasury guarantees	(8)	-	-	(8)	-
municipal bonds (in PLN)	(24)	-	-	(24)	-
corporate bonds (in PLN)	(4)	(19)	-	(23)	-
corporate bonds (in foreign currencies)	(4)	(6)	-	(10)	-
Net carrying amount	68,245	311	-	68,556	-
Treasury bonds (in PLN)	45,893	-	-	45,893	-
Treasury bonds (in foreign currencies)	713	-	-	713	-
corporate bonds (in PLN) secured with the State Treasury guarantees	12,100	-	-	12,100	-
municipal bonds (in PLN)	6,182	-	-	6,182	-
corporate bonds (in PLN)	1,813	176	-	1,989	-
corporate bonds (in foreign currencies)	1,544	135	-	1,679	-
Total securities					
Gross carrying amount	132,703	758	374	133,835	359
Allowances for expected credit losses	(45)	(25)	2	(68)	2
Net carrying amount	132,658	733	376	133,767	361

• **LOANS AND ADVANCES TO CUSTOMERS**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustment relating to fair value hedge accounting) 31.12.2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Gross carrying amount	203,569	40,623	8,921	253,113	324
housing loans	99,843	13,373	1,667	114,883	84
business loans	59,458	17,654	3,666	80,778	158
consumer loans	26,079	3,576	2,452	32,107	79
factoring receivables	5,302	26	88	5,416	-
finance lease receivables	12,887	5,994	1,048	19,929	3
Allowances for expected credit losses	(1,072)	(3,824)	(5,310)	(10,206)	50
housing loans	(95)	(1,108)	(1,167)	(2,370)	(5)
business loans	(450)	(1,735)	(2,159)	(4,344)	1
consumer loans	(443)	(744)	(1,446)	(2,633)	55
factoring receivables	(1)	-	(29)	(30)	-
finance lease receivables	(83)	(237)	(509)	(829)	(1)
Net carrying amount	202,497	36,799	3,611	242,907	374
housing loans	99,748	12,265	500	112,513	79
business loans	59,008	15,919	1,507	76,434	159
consumer loans	25,636	2,832	1,006	29,474	134
factoring receivables	5,301	26	59	5,386	-
finance lease receivables	12,804	5,757	539	19,100	2
Loans and advances to customers, total					
Gross carrying amount	203,569	40,623	8,921	253,113	324
Allowances for expected credit losses	(1,072)	(3,824)	(5,310)	(10,206)	50
Net carrying amount	202,497	36,799	3,611	242,907	374

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustment relating to fair value hedge accounting) 31.12.2022*	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount	-	-	1	1	-
consumer loans	-	-	1	1	-
Allowances for expected credit losses	-	-	(1)	(1)	-
consumer loans	-	-	(1)	(1)	-
Net carrying amount	-	-	-	-	-
consumer loans	-	-	-	-	-
Measurement method: at amortized cost					
Gross carrying amount	196,240	33,964	8,920	239,124	213
housing loans	98,541	11,033	1,860	111,434	94
business loans	57,136	14,283	4,118	75,537	58
consumer loans	24,447	3,231	1,895	29,573	57
factoring receivables	3,562	19	38	3,619	-
finance lease receivables	12,554	5,398	1,009	18,961	4
Allowances for expected credit losses	(959)	(3,287)	(5,501)	(9,747)	16
housing loans	(118)	(837)	(1,342)	(2,297)	(14)
business loans	(398)	(1,586)	(2,450)	(4,434)	(3)
consumer loans	(356)	(654)	(1,181)	(2,191)	34
factoring receivables	(6)	-	(22)	(28)	-
finance lease receivables	(81)	(210)	(506)	(797)	(1)
Net carrying amount	195,281	30,677	3,419	229,377	229
housing loans	98,423	10,196	518	109,137	80
business loans	56,738	12,697	1,668	71,103	55
consumer loans	24,091	2,577	714	27,382	91
factoring receivables	3,556	19	16	3,591	-
finance lease receivables	12,473	5,188	503	18,164	3
Loans and advances to customers, total					
Gross carrying amount	196,240	33,964	8,921	239,125	213
Allowances for expected credit losses	(959)	(3,287)	(5,502)	(9,748)	16
Net carrying amount	195,281	30,677	3,419	229,377	229

*The comparative figures for 2022 have been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note "IFRS 17 Insurance contracts").

• OTHER FINANCIAL ASSETS

OTHER FINANCIAL ASSETS	Stage 1	Stage 2	Stage 3	Total	of which POCI
31.12.2023					
Gross amount	1,469	-	141	1,610	-
Allowances for expected credit losses	-	-	(136)	(136)	-
Net carrying amount	1,469	-	5	1,474	-

OTHER FINANCIAL ASSETS	Stage 1	Stage 2	Stage 3	Total	of which POCI
31.12.2022					
Gross amount	1,850	-	146	1,996	-
Allowances for expected credit losses	-	-	(146)	(146)	-
Net carrying amount	1,850	-	-	1,850	-

• FINANCIAL AND GUARANTEE COMMITMENTS GRANTED

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2023	STAGE 1		STAGE 2		STAGE 3		Total	Provisions per IFRS 9	Net carrying amount
	Notional amount	Provision	Notional amount	Provision	Notional amount	Provision			
Credit lines and limits	71,102	(137)	7,774	(476)	162	(28)	79,038	(641)	78,397
real estate	6,722	(11)	170	(6)	6	(3)	6,898	(20)	6,878
business	50,189	(101)	6,055	(377)	89	(20)	56,333	(498)	55,835
consumer	9,220	(25)	1,542	(93)	18	(5)	10,780	(123)	10,657
in respect of factoring	4,233	-	7	-	49	-	4,289	-	4,289
in respect of finance leases	738	-	-	-	-	-	738	-	738
Other	3,884	-	-	-	-	-	3,884	-	3,884
Total financial commitments granted, including:	74,986	(137)	7,774	(476)	162	(28)	82,922	(641)	82,281
irrevocable commitments granted	25,379	(70)	4,418	(314)	33	(8)	29,830	(392)	29,438
POCI	-	-	1	-	1	-	2	-	2
Guarantees and sureties granted									
guarantees in domestic and foreign trading	8,138	(18)	1,692	(59)	785	(30)	10,615	(107)	10,508
to financial entities	2,535	-	144	-	-	-	2,679	-	2,679
to non-financial entities	5,484	(18)	1,538	(59)	785	(30)	7,807	(107)	7,700
to public entities	119	-	10	-	-	-	129	-	129
domestic municipal bonds (state budget entities)	243	-	-	-	-	-	243	-	243
letters of credit	1,175	-	102	(3)	-	-	1,277	(3)	1,274
to financial entities	30	-	-	-	-	-	30	-	30
to non-financial entities	1,145	-	102	(3)	-	-	1,247	(3)	1,244
payment guarantees to financial entities	99	-	2	-	-	-	101	-	101
Total guarantees and sureties granted, including:	9,655	(18)	1,796	(62)	785	(30)	12,236	(110)	12,126
irrevocable commitments granted	3,275	(7)	1,479	(58)	749	(29)	5,503	(94)	5,409
performance guarantee	2,682	(4)	711	(43)	199	(10)	3,592	(57)	3,535
POCI	-	-	-	-	452	(2)	452	(2)	450
Total financial and guarantee commitments granted	84,641	(155)	9,570	(538)	947	(58)	95,158	(751)	94,407

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED 31.12.2022	STAGE 1		STAGE 2		STAGE 3		Total	Provision s per IFRS 9	Net carrying amount
	Notional amount	Provisio n	Notional amount	Provisio n	Notional amount	Provisio n			
Credit lines and limits	62,990	(137)	7,250	(406)	140	(47)	70,380	(590)	69,790
real estate	3,568	(13)	107	(5)	8	(3)	3,683	(21)	3,662
business	47,016	(97)	5,332	(281)	107	(36)	52,455	(414)	52,041
consumer	8,818	(27)	1,807	(120)	25	(8)	10,650	(155)	10,495
in respect of factoring	2,745	-	4	-	-	-	2,749	-	2,749
in respect of finance leases	843	-	-	-	-	-	843	-	843
Other	2,824	-	-	-	1	-	2,825	-	2,825
Total financial commitments granted, including:	65,814	(137)	7,250	(406)	141	(47)	73,205	(590)	72,615
irrevocable commitments granted	27,050	(60)	3,429	(211)	100	(30)	30,579	(301)	30,278
POCI	-	-	1	-	4	(1)	5	(1)	4
Guarantees and sureties granted									
guarantees in domestic and foreign trading	8,539	(5)	1,360	(72)	679	(159)	10,578	(236)	10,342
to financial entities	2,735	-	-	-	-	-	2,735	-	2,735
to non-financial entities	5,733	(5)	1,360	(72)	679	(159)	7,772	(236)	7,536
to public entities	71	-	-	-	-	-	71	-	71
domestic municipal bonds (state budget entities)	315	-	-	-	-	-	315	-	315
letters of credit	1,343	(1)	171	(6)	-	-	1,514	(7)	1,507
to non-financial entities	1,343	(1)	171	(6)	-	-	1,514	(7)	1,507
payment guarantees to financial entities	71	-	-	-	-	-	71	-	71
Total guarantees and sureties granted, including:	10,268	(6)	1,531	(78)	679	(159)	12,478	(243)	12,235
irrevocable commitments granted	2,903	(5)	1,262	(71)	647	(158)	4,812	(234)	4,578
performance guarantee	2,499	(2)	860	(54)	281	(147)	3,640	(203)	3,437
POCI	-	-	-	-	284	(5)	284	(5)	279
Total financial and guarantee commitments granted	76,082	(143)	8,781	(484)	820	(206)	85,683	(833)	84,850

54.2. CHANGE IN THE GROSS CARRYING AMOUNT

• SECURITIES

SECURITIES - CHANGE IN THE GROSS CARRYING AMOUNT DURING THE PERIOD (excluding adjustment relating to fair value hedge accounting) 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount at the beginning of the period	64,413	422	374	65,209	359
Transfer from stage 2 and 3 to stage 1	2	(2)	-	-	-
Transfer from stage 1 and 3 to stage 2	(304)	304	-	-	-
Granting or purchase of financial instruments	810,744	1	-	810,745	-
Non-substantial modifications	2	-	-	2	-
Derecognition, including sale	(774,215)	(319)	(372)	(774,906)	(369)
Write-off	-	-	(1)	(1)	-
Other changes ¹	7,007	(13)	11	7,005	10
Gross carrying amount at the end of the period	107,649	393	12	108,054	-

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

SECURITIES - CHANGE IN THE GROSS CARRYING AMOUNT DURING THE PERIOD (excluding adjustment relating to fair value hedge accounting) 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: measured at fair value through other comprehensive income					
Gross carrying amount at the beginning of the period	61,474	44	397	61,915	380
Transfer from stage 2 and 3 to stage 1	44	(44)	-	-	-
Transfer from stage 1 and 3 to stage 2	(512)	512	-	-	-
Granting or purchase of financial instruments	92,918	-	1	92,919	-
Non-substantial modifications	(7)	-	-	(7)	-
Derecognition, including sale	(89,564)	(94)	(3)	(89,661)	-
Other changes ¹	60	4	(21)	43	(21)
Gross carrying amount at the end of the period	64,413	422	374	65,209	359

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

SECURITIES - CHANGE IN THE GROSS CARRYING AMOUNT DURING THE PERIOD (excluding adjustment relating to fair value hedge accounting) 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Gross carrying amount at the beginning of the period	68,290	336	-	68,626	-
Transfer from stage 2 and 3 to stage 1	70	(70)	-	-	-
Transfer from stage 1 and 3 to stage 2	(161)	161	-	-	-
Granting or purchase of financial instruments	23,111	-	-	23,111	-
Non-substantial modifications	(1)	-	-	(1)	-
Derecognition, including sale	(6,328)	(43)	-	(6,371)	-
Other changes ¹	1,919	15	-	1,934	-
Gross carrying amount at the end of the period	86,900	399	-	87,299	-

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

SECURITIES - CHANGE IN THE GROSS CARRYING AMOUNT DURING THE PERIOD (excluding adjustment relating to fair value hedge accounting) 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Gross carrying amount at the beginning of the period	70,936	402	-	71,338	-
Transfer from stage 2 and 3 to stage 1	56	(56)	-	-	-
Transfer from stage 1 and 3 to stage 2	(6)	6	-	-	-
Granting or purchase of financial instruments	2,451	1	-	2,452	-
Derecognition, including sale	(7,735)	(30)	-	(7,765)	-
Other changes ¹	2,588	13	-	2,601	-
Gross carrying amount at the end of the period	68,290	336	-	68,626	-

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

• **LOANS AND ADVANCES TO CUSTOMERS**

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Real estate loans					
Gross carrying amount at the beginning of the period	98,541	11,033	1,860	111,434	94
Transfer from stage 2 and 3 to stage 1	3,327	(3,314)	(13)	-	-
Transfer from stage 1 and 3 to stage 2	(7,784)	7,909	(125)	-	-
Transfer from stage 1 and 2 to stage 3	(78)	(317)	395	-	-
Granting or purchase of financial instruments	3,197	102	14	3,313	25
Utilization of limit or disbursement of tranches	16,854	107	189	17,150	6
Repayments	(11,110)	(3,035)	(205)	(14,350)	(22)
Non-substantial modifications	24	(3)	-	21	-
Derecognition, including sale	(1,156)	(65)	(36)	(1,257)	(34)
Write-off	-	-	(304)	(304)	(2)
Category change	74	1	-	75	-
Other changes ¹	(2,046)	955	(108)	(1,199)	17
Gross carrying amount at the end of the period	99,843	13,373	1,667	114,883	84

¹ Other changes comprise the effect of foreign exchange rate changes, interest, measurement and the cost of legal risk associated with mortgage loans in convertible currencies.

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Real estate loans					
Gross carrying amount at the beginning of the period	104,837	14,830	2,005	121,672	81
Transfer from stage 2 and 3 to stage 1	9,170	(9,139)	(31)	-	-
Transfer from stage 1 and 3 to stage 2	(7,075)	7,245	(170)	-	-
Transfer from stage 1 and 2 to stage 3	(120)	(269)	389	-	-
Granting or purchase of financial instruments	7,517	355	40	7,912	36
Utilization of limit or disbursement of tranches	8,670	346	149	9,165	9
Repayments	(18,190)	(1,222)	(275)	(19,687)	(14)
Non-substantial modifications	(241)	(355)	(1)	(597)	-
Derecognition, including sale	(6,179)	(297)	(50)	(6,526)	(43)
Write-off	-	-	(202)	(202)	(1)
Category change	80	-	-	80	-
Other changes ¹	72	(461)	6	(383)	26
Gross carrying amount at the end of the period	98,541	11,033	1,860	111,434	94

¹ Other changes comprise the effect of foreign exchange rate changes, interest, measurement and the cost of legal risk associated with mortgage loans in convertible currencies.

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Business loans					
Gross carrying amount at the beginning of the period	57,136	14,283	4,118	75,537	58
Transfer from stage 2 and 3 to stage 1	1,506	(1,491)	(15)	-	-
Transfer from stage 1 and 3 to stage 2	(5,856)	6,189	(333)	-	-
Transfer from stage 1 and 2 to stage 3	(340)	(229)	569	-	-
Granting or purchase of financial instruments	18,926	3,189	270	22,385	23
Utilization of limit or disbursement of tranches	20,325	2,960	419	23,704	4
Repayments	(29,292)	(2,665)	(685)	(32,642)	(25)
Non-substantial modifications	1,141	(17)	(31)	1,093	1
Derecognition, including sale	(1,442)	(1,113)	(158)	(2,713)	(152)
Write-off	-	-	(640)	(640)	2
Category change	8	5	-	13	-
Other changes ¹	(2,654)	(3,457)	152	(5,959)	247
Gross carrying amount at the end of the period	59,458	17,654	3,666	80,778	158

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

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Business loans					
Gross carrying amount at the beginning of the period	49,182	14,471	4,537	68,190	50
Transfer from stage 2 and 3 to stage 1	3,215	(3,194)	(21)	-	-
Transfer from stage 1 and 3 to stage 2	(5,614)	5,693	(79)	-	-
Transfer from stage 1 and 2 to stage 3	(207)	(288)	495	-	-
Granting or purchase of financial instruments	18,669	1,091	274	20,034	59
Utilization of limit or disbursement of tranches	20,615	2,523	350	23,488	3
Repayments	(29,209)	(2,380)	(986)	(32,575)	(28)
Non-substantial modifications	(57)	(87)	(20)	(164)	1
Derecognition, including sale	(2,996)	(136)	(115)	(3,247)	(92)
Write-off	-	-	(472)	(472)	3
Category change	6	3	-	9	-
Other changes ¹	3,532	(3,413)	155	274	62
Gross carrying amount at the end of the period	57,136	14,283	4,118	75,537	58

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

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Consumer loans					
Gross carrying amount at the beginning of the period	24,447	3,231	1,895	29,573	57
Transfer from stage 2 and 3 to stage 1	783	(757)	(26)	-	-
Transfer from stage 1 and 3 to stage 2	(1,847)	1,907	(60)	-	-
Transfer from stage 1 and 2 to stage 3	(511)	(485)	996	-	-
Granting or purchase of financial instruments	12,886	480	178	13,544	40
Utilization of limit or disbursement of tranches	1,230	170	322	1,722	7
Repayments	(11,132)	(622)	(292)	(12,046)	(23)
Non-substantial modifications	(8)	(2)	(3)	(13)	-
Derecognition, including sale	(41)	(55)	(78)	(174)	(81)
Write-off	-	-	(529)	(529)	(7)
Category change	184	11	(48)	147	3
Other changes ¹	88	(302)	97	(117)	83
Gross carrying amount at the end of the period	26,079	3,576	2,452	32,107	79

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

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Consumer loans					
Gross carrying amount at the beginning of the period	23,959	3,152	1,643	28,754	47
Transfer from stage 2 and 3 to stage 1	1,203	(1,174)	(29)	-	-
Transfer from stage 1 and 3 to stage 2	(1,825)	1,897	(72)	-	-
Transfer from stage 1 and 2 to stage 3	(372)	(427)	799	-	-
Granting or purchase of financial instruments	10,349	483	131	10,963	23
Utilization of limit or disbursement of tranches	1,125	199	217	1,541	3
Repayments	(10,501)	(515)	(230)	(11,246)	(22)
Non-substantial modifications	(10)	(7)	(2)	(19)	-
Derecognition, including sale	(84)	(56)	(64)	(204)	(52)
Write-off	-	-	(589)	(589)	(4)
Category change	219	21	(34)	206	3
Other changes ¹	384	(342)	125	167	59
Gross carrying amount at the end of the period	24,447	3,231	1,895	29,573	57

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

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Finance lease receivables					
Gross carrying amount at the beginning of the period	12,554	5,398	1,009	18,961	4
Transfer from stage 2 and 3 to stage 1	575	(553)	(22)	-	-
Transfer from stage 1 and 3 to stage 2	(3,081)	3,198	(117)	-	-
Transfer from stage 1 and 2 to stage 3	(184)	(420)	604	-	-
Granting or purchase of financial instruments	6,795	1,085	82	7,962	-
Utilization of limit or disbursement of tranches	91	6	33	130	-
Repayments	(3,613)	(1,780)	(335)	(5,728)	(1)
Non-substantial modifications	(241)	(883)	(161)	(1,285)	-
Derecognition, including sale	(11)	(54)	(6)	(71)	-
Write-off	-	-	(34)	(34)	-
Other changes ¹	2	(3)	(5)	(6)	-
Gross carrying amount at the end of the period	12,887	5,994	1,048	19,929	3

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

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Finance lease receivables					
Gross carrying amount at the beginning of the period	13,072	4,072	1,116	18,260	57
Transfer from stage 2 and 3 to stage 1	607	(571)	(36)	-	-
Transfer from stage 1 and 3 to stage 2	(3,166)	3,366	(200)	-	-
Transfer from stage 1 and 2 to stage 3	(206)	(358)	564	-	-
Granting or purchase of financial instruments	6,033	952	66	7,051	-
Utilization of limit or disbursement of tranches	57	4	22	83	-
Repayments	(3,564)	(1,199)	(368)	(5,131)	(54)
Non-substantial modifications	(209)	(813)	(122)	(1,144)	-
Derecognition, including sale	(37)	(72)	(14)	(123)	-
Write-off	-	-	(24)	(24)	-
Other changes ¹	(33)	17	5	(11)	1
Gross carrying amount at the end of the period	12,554	5,398	1,009	18,961	4

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

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2023	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Factoring receivables					
Gross carrying amount at the beginning of the period	3,562	19	38	3,619	-
Transfer from stage 2 and 3 to stage 1	7	(4)	(3)	-	-
Transfer from stage 1 and 3 to stage 2	(17)	18	(1)	-	-
Transfer from stage 1 and 2 to stage 3	(49)	(10)	59	-	-
Granting or purchase of financial instruments	2,089	7	-	2,096	-
Utilization of limit or disbursement of tranches	(49)	(3)	(1)	(53)	-
Repayments	(161)	(1)	-	(162)	-
Other changes ¹	(80)	-	(4)	(84)	-
Gross carrying amount at the end of the period	5,302	26	88	5,416	-

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

LOANS AND ADVANCES TO CUSTOMERS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD 2022	Stage 1	Stage 2	Stage 3	Total	of which POCI
Measurement method: at amortized cost					
Factoring receivables					
Gross carrying amount at the beginning of the period	2,900	18	28	2,946	-
Transfer from stage 2 and 3 to stage 1	8	(6)	(2)	-	-
Transfer from stage 1 and 3 to stage 2	(9)	10	(1)	-	-
Transfer from stage 1 and 2 to stage 3	(14)	(2)	16	-	-
Granting or purchase of financial instruments	870	-	-	870	-
Utilization of limit or disbursement of tranches	885	7	1	893	-
Repayments	(1,093)	(8)	(5)	(1,106)	-
Other changes ¹	15	-	1	16	-
Gross carrying amount at the end of the period	3,562	19	38	3,619	-

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

• OTHER FINANCIAL ASSETS:

OTHER FINANCIAL ASSETS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Gross carrying amount at the beginning of the period	1,850	-	146	1,996	-
Transfer from stage 1 and 2 to stage 3	(3)	-	3	-	-
Granting or purchase of financial instruments	1,368	-	60	1,428	-
Utilization of limit or disbursement of tranches	1	-	-	1	-
Repayments	(1,674)	-	(50)	(1,724)	-
Write-off	-	-	(16)	(16)	-
Other changes ¹	(74)	-	(2)	(76)	-
Gross carrying amount at the end of the period	1,469	-	141	1,610	-

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

OTHER FINANCIAL ASSETS - CHANGE IN GROSS CARRYING AMOUNT DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Gross carrying amount at the beginning of the period	1,885	-	136	2,021	-
Transfer from stage 1 and 2 to stage 3	(12)	-	12	-	-
Granting or purchase of financial instruments	1,667	-	-	1,667	-
Utilization of limit or disbursement of tranches	20	-	-	20	-
Repayments	(1,706)	-	-	(1,706)	-
Write-off	-	-	(3)	(3)	-
Other changes ¹	(4)	-	1	(3)	-
Gross carrying amount at the end of the period	1,850	-	146	1,996	-

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

The comparative figures for 2022 and the opening balances for 2023 have been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note "IFRS 17 Insurance contracts").

54.3. CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES

• SECURITIES

SECURITIES - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: measured at fair value through other comprehensive income					
As at the beginning of the period	-	-	2	2	2
Transfer from stage 1 and 3 to stage 2	5	(5)	-	-	-
Increase due to recognition and purchase	(53)	-	-	(53)	-
Changes in credit risk (net) ¹	(3)	3	(1)	(1)	(1)
Decrease due to derecognition	-	5	-	5	-
Write-off	-	-	1	1	1
Other adjustments ²	51	(3)	(2)	46	(2)
As at the end of the period	-	-	-	-	-

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest.

SECURITIES – CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: measured at fair value through other comprehensive income					
As at the beginning of the period	-	-	(52)	(52)	(52)
Transfer from stage 1 and 3 to stage 2	4	(4)	-	-	-
Increase due to recognition and purchase	(12)	-	-	(12)	-
Changes in credit risk (net) ¹	(3)	2	41	40	41
Decrease due to derecognition	6	-	-	6	-
Other adjustments ²	5	2	13	20	13
As at the end of the period	-	-	2	2	2

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest.

SECURITIES – CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: at amortized cost					
As at the beginning of the period	(45)	(25)	-	(70)	-
Transfer from stage 1 and 3 to stage 2	3	(3)	-	-	-
Increase due to recognition and purchase	(17)	-	-	(17)	-
Changes in credit risk (net) ¹	7	6	-	13	-
Other adjustments ²	(2)	4	-	2	-
As at the end of the period	(54)	(18)	-	(72)	-

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest.

SECURITIES – CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: at amortized cost					
As at the beginning of the period	(30)	(26)	-	(56)	-
Transfer from stage 1 and 3 to stage 2	1	(1)	-	-	-
Increase due to recognition and purchase	(8)	-	-	(8)	-
Changes in credit risk (net) ¹	(7)	1	-	(6)	-
Other adjustments ²	(1)	1	-	-	-
As at the end of the period	(45)	(25)	-	(70)	-

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest.

• LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: at amortized cost					
Real estate loans					
As at the beginning of the period	(118)	(837)	(1,342)	(2,297)	(14)
Transfer from stage 2 and 3 to stage 1	(11)	11	-	-	-
Transfer from stage 1 and 3 to stage 2	438	(455)	17	-	-
Transfer from stage 1 and 2 to stage 3	29	142	(171)	-	-
Increase due to recognition and purchase	(21)	(9)	(19)	(49)	(24)
Changes in credit risk (net) ¹	(34)	(258)	116	(176)	(3)
Decrease due to derecognition	23	13	22	58	20
Changes due to modification without derecognition (net)	-	(3)	1	(2)	-
Write-off	-	-	304	304	2
Other adjustments ²	(401)	288	(95)	(208)	14
As at the end of the period	(95)	(1,108)	(1,167)	(2,370)	(5)

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest.

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: at amortized cost					
Real estate loans					
As at the beginning of the period	(68)	(671)	(1,343)	(2,082)	(19)
Transfer from stage 2 and 3 to stage 1	(25)	25	-	-	-
Transfer from stage 1 and 3 to stage 2	305	(320)	15	-	-
Transfer from stage 1 and 2 to stage 3	35	126	(161)	-	-
Increase due to recognition and purchase	(19)	(9)	(24)	(52)	(24)
Changes in credit risk (net) ¹	(79)	(137)	81	(135)	(9)
Decrease due to derecognition	26	11	25	62	21
Changes due to modification without derecognition (net)	(2)	-	(1)	(3)	-
Write-off	-	-	203	203	1
Other adjustments ²	(291)	138	(137)	(290)	16
As at the end of the period	(118)	(837)	(1,342)	(2,297)	(14)

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest, measurement.

