

INFORMATION ON CAPITAL ADEQUACY  
OF THE CAPITAL GROUP OF  
BANK HANDLOWY W WARSZAWIE S.A.  
AS AT 31 DECEMBER 2019



MARCH 2020

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## INTRODUCTION

This document has been laid down to execute The Disclosure Policy of Bank Handlowy w Warszawie S.A. on capital adequacy<sup>1</sup>, to meet the disclosure requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as well as of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (“CRD”).

The objective of the document is presenting to the third parties, especially customers of the Capital Group of Bank Handlowy w Warszawie S.A. (hereinafter referred to as: Group) and financial market participants, the Group’s risk management strategy and processes, information on the capital structure, exposure to risk and capital adequacy, which enable thorough assessment of the Group’s financial stability. This document complements information included in:

- the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019,
- the Report on Activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2019 and refers to them wherever it is relevant.

Pursuant to the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, Bank publishes disclosures on capital adequacy on the basis of consolidated data as of 31 December 2019 the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2019.

When the disclosures required by the Regulation (EU) No 575/2013 of the European Parliament and of the Council are published in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019, this document refers to the number of explanatory note, which discloses required information.

The values presented in the disclosures are expressed in thousands of zlotys, except for situations in which a different unit of measurement was used, detailed in the data presented.

The terms used in the document shall mean the following:

**Regulation No. 575/2013 / CRR** - Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 with amendments;

**Commission Implementing Regulation (EU) No. 1423/2013** of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council;

**Commission Delegated Regulation (EU) No. 183/2013** of 20 December 2013 supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments;

**Regulation on risk management and remuneration policy** - Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks (D.U. 2017, item 637);

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<sup>1</sup> The Disclosure Policy of Bank Handlowy w Warszawie S.A. on capital adequacy laid down by the Management Board and approved by the Supervisory Board are available at the Bank’s website [www.citihandlowy.pl](http://www.citihandlowy.pl) in the “Investor Relations” section.

**Commission Delegated Regulation (EU) No. 604/2014** of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile;

**Commission Implementing Regulation (EU) No. 2016/200** of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council;

**Commission Implementing Regulation (EU) No. 2015/1555** of 28 May 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440;

**The law on macro-prudential oversight** - The law of 5 August 2015 on macro-prudential oversight of the financial system and crisis management in the financial system (Official Journal from 2015, item 1513);

**Commission Delegated Regulation (EU) 2017/2295** of 4 September 2017 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets;

**Guidelines on disclosure requirements** under Part Eight of Regulation (EU) No 575/2013 of 04/08/2017;

**Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013** as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2019/01) - 16/01/2019;

**Regulation (EU) 2017/2395 of the European Parliament and of the Council** of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State;

**Guidelines on disclosure of unsupported and restructured exposures** - Guidelines on disclosures of unsupported and restructured exposures - EBA disclosure guidelines for unsupported and restructured exposures of December 17, 2018 (EBA/ GL/2018/10).

## **I. Risk management objectives and policies**

The risk management process is consistent within the Group, including Bank Handlowy in Warsaw S.A. and its Subsidiaries (Dom Maklerski Banku Handlowego S.A., Handlowy Leasing Sp. z o.o.), and excludes special purpose vehicles, companies in the process of liquidation, as well as units not conducting current, statutory activity.

The aim of the risk management strategy of the Bank is to take a balanced risk with shared responsibility, without forsaking individual accountability. Taking a balanced risk means proper identification, measurement and risk aggregation, and the establishment of limits with full understanding of both the macroeconomic environment, the profile of the Group's activity, requirement to meet regulatory standards, as well as strategic and business objectives within available resources, capital and liquidity, maximizing return on capital employed.

The concept of risk management, taking into account the shared responsibility, is organized at three independent levels (three levels of risk reduction, interchangeably "three lines of defense"):

- Level 1 i.e.: Organizational units responsible for business activities resulting in risk taking and for risk management in the Bank's operational activity, as well as risk identification and reporting to second line of defense;
- Level 2 i.e.: risk management in organizational units, independently from the risk management by the first Level, and compliance; organizational unit or employees responsible for establishing standards for the risk management in the scope of risk identification, measurement or estimation, mitigation, control, monitoring and reporting and for overseeing the control mechanisms applied by other organizational units to mitigate the risk – organizational units in Risk Management Sector, Compliance Department, Financial Management Sector, Legal Division; Human Resources Division;
- Level 3 i.e.: Internal Audit that provides an independent assessment of risk management processes and internal control system.

The Management Boards of the Bank entities ensure that Group's risk management structure reflects Risk Profile and the functions of risk valuation, monitoring and control are separated from activity associated with risk-taking.

Risk management is implemented based on the strategies, policies and procedures relating to taking, monitoring and limiting the risk, standards for the identification, valuation, acceptance, control, monitoring and reporting of risk to which the Group is or may be exposed at.

Risk management strategies, policies and procedures are regularly reviewed to ensure compliance with applicable laws, regulations, supervisory institutions and regulatory recommendations, internal regulations, business and market practices and the adequacy of the scale, nature and complexity of the Group's operations. Strategies and processes of risk management, as well as the structure and organization of units managing the appropriate risks and solutions used by the Group on measurement and reporting of those risks, are presented in details in the note 49 „Risk management” to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019.

Ensuring the adequacy of risk management arrangements of the Group and confirmation, that the risk management systems used are appropriate from the institution profile and strategy point of view, takes place within the annual capital planning process.

As per the current „Principles of prudent and stable risk management in the Capital Group of Bank Handlowy w Warszawie S.A.” Risk and Capital Management Committee performs not less frequently than once a year, within the process of internal capital assessment and maintenance, an adequacy assessment of the solutions to the actual size and complexity of the Group, including its profile and strategy. The conclusions of such review are submitted to the Management Board for approval.

The Management Board has confirmed that the process of internal capital assessment and maintenance and risk management systems in the Group are appropriate to the nature, scale and complexity of its activities.

As part of the Group's annual capital planning process, a general risk profile of the Group (Risk Register) is determined, taking into account the business model, business strategy assumptions, the current and expected macroeconomic and business environment.

The Group's risk profile includes a list of risk types identified on the basis of inherent risk types, together with a description of implemented control mechanisms, enabling their assessment on a residual basis.

The process of the Group risk profile determination includes in particular:

- identification of risks in the Group's operations, based on the experience, expertise, analysis of the macroeconomic environment, regulatory and competitive position of the Group, taking into account the profile and internal procedures;
- for identified risks: determination of the risk owner, processes and controls mitigating these risks and defining of quantitative measures for these types of risks for which it is possible;
- determination of significant risks for the Group for the year by the Management Board.

The Group manages all types of risk that are identified in its activities, while some of them considering as significant.

For measurable risks, considered as significant, the Group estimates and allocates capital. The Group may decide to create capital buffers for significant, difficult to measure risks.

Within the risk profile assessment in 2019 the following risks were identified as significant:

- Credit risk - risk of potential losses arising from a client event of default or insolvency taking into account risk mitigation techniques applied to a product or individual credit;
- Counterparty Risk - the risk of potential losses arising from changes in market prices that occur, when the client is unable to meet its contractual obligations. This risk is part of credit risk generated on such activities as derivative transactions;
- Market Risk - risk of loss resulting from potential fluctuations in the market value of the exposure as a result of the changes in underlying market risk factors. The key factors are: interest rates, FX rates, securities' prices, commodities' prices and their volatilities;
- Interest rate risk in banking book - risk of potential negative impact of the changes in market risk factors on the Group's interest income;
- Liquidity Risk - risk of a Group inability to meet its obligations in due time and without incurring financial losses, which occurs due to cash flow mismatches (cash flow gap), limited asset marketability or systematic market changes;
- Operational Risk - is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk. Operational Risk does not cover strategic risks or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk;
- Compliance risk - a risk of negative effects of a failure to observe the law, supervisory regulations, internal Group's normative acts and market standards, notably:
  - a) imposition of legal or regulatory sanctions, including the imposition of financial penalties by competent authorities and regulators or of recommendations requiring the Bank to comply with them, which in turn may involve financial outlays and resources dedicated to those actions;
  - b) financial or reputational losses (loss of credibility in the eyes of trade partners) to which the Bank is exposed as a result of non-compliance with the laws, supervisory regulations, regulatory recommendations, the Bank's internal normative acts and market standards within the Bank's operations;
  - c) potential risk of the Bank incurring additional costs arising, for instance, from imposed penalties, sustained losses and cancelled contracts;



The risks identified within the Group's profile as significant are the basis for the risk appetite setting for the Group and for the individual business lines. As a result, implementing a specific strategy within the Group's business model, decisions are considered not only for the business purposes, defined in Group's Strategy but also the return on capital employed. Appropriate measures of overall risk level and sets of limits were introduced to ensure that the risk is within the tolerance level.

Additionally the Group manages inter alia the following risks:

- Technological risk - risk of disruption of entity's activity or financial loss due to technical solutions' implementation, utilization or development;
- Information Security risk - risk of disruption of Group's activity or financial losses due to insufficient security, privacy, integrity or availability of its data and information;
- Outsourcing risk - risk of negative impact of external party on continuation, integrity and quality of entity's activity, its property or employees;
- Models risk - potential loss, which Group may be exposed at, following decision based on data generated by models utilized by the Group, as a result of errors in models' development, implementation or utilization. Models risk includes risk of reputation loss as a result of errors in Group's financial statement or other officially published documents by Bank due to incorrect output data from a model; Misappropriation risk - risk connected with willful act to the detriment of entity by its employees or third parties;
- Money Laundering risk - risk of losses due to involvement in money laundering activity conducted by customers, intermediaries or employees;
- Continuity of Business risk - (External and Internal Events - risk of inability of activity continuation by an entity or risk of losses occurring due to extraordinary event, such as earthquake, fires, floods, terrorism, lack of access to the headquarters or media;
- Tax and Accounting risk - risk of negative economic effects due to improper accountancy records, reporting, mistaken calculation of tax obligations or their delayed payments;
- Product risk - risk connected with the sale of product (service), which does not meet customers' requirements and needs, is not compliant with the law and regulations, generates additional risks (for an entity and its customers), does not have adequate support of the employees and processes;
- Legal risk - risk of losses occurring due to instability of legal regulations, changes of law and regulations, improper structure of legal relationships, quality of legal documentation, unfavourable conclusions of courts or other bodies in disputed cases, conducted with other entities;
- Staffing Risk - risk connected with recruitment, availability and professional qualification of employees, their fluctuation, ability to adapt to changes in work environment, work culture, absenteeism, tiredness, overtime, lack of utilization of annual leave for a long time, inadequate or not adjusted to the scale and complexity organizational structures, connections of personnel whose responsibilities is crucial from the perspective of the risk occurring in the Group and similar factors, which may lead to operational losses connected with human factor, it also includes the specificity and diversity of conditions related to the management of human resources in different areas of activity;
- Concentration Risk - risk arising from excessive concentration from exposures to clients, groups of connected clients, customers operating in the same economic sector, geographic region, carrying out the same economic activity or trading with similar commodities, entities belonging to Group capital's group (both cross-border and local), exposures denominated in the same currency or indexed to the same currency, used credit risk mitigation techniques as well as large indirect credit exposures such as a single issuer of the security, with the potential to generate losses large enough to imperil Group's financial condition or financial ability to maintain its core operations or lead to a significant change in the risk Group's profile;
- Conduct Risk - risk that the Group's employees or intermediaries with the help of which the Group sells financial products - intentionally or negligently - will harm the clients, the integrity of financial markets or the integrity of the Group.

Risks identified as significant, including quantitative indicators, current trends, and the utilization of capital limits, are monitored as a part of the regular, quarterly information provided to the Risk and Capital Management Committee of the Bank's Management Board and to the Risk and Capital Committee of the Supervisory Board. In 2019, 5 meetings of the Committee at the Bank's Board of Executives and 4 meetings of the Supervisory Board Committee took place, during which the above elements were analysed.

The Group's goal is to maintain current capital structure in order to address requirements of CRR/CRD on Common Equity Tier 1 regulatory capital. Group, as it is stated in the strategy, will continue to be adequately capitalized with diversified sources of income. Considering approved level of Overall Risk Appetite, the Group will maintain a target regulatory capital adequacy ratio at the level of minimum 14%. In 2019 total TCR amounted to 17,2%.

The Bank's Management Board assures compliance of the Bank's activity with the laws and supervisory regulations, Bank's internal normative acts, as well as available market practices and standards, while taking into consideration the Bank's activity on the basis of the laws of another country and the Bank's ties with other entities that could impair effective management of the Bank. The Bank's Management Board – within the framework of assurance by the internal control system of compliance with laws, supervisory regulations, the Bank's internal normative acts and available market practices and standards – is responsible for:

- effective management of compliance risk at the Bank;
- developing the Compliance Policy, ensuring its observance and presenting the Audit Committee of the Supervisory Board with information on compliance, including reports on management of compliance risk;
- taking appropriate actions to eliminate irregularities, including corrective or disciplinary measures, in the case of identification of any irregularities in application of the Compliance Policy.