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: at amortized cost					
Business loans					
As at the beginning of the period	(398)	(1,586)	(2,450)	(4,434)	(3)
Transfer from stage 2 and 3 to stage 1	(28)	27	1	-	-
Transfer from stage 1 and 3 to stage 2	489	(516)	27	-	-
Transfer from stage 1 and 2 to stage 3	68	86	(154)	-	-
Increase due to recognition and purchase	(242)	(231)	(212)	(685)	(139)
Changes in credit risk (net) ¹	171	(114)	45	102	(5)
Decrease due to derecognition	35	145	51	231	42
Changes due to modification without derecognition (net)	(9)	(12)	2	(19)	-
Update of the applied estimation method (net)	-	-	3	3	-
Write-off	-	-	646	646	(2)
Other adjustments ²	(536)	466	(118)	(188)	108
As at the end of the period	(450)	(1,735)	(2,159)	(4,344)	1

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: at amortized cost					
Business loans					
As at the beginning of the period	(337)	(933)	(2,870)	(4,140)	(14)
Transfer from stage 2 and 3 to stage 1	(36)	34	2	-	-
Transfer from stage 1 and 3 to stage 2	522	(532)	10	-	-
Transfer from stage 1 and 2 to stage 3	49	83	(132)	-	-
Increase due to recognition and purchase	(243)	(63)	(118)	(424)	(63)
Changes in credit risk (net) ¹	206	(608)	375	(27)	(8)
Decrease due to derecognition	17	14	55	86	35
Changes due to modification without derecognition (net)	(3)	(1)	1	(3)	(1)
Update of the applied estimation method (net)	-	3	(24)	(21)	-
Write-off	-	-	473	473	(3)
Other adjustments ²	(573)	417	(222)	(378)	51
As at the end of the period	(398)	(1,586)	(2,450)	(4,434)	(3)

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest, measurement.

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: at amortized cost					
Consumer loans					
As at the beginning of the period	(356)	(654)	(1,181)	(2,191)	34
Transfer from stage 2 and 3 to stage 1	(14)	14	-	-	-
Transfer from stage 1 and 3 to stage 2	377	(388)	11	-	-
Transfer from stage 1 and 2 to stage 3	290	252	(542)	-	-
Increase due to recognition and purchase	(189)	(16)	(113)	(318)	(58)
Changes in credit risk (net) ¹	94	(101)	(430)	(437)	(4)
Decrease due to derecognition	3	13	45	61	39
Changes due to modification without derecognition (net)	(1)	(5)	-	(6)	-
Update of the applied estimation method (net)	6	1	13	20	5
Write-off	-	-	529	529	7
Other adjustments ²	(653)	140	222	(291)	32
As at the end of the period	(443)	(744)	(1,446)	(2,633)	55

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest.

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: at amortized cost					
Consumer loans					
As at the beginning of the period	(233)	(525)	(1,024)	(1,782)	28
Transfer from stage 2 and 3 to stage 1	(26)	25	1	-	-
Transfer from stage 1 and 3 to stage 2	304	(316)	12	-	-
Transfer from stage 1 and 2 to stage 3	208	237	(445)	-	-
Increase due to recognition and purchase	(111)	(12)	(60)	(183)	(36)
Changes in credit risk (net) ¹	(23)	(152)	(384)	(559)	(7)
Decrease due to derecognition	2	7	32	41	27
Changes due to modification without derecognition (net)	(2)	(2)	3	(1)	-
Update of the applied estimation method (net)	6	1	9	16	5
Write-off	-	-	589	589	4
Other adjustments ²	(481)	83	86	(312)	13
As at the end of the period	(356)	(654)	(1,181)	(2,191)	34

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest, measurement.

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: at amortized cost					
Finance lease receivables					
As at the beginning of the period	(81)	(210)	(506)	(797)	(1)
Transfer from stage 2 and 3 to stage 1	(26)	19	7	-	-
Transfer from stage 1 and 3 to stage 2	22	(56)	34	-	-
Transfer from stage 1 and 2 to stage 3	2	48	(50)	-	-
Increase due to recognition and purchase	(51)	(93)	(65)	(209)	-
Changes in credit risk (net) ¹	23	(26)	(80)	(83)	-
Decrease due to derecognition	27	80	128	235	-
Changes due to modification without derecognition (net)	1	-	-	1	-
Write-off	-	-	33	33	-
Other adjustments ²	-	1	(10)	(9)	-
As at the end of the period	(83)	(237)	(509)	(829)	(1)

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: at amortized cost					
Finance lease receivables					
As at the beginning of the period	(65)	(134)	(461)	(660)	(1)
Transfer from stage 2 and 3 to stage 1	(24)	17	7	-	-
Transfer from stage 1 and 3 to stage 2	17	(54)	37	-	-
Transfer from stage 1 and 2 to stage 3	2	27	(29)	-	-
Increase due to recognition and purchase	(52)	(76)	(71)	(199)	-
Changes in credit risk (net) ¹	23	(39)	(99)	(115)	-
Decrease due to derecognition	19	47	109	175	-
Update of the applied estimation method (net)	-	1	(3)	(2)	-
Write-off	-	-	14	14	-
Other adjustments ²	(1)	1	(10)	(10)	-
As at the end of the period	(81)	(210)	(506)	(797)	(1)

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest, measurement.

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2023					
Measurement method: at amortized cost					
Factoring receivables					
As at the beginning of the period	(6)	-	(22)	(28)	-
Transfer from stage 1 and 2 to stage 3	9	-	(9)	-	-
Increase due to recognition and purchase	(1)	-	-	(1)	-
Changes in credit risk (net) ¹	(5)	-	2	(3)	-
Decrease due to derecognition	-	-	1	1	-
Other adjustments ²	2	-	(1)	1	-
As at the end of the period	(1)	-	(29)	(30)	-

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest.

LOANS AND ADVANCES TO CUSTOMERS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DURING THE PERIOD	Stage 1	Stage 2	Stage 3	Total	of which POCI
2022					
Measurement method: at amortized cost					
Factoring receivables					
As at the beginning of the period	(5)	-	(18)	(23)	-
Transfer from stage 2 and 3 to stage 1	(7)	5	2	-	-
Transfer from stage 1 and 3 to stage 2	7	(8)	1	-	-
Transfer from stage 1 and 2 to stage 3	4	4	(8)	-	-
Increase due to recognition and purchase	(2)	-	-	(2)	-
Changes in credit risk (net) ¹	(2)	(1)	-	(3)	-
Other adjustments ²	(1)	-	1	-	-
As at the end of the period	(6)	-	(22)	(28)	-

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest, measurement.

• **OTHER FINANCIAL ASSETS:**

OTHER FINANCIAL ASSETS - CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES IN THE PERIOD – Stage 3	2023	2022
As at the beginning of the period	(146)	(136)
Increase due to recognition and purchase	(1)	-
Changes in credit risk (net) ¹	(7)	(13)
Write-off	16	3
Other adjustments ²	2	-
As at the end of the period	(136)	(146)

¹ Changes in credit risk (net) include the effect on the amount of the allowance due to increases or decreases in the amount of financial assets due to accrued and paid interest income, the effect of the passage of time on expected losses, changes in estimates due to updates or reviews of risk parameters and changes in economic forecasting data.

² Other adjustments include the effect of foreign exchange rate changes, interest.

54.4. OTHER DISCLOSURES

MAXIMUM EXPOSURE TO CREDIT RISK - FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	31.12.2023	31.12.2022
Hedging derivatives	1,174	1,042
Other derivative instruments	8,406	13,162
Securities:	2,224	1,895
held for trading	578	193
not held for trading, measured at fair value through profit or loss	1,646	1,702
Loans and advances to customers not held for trading, measured at fair value through profit or loss	2,871	3,590
housing loans	1	4
business loans	81	85
consumer loans	2,789	3,501
Total	14,675	19,689

FINANCIAL ASSETS SUBJECT TO MODIFICATION	2023		2022	
Financial assets subject to modification during the period:	Stage 2	Stage 3	Stage 2	Stage 3
valuation amount at amortized cost before modification	476	144	2,594	298
gain (loss) on modification	2	-	(59)	(4)
Financial assets subject to modification since initial recognition:	31.12.2023		31.12.2022	
gross carrying amount of financial assets subject to modification for which expected losses were calculated over the lifetime and which are classified as Stage 1 after modification		1,341		1,637

The table below presents the outstanding amounts of financial assets to be repaid, which were written down during the reporting period and which are still subject to debt recovery activities.

RECEIVABLES WRITTEN OFF	2023		2022	
	Partly written off	Entirely written off	Partly written off	Entirely written off
Loans and advances to customers	141	397	96	179
housing loans	16	87	15	21
business loans	20	218	11	120
consumer loans	105	59	70	24
finance lease receivables	-	33	-	14
Total	141	397	96	180

The Group adopted the following criteria for writing off receivables:

- the receivable has fully matured and, in particular, is the consequence of a loan, advance, contractual overdraft, guarantee or warranty of loan, advance or bond repayment;
- in accordance with IAS and IFRS the allowance for expected credit losses:
 - covers 100% of the gross carrying amount of the asset; or

- exceeds 90% of the gross carrying amount of the asset and: actions have been or are still being taken in respect of the receivable which did not lead to its recovery, and the assessment of the probability of recovering the receivable (which, in particular, accounts for the decisions of the bailiff or the receiver) transferability of collateral, level of satisfaction, record in the land and mortgage register indicate that the entire receivable will not be recovered, or that the repayments of the receivable did not cover interest accrued on a current basis over the past 12 calendar months.
- PAST DUE FINANCIAL ASSETS SUBJECT TO IMPAIRMENT OR IMPAIRED**

PAST DUE FINANCIAL ASSETS SUBJECT TO IMPAIRMENT OR IMPAIRED (net)	up to 30 days	30 to 90 days	over 90 days	TOTAL
31.12.2023				
Stage 1	3,788	90	-	3,878
Loans and advances to customers:	3,788	90	-	3,878
housing loans	345	3	-	348
business loans	853	6	-	859
consumer loans	1,002	-	-	1,002
factoring receivables	774	81	-	855
finance lease receivables	814	-	-	814
Stage 2	3,017	544	138	3,699
Loans and advances to customers:	3,017	544	138	3,699
housing loans	507	164	122	793
business loans	625	104	4	733
consumer loans	334	83	10	427
factoring receivables	1	18	-	19
finance lease receivables	1,550	175	2	1,727
Stage 3	526	377	1,457	2,360
Loans and advances to customers:	526	377	1,457	2,360
housing loans	36	39	239	314
business loans	218	63	505	786
consumer loans	76	71	573	720
factoring receivables	8	13	45	66
finance lease receivables	188	191	95	474
Total	7,331	1,011	1,595	9,937

PAST DUE FINANCIAL ASSETS SUBJECT TO IMPAIRMENT OR IMPAIRED (net)	up to 30 days	30 to 90 days	over 90 days	TOTAL
31.12.2022				
Stage 1	3,358	16	1	3,375
Loans and advances to customers:	3,358	16	1	3,375
housing loans	457	4	-	461
business loans	784	1	-	785
consumer loans	1,056	1	-	1,057
factoring receivables	240	10	1	251
finance lease receivables	821	-	-	821
Stage 2	2,525	428	55	3,008
Loans and advances to customers:	2,525	428	55	3,008
housing loans	511	125	36	672
business loans	542	68	4	614
consumer loans	264	84	12	360
factoring receivables	4	5	-	9
finance lease receivables	1,204	146	3	1,353
Stage 3	368	301	1,157	1,826
Loans and advances to customers:	368	301	1,157	1,826
housing loans	34	36	238	308
business loans	106	43	483	632
consumer loans	65	62	322	449
factoring receivables	3	2	21	26
finance lease receivables	160	158	93	411
Total	6,251	745	1,213	8,209

To specify whether a loan is overdue, the Group takes into account the minimum levels of matured amounts exceeding PLN 400 for retail exposures or PLN 2,000 for other credit exposures and 1% with reference to the debtor's entire credit exposure in the balance sheet of the Bank and other entities belonging to the Bank's Group.

Loans and advances to customers were secured by the following collateral established for the Group: mortgages, registered pledges, transfer of ownership, restrictions on a deposit account, insurance of the credit exposure, as well as guarantees and sureties.

• QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR LOANS AND ADVANCES GRANTED TO CUSTOMERS

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2023	Gross carrying amount				of which POCI
	Stage 1	Stage 2	Stage 3	TOTAL	
REAL ESTATE LOANS	99,843	13,373	1,667	114,883	84
0.00 - 0.02%	1,050	28	-	1,078	-
0.02 - 0.07%	26,475	199	-	26,674	1
0.07 - 0.11%	15,458	237	-	15,695	1
0.11 - 0.18%	14,846	228	-	15,074	2
0.18 - 0.45%	13,083	3,014	-	16,097	2
0.45 - 1.78%	5,066	5,349	-	10,415	7
1.78 - 99.99%	459	3,415	-	3,874	10
100%	-	-	1,544	1,544	59
no internal rating	23,406	903	123	24,432	2
CORPORATE LOANS, FACTORING RECEIVABLES, FINANCE LEASE RECEIVABLES	77,647	23,674	4,802	106,123	161
0.00 - 0.45%	11,098	119	-	11,217	1
0.45 - 0.90%	11,498	336	-	11,834	-
0.90 - 1.78%	10,812	1,230	-	12,042	-
1.78 - 3.55%	24,780	6,223	-	31,003	1
3.55 - 7.07%	14,152	8,657	-	22,809	-
7.07 - 14.07%	4,991	4,606	-	9,597	-
14.07 - 99.99%	214	2,476	-	2,690	3
100%	-	-	4,802	4,802	156
no internal rating	102	27	-	129	-
CONSUMER LOANS	26,079	3,576	2,452	32,107	79
0.00 - 0.45%	4,969	44	-	5,013	-
0.45 - 0.90%	7,034	150	-	7,184	-
0.90 - 1.78%	6,564	399	-	6,963	2
1.78 - 3.55%	3,998	615	-	4,613	2
3.55 - 7.07%	1,794	564	-	2,358	1
7.07 - 14.07%	753	530	-	1,283	1
14.07 - 99.99%	180	1,134	-	1,314	2
100%	-	-	2,392	2,392	68
no internal rating	787	140	60	987	3
Total	203,569	40,623	8,921	253,113	324

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2022	Gross carrying amount				
	Stage 1	Stage 2	Stage 3	TOTAL	of which POCI
REAL ESTATE LOANS	98,541	11,033	1,860	111,434	94
0.00 - 0.02%	1,215	1	-	1,216	-
0.02 - 0.07%	32,102	136	-	32,238	-
0.07 - 0.11%	18,312	125	-	18,437	-
0.11 - 0.18%	16,904	229	-	17,133	1
0.18 - 0.45%	17,498	1,954	-	19,452	5
0.45 - 1.78%	6,772	4,398	-	11,170	8
1.78 - 99.99%	820	4,142	-	4,962	13
100%	-	-	1,860	1,860	66
no internal rating	4,918	48	-	4,966	1
CORPORATE LOANS, FACTORING RECEIVABLES, FINANCE LEASE RECEIVABLES	73,252	19,700	5,165	98,117	62
0.00 - 0.45%	13,647	313	-	13,960	-
0.45 - 0.90%	9,021	344	-	9,365	-
0.90 - 1.78%	10,835	754	-	11,589	-
1.78 - 3.55%	22,308	4,877	-	27,185	1
3.55 - 7.07%	12,012	6,832	-	18,844	-
7.07 - 14.07%	3,617	4,466	-	8,083	-
14.07 - 99.99%	1,723	2,067	-	3,790	-
100%	-	-	5,165	5,165	61
no internal rating	89	47	-	136	-
CONSUMER LOANS	24,447	3,231	1,895	29,573	57
0.00 - 0.45%	5,070	51	-	5,121	-
0.45 - 0.90%	6,004	103	-	6,107	-
0.90 - 1.78%	5,359	311	-	5,670	-
1.78 - 3.55%	3,540	488	-	4,028	-
3.55 - 7.07%	1,805	528	-	2,333	1
7.07 - 14.07%	831	528	-	1,359	1
14.07 - 99.99%	225	1,099	-	1,324	2
100%	-	-	1,895	1,895	52
no internal rating	1,613	123	-	1,736	1
Total	196,240	33,964	8,920	239,124	213

- QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR OFF-BALANCE SHEET LIABILITIES

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2023	Gross carrying amount				of which POCI
	Stage 1	Stage 2	Stage 3	TOTAL	
OFF-BALANCE SHEET LIABILITIES					
0.00 - 0.45%	23,916	107	-	24,024	-
0.45 - 0.90%	11,919	272	-	12,190	-
0.90 - 1.78%	11,504	825	-	12,329	-
1.78 - 3.55%	12,319	1,712	-	14,030	-
3.55 - 7.07%	7,772	2,928	-	9,291	-
7.07 - 14.07%	3,300	2,415	-	10,701	-
14.07 - 99.99%	47	209	-	256	-
100%	-	-	947	947	453
no internal rating	13,864	1,102	-	14,967	-
Total	84,641	9,570	947	95,158	453

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2022	Gross carrying amount				of which POCI
	Stage 1	Stage 2	Stage 3	TOTAL	
OFF-BALANCE SHEET LIABILITIES					
0.00 - 0.45%	23,859	1,294	-	25,153	-
0.45 - 0.90%	12,667	98	-	12,765	-
0.90 - 1.78%	10,593	819	-	11,412	-
1.78 - 3.55%	8,598	1,401	-	9,999	-
3.55 - 7.07%	5,872	1,453	-	7,325	-
7.07 - 14.07%	2,542	2,323	-	4,865	-
14.07 - 99.99%	27	131	-	158	-
100%	-	-	812	812	288
no internal rating	21,142	1,228	-	22,370	-
Total	85,300	8,747	812	94,859	288

- QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR AMOUNTS DUE FROM BANKS

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2023	Gross carrying amount				of which POCI
	Stage 1	Stage 2	Stage 3	TOTAL	
AMOUNTS DUE FROM BANKS					
EXTERNAL RATINGS	14,447	-	-	14,447	-
AAA	1,288	-	-	1,288	-
AA	4,252	-	-	4,252	-
A	6,321	-	-	6,321	-
BBB	1,041	-	-	1,041	-
BB	18	-	-	18	-
B	1	-	-	1	-
CCC	7	-	-	7	-
CC	1,519	-	-	1,519	-
Total	14,447	-	-	14,447	-

The note has been prepared on the assumption that, in the absence of external ratings, a translation of internal to external ratings has been made, using the Bank's in-house scale

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2022		Gross carrying amount				
AMOUNTS DUE FROM BANKS	Stage 1	Stage 2	Stage 3	TOTAL	of which POCI	
EXTERNAL RATINGS	16,103	-	-	16,103	-	
AAA	700	-	-	700	-	
AA	4,205	-	-	4,205	-	
A	9,797	-	-	9,797	-	
BBB	148	-	-	148	-	
BB	26	-	-	26	-	
B	2	-	-	2	-	
CCC	1,225	-	-	1,225	-	
Total	16,103	-	-	16,103	-	

The note has been prepared on the assumption that, in the absence of external ratings, a translation of internal to external ratings has been made, using the Bank's in-house scale

- **QUALITY OF THE PORTFOLIO COVERED BY THE RATING MODEL FOR DEBT SECURITIES**

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2023		Gross carrying amount				
DEBT SECURITIES	Stage 1	Stage 2	Stage 3	TOTAL	of which POCI	
EXTERNAL RATINGS	160,299	-	-	160,299	-	
AAA	8,037	-	-	8,037	-	
AA	2,791	-	-	2,791	-	
A	147,728	-	-	147,728	-	
BBB	260	-	-	260	-	
BB	1,483	-	-	1,483	-	
INTERNAL RATINGS	34,250	792	12	35,054	-	
0.00-0.45%	13,230	-	-	13,230	-	
0.45-0.90%	4,090	166	-	4,256	-	
0.90-1.78%	308	267	-	575	-	
1.78-3.55%	620	-	-	620	-	
3.55-7.07%	167	-	-	167	-	
7.07-14.07%	-	161	-	161	-	
100.00%	-	-	12	12	-	
no internal rating	15,835	198	-	16,033	-	
Total	194,549	792	12	195,353	-	

CREDIT RISK EXPOSURES BY PD PARAMETER 31.12.2022	Gross carrying amount					of which POCI
	DEBT SECURITIES	Stage 1	Stage 2	Stage 3	TOTAL	
EXTERNAL RATINGS	106,502	-	-	-	106,502	-
AAA	5,715	-	-	-	5,715	-
AA	41	-	-	-	41	-
A	96,728	-	-	-	96,728	-
BBB	1,550	-	-	-	1,550	-
BB	2,468	-	-	-	2,468	-
INTERNAL RATINGS	26,201	758	374	27,333	359	
0.00-0.45%	24,663	420	-	25,083	-	
0.45-0.90%	720	2	-	722	-	
0.90-1.78%	62	76	-	138	-	
1.78-3.55%	202	-	-	202	-	
3.55-7.07%	188	113	-	301	-	
7.07-14.07%	-	147	-	147	-	
100%	-	-	374	374	359	
no internal rating	366	-	-	366	-	
Total	132,703	758	374	133,835	359	

55. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group enters into offsetting arrangements, i.e. ISDA agreements (International Swaps and Derivatives Association Master Agreements) and GMRA agreements (Global Master Repurchase Agreements), which make it possible to offset financial assets and liabilities (close out netting) in the event of an infringement with respect to one of the parties of the agreement. These agreements are of particular importance to mitigate the risk posed by derivative instruments, because they enable offsetting both matured liabilities (mitigating the settlement risk) and non-matured liabilities of the parties (mitigating the pre-settlement risk). However, these agreements do not meet the requirements set out in IAS 32, because the right to offset is conditional on the occurrence of a specific future event (instances of infringement).

The Group offsets financial assets and liabilities arising from the valuation of opposite fx forwards concluded with customers in order to partially or fully close out the position for a given customer.

Exposures arising from derivatives are further secured by margin deposits provided by counterparties as part of executing CSA (Credit Support Annex).

OFFSETTING ASSETS	Total financial assets	Derivatives	Reverse repo transactions
31.12.2023			
Recognized financial assets, gross	9,959	9,587	372
Financial liabilities subject to offsetting, gross	(7)	(7)	-
Financial assets recognized in the statement of financial position, net	9,952	9,580	372
Amounts subject to enforceable framework agreement or similar agreement concerning offsetting, including related to:	911	911	-
(i) recognized financial instruments which do not meet the offsetting criteria	467	467	-
(ii) financial collateral (including cash)	444	444	-
Net amount	9,041	8,669	372

OFFSETTING LIABILITIES	Total financial liabilities	Derivatives	Repo transactions
31.12.2023			
Recognized financial liabilities, gross	12,290	12,290	-
Financial liabilities subject to offsetting, gross	(7)	(7)	-
Financial assets recognized in the statement of financial position, net	12,283	12,283	-
Amounts subject to enforceable framework agreement or similar agreement concerning offsetting, including related to:	2,318	2,318	-
(i) recognized financial instruments which do not meet the offsetting criteria	467	467	-
(ii) financial collateral (including cash)	1,851	1,851	-
Net amount	9,965	9,965	-

OFFSETTING ASSETS	Total financial assets	Derivatives	Reverse repo transactions
31.12.2022			
Recognized financial assets, gross	14,215	14,208	7
Financial liabilities subject to offsetting, gross	(4)	(4)	-
Financial assets recognized in the statement of financial position, net	14,211	14,204	7
Amounts subject to enforceable framework agreement or similar agreement concerning offsetting, including related to:	1,628	1,628	-
(i) recognized financial instruments which do not meet the offsetting criteria	912	912	-
(ii) financial collateral (including cash)	716	716	-
Net amount	12,583	12,576	7

OFFSETTING LIABILITIES	Total financial liabilities	Derivatives	Repo transactions
31.12.2022			
Recognized financial liabilities, gross	20,451	20,451	-
Financial liabilities subject to offsetting, gross	(4)	(4)	-
Financial assets recognized in the statement of financial position, net	20,447	20,447	-
Amounts subject to enforceable framework agreement or similar agreement concerning offsetting, including related to:	2,978	2,978	-
(i) recognized financial instruments which do not meet the offsetting criteria	912	912	-
(ii) financial collateral (including cash)	2,066	2,066	-
Net amount	17,469	17,469	-

56. MANAGING CREDIT CONCENTRATION RISK IN THE GROUP

The Group defines credit concentration risk as the risk arising from a considerable exposure to single customers or groups of related customers whose repayment capacity depends on a common risk factor. The Group analyses the concentration risk, among other things, towards:

- the largest entities (customers);
- the largest groups of related customers;
- industry sectors;
- geographical regions;
- currencies;
- exposures secured with a mortgage.
- **RISK MANAGEMENT OBJECTIVE**

The objective of concentration risk management is to ensure a safe structure of the loan portfolio by mitigating threats arising from excessive concentrations relating to exposures characterized by a potential to generate significant losses at the Bank.

- **MEASUREMENT AND ASSESSMENT OF CONCENTRATION RISK**

The Group measures and assesses concentration risk by examining the actual aggregate exposure to a customer or to a group of related customers and the actual aggregate exposure to individual groups of loan portfolios.

The Group's actual exposure complies with the definition of exposure in the CRR, which comprises all assets or off-balance sheet items, including exposures in the banking and trading book and indirect exposures arising from the security applied.

Concentration risk is identified by recognizing the factors due to which the risk may arise or the level of the Group's exposure may change, including potential risk factors resulting, for example, from planned activities of the Group. In the process of identifying concentration risk, the Group:

- identifies and updates the structure of the group of related customers;
- aggregates the exposures towards a customer or a group of related customers;
- applies exemptions from regulatory limits on large exposures and takes into account recognised credit risk mitigation techniques, to the extent consistent with the CRR.

The Bank's tolerance to concentration risk is determined by:

- external regulatory limits arising from Art. 395 of the CRR and from Article 79a of the Banking Law;
- internal limits of the Group;
 - strategic limits of concentration risk tolerance;
 - limits that define the appetite for concentration risk.

The Group uses the following to measure concentration risk:

- the exposure concentration ratio of the Group towards a customer or a group of related customers in relation to the Group's Tier 1 capital;
- Gini coefficient;
- graphs of portfolio concentration (Lorenz curve).

To measure concentration risk and evaluate the effect of internal and external factors on the concentration risk, the Bank performs stress tests with respect to concentration risk for large exposures.

- **MONITORING AND FORECASTING CONCENTRATION RISK**

The Group monitors concentration risk:

- on an individual level, by verifying the exposure concentration ratio for a customer or a group of related customers, each time before applying for a decision on granting financing or increasing the amount of the exposure, and before taking other actions resulting in increasing the Bank's exposure on other accounts;
- on a systemic level, by:
 - daily control over the Bank's compliance with the external concentration limit and identifying large exposures;
 - monthly control over the Bank's compliance with the limit arising from Article 79a of the Banking Law;
 - monthly or quarterly control over compliance with the Group's internal limits with respect to concentration risk;
 - monitoring early warning ratios with respect to concentration;

The Group forecasts changes in the level of concentration risk as part of its analyses and reviews of internal limits and the concentration risk management policy, and in the process of concentration risk stress testing.

The Group performs stress tests to examine, for example, the effect of macroeconomic factors on individual concentrations, the impact of decisions of other financial market participants, decisions on customer mergers, dependency on other risks, for example, currency risk, which may contribute to the materialization of concentration risk, and the effect of other factors from the internal and external environment on the concentration risk.

Concentration risk is tested as part of comprehensive stress tests which enable evaluating the forecast effect of correlated credit, interest rate, currency, operating and liquidity risks and concentration risk on the expected credit losses of the Group.

- **CONCENTRATION RISK REPORTING**

Reports on currency risk are prepared on a daily, monthly and quarterly basis.

Concentration risk reporting comprises periodic (monthly or quarterly) reporting to the Bank's relevant bodies on the scale of exposure to concentration risk, which may lead to a significant change in the Bank's risk profile, including in particular:

- utilization of limits defining risk appetite and exceeding those limits;
- early warning ratios;
- stress-test results;
- on portfolio concentration risk and concentration of the Group's largest exposures and compliance with concentration standards arising from the Banking Law.
- in quarterly periods - of the supervisory authorities to the extent specified in the consolidated Large exposures reports.

- **MANAGEMENT ACTIONS RELATING TO CONCENTRATION RISK**

The purpose of management actions is to shape and optimize the concentration risk management process and concentration risk level at the Group (preventing excessive concentrations).

Management actions comprise in particular:

- publishing the Bank's internal regulations on the process of concentration risk management, defining the tolerance level for concentration risk, determining limits and threshold amounts;
- issuing recommendations, guidelines for conduct, explanations and interpretations of internal regulations;
- taking decisions concerning an acceptable level of concentration risk, including in particular decisions determining the threshold values of limits reflecting concentration risk appetite;
- developing and improving concentration risk control tools which make it possible to maintain the concentration risk level within the limits acceptable to the Bank;

- developing and improving concentration risk assessment methods taking into account the changeability of the macroeconomic situation, including crises on foreign and domestic markets and changeability of the regulatory environment;
- developing and improving IT tools to support concentration risk management.
- **CONCENTRATION BY THE LARGEST ENTITIES (CUSTOMERS)**

The risk of concentration of exposures to individual customers and groups of related customers is monitored in accordance with the CRR, which is translated into the Bank's Group. The Group does not assume an exposure to a customer or a group of related customers the value of which exceeds 25% of the value of its consolidated Tier 1 capital.

As at 31 December 2023 and 31 December 2022, concentration limits were not exceeded. As at 31 December 2023, the largest exposure to a single entity accounted amounted to 41.28%¹ of the consolidated Tier 1 capital (42.78%¹ of the consolidated Tier 1 capital as at 31 December 2022).

The Group's exposure to the 20 largest non-banking customers ²:

31.12.2023				31.12.2022			
No	Credit exposures include loans, advances, purchased debt, bill of exchange discounts, realized guarantees, and interest receivables as well as off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Concentration ratio (relation of exposure to the value of the consolidated T1 capital)	No	Credit exposures include loans, advances, purchased debt, bill of exchange discounts, realized guarantees, and interest receivables as well as off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Concentration ratio (relation of exposure to the value of the consolidated T1 capital)
1. ¹	17,224	4.29%	41.28%	1. ¹	16,314	4.43%	42.78%
2.	3,457	0.86%	8.29%	2.	4,700	1.28%	12.32%
3. ¹	3,360	0.84%	8.05%	3. ¹	3,676	1.00%	9.64%
4.	3,151	0.78%	7.55%	4.	2,756	0.75%	7.23%
5. ¹	2,755	0.69%	6.60%	5.	2,453	0.67%	6.43%
6.	2,594	0.65%	6.22%	6.	2,164	0.59%	5.67%
7.	2,061	0.51%	4.94%	7.	1,928	0.52%	5.05%
8.	1,927	0.48%	4.62%	8.	1,775	0.48%	4.65%
9.	1,826	0.45%	4.38%	9.	1,657	0.45%	4.35%
10.	1,816	0.45%	4.35%	10. ¹	1,618	0.44%	4.24%
11.	1,606	0.40%	3.85%	11.	1,595	0.43%	4.18%
12.	1,501	0.37%	3.60%	12.	1,462	0.40%	3.83%
13.	1,492	0.37%	3.58%	13.	1,374	0.37%	3.60%
14.	1,467	0.37%	3.52%	14.	1,326	0.36%	3.48%
15.	1,375	0.34%	3.30%	15.	1,296	0.35%	3.40%
16.	1,343	0.33%	3.22%	16.	1,237	0.34%	3.24%
17.	1,284	0.32%	3.08%	17.	1,191	0.32%	3.12%
18.	1,283	0.32%	3.08%	18.	1,134	0.31%	2.97%
19.	1,205	0.30%	2.89%	19.	1,124	0.31%	2.96%
20.	1,148	0.30%	2.75%	20.	1,008	0.26%	2.65%
Total	53,875	13.42%	129.15%	Total	51,788	14.06%	135.79%

¹ exposure excluded or partly excluded from the exposure concentration limit under the CRR.

² off-balance sheet exposure includes the liability arising from derivative transactions in an amount equal to their balance sheet equivalent

● **CONCENTRATION BY THE LARGEST GROUPS OF RELATED CUSTOMERS**

The largest concentration of the Group's exposure to a group of related borrowers amounted to 4.68% of the Group's loan portfolio (4.77% as at 31 December 2022).

As at 31 December 2023 and 31 December 2022, the largest concentration of the Group's exposures was, respectively: 44.94%¹ of the consolidated Tier 1 capital and 46.09%¹ of the consolidated Tier 1 capital.

The Group's exposure² to 5 largest groups of related customers³

31.12.2023				31.12.2022			
No	Credit exposures include loans, advances, purchased debt, bill of exchange discounts, realized guarantees, and interest receivables as well as off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Concentration ratio (relation of exposure to the value of the consolidated T1 capital)	No	Credit exposures include loans, advances, purchased debt, bill of exchange discounts, realized guarantees, and interest receivables as well as off-balance sheet and capital exposures	Share in the loan portfolio, including off-balance sheet and capital exposures	Concentration ratio (relation of exposure to the value of the consolidated T1 capital)
1. ¹	18,751	4.68%	44.94%	1. ¹	17,578	4.77%	46.09%
2.	4,331	1.08%	10.38%	2.	5,851	1.59%	15.34%
3. ¹	4,034	1.00%	9.67%	3. ¹	3,688	1.00%	9.67%
4.	3,464	0.86%	8.30%	4.	2,869	0.78%	7.52%
5.	3,423	0.85%	8.20%	5.	2,762	0.75%	7.24%
Total	34,003	8.47%	81.49%	Total	32,748	8.89%	85.86%

¹ exposure partly excluded from the exposure concentration limit under the CRR

² off-balance sheet exposure includes the liability arising from derivative transactions in an amount equal to their balance sheet equivalent

³ the list does not include exposure to the State Treasury (relevant for groups in which the State Treasury has control)

• **CONCENTRATION BY INDUSTRY**

The structure of the Group's exposure by industry sector is dominated by entities operating in the "Financial and insurance activity" and "Industrial processing" sections. The Group's exposure to these sectors represents approximately 38% of the entire industry portfolio (37% as at 31 December 2022).

SECTION SYMBOL	SECTION NAME	31.12.2023		31.12.2022	
		EXPOSURE	NUMBER OF ENTITIES	EXPOSURE	NUMBER OF ENTITIES
K	Financial and insurance activities	22.75	1.74	19.00	1.80
C	Industrial processing	15.63	10.28	17.95	10.49
L	Real estate administration	8.47	10.44	9.90	11.13
G	Wholesale and retail trade, repair of motor vehicles	10.53	20.23	12.45	20.88
O	Public administration and national defence, obligatory social security	12.92	1.61	9.89	1.59
Other exposures		29.70	55.70	30.81	54.11
Total		100.00	100.00	100.00	100.00

• **CONCENTRATION BY GEOGRAPHICAL REGIONS**

The Group's loan portfolio is diversified in terms of geographical concentration.

The structure of the loan portfolio by geographical regions is identified by the Group depending on a customer type – it differs for the Retail Market Area (ORD) and for the Corporate and Investment Banking Area (OKI).

In 2023, as in 2022, the largest concentration of the ORD loan portfolio was in the Warsaw region, which accounts for 16.4% of the ORD portfolio (as at 31 December 2022: 16.6%)

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR RETAIL CUSTOMERS	31.12.2023	31.12.2022
Warsaw region	16.37	16.58
Katowice region	11.04	11.00
Poznań region	10.26	10.35
Kraków region	8.42	8.28
Łódź region	8.59	8.61
Wrocław region	10.97	10.86
Gdańsk region	10.31	10.20
Lublin region	7.11	7.04
Białystok region	6.39	6.34
Szczecin region	8.16	8.23
Head Office	0.67	0.68
Other	0.57	0.60
Foreign countries	1.14	1.23
Total	100.00	100.00

In 2023, as in 2022, the largest concentration of the ORD loan portfolio was in the central macroregion which accounts for 45.2% of the ORD portfolio (as at 31 December 2022: 42.7%)

CONCENTRATION OF CREDIT RISK BY GEOGRAPHICAL REGION FOR INSTITUTIONAL CUSTOMERS	31.12.2023	31.12.2022
Head Office	3.44	3.61
central macroregion	45.17	42.75
northern macroregion	7.87	9.00
western macroregion	11.02	11.84
southern macroregion	9.58	9.88
south-eastern macroregion	9.42	10.27
north-eastern macroregion	4.78	4.16
south-western macroregion	6.53	6.44
Foreign countries	2.19	2.05
Total	100.00	100.00

- CONCENTRATION OF CREDIT RISK BY CURRENCY**

As at 31 December 2023, the share of exposures in convertible currencies other than PLN in the entire Group's portfolio amounted to 14.8% (as at 31 December 2022: 17.0%). Loans in the EUR are dominating in the structure of foreign currency loans. Their share in the Group's foreign currency loan portfolio as at the end of 2023 was 79.6% (as at 31 December 2022: 69.9%). A consistent decrease in CHF loans has been observed, mainly as a result of the activities related to concluding settlement agreements with customers holding housing loans in this currency. The share of loans in CHF in the Group's portfolio as at the end of 2023 amounted to 1.7% (as at 31 December 2022: 3.5%)

CONCENTRATION OF CREDIT RISK BY CURRENCY	31.12.2023	31.12.2022
PLN	85.24	82.97
Foreign currencies, of which:	14.76	17.03
CHF	1.70	3.50
EUR	11.76	11.90
USD	0.83	1.04
UAH	0.03	0.01
GBP	0.42	0.57
Other	0.03	0.02
Total	100.00	100.00

- OTHER TYPES OF CONCENTRATION**

The Group analyses the structure of its housing loan portfolio by LTV levels. As at the end of 2023 and 2022, the highest concentration was in the range of LTV 0%-40%.

THE GROUP'S HOUSING LOAN PORTFOLIO STRUCTURE BY LTV	31.12.2023	31.12.2022
0% - 40%	48.03	43.96
41%-60%	31.77	39.93
61% - 80%	14.05	14.00
81% - 90%	3.03	1.60
91% - 100%	2.65	0.22
over 100%	0.47	0.29
Total	100.00	100.00

	31.12.2023	31.12.2022
average LTV for the portfolio of loans in CHF	43.73	47.27
average LTV for the entire portfolio	43.80	44.11

57. COLLATERAL

The Group takes into account the collateral held for credit exposures when estimating the expected credit loss. With respect to individually significant exposures that meet the conditions for impairment, future collateral recoveries are estimated individually and taken into account in determining the expected loss, with a weight corresponding to the assessment of the probability of implementation of the debt recovery scenario. The value of collateral recoveries estimated under the recovery scenario for impaired exposures at the balance sheet date was PLN 917 million (as at 31 December 2022: PLN 1,098 million).

The Group does not have any exposures for which, due to the value of the collateral, it has not recognized an allowance for expected credit loss.

See also information in note [“CREDIT RISK MANAGEMENT”, “USE OF CREDIT RISK MITIGATION TECHNIQUES – COLLATERAL”](#).

58. EXPOSURE TO THE COUNTERPARTY CREDIT RISK

CONCENTRATION OF CREDIT RISK – INTERBANK MARKET AND NON-WHOLESALE MARKET – EXPOSURE AS AT 31.12.2023*									
Counterparty	Country	Rating	Interbank market – wholesale			Non-wholesale market			Total
			Deposit (nominal value)	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal balance sheet exposure	Nominal off-balance sheet exposure	Cash on NOSTRO accounts	
Counterparty 1	Poland	A	63	-	9,177	-	-	-	9,240
Counterparty 2	Luxembourg	AAA	-	-	8,038	-	-	-	8,038
Counterparty 3	Switzerland	AAA	1,287	17	-	-	-	-	1,304
Counterparty 4	France	A	783	-	-	-	-	-	783
Counterparty 5	Norway	AA	674	-	-	-	-	1	675
Counterparty 6	Switzerland	AA	642	-	-	-	-	-	642
Counterparty 7	Austria	BBB	531	-	-	-	-	-	531
Counterparty 8	Belgium	A	304	(8)	-	-	-	199	503
Counterparty 9	The Netherlands	A	500	-	-	-	-	-	500
Counterparty 10	Switzerland	AA	492	-	-	-	-	3	495
Counterparty 11	Japan	A	492	-	-	-	-	-	492
Counterparty 12	Germany	AA	-	404	-	8	24	4	440
Counterparty 13	Switzerland	AA	435	-	-	-	-	-	435
Counterparty 14	Austria	A	391	-	-	-	-	4	395
Counterparty 15	Switzerland	AA	394	-	-	-	-	-	394
Counterparty 16	Switzerland	NONE	394	-	-	-	-	-	394
Counterparty 17	France	A	-	357	-	-	-	-	357
Counterparty 18	Switzerland	AA	295	-	-	-	-	-	295
Counterparty 19	Spain	A	239	-	-	-	-	-	239
Counterparty 20	Germany	BBB	59	(92)	-	-	-	111	170

* Excluding exposures to the State Treasury and the National Bank of Poland

CONCENTRATION OF CREDIT RISK – INTERBANK MARKET AND NON-WHOLESALE MARKET – EXPOSURE AS AT 31.12.2022*

Counterparty	Country	Rating	Interbank market - wholesale			Non-wholesale market			Total
			Deposit (nominal value)	Derivatives (market value, excluding collateral if positive)	Securities (nominal value)	Nominal balance sheet exposure	Nominal off- balance sheet exposure	Cash on NOSTRO accounts	
Counterparty 1	Poland	A	66	(32)	7,667	-	-	-	7,733
Counterparty 2	Luxembourg	AAA	-	-	3,656	-	-	-	3,656
Counterparty 13	Switzerland	AA	880	-	-	-	-	-	880
Counterparty 6	Switzerland	AA	704	-	-	-	-	-	704
Counterparty 108	Germany	AAA	694	-	-	-	-	-	694
Counterparty 16	Switzerland	AA	593	-	-	-	-	-	593
Counterparty 4	France	A	484	-	-	-	-	-	484
Counterparty 15	Switzerland	AA	399	-	-	-	-	-	399
Counterparty 8	Belgium	A	-	103	-	-	-	290	393
Counterparty 12	Germany	AA	-	335	-	3	29	5	372
Counterparty 17	France	A	-	353	-	-	-	-	353
Counterparty 20	Germany	BBB	56	260	-	-	-	-	316
Counterparty 18	Switzerland	AA	300	-	-	-	-	-	300
Counterparty 41	Poland	A	279	15	-	-	-	-	294
Counterparty 22	United States of America	AA	-	-	-	4	11	192	207
Counterparty 21	Poland	A	-	17	2	150	-	-	170
Counterparty 42	France	A	-	42	-	-	-	91	133
Counterparty 57	Germany	A	-	-	-	-	-	126	126
Counterparty 23	United States of America	AA	-	-	-	-	-	124	124
Counterparty 36	Germany	A	-	70	-	-	-	4	74

* Excluding exposures to the State Treasury and the National Bank of Poland

In order to limit the credit risk in respect of derivative transactions and securities transactions, the Group concludes with its counterparties framework agreements (under the ZBP, ISDA and ICMA standards). The framework agreements allow to offset mutual amounts payable (reduction of the settlement risk) and non-payable (reduction of pre-settlement risk), resulting from transactions, and also utilize the close-out netting mechanism upon termination of the framework agreement as a result of default or an event justifying termination with regard to one or both parties to the agreement.

Moreover, the Group concludes with its counterparties collateral agreements (CSA – Credit Support Annex under the ISDA standard, or a Collateral Agreement under the ZBP standard), under which each party undertakes, upon meeting the premises stipulated therein, to establish appropriate collateral together with the right to offset. Exemptions include derivative transactions concluded between members of the Group: PKO Bank Polski S.A. and PKO Bank Hipoteczny S.A., which have been exempted from the obligations imposed by the EMIR Regulation regarding the exchange of collateral.

The Group had access to two clearing houses (CCP) through which it settles clears interest rate derivative transactions specified in the EMIR Regulation with selected domestic and foreign counterparties.

In connection with the requirement to exchange Initial Margin (IM), for certain types of derivative transactions not cleared at a CCP, under the EMIR Regulation, the Group signs IM agreements with its counterparties, based on the ISDA standard. Initial margin is deposited with the depositary by the two parties to the derivative transaction, in the form of acceptable securities, when the so-called IM threshold (the amount by which the IM threshold is reduced) is exceeded. The amount of the calculated IM requirement is monitored until the threshold IM is exceeded.

59. FORBEARANCE PRACTICES

Forbearance is defined by the Group as actions aimed at amending contractual terms agreed with a debtor or an issuer, forced by the debtor's or issuer's difficult financial situation (restructuring activities introducing concessions that otherwise would not have been granted). The aim of forbearance activities is to restore a debtor's or an issuer's ability to settle their liabilities towards the Group and to maximize the efficiency of non-performing loans management, i.e. obtaining the highest possible recoveries while minimizing the costs incurred.

Forbearance changes in repayment terms may consist of:

- dividing the debt due into instalments;
- changing the repayment scheme (annuity payments, degressive payments);
- extending the loan period;
- changing the interest rate;
- changing the margin;
- reducing the debt.

As a result of concluding a forbearance agreement and repaying the amounts due under it on a timely basis, a non-performing loan becomes a performing loan.

The provision of facilities within the framework of forbearance, as a premise of impairment, results in the recognition of the premise of impairment and the classification of the credit exposure into the portfolio of exposures at risk of impairment.

The inclusion of such exposures in the portfolio of performing exposures (discontinuing recognition of the forbearance agreement as an impairment trigger) takes place at least 12 months after the introduction of forbearance, provided that all payments in arrears and at least six scheduled payments have been made by the customer and, in the Group's opinion, the current situation of the customer does not pose a threat to their compliance with the terms of the restructuring agreement (except where the forbearance agreement comprises reducing the receivables) (principal, interest or fees) by more than 1%).

Exposures cease to meet the criteria of a forborne exposure when all of the following conditions are met:

- at least 24 months have passed from the date of including the exposure into the portfolio of performing exposures (conditional period);

- as at the end of the conditional period referred to above, the customer has no debt towards the Group overdue for more than 30 days;
- at least 12 instalments have been repaid on a timely basis and in the amounts agreed.

Forborne exposures are monitored on an on-going basis. Throughout the whole period of their recognition allowances are recognized for these exposures in the amount of expected losses over the life horizon of the exposure.

Non-performing exposures are understood as on-balance sheet exposures to an obligor that are past due by more than 90 days and the gross carrying amount of the past due exposures represents more than 20% of the gross carrying amount of all on-balance sheet exposures to that obligor.

31.12.2023	Instruments with modified terms and conditions	Refinancing	Total gross	Impairment losses	Total, net
Performing exposures					
Not held for trading, measured at fair value through profit or loss	11	-	11	-	11
consumer loans	11	-	11	-	11
Measured at amortized cost:	633	1	634	(51)	583
housing loans	152	-	152	(12)	140
business loans	358	1	359	(25)	334
consumer loans	114	-	114	(14)	100
finance lease receivables	9	-	9	-	9
Total performing exposures	644	1	645	(51)	594
Non-performing exposures					
Not held for trading, measured at fair value through profit or loss	71	-	71	-	71
consumer loans	25	-	25	-	25
corporate bonds	46	-	46	-	46
Measured at fair value through OCI:	12	-	12	-	12
corporate bonds	12	-	12	-	12
Measured at amortized cost:	1,593	32	1,625	(707)	918
housing loans	287	-	287	(194)	93
business loans	1,100	29	1,129	(478)	651
consumer loans	158	3	161	(7)	154
finance lease receivables	48	-	48	(28)	20
Total non-performing exposures	1,676	32	1,708	(707)	1,001
TOTAL EXPOSURES SUBJECT TO FORBEARANCE	2,320	33	2,353	(758)	1,595

31.12.2022	Instruments with modified terms and conditions	Refinancing	Total gross	Impairment losses	Total, net
Performing exposures					
Not held for trading, measured at fair value through profit or loss	12	-	12	-	12
consumer loans	12	-	12	-	12
Measured at amortized cost:	755	2	757	(57)	700
housing loans	213	-	213	(12)	201
business loans	350	2	352	(24)	328
consumer loans	103	-	103	(13)	90
finance lease receivables	89	-	89	(8)	81
Total performing exposures	767	2	769	(57)	712
Non-performing exposures					
Not held for trading, measured at fair value through profit or loss	74	-	74	-	74
consumer loans	29	-	29	-	29
corporate bonds	45	-	45	-	45
Measured at fair value through OCI:	374	-	374	2	376
corporate bonds	374	-	374	2	376
Measured at amortized cost:	1,754	45	1,799	(856)	943
housing loans	356	-	356	(251)	105
business loans	1,200	42	1,242	(554)	688
consumer loans	176	3	179	(40)	139
factoring receivables	7	-	7	(2)	5
finance lease receivables	15	-	15	(9)	6
Total non-performing exposures	2,202	45	2,247	(854)	1,393
TOTAL EXPOSURES SUBJECT TO FORBEARANCE	2,969	47	3,016	(911)	2,105

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE	2023	2022
Recognized interest income on forbore loans and advances granted to customers	200	143

60. INFORMATION ON SECURITIZATION OF THE LEASE PORTFOLIO AND PACKAGE SALE OF RECEIVABLES

In 2019, the Group conducted securitization of lease receivables with a value of PLN 2.5 billion. The Company sold lease receivables to the special-purpose vehicle Polish Lease Prime 1 Designated Activity Company (Polish Lease Prime 1 DAC) with its registered office in Dublin (Ireland). The receivables purchased by the SPV were financed mainly with an issue of securities (bonds) conducted on 26 September 2019 with the redemption date falling on 28 December 2029 and with funds obtained as part of the PKO Leasing SA Group. The objective and benefit of selling these receivables to the SPV was to obtain and diversify sources of long-term financing.

The redemption of debt securities in the period as of 1 January to 31 December 2023 at their nominal value amounted to PLN 1,060 million and was carried out on quarterly settlement dates: 28 February, 30 May, 31 August and 30 November 2023.

With effect from 30 November 2023, PKO Leasing S.A. exercised its option to buy the remaining lease receivables left in the programme (the clean-up-call option). The reason for closing the transaction in question was the relatively low outstanding balance of the financing raised. The SPV used the proceeds from the resale of receivables to PKO Leasing S.A. to buy back and redeem the last bonds and repay the subordinated loans granted to it by PKO Leasing S.A.

Preparations are underway to begin the process of winding down the SPV, Polish Lease Prime 1 DAC, which is expected to be completed by the end of 2024.

As at 31 December 2023, the value of receivables constituting the object of the securitization transaction for lease receivables amounted to PLN 0 million, and as at 31 December 2022: PLN 992 million.

In addition, in 2023 the Group effected package sales (balance sheet and off-balance sheet receivables) of more than 21 thousand individual receivables from retail and business customers amounting to more than PLN 770 million (43 thousand individual receivables of PLN 1,351 million in 2022). The total carrying amount of the provisions for potential claims on the sale of receivables as at 31 December 2023 amounted to PLN 2 million (as at 31 December 2022, it was PLN 4 million). As a result of the sale of the receivables all risks and rewards were transferred, hence the Group derecognized these assets.

The Group did not receive any securities on account of the aforementioned transactions.

61. MANAGEMENT OF CURRENCY RISK ASSOCIATED WITH MORTGAGE LOANS FOR INDIVIDUALS

The Group analyses its portfolio of convertible currency mortgage loans to individuals in a specific manner. The Group monitors the quality of the portfolio on an on-going basis and reviews the risk of deterioration of the portfolio quality. Currently, the quality of the portfolio is at an acceptable level. The Group takes the risk into consideration in the capital adequacy and equity management.

HOUSING LOANS AND ADVANCES TO INDIVIDUALS (RETAIL AND PRIVATE BANKING) BY CURRENCY	31.12.2023			31.12.2022		
	gross	impairment loss	net	gross	impairment loss	net
in local currency	102,956	(1,552)	101,404	94,169	(1,400)	92,769
PLN	102,751	(1,500)	101,251	93,836	(1,353)	92,483
UAH	205	(52)	153	333	(47)	286
in foreign currency	6,639	(710)	5,929	11,637	(765)	10,872
CHF	4,790	(595)	4,195	9,353	(677)	8,676
EUR	1,818	(110)	1,708	2,244	(83)	2,161
USD	26	(5)	21	34	(5)	29
OTHER	5	-	5	6	-	6
Total	109,595	(2,262)	107,333	105,806	(2,165)	103,641

Convertible currency housing loans and advances to individuals by the granting date		31.12.2023			31.12.2022		
		Indexed	Denominated	Total	Indexed	Denominated	Total
up to 2002	Gross amount	-	14	14	-	28	28
	Allowances for credit losses	-	-	-	-	(1)	(1)
	Net amount	-	14	14	-	27	27
	Number of loans granted	-	2,068	2,068	-	2,737	2,737
from 2003 to 2006	Gross amount	-	802	802	-	1,976	1,976
	Allowances for credit losses	-	(83)	(83)	-	(111)	(111)
	Net amount	-	719	719	-	1,865	1,865
	Number of loans granted	-	22,418	22,418	-	30,771	30,771
from 2007 to 2009	Gross amount	-	2,383	2,383	-	4,911	4,911
	Allowances for credit losses	-	(393)	(393)	-	(490)	(490)
	Net amount	-	1,990	1,990	-	4,421	4,421
	Number of loans granted	-	26,552	26,552	-	35,811	35,811
from 2010 to 2012	Gross amount	1,695	1,736	3,431	2,439	2,268	4,707
	Allowances for credit losses	(119)	(113)	(232)	(76)	(85)	(161)
	Net amount	1,576	1,623	3,199	2,363	2,183	4,546
	Number of loans granted	7,449	9,558	17,007	8,741	10,344	19,085
from 2013 to 2016	Gross amount	2	7	9	4	11	15
	Allowances for credit losses	-	(2)	(2)	-	(2)	(2)
	Net amount	2	5	7	4	9	13
	Number of loans granted	13	29	42	18	34	52
Total	Gross carrying amount	1,697	4,942	6,639	2,443	9,194	11,637
	Allowances for credit losses	(119)	(591)	(710)	(76)	(689)	(765)
	Net carrying amount	1,578	4,351	5,929	2,367	8,505	10,872
	Number of loans granted	7,462	60,625	68,087	8,759	79,697	88,456

62. INTEREST RATE RISK MANAGEMENT

INTEREST RATE RISK MANAGEMENT

- **DEFINITION**

Interest rate risk is a risk of losses being incurred on the Group's balance sheet and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in market interest rates.