As part of assurance by the internal control system of compliance with the laws and supervisory regulations, Bank's internal normative acts, available market practices and ethical standards, the Supervisory Board:

- oversees discharge of the duties related to management of compliance risk by the Bank's Management Board;
- oversees the observance of the Bank's internal normative acts, including in the area of the internal control system;
- approves the Compliance Policy;
- approves the Rules and Regulations of Operation of the Compliance Unit;
- assesses, at least once a year, the degree of effectiveness of management of compliance risk by the Bank.

The organizational unit that supports the Bank's Management Board, the Supervisory Board and the Bank's organizational units is the Compliance Unit, whose main objective is to ensure operations of Bank comply with the generally applicable laws and supervisory regulations applicable to the Bank's activity or to the financial services provided by the Bank, the Bank's internal normative acts and with market practices and standards as well as practices and standards developed within Citigroup.

The Compliance Unit shall implement the "Compliance Policy at Bank Handlowy w Warszawie S.A." (*the Policy*), containing the basic code of conduct ensuring compliance for the Bank's employees and explaining key processes identifying compliance risk and enabling management of compliance risk at all levels of the Bank's organization. The Compliance Policy shall be subject to approval by the Bank's Management Board and Supervisory Board.

The Compliance Unit prepares the annual Bank's Compliance Plan (*the Plan*). The Plan is the basis for ensuring compliance at the Bank and addresses the Bank's supervision over compliance functions performed in subsidiaries of the Bank. The Bank's Management Board shall express its opinion on and the Bank's Supervisory Board shall approve the Plan.

The Compliance Unit prepares the "Report on implementation of compliance monitoring and compliance risk management functions at Bank Handlowy w Warszawie S.A." (*the Report*) for the preceding year. The Compliance Unit Head shall submit the Report to the Bank's Management Board, to the Audit Committee of the Supervisory



Board on the recommendation to the Supervisory Board for the approval and to the Bank's Supervisory Board for approval.

### **Information on the recruitment policy for the selection of members of the managing body and the actual state of their knowledge, skills and expertise**

In relation to the policy and practices regarding the selection of members of managing bodies and the assessment of their qualifications relevant to the functions they perform and entrusted duties in the Bank operates the "Policy of Assessing of Management Board Members and Key Function Holders at Bank Handlowy w Warszawie S.A." and the "Policy of Assessing the Qualifications of the Members of the Supervisory Board at Bank Handlowy w Warszawie S.A." as well as the established procedure for the selection of members of the Management Board and Supervisory Board, which apply in accordance with the Guidelines of the European Banking Authority and the European Securities and Markets Authority of March 21, 2019 (EBA /GL/2017/12) on the assessment of suitability of members of the management body and key function holders.

Members of the management bodies meeting the requirements referred to in art. 22aa of the Banking Law Act are competent to perform the functions and duties entrusted to them, i.e. to administer the business of a supervised institution, which results from:

- adequate knowledge (arising from their education, completed training, professional titles and otherwise acquired in the course of their career),
- adequate experience (acquired when performing certain functions or occupying certain positions),
- possessing the desired characteristics, including relevant skills,
- a warranty of due performance relating to:
  - a) unimpeachable reputation,
  - b) honesty and reliability of operations and the ability to handle bank matters in a prudent and stable manner, including:
- independence of judgment or being characterized by the attribute of being independent and ability to devote sufficient time to perform duties;

The Supervisory Board, taking into account the initial assessment and recommendations of the Nomination and Remuneration Committee, identifies and selects qualified and experienced candidates for members of the Management Board. In the assessment of candidates, above mentioned qualifications and attributes are taken into account, considering:

- the character, magnitude and complexity of the Bank's operations and
- the responsibilities relevant to the role,
- diversity in the composition of the management body.

The Bank's Management Board is composed of five to nine members, including: the President of the Management Board of the Bank, Vice Presidents of the Management Board of the Bank, with the proviso that at least half of the Members of the Management Board should be Polish citizens.

Members of the Management Board of the Bank are appointed by the Supervisory Board on an individual term of three years, upon a motion of the President of the Management Board or motion of the Member of the Supervisory Board.

The Supervisory Board is composed of five to twelve members evaluated and appointed by the General Meeting taking into account the nature, scale and complexity of the Bank's activities, initial assessment and recommendations of the Nominations and Remuneration Committee. During the selection it is requested to take into account the principles of diversity. Each Member of the Supervisory Board is appointed for a term of three years. At least half of the Members of the Supervisory Board, including its Chairperson, should be Polish citizens. Members of the Supervisory Board of the Bank are selected from a list of candidates presented by shareholders represented in a General Meeting.

Number of directorships held by members of the management body understood as members of the Management Board: 7.

## Liquidity risk management

Liquidity risk is the risk that the Group may be unable to meet on time its financial obligations towards a client, lender or an investor as a result of the mismatches in cash flows due to the balance and off-balance sheet positions that the Group has at a given date.

The liquidity risk management policy in the Group primarily aims to ensure and maintain the ability to meet both: current and future financial obligations (also in the event of extremely stressed conditions), while minimizing the cost of obtaining liquidity. This is possible due to the proper identification of the liquidity risk, its constant monitoring as well as the establishment of limits with full understanding of: the macroeconomic environment, the Group's business profile, regulatory requirements as well as, strategic and business objectives within available liquidity resources.

The liquidity risk strategy, including the acceptable risk level, assumed balance sheet structure and financing plan is approved by the Bank's Management Board and then accepted by the Bank's Supervisory Board. The management of the Group's balance sheet structure is managed by the Asset and Liability Management Committee (ALCO). The organization of the liquidity risk management process that exists in the Group, is aimed to ensure the separation of functions between entities that conduct transactions (affecting the liquidity risk), monitor and control the risk. The management of intraday, current and short-term liquidity is a task of the Financial Markets and Corporate Banking Sector, while the management of medium and long-term liquidity lies on ALCO responsibilities. Reporting functions are performed by the Risk Strategy and Capital Department, while the monitoring and control of the level of liquidity risk is performed by the Market Risk Department. Activities of companies from the Group of the Bank in the area of liquidity risk management are supervised by the Bank by way of delegating its employees to supervisory bodies (supervisory boards) of such affiliates. Supervision over liquidity of companies from the Group of the Bank is exercised by ALCO.

The source data and models used to generate liquidity reports come from independent management systems or other independent record systems. The reports and stress tests are generated on a daily bases by the Risk Strategy and Capital Department - a unit independent from the Financial Markets and Corporate Banking Sector – and sent to the Group's units responsible for the liquidity risk management and to the Market Risk Department, who is responsible for the substantive content of those reports, including recognition of all elements that affect the liquidity risk. On monthly bases, the Market Risk Department prepares the analysis of the Group's liquidity position and liquidity risk level for the Assets and Liabilities Management Committee and the Risk and Capital Management Committee. Daily reports are sent to those who are directly involved in the intraday, current and short-term liquidity management processes. Monthly and quarterly reports are prepared on the basis of daily data and are submitted to the members of the Bank's Committees that deal with medium- and long-term liquidity risk and structural liquidity risk (the Assets and Liabilities Management Committee and the Risk and Capital Management Committee). Such organization ensures:

- current and forward looking information;
- gives a picture of the liquidity risk for the total balance and off-balance sheet and for the relevant for the Bank currencies (PLN, USD, EUR);
- the diversity of prepared reports allows to assess the level of intraday, current and structural liquidity risk,
- obtaining stress test results with a sufficient frequency (daily for the S2 and monthly for the remaining ones);
- comprehensiveness of the approach in the preparation of the liquidity reports covering both balance and off-balance sheet items.

As a part of the liquidity risk management, the Group pursues the following goals:

- providing Group's entities (at any time) with an access to the liquid funds in order to meet all their financial obligations in a timely manner, also in extreme but probable crisis situations;

- maintaining an adequate level of high-quality liquid assets in the event of a sudden deterioration of the Group's liquidity position;
- defining the scale of the liquidity risk undertaken by the Group by establishing, at an appropriate and safe level, internal measures and limits aimed at limiting excessive concentration in the scope of the adopted balance sheet structure or sources of financing;
- constant monitoring of the Group's liquidity situation with respect to the occurrence of an emergency situation in order to launch the Contingency Funding Plan;
- ensuring compliance of the processes operating at the Bank with the Polish and European regulatory requirements regarding liquidity risk management.

As part of liquidity risk management, the Group also applies a number of control mechanisms ensuring compliance with the liquidity risk management principles. They include in particular:

- separation of the function of measuring, monitoring and controlling risks from operating activities, including separation of functions in areas of potential conflicts of interest and areas of increased risk level;
- reviews of processes, performed by persons performing management functions or managerial functions or delegated by these persons;
- control activities integrated into the operations of the Bank's organizational units and adapted to the profile, scale and specificity of the operations of the Bank's organizational units;
- checking that the exposure limits are met and tracking cases when they are breached;
- monitoring the reports with excesses;
- monitoring of risk indicators;
- self-evaluation process;
- monitoring and testing of contingency funding plans and continuity of business plans.

The main source of funding the Group's activity, including liquid assets portfolio, is deposit base, where at end of year 2019 deposits constituted 92% of total liabilities. The Group maintains buffer of unencumbered high quality assets at high level, investing in sovereign bonds and liquid bonds issued by highly rated corporations. Every year the Group performs analysis if held bond portfolio is possible to liquid at the market condition, in order to set amount of bonds possible to liquidate within timeframe compliant with local regulatory liquidity measure calculation as well as LCR calculation.

The Group constantly monitors funding concentration. To realize that target, the structure of funds is well diversified in each segment of deposits – retail, small enterprises, corporations and public finance sector. The concentration is monitored in break down for client categories and currencies and it is compared to an early warning triggers approved by ALCO. In addition to that there is an early warning trigger for net funding on wholesale market applied.

The Group is one of the biggest market participants on Polish derivative market, however net flows on that instruments in 30 days are irrelevant for LCR.

Simultaneously the Group's methodology of evaluating potential outflows of margin deposits from the Group to other entities or potential decrease of margin deposits kept by Bank's customers bases on maximal outflows within last 24 months and it secures Bank from underestimation of outflows within 30 days.

In accordance with the Regulation No. 575/2013 the Group monitors and maintains an adequate level of Liquidity Coverage Ratio (LCR). As of December 31, 2019 LCR was 163%. The Group recognizes that the depth of the FX swap market allows the assumption that the existing mismatch (the excess of FX liabilities over assets) can be easily eliminated by means of current FX swaps. Additionally, the Group does not identify other significant components of the net outflow coverage ratio than those included in the net coverage coverage disclosure formula.

Detailed data on the volume of regulatory measures for 2019, as well as the applied internal measures in the area of the liquidity risk management, are included in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A for the financial year ended 31 December 2019 in explanatory note no. 48 "Risk Management" in the section "Liquidity risk".

As the result of the assessment of the level of liquidity risk and current and structural liquidity ratios (ILAAP), documented during the review of the Risk Management System (meeting of the Risk and Capital Management Committee on March 14, 2019) and the Assets and Liabilities Management Committee in the process of adopting the annual "Financing and Liquidity Plan" (plan for 2019 reviewed and approved in December 2018), the Bank did not recommend any changes to the existing liquidity risk limits, considering that they are appropriate to the profile and scale of the Bank's operations.