- **RISK MANAGEMENT OBJECTIVE**

To reduce the potential losses resulting from market interest rate fluctuations to an acceptable level by properly shaping the structure of balance sheet and off-balance sheet items.

- **RISK IDENTIFICATION AND MEASUREMENT**

The Group uses the following measures of interest rate risk: interest income sensitivity, economic value sensitivity, value at risk (VaR), stress tests and repricing gaps.

- **CONTROL**

Control over interest rate risk consists of determining interest rate risk limits and thresholds tailored to the scale and complexity of the Group's operations, in particular the strategic limit of tolerance to interest rate risk.

- **RISK FORECASTING AND MONITORING**

The following measures are monitored by the Group on a regular basis:

- the levels of interest rate risk measures;
- utilization of the strategic limit of tolerance to interest rate risk;
- utilization of internal limits and thresholds of interest rate risk.

- **REPORTING**

Reports on interest rate risk are prepared on a daily, weekly, monthly and quarterly basis. The reports contain information on interest rate risk exposure and on the risk limits utilization. The reports are addressed mainly to: ALCO, RC, the Management Board, the Risk Committee and the Supervisory Board.

- **MANAGEMENT ACTIONS**

The main tools for interest rate risk management used by the Group are:

- interest rate risk management procedures;
- currency risk limits and thresholds;
- transactions that reduce interest income sensitivity or economic value sensitivity.

The Group established limits and thresholds for interest rate risk comprising, among other things, the following: interest income sensitivity, sensitivity of the economic value and losses.

FINANCIAL INFORMATION

The PKO Bank Polski S.A. Group's exposure to interest rate risk remained within the adopted limits as at 31 December 2023 and 31 December 2022. The Group was mainly exposed to PLN interest rate risk. Interest rate risk generated by the Group companies did not materially affect interest rate risk of the entire Group and therefore did not change its risk profile significantly.

The Group categorizes its portfolios from the perspective of interest rate risk management:

- the banking book - comprises balance sheet and off-balance sheet items not included in the trading book, in particular items resulting from the Group's core activities, transactions concluded for investment and liquidity purposes and their hedging transactions;

- the trading book - comprises transactions concluded on financial instruments as part of activities conducted on own account and on behalf of the customers.

Due to the principle of keeping interest rate risk in the trading book at a limited level, this risk is primarily generated by positions in the banking book.

In order to mitigate the interest rate risk of the banking book, the Group uses limits and thresholds, as well as risk mitigation transactions based on information on the level of risk (using a measure of interest income sensitivity, a measure of economic value sensitivity, shock analyses and repricing gap) and planned business development. In order to hedge the level of future cash flows and the volatility of fair value arising from interest rate risk, hedging strategies approved by the Bank's Management Board are applied using IRS/CIRS transactions as part of hedge accounting, which are described in note "[Hedge accounting and other derivative instruments.](#)"

BANKING BOOK

In order to monitor interest rate risk the Group in applies interest rate risk measures that reflect the identified five main types of interest rate risk:

- the risk of revaluation date mismatch;
- the yield curve risk;
- the basis risk;
- the customer option risk; and
- credit spread risk in the banking book (CSRBB).

- SENSITIVITY OF INTEREST INCOME**

The sensitivity of interest income to sudden shifts in the yield curve is determined by a potential financial effect of such a shift reflected in a changed amount of interest income in a given time horizon. The change results from the mismatch between revaluation dates of assets, liabilities and off-balance sheet liabilities granted and received (in particular derivative instruments) sensitive to interest rate fluctuations.

Sensitivity of interest income in the banking book of the Group to the abrupt shift in the yield curve of 100 bp down in a one-year horizon in all currencies is shown in the table below::

NAME OF THE MEASURE	31.12.2023	31.12.2022
Sensitivity of interest income (PLN million)	(1,014)	(769)

- SENSITIVITY OF ECONOMIC VALUE**

Sensitivity of economic value reflects the fair value changes of items in the portfolio arising from the parallel shift of the yield curves by 100 bp up or down (the most unfavourable of the scenarios mentioned).

The table below presents the economic value sensitivity measure (stress-test) of the banking book of the Group in all currencies as at 31 December 2023 and 31 December 2022:

NAME OF THE MEASURE	31.12.2023	31.12.2022
Sensitivity of economic value (PLN million)	(1,567)	(891)

TRADING BOOK

In order to monitor the interest rate risk in the trading book the Group applies the value-at-risk (VaR) measure.

- **VALUE AT RISK**

The IR VaR measure is a potential amount of loss that may be incurred in normal market conditions in a specific time (i.e. horizon) and with an assumed level of probability related to changes in interest rate curves.

The IR VaR in the Bank's trading book is shown in the table below:

NAME OF THE MEASURE	31.12.2023	31.12.2022
IR VaR for a 10-day time horizon at a confidence level of 99% (PLN million):		-
Average value	59	37
Maximum value	133	86
Value at the end of the period	42	56

63. CURRENCY RISK MANAGEMENT

CURRENCY RISK MANAGEMENT

- **DEFINITION**

Currency risk is the risk of incurring losses due to unfavourable exchange rate fluctuations. The risk is generated by maintaining open currency positions in various foreign currencies.

- **RISK MANAGEMENT OBJECTIVE**

To reduce the potential losses resulting from exchange rate fluctuations to an acceptable level by properly shaping the currency structure of balance sheet and off-balance sheet items.

- **RISK IDENTIFICATION AND MEASUREMENT**

The Group uses the following measures of the currency risk: value-at-risk (VaR) and stress tests.

- **CONTROL**

Control over currency risk consists of determining currency risk limits and thresholds tailored to the scale and complexity of the Group's operations, in particular the strategic limit of tolerance to currency risk.

- **RISK FORECASTING AND MONITORING**

The following measures are monitored by the Group on a regular basis:

- the level of currency risk measures;
- utilization of the strategic limit of tolerance to currency risk ;
- utilization of internal limits and thresholds of currency risk.

- **REPORTING**

Reports on currency risk are prepared on a daily, weekly, monthly and quarterly basis. The reports contain information on liquidity risk exposure and on the risk limits utilization. The reports are addressed mainly to: ALCO, RC, the Management Board, the Risk Committee and the Supervisory Board.

- **MANAGEMENT ACTIONS**

The main tools for currency risk management used by the Group are:

- currency risk management procedures;
- currency risk limits and thresholds;

- defining allowable types of foreign currency transactions.

The Group has set limits and thresholds for currency risk for, among other things: currency positions, Value at Risk calculated for a 10-day time horizon and loss on the currency market.

FINANCIAL INFORMATION

- SENSITIVITY MEASURES**

The FX VaR measure is a potential value of loss that may occur in normal market conditions at a specific time (i.e. horizon) and with an assumed level of probability related to changes in foreign exchange rates.

Stress tests are used to estimate loss in the event of abrupt changes on the currency market which are not described using statistical measures by default.

The Bank's FX VaR, in aggregate for all currencies, is presented in the table below:

NAME OF SENSITIVITY MEASURE	31.12.2023	31.12.2022
VaR for a 10-day time horizon at a confidence level of 99% (in PLN million) ¹	3	128

¹ Taking into account the nature of the operation of the other Group companies which generate material currency risk and the specific characteristics of the market in which they operate, the Group does not determine the consolidated VaR sensitivity measure. Such companies use their own risk measures to manage their interest rate risk. KREDOBANK SA applies the 10-day VaR which amounted to PLN 0.3 million as at 31 December 2023 and to PLN 0.2 million as at 31 December 2022.

- FOREIGN CURRENCY POSITION**

The Group's foreign currency positions are presented in the table below:

FOREIGN CURRENCY POSITION ¹	31.12.2023	31.12.2022
EUR	(59)	(206)
CHF	15	(1,625)
Other (Global, Net)	(20)	3

¹ The positions do not include structural positions in UAH (PLN 602.2 million), for which the Bank obtained approval from the PFSA to exclude them from the calculation of the currency positions, not affecting the Bank's profit or loss.

Currency positions (in addition to volatility of foreign exchange rates) are a key factor determining the level of currency risk to which the Group is exposed. The foreign currency positions are determined by all foreign currency transactions concluded, both in the statement of financial position and off-balance sheet transactions, with the exception of structural positions in UAH (PLN 602.2 million), for which the Bank obtained approval from the PFSA to exclude them from the calculation of the currency positions.

63.1. FINANCIAL ASSETS AND LIABILITIES BY CURRENCY

Financial assets BY CURRENCY	Currency translated to PLN						
	PLN	CHF	EUR	USD	UAH	Other	Total
31.12.2023							
Cash and balances with Central Bank	16,256	28	627	157	62	683	17,813
Amounts due from banks	1,818	199	6,804	3,883	1,531	203	14,438
Hedging derivatives	964	-	206	4	-	-	1,174
Other derivative instruments	7,701	-	416	284	-	5	8,406
Securities	184,695	-	6,427	5,526	836	-	197,484
- held for trading	577	-	1	-	-	-	578
- not held for trading, mandatorily measured at fair value through profit or loss	1,178	-	357	111	-	-	1,646
- measured at fair value through other comprehensive income	99,413	-	3,945	3,860	836	-	108,054
- measured at amortized cost	83,527	-	2,124	1,555	-	-	87,206
Reverse repo transactions	372	-	-	-	-	-	372
Loans and advances to customers	211,055	4,317	27,839	1,352	1,045	168	245,776
- not held for trading, mandatorily measured at fair value through profit or loss	2,871	-	-	-	-	-	2,871
- measured at amortized cost	208,184	4,317	27,839	1,352	1,045	168	242,905
Other financial assets	1,305	1	125	17	3	23	1,474
Total assets	424,166	4,545	42,444	11,223	3,477	1,082	486,937

Financial liabilities and off-balance sheet liabilities BY CURRENCY	Currency translated to PLN						
	PLN	CHF	EUR	USD	UAH	Other	Total
31.12.2023							
Amounts due to Central bank	10	-	-	-	-	-	10
Amounts due to banks	1,348	14	1,905	147	-	9	3,423
- measured at fair value through profit or loss	25	-	-	-	-	-	25
- measured at amortized cost	1,323	14	1,905	147	-	9	3,398
Hedging derivatives	2,589	-	402	1	-	-	2,992
Other derivative instruments	8,976	-	188	122	-	5	9,291
Amounts due to customers	342,358	1,300	34,073	14,605	2,874	3,983	399,193
- measured at fair value through profit or loss	442	-	-	-	-	-	442
- measured at amortized cost	341,916	1,300	34,073	14,605	2,874	3,983	398,751
Loans and advances received	161	-	1,317	-	11	-	1,489
Securities in issue	7,105	-	10,096	-	-	-	17,201
Subordinated liabilities	2,774	-	-	-	-	-	2,774
Other financial liabilities	4,661	4	1,114	172	38	95	6,084
Provisions for financial liabilities and guarantees granted	634	5	70	35	2	5	751
Total liabilities	370,616	1,323	49,165	15,082	2,925	4,097	443,208
Financial liabilities and guarantees granted	78,255	91	10,245	5,110	256	1,201	95,158

Financial assets BY CURRENCY*	Currency translated to PLN						
	PLN	CHF	EUR	USD	UAH	Other	Total
31.12.2022							
Cash and balances with Central Bank	13,908	42	1,349	248	66	304	15,917
Amounts due from banks	5,957	13	5,481	3,119	1,225	306	16,101
Hedging derivatives	953	-	75	14	-	-	1,042
Other derivative instruments	11,689	-	1,214	245	-	14	13,162
Securities	127,871	-	2,663	4,997	101	-	135,632
- held for trading	191	-	2	-	-	-	193
- not held for trading, mandatorily measured at fair value through profit or loss	1,091	-	441	170	-	-	1,702
- measured at fair value through other comprehensive income	60,425	-	1,237	3,448	101	-	65,211
- measured at amortized cost	66,164	-	983	1,379	-	-	68,526
Reverse repo transactions	7	-	-	-	-	-	7
Loans and advances to customers	194,959	8,906	26,135	1,612	1,278	69	232,959
- not held for trading, mandatorily measured at fair value through profit or loss	3,590	-	-	-	-	-	3,590
- measured at amortized cost	191,369	8,906	26,135	1,612	1,278	69	229,369
Other financial assets	1,596	12	146	44	4	48	1,850
Total assets	356,940	8,973	37,063	10,279	2,674	741	416,670

*The comparative figures for 2022 have been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note "IFRS 17 Insurance contracts")

Financial liabilities and off-balance sheet liabilities BY CURRENCY*	Currency translated to PLN						
	PLN	CHF	EUR	USD	UAH	Other	Total
31.12.2022							
Amounts due to Central bank	9	-	-	-	-	-	9
Amounts due to banks	908	-	1,930	153	1	19	3,011
- measured at fair value through profit or loss	2	-	-	-	-	-	2
- measured at amortized cost	906	-	1,930	153	1	19	3,009
Hedging derivatives	7,202	-	267	-	-	-	7,469
Other derivative instruments	11,606	-	1,230	129	-	13	12,978
Amounts due to customers	287,388	1,349	29,540	14,851	2,259	3,481	338,868
- measured at fair value through profit or loss	154	-	-	-	-	-	154
- measured at amortized cost	287,234	1,349	29,540	14,851	2,259	3,481	338,714
Loans and advances received	968	-	1,313	-	13	-	2,294
Securities in issue	5,953	-	9,557	-	-	-	15,510
Subordinated liabilities	2,781	-	-	-	-	-	2,781
Other financial liabilities	2,937	3	865	294	35	251	4,385
Provisions for financial liabilities and guarantees granted	714	3	97	6	3	10	833
Total liabilities	320,466	1,355	44,799	15,433	2,311	3,774	388,138
Financial liabilities and guarantees granted	67,393	119	11,310	4,941	187	900	84,850

*The comparative figures for 2022 have been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note "IFRS 17 Insurance contracts").

64. LIQUIDITY RISK MANAGEMENT

DEFINITION

Liquidity risk is the risk of the inability to settle liabilities as they become due because of an absence of liquid assets. The lack of liquidity may be due to the inappropriate structure of assets and liabilities, including off-balance sheet, a mismatch of cash flows, customers failing to settle their liabilities, a sudden withdrawal of funds by the customers or other market events.

The Group also manages financing risk which takes into account the risk of losing the existing sources of financing and inability to renew the required means of financing or the loss of access to new sources of financing.

RISK MANAGEMENT OBJECTIVE

To ensure the necessary level of funds needed to settle current and future liabilities (also potential ones) as they become due, taking into account the nature of the activities conducted and the needs which may arise due to changes in the market environment, by appropriately establishing the structure of balance sheet and off-balance sheet assets and liabilities.

RISK IDENTIFICATION AND MEASUREMENT

The Group uses the following measures of the liquidity risk:

- contractual and adjusted liquidity gap;
- liquidity surplus;
- liquidity coverage ratio (LCR);

- net stable funding ratio (NSFR);
- liquidity reserve;
- the ratio of stable funds to illiquid assets;
- measures of stability of the deposit and loan portfolios;
- liquidity stress tests.
- **CONTROL**

Control over liquidity risk consists in determining liquidity risk limits and thresholds tailored to the scale and complexity of the Group's operations, in particular the strategic limit of tolerance to liquidity risk.

- **RISK FORECASTING AND MONITORING**

The following measures are monitored by the Group on a regular basis:

- utilization of the strategic limit of tolerance to liquidity risk;
- utilization of regulatory liquidity standards;
- utilization of internal limits and thresholds of liquidity risk;
- concentration of the sources of financing;
- early warning indicators - monitored for the early detection of unfavourable occurrences which may have a negative impact on the Group's or the financial sector's liquidity position (when exceeded, early warning indicators trigger liquidity contingency plans).

The Group also makes regular forecasts of liquidity risk which take into account the current developments in the Group's operations. Liquidity forecasts include primarily the levels of selected liquidity risk measures envisaged in the forecasts of the Group's assets and liabilities and in selected stress test scenarios.

- **REPORTING**

Liquidity reports are developed on a daily, weekly, monthly and quarterly basis and once a year, an in-depth long-term liquidity analysis is performed. The reports gather the information on liquidity risk exposure and updates on the use of limits for that risk. The reports are addressed mainly to: ALCO, RC, the Management Board, the Risk Committee and the Supervisory Board.

- **MANAGEMENT ACTIONS / RISK MANAGEMENT TOOLS**

The main tools for liquidity risk management used by the Group are:

- procedures for liquidity risk management, in particular contingency plans;
- limits and thresholds to mitigate short-term, medium-term and long-term liquidity risk;
- supervisory liquidity standards;
- deposit, investment and securities purchase and sale transactions as well as derivatives, including transactions for the sale or purchase of securities;
- transactions ensuring long-term financing of the lending activities.

The Group's policy concerning liquidity is based on keeping an appropriate level of liquidity surplus and supervisory and internal measures of liquidity risk and financing through appropriate shaping of the portfolio of liquid securities, and stable sources of financing (a stable deposit base, in particular). In liquidity risk management, money market instruments, including NBP open market operations, are also used.

FINANCIAL INFORMATION

LIQUIDITY GAP

The adjusted liquidity gap comprises a set of particular balance sheet and off-balance sheet categories in respect of their adjusted maturities. The liquidity gaps presented below represent the sum of adjusted liquidity gaps of the Bank (adjustments relate to, among other things, the Bank's core deposits from non-financial entities and their maturities, overdrafts and credit cards and their maturities, and liquid securities and their maturities), PKO Bank Hipoteczny, PKO Leasing SA, KREDOBANK SA and PKO Życie Towarzystwo Ubezpieczeń SA, and the contractual liquidity gaps of the other Group companies.

	on demand	0 – 1 month	1 – 3 months	3 – 6 months	6 – 12 months	12 – 24 months	24 – 60 months	more than 60 months
31.12.2023								
Adjusted periodic gap	8,465	128,262	(15,277)	2,326	(15,132)	13,284	25,761	(147,689)
Adjusted cumulative periodic gap	8,465	136,727	121,450	123,766	108,644	121,928	147,689	
31.12.2022								
Adjusted periodic gap	9,400	69,449	(8,423)	(576)	(316)	20,757	25,046	(115,337)
Adjusted cumulative periodic gap	9,400	78,849	70,426	69,850	69,534	90,291	115,337	

In all time horizons, the adjusted cumulative liquidity gap of the Group, determined as the sum of the adjusted liquidity gaps of the Bank, PKO Bank Hipoteczny SA, PKO Leasing SA, KREDOBANK SA and PKO Życie Towarzystwo Ubezpieczeń SA and the contractual liquidity gaps of the other Group companies, was positive both as at 31 December 2023 and 31 December 2022. This means that the Group has a surplus of the assets receivable over the liabilities payable.

SUPERVISORY LIQUIDITY MEASURES

The following supervisory liquidity measures (specified by the provisions approved at the EU level) are regularly set and monitored at the Group:

- Liquidity Coverage Ratio (LCR) - defining the relation of high-quality liquid assets to net outflows in the 30-day horizon in stress conditions (supervisory measure specified in the CRR Regulation);
- Net Stable Funding Ratio (NSFR) - a measure defining the relationship of items providing stable funding to items requiring stable funding;

SUPERVISORY LIQUIDITY MEASURES	31.12.2023	31.12.2022
NSFR - net stable funding ratio	156.6%	131.5%
LCR - liquidity coverage ratio	243.4%	169.1%

In the period ended 31 December 2023 and 31 December 2022, liquidity measures remained above their respective supervisory limits.

CORE DEPOSIT BASE

As at 31 December 2023, the core deposit base constituted approx. 93.9% of all deposits placed with the Bank (excluding the interbank market), which represents a decrease of around 2.6 p.p. compared with the end of 2022.

• STRUCTURE OF THE SOURCES OF FINANCING

Structure of the sources of financing	31.12.2023	31.12.2022
Total deposits (excluding interbank market)	86.84	84.07
Interbank market deposits	0.64	0.68
Equity	9.11	10.09
Market financing	3.40	5.16
Total	100.00	100.00

64.1. CONTRACTUAL CASH FLOWS FROM THE GROUP'S FINANCIAL LIABILITIES, INCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

CONTRACTUAL CASH FLOWS FROM THE FINANCIAL LIABILITIES, EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. Where the party to whom the Group has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Group is obliged to settle the liability shall be taken into account. Where the Group is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Group might be obliged to settle. In the case of liabilities where instalment amounts are not fixed, the terms binding as at the reporting date have been adopted.

CONTRACTUAL CASH FLOWS FROM THE GROUP'S FINANCIAL LIABILITIES, EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount	Carrying amount
31.12.2023							
Amounts due to Central bank	10	-	-	-	-	10	10
Amounts due to banks	3,423	-	6	-	-	3,429	3,423
Amounts due to customers	309,870	36,269	40,813	10,709	6,824	404,485	399,193
Loans and advances received	29	-	187	1,743	76	2,035	1,489
Securities in issue	2,729	1,998	4,810	8,355	-	17,892	17,201
Subordinated liabilities	-	-	-	3,040	-	3,040	2,774
Lease liabilities	25	48	191	559	315	1,138	1,088
Other financial liabilities	4,861	-	-	135	-	4,996	4,996
Total	320,947	38,315	46,007	24,541	7,215	437,025	430,174
Off-balance sheet liabilities							
financing granted	17,208	4,606	32,016	17,464	11,628	82,922	-
guarantees granted	930	1,404	3,600	4,495	1,807	12,236	-

CONTRACTUAL CASH FLOWS FROM THE GROUP'S FINANCIAL LIABILITIES, EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount	Carrying amount
31.12.2022							
Amounts due to Central bank	9	-	-	-	-	9	9
Amounts due to banks	3,032	31	15	-	-	3,078	3,011
Amounts due to customers	273,135	29,704	11,461	24,577	7,901	346,778	338,868
Loans and advances received	47	28	1,166	1,697	-	2,938	2,294
Securities in issue	2,712	1,047	2,691	9,655	62	16,167	15,510
Subordinated liabilities	-	119	116	2,503	1,036	3,774	2,781
Lease liabilities	21	39	161	448	229	898	896
Other financial liabilities	3,481	31	81	94	-	3,687	3,489
Total	282,437	30,999	15,691	38,974	9,228	377,329	366,858
Off-balance sheet liabilities							
financing granted	14,588	5,101	26,792	18,860	7,864	73,205	-
guarantees granted	519	937	4,098	4,632	2,292	12,478	-

- **CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A GROSS BASIS**

The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A GROSS BASIS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount
31.12.2023						
outflows (principal and interest)	(10,300)	(8,575)	(13,475)	(9,552)	(510)	(42,412)
inflows (principal and interest)	9,766	7,743	12,206	7,005	141	36,861

CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A GROSS BASIS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount
31.12.2022						
outflows (principal and interest)	(14,567)	(16,306)	(16,697)	(10,228)	(166)	(57,964)
inflows (principal and interest)	14,269	15,789	15,368	9,712	526	55,664

- **CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A NET BASIS**

In the case of IRS and NDF transactions, non-discounted future net cash flows in respect of interest and principal have been presented and in the case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2023 and as at 31 December 2022, respectively, was adopted as the cash flow amount.

CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A NET BASIS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount
31.12.2023						
IRS	(275)	(784)	(1,447)	(768)	(68)	(3,342)
other derivatives: options, FRA, NDF	(219)	(338)	(1,153)	(465)	(1)	(2,176)

CONTRACTUAL CASH FLOWS FROM LIABILITIES IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH THE VALUATION AS AT THE BALANCE SHEET DATE WAS NEGATIVE (A LIABILITY) AND WHICH ARE SETTLED ON A NET BASIS	Up to 1 month (inclusive)	1 to 3 months (inclusive)	3 months to 1 year (inclusive)	1 year to 5 years inclusive	More than 5 years	Contractual amount
31.12.2022						
IRS	(477)	(1,655)	(1,203)	(268)	(25)	(3,628)
other derivatives: options, FRA, NDF	(279)	(692)	(1,713)	(609)	(19)	(3,312)

64.2. ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES AND TRANSFERRED FINANCIAL ASSETS

- **COLLATERAL FOR MORTGAGE COVERED BONDS OF PKO BANK HIPOTECZNY S.A.**

The mortgage covered bonds are secured by loans secured by the highest priority mortgage. Additionally, the basis for the issue of mortgage covered bonds may also be PKO Bank Hipoteczny SA's own funds:

- invested in securities issued or guaranteed by the National Bank of Poland, the European Central Bank, governments and central banks of members of the European Union and/or the Organization for Economic Cooperation and Development, excluding countries that are restructuring or have restructured their foreign debt in the past 5 years;
- deposited with the National Bank of Poland;
- held in cash.

The CIRS and FX-Forward transactions which hedge the foreign exchange and interest-rate risk of the issued EUR mortgage covered bonds, and the IRS transactions hedging interest rate risk of the issued PLN fixed-interest-rate mortgage covered bonds were also recognized in the register of collaterals for mortgage covered bonds.

In 2023 and in the previous years the mortgage covered bonds cover pool did not include asset-backed securities (ABS) that do not meet the requirements described in paragraph 1 of Article 80 of the Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (recast).

ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES – ASSETS PLEDGED AS COLLATERAL FOR MORTGAGE COVERED BONDS	31.12.2023	31.12.2022
nominal value of loans	16,768	18,560
nominal value of the overcollateralization in the form of securities issued by the State Treasury, denominated in PLN	205	285

- RECEIVABLES COVERED BY SECURITIZATION OF LEASE RECEIVABLES

For detailed information see the note [“Information on securitization of the lease portfolio and package sale of receivables”](#).

- SECURITY FOR LOANS RECEIVED

The loan received by the Group to support the financing of investment projects in Ukraine is secured by Ukrainian government bonds in the amount of PLN 15 million.

- COLLATERAL FOR LIABILITIES IN RESPECT OF DERIVATIVE INSTRUMENTS

ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES - Derivative instruments (Initial Margin agreement)	31.12.2023	31.12.2022
Carrying amount of the collateral	780	-
Nominal value of the collateral	747	-
Type of collateral	Securities	-
Carrying amount of liabilities secured	712	-

ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES - Derivative instruments (other agreements)	31.12.2023	31.12.2022
Carrying amount of the collateral	841	-
Nominal value of the collateral	957	-
Type of collateral	Securities	-
Carrying amount of liabilities secured	841	-

- FUND FOR THE PROTECTION OF GUARANTEED FUNDS

ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES – FUND FOR THE PROTECTION OF GUARANTEED FUNDS	31.12.2023	31.12.2022
Value of the fund	1,267	1,016
Nominal value of the collateral	1,100	1,300
Type of collateral	Sovereign bonds	Sovereign bonds
Maturity of collateral	25.04.2024	25.04.2024
Carrying amount of the collateral	1,110	1,258

The assets pledged as collateral for the fund are Treasury bonds which mature in the period that ensures securing the carrying amount over the period specified in the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution. The Fund is increased or decreased on 1 July of each year, in proportion to the amount representing the basis for calculation of the mandatory reserve deposits. These assets are treated as assets pledged as collateral for own liabilities.

- **FUNDS SECURING LIABILITIES IN RESPECT OF CONTRIBUTIONS TO THE BANK GUARANTEE FUND (BGF)**

ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES - Funds securing liabilities in respect of contributions to the Bank Guarantee Fund (BGF)	31.12.2023	31.12.2022
Value of the contribution made in the form of payables	847	847
Nominal value of the assets in which funds corresponding to payables were invested	1,062	1,062
Type of collateral	Sovereign bonds	Sovereign bonds
Maturity of collateral	2024-2031	2024-2031
Carrying amount of the collateral	1,019	1,029

Starting from 2017, the value of contributions in the form of payment obligations represents 30% of the contributions to the Bank Guarantee Fund (“the BGF”) for the Deposit Guarantee Fund or the Bank Resolution Fund. Assets securing payment commitments include Treasury bonds pledged for BGF in an amount which ensures maintaining the ratio of the value of property rights securing payment commitments to the amount of payment commitments of no less than 110%. To establish the minimum ratio of assets to the amount of payment commitment, the value of property rights securing payment commitments is determined at the amount specified based on the last fixing rate of the day in the electronic market for Treasury securities organized by the minister responsible for budgetary matters, plus interest due as at the valuation date, unless interest has already been included in the fixing rate.

Such assets funds are treated as assets pledged as collateral for own liabilities, they cannot be pledged or encumbered in any way, are excluded from judicial or administrative enforcement proceedings and do not form part of the estate in bankruptcy. The amount of funds securing payment commitments relating to contributions to the BGF will be increased on payment dates of contributions to the Deposit Guarantee Fund (quarterly) and the Bank Resolution Fund (in the third quarter of a given year) representing not more than 30% of the contribution established by the BGF.

The amount of these funds may decrease if the Group is called by the BGF to transfer in cash the amount corresponding to the value of payment commitments.

- **LEGAL LIMITATIONS RELATING TO THE GROUP’S TITLE**

In the years ended 31 December 2023 and 31 December 2022, respectively, there were no intangible assets or property, plant and equipment items to which the Group’s legal title would be limited and pledged as collateral for the Bank’s liabilities

64.3. CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

FINANCIAL ASSETS	Current	Non-current	Total carrying amount
31.12.2023			
Cash and balances with Central Bank	17,813	-	17,813
Amounts due from banks	14,429	9	14,438
Hedging derivatives	114	1,060	1,174
Other derivative instruments	4,191	4,215	8,406
Securities	67,222	130,262	197,484
- held for trading	341	237	578
- not held for trading, mandatorily measured at fair value through profit or loss	1,187	459	1,646
- measured at fair value through other comprehensive income	50,604	57,450	108,054
- measured at amortized cost	15,090	72,116	87,206
Reverse repo transactions	372	-	372
Loans and advances to customers	63,531	182,245	245,776
- not held for trading, mandatorily measured at fair value through profit or loss	2,541	330	2,871
- measured at amortized cost	60,990	181,915	242,905
Other financial assets	1,437	37	1,474
Total financial assets	169,109	317,828	486,937

FINANCIAL ASSETS*	Current	Non-current	Total carrying amount
31.12.2022			
Cash and balances with Central Bank	15,917	-	15,917
Amounts due from banks	16,093	8	16,101
Hedging derivatives	439	603	1,042
Other derivative instruments	4,543	8,619	13,162
Securities	11,462	124,170	135,632
- held for trading	65	128	193
- not held for trading, mandatorily measured at fair value through profit or loss	1,198	504	1,702
- measured at fair value through other comprehensive income	7,229	57,982	65,211
- measured at amortized cost	2,970	65,556	68,526
Reverse repo transactions	7	-	7
Loans and advances to customers	59,132	173,827	232,959
- not held for trading, mandatorily measured at fair value through profit or loss	2,941	649	3,590
- measured at amortized cost	56,191	173,178	229,369
Other financial assets	1,846	4	1,850
Total financial assets	109,439	307,231	416,670

*The comparative figures for 2022 have been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note "[IFRS 17 Insurance contracts](#)").

FINANCIAL LIABILITIES	Current	Non-current	Total carrying amount
31.12.2023			
Amounts due to Central bank	10	-	10
Amounts due to banks	3,423	-	3,423
- measured at fair value through profit or loss	25	-	25
- measured at amortized cost	3,398	-	3,398
Hedging derivatives	269	2,723	2,992
Other derivative instruments	5,321	3,970	9,291
Amounts due to customers	384,707	14,486	399,193
- measured at fair value through profit or loss	277	165	442
- measured at amortized cost	384,430	14,321	398,751
Loans and advances received	-	1,489	1,489
Securities in issue	9,046	8,155	17,201
Subordinated liabilities	-	2,774	2,774
Other financial liabilities	5,104	980	6,084
Provisions for financial liabilities and guarantees granted	595	156	751
Total financial liabilities	408,974	34,234	443,208

FINANCIAL LIABILITIES*	Current	Non-current	Total carrying amount
31.12.2022			
Amounts due to Central bank	9	-	9
Amounts due to banks	3,011	-	3,011
- measured at fair value through profit or loss	2	-	2
- measured at amortized cost	3,009	-	3,009
Hedging derivatives	1,762	5,707	7,469
Other derivative instruments	4,760	8,218	12,978
Amounts due to customers	311,851	27,017	338,868
- measured at fair value through profit or loss	5	149	154
- measured at amortized cost	311,846	26,868	338,714
Loans and advances received	1,118	1,176	2,294
Securities in issue	6,311	9,199	15,510
Subordinated liabilities	-	2,781	2,781
Other financial liabilities	3,653	732	4,385
Provisions for financial liabilities and guarantees granted	688	145	833
Total financial liabilities	333,163	54,975	388,138

* The comparative figures for 2022 have been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note "IFRS 17 Insurance contracts").

FINANCIAL LIABILITIES	31.12.2023	31.12.2022
Financial liabilities, including:	443,208	388,138
past due	3	4

65. OPERATIONAL RISK MANAGEMENT

• DEFINITION

Operational risk is defined as the risk of losses being incurred due to a mismatch or unreliability of the internal processes, people and systems may or due to external events. Operational risk includes legal risk and cyber security risk:

- legal risk – the risk of incurring a loss due to ignorance, misunderstanding and non-application of legal norms and accounting standards, the inability to enforce contractual provisions, unfavourable interpretations or decisions of courts or public administration bodies;
- cyber security risk – the degree of exposure by potential negative cyber security risk factors, related to information and communication technologies, which may cause financial damage to the organization by compromising the availability, integrity, confidentiality or accountability of information processed in the Bank's IT system resources (SIB).

Operational risk excludes reputation risk and business risk.

• RISK MANAGEMENT OBJECTIVE

The objective of operational risk management is to ensure operational and cost efficiency and business security by limiting the occurrence of operational events and their negative consequences.

• RISK IDENTIFICATION AND MEASUREMENT

There are two levels of operational risk management at the Group:

- systemic operational risk management - which consists of creating solutions for the Group to control the level of operational risk that enables the Group to achieve its objectives;
- on-going operational risk management - aimed at preventing operational events and responding to operational events that occur, for which each Group employee is responsible within the scope of his/her tasks and responsibilities.

The process of operational risk management is carried out at the level of the Group and at the levels of individual areas of systemic operational risk management.

Operational risk management comprises the identification of operational risk in particular through collecting data about the operational risk and the self-assessment of operational risk.

In order to manage operational risk, the Group gathers internal and external data about operational events and the causes and effects of their occurrence, data on the factors of the business environment, results of operational risk self-assessment, data on the operational risk indicators and data related to the quality of the internal control system.

The operational risk self-assessment comprises the identification and assessment of operational risk for the Group's products, processes and applications as well as organizational changes and it is conducted cyclically and before implementing new or changed Group products, processes and applications, using the data gathered on operational events and information obtained during the measurement, monitoring, cooperation with the Bank Group's entities and operational risk reporting, including internal audits and security audits.

The measurement of operational risk comprises:

- calculating operational risk indicators: KRI (Key Risk Indicators) and RI (Risk Indicators);
- calculating the requirement for own funds to cover operational risk under the AMA approach (the Bank, including the German and Czech Branches and excluding the Branch in Slovakia) and BIA (the Branch in Slovakia and the prudential Group entities);
- stress-tests;
- calculating the Group's internal capital.

- **CONTROL**

Control of operational risk includes determining risk control mechanisms tailored to the scale and complexity of the Bank's and the Group's activities, in the form of operational risk limits, in particular the strategic limits of tolerance of operational risk, loss limits, operational risk indicators with thresholds and critical values.

- **RISK FORECASTING AND MONITORING**

The following measures are monitored by the Group on a regular basis:

- utilization of the strategic tolerance limits for the Group and operational risk losses limits for the Bank;
- operational events and their consequences;
- results of the operational risk self-assessment;
- the requirement in respect of own funds to cover operational risk, in accordance with the BIA approach in the case of the Slovak Branch and in accordance with the AMA approach in the case of the remaining activity of the Bank, and in the case of the Group entities covered by prudential consolidation – in accordance with the BIA approach;
- the results of stress tests, including reverse stress tests;
- operational risk indicator values in relation to thresholds and critical values;
- the level of risk for the Bank and the Group, areas and tools for managing operational risk in the Bank such as self-assessment, operational risk indicators, loss limits;
- the effectiveness and timeliness of actions undertaken to reduce or transfer operational risk;
- management actions relating to the presence of elevated or high levels of operational risk and their effectiveness in reducing the level of operational risk.

In 2023 and 2022, the following entities had a decisive impact on the operational risk profile of the Group: PKO Bank Polski and the PKO Leasing SA Group.

- **REPORTING**

Information relating to operational risk is reported for the purpose of senior management, the Operational Risk Committee, the Risk Committee, the Management Board and the Supervisory Board in monthly and quarterly cycles. Each month, information about operational risk is prepared and forwarded to the ORC, senior management staff, the organizational units of the Bank responsible for systemic operational risk management. The reports are addressed to the ORC, the RC, the Management Board and the Supervisory Board. The scope of the information is diversified and tailored to the scope of responsibilities of individual recipients of information.

- **MANAGEMENT ACTIONS**

Management actions are taken in the following cases:

- on an initiative of ORC or the Management Board;
- on the initiative of the Bank's organizational units managing operational risk;
- when operational risk has exceeded the levels determined by Management Board or ORC.

In particular, when the risk level is elevated or high, the Group uses the following approaches and instruments to manage the operational risk:

- risk reduction – mitigating the impact of risk factors or the consequences of their occurrence by introducing or strengthening various types of instruments for managing operational risk such as:
 - control instruments (including approval, internal control, segregation of duties);
 - human resources management instruments (selection of staff, increasing the qualifications of employees, incentive systems);
 - determination or verification of threshold values and critical operational risk indicators;
 - determination or verification of operational risk limits;
 - contingency plans;

- risk transfer – transfer of responsibility for covering potential losses on a third-party:
 - insurance;
 - outsourcing;
- risk avoidance - resignation from the risk-generating activity or eliminating the probability of the risk factor's occurrence.

66. ESG RISK MANAGEMENT

The ESG risk (**ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE**) has been defined by the Group as a risk of negative financial consequences to the Group resulting from the current or future impact of ESG risk factors on customers and counterparties or the Group's balance sheet items. ESG risks include environmental, social and corporate governance risks.

The objective of ESG risk management is to support the sustainable development and long-term value creation of the Group in line with the Bank's Strategy by managing the impact of ESG factors in an integrated way.

The Group manages ESG risk as part of its management of other risks as, due to the nature of ESG risk, it is not a separate risk but a cross-cutting risk affecting the Bank's individual risks, in particular credit risk. Management of the individual risks is the responsibility of the organizational units nominated by the Bank's Management Board. The committees functioning in the Bank within the scope of their tasks and competences take decisions, issue recommendations and opinions on activities related to ESG risk. The Bank applies the principle of "double materiality" by taking into account the following perspective

- the impact of ESG factors on the Group's operations, financial results and development;
- and the impact of the Group's activities on society and the environment.

Financial, capital and strategic plans are reviewed and evaluated in terms of the level of risk generated and compliance with sustainable development taking into account ESG risks in the short, medium and long term.

The Group implements a plan to integrate ESG risks into the Group's risk management system and, in accordance with the plan, defines ESG risk management processes in a comprehensive manner incorporating them into the existing risk management framework. The integration consists of adapting the existing methods of identification, measurement and control of individual risks, taking into account the cause and effect relationships between these risks and ESG factors.

One component of environmental risk management is a strategic ESG risk tolerance limit. A measure of tolerance for this risk is the ratio of the value of loans for customers in high-emission industries and the Bank's total assets. In 2023, the share of loans to customers in carbon-intensive industries was 0.19% (with a Bank tolerance limit of $\leq 1.6\%$) compared to 0.38% at the end of 2022 (with a Bank tolerance limit of $\leq 0.8\%$). This limit is monitored on a quarterly basis and reported to the Bank's Management Board. The Group decided to increase its financing in the district heating sector and to selectively finance energy security transactions (coal purchases) on a transitional basis, in view of the war in Ukraine and the increase in energy commodity prices and the need to secure coal supplies from alternative sources other than Russia, thus pursuing its social responsibility dimension.

The Group has developed principles for the classification of sustainability financing in the Bank Group, which define the manner in which products such as loans, advances and leasing products, among others, are linked to sustainability objectives. The principles define a product with a positive impact on the environment. This product is designed to finance investments that contribute to environmental objectives and have a measurable positive impact on the environment. These investments may relate to, among other things: improving energy efficiency, reducing greenhouse gas emissions or preventing waste generation. The objects of financing for a product with a positive environmental impact may include:

- renewable energy sources,
- clean transport,
- low-energy buildings,

- solutions that reduce the carbon footprint of a product or organisation or improve the energy efficiency of existing buildings.

In the Risk Management Area, the Group performs tasks to ensure compliance with the following external regulations:

- **REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 18 JUNE 2020 ON THE ESTABLISHMENT OF A FRAMEWORK TO FACILITATE SUSTAINABLE INVESTMENT, AND AMENDING REGULATION (EU) 2019/2088 INCLUDING DELEGATED REGULATIONS (HEREINAFTER: EU TAXONOMY):**

In 2023, the Bank's Group is for the first time required to report a key performance indicator, the Green Asset Ratio (GAR), which measures the percentage of the Bank Group's assets that finance taxonomy-compliant (environmentally sustainable) business activities relative to the Bank Group's total assets.

The criteria for an economic activity to be considered sustainable (taxonomy-aligned) are as follows:

- 1) contributes substantially to one or more of the six environmental objectives;
- 2) does not significantly harm any other environmental objectives;
- 3) is carried out in compliance with the minimum safeguards laid down in Article 18 of the Taxonomy Regulation;
- 4) meets the technical screening criteria described in the delegated regulations of the EU Taxonomy Regulation, i.e:
 - a. Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives;
 - b. Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities.

Technical screening criteria determine whether a Group-financed investment or business activity makes a significant contribution to one or more of the six environmental objectives and does not cause serious harm to any of the other environmental objectives. The technical screening criteria therefore set out the minimum requirements that the financed investment/business activity should meet in order to be considered environmentally sustainable. A tool to support the assessment of the fulfilment of the technical criteria of the EU Taxonomy are the taxonomy questionnaires developed based on the above-mentioned delegated regulations of the EU Taxonomy and implemented at the Bank's Group. The taxonomy questionnaires are an integral part of the process of identifying/classifying sustainable assets. The data obtained with the taxonomy questionnaires form the basis for calculating the total green asset ratio (GAR).

Detailed information on the taxonomy disclosure is provided in the Statement on non-financial information, which is a part of the Report on activities of the PKO Bank Polski Group.

- **COMMISSION IMPLEMENTING REGULATION (EU) 2022/2453 OF 30 NOVEMBER 2022 AMENDING THE IMPLEMENTING TECHNICAL STANDARDS LAID DOWN IN IMPLEMENTING REGULATION (EU) 2021/637 AS REGARDS THE DISCLOSURE OF ESG RISKS**

The Bank's Group is required to provide information on environmental, social and corporate governance risks. The Bank's Group analyses its loan portfolio with regard to the exposure of the Group's exposures to the transition risk associated with the transition to a low-carbon and climate-resilient economy and to the impact of prolonged and violent physical phenomena associated with climate change.

The Group is currently working on determining the emission intensity of the banking portfolio. To this end, the Group has adopted the PCAF methodology, a single global standard for counting and reporting GHG emissions to ensure transparency and accountability. The PCAF methodology enables the quantification of GHG emissions associated with, among other factors, corporate loans, securities and mortgages.

As part of good market practice and increasing regulatory requirements, the Group has developed methodologies and tools for conducting climate stress tests, which represent an innovative approach in the banking industry for assessing corporate credit risk. The methodology is based on a modification of customers' financial statements and takes into account environmental factors such as greenhouse gas (GHG) prices, capital expenditure, energy intensity of buildings and drought risk. The use of scenarios with time horizons of 1 year, 3 years and 30 years enables a thorough analysis of both short-term and long-term risks.

As part of these tasks, the Group is working to expand its IT systems for collecting, aggregating and managing sustainability data.

In terms of insurance business, the Group's insurance companies manage ESG risks as part of their management of other types of risk as, due to its nature, the ESG risk is not a separate type of risk, but rather a cross-cutting one that affects the companies. In 2022, the Group's insurance companies have adapted their internal regulations on ESG to the new legal requirements, in particular with respect to Commission Delegated Regulation (EU) 2021/1257 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products and Commission Delegated Regulation (EU) 2021/1256 of 21 April 2021 amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings (Implementing Regulation for Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009). In 2023, the Group's insurance companies operated in accordance with internal regulations adapted to the applicable legal requirements on ESG.

67. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS IN THE GROUP'S INSURANCE BUSINESS

The Group operates risk management programmes, including asset-liability matching (ALM) processes, hedging programmes (largely implemented through the use of derivatives) and insurance programmes (largely implemented through the use of quota share, excess of loss and stop loss reinsurance). The programmes operate in each country in which the Group is present and form an integral part of the Group's overall risk management framework. In insurance companies, the objective of managing risk by seeking to maintain the level of risk within an accepted tolerance level is to:

- ensuring the financial stability and liquidity of the company;
- protect shareholder value;
- ensuring the provision of benefits and claims to customers;
- support the company in running an effective business.

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

The risk management system in place is effective and includes the strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report on the risks to which the insurance company is or may be exposed, on a continuous basis, both at an individual and aggregate level. Companies ensure that the risk management system is effective and appropriately integrated into the organisational structure and decision-making processes, taking into account key function holders. The risk management system covers risks to be included in the calculation of the Solvency Capital Requirement and risks not covered by the Standard Formula.

Components of the risk management system include:

- organisation of corporate governance covering both organisational structure, reporting lines, key functions, internal control, oversight, communication and risk management culture;
- own assessment of risks and capital needs over the business planning horizon.

Insurance companies manage risks at three independent, complementary levels:

- the first level is made up of the company's organisational structures responsible for product management, selling products and servicing customers, and of other structures which perform operational tasks that generate risk, which function based on internal regulations;
- the second level includes the activities of the units performing the risk management function, the actuarial function, the compliance function, as well as the functioning of the Company's committees; the purpose of these structures is to identify, measure or assess, control, monitor and report the significant risks as well as the threats identified, in order to ensure that the activities performed at the first level are properly designed in the insurance company's internal regulations and effectively mitigate risks, support the measurement, assessment and analysis of risks and the efficiency of operations;
- the third level is the activity of the internal audit unit and the Supervisory Board committee, which performs independent audits of the elements of the Company's management system referred to in the above paragraphs. The internal audit operates separately from the first and second levels.

67.1. INSURANCE RISK

The Group's portfolio of insurance contracts includes Category I (life insurance) as well as Category II (other personal insurance and non-life insurance) insurance contracts, offering a broad spectrum of insured risks. The Group's exposure to insurance risks includes primarily:

- Mortality risk;
- Risk of loss in personal and non-life insurance, especially with regard to natural catastrophes, traffic events and insurance of financial risks
- Lapse risk;
- Cost risk;
- Inflation risk.

An unfavourable materialisation of the above risks, i.e. a materialisation worse than assumed in the valuation, may translate into a reduction in the financial result, including the occurrence of a financial loss.

Discrepancies between the expected cash flows included in insurance liabilities and the actual payments to be made in the future are natural and are due to the random nature of insurance events, both in terms of the number of claims and their amount. Therefore, one of the main objectives of portfolio management and reserve valuation is to minimise the deviation between the actual cash flows and their projections.

The use of appropriate statistical methods and the use of up-to-date data available at the reporting date reduce the risk of erroneous estimates of the expected value of insurance and reinsurance assets and liabilities. At the same time, proper portfolio management helps to reduce the impact of potential deviations of actual cash flows from their previous estimates on the financial result. The main instruments that reduce insurance risk and thus mitigate fluctuations in the result and ensure the adequacy of reserves for future liabilities include:

- diversification of risk between different products and also within individual products, e.g. through geographical diversification;
- a prudent approach to underwriting, excluding exposures subject to the greatest risk or requiring additional medical tests or safeguards;
- continuous monitoring of the profitability of the portfolio held by product and dynamic tariff management for selected portfolios;

- the use of outward reinsurance.

Given the variety of insurance products offered by the Group, including both life insurance and insurance of various uncorrelated non-life risks, even a very unfavourable materialisation of the expected cash flows on a single product will have a relatively minor impact on the total result from insurance.

With regard to insurance risks, there is a concentration risk associated with the occurrence of an event that will cover a large number of contracts. Key risks in this area include natural catastrophe risk and pandemic risk. In both of these cases, the Group mitigates concentration risk by, among other things, using non-proportional reinsurance contracts.

67.2. FINANCIAL RISK

- **LIQUIDITY RISK**

Liquidity risk refers to the risk of not being able to settle obligations in a timely manner without incurring extraordinary costs. In the case of settlements of insurance and reinsurance contracts, this risk is mainly related to the potential lack of sufficient liquidity in the asset portfolio that is held. Insurance companies perform gap analysis and liquidity measurement. Liquidity risk is mitigated by maintaining a buffer of liquid funds, planning liquidity needs and matching the investment structure with the maturity of the company's liabilities. In particular, PKO Życie TU manages liquidity risk associated with transfers and payouts in its UFK products by maintaining excess assets to cover reserves in the form of liquid assets at an appropriate level.

- **CREDIT RISK**

Credit risk arising from contracts falling within the scope of IFRS 17 mainly includes the risk of reinsurer bankruptcy and non-payment of premiums by policyholders. The Group manages counterparty bankruptcy risk by diversifying reinsurers and sticking solely to reinsurers with high credit ratings. In contrast, the risk of non-payment of premium by policyholders is mostly mitigated by terminating the contract and limiting underwriting exposure. Given the diversification of credit risk exposures, the Group does not identify any significant concentration risk in this area.

- **MARKET RISK - CURRENCY RISK**

Currency risk refers to the risk of an adverse change in assets and liabilities due to changes in exchange rates. The Group does not identify significant currency risk in the area of contracts covered by IFRS 17 given the nature of its portfolio. Nearly all settlements, both with policyholders, the insured and reinsurers, are performed in the domestic currency, and settlements in foreign currencies are mainly related to the settlement of motor and travel claims that occurred outside Poland. The Group additionally mitigates currency risk through significant reinsurance of portfolios exposed to currency risk. Due to the insignificant level of net exposure to currency risk, the Group does not identify concentration risk in this area.

- **MARKET RISK - INTEREST RATE RISK**

Interest rate risk is associated with adverse changes in the measurement of assets and liabilities due to changes in market interest rates. From the perspective of contracts within the scope of IFRS 17, the Group does not identify any significant interest rate risk. For nearly all products, the payment of claims and benefits remains independent of the current interest rate structure. Accordingly, the Group is not exposed to any significant concentration risk in the area of interest rate risk for contracts that are within the scope of IFRS 17. Changes in interest rates affect the measurement of liabilities and assets for insurance contracts and reinsurance contracts. Due to the applied decomposition of finance income and expenses into a portion reported in the income statement (based on rates at initial recognition) and a portion presented in other comprehensive income, the effect of changes in interest rates is not reflected in the profit or loss.

- **SHARE PRICE RISK** - The Group does not identify share price risk in the area of contracts within the scope of IFRS 17 because the liabilities that depend on the valuation of the investment portfolio are fully secured with appropriate assets. As a result, fluctuations in the measurement of liabilities arising from changes in the prices of shares and units are fully reflected in fluctuations in the measurement of assets held.

67.3. CAPITAL

The management boards of the Group's insurance companies monitor capital requirements and are directly supervised by local regulatory authorities. They are obliged by the Polish Financial Supervision Authority to maintain excess own funds over the capital requirement (SCR) in accordance with the Solvency II regime.

This requirement is intended to ensure that the Group's insurance companies are able to meet their obligations over the next 12 months at a confidence level of 99.5%.

A breach of this requirement - the Solvency Capital Requirement - would result in supervisory intervention and corrective action to restore the required level of capital. The PFSA's approach to measuring capital adequacy is primarily based on monitoring solvency ratios and other data reported by insurance companies as part of their cyclical reporting.

The Group's insurance companies comply with all regulatory requirements imposed by external authorities, including capital requirements.

67.4. INSURANCE AND FINANCIAL RISKS IN INSURANCE BUSINESS - FINANCIAL INFORMATION

The table below presents a maturity analysis for portfolios of insurance contracts issued that are liabilities and portfolios of reinsurance contracts held that are assets.

Maturity dates for portfolios of insurance contracts issued that are liabilities and portfolios of reinsurance contracts held that are assets	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years	Total
2023	1,327	589	326	181	99	303	2,825
Insurance Contracts	1,384	607	333	185	100	306	2,915
Reinsurance contracts	(57)	(18)	(7)	(4)	(1)	(3)	(90)
2022	1,117	596	381	204	119	346	2,763
Insurance Contracts	1,187	619	392	209	121	350	2,878
Reinsurance contracts	(70)	(23)	(11)	(5)	(2)	(4)	(115)

The following table presents the amounts of insurance liabilities payable on demand and the carrying amount of the related contract portfolios.

Amounts payable on demand	2023		2022	
	Amount payable on demand	Carrying amount	Amount payable on demand	Carrying amount
Life - protection insurance	7	11	8	11
Other	595	565	632	598

CAPITAL MANAGEMENT AT THE GROUP

68. CAPITAL ADEQUACY

- CAPITAL ADEQUACY

Capital adequacy is the state in which the level of risk incurred by the Bank's Group in connection with its business development can be covered by its capital whose level and structure are adequate to the applicable supervisory requirements, specific risk tolerance level and adopted time horizon. The process of managing capital adequacy comprises, in particular, compliance with the applicable regulations of the supervisory and control authorities, as well as the risk tolerance level determined within the Bank and the Bank's Group and the capital planning process, including the policy concerning the sources of acquisition of capital.

The objective of capital adequacy management is to ensure an appropriate level and structure of own funds which is adequate to the scale of the Bank's activities, supervisory requirements and exposure to risk.