**Tabela 1. Calculation of the LCR indicator (in MM PLN)**

		Total unweighted value				Total weighted value			
Quarter ending on		2019-03-31	2019-06-30	2019-09-30	2019-12-31	2019-03-31	2019-06-30	2019-09-30	2019-12-31
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
<b>HIGH-QUALITY LIQUID ASSETS</b>									
1	Total high-quality liquid assets (HQLA)					18 845	20 074	20 803	21 640
<b>CASH-OUTFLOWS</b>									
2	Retail deposits and deposits from small business customers, of which:	12 936	13 081	13 425	13 806	1 007	1 010	1 030	1 054
3	Stable deposits	7 484	7 586	7 792	8 103	374	379	390	405
4	Less stable deposits	5 452	5 496	5 633	5 703	633	631	640	649
5	Unsecured wholesale funding	22 667	23 911	24 693	25 324	11 776	12 384	12 616	12 474
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	10 986	11 664	12 044	12 622	2 747	2 916	3 011	3 156
7	Non-operational deposits (all counterparties)	11 681	12 247	12 650	12 702	9 030	9 468	9 605	9 319
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					19	16	19	10
10	Additional requirements	33 934	33 602	33 129	32 476	23 225	22 970	22 285	21 391
11	Outflows related to derivative exposures and other collateral requirements	22 298	22 043	21 340	20 427	22 298	22 043	21 340	20 427
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	11 637	11 559	11 789	12 050	928	927	945	964
14	Other contractual funding obligations	1 013	1 046	980	1 033	801	890	804	915
15	Other contingent funding obligations	3 849	3 847	3 955	3 895	385	385	395	389
16	<b>TOTAL CASH OUTFLOWS</b>					37 214	37 655	37 149	36 235
<b>CASH-INFLOWS</b>									
17	Secured lending (eg reverse repos)	880	836	825	716	668	680	648	598
18	Inflows from fully performing exposures	1 935	1 982	1 874	1 442	1 241	1 260	1 193	806
19	Other cash inflows	21 107	20 831	20 148	19 193	21 107	20 831	20 148	19 193
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	<b>TOTAL CASH INFLOWS</b>	23 922	23 649	22 847	21 351	23 016	22 771	21 989	20 597
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	23 922	23 649	22 847	21 351	23 016	22 771	21 989	20 597
<b>WARTOŚĆ SKORYGOWANA OGÓLEM</b>									
21	<b>LIQUIDITY BUFFER</b>					18 845	20 074	20 803	21 640
22	<b>TOTAL NET CASH OUTFLOWS</b>					14 198	14 885	15 159	15 638
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>					132,74%	134,87%	137,23%	138,38%

## II. Information related to the use of prudential norms

Information related to the use of prudential norms concern Capital Group of Bank Handlowy w Warszawie S.A. (“Group”).

Group is composed of Bank Handlowy w Warszawie S.A. (“Bank”) as the parent company, as well as the following subsidiary companies: Dom Maklerski Banku Handlowego S.A., Handlowy Leasing Sp. z o.o., Handlowy Investments S.A., PPH Spomasz Sp. z o.o. w likwidacji, Handlowy-Inwestycje Sp. z o.o.

The following entities are fully consolidated:

- Dom Maklerski Banku Handlowego S.A. („DMBH”),
- Handlowy Leasing Sp. z o.o.,
- Handlowy Investments S.A.,
- PPH Spomasz Sp. z o.o. w likwidacji,
- Handlowy Inwestycje Sp. z o.o.

The Group offers brokerage services on the capital market through Dom Maklerski Banku Handlowego S.A., a wholly-owned subsidiary of the Bank.

The Capital Group of Bank Handlowy w Warszawie S.A. provides leasing portfolio services until April 30th, 2013 through Handlowy Leasing Sp. z o.o. After this date, Handlowy Leasing – due to reducing its activity solely to execution of lease agreements signed before April 30th, 2013 - did not sign new contracts, continuing existing contracts service providing maintaining the quality of services and cost-efficiency of its operations. Leasing product remained in the Bank's offer and is offered in a form of so-called "open architecture", i.e. co-operation with the European Leasing Fund S.A. and CorpoFlota Sp. z o.o. In 2017, the active Company's leasing portfolio was sold to the Bank.

Handlowy Investments S.A. seated in Luxembourg, belongs to special purpose investment entities, through which the Bank and the Capital Group conduct capital transactions. The entity is a wholly-owned subsidiary of the Bank and its activities are financed with refundable additional capital contributions net profits earned. Due to intention to reduce the investment activities, Handlowy - Investments S.A. and similar holdings will be gradually sold or liquidated. As at 31 December 2019 Handlowy Investments S.A. had the portfolio composed of the following shares: Pol-Mot Holding S.A.

PPH Spomasz Sp. z o.o. under liquidation, seated in Warsaw, fully owned by the Bank is one of the holdings deemed for sale Detailed information on how the Group's equity investment portfolio is broken down based on purchase reasons are described in chapter VI point No 8 „Equity investments” of the Report on Activities of Bank Handlowy w Warszawie S.A. and of the Capital Group of Bank Handlowy w Warszawie S.A. in 2019.

Handlowy Inwestycje Sp. z o.o. is a special purpose investment entity, through which the Bank conducts capital transactions. Handlowy Inwestycje Sp. z o.o. has in its portfolio shares of Handlowy Leasing Sp. z o.o. Activities of the entity is financed by refundable capital contributions as well as retained earnings. Handlowy Inwestycje Sp. z o.o. belongs to the portfolio of strategic entities.

There are no proportionally consolidated entities within the Group.

There are no entities that are neither consolidated nor deducted. There are also no subsidiaries not included in the consolidation, for which there is a shortage of capital.

All the transactions within Group, including repayments of intercompany liabilities and transfers of funds, are concluded according to law, including Code of Commercial Law and statutory stipulations.

Within the Group, according to the best knowledge, there are no and it is expected that there will be no significant obstacles of legal or practical nature to fast fund transferring or repayment of liabilities between the parent and the subsidiaries.



The scope of Group's consolidation, defined in accordance with the prudential regulations (CRR) matches the scope of consolidation applied for financial reporting.

**Table 2. EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories**

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
<b>ASSETS</b>							
Cash and balances with the Central Bank	3 736 706	3 736 706	3 736 706				
Amounts due from banks	1 165 684	1 165 684	951 555	214 129			
Financial assets held-for-trading	5 446 511	5 446 511		1 524 780		5 446 511	
Hedging derivatives							
Debt securities available-for-sale	15 484 578	15 484 578	15 484 578				
Equity investments valued at equity method	-	-	-				
Equity investments available-for-sale	62 638	62 638	62 638				
Amounts due from customers	23 731 874	23 731 874	21 936 641	30 217	1 765 016		
Tangible fixed assets	499 753	499 753	499 753				
Intangible assets	1 443 139	1 443 139					1 443 139
Current income tax receivables	3 016	3 016	3 016				
Deferred income tax asset	238 065	238 065	238 065				
Other assets	166 579	166 579	166 579				
Non-current assets held-for-sale	-	-	-				
<b>Total assets</b>	<b>51 978 543</b>	<b>51 978 543</b>	<b>43 079 531</b>	<b>1 769 126</b>	<b>1 765 016</b>	<b>5 446 511</b>	<b>1 443 139</b>
<b>LIABILITIES</b>							
Amounts due to banks	2 125 495	2 125 495		214 135			1 911 360
Financial liabilities held-for-trading	1 877 898	1 877 898		1 629 492		1 877 898	
Hedging derivatives	19 226	19 226		19 226			
Amounts due to customers	39 787 802	39 787 802	-	-			39 787 802
Provisions	65 199	65 199					65 199
Current income tax liabilities	41 725	41 725					41 725
Other liabilities	986 543	986 543					986 543
<b>Total liabilities</b>	<b>44 903 888</b>	<b>44 903 888</b>	<b>-</b>	<b>1 862 853</b>	<b>-</b>	<b>1 877 898</b>	<b>42 792 629</b>
<b>Total equity</b>	<b>7 074 655</b>	<b>7 074 655</b>					
<b>Total liabilities and equity</b>	<b>51 978 543</b>	<b>51 978 543</b>					

**Table 3. EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
<b>Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)</b>	<b>51 978 543</b>	<b>43 079 531</b>	<b>1 769 126</b>	<b>1 765 016</b>	<b>5 446 511</b>
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	44 903 888		1 862 853		1 877 898
Total net amount under the regulatory scope of consolidation	51 978 543	43 079 531	1 769 126	1 765 016	5 446 511
Off-balance-sheet amounts	15 380 251	2 919 131			
Differences due to derivative financial instruments	4 766 618		2 454 955		
Differences due to different netting rules	786 882		786 882		
Other differences	218 375		218 375		
<b>Exposure amounts considered for regulatory purposes</b>	<b>73 130 668</b>	<b>45 998 662</b>	<b>5 229 338</b>	<b>1 765 016</b>	<b>5 446 511</b>

Information on the consolidation method used for each entity within the scope of accounting and regulatory consolidation ranges is presented in Report on Activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2019, in chapter III. " The organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A ".

### III. Information regarding own funds

Information about the components of equity are presented in details in supplementary note 35 „Capital and Reserves” to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019.

The structure of the Group's own funds (Table 4), reconciliation of the Group's own funds to the equity of the Group (Table 5), information on own funds in the interim period (Table 6) and detailed description of the capital instruments' main characteristics (Table 7) are presented in the below tables:

**Table 4. The structure of the Group's own funds**

<b>ID</b>	<b>Item</b>	<b>Amount</b>
<b>1</b>	<b><u>OWN FUNDS</u></b>	<b>5 122 175</b>
<b>1.1</b>	<b>TIER 1 CAPITAL</b>	<b>5 122 175</b>
<b>1.1.1</b>	<b>COMMON EQUITY TIER 1 CAPITAL</b>	<b>5 122 175</b>
<b>1.1.1.1</b>	<b>Capital instruments eligible as CET1 Capital</b>	<b>3 008 172</b>
1.1.1.1.1	Paid up capital instruments	522 638
1.1.1.1.3	Share premium	2 485 534
<b>1.1.1.2</b>	<b>Retained earnings</b>	<b>87 246</b>
1.1.1.2.1	Previous years retained earnings	87 246
1.1.1.2.2	Profit or loss eligible	-
1.1.1.2.2.1	Profit or loss attributable to owners of the parent	479 230
1.1.1.2.2.2	(-) Part of interim or year-end profit not eligible	-479 230
<b>1.1.1.3</b>	<b>Accumulated other comprehensive income</b>	<b>107 428</b>
<b>1.1.1.4</b>	<b>Other reserves</b>	<b>2 852 379</b>
<b>1.1.1.5</b>	<b>Funds for general banking risk</b>	<b>540 200</b>
<b>1.1.1.9</b>	<b>Adjustments to CET1 due to prudential filters</b>	<b>-24 392</b>
1.1.1.9.5	(-) Value adjustments due to the requirements for prudent valuation	-24 392
<b>1.1.1.10</b>	<b>(-) Goodwill</b>	<b>-1 245 976</b>
1.1.1.10.1	(-) Goodwill accounted for as intangible asset	-1 245 976
<b>1.1.1.11</b>	<b>(-) Other intangible assets</b>	<b>-197 163</b>
1.1.1.11.1	(-) Other intangible assets gross amount	-197 163
<b>1.1.1.28</b>	<b>CET1 capital elements or deductions - other</b>	<b>-5 719</b>
<b>1.1.2</b>	<b>ADDITIONAL TIER 1 CAPITAL</b>	<b>-</b>
<b>1.2</b>	<b>TIER 2 CAPITAL</b>	<b>-</b>

**Table 5. Reconciliation of the Group's own funds for the Group's equity**

Reconciliation of the Group's own funds for the Group's equity	Amount
Share capital	522 638
Supplementary capital	3 003 290
Revaluation reserve	114 893
Other reserves	2 867 358
Retained earnings	566 476
<b>Total Equity</b>	<b>7 074 655</b>
Goodwill & other intangible assets	-1 443 139
Adjustments to Equity Tier I in respect of prudential filters - value adjustments in respect of the requirements for the prudence	-24 392
Other adjustments in transition Common Equity Tier I	-5 719
Net profit for the Bank's shareholders	-479 230
<b>Total Deductions</b>	<b>-1 952 480</b>
<b>Total Own funds</b>	<b>5 122 175</b>

**Table 6. Own funds (thousands PLN)**

Own Funds		(A) Amount at disclosure date	(B) Regulation No. 575/2013 Article Reference
<b>COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES</b>			
1	Capital instruments and the related share premium accounts	3 008 172	26 (1), 27, 28, 29, EBA list 26 (3)
	<i>of which: Series A</i>	260 000	EBA list 26 (3)
	<i>of which: Series B</i>	112 000	EBA list 26 (3)
	<i>of which: Series C</i>	150 638	EBA list 26 (3)
2	Retained earnings	87 246	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	2 959 807	26 (1)
3a	Funds for general banking risk	540 200	26 (1) (f)
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>6 595 425</b>	
7	Additional value adjustments (negative amount)	-30 111	36 (1) (b), 37, 472 (4)
8	Intangible assets (net of related tax liability) (negative amount)	-1 443 139	26 (1), 27, 28, 29, EBA list 26 (3)
28	<b>Total regulatory adjustment to Common Equity Tier 1 (CET1)</b>	<b>-1 473 250</b>	
29	<b>Common Equity Tier 1 (CET1) capital</b>	<b>5 122 175</b>	
<b>ADJUSTMENTS ADDITIONAL TIER 1 (AT1) CAPITAL: INSTRUMENTS</b>			
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-	
<b>ADDITIONAL TIER 1 (AT1) CAPITAL: REGULATORY ADJUSTMENTS</b>			
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	
44	Additional Tier 1 (AT1) capital	-	
45	<b>Tier 1 capital (T1= CET1+AT1)</b>	<b>5 122 175</b>	

<b>ADJUSTMENTSTIER 2 (T2) CAPITAL: INSTRUMENTS AND PROVISIONS</b>			
51	<b>Tier 2 (T2) capital before regulatory adjustments</b>		
<b>TIER 2 (T2) CAPITAL: REGULATORY ADJUSTMENTS</b>			
57	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>		
58	<b>Tier 2 (T2) capital</b>		
59	<b>Total capital (TC=T1+T2)</b>	<b>5 122 175</b>	
60	<b>Total risk weighted assets</b>	<b>29 738 301</b>	
<b>CAPITAL RATIOS AND BUFFERS</b>			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	<b>17,2%</b>	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	<b>17,2%</b>	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	<b>17,2%</b>	92 (2) (c)
<b>APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2</b>			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	<b>50 283</b>	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	36 (1) (i), 45, 48, 470, 472 (11)
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	<b>238 065</b>	36 (1) (c), 38, 48, 470, 472 (5)

Group did not make deductions from own funds for significant investment in the financial sector entities and assets for deferred income tax.