The process of managing the Group's capital adequacy comprises:

- specifying and pursuing the Group's capital targets;
- identifying and monitoring significant types of risk;
- measuring or estimating internal capital to cover individual risk types of risk and total internal capital;
- determining threshold values for capital adequacy measures;
- forecasting, monitoring and reporting the level and structure of own funds;
- managing the structure of the balance sheet to optimize the quality of the Group's own funds;
- emergency measures with regard to capital;
- stress-tests;
- forecasting requirements for own funds;
- assessing the profitability of individual business areas and customer segments.

Capital adequacy measures include:

- total capital ratio (TCR);
- the ratio of own funds to internal capital;
- Tier 1 core capital ratio (CET1);
- Tier 1 capital ratio (T1);
- leverage ratio;
- MREL ratio - TREA;
- MREL ratio - TEM.

The objective of monitoring the level of capital adequacy measures is to determine the degree of compliance with supervisory requirements and to identify cases which require emergency measures to be implemented or the preparation of a capital protection plan.

Major regulations applicable in the capital adequacy assessment process include:

- the Polish Banking Law;
- the CRR Regulation;
- the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system (as amended),
- the Regulation of the Minister of finance, funds and regional policy of 8 June 2021 on the risk management and internal control systems and remuneration policy in banks (effective from 11 June 2021);
- the Regulation of the Minister of finance, funds and regional policy of 27 July 2021 on the detailed method of estimating internal capital and conducting reviews of estimation strategies and procedures and maintaining a permanent level of internal capital by banks (effective from 4 August 2021);
- the Act of 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution (as amended).

Minimum levels of the capital ratios maintained by the Group in accordance with Article 92 of the CRR are as follows:

• total capital ratio (TCR)		8%
• Tier 1 capital ratio (T1)		6%
• Tier 1 core capital ratio (CET1)		4.5%
Obligation to maintain a combined buffer above the minimum amounts specified in Art. 92 of the CRR, representing the sum of the applicable buffers	31.12.2023	31.12.2022
Total:	4.54%	4.52%
• conservation buffer	2.5%	2.5%
• countercyclical buffer	0.04%	0.02%
• due to identifying the Bank as another systemically important institution ("O-SII")	2% ¹	2% ¹

¹ The buffer represents a share of total exposure to the risks calculated in accordance with the CRR. On 20 November 2023, an announcement was published by the PFSA on the review of the adequacy of the Other Systemically Important Institution (O-SII) buffer ratio, according to which the O-SII buffer amount for individual banks was maintained at the level resulting from the previous review conducted in 2022.

The combined minimum capital adequacy ratio together with the combined buffer requirement at the end of 2023 was 12.54%, compared to 12.52% at the end of 2022.

On 14 November 2023, the Bank received a letter from the Bank Guarantee Fund (BGF) on the minimum requirement for own funds and eligible liabilities (MREL). The BGF set the target MREL requirement for the Bank based on the consolidated data at the total risk exposure amount (TREA) and the total exposure measure (TEM), which must be fulfilled at the end of 2023. The assumed TREA and TEM levels have been adjusted to exclude PKO Bank Hipoteczny S.A. and Kredobank S.A. from consolidation. At the same time, the BGF exempted PKO Bank Hipoteczny S.A. from the obligation to maintain a minimum level of own funds and eligible liabilities.

The required levels are specified in the table below:

in %	31.12.2023
MREL (TREA)	15.36
MREL (TEM)	5.91

As at 31 December 2023, the MREL ratio in relation to the total "TREA" risk exposure amounted to 16.38% (in accordance with the Act on macro-prudential supervision, Common Equity Tier 1 instruments held by an entity for the purposes of the combined buffer requirement cannot be used to meet this requirement; without this restriction, the ratio was 21.18%). With regard to the total exposure measure "TEM", the MREL ratio was 9.25%.

The impact of IFRS 9 on own funds and capital adequacy measures is governed by Regulation 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic (Regulation 2020/873). This provision allows to mitigate the impact on the write-offs recorded as of 1 January 2020 on Tier 1 capital.

Such a solution can be applied up to 2024, inclusive, whereas the adjustment ratio allocated to this value decreases gradually. The Bank's Group decided that in the light of Art. 473a (7a) of the CRR implemented by the aforesaid Regulation, it would apply an option according to which the adjustment mitigating the impact of the introduction of IFRS 9 on own funds would receive a risk weight equal to 100% and the resulting value would be added to the total exposure.

According to Article 468 of the CRR (as amended by the aforementioned Regulation 2020/873), banks were allowed to apply until the end of 2022 the provisional treatment of unrealized gains and losses measured at fair value through other comprehensive income in connection with the COVID-19 pandemic. This approach enabled excluding from the calculation of the Group's common equity position the portion of the unrealized gains and losses accumulated from 31 December 2019 included in the balance sheet under "changes in fair value of debt instruments measured at fair value through OCI", corresponding to exposures to central governments, regional governments or local authorities, and to public sector entities, excluding those financial assets that are impaired due to credit risk.

The Bank's Group has decided to apply the above provisional treatment from December 2021 data onwards and has notified the Polish Financial Supervision Authority about its decision.

In addition, from the November 2021 data onwards, the Group has decided to avail itself of the option indicated in the European Banking Authority's guidance set out in the Single Rulebook QA No. 2015_1887. According to the EBA's response, deferred tax assets related to gains or losses on cash flow hedges (which are not included in own funds according to Article 33 of the CRR) do not have to be included either in deferred tax assets included in deductions from own funds according to Articles 36 and 48 of the CRR.

- **OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES**

In 2023 and 2022, the Group's capital adequacy level remained at a safe level, well above the supervisory limits. The minimum capital requirements were satisfied over the entire period.

- **REQUIREMENTS RELATING TO OWN FUNDS (PILLAR I)**

The Group calculates own funds requirements for the following types of risk:

<p>CREDIT RISK</p>	<p>under the standard approach, using the following formulas with regard to:</p> <p>BALANCE SHEET EXPOSURES – the product of a carrying amount (accounting for adjustments for specific credit risk), the risk weight of the exposure calculated according to the standardized approach in calculating the own funds requirement with regard to credit risk and 8% (accounting for the recognizable collateral),</p> <p>OFF-BALANCE SHEET LIABILITIES GRANTED – the product of the amount of a liability (accounting for adjustments for specific credit risk), the risk weight of the product, the risk weight of off-balance sheet exposure calculated according to the standardized approach in calculating the own funds requirement with regard to credit risk and 8% (accounting for the recognizable collateral),</p> <p>OFF-BALANCE SHEET TRANSACTIONS (DERIVATIVE INSTRUMENTS) – the product of the risk weight of an off-balance sheet transaction calculated according to the standardized approach in calculating the own funds requirement with regard to credit risk and 8%.</p>
<p>OPERATIONAL RISK</p>	<ul style="list-style-type: none"> • in accordance with the AMA approach – with respect to the Bank's activities, taking into account the branch in Germany and the branch in the Czech Republic and excluding the branch in Slovakia; • in accordance with the BIA approach – with respect to the activities of the branch in the Slovakia and entities of the Group subject to the prudential consolidation. •
<p>MARKET RISK</p>	<ul style="list-style-type: none"> • currency risk - calculated under the core approach; • commodity risk – calculated under the simplified approach; • equity instruments risk – calculated under the simplified approach; • specific risk of debt instruments – calculated under the core approach; • general risk of debt instruments – calculated under the duration-based approach; • other types of risk other than delta risk (non-delta risk) calculated under the scenario approach in the case of options for which the Bank uses its own valuation models and under the delta plus approach for other options.

OTHER RISKS	<ul style="list-style-type: none">● settlement risk and delivery risk – calculated under the approach specified in Title V, “Own funds requirements for settlement risk” of the CRR Regulation;● counterparty credit risk – calculated under the approach set out in Chapter 6, “Counterparty credit risk” of Title II, “Capital requirements for credit risk” of the CRR Regulation;● credit valuation adjustment risk – calculated under the approach specified in Title VI, “Own funds requirements for credit valuation adjustment risk” of the CRR Regulation;● exceeding the large exposures limit – calculated under the approach set out in paragraphs 395-401 of the CRR Regulation.
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Capital adequacy	31.12.2023	31.12.2022 (restated) ⁴	31.12.2022 (published)
Equity	45,227	35,707	35,435
capital: share capital, supplementary capital, other reserves, and general risk reserve	32,318	32,496	32,496
retained earnings	10,810	8,920	8,651
net profit or loss for the year	5,502	3,312	3,333
other comprehensive income and non-controlling interests	(3,403)	(9,021)	(9,045)
Exclusions from equity:	3,534	(1,987)	(2,154)
deconsolidation - adjustments due to prudential consolidation	(109)	(107)	(224)
net profit or loss for the year	5,505	3,340	3,290
unappropriated profit for the prior year	-	-	-
cash flow hedges	(1,862)	(5,220)	(5,220)
Other fund reductions:	3,036	3,209	3,404
goodwill	961	961	961
other intangible assets	1,587	1,508	1,508
securitization items	-	12	12
additional asset adjustments (AVA, DVA, NPE, exceedance of the thresholds set out in Article 48 CRR) ¹	488	728	923
Provisional treatment of unrealized gains and losses on securities measured at fair value through OCI according to Art. 468 of the CRR	-	1,357	1,357
Temporary reversal of IFRS 9 impact	1,373	2,075	1,651
Current period profit/loss, included by permission from the PFSA/after approval of profit distribution by AGM	1,697	3,258	946
Tier 1	41,727	41,175	38,139
Tier 2 capital (subordinated debt)	2,080	2,584	2,584
Own funds	43,807	43,759	40,723
Requirements for own funds	18,787	18,359	18,328
Credit risk	16,470	15,625	15,594
Operational risk ²	2,163	2,358	2,358
Market risk ³	125	339	339
Credit valuation adjustment risk	29	37	37
Settlement/delivery risk	-	-	-
Total capital ratio	18.65	19.07	17.78
Tier 1 capital ratio	17.77	17.94	16.65

¹ AVA – additional valuation adjustment, DVA – debt valuation adjustment, NPE – non-performing exposures adjustment.

² In 2023, there was a decrease in the own funds requirement for operational risk mainly due to the implementation of individual scaling of the legal risk costs of mortgage loans in CHF in the AMA approach in accordance with the PFSA decision obtained on 22 February 2023. The purpose of the change is to ensure that the historically incurred costs of the portfolio of mortgage loans in CHF are taken into account in the AMA model at an appropriate scale in relation to the risks that the Group may potentially still incur as a result.

³ The decrease in the value of the market risk-related requirement as at the end of 2023 relative to 31 December 2022 was mainly due to a decrease in the currency risk-related requirement, which did not occur at the end of 2023 compared to PLN 135 million at the end of December 2022.

⁴ Figures as at 31 December 2022 have been restated due to the implementation of IFRS 17 “Insurance Contracts” (see Note “IFRS 17 Insurance Contracts”) and in connection with the retroactive accounting of profit for 2022.

Pursuant to Art. 26 (2) of CRR, an institution may include interim or year-end profits in CET1 after a formal decision was taken confirming the final profit or loss of the institution for the year, or before it has taken the formal decision, only with the competent authority’s prior permission.

In line with the European Banking Authority's (EBA) guidance in the single rulebook QA setting out the EBA's position on when to recognise annual and interim profits in capital adequacy data (QA 2018_3822, QA 2018_4085 and QA 2013_208), from the point at which the institution formally meets the criteria to include the profit for the period in Tier 1 capital, it is considered that the profit should be included on a retrospective date (the date of the profit rather than the date the criterion is met) and an adjustment to own funds should be made to the date to which the profit relates.

As the Bank's Annual General Meeting approved the distribution of the Bank's profit on 21 June 2023 and the formal distribution of profits of some of the other prudentially consolidated entities of the Bank Group was completed by the end of June 2023, the above guidelines apply to the Group's own funds for the figures as at 31 December 2022.

If the transitional arrangements for the partial reversal of the impact of IFRS 9 under Article 473a of the CRR had not been applied, the Group's Tier 1 capital would have amounted to PLN 40,354 million, the total capital would have amounted to PLN 42,434 million, the Tier 1 capital ratio would have been 17.28%, the total capital ratio would have been 18.18% and the leverage ratio 7.57%.

According to CRR Regulation, prudential consolidation is used for capital adequacy purposes, which unlike consolidation in accordance with IFRS, covers only subsidiaries that meet the definition of an institution, financial institution or any ancillary services enterprise. In addition, pursuant to Article 19 (1) of the CRR, prudential consolidation may exclude entities whose total value of assets and off-balance sheet items is less than EUR 10 million.

Other subsidiaries, not consolidated under the acquisition accounting method for the purposes of prudential consolidation are measured using the equity method.

For the purposes of prudential consolidation, the Group consists of following entities:

- PKO Bank Polski S.A.
- PKO Leasing S.A. Group;
- PKO BP BANKOWY PTE S.A.
- PKO Towarzystwo Funduszy Inwestycyjnych S.A.
- KREDOBANK S.A. Group;
- PKO Finance AB
- PKO BP Finat sp. z o.o.
- PKO Bank Hipoteczny S.A.
- Bankowe Towarzystwo Kapitałowe S.A. Group.

Non-financial and insurance entities are excluded from the prudential consolidation.

• **INTERNAL CAPITAL (PILLAR II)**

In 2023, the Group calculated internal capital in accordance with the commonly binding legal regulations:

- the CRR Regulation;
- the Polish Banking Law;
- the Regulation of the Minister of finance, funds and regional policy of 8 June 2021 on the risk management and internal control systems and remuneration policy in banks (effective from 11 June 2021);
- the Regulation of the Minister of finance, funds and regional policy of 27 July 2021 on the detailed method of estimating internal capital and conducting reviews of estimation strategies and procedures and maintaining a permanent level of internal capital by banks (effective from 4 August 2021);
- the Act on macro-prudential supervision;

and the internal regulations of the Bank and the Group.

Internal capital constitutes an estimated amount of capital necessary to cover all material types of risk arising from the Group's operations. The purpose of estimating the internal capital is to determine own funds at a level ensuring operational safety, taking into account changes in the profile and scale of the activities conducted and adverse stress conditions, and enabling more effective management of the Group aimed at improving the profitability of operations and profitability of the capital invested.

The internal capital for covering significant risk types is determined using the methods specified in the internal regulations.

The ratio of the Group's own funds to its internal capital remained at a level exceeding both the statutory limit and the Group's internal limit.

- **DISCLOSURES (PILLAR III)**

The Group publishes quarterly information in particular concerning risk management and capital adequacy in accordance with: the CRR Regulation and the executive acts to the CRR, guidelines of the European Banking Authority, including guidelines concerning disclosure requirements pursuant to section eight of the CRR Regulation ("EBA guidelines"), the Act on macro-prudential supervision, the Polish Banking Law Act, Recommendations M, P, R and Z issued by the Polish Financial Supervision Authority as part of the Report, "Capital adequacy and other information to be published by the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group. The last report was prepared as at 31 December 2023.

Details of the scope of information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which are available on the Bank's website (www.pkobp.pl).

69. LEVERAGE RATIO

The Group calculates the leverage ratio as one of its capital adequacy measures.

The objective of excessive leverage risk management is to ensure an appropriate relationship between the amount of the Tier 1 capital and the total of balance sheet assets and off-balance sheet liabilities granted by the Group.

For the purpose of measuring the risk of excessive financial leverage, a leverage ratio is calculated by the Group as a measure of Tier 1 capital divided by the measure of total exposure and is expressed as a percentage rate. The leverage ratio as at 31 December 2023 and 31 December 2022 was above the internal and external limits, as well as above the minimum levels as recommended by the PFSA.

To maintain the leverage ratio at an acceptable level, the Group set up a strategic tolerance limit and a threshold for the ratio and they are regularly monitored and verified periodically.

	Leverage ratio exposures specified in CRR related to capital requirements		
	31.12.2023	31.12.2022 restated	31.12.2022 published
Total capital and exposure measure			
Tier 1 capital	41,727	41,175	38,139
Total exposure measure for leverage ratio calculation	534,167	454,588	454,490
Leverage ratio			
Leverage ratio	7.81	9.06	8.39

70. DIVIDENDS AND DISTRIBUTION OF RETAINED EARNINGS

On 28 November 2022, PKO Bank Polski adopted a dividend policy for the Bank and the Group (“Dividend policy”). The Dividend policy takes into account the Bank’s intention to provide stable dividend payments in the long term, in accordance with the principle of prudent management of the Bank and the Group, in compliance with the law and the PFSA position on the dividend policy assumptions of commercial banks. The objective of the Dividend policy is to optimize the capital structure of the Bank and the Group, while considering the return on equity, the cost of capital and the capital needs for development, and maintaining an appropriate level of the capital adequacy ratios and meeting the minimum requirement for own funds and eligible liabilities (MREL). The repurchase of own shares for cancellation is an additional tool for capital redistribution. The General Meeting gives its consent to the acquisition of own shares by the Bank, after prior approval of the Supervisory Board, specifying the terms of the acquisition, including the maximum number of shares to be acquired, the period of authorization to acquire shares, which may not exceed five years and the maximum and minimum amount of consideration for the acquired shares, if the acquisition takes place for consideration. Purchase of own shares for cancellation in each case requires the Bank to obtain the prior consent of the Polish Financial Supervision Authority.

• THE PFSA’S RECOMMENDATIONS REGARDING DIVIDEND PAYMENTS IN 2024

On 14 December 2023, the PFSA adopted a position on the 2024 dividend policy of commercial banks, cooperative and associating banks, insurance companies, reinsurance companies, insurance and reinsurance companies, investment fund companies, universal pension companies and brokerage houses.

The dividend payment criteria for commercial banks indicated in the PFSA’s positions are as follows:

1. An amount of up to 50% of the profit for 2023 may only be paid out by banks that fulfil all of the following criteria:
 - not implementing a recovery programme;
 - positively assessed in the supervisory review and assessment process (BION) – final BION score not worse than 2.5;
 - having a leverage ratio (LR) of more than 5%;
 - having a Tier 1 core capital ratio (CET1) of not less than the required minimum: $4.5\% + 56\% * P2R$ requirement + combined buffer requirement + P2G;
 - having a Tier 1 capital ratio (T1) not lower than the required minimum: $6\% + 75\% * P2R$ requirement + combined buffer requirement + P2G;
 - having a total capital ratio (TCR) not lower than the required minimum: $8\% + P2R$ requirement + combined buffer requirement + P2G;
2. An amount of up to 75% of the profit for 2023 may be paid only by banks meeting at the same time the criteria for payment of 50% and at the same time whose portfolio of receivables from the non-financial sector is characterised by good credit quality (the ratio of the portfolio of non-performing loans to the non-financial sector (NPL), including debt instruments, is at a level of no more than 5%).

The criteria set out in points 1-2 should be met by the bank both at the individual and consolidated level, as at the end of 2023 and on the date of the decision of the General Shareholders' Meeting to distribute dividends. The maximum possible level of dividend to be distributed from profit earned in 2023 is limited to 75% in connection with the expectation of strengthening the capital base in order to absorb the possible materialisation of risks accumulated in the environment of the Polish banking sector.

Additionally, the PFSA indicated that the banks which have considerable portfolios of foreign currency housing loans should adjust the rate of dividend distribution based on two additional criteria:

- Criterion 1 – based on the share of foreign currency housing loans for households granted to unsecured borrowers in the total portfolio of amounts due from the non-financial sector;
- Criterion 2 – based on the share of loans granted in 2007 and 2008 in the foreign currency housing loans for households’ portfolio.

- The PFSA recommended that appropriate adjustments be applied, depending on the size of the Bank's portfolio:
- Criterion 1:
 - banks with a share exceeding 5% - adjustment of the dividend rate by 20 p.p.;
 - banks with a share exceeding 10% - adjustment of the dividend rate by 40 p.p.;
 - banks with a share exceeding 20% - adjustment of the dividend rate by 60 p.p.;
 - banks with a share exceeding 30% - adjustment of the dividend rate by 100 p.p.;
- Criterion 2:
 - banks with a share exceeding 20% - adjustment of the dividend rate by 30 p.p.;
 - banks with a share exceeding 50% - adjustment of the dividend rate by 50 p.p.;

whereas the total value of the adjustment (maximum 75%) is the sum of adjustments resulting from both criteria.

The PFSA additionally advised that banks should not undertake other activities, in particular those outside the scope of their current business and operating activities, which could result in a reduction of own funds, without prior consultation with the PFSA. This also applies to dividend payments, if any, from retained earnings and buybacks of own shares. The PFSA expects that any implementation of such operations will be preceded in each case by a consultation with the PFSA and will depend on its outcome.

- **PAYMENT OF DIVIDEND FOR 2022**

On 21 June 2023, the Annual General Meeting of PKO Bank Polski S.A. (AGM) passed a resolution on distribution of profit of PKO Bank Polski S.A. for 2022, in accordance with which:

- the amount of PLN 1,629,138,013.50 was allocated to reserve capital for the payment of dividends, including interim dividends, in accordance with § 30 of the Bank's Articles of Association,
- the amount of PLN 1,629,138,013.50 was left as unapportioned.

At the same time, the AGM passed a resolution to leave PKO Bank Polski S.A.'s retained earnings, in the amount of PLN 7,808,836,372, undistributed.

The above resolutions are consistent with the individual recommendation of the Polish Financial Supervision Authority ("PFSA") received on 17 March 2023, in which the PFSA confirmed that the Bank fulfils the requirements for the payment of dividends at a level of up to 50% of the net profit for 2022 but, at the same time, recommended that the Bank mitigate the risks present in its operations.

The distribution of profit for 2022 adopted by the AGM did not preclude the Bank's Management Board from deciding to distribute profit to shareholders in the form of an interim dividend and to use the reserve capital for this purpose.

In 2023, the Bank consulted the PFSA on two occasions relating to the possibility of the Bank distributing part of its profit from reserve capital in the form of an interim dividend. On 21 July 2023, the Bank received a negative opinion from the PFSA Office in this respect, and on 11 December 2023, the Bank received a positive opinion from the PFSA Office.

In its letter dated 11 December 2023, the PFSA stated that having analysed the current business and financial standing of the Bank and the arguments presented by the Bank, the PFSA does not raised any concerns to the potential payment of interim dividend by the Bank in the amount of PLN 1.6 billion or less from the profit earned in the period between 1 January 2022 and 31 December 2022 allocated to the reserve capital in line with resolution No 7 of the Annual General Meeting of 21 June 2023 with regard to the distribution of profit earned by PKO Bank Polski S.A. in 2022. The PFSA noted that all decisions affecting the Bank's capital position, including those relating to the distribution of generated profit, should be made taking into account not only the provisions of law and the supervisory authority's positions and guidelines, but also the principles of prudent and stable management of the Bank, and in particular - the need to ensure that the Bank is equipped with own funds to cover all risks occurring in its operations, as well as its further sustainable development.

On 19 December 2023, the Bank's Management Board decided to pay an interim dividend for the financial year from 1 January 2023 to 31 December 2023 and to earmark PLN 1,600,000,000 for this purpose. On the same day, the Supervisory Board approved the payment of the interim dividend. The interim dividend was paid out only of the reserve capital created for dividend payment, including interim dividends (the funds for the payment will not come from the Bank's profit earned since the end of 2022). 1,250,000,000 shares (series A, B, C, D) gave entitlement to the Interim Dividend. The interim dividend per share was PLN 1.28 gross. The record date for the interim dividend was 25 January 2024 and the dividend payment date was 1 February 2024.

OTHER NOTES

71. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- CASH AND CASH EQUIVALENTS

ACCOUNTING POLICIES:

Cash and cash equivalents consist of cash in hand, cash on nostro accounts and a deposit with the National Bank of Poland, as well as amounts due from banks in the current account, and cash equivalents with maturities up to 3 months from the date of acquisition.

FINANCIAL INFORMATION

CASH AND CASH EQUIVALENTS	2023	2022
Cash, current account with the Central Bank	14,061	11,966
Deposits with the Central Bank	3,752	3,951
Current amounts due from banks	13,479	15,589
Restricted cash and cash equivalents of which	36	489
- amounts due from banks	5	454
- loans and advances to customers	31	35
Total	31,328	31,995

- RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents of PLN 36 million (as at 31 December 2022: PLN 489 million), including:

- PLN 31 million (as at 31 December 2022: PLN 35 million) pledged as collateral for securities' transactions conducted by Biuro Maklerskie PKO BP are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of settlement-making participant is obliged to make payments to the settlement fund which guarantees a proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW_CCP on a daily basis.
- PLN 5 million (as at 31 December 2022: PLN 4 million) paid in by participants in IKE, IKZE, PPE and PSO, which was not converted by the transfer agent into investment fund participation units by 31 December 2023 and 31 December 2022, respectively,
- PLN 0 million (as at 31 December 2022: PLN 450 million) pledged as collateral for securitization transactions. For detailed information see the note "INFORMATION ON SECURITIZATION OF THE LEASE PORTFOLIO AND PACKAGE SALE OF RECEIVABLES".

• CASH FLOWS FROM INTEREST AND DIVIDENDS, BOTH RECEIVED AND PAID

INTEREST INCOME ON:	2023	2022
loans to and other receivables from banks	2,114	1,443
debt securities	6,604	3,745
loans and advances to customers	19,728	14,554
Total	28,446	19,742

The above amounts of interest received do not include the amounts of commission recognized using the effective interest rate as interest income.

INTEREST EXPENSES – PAID:	2023	2022
amounts due to banks	(89)	(127)
amounts due to customers	(7,113)	(2,863)
loans and advances received	(61)	(35)
leases	(35)	(19)
hedging derivatives	(4,108)	(2,616)
debt securities	(158)	(89)
issues of securities	(455)	(447)
subordinated liabilities	(235)	(99)
Total	(12,254)	(6,295)

DIVIDEND INCOME RECEIVED	2023	2022
from financial assets held for trading	1	1
financial instruments not held for trading, measured at fair value through profit or loss	13	50
Total	14	51

• CASH FLOWS FROM OPERATING ACTIVITIES – OTHER ADJUSTMENTS

OTHER ADJUSTMENTS	2023	2022
Cash flow hedges and hedges of a net investment in a foreign operation	4,146	(1,901)
Actuarial gains and losses	(4)	(9)
Currency translation differences on foreign operations	(124)	(87)
Remeasurement of shares in subordinated entities and other changes	(31)	(18)
Scrapping of property, plant and equipment and intangible assets	(387)	(11)
Other changes	(420)	138
Total	3,180	(1,888)

• EXPLANATION OF DIFFERENCES BETWEEN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND CHANGES IN THESE ITEMS PRESENTED UNDER OPERATING ACTIVITIES IN THE CONSOLIDATED CASH FLOW STATEMENT

(GAINS)/LOSSES ON INVESTING ACTIVITIES	2023	2022
Gains on sale and scrapping of property, plant and equipment, intangible assets and assets held for sale	(95)	(108)
Losses on sale and scrapping of property, plant and equipment, intangible assets and assets held for sale	8	11
Total	(87)	(97)

Analytics for "Interest and dividends received" and "Interest paid" in cash flow from operating activities	2023	2022
Reported under investing activities:	(6,549)	(3,758)
from financial assets held for trading	(1)	(1)
dividends received from securities not held for trading, measured at fair value through profit or loss	(13)	(50)
interest received on securities measured at fair value through other comprehensive income	(4,396)	(1,987)
interest received on securities measured at amortized cost	(2,139)	(1,720)
Reported under financing activities:	751	581
interest paid on debt securities in issue	455	447
interest paid on subordinated liabilities	235	99
interest paid on loans and advances received	61	35
Total	(5,798)	(3,177)

CHANGES IN AMOUNTS DUE FROM BANKS	2023	2022
Change resulting from the balance sheet items	1,663	(7,091)
Changes in allowances for expected credit losses	(7)	(2)
Exclusion of the change in cash and cash equivalents	(2,561)	6,880
Total	(905)	(213)

CHANGE IN SECURITIES	2023	2022
Change resulting from the balance sheet items	(61,852)	(192)
Changes in allowances for expected credit losses	(4)	40
Fair value of financial assets measured at fair value through other comprehensive income	2,995	(2,072)
Recognition of acquisition / disposal of securities measured at fair value through other comprehensive income in investing activities	35,839	3,258
Recognition of acquisition / disposal of securities measured at amortized cost in investing activities	16,740	(5,312)
Other inflows from investing activities	(78)	(10)
Total	(6,360)	(4,288)

CHANGE IN LOANS AND ADVANCES TO CUSTOMERS	2023	2022
Change resulting from the balance sheet items	(12,817)	2,736
Changes in allowances for expected credit losses	(461)	(1,060)
Exclusion of the change in cash and cash equivalents	(4)	10
Total	(13,282)	1,686

CHANGE IN NON-CURRENT ASSETS HELD FOR SALE	2023	2022
Change resulting from the balance sheet items	(9)	8
Changes in impairment losses on non-current assets held for sale	1	-
Total	(8)	8

CHANGE IN OTHER ASSETS	2023	2022
Change resulting from the balance sheet items	371	(199)
Changes in impairment losses on other assets and inventory write-downs	(11)	(17)
Total	360	(216)

CHANGE IN LIABILITIES IN RESPECT OF LOANS AND ADVANCES RECEIVED	2023	2022
Change resulting from the balance sheet items	(805)	(167)
Recognition of drawing/repayment of long-term loans and advances under financing activities, including interest	1,140	132
Total	335	(35)

CHANGE IN LIABILITIES IN RESPECT OF SECURITIES IN ISSUE	2023	2022
Change resulting from the balance sheet items	1,691	(8,362)
Recognition of drawing/repayment of liabilities in respect of debt securities in issue under financing activities	(2,191)	9,104
Total	(500)	742

CHANGE IN ACCUMULATED ALLOWANCES FOR EXPECTED CREDIT LOSSES AND IMPAIRMENT LOSSES ON NON-FINANCIAL AND OTHER ASSETS	2023	2022
Change in accumulated allowances and provisions for expected credit losses	381	1,191
for amounts due from banks	7	2
for loans and advances to customers	461	1,059
for securities	4	(39)
for other financial assets	(10)	11
provisions for financial liabilities and guarantees granted	(81)	158
Change in accumulated impairment losses on non-financial assets and other provisions	2,222	270
on non-current assets held for sale	(1)	-
on property, plant and equipment	33	2
on intangible assets	-	(13)
on investments in subordinated entities	11	-
on other non-financial assets	21	7
other provisions	2,158	274
Total	2,603	1,461

CHANGE IN OTHER LIABILITIES	2023	2022
Change resulting from the balance sheet items	3,996	1,650
Adjustment to exclude dividends	(1,600)	-
Recognition of lease payments in financing activities	266	255
Total	2,662	1,905

CHANGE IN LEASING LIABILITIES	2023	2022
Opening balance	896	959
Changes recorded in operating activities:	458	192
- new agreements	318	49
- closing of agreements	(8)	(11)
- modifications	155	136
- interest	33	16
- foreign exchange differences	(40)	2
Recognition of lease payments in financing activities	(266)	(255)
Closing balance	1,088	896

• RECONCILIATION OF ITEMS PRESENTED IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION WITH FINANCING ACTIVITIES IN THE CONSOLIDATED CASH FLOW STATEMENT

	As at the beginning of the period	Recognized in financing activities in the cash flow statement		Presented in operating activities in the cash flow statement (including: interest accrued, foreign exchange differences and other)	As at the end of the period
		Incurred	Repaid		
Loans and advances received	2,294	12	(1,152)	335	1,489
from banks	309	-	(306)	(3)	-
from customers	1,985	12	(846)	338	1,489
Securities in issue	15,510	13,105	(10,914)	(500)	17,201
Subordinated liabilities - subordinated bonds	2,781	-	-	(7)	2,774
Payment of lease liabilities	896	506	(266)	(48)	1,088
Total	21,481	13,623	(12,332)	(220)	22,552

	As at the beginning of the period	Recognized in financing activities in the cash flow statement		Recognized in operating activities in the cash flow statement other changes (interest, foreign exchange differences and other)	As at the end of the period
		Incurred	Repaid		
Loans and advances received	2,461	620	(753)	(34)	2,294
from banks	740	151	(516)	(66)	309
from customers	1,721	469	(237)	32	1,985
Securities in issue	23,872	8,421	(17,525)	742	15,510
Subordinated liabilities - subordinated bonds	2,716	-	-	65	2,781
Payment of lease liabilities	959	-	(255)	192	896
Total	30,008	9,041	(18,533)	965	21,481

Other investment inflows include dividend proceeds and proceeds from the sale of equity securities. Other investment expenditure includes purchases of equity securities.

In 2023, under "other inflows from investing activities", the Group presents the effect of the sale of series A VISA shares in the amount of PLN 78 million. In 2022, in the item "other investment expenditure", the Group presents the effect of the purchase of PKN ORLEN shares in the amount of PLN 707 million and in the item "other investment inflows" the effect of the sale of these shares in the amount of PLN 715 million. On 29 September 2022, the Group acquired 14,161,080 PKN ORLEN S.A. bearer shares from the State Treasury - Minister of State Assets for a price equal to the result of the multiplication of the number of shares and the price of one share in accordance with the closing price of PKN ORLEN S.A. shares on the main market of the Warsaw Stock Exchange on the date of conclusion of the agreement decreased by the discount determined on market terms. On 30 September 2022, the Group concluded a total return swap with PKN ORLEN S.A. for a period of 1 month, where the underlying instrument were

acquired shares. PKN ORLEN S.A. made a cash deposit to the Group as collateral for the receivables, which was subject to interest at market conditions. On 18 October 2022, the Group disposed of all shares in PKN ORLEN S.A. The sale took place under the accelerated bookbuilding (ABB) formula.

Dividends received are also included in other investment income.

72. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

• TRANSACTIONS WITH THE STATE TREASURY

The State Treasury holds a 29.43% interest in the Bank's share capital.

Pursuant to the Act of 30 November 1995 on the state support in repayment of certain housing loans, reimbursement of guarantee bonuses paid, and amendments to certain Acts, PKO Bank Polski S.A. receives payments from the State budget as the repurchase of interest receivable on housing loans.

TRANSACTIONS WITH THE STATE TREASURY	2023	2022
Income recognized on an accruals basis	65	65
Income recognized on a cash basis	4	12
Income from temporary redemption by the State Treasury of interest on housing loans in the "old portfolio"	61	53

As of 1 January 2018 based on the provisions of the Act of 30 November 1995 on state support in the repayment of certain housing loans, granting guarantee bonuses and reimbursement of guarantee bonuses paid, the borrowers acquired the right to be forgiven the remaining debt by the State Treasury, which will result in gradual (until 2026) full settlement of the housing loan indebtedness from the so-called "old" portfolio. The Bank conducts settlements in respect of repurchase of interest on housing loans by the State Budget and on this account the Bank received commission in 2023 and 2022 amounting to under PLN 1 million.

As of 1 January 1996, the Bank became the general distributor of value marks. The Bank receives commissions in this respect from the State Treasury – in 2023 and in 2022, the Bank received commission on this account of under PLN 1 million.

Biuro Maklerskie PKO BP plays the role of an agent for the issue of retail Treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, Biuro Maklerskie PKO BP receives a fee for providing the services of an agent for the issue of bonds – in 2023 in the amount of PLN 222 million, and in 2022 in the amount of PLN 254 million.

- SIGNIFICANT TRANSACTIONS WITH THE STATE TREASURY'S RELATED PARTIES**

The Group's exposure and the value of the Group's liabilities to 10 entities related to the State Treasury with the highest total exposure are presented below.

SIGNIFICANT TRANSACTIONS WITH THE STATE TREASURY'S RELATED PARTIES	BALANCE SHEET EXPOSURE, INCLUDING EXPOSURE TO LOANS AND DEBT INSTRUMENTS		OFF-BALANCE SHEET EXPOSURE		LIABILITIES IN RESPECT OF DEPOSITS	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Counterparty 1	-	-	3,150	2,453	2,350	2,820
Counterparty 2	16,586	16,097	32	31	112	87
Counterparty 3	761	245	1,065	1,081	140	5
Counterparty 4	1,933	422	2,246	3,807	544	2,087
Counterparty 5	685	833	2,360	2,096	-	6
Counterparty 6	-	118	1,501	1,500	637	275
Counterparty 7	60	1,643	2,070	4,610	1,355	1,088
Counterparty 8	915	751	1,009	557	-	-
Counterparty 9	1,177	608	640	1,320	395	59
Counterparty 10	1,068	841	538	816	-	-

	2023	2022
Interest and commission income	594	420
Interest and commission expense	193	497

As at 31 December 2023, the allowance for expected credit losses on an individualised basis for the above exposures amounted to PLN 1 million (as at 31 December 2022 it amounted to PLN 1 million).

In the opinion of the Group, all transactions with entities related to the State Treasury are concluded on an arm's-length basis.

- RELATED-PARTY TRANSACTIONS – CAPITAL LINKS**

Transactions of the Bank as the parent company with associates and joint ventures are presented in the table below. All transactions with joint ventures and associates presented below were arm's length transactions. Repayment terms are within a range of from one month to seventeen years.

31.12.2023 Company name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	79	13	138	64
"Centrum Obsługi Biznesu" sp. z o.o.	11	11	5	-
Bank Pocztowy S.A.	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	-	-	1	-
Operator Chmury Krajowej sp. z o.o.	-	-	34	428
System Ochrony Banków Komercyjnych S.A. ¹	-	-	-	-
Total joint ventures and associates	90	24	178	493

For the period ended 31.12.2023 Company name	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	897	838	192	192
"Centrum Obsługi Biznesu" sp. z o.o.	2	2	-	-
Operator Chmury Krajowej sp. z o.o.	1	1	45	-
Total joint ventures and associates	900	841	237	192

31.12.2022 Company name	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	64	-	206	63
"Centrum Obsługi Biznesu" sp. z o.o.	11	10	2	-
Bank Pocztowy S.A.	-	-	-	1
Operator Chmury Krajowej sp. z o.o.	-	-	31	917
Total joint ventures and associates	75	10	239	981

For the period ended 31.12.2022 Company name	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	850	783	198	198
"Centrum Obsługi Biznesu" sp. z o.o.	1	1	1	1
Operator Chmury Krajowej sp. z o.o.	-	-	29	-
System Ochrony Banków Komercyjnych S.A. ¹	-	-	956	-
Total joint ventures and associates	851	784	1,184	199

¹ for more details, see note "Operating expenses"

- RELATED-PARTY TRANSACTIONS – PERSONAL LINKS**

As at 31 December 2023, 4 entities were related to the Group through the key management personnel of PKO Bank Polski S.A. or close family members of the key management personnel. As at 31 December 2022, it was ten entities. In 2023 and in 2022, no transactions were conducted between the Group and those entities.

73. BENEFITS FOR THE PKO BANK POLSKI SA KEY MANAGEMENT

ACCOUNTING POLICIES:

Short-term employee benefits include, apart from the basic salary, also the part of the variable remuneration component paid in cash which is not deferred.

The deferred part of the variable remuneration component paid in cash was recognized as other long-term benefits.

Non-deferred and deferred remuneration components granted in the form of financial instruments i.e. Phantom shares (for which conversion into cash is carried out after an additional period of retention) are recognized as share-based payments settled in cash in accordance with the principles described below.

- VARIABLE REMUNERATION COMPONENTS OF KEY MANAGEMENT PERSONNEL IN THE BANK'S GROUP**

Variable remuneration components are granted at the Group in the form of: non-deferred remuneration (in the first year after the calendar year constituting an appraisal period), and deferred remuneration (for the next five years after the first year of the appraisal period), whereas both the non-deferred and deferred remuneration is awarded in equal parts in cash and in the form of financial instruments, i.e. phantom shares (for which conversion into cash is carried out after an additional period of retention).

The component of remuneration in the form of the financial instrument is converted into phantom shares after granting a particular component – taking into consideration the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange for the first quarter of the year after the bonus period, available on Thomson Reuters or Bloomberg information system. Next, after a period of retention and deferral period, the shares are converted into cash – taking into consideration the median of the daily average prices of the Bank's shares (Volume Weighted Average Price) on the Warsaw Stock Exchange for the first quarter of the year in which the payment is made, available on either the Thomson Reuters or Bloomberg information system.

The deferred remuneration may be reduced in the event of deterioration in the financial performance of the Bank, a loss incurred by the Bank or deterioration of other variables related to the performance in the period of appraisal of key management personnel and results of the organizational units/cells supervised or managed by these people, which were revealed after the appraisal period.

Variable remuneration components were also granted in selected PKO Bank Polski S.A. Group companies. Regulations on variable remuneration components for members of the Management Board applied in 2023 and 2022 in the following companies: PKO Bank Hipoteczny SA, PKO BP BANKOWY PTE SA, PKO TFI SA, PKO Leasing SA, Prime Car Management S.A., PKO Towarzystwo Ubezpieczeń SA, PKO Życie Towarzystwo Ubezpieczeń SA, Kredobank SA and PKO Faktoring SA. Simultaneously, in 2023 and 2022 employees in certain managerial positions at PKO Bank Hipoteczny S.A., PKO Towarzystwo Ubezpieczeń S.A., PKO Życie Towarzystwo Ubezpieczeń S.A. and PKO Leasing S.A. having a significant impact on the company's risk profile, and certain employees at PKO TFI S.A., whose jobs include activities that materially affect the risk profile of the company or the fund management company, were also covered by variable remuneration policies.

For a more extensive description, please refer to the chapter "Benefits for supervisors and management persons" of the PKO Bank Polski S.A. Group Directors' Report for 2023, prepared together with the Directors' Report of PKO Bank Polski S.A.

FINANCIAL INFORMATION

COST OF REMUNERATION OF THE BANK'S MANAGEMENT AND SUPERVISORY BOARDS (in PLN thousand)	2023	2022
Management Board of the Bank		
Short-term employee benefits	14,276	12,975
Long-term employee benefits	1,946	1,988
Share-based payments settled in cash ¹	9,787	438
Benefits to the Bank's Management Board members who ceased to perform their functions before the reporting date	2,700	1,244
Total	28,709	16,645
Supervisory Board of the Bank		
Short-term employee benefits	2,215	2,165
Total	2,215	2,165

¹ "Share-based payments settled in cash" includes both costs of variable remuneration in the form of a financial instrument for the current period, as well as the effect of revaluation of provisions for variable remuneration components in the form of a financial instrument for previous years based on the current price of the Bank's shares.

COSTS OF REMUNERATION OF THE SUBSIDIARIES' MANAGEMENT AND SUPERVISORY BOARDS (in PLN thousand)	2023	2022
Management Boards of the Companies		
Short-term employee benefits	33,490	24,343
Long-term employee benefits	3,525	3,388
Financial instruments-based payments settled in cash	2,917	2,930
Benefits to members of the Companies' Management Boards who ceased to perform their functions before the reporting date	1,448	2,033
Total	41,380	32,694
Supervisory Boards of the Companies		
Short-term employee benefits	2,415	1,369
Total	2,415	1,369

LOANS AND ADVANCES GRANTED BY THE BANK TO THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARDS AS AT THE REPORTING DATES (in PLN thousand)	31.12.2023	31.12.2022
Supervisory Board of the Bank	-	-
Management Board of the Bank	159	101
Total	159	101

The interest rates and repayment terms do not differ from the arm's-length conditions and repayment terms for similar banking products.

The Bank provides the key management personnel, members of the Supervisory Board and their families with standard financial services which comprise, among other things, operating bank accounts, accepting deposits, granting loans and providing other financial services. All these transactions are concluded on an arm's length basis.

In 2023, members of the Bank's Management Board in office as at 31 December 2023 received remuneration from the Bank's related parties in the amount of PLN 62 thousand. In 2022, members of the Bank's Management Board did not receive any remuneration from the Bank's related parties.

• VARIABLE REMUNERATION COMPONENTS

PROVISION FOR VARIABLE REMUNERATION COMPONENTS	31.12.2023 (for 2019-2023)	31.12.2022 (for 2018-2022)
Management Board (including members who ceased to perform their functions before the reporting date)	28	20
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	87	60
Group companies	40	30
Total provision	155	110
REMUNERATION PAID DURING THE YEAR	2023 (for 2018-2022)	2022 (for 2017-2021)
- granted in cash	32	27
Management Board (including members who ceased to perform their functions before the reporting date)	5	4
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	13	14
Group companies	14	9
- granted in the form of financial instruments	15	24
Management Board (including members who ceased to perform their functions before the reporting date)	4	5
Other Risk Takers (persons holding managerial positions other than members of the Bank's Management Board)	7	14
Group companies	4	5
Total remuneration paid	47	51

74. LEASES

ACCOUNTING POLICIES:

74.1. LEASES - LESSOR

The Group acts as a lessor in lease agreements relating to vehicles, buildings, including office space, and machinery and equipment. The Group conducts lease activities through the entities from the PKO Leasing SA Group and KREDOBANK SA.

The Group as a lessor classifies leases as operating or finance leases.

A lease agreement is classified as an operating lease if substantially all risks and benefits from owning the underlying assets are not transferred. In such an instance the Group records lease payments as income on a straight-line basis.

Property, plant and equipment leased under operating leases are recognised in a separate line in the statement of financial position in accordance with the accounting policy applicable to property, plant and equipment (note concerning accounting policies: "[Property, plant and equipment](#)", "[Depreciation and amortisation](#)", "[Impairment losses](#)").

Net income from operating leases is presented under "[Fee and commission income](#)", line: "Operating leases and fleet management". Such income comprises mainly fees for using leased assets, income on short-term rentals and net income or expense on fleet management services (including service, tyre replacement, provision of replacement vehicles). Expenses in respect of operating lease and fleet management comprise: mechanical repairs, tyre repairs, cost of fuel and cost of replacement vehicles. Income on operating leases was included together with the cost of depreciation of property, plant and equipment under operating leases.

After the lease commencement date, the Group measures the lease liability by:

- increasing the carrying value to reflect interest on the lease liability;
- reducing the carrying value to reflect the lease payments made; and
- remeasuring the carrying value to reflect any reassessment or lease modifications, or to reflect revised fixed lease payments.

Interest rate implicit in the lease applied by the Group is the rate of interest that causes the present value of the lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the Group.

Finance lease agreements are recognised as receivables in the amount equal to the current contractual value of the lease payments plus the potential not guaranteed residual value attributed to the lessor, determined as at the date of inception of the lease. Lease payments on finance leases are divided between interest income and a reduction in the balance of receivables in a manner enabling achieving a fixed interest rate on the remaining receivables.

Finance lease agreements are recognised under the heading "[Loans and advances to customers](#)".

74.2. LEASES - LESSEE

The Group classifies agreements under which it obtains the right to use the underlying asset for a given period in return for consideration as lease agreements or agreements containing a lease.

The Group applies exceptions and does not recognize right-of-use assets and liabilities with respect to:

- short-term leases, which include agreements without an option to buy an asset, concluded for a period not exceeding 12 months from the commencement of the agreement, in particular agreements concluded for an indefinite period with a short (up to 12 months) notice period, without significant penalties, which include in particular leasehold improvements incurred and relocation costs;
- low-value leases (an asset's value is lower than PLN 20,000, determined based on the value of a new asset, regardless of the age of the leased asset), excluding agreements for rental of space.

The Group initially measures lease liabilities at the present value of the lease payments outstanding as at that date.

The amount of the lease liability is affected by:

- fixed payments less any lease incentives payable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- any residual guarantees expected from the lessee;
- the exercise price of a purchase option if the probability that the Group would exercise that option is higher than 50%;
- payments of penalties for terminating the lease, if the lease agreement contains an option for the Group to terminate the lease as a lessee.

The Group does not classify variable fees that depend on external factors as lease payments.

After initial recognition the Group's lease liabilities are measured at amortized cost.

The Group records revaluation of lease liabilities as an adjustment to the right-of-use asset. If as a result of remeasurement the carrying amount of the right-of-use asset is reduced to zero and the lease liability is further reduced, the Group recognizes the remaining amount of the remeasurement as a profit or loss.

The Group's lease liability is presented under "[Other liabilities](#)", line item "Lease liabilities".

The Group initially measures the right-of-use assets, presented under "[Property, plant and equipment](#)" at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group.

The Group subsequently measures the right-of-use asset at cost less accumulated depreciation (depreciation calculated under the straight-line method) and accumulated impairment losses, adjusted for any remeasurement of the lease liability.

To discount future lease payments, the Group applies discount rates that:

- are calculated based on yield curves reflecting the cost of financing in a given currency;
- cover the tenor of the longest lease contract subject to measurement and reflecting - for a given currency - a fixed market interest rate and the Group's cost of financing (the tenors of the lease agreements are within the range from 1 to 99 years);
- have been read from the curve for maturity corresponding to one-half of the maturity of the lease agreement.

The Group performs quarterly updates of the incremental borrowing rate for lease agreements.

The Group applies the same discount rates for the portfolio of car leases and property leases, including rights to perpetual usufruct of land, taking into account the impact of the lease security on the discount rate applied.

The Group recognizes the lease payments relating to short-term and low-value leases as cost using the straight-line method, over the term of the lease. The differences between the amounts paid and those arising from the straight-line recognition of the costs are recorded as prepayments or accruals.

FINANCIAL INFORMATION

74.3. LESSEE

LESSEE - LEASE AMOUNTS RECOGNIZED IN THE INCOME STATEMENT	2023	2022
Costs related to short-term lease contracts	(13)	(7)
Costs related to lease contracts for low-value assets (other than short-term), non-deductible VAT expenses and service charges	(89)	(79)
Total	(102)	(86)

The interest expense on the lease liability is recognised under "[Interest expense](#)", line item "leases".

Depreciation charge for right-of-use assets is recognized under "[Administrative expenses](#)", line item "Amortization and depreciation" and the breakdown of those costs by class of underlying asset is presented in tables "Non-current right-of-use assets"

The lease liability is recognised under the line "Other liabilities" in the statement of financial position, line item "lease liability".

A maturity analysis of lease liabilities separate from the maturity analyses of other financial liabilities is presented in note "[Contractual cash flows from the Group's financial liabilities, including derivative financial instruments](#)", Section "Contractual cash flows from the financial liabilities, excluding derivative financial instruments".

The following tables present information on the non-current right-of-use assets, which are presented under "Property, plant and equipment" in the statement of financial position.

NON-CURRENT right-of-use assets	Land and buildings	Machinery and equipment, including computer hardware	Other, including vehicles	Total
2023				
Gross carrying amount at the beginning of the period	1,667	12	27	1,706
Increases	460	-	1	461
Scrapping and sale	(45)	-	(2)	(47)
Other	(5)	-	-	(5)
Gross carrying amount at the end of the period	2,077	12	26	2,115
Accumulated amortization as at the beginning of the period	(854)	(2)	(1)	(857)
Amortization charge for the period	(240)	(3)	(1)	(244)
Scrapping and sale	38	-	1	39
Other	9	-	-	9
Accumulated amortization as at the end of the period	(1,047)	(5)	(1)	(1,053)
Impairment losses as at the beginning of the period	(5)	-	-	(5)
Reversed during the period	1	-	-	1
Impairment losses as at the end of the period	(4)	-	-	(4)
Carrying amount as at the beginning of the period, net	808	10	26	844
Carrying amount as at the end of the period, net	1,026	7	25	1,058

NON-CURRENT right-of-use assets	Land and buildings	Machinery and equipment, including computer hardware	Other, including vehicles	Total
2022				
Gross carrying amount at the beginning of the period	1,523	-	29	1,552
Increases	164	12	-	176
Scrapping and sale	(21)	-	-	(21)
Other	1	-	(2)	(1)
Gross carrying amount at the end of the period	1,667	12	27	1,706
Accumulated amortization as at the beginning of the period	(643)	-	(3)	(646)
Amortization charge for the period	(230)	(2)	-	(232)
Scrapping and sale	10	-	-	10
Other	9	-	2	11
Accumulated amortization as at the end of the period	(854)	(2)	(1)	(857)
Impairment losses as at the beginning of the period	(5)	-	-	(5)
Impairment losses as at the end of the period	(5)	-	-	(5)
Carrying amount as at the beginning of the period, net	875	-	26	901
Carrying amount as at the end of the period, net	808	10	26	844

74.4. LESSOR – OPERATING LEASES

PROPERTY, PLANT AND EQUIPMENT UNDER OPERATING LEASES	Land and buildings	Machinery and equipment, including computer hardware	Other, including vehicles	Total
2023				
Gross carrying amount at the beginning of the period	13	1	2,254	2,268
Purchase	-	-	1,037	1,037
Scrapping and sale	-	-	(632)	(632)
Other	1	-	14	15
Gross carrying amount at the end of the period	14	1	2,673	2,688
Accumulated amortization as at the beginning of the period	(2)	(1)	(497)	(500)
Amortization charge for the period	-	-	(284)	(284)
Scrapping and sale	-	-	217	217
Other	(1)	-	-	(1)
Accumulated amortization as at the end of the period	(3)	(1)	(564)	(568)
Impairment losses as at the beginning of the period	(3)	-	(1)	(4)
Other	-	-	1	1
Impairment losses as at the end of the period	(3)	-	-	(3)
Carrying amount as at the beginning of the period, net	8	-	1,756	1,764
Carrying amount as at the end of the period, net	8	-	2,109	2,117

PROPERTY, PLANT AND EQUIPMENT UNDER OPERATING LEASES	Land and buildings	Machinery and equipment, including computer hardware	Other, including vehicles	Total
2022				
Gross carrying amount at the beginning of the period	13	1	1,782	1,796
Purchase	-	-	892	892
Scrapping and sale	-	-	(461)	(461)
Other	-	-	41	41
Gross carrying amount at the end of the period	13	1	2,254	2,268
Accumulated amortization as at the beginning of the period	(2)	(1)	(419)	(422)
Amortization charge for the period	-	-	(247)	(247)
Scrapping and sale	-	-	181	181
Other	-	-	(12)	(12)
Accumulated amortization as at the end of the period	(2)	(1)	(497)	(500)
Impairment losses as at the beginning of the period	(2)	-	(1)	(3)
Other	(1)	-	-	(1)
Impairment losses as at the end of the period	(3)	-	(1)	(4)
Carrying amount as at the beginning of the period, net	9	-	1,362	1,371
Carrying amount as at the end of the period, net	8	-	1,756	1,764

TOTAL FUTURE LEASE PAYMENTS UNDER IRREVOCABLE OPERATING LEASES – LESSOR	31.12.2023	31.12.2022
For the period:		
up to 1 year	393	344
from 1 to 2 years	250	213
from 2 to 3 years	118	106
from 3 to 4 years	32	34
from 4 to 5 years	4	5
Total	797	702

The average agreement period for operating lease agreements where the Group is a lessor is usually 38 months. The lessee bears service and insurance costs.