**Table 7. The table below presents capital instruments main characteristics**

Series/emission	A	B	B	B	B	B	C
1 Issuer	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.
2 Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012
3 Governing law(s) of the instrument	Polish law	Polish law	Polish law	Polish law	Polish law	Polish law	Polish law
<b>Regulatory treatment</b>							
4 Transitional CRR rules	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital
5 Post-transitional CRR rules	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital
6 Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated
7 Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares
8 Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 260.000.000	PLN 4.480.000	PLN 6.230.000	PLN 8.960.000	PLN 70.594.000	PLN 21.736.000	PLN 150.638.000
9 Nominal amount of instrument	PLN 4	PLN 4	PLN 4	PLN 4	PLN 4	PLN 4	PLN 4
9a Issue price							
9b Redemption price	-	-	-	-	-	-	-
10 Accounting classification	Equity	Equity	Equity	Equity	Equity	Equity	Equity
11 Original date of issuance	27.03.97	27.10.98	25.06.99	16.11.99	24.05.02	16.06.03	28.02.01
12 Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13 Original maturity date	Without maturity	Without maturity	Without maturity	Without maturity	Without maturity	Without maturity	Without maturity
14 Issuer call subject to prior supervisory approval	No	No	No	No	No	No	No
15 Optional call date, contingent call dates and redemption amount	-	-	-	-	-	-	-
16 Subsequent call dates, if applicable	-	-	-	-	-	-	-

<b>Coupons / dividends</b>							
17 Fixed or floating dividend/coupon	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate
18 Coupon rate and any related index	-	-	-	-	-	-	-
19 Existence of a dividend stopper	No	No	No	No	No	No	No
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
21 Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24 If convertible, conversion trigger(s)	-	-	-	-	-	-	-
25 If convertible, fully or partially	-	-	-	-	-	-	-
26 If convertible, conversion rate	-	-	-	-	-	-	-
27 If convertible, mandatory or optional conversion	-	-	-	-	-	-	-
28 If convertible, specify instrument type convertible into	-	-	-	-	-	-	-
29 If convertible, specify issuer of instrument it converts into	-	-	-	-	-	-	-
30 Write-down features	No	No	No	No	No	No	No
31 If write-down, write-down trigger(s)	-	-	-	-	-	-	-
32 If write-down, full or partial	-	-	-	-	-	-	-
33 If write-down, permanent or temporary	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
34 If temporary write-down, description of write-up mechanism	-	-	-	-	-	-	-
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	-	-	-	-	-	-
36 Non-compliant transitioned features	-	-	-	-	-	-	-
37 If yes, specify non-compliant features	-	-	-	-	-	-	-

## IV. Capital Adequacy

Capital requirement in relation to Own Funds of Group is calculated according to the Regulation No. 575/2013.

The tables below present data on the Group's capital adequacy, the amount of risk-weighted assets and capital requirements with respect to own funds, broken down by risk types.

**Table 8. Capital adequacy**

<b>Capital adequacy</b>	<b>31.12.2019</b>
<b>Common Equity Tier I</b>	<b>5 122 175</b>
<b>Tier I Capital</b>	<b>5 122 175</b>
<b>Own Funds</b>	<b>5 122 175</b>
<b>The total amount of risk exposure</b>	<b>29 738 301</b>
<b>Common Equity Tier 1 capital ratio</b>	<b>17,2%</b>
<b>Tier 1 capital ratio</b>	<b>17,2%</b>
<b>Total capital ratio</b>	<b>17,2%</b>

**Table 9. EU OV1 – Overview of RWAs**

			RWAs		Minimum capital requirements
			31.12.2019	31.12.2018	31.12.2019
	<b>1</b>	<b>Credit risk (excluding CCR)</b>	<b>23 365 872</b>	<b>22 766 188</b>	<b>1 869 270</b>
Article 438 (c) (d)	2	Of which the standardised approach*	23 365 872	22 766 188	1 869 270
Article 438 (c) (d)	3	Of which the foundation IRB (FIRB) approach	-	-	-
Article 438 (c) (d)	4	Of which the advanced IRB (AIRB) approach	-	-	-
Article 438 (d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-
Article 107 Article 438 (c) (d)	<b>6</b>	<b>CCR</b>	<b>1 528 845</b>	<b>991 888</b>	<b>122 307</b>
Article 438 (c) (d)	7	Of which mark to market	1 197 463	634 313	95 797
Article 438 (c) (d)	8	Of which original exposure	-	-	-
	9	Of which the standardised approach	-	-	-
	10	Of which internal model method (IMM)	-	-	-
Article 438 (c) (d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	2 457	1 750	197
Article 438 (c) (d)	12	Of which CVA	328 925	355 825	26 314
Article 438 (e)	<b>13</b>	<b>Settlement risk</b>	-	-	-
Article 449 (o) (i)	<b>14</b>	<b>Securitisation exposures in the banking book (after the cap)</b>	<b>253 671</b>	<b>905 475</b>	<b>20 294</b>
	15	Of which IRB approach	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-
	18	Of which standardised approach	253 671	905 475	20 294
Article 438 (e)	<b>19</b>	<b>Market risk</b>	<b>1 022 525</b>	<b>1 192 387</b>	<b>81 802</b>
	20	Of which the standardised approach	1 022 525	1 192 387	81 802
	21	Of which IMA	-	-	-
Article 438 (e)	<b>22</b>	<b>Large exposures</b>	<b>0</b>	<b>155 742</b>	<b>0</b>
Article 438 (f)	<b>23</b>	<b>Operational risk</b>	<b>3 567 388</b>	<b>3 506 465</b>	<b>285 391</b>
	24	Of which basic indicator approach	0	-	-
	25	Of which standardised approach	3 567 388	3 506 465	285 391
	26	Of which advanced measurement approach	-	-	-
Article 437 (2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	595 164	536 513	47 613
Article 500	28	Floor adjustment	-	-	-
	<b>29</b>	<b>Total</b>	<b>29 738 301</b>	<b>29 518 145</b>	<b>2 379 064</b>

## **V. Information regarding capital requirements**

### **1.1. Credit risk**

#### **The accounting definitions of past due and impaired exposures**

The impairment (exposure value is higher than the projected cash flows) occurs if there is an objective evidence of impairment as a result of the following defined objective evidence of impairment, i.e.:

- significant financial difficulties of the client,
- breach of contract conditions, e.g. delay in interest or principal payments,
- occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider,
- high probability of a client's insolvency or obtainment of information on the opening of insolvency proceedings,
- domestic or local economic conditions that may be related to the default of exposures,
- the delay in payment,
- significant deterioration in customer rating,
- request of the Bank to initiate enforcement proceedings against the client,
- reduction of the client credit rating by an accepted by the Bank External Credit,

and other loss events could have impact on the estimated future cash flows from the financial asset that can be reliably estimated.

The exposures of clients that the objective evidence of impairment was identified are treated as impaired exposures.

For the purpose of determining regulatory capital for credit risk, impaired exposures are classified to the class of exposures in default. All exposures assigned to the class of exposures in default are impaired exposures.

#### **A description of the approaches and methods adopted for determining value adjustments and provisions**

Detailed information on the management of exposures of impaired are presented in the Annual Financial Statements of the Bank Handlowy w Warszawie SA for the year ended 31 December 2019 in explanatory note no. 49 "Risk Management" in the section "Credit risk".

#### **Write-offs for expected credit losses**

The Group makes write-downs for expected credit losses according to internal rules and methodologies for calculation of write-downs prepared for all financial assets. They are made on an aggregate basis for each of the 3 stages:

- Step 1: credit exposures for which credit risk has not materially increased since the initial recognition
  - loss estimated over a horizon of 12 months (this is the part of credit losses expected for the entire exposure period resulting from the default within 12 months from the reporting date),
- Step 2: credit exposures for which there has been a significant increase in credit risk
  - credit losses are estimated for the entire duration of the exposure,
- Step 3: credit exposures for which there is objective evidence of impairment
  - credit losses estimated as for impaired assets.

Assignment of exposures to the Stage is based on the client's management approach (individual vs. group), taking into account a wide range of information obtained through standard risk management processes (including the Early Warning process) concerning both current and future events, including macroeconomic factors (taken into account in the macroeconomic scenarios prepared cyclically by the Chief Economist) and the number of days of arrears.

The Bank applies the general rule that the default of the creditor takes place in the event of one or both of the following events:

- a) the debtor's delay in performing all material credit obligations towards the Bank is 90 days or more,
- b) it is unlikely that the debtor will fully meet his credit obligations towards the Bank without the need for the institution to take measures such as the realisation of collateral.

**Table 10. EU CRB-B – The total amount of exposures according to balance-sheet valuation (after accounting offsets) and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes**

	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	18 326 636	18 519 498
Regional governments or local authorities	116 644	420 298
Public sector entities	16 510	18 228
Multilateral development banks	697 138	644 881
International organisations	-	-
Institutions	1 380 227	1 252 900
Corporates	21 497 797	22 416 668
<i>Of which: SMEs</i>	2 398 308	2 409 269
Retail	11 955 139	11 807 012
<i>Of which: SMEs</i>	65 813	49 750
Secured by mortgages on immovable property	3 019 095	3 028 202
<i>Of which: SMEs</i>	580 305	641 132
Exposures in default	315 869	339 930
Items associated with particularly high risk	61 529	58 828
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings	-	-
Equity exposures	1 108	1 113
Other exposures	2 515 230	2 477 388
<b>Total standardised approach</b>	<b>59 902 922</b>	<b>60 984 946</b>

\* *Arithmetical average calculated on quarterly balances in 2019.*



**Table 11. EU CRB-C – Geographical breakdown of exposures**

	Net value												
	Poland	Luxembourg	United Kingdom	France	Norwegia	Ireland	India	Belgium	The United States	Czech Republic	Netherlands	Other countries	Total
Central governments or central banks	18 326 268	-	-	-	-	368	-	-	-	-	-	-	18 326 636
Regional governments or local authorities	116 644	-	-	-	-	-	-	-	-	-	-	-	116 644
Public sector entities	16 510	-	-	-	-	-	-	-	-	-	-	-	16 510
Multilateral development banks	-	697 117	21	-	-	-	-	-	-	-	-	-	697 138
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	608 305	3	234 802	380 187	24 866	26 983	9 925	2 614	40 501	2 630	1	49 410	1 380 227
Corporates	20 072 008	474 377	196 451	7 836	165 025	133 076	106 350	99 958	1 535	69 920	72 062	99 199	21 497 797
Retail	11 955 139	-	-	-	-	-	-	-	-	-	-	-	11 955 139
Secured by mortgages on immovable property	2 997 370	-	-	-	-	-	-	-	-	7 582	-	14 143	3 019 095
Exposures in default	315 869	-	-	-	-	-	-	-	-	-	-	-	315 869
Items associated with particularly high risk	20 205	-	-	-	-	-	-	-	41 324	-	-	-	61 529
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	1 108	-	-	-	-	-	-	-	-	-	-	-	1 108
Other exposures	2 515 230	-	-	-	-	-	-	-	-	-	-	-	2 515 230
<b>Total standardised approach</b>	<b>56 944 656</b>	<b>1 171 497</b>	<b>431 274</b>	<b>388 023</b>	<b>189 891</b>	<b>160 427</b>	<b>116 275</b>	<b>102 572</b>	<b>83 360</b>	<b>80 132</b>	<b>72 063</b>	<b>162 752</b>	<b>59 902 922</b>

**Table 12. EU CRB-D – Concentration of exposures by industry or counterparty types**

	Public administration	Construction	Scientific and technical activities	Real estate activities	Financial and insurance activities	Mining and quarrying	Wholesale and retail trade	Information and communication	Natural persons	Manufacturing	Transport and storage	Electricity and gas supply	Other services	Total
Central governments or central banks	15 026 146	-	-	-	3 300 490	-	-	-	-	-	-	-	-	<b>18 326 636</b>
Regional governments or local authorities	116 544	-	-	-	-	-	-	-	-	-	-	-	-	<b>116 644</b>
Public sector entities	-	-	128	-	-	-	-	-	-	-	3 894	-	12 488	<b>16 510</b>
Multilateral development banks	-	-	-	-	697 138	-	-	-	-	-	-	-	-	<b>697 138</b>
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	1 274 632	-	-	101 503	-	-	-	-	4 092	<b>1 380 227</b>
Corporates	80	376 574	1 854 169	408 083	1 801 237	177 860	5 620 955	735 011	-	8 013 429	235 335	1 922 218	352 846	<b>21 497 797</b>
Retail	-	-	-	-	-	-	8 349	162	11 842 457	819	-	-	103 352	<b>11 955 139</b>
Secured by mortgages on immovable property	-	6 019	45 967	6 458	22 742	-	380 861	54 970	1 654 076	806 398	6 916	-	34 688	<b>3 019 095</b>
Exposures in default	-	26 143	-	-	-	-	21 549	67 417	74 158	124 437	1 203	-	962	<b>315 869</b>
Items associated with particularly high risk	-	-	-	-	49 175	-	-	12 170	-	184	-	-	-	<b>61 529</b>
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	1 108	-	-	-	-	-	-	-	-	<b>1 108</b>
Other exposures	-	-	-	-	-	-	-	-	-	-	-	-	2 515 230	<b>2 515 230</b>
<b>Total standardised approach</b>	<b>15 142 770</b>	<b>408 736</b>	<b>1 900 264</b>	<b>414 541</b>	<b>7 146 522</b>	<b>177 860</b>	<b>6 031 714</b>	<b>971 233</b>	<b>13 570 691</b>	<b>8 945 267</b>	<b>247 348</b>	<b>1 922 218</b>	<b>3 023 758</b>	<b>59 902 922</b>

**Table 13. EU CRB-E – Maturity of exposures for balance sheet receivables**

	Net exposure value					
	On demand	< 1 year	>= 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments or central banks	-	4 827 708	11 351 956	2 146 353	-	18 326 017
Regional governments or local authorities	-	2	16 550	-	-	16 552
Public sector entities	-	5	7 293	-	-	7 298
Multilateral development banks	-	21	70 798	626 319	-	697 138
International organisations	-	-	-	-	-	-
Institutions	-	772 933	233 989	-	-	1 006 922
Corporates	14 641	7 536 483	5 387 140	224 319	-	13 162 583
Retail	-	1 940 509	2 425 935	1 332 624	-	5 699 068
Secured by mortgages on immovable property	-	402 314	330 550	2 013 058	-	2 745 922
Exposures in default	126 978	95 390	54 764	6 173	-	283 304
Items associated with particularly high risk	-	-	-	-	61 529	61 529
Covered bonds	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-
Equity exposures	-	-	-	-	1 108	1 108
Other exposures	-	-	-	-	2 515 230	2 515 230
<b>Total standardised approach</b>	<b>141 619</b>	<b>15 575 365</b>	<b>19 878 975</b>	<b>6 348 846</b>	<b>2 577 867</b>	<b>44 522 671</b>

**Table 14. EU CR1-A – Credit quality of exposures by exposure class and instrument**

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Central governments or central banks	-	18 326 636	-	-	-	-175	18 326 636
Regional governments or local authorities	-	116 780	136	-	-	2	116 644
Public sector entities	-	16 526	16	-	-	-28	16 510
Multilateral development banks	-	697 138	-	-	-	0	697 138
International organisations	-	-	-	-	-	0	-
Institutions	-	1 383 086	2 859	-	-	594	1 380 227
Corporates	820 259	21 549 518	630 847	-	-	-28 943	21 738 930
<i>Of which: SMEs</i>	86 717	2 409 693	49 930	-	-	-1 139	2 446 480
Retail	409 032	12 041 441	420 598	-	-	-381	12 029 875
<i>Of which: SMEs</i>	2 721	67 781	4 111	-	-	-127	66 391
Secured by mortgages on immovable property	-	3 032 392	13 297	-	-	-292	3 019 095
<i>Of which: SMEs</i>	-	585 774	5 469	-	-	114	580 305
Exposures in default	1 229 291	-	913 422	-	230 314	-216 905	315 869
Items associated with particularly high risk	-	62 425	896	-	-	0	61 529
Covered bonds	-	-	-	-	-	0	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	0	-
Collective investments undertakings	-	-	-	-	-	0	-
Equity exposures	-	1 108	-	-	-	411	1 108
Other exposures	-	2 515 230	-	-	-	0	2 515 230
<b>Total standardised approach</b>	<b>1 229 291</b>	<b>59 742 280</b>	<b>1 068 649</b>	<b>-</b>	<b>230 314</b>	<b>-245 717</b>	<b>59 902 922</b>
Of which: Loans	1 160 405	25 506 594	1 006 826	-	26 385	-210 396	25 660 173
Of which: Debt securities	-	15 790 506	120	-	-	-166	15 790 386
Of which: Off-balance-sheet exposures	68 886	15 373 068	61 703	-	-	-35 155	15 380 251

**Table 15. EU CR1-B – Credit quality of exposures by industry or counterparty types**

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Public administration	-	15 142 907	136	-	-	-173	15 142 771
Construction	169 422	383 343	144 028	-	25 652	-59 876	408 737
Scientific and technical activities	-	1 906 552	6 289	-	-	-2 836	1 900 263
Real estate activities	21 322	415 332	22 113	-	-	-370	414 541
Financial and insurance activities	8 677	7 151 656	13 810	-	-	64	7 146 523
Mining and quarrying	-	178 110	249	-	-	567	177 861
Wholesale and retail trade	123 232	6 032 462	123 980	-	8 555	-7 878	6 031 714
Information and communication	94 497	904 966	28 230	-	1 822	-4 777	971 233
Natural persons	406 311	13 584 958	420 581	-	20 570	-76 994	13 570 688
Manufacturing	329 205	8 845 430	229 369	-	112 235	-92 131	8 945 266
Transport and storage	28 632	246 629	27 913	-	60 957	222	247 348
Electricity and gas supply	-	1 923 293	1 074	-	-	62	1 922 219
Other services	47 993	3 026 642	50 877	-	523	-1 153	3 023 758
<b>Total</b>	<b>1 229 291</b>	<b>59 742 280</b>	<b>1 068 649</b>	<b>-</b>	<b>230 314</b>	<b>-245 717</b>	<b>59 902 922</b>

**Table 16. EU CR1-C – Credit quality of exposures by geography**

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Poland	1 229 291	56 780 227	1 064 862	-	230 314	-243 662	56 944 656
United Kingdom	-	1 173 695	2 198	-	-	-1 782	1 171 497
Luxembourg	-	431 526	251	-	-	-70	431 275
France	-	388 224	201	-	-	-42	388 023
Ireland	-	190 140	249	-	-	-126	189 891
India	-	160 604	177	-	-	-332	160 427
Norway	-	116 373	98	-	-	-10	116 275
Czech Republic	-	102 627	55	-	-	-222	102 572
Belgium	-	83 417	57	-	-	-6	83 360
Netherlands	-	80 349	217	-	-	469	80 132
Hungary	-	72 167	104	-	-	7	72 063
Other countries	-	162 931	180	-	-	59	162 751
<b>Total</b>	<b>1 229 291</b>	<b>59 742 280</b>	<b>1 068 649</b>	<b>-</b>	<b>230 314</b>	<b>-245 717</b>	<b>59 902 922</b>

**Table 17. EU CR2-A – Changes in the stock of general and specific credit risk adjustments\***

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
<b>Opening balance</b>	<b>535 674</b>	-
Increases due to amounts set aside for estimated loan losses during the period	-	-
Creation/Releases in the period through the income statement	213 518	-
Transfers between credit risk adjustments	-	-
Impact of exchange rate differences	-	-
Business combinations, including acquisitions and disposals of subsidiaries	-	-
Zmniejszenie stanu odpisów w związku sprzedażą wierzytelności	-124 839	-
Other adjustments	- 65 145	-
<b>Closing balance</b>	<b>559 208</b>	-
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	4 293	-
Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-

\* The value does not include contractual interest in the amount of PLN 311 351 thousand. PLN accrued since the exposure was qualified for stage 3

**Table 18. EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities**

	Gross carrying value defaulted exposures
<b>Opening balance</b>	<b>1 219 402</b>
Loans and debt securities that have defaulted or impaired since the last reporting period	408 237
Returned to non-defaulted status	-1 557
Amounts written off	-217 698
Other changes	-247 979
<b>Closing balance</b>	<b>1 160 405</b>

**Table 19. EU CR3 – CRM techniques – Overview**

	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	26 127 225	398 708	395 935	2 773	-
Total debt securities	17 555 402	-	-	-	-
<b>Total exposures</b>	<b>43 682 627</b>	<b>398 708</b>	<b>395 935</b>	<b>2 773</b>	<b>-</b>
Of which defaulted	283 103	201	201	-	-



**Table 20. EU CR4 – Standardised approach – Credit risk exposure and CRM effects**

Exposure classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	18 326 016	620	18 328 790	234	905 260	4,94%
Regional governments or local authorities	16 552	100 092	16 552	49 980	13 306	20,00%
Public sector entities	7 299	9 212	7 298	4 345	5 818	49,97%
Multilateral development banks	697 138	-	697 138	-	-	0,00%
International organisations	-	-	-	-	-	-
Institutions	1 006 922	373 304	609 268	130 167	181 646	24,57%
Corporates	13 162 583	8 335 215	13 161 731	2 595 099	15 118 725	95,95%
Retail	5 699 067	6 256 071	5 699 067	41 995	4 299 430	74,89%
Secured by mortgages on immovable property	2 745 923	273 173	2 745 923	82 635	1 782 731	63,03%
Exposures in default	283 304	32 564	283 103	14 676	340 329	114,29%
Items associated with particularly high risk	61 529	-	61 529	0	92 294	150,00%
Covered bonds	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-
Equity exposures	1 108	-	1 108	-	1 108	100,00%
Other exposures	2 515 230	-	2 515 230	-	627 685	24,96%
<b>Total standardised approach</b>	<b>44 522 671</b>	<b>15 380 251</b>	<b>44 126 737</b>	<b>2 919 131</b>	<b>23 368 332</b>	<b>49,67%</b>

## **Non-performing and forborne exposures**

The Group presents below tables as part of disclosures on non-performing and forborne exposures as well as collateral obtained by taking possession and execution processes, in line with Guidelines on disclosure of non-performing and forborne exposures:

- NPE 1 – Credit quality of forborne exposures,
- NPE 3 – Credit quality of performing and non-performing exposures by past due days,
- NPE 4 – Performing and non-performing exposures and related provision.

As of 31st December of 2019, the Group presents gross NPL (gross non-performing loans and advances to the total gross amount of loans and advances) in amount of 4.96%.

According to Guidelines on disclosure of non-performing and forborne exposures gross non-performing loan ratio is calculated including the amount of contractual interest accrued since exposure became non-performing.

Group does not have collateral obtained by taking possession and execution processes.

**Tabela 21. NPE 1 – Credit quality of forborne exposures (in PLN ‘000)**

	Gross carrying amount/nominal amount of exposures with forbearance measures			Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne		On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		Of which defaulted	Of which impaired				
Loans and advances	-	-	216 297	-	-118 133	22 890	-
Central banks	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-
Non-financial corporations	-	-	191 242	-	-98 499	22 048	-
Households	-	-	25 055	-	-19 634	842	-
Debt Securities	-	-	-	-	-	-	-
Off-balance-sheet exposures	-	-	31 872	-	1 732	-	-
<b>Total</b>	-	-	<b>248 169</b>	-	<b>-119 868</b>	<b>-22 890</b>	-

**Table 22. NPE 3 – Credit quality of performing and non-performing exposures by past due days (in PLN '000)**

Gross carrying amount/nominal amount												
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	22 238 111	22 233 374	4 737	1 160 411	566 584	59 927	139 529	19 792	87 429	38 000	249 150	1 160 411
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	30 793	30 793	-	-	-	-	-	-	-	-	-	-
Credit institutions	729 077	729 077	-	-	-	-	-	-	-	-	-	-
Other financial corporations	1 387 091	1 387 074	17	8 677	-	-	-	-	-	-	8 677	8 677
Non-financial corporations	12 583 916	12 579 573	4 343	699 858	152 150	59 927	139 529	19 792	85 128	38 000	205 332	699 858
Of which SMEs	4 510 604	4 508 834	1 770	445 492	24 167	59 927	139 529	16 813	63 806	5 404	135 846	445 492
Households	7 507 234	7 506 857	377	451 876	414 434	-	-	-	-	-	35 141	451 876
Debt securities	17 556 217	17 556 217	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	14 787 461	14 787 461	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	2 462 828	2 462 828	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	305 928	305 928	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	15 373 074			68 880								68 880
Central banks	-			-								-
General governments	110 561			-								-
Credit institutions	371 582			-								-
Other financial corporations	112 627			-								-
Non-financial corporations	8 468 672			67 574								67 574
Households	6 309 632			1 306								1 306
<b>Total</b>	<b>55 167 402</b>	<b>39 741 506</b>	<b>52 822</b>	<b>1 229 291</b>	<b>566 584</b>	<b>59 927</b>	<b>139 529</b>	<b>19 792</b>	<b>87 429</b>	<b>38 000</b>	<b>249 150</b>	<b>1 229 291</b>

**Tabela 23. NPE 4 – Performing and non-performing exposures and related provision (in PLN ‘000)**

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Loans and advances	22 233 051	19 882 562	2 350 489	1 160 411	-	1 160 411	- 132 854	- 52 900	- 79 954	- 872 800	-	- 872 800	-	4 292 347	269 135
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	30 793	30 793	-	-	-	-	24	24	-	-	-	-	-	10 081	-
Credit institutions	729 077	729 074	3	-	-	-	2 318	2 318	-	-	-	-	-	-	-
Other financial corporations	1 387 091	1 387 077	14	8 677	-	8 677	- 1 521	- 1 521	-	- 8 677	-	- 8 677	-	14 416	-
Non-financial corporations	12 578 856	11 210 753	1 368 103	699 858	-	699 858	- 43 191	- 24 572	- 18 619	- 484 903	-	- 484 903	-	2 321 832	85 156
Of which SMEs	4 510 604	3 975 756	534 848	445 492	-	445 492	- 19 588	- 10 170	- 9 418	- 306 672	-	- 306 672	-	1 546 869	74 373
Households	7 507 234	6 524 865	982 369	451 876	-	451 876	- 85 800	- 24 465	- 61 335	- 379 220	-	- 379 220	-	1 946 018	183 979
Debt securities	17 556 217	17 556 217	-	-	-	-	815	815	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	14 787 461	14 787 461	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	2 462 828	2 462 828	-	-	-	-	695	695	-	-	-	-	-	-	-
Non-financial corporations	305 928	305 928	-	-	-	-	120	120	-	-	-	-	-	-	-
Off-balance-sheet exposures	15 373 074	13 510 075	1 862 999	68 880	-	68 880	- 25 590	- 11 819	- 13 771	- 36 590	-	- 36 590	-	863 819	1 020
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	110 561	110 561	-	-	-	-	134	134	-	-	-	-	-	110	-
Credit institutions	371 582	368 259	3 323	-	-	-	190	181	9	-	-	-	-	-	-
Other financial corporations	112 627	112 627	-	-	-	-	111	111	-	-	-	-	-	18 955	-
Non-financial corporations	8 468 672	7 833 375	635 297	67 574	-	67 574	- 16 080	- 9 371	- 6 709	- 36 590	-	- 36 590	-	828 996	1 020
Households	6 309 632	5 085 253	1 224 379	1 306	-	1 306	- 9 075	- 2 022	- 7 053	-	-	-	-	15 758	-
<b>Total</b>	<b>55 162 342</b>	<b>50 948 854</b>	<b>4 213 488</b>	<b>1 229 291</b>	<b>-</b>	<b>1 229 291</b>	<b>- 159 259</b>	<b>- 65 534</b>	<b>- 93 725</b>	<b>- 909 390</b>	<b>-</b>	<b>- 909 390</b>	<b>-</b>	<b>5 156 166</b>	<b>270 155</b>

\* The gross value of receivables as at 31 December 2019 does include contractual interest of 311,351 thousand PLN accrued from the time the exposure is classified in Stage 3.

## 1.2. Counterparty credit risk

Counterparty risk is incurred from derivative transactions and capital market transactions. For purposes of risk management the Group defines it as pre-settlement risk and settlement risk.

**Pre-settlement** exposure is defined by PSE measure (Pre-Settlement Exposure, „PSE”), reflecting future potential exposure of the counterparty. PSE reflects maximum expected exposure of the counterparty during the life of the transaction (or transaction portfolio) at the specified confidence level. The distribution of the market value (Mark-to-market) and PSE amount are dependent on market factors determining the values for particular transaction in the customer portfolio. In case there is no sufficient data, to simulate the value of the transactions’ portfolio more simplified method are used, same as for the purpose of capital requirement calculation.

Pre-settlement risk exposure is managed and reduced through the initial or variation margin deposits as well as conducting transactions using clearing houses.

Moreover, the exposure arising from pre-settlement risk is continuously monitored and is also limited at the aggregate level broken down by product group.

**Settlement risk** arises when the Group exchanges cash payments to counterparty on a value date and is unable to verify that payments have been received in exchange. The exposure in this case equals the nominal transaction value.

### **A description of the methodology used to assign internal capital and credit limits for counterparty credit exposures**

Internal capital related to counterparty risk related is calculated as 8% of the value of total risk weighted exposures in the trading portfolio, in which internal capital for the following exposure classes: institutions, corporates, regional governments and local authorities administrative bodies and non-commercial undertakings, was estimated according to advanced approach based on internal ratings. For exposures different than mentioned above internal capital requirements were estimated according to standardized approach specified in the Regulation No. 575/2013. The Group estimates also the level of exposures resulting from counterparty risk in stress scenario.

Furthermore pre-settlement & settlement risks are managed by the Group by setting appropriate limits (pre-settlement and settlement) as an integral part of credit approval process. Pre-settlement limits for counterparty specify, among others, tenors and product families and depend on the customer creditworthiness, his financial standing as well as on the level of customer’s knowledge and experience in derivative transactions, forecasted currency position/ other position which requires hedging and related product needs and on the level of derivative transactions already concluded with other banks.

The level of settlement limit which may be approved is determined by the customer’s risk rating. For a vast majority of transactions the Group adopted ‘delivery versus payment’ (DVP) principle which mitigate settlement risk through not paying the counterparty until Group confirms receipt of the payment or delivery of an instrument by a client. The internal settlement limits are waived in specific and justified cases.

### **A description of policies for securing collateral and establishing credit reserves as well as a description of policies with respect to specific wrong-way risk exposures**

The Group’s policies for securing collateral vary according to the counterparty business segment. Most common form of collateral accepted to mitigate credit risk of counterparty, with whom the derivate transactions (“transactions”) are entered, is financial securing in the form of transfer of the rights to cash or security deposit according to Art. 102 of Banking Act (cash deposit). The amount of security depends on the difference of the current Mark to Market value of a transaction and a limit agreed. In principle, margining in the form of cash due to its nature does not expose the Group to the risk of unfavourable changes in collateral value. Generally the transactions are provided under frame agreements, which in case of breach by counterparty allow for an early termination of transaction by the other party and settlement the positive and negative values of transactions covered

by given frame agreement in one net amount. The exposure resulting from counterparty risk together with other exposures is included in the periodical credit analysis of a customer.

The Group applies credit value adjustment to the market value of a derivative contract to take into account the credit risk of the counterparty. All Commercial and Corporate Banking Subsector customers are taken into account for derivatives assessment correction calculation

The Group differentiates the valuation of counterparty risk due to the availability of CDS quotations:

- a) Credit Risk of Counterparties, for which there is active market of CDS. It is considered that CDS quotations reflect market valuation of credit risk.
- b) Credit Risk of Counterparties, for which there isn't active market of CDS. Based on credit rating (external or internal, if external isn't available) and economic sector, in which client is operating, CDS index value, which reflects market valuation of risk, is attributed to the counterparty.

The Group applies standardized method for calculating counterparty credit risk requirement, as well as market-to-market method for calculating exposure amounts, and therefore the negative correlation risk is not taken into account (probability of counterparties' default is positively correlated with general market risk factors). The Group does not estimate  $\alpha$  ratio for calculating exposure amounts, because it does not determine specific correlation risk.

The Group does not enter into agreements, which would require providing additional collateral in case of lowering its credit ratings.

**Table 24. EU CCR1 – Analysis of CCR exposure by approach**

	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market		537 596	1 372 905	-	-	1 910 501	1 139 449
Original exposure	-					-	-
Standardised approach		-			-	-	-
IMM (for derivatives and SFTs)				-	-	-	-
<i>Of which securities financing transactions</i>				-	-	-	-
<i>Of which derivatives and long settlement transactions</i>				-	-	-	-
<i>Of which from contractual cross-product netting</i>				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						19 274	888
VaR for SFTs							
<b>Total</b>							<b>1 140 337</b>



**Table 25. EU CCR2 – CVA capital charge**

	Exposure value	RWAs
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3× multiplier)		-
(ii) SVaR component (including the 3× multiplier)		-
All portfolios subject to the standardised method	753 058	328 925
Based on the original exposure method	-	-
Total subject to the CVA capital charge	753 058	328 925

**Table 26. EU CCR8 – Exposures to CCPs**

	EAD post CRM	RWAs
<b>Exposures to QCCPs (total)</b>		60 867
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	2 856 117	57 122
(i) OTC derivatives	2 856 117	57 122
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	103 798	1 288
Prefunded default fund contributions	110 003	2 457
Alternative calculation of own funds requirements for exposures		-
<b>Exposures to non-QCCPs (total)</b>		-
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Unfunded default fund contributions	-	-

**Table 27. EU CCR5-A – Impact of netting and collateral held on exposure values**

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	1 524 780	1 526 039	4 766 618	-	4 766 618
SFTs	462 721	-	462 721	443 447	19 274
<b>Total</b>	1 987 501	1 526 039	5 229 339	443 447	4 785 892

The Group measures exposures of derivative transactions using methods of market valuation in compliance with the Regulation No. 575/2013. According to the method mentioned above, the balance sheet equivalent of off-balance sheet transactions is calculated as the sum of the replacement cost and potential future credit exposure. The cost of a replacement shall be the market value of the transaction - if it is positive, or zero - when the aforementioned market value is negative or equal to zero. Potential future credit exposure is calculated as the product of the nominal amount of off-balance sheet transactions (or its equivalent delta values for options) and product risk weight assigned to the transaction.

The Group does not use credit derivative hedges.

For the purpose of calculating the balance sheet equivalent of derivative transactions within capital requirements calculation the Group recognizes contractual compensation (“close-out netting”) with respect to off-balance sheet derivative transactions provided by the Bank under relevant frame agreement, when fulfils all legal and formal terms as per the Regulation No. 575/2013, which must be met in order to consider the contractual compensation as risk mitigant.

In particular the Group has a process to monitor regulations in terms of compensation in order to ensure proper monitoring of changes in current regulations in regards to requirements set in the above mentioned resolution.

### 1.3. Information regarding credit risk mitigation techniques

Information regarding the policies for collateral management and main types of accepted collateral are presented in supplementary note 49 „Risk Management” to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019.

The value of collateral is calculated on the basis of estimates provided by the property valuation experts, valuations provided by industry analysts, borrowers’ accounting records, deposit certificates, information from external databases, etc. The Group defines and applies appropriate loan to value ratios for different collateral types in the process of estimating collateral amounts.

The Group reviews in detail the amount of taken collateral at least annually and by the renewal or change in conditions of the transaction.

Additionally the Group monitors if there are shortages in received collateral. Monitoring is performed by the unit independent of sales units and its frequency depends on collateral type (monthly, quarterly or annually).

In order to diversify risk associated with collateral, the Group accepts various types and forms of collateral:

- In the Consumer the most common type of collateral is residential real estate,
- In the Corporate and Commercial Banking primarily the following types of collateral are accepted:
  - guarantees and warranties,
  - financial security,
  - collateral.

Detailed procedures defining types of collateral acceptable by the Bank, rules on collateral establishment and value determination as well as creation of specialized independent risk unit responsible for collaterals evaluation allowed to develop adequate standards for this process, including e.g.

- Collateral acceptance and appraisal criteria,
- Rules of collateral monitoring process (including inspections)
- Standardized documentation.

Commercial Bank credit procedures describe ratio of the value of the loan to collateral value for each type of security.

The Group periodically monitors if the actual structure of the collateral portfolio in Commercial Bank is compliant with the structure assumed and if the collateral amount is sufficient.

In Corporate Bank expected Loan-to-Value relations are determined each time in credit decision. These relations are also monitored on the on-going basis.

For Retail Banking Sector the basic collateral for mortgage loans is mortgage on Real Estate. Due to time gap between loans disbursement and setting legally effective mortgage the bridge collateral is used.

The valuation of collateral is performed each time based on real estate appraisal requested by the Group. Collateral appraisals are verified by an independent valuation team in accordance with the valuation guidelines of real estate being collateral for real estate loans for retail customers in Retail Banking Sector. The quality of the appraisal team's work is monitored.

In the field of the funded credit protection the Group considers cash collateral and real estates in case of credit risk mitigation of retail exposures in accordance with the principles set in the Regulation No. 575/2013.

Currently only guarantees issued by the Treasury and BGK are recognized by the Group as unfunded credit risk mitigation techniques for capital adequacy calculation.

The Group enters into reverse repo transactions secured entirely by highly liquid debt securities (mainly issued by the Treasury). These transactions are characterized by low market risk level and therefore low market risk concentration due to short maturities.

**Table 28. EU CCR5-B – Composition of collateral for exposures to credit risk and counterparty credit risk**

Exposure type / Exposure class	Security collateral	Unfunded credit protection-guarantees	Cash collateral	Value of collateral received	Value of posted collateral
Repo-style transactions* and derivatives on trading portfolio					
Exposures to institutions	199 984	219 407	431 119	850 510	-
Exposures to corporates	29 328			29 328	
<b>Total</b>	<b>229 312</b>	<b>219 407</b>	<b>431 119</b>	<b>879 838</b>	<b>-</b>

\* repo and reverse-repo transactions

The total value of exposures secured by the guarantee is presented in in column: Unfunded credit protection - guarantees.

#### **1.4. Information regarding application of standardised approach to calculate risk-weighted exposure amounts**

The Regulation No. 575/2013 on banks' capital adequacy and Bank's internal policies describe the use of the Group's external ratings and identify external credit assessment institutions whose ratings can be used for the application of the standard method. Currently there are Moody's and Standard & Poors as well as Fitch. Ratings from this three mentioned agencies are used in calculation and reporting process of Capital Requirements for Credit Risk and Counterparty Risk according to standardize method. Currently Group does not use ratings issued by Export Credit Agencies.

Exposure classes for which Bank uses external ratings granted by approved external agency:

- 1) exposures or contingent exposures to central governments and central banks;
- 2) exposures or contingent exposures to local governments and local authorities;
- 3) exposures or contingent exposures to public sector entities;
- 4) exposures or contingent exposures to multilateral development banks;
- 5) exposures or contingent exposures to institutions;
- 6) exposures or contingent exposures to corporates;
- 7) items representing securitisation positions.

Group applies issuer and issue credit assessment according to rules set forth in The Regulation No. 575/2013 on banks' capital adequacy. Consequently for given exposure where a credit assessment exists for a specific issuing programme or facility to which the exposure belongs, this credit assessment is used to determine the risk weight, which is then assigned to that exposure. Otherwise, Group uses a credit assessment that exists for a specific issuing programme or facility to which the exposure does not belong or a general credit assessment that exists for this issuer, provided that it produces a higher risk weight than that which would be applied to exposures without a credit assessment.

**Table 29. The exposure values before and after credit risk mitigation associated with each credit quality step as set for the standardised approach as well as items deducted from own funds**

Credit quality step	Exposure values before credit risk mitigation in PLN '000	Exposure values after credit risk mitigation in PLN '000
1	2 538 602	2 538 602
2	20 459 523	20 045 836
3	2 571 858	2 571 858
4	38 882	38 882
5	-	-
6	-	-
no rating*	41 288 413	40 743 816
<i>*Of which: Securitisation</i>	1 765 016	1 765 016
<b>Total</b>	<b>66 897 278</b>	<b>65 938 994</b>

**Table 30. EU CR5 – Standardised approach – credit risk**

Exposure classes	Risk weight											Total	Of which unrated
	0%	2%	10%	20%	35%	50%	75%	100%	150%	250%	Other matters		
Central governments or central banks	15 562 547	-	1 955 858	572 555	-	-	-	-	-	238 065	-	18 329 024	238 065
Regional governments or local authorities	-	-	-	66 532	-	-	-	-	-	-	-	66 532	16 554
Public sector entities	-	-	-	10	-	11 633	-	-	-	-	-	11 643	11 643
Multilateral development banks	697 138	-	-	-	-	-	-	-	-	-	-	697 138	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	629 296	-	108 706	-	1 433	-	-	-	739 435	131 752
Corporates	39 407	411 153	-	-	-	2 503	-	15 193 763	-	-	110 003	15 756 829	13 873 547
Retail	-	-	-	-	-	-	5 741 062	-	-	-	-	5 741 062	5 741 062
Secured by mortgages on immovable property	-	-	-	-	1 599 560	-	-	1 175 147	53 851	-	-	2 828 558	2 828 558
Exposures in default	-	-	-	-	-	-	-	212 679	85 100	-	-	297 779	297 779
Items associated with particularly high risk	-	-	-	-	-	-	-	-	61 529	-	-	61 529	20 205
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	1 108	-	-	-	1 108	1 108
Other exposures	1 879 356	-	-	10 236	-	-	-	625 638	-	-	-	2 515 230	2 515 230
<b>Total standardised approach</b>	<b>18 178 447</b>	<b>411 153</b>	<b>1 955 858</b>	<b>1 278 628</b>	<b>1 599 560</b>	<b>122 842</b>	<b>5 741 062</b>	<b>17 209 769</b>	<b>200 480</b>	<b>238 065</b>	<b>110 003</b>	<b>47 045 868</b>	<b>25 675 503</b>

**Table 31. EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk\***

Exposure classes	Risk weight								Total	Of which unrated
	0%	2%	10%	20%	50%	75%	100%	150%		
Central governments or central banks	19 620	-	195 574	4213	-	-	-	-	219 407	219 407
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	103 308	1 013 572	-	15 559	-	1 132 438	104 262
Corporates	-	2 856 117	-	-	1 275	-	576 586	-	3 433 978	1 628 389
Retail	-	-	-	-	-	24	-	-	24	24
Exposures in default	-	-	-	-	-	-	-	44	44	44
Other exposures	-	-	-	-	-	-	-	-	-	-
<b>Total standardised approach</b>	<b>19 620</b>	<b>2 856 117</b>	<b>195 574</b>	<b>107 521</b>	<b>1 014 847</b>	<b>24</b>	<b>592 145</b>	<b>44</b>	<b>4 785 892</b>	<b>1 732 719</b>

\* The table takes into account values relating only to derivatives classified in the trading book and to repo / reverse repo transactions.

The Group complies with the standard way to assign credit ratings shown in the resolution on the rating takes into account the principles set out in The Regulation No. 575/2013.



## 1.5. Information regarding exposure to securitisation positions

Securitization activities are one of the areas of business, which recently gained in importance. Group decided to invest in securities based on economic calculation, measuring return on investment against the potential risks. Securitization is now a standard and widely used product in global markets. Its importance also increases on the Polish market. The Group intends to be an active participant in this market segment.

At the end of 2019 year the total item constituting securitization exposures amounted PLN 1,2 MM Securities purchased by the Group are not traded on the market. The Group intends to maintain investments until the maturity date. The expected maturity date of the securities is September 2026 and October 2028. The Group classifies securitization's assets as receivables from customers in accordance with IFRS 9 and value them at amortized cost.

The Group has no positions in the resecuritization.

The Group has procedures for defining the processes of approval and monitoring of securitization exposures, which include, in particular:

- Analysis of the originator including the processes of credit and debt collection, qualitative and quantitative analysis, the condition of maintaining a material net economic interest, reputation, data related to the quality of previous securitization,
- Risk analysis of the exposure underlying the securitization position i.e. the quality, concentration, delays in repayment and the level of losses, the level of recovery rates
- The terms and structure of the transaction reducing identified risks and defining the division into tranches, level of support and security, payment streams, events of default and default indicators, - Monitoring including, among others, verification of the quality of the exposures underlying the securitization position, timeliness of payments and service, compliance with the transactions conditions, the financial situation of the institutions participating in the transaction, etc.

Existing Group's commitment in securitized assets is not exposed to market risk due to the accounting treatment applied.

The Group does not use any additional collateral (other than arising from the transaction's structure) and unfunded protection of securitization positions

The main risk of securitisation transactions is credit risk. Other important risks of the transaction are *inter alia* the risk of early repayment and the risk of partial prepayment (limited by discounting).

Given the above risks, the Group's credit procedures ensure conducting quality monitoring of securitization portfolio on a quarterly basis.

For the assessment of the securitized portfolio, the Group applies internal rating methodology that is based largely on Fitch's methodology.

Risk weighted exposure for securitization portfolio is determined in accordance with the Regulation (EU) 2017/2401 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, effective from January 1, 2019. Risk weights are calculated according to the standard method (SEC-SA) with an additional correction for STS securitization.

For transactions concluded before the effective date of the Regulation, exposure amounts are determined in accordance with the previous method, determining the risk weight in accordance with the following formula, i.e.

$RW = \text{average-weighted risk weight (calculated in accordance with the standardized method)} \times \text{concentration factor}$   
whereby:

- average-weighted risk weight is the risk weight that would be applied by the Group, if it had exposure to the securitized exposures,
- concentration factor = sum of the nominal amounts of all the tranches divided by the sum of the nominal amounts of the tranches junior to or *pari passu* with the tranche in which the position is held including that tranche itself.

In relation to possessed securitization positions, the Bank acts as an investor.

**Table 32. The total amount of exposure and capital requirement for securitization exposures held**

Exposure class	The total amount of exposure in 000'PLN	Capital requirement in 000'PLN
Items representing securitisation positions	1 765 016	20 294

## 1.6. Market risk

The amount of capital requirements for individual types of market risk are presented below for:

- fx risk,
- general and specific equity risk,
- specific risk for debt securities,
- general interest rate risk.

**Table 33. EU MR1: Market risk under standardised approach**

	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	999 450	79 956
Equity risk (general and specific)	23 075	1 846
Foreign exchange risk	-	-
Commodity risk	-	-
Options		
Simplified approach	-	-
Delta-plus method	-	-
Scenario approach	-	-
Securitisation (specific risk)	-	-
<b>Total</b>	<b>1 022 525</b>	<b>81 802</b>

The information regarding the exposure to interest rate risk on positions not included in the trading book are disclosed in explanatory note 49 “Risk Management” to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019.

The interest rate risk is measured on a daily basis.

The Group does not use internal model method for calculating capital requirements for trading book exposures.

### **1.7. Information regarding the exposures in equities not included in the trading book**

Bank’s equity investments are broken down into strategic portfolio and divestment portfolio. Strategic portfolio includes entities in the financial sector that help in expansion of products offered by the Bank, increase prestige and reinforce Bank’s position in the competing financial services Polish market. Strategic portfolio includes infrastructure providers conducting business for financial sector, which are not controlled by the Bank, but provide strategic value for the Bank due to conducted operations. Divestment portfolio contains entities directly and indirectly owned by the Bank that have no Bank’s strategic commitment. Some companies held for sale are restructured commitments, which originate from debt-to-equity swap transactions.

Detailed information on how the Group’s equity investment portfolio is broken down based on purchase reasons are described in chapter VI point No 8 „Equity investments” of the Report on Activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2019.

A description of accounting techniques applied as well as capital commitments valuation methodologies is in explanatory note 2 „Significant accounting policies” to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019.

Information on balance sheet value and the fair value of capital expositions not included in the trading book is in explanatory note 39 „Fair value information” to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019.

The value of equity exposures, broken down into listed equity exposures and portfolios of securities not admitted to trading in the regulated equity market is provided in explanatory note 21 „Equity investments valued at the equity method” and note 22 „Equity and other instruments measured at fair value through income statement” to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019.

The value of liquidations of equity investments not included in Bank’s trading portfolio is provided in explanatory note 21 “Equity investments valued at equity method” to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019.

## 1.8. Operational risk

Operational risk is understood as risk of loss resulting from inadequate or deficient internal processes, human factors, systems and technology or external events (including the following risk categories: technology, outsourcing, fraud, money laundering, continuity of business, tax and accounting risk, product risk, legal, model, human resources, concentration, conduct, reputational associated with business and market practices, as well as operational risks inherent in other risk categories (e.g. credit, market, liquidity, compliance).

Operational risk does not cover strategic risk or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

Group applies standardised methodology (STA) for calculation of capital requirement for operational risk, defined in Regulation No. 575/2013.

The Group doesn't apply advanced methodologies for calculation of capital requirement for operational risk.

### **Information regarding operational risk, as specified in the paragraph 17.3 of Recommendation M on the management of operational risk in banks**

With regard to losses impacting financial results, for Retail Banking and Leasing all Events are reported and for the other areas of Group losses exceeding equivalent of USD 1 thousand are reported.

Total Group's gross losses accounted to operational risk cost in Group (absolute value, including gains, excluding recoveries) recorded in the year 2019, split by operational risk event types and categories (in accordance with appendix 1 to Recommendation M) are presented in the table 34.

**Table 34. Total operational risk gross losses by types of events**

Events' types and categories	Amount
External Theft and Fraud	1 521
Credit Card Fraud	758
Debit/ATM Card Fraud	325
Fraudulent Application – non-card related	286
Electronic Banking and Internet Fraud	152
Execution, Delivery & Process Management	1 278
Transaction Capture, Execution & Maintenance	1 002
Monitoring and Reporting	149
Customer Account Initiation & Documentation	84
Third Party Management - External/Internal	35
Customer / Client Account Management	8
Clients, Products & Business Practices	84
Suitability, Disclosure & Fiduciary	80
Product Design	4
Internal Theft and Fraud	54
Other Internal Theft and Fraud	54
Employment Practices and Workplace Environment	<b>53</b>
Employee Relations	53
Systems & Technology	<b>43</b>
Other Systems & Technology	38
Inadequate Systems Requirements, Development and Testing	5
<b>Total</b>	<b>3 033</b>

Gross value of operational losses accounted in the year 2019 (by booking date) amounted to PLN 3 033 thousand. 40.4% (PLN 1 223M) out of this amount was related to events, which occurred in prior years. Relation of gross losses to Group revenues as of 2019 amounts to 0.14%. The total amount of losses consists of almost 430 registered events (including homogenous events with financial effects not exceeding USD 10 thousand aggregated on a monthly basis). In terms of severity, in the year 2019 Group registered 1 event >USD 100M and 3 events in the bucket >USD 20M and <USD 100M. The remaining events didn't exceed USD 20M.

The significant events affecting the total amount of 2019 losses include:

- PLN 0.54MM – event related to the error in processing of guarantee,
- PLN 1.1MM - cumulated amount of losses resulting from credit and debit cards frauds (including skimming and internet frauds). Group incessantly works on preventing measures enhancements in that area. At the same time Group registered in 2019 recoveries in amount of PLN 0.5MM, what constitutes 50% of total gross loss amount in this area.

Operational risk events exceeding set tolerance thresholds are analyzed by independent control units in view of root causes and corrective actions. Corrective actions are monitored by management to avoid repetitive losses. The Group undertakes series of actions aiming at operational risk mitigation. The following actions were undertaken in 2019: verification of adequacy of applied controls, enhancements to control processes in areas of identified weaknesses, enhancements of fraud detection systems, revision of limits mitigating risk exposure, strengthening of independent verifications, enhancements to maker/checker controls, and staff training. Members of the Management Board approval is required for all losses exceeding established threshold, in view of analyses of causes of the losses and adequacy of corrective actions.

Risk appetite set for the year 2019 were not exceeded.

The information regarding the operational risk is disclosed in explanatory note 49 “Risk Management” to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019.

## **VI. Internal Capital Adequacy Assessment**

The Group identifies and manages all types of risks in its activity while some of them considering as significant. For all measurable risks that are considered as significant in the Group's activity, the Group estimates and allocates capital. For this purpose the Group implemented process of estimation and allocation of the internal capital covering significant risk in which assessment of capital adequacy is performed (process ICAAP). The Group annually sets Overall Risk Appetite approved by the Management Board and Supervisory Board. Adopted Overall Risk Appetite clearly and consistently communicate the types and levels of risk the Bank is willing to take, within the context of the Bank's articulated business strategies.

The result of the ICAAP is to determine the capital plan which is consistent with approved by the Board and the Supervisory Board financial plan and risk appetite. It specifies the Group's capital needs and goals. Internal Capital is estimated for significant types of risk. The Group allocates internal capital to the particular business units. Risk and Capital Management Committee is responsible for the annual capital planning and ongoing monitoring of capital usage according to established limits.

Overall Risk Appetite is defined as the aggregated level of expected and unexpected losses, that Group is willing to assume to achieve its strategic objectives while maintaining target regulatory capital adequacy ratio Management Board on the basis of risk appetite decides on the level of aggregated limits on particular business units and sub-limits on measurable risks treated as significant.

Below we present the specific, measurable risks identified as significant in the Group in 2019:

- credit risk,
- counterparty credit risk,
- market risk in the trading book,
- interest rate risk in the banking book,
- liquidity risk operational risk,
- compliance risk.

The Group assesses the internal capital for a base case and a downside scenario, which is a basis for the stress tests' analysis.

Scenarios are defined on the basis of the set of assumptions common to all risks analyzed. In addition, the Group analyzes a one in ten year's scenario (1/10), which forms a basis for additional risk / return measure.

The internal capital requirements for credit and counterparty risk were estimated according to advanced approach based on internal ratings for the following exposure classes: exposures to institutions, corporates, regional governments and local authorities and public sector entities. For exposures different than mentioned above internal capital requirements were calculated according to standardized approach specified in the Regulation No. 575/2013. Capital requirement for operational risk has been calculated using standardized methodology approach specified in the Regulation No. 575/2013. Calculated capital requirement, according with the accepted methodology, is increased by add-on, if stress tests show necessity to increase internal capital for operational risk.

Internal capital for market risk in trading book is based on an integrated measure, which takes into account both the value at risk (VaR), and the size of losses in stress scenarios, estimating unexpected loss on the trading portfolio with the probability of 99.9% in 1Y time horizon. In the case of banking book (accrual) portfolios quantification of internal capital, is based on a combination of potential maximum decrease in net interest income of the bank in the perspective of one year in conjunction with the maximum negative impact of changes in interest rates on the economic value of the bank's capital, determined in stress scenarios with the probability of 99.9% in 1Y time horizon.

In the case of liquidity risk, the amount of internal capital allocation is based on current and projected elements of supervisory measures, taking into account the stress scenarios within the next 12 months.

The Group does not use diversification effect while aggregating estimated internal capital for significant risks.

The Group adopted proper methods for capital allocation to the business units.

The organisational units engaged in the process of assessment of internal capital are required to ensure adequate level of internal control in the capital calculation process for significant risks. Audit Department conducts independent review of the process of capital assessment and maintenance.

The Banks's capital adequacy assessment process in the form of "Capital Group of Bank Handlowy w Warszawie S.A. Capital Management" document is approved by the Management Board.

Risk and Capital Management Committee is responsible for ongoing capital adequacy assessment. The Committee supervises the compliance with Overall Risk Appetite established by the Supervisory Board and monitors capital adequacy taking into account the quantitative ratios and capital limits utilization.

Risk and Capital Committee of the Supervisory Board receives periodically report on assessment and utilizations of internal and regulatory capital.

If determined within the Overall Risk Appetite level of capital adequacy ratio falls below approved threshold or the Group does not have enough capital to cover internal capital allocation for significant risks, the contingency capital plan will be activated.

## VII. Capital Buffers

The Group is obliged to maintain conservation capital buffer of 1,875 p.p. of total risk exposure amount in 2019.

On 4 October 2016, Polish Financial Supervision Authority identified the Group as Other Systemically Important Institution (O-SII) and imposed an additional capital buffer – O-SII capital buffer – of 0,25% of total risk exposure amount.

On 2 August 2019 the PSFA send the letter to the Bank stating that there is no rationale for the reversal or change of the PSFA decision of 4 October 2016, determined by the PSFA decision of 19 December 2017 maintaining O-SII buffer at the level of 0,25% of the total risk exposure amount.

The Regulation of the Minister of Development and Finance regarding systemic risk buffer came into force on 1 January 2019. The Regulation determines the level of the systemic risk buffer at the level of 3% of the total risk exposure amount, applied for all exposures of the Group located in Poland. Due to the fact, that not all exposures of the Group are located in Poland, the Group systemic risk buffer was equal to 2,85% at the end of 2019.

The ratio of institution-specific countercyclical capital buffer for credit exposures located in Poland, which was applied at the end of 2019, in accordance with Article 83 of the Act, was equal to 0%. The ratio will remain in force until Minister of Development and Finance changes its level by the regulation.

The Group calculates the institution-specific countercyclical capital buffer in accordance with the provisions of the Act as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the Group are located.

**Table 35. The amount of the institution-specific countercyclical capital buffer**

	As of 31.12.2019
Total risk exposure amount (in PLN'000)	29 738 301
Institution-specific countercyclical capital buffer rate (%)	0,03369
Institution-specific countercyclical capital buffer requirement (in PLN'000)	10 019



**Table 36. Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (in PLN'000)**

Country	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements				Own funds requirements weights (%)	Countercyclical capital buffer rate (%)
	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book exposure for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
Poland	27 811 990	0	5 308	0	1 199 969	0	1 750 196	424	14 400	1 765 020	95,29014	0,000
United Kingdom	1 771 306	0	0	0	0	0	4 388	0	0	4 388	0,23690	1,000
Luxembourg	314 570	0	124	0	0	0	25 159	10	0	25 169	1,35882	0,000
Norway	157 489	0	0	0	0	0	12 599	0	0	12 599	0,68020	2,500
Ireland	126 728	0	0	0	565 047	0	10 138	0	5 894	16 032	0,86556	1,000
India	106 350	0	0	0	0	0	8 508	0	0	8 508	0,45933	0,000
Czech Republic	74 004	0	0	0	0	0	5 920	0	0	5 920	0,31963	1,500
United States	43 940	0	0	0	0	0	5 124	0	0	5 124	0,27662	0,000
Hungary	30 757	0	0	0	0	0	2 461	0	0	2 461	0,13284	0,000
Netherlands	25 944	0	0	0	0	0	2 075	0	0	2 075	0,11205	0,000
Belgium	20 001	0	0	0	0	0	1 600	0	0	1 600	0,08638	0,000
Switzerland	16 460	0	0	0	0	0	1 317	0	0	1 317	0,07109	0,000
Romania	8 981	0	0	0	0	0	718	0	0	718	0,03879	0,000
France	7 836	0	0	0	0	0	627	0	0	627	0,03384	0,250
Sweden	7 253	0	0	0	0	0	580	0	0	580	0,03133	2,500
Germany	2 510	0	0	0	0	0	101	0	0	101	0,00544	0,000
Denmark	10	0	0	0	0	0	1	0	0	1	0,00004	1,000
British Virgin Islands	3	0	0	0	0	0	0	0	0	0	0,00001	0,000
South Korea	3	0	0	0	0	0	0	0	0	0	0,00001	0,000
Lithuania	2	0	0	0	0	0	0	0	0	0	0,00001	1,000
Hongkong	1	0	0	0	0	0	0	0	0	0	0,00000	2,000
Latvia	1	0	0	0	0	0	0	0	0	0	0,00000	0,000
Cyprus	0	0	0	0	0	0	0	0	0	0	0,00000	0,000
Estonia	0	0	0	0	0	0	0	0	0	0	0,00000	0,000
Spain	0	0	211	0	0	0	0	17	0	17	0,00091	0,000
Israel	0	0	0	0	0	0	0	0	0	0	0,00000	-
Malta	0	0	0	0	0	0	0	0	0	0	0,00000	0,000
Singapore	0	0	0	0	0	0	0	0	0	0	0,00000	0,000
Slovakia	0	0	0	0	0	0	0	0	0	0	0,00000	1,500
Italy	0	0	0	0	0	0	0	0	0	0	0,00000	0,000
United Arab Emirates	0	0	0	0	0	0	0	0	0	0	0,00003	-
<b>Total</b>	<b>30 526 139</b>	<b>0</b>	<b>5 643</b>	<b>0</b>	<b>1 765 016</b>	<b>0</b>	<b>1 831 512</b>	<b>451</b>	<b>20 294</b>	<b>1 852 257</b>	<b>100</b>	

## **VIII. Information regarding the remuneration policy**

At Bank Handlowy w Warszawie S.A. (Bank) and at Dom Maklerski Banku Handlowego S.A. (DMBH) – subsidiary of the Bank – are binding respectively the “Remuneration policy for employees of Bank Handlowy w Warszawie S.A.” (dated 22 December 2017 with subsequent amendments) and “Remuneration policy for employees of Dom Maklerski Banku Handlowego S.A.” (dated 3 January 2018 with subsequent amendments), hereinafter referred to as the Remuneration Policy. The above Remuneration Policies have replaced the Remuneration policies for the key Persons, including persons that have material impact on the risk profile, existing in the Bank and DMBH.

The Remuneration Policy sets out the principles for remunerating all employees of Bank and DMBH, including in particular Key Persons, persons whose professional activities have a material impact on the risk profile of the Bank, employees involved in selling (respectively) Bank’s and DMBH products and services and persons employed in control functions.

This Policy implements requirements of the provisions of law, Rules of Corporate Governance for Supervised Institutions adopted by the Polish Financial Supervision Authority and the Code of Best Practice for WSE Listed Companies 2016, recommendations of the Polish Financial Supervision Authority covering banking sector and takes into account Guidelines of the European Banking Authority on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013, Guidelines of the European Banking Authority on remuneration policies and practices related to the sale and provision of retail banking products and services, Guidelines of European Securities and Markets Authority on remuneration policies and practices (MiFID).

Principles for remuneration of employees that have a material impact on the risk profile in the Bank and DMBH are described in details in the “Remuneration policy for persons whose professional activities have a material impact on the risk profile of Bank Handlowy w Warszawie S.A.” which was adopted by the Management Board and approved by the Supervisory Board of the Bank on 22 December 2017 and the “Remuneration policy for persons whose professional activities have a material impact on the risk profile