74.5. LESSOR – FINANCE LEASES

For more information on credit risk exposures, see note “[CREDIT RISK – FINANCIAL INFORMATION](#)”.

GROSS INVESTMENT IN THE LEASE AND MINIMUM LEASE PAYMENTS RECEIVABLE	Gross investment in the lease	of which:		Unrealized income	Net investment in the lease
		Non-discounted lease payments	Non-discounted not guaranteed residual values attributable to the lessor		
31.12.2023					
Lease receivables, gross:					
up to 1 year	8,773	8,720	53	(1,190)	7,583
1 to 2 years	6,093	6,031	61	(737)	5,355
from 2 to 3 years	4,068	4,036	32	(387)	3,681
from 3 to 4 years	2,193	2,179	14	(172)	2,021
from 4 to 5 years	964	955	6	(60)	901
more than 5 years	417	417	1	(30)	388
Total gross	22,508	22,338	167	(2,576)	19,929
Allowances for expected credit losses	(829)	(829)	-	-	(829)
Total, net	21,679	21,509	167	(2,576)	19,100

GROSS INVESTMENT IN THE LEASE AND MINIMUM LEASE PAYMENTS RECEIVABLE	Gross investment in the lease	of which:		Unrealized income	Net investment in the lease
		Non-discounted lease payments	Non-discounted not guaranteed residual values attributable to the lessor		
31.12.2022					
Lease receivables, gross:					
up to 1 year	8,599	8,539	60	(1,339)	7,260
1 to 2 years	5,888	5,834	54	(816)	5,072
from 2 to 3 years	3,910	3,883	27	(421)	3,489
from 3 to 4 years	2,097	2,082	14	(185)	1,911
from 4 to 5 years	973	968	6	(61)	913
more than 5 years	341	341	-	(25)	316
Total gross	21,808	21,647	161	(2,847)	18,961
Allowances for expected credit losses	(797)	(797)	-	-	(797)
Total, net	21,011	20,850	161	(2,847)	18,164

The comparative figures for 2022 have been adjusted for the implementation of IFRS 17 "Insurance Contracts" (see note "IFRS 17 Insurance contracts").

75. GOVERNMENT GRANTS

ACCOUNTING POLICIES

The Group recognises government grants received when there is reasonable assurance that the Group will meet the conditions associated with the government grants and the government grants will be received. The Group considers the receipt of grant funding on the basis of a payment application verified by the grantor institution to be sufficient assurance of receipt of the government grant.

The Group recognises government grants received for assets as a reduction in the carrying value of the tangible or intangible assets for which it received such grants and recognises them in profit or loss: over the useful life of the tangible or intangible assets subject to depreciation through reduced depreciation.

Grants received to income are recognized by the Group as a reduction of the costs for which it has received these grants:

- systematically in the periods in which it recognizes the costs for which the grant is received, from the accruals in which the grant was recognized when received,
- on a one-off basis in the period in which the grant is received and relates to expenditure already incurred.

FINANCIAL INFORMATION:

The Group received grants for costs incurred in connection with publicly funded research and development projects through the National Research and Development Centre. The disbursement of funds was based on the financial assistance granted in connection with the agreements concluded between the Bank and the National Centre for Research and Development. In 2023, the amount of the grant was PLN 4 million (2022: PLN 7 million).

76. INFORMATION ON THE ENTITY AUTHORIZED TO AUDIT THE FINANCIAL STATEMENTS

On 23 September 2021, pursuant to § 15 clause 1 point 2 of the Bank's Articles of Association, the Supervisory Board selected PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. (hereinafter PwC) as the audit firm to audit and review the financial statements of the Bank and of the Bank's Group for the years 2022-2023. PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. with its registered office in Warsaw, ul. Polna 11, is entered in the list of audit firms maintained by the National Board of Registered Auditors under the number 144. On 31 January 2022, the Bank concluded an agreement with PwC for the audit and review of the financial statements of the Bank and the Bank' Group for the years 2022-2023. The financial statements of the Bank and the Bank's Group for 2020-2021 were also audited by PwC in accordance with the Supervisory Board's decision of 13 December 2018.

TOTAL AMOUNT OF NET REMUNERATION DUE TO THE AUDIT FIRM AUDITING THE FINANCIAL STATEMENTS IN RESPECT OF: (in PLN thousand)	2023	2022
audit of financial statements of the Bank and consolidated financial statements of the Group	1,913	1,549
assurance services, including reviews of the financial statements	1,737	1,010
Total	3,650	2,559

On 15 December 2022, the Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. as the audit firm to audit and review the financial statements of the Bank and of the Bank's Group for the years 2024-2026.

77. IMPACT OF THE GEOPOLITICAL SITUATION IN UKRAINE ON THE PKO BANK POLSKI S.A. GROUP

Armed aggression of the Russian Federation on Ukraine have serious negative consequences for the financial system and the banking sector of Ukraine. In 2022, Ukraine's GDP declined by 29% y/y and inflation reached 26.6%. A recovery in economic activity led to a deceleration of the GDP decline in the first quarter of 2023 to 10.5% y/y, and in the second quarter of 2023, real GDP grew by 19.5% y/y thanks to a low base effect, improved safety and the resolution of some of the logistical problems. In the second half of 2022, the economy was positively affected by high crop yields and significant budgetary spending on the reconstruction of infrastructure and defence. According to preliminary estimates, real GDP grew by 9.3% y/y in the third quarter of 2023, and the National Bank of Ukraine (hereinafter NBU) projects GDP growth of 5.7% y/y at the end of 2023.

Many companies operating in the war zone have had to suspend their operations or move production to other parts of the country or abroad. Transport and logistics between regions is hampered, infrastructure has been significantly damaged and many Ukrainian citizens have been affected by the hostilities and have left the country. All this will have long-term negative consequences for Ukraine's economy, including its banking sector.

The warfare has adversely affected the Ukrainian banking sector through:

- disruptions to the operations of Ukrainian branches and ATMs, significant damage to or destruction of the banking infrastructure in war zones;
- a reduction in the loan portfolio due to a significant reduction in new lending, with the exception of lending under the state's "5-7-9" programme and loans granted by state-owned banks to strategic sectors and companies. The Government's '5-7-9' programme was initiated by the President of Ukraine and the Cabinet of Ministers to support the development of small and medium-sized enterprises by facilitating access to bank credit, including the possibility of obtaining loans at reduced interest rates by means of state compensation of interest rates up to 5%, 7% and 9% per annum for loans in domestic currency. In 2022, the sector's loan portfolio has decreased by 3% even including the revaluation of the foreign currency portfolio with the official UAH/USD exchange rate falling by 34% since the beginning of the year and in 2023 it declined by a further 1% y/y;
- inability of some borrowers to service their loans, deterioration of loan repayments due to the closure of many businesses, loss of sources of income for individuals, forced relocation of millions of Ukrainian citizens, which translates into an increase in the allowance for expected loan losses;
- restrictions on the foreign exchange market, including foreign exchange trading.

Nevertheless, after an outflow of funds from banks at the beginning of the war, liquidity in the banking system is increasing. In 2023, retail deposits increased by 31% (mainly in UAH - by 28% in 2022) and corporate deposits by 47% (mainly in UAH, by 18% in 2022).

The regulations of the NBU introducing simplified requirements for the day-to-day operations of banks continue to apply; however, the NBU is introducing new amendments tightening the previously introduced changes. These amendments are aimed at ensuring the timely and adequate assessment of credit risk and the adequate assessment of liquidity and capital requirements by banks. The NBU has completed a bank stability assessment, giving an insight into the genuine condition of the sector after it has gone through the most acute phase of the current war-related economic crisis. The results of the stability assessment indicated that most banks in Ukraine have sufficient capital and that the banking system as a whole has a high safety margin. Increased capital requirements have been set on the basis of the results of the stability assessment for five banks only, two of which (State Ukrgasbank and Sense Bank) have already met the requirements above the required level in December 2023. The three banks that still need a capital increase are Ukreximbank, Pravex-bank and MTB Bank. The calculated equivalent of the capital requirements of the above banks is approximately UAH 10 billion.

The NBU has also reinstated the requirement for up-to-date verification and valuation of the assets pledged as collateral for credit exposures. From 31 August 2023 onwards, banks are required to take into account existing information on the status of collateral located in territories subject to warfare. If information is obtained on the loss or damage of collateral, the bank is required to take this into account in its credit risk assessment. In addition, collateral from regions under occupation or where military operations are taking place, are not taken into account in the process of calculating the allowance for expected credit losses, unless the collateral has been verified and, in the bank's assessment, meets the criteria set by the NBU. From 30 December 2023, the amount of operational risk is again included in the adequacy requirements in full.

Continued high inflationary pressures in 2022 have prompted the NBU to tighten monetary policy and thus increase the discount rate from the 10% level prevailing since the beginning of martial law to 25% from June 2022 onwards. The significant deceleration in inflation in 2023 provided the rationale for the start of a cycle of discount rate reductions, with the NBU cutting the discount rate to 22% in July 2023 and to 20% in September 2023, 16% in October and 15% in December 2023.

Following the outbreak of the armed aggression of the Russian Federation against Ukraine, restrictions were imposed on the lending policy of Ukrainian companies of the Group (Kredobank S.A). Granting of new financing was focused mainly on existing customers and is implemented through the analysis of each individual transaction by the bank's analysts, incorporating additional criteria into the analysis process, such as:

- location of the place of business, ability to continue business during martial law and current restrictions; potential threat of hostile takeover, where the customer is registered and doing business
- taking into account, for credit operations, tangible and/or intangible collateral (e.g. pledge of shares, pledge of real estate, pledge of vehicles, machinery and equipment, sureties and guarantees) and risk-sharing instruments.

The Group monitors sanction regulations on an ongoing basis and implements them to the extent appropriate to its specific business.

The entire Group has introduced guidelines for the financing of and providing banking services to:

- customers conducting business whose business model is based on the benefits of active operation in the markets of Russia and Belarus or through significant links (e.g. economic, personal),
- customers on whom sanctions have been or can be imposed in connection with Russia's aggression in Ukraine.

The Group performed an analysis of the business loans portfolio of its Polish customers from the perspective of the customers' exposure to the adverse effects of the military conflict in Ukraine. If we adopt a threshold of at least 5% of the turnover generated from transactions with business partners from Russia, Belarus or Ukraine, the risk-exposed portfolio amounts to approx. PLN 2.46 billion.

For the purpose of the measurement of credit exposures, the Group considered the information on the scale of the Polish customers' business relations with partners from Ukraine, Belarus and Russia, and performed an assessment of various scenarios of development of the macroeconomic situation. The exposures of these customers were classified to Stage 2 and were subject to the valuation of expected credit losses throughout their lifetime.

If the probability of a customer repaying its loan liabilities was assessed as low, the exposures were reclassified to Stage 3. Retail exposures granted to Russian, Belarusian or Ukrainian nationals, which as at 31 December 2023 amounted to PLN 151 million, were reclassified by the Group into Stage 2 and their credit risk was measured over the life of these loans. As at 31 December 2023, the allowance for expected credit losses for the above portfolios amounted to PLN 80 million.

In 2023, the Group maintained a safe level of liquidity, allowing for a quick and effective response to potential threats. Analyses of the Group's liquidity position confirm that it has a safe level of liquid assets, while maintaining a stable, dispersed deposit base, mainly from retail customers, which is characterised by moderate concentration of entities and is largely covered by guarantees from the BGF. Consequently, the Group maintains both supervisory and internal measures of liquidity risk at safe levels. KREDOBANK S.A.'s liquidity situation, despite the ongoing conflict in Ukraine, remained stable and secure. Kredobank S.A. did not experience a decline in liquidity measures or significant deposit outflows (LCR in foreign currencies of around 375%, LCR in all currencies of around 257%, NSFR of nearly 250%).

The regulatory capital adequacy ratio of Kredobank S.A. at the end of the fourth quarter of 2023 is 32.1% (with a floor of no less than 10%), the core capital adequacy ratio of Kredobank S.A. is 21.1% (with a floor of no less than 7%).

At the same time, in connection with the war in Ukraine, the Group formed a Support Group led by the Head of the Crisis Staff, whose tasks include preventing disruption to the critical processes of the PKO Bank Polski S.A. Group, exchange of information within the Group and coordination of the aid provided.

The Group takes actions to mitigate the threats associated with the war in Ukraine on an ongoing basis, in particular with respect to ensuring access to the Group's systems, cyber security and the continuity of cash services and other processes.

78. INTEREST RATE BENCHMARKS REFORM

A new standard has been developed in the European Union for designing, providing and applying interest rate benchmarks. The legal basis for the said standard is the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (hereinafter: "BMR"). The BMR:

- sets the rules for development and application of transparent, reliable and fair benchmarks;
- provides extensive controls over the set-up of benchmarks;
- expects the benchmarks to be determined, generally, on the basis of the actual transactions executed on a given market.

In October 2020, ISDA, an international organization setting standards for trading in derivative instruments, published the ISDA Protocol describing the procedure for replacing IBORs used in the current and new derivative transactions with new risk-free benchmarks. The Bank joined the Protocol in November 2020.

On 10 February 2021, the European Union published an amendment to the BMR, granting the European Commission and the Member States competences to designate replacements for benchmarks in cessation, if such cessation could threaten the stability of the EU market or a Member State market.

The Financial Conduct Authority (FCA) has announced that 1M, 3M and 6M LIBOR USD rates will be published in synthetic form until the end of September 2024, 1M and 6M LIBOR GBP rates will be published in synthetic form until the end of March 2023 and 3M LIBOR GBP rates until the end of March 2024.

The European Commission, in Implementing Regulation (EU) 2021/1847 of 14 October 2021 on the designation of a statutory replacement for certain settings of CHF LIBOR, which is in force by operation of law and directly applicable in all Member States of the European Union as of 1 January 2022, has determined substitutes for the CHF LIBOR rates. These substitutes are the 1-month or 3-month SARON compound rate with an indicated value of the adjustment spread, respectively. The SARON rate replaced the CHF LIBOR rate in every contract and financial instrument within the European Union, so this also applied to Polish borrowers.

The WIBOR reform and its adjustment to the BMR requirements were completed in 2020. It involved the same change in the benchmark calculation methodology as in the case of EURIBOR. On 16 December 2020, the PFSA granted GPW Benchmark S.A. permission to perform the function of administrator of the key benchmarks WIBID and WIBOR.

- **ANNOUNCEMENT ON THE USE OF A REPLACEMENT FOR WIBOR**

The Act of 7 July 2022 on the crowdfunding of business ventures and on assistance for borrowers initiated the reform of the WIBOR index. The WIBOR index will be discontinued and replaced by a replacement. The law contains a legal delegation to promulgate it by means of a regulation. The process of determining a replacement for WIBOR will be regulated by law. According to the regulation of the Minister of Finance, the replacement of the WIBOR rate will apply to contracts and financial instruments that meet the requirements of the BMR Regulation. The regulation of the Minister of Finance will also specify the corrective margin and the date from which the conversion will be effective.

In July 2022, the National Working Group on Benchmark Reform (NWG) has been established to ensure the credibility, transparency and reliability of the development and application of the new benchmark interest rate.

The National Working Group comprises representatives of the Ministry of Finance, the National Bank of Poland, the Office of the Financial Supervision Authority, the Bank Guarantee Fund, the Polish Development Fund, the Warsaw Stock Exchange, the National Depository for Securities, Bank Gospodarstwa Krajowego, the WSE Benchmark, as well as representatives of banks, investment fund companies, insurance companies, factoring and leasing companies, entities that are issuers of bonds, including corporate and municipal bonds, and clearing houses.

The work of the National Working Group shall be coordinated and supervised by the Steering Committee, composed of representatives of key institutions: the Polish Financial Supervision Authority, the National Bank of Poland, the Ministry of Finance, the Bank Guarantee Fund, the Polish Development Fund, as well as the WSE Benchmark – the administrator of benchmark rates – and the Association of Polish Banks.

NGR's activities are carried out in a project formula in which project streams have been identified and in which representatives of PKO Bank Polski S.A. actively participate.

On 1 September 2022, the Steering Committee of the National Working Group appointed in connection with the planned benchmark reform (NWG SC) decided to choose the WIRON index as an alternative interest rate benchmark, calculated based on the actual overnight (ON) transactions concluded with large enterprises and financial institutions. WIRON is intended to become a critical interest rate benchmark within the meaning of BMR, which will be applied in financial agreements and instruments.

On 27 September 2022, the NWG SC adopted a Road Map specifying a schedule of actions aimed at replacing WIBOR with WIRON in accordance with the BMR. On 25 October 2023, the NWG SC decided to revise the deadlines for the Road Map for the process of replacing the WIBOR and WIBID benchmarks indicating a final conversion date of the end of 2027. The NWG SC announced that neither the directions of the benchmark reform in Poland nor the scopes of measures planned to date in the Roadmap are changing.

In January 2023, PKO BP S.A. and ING Bank Śląski S.A. executed the first transaction in the Polish financial market for which the WIRON interest rate index has been applied. The financial instrument being traded was an interest-rate derivative contract – Overnight Index Swap (OIS). With the transaction, the banks have tested the operational and technological capacity for applying WIRON in financial instruments.

Interest-rate derivative contracts, including OISs, may be used by banks to hedge interest rate risk of their own and clients' positions.

The transaction is part of the “Implementation Phase” of the benchmark reform as described in the Roadmap which involves the accumulation of liquidity in the market of financial instruments being derivative contracts that meet the criteria of an OIS for which WIRON is to be the interest rate benchmark.

On 13 February 2023, the Office of the Polish Financial Supervision Authority announced that WIRON had become an interest rate benchmark. Banks may also apply the WIRON benchmark to determine interest rate on consumer loans or mortgage loans.

To date, the Steering Committee of the National Working Group on benchmark reform endorsed the following recommendations:

- on the standard OIS transaction based on WIRON,
- on the application of the WIRON index in issues of floating-rate debt securities,
- on the rules and methods of applying the WIRON benchmark (or benchmarks from the WIRON Compound Indices Family) when entering into new contracts for benchmark-based products in PLN offered by financial market entities,
- on the rules and methods of applying the WIRON interest rate index (or indices from the WIRON Compound Indices Family) when entering into new contracts in PLN for factoring products (excluding discounting products) for benchmark-based products in PLN offered by financial market entities,
- on the methods of applying the WIRON interest rate index (or indices from the WIRON Compound Indices Family) when entering into new agreements in PLN for leasing products for interest rate benchmark-based products in PLN offered by financial market entities,
- on the use of a replacement rate for the WIBOR benchmark in interest rate derivatives,
- on the rules and methods of conversion of existing issues of debt securities where WIBOR is used.

This marks the completion of work on the recommendations on new banking, leasing and factoring products as well as the previously published recommendations on bonds and derivatives. This also represents the achievement of the absolutely crucial milestone of the Reform Roadmap that allows financial institutions to use the NWG’s expertise to prepare and implement a series of new arrangements using WIRON index, including mortgage loans, being of key importance to households.

The NGR is working intensively on a recommendation on the principles and methods for replacing the WIBOR/WIBID benchmarks with the WIRON benchmark (or a benchmark from the WIRON Compound Index Family) for the existing portfolio of PLN products with regard to financial market entities.

- **ADAPTATION OF THE CAPITAL GROUP AND THE BANK**

Evolution of the legal environment and benchmark market migration in accordance with BMR affect the Group’s operations through the agreements signed with the customers and business partners, changes in the valuation of financial instruments and the need to adjust IT processes and systems.

Since the third quarter of 2020, the PKO Bank Polski S.A. Group, starting with the reform of LIBOR benchmarks, has been running an inter-disciplinary project supervised by members of the Management Board of the Bank with the participation of subsidiaries’ representatives from PKO Bank Hipoteczny, PKO Leasing S.A. and PKO Faktoring S.A. related to the adjustment of the Bank and its subsidiaries to changes introduced as part of the benchmark reform, in particular as regards:

- development of a contingency plan and its implementation in the Bank’s contracts and rules and regulations;
- adjustment of the offer of products and services;
- adjustment of the Bank’s transactional, accounting, analytical, risk and reporting systems;
- adjustment of the use of hedge accounting;
- annexing the contracts and implementing the standards adopted by the markets;

- cooperation with the banking sector aimed at developing a uniform interpretation of the regulations and standards of their implementation.

Representatives of many organisational units of the Bank, including in particular those responsible for product areas, as well as issues related to risk and financial management, participate in the project's works. On the part of the companies, representatives of PKO Bank Hipoteczny, PKO Leasing S.A and PKO Faktoring S.A participate. The structure of the project takes into account the division into streams covering products and processes where there is an element of applying the WIBOR reference index and the cyclical reporting of statuses with regard to individual streams. In the current phase of the project, intensive work is underway at the Bank to adapt the technological infrastructure, as well as involving the preparation of internal processes and documentation (including rules and regulations).

Since 1 January 2022, the Group continued servicing the loan portfolios and new loan agreements using WIBOR and EURIBOR without any changes.

The Group is working on analysing the risks and monitoring them on an ongoing basis; however, due to the early stage of the reform, more detailed information on the transition process will be provided as the WIBOR reform work progresses. Moreover, due to the lack of formal information on the potential regulatory event referred to in Article 23c(1) of the BMR, the lack of the Regulation of the Minister of Finance referred to in Article 61c of the Act of 5 August 2015 on macro-prudential oversight of the financial system and crisis management in the financial system concerning the replacement, or even for the draft of such a regulation, lack of information on the amount of adjustment spread or the method of calculating this spread as well as the lack of the market for hedging instruments and taking into account the current stage of work of the National Working Group and implementation of the roadmap, currently, it is not possible to estimate the financial impact of the WIBOR rate reform.

The Group is working to start offering products using the WIRON benchmark index or an index from the WIRON family of compound indices no later than the beginning of the third quarter of 2024. The withdrawal of products where the WIBOR or WIBID benchmark is used will be done gradually.

The tables below show the Group's exposure to WIBOR as at 31 December 2023 and 31 December 2022.

Financial assets	WIBOR PLN	
	31.12.2023	31.12.2022
Amounts due from banks	2,878	3,748
Securities	17,410	14,368
Reverse repo transactions	253	-
Loans and advances to customers	189,803	174,878
Total assets	210,344	192,994

Financial liabilities and off-balance sheet liabilities	WIBOR PLN	
	31.12.2023	31.12.2022
Amounts due to customers	7,845	6,979
Subordinated liabilities	2,774	2,781
Securities in issue	3,683	-
Provisions for financial liabilities and guarantees granted	359	412
Total liabilities	14,661	10,172
Financial liabilities and guarantees granted	39,390	32,051

For new variable interest loans granted to corporate customers in foreign currencies, new benchmarks (referred to as risk-free rates) are used, such as SARON for CHF, SOFR for USD, SONIA for GBP. Depending on the nature of the product, interest is calculated daily or using compound interest rates – either “in advance” (based on historical rates) or “in arrears” (at the end of an interest period). As far as the financial market transactions are concerned, the Group (as mentioned above) has joined the ISDA Protocol and executes and settles transactions in accordance with that standard, i.e. using compound risk-free rates.

- **HEDGE ACCOUNTING**

The amendments to IFRS allow for the assumption that future cash flows – although subject to changes in the future as a result of the transition to alternative benchmark rates – are still highly probable and thus the existing hedging relationships can be maintained.

79. EVENTS THAT OCCURRED AFTER THE DATE ON WHICH THE FINANCIAL STATEMENTS ARE PREPARED

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

At the same time, the Bank announces that the EGM appointed the following persons to the Bank's Supervisory Board: Mr Maciej Cieślukowski, Ms Hanna Kuzińska, Mr Szymon Midera, Mr Andrzej Ośliżło, Mr Marek Panfil, Mr Marek Radzikowski, Mr Paweł Waniowski, Ms Katarzyna Zimnicka-Jankowska.

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

- Ms Katarzyna Zimnicka-Jankowska – for the position of the Chair of the Bank's Supervisory Board
 - Mr Paweł Waniowski – for the position of the Deputy Chair of the Bank's Supervisory Board.
2. On 7 February 2024, Mr Dariusz Szwed resigned from the function of the President of the Bank's Management Board as well as from the membership in the Bank's Management Board effective as of 14 February 2024.
 3. On 14 February 2024, the Supervisory Board resolved to recall the following members from the Bank's Management Board:
 - Mr Andrzej Kopyrski,
 - Mr Paweł Gruza,
 - Mr Maciej Brzozowski,
 - Mr Marcin Eckert,
 - Mr Wojciech Iwanicki,
 - Mr Artur Kurcweil.

The resolutions on the aforementioned recalls became effective upon adoption.

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

- Mr Szymon Midera to temporarily perform the duties of Vice President of the Management Board from 15 February 2024, with assignment to manage the work of the Management Board,
 - Mr Maciej Cieślukowski to temporarily perform the duties of Vice-President of the Management Board from 14 February 2024,
 - Mr Marek Radzikowski to temporarily perform the duties of Vice-President of the Management Board from 14 February 2024.
4. On 20 February 2024, the Management Board of PKO Bank Polski S.A. informed that it had decided to issue senior non preferred bonds ("Bonds") within the framework of the Programme for the issue of own bonds on the domestic market, the establishment of which was announced by the Bank in report No 32/2011 ("Programme"). The Programme has been modified in order to allow the Bonds to be recognised as eligible liabilities of the Bank pursuant to Article 97a(1) para. 2 of the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and resolution.

On 23 February 2024, the Bank closed the subscription for 5 years senior non preferred notes with a total nominal value of PLN 1 billion, carried out on the domestic market under the own bond issue Programme of PLN 5 billion. The interest rate on the bonds is variable, representing the sum of the WIBOR 6M benchmark rate

and a margin of 159 bps. The Bank may have the right of early redemption of the Bonds upon approval of the Bank Guarantee Fund. The date of issue is scheduled for 28 February 2024. The bonds will be classified as eligible liabilities of the Bank within the meaning of Article 97a(1)(2) of the Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee scheme and resolution.

5. On 21 February 2024, the Bank received the individual recommendation from the Polish Financial Supervision Authority („PFSA”) in which the PFSA confirmed that the Bank fulfils the criteria for the payment of dividend up to 75% of the profit for 2023, whereby the maximum amount of payment may not exceed the amount of the annual profit less the profit generated in 2023 already counted as own funds. The Bank has included in its own funds the net profit, achieved in the first half of 2023, in the amount of PLN 1,624,430,283 at standalone level and PLN 1,697,253,857 at consolidated level. On 26 February 2024, the Bank received the additional explanation from the PFSA in which the PFSA presented the position that the amount of the interim dividend, paid out from the portion of the profit earned in 2022 allocated to the reserve capital created for dividend payment (including interim dividends) may not reduce the amount indicated in the PFSA's position referred to above.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

The original Polish document is signed with a qualified electronic signatures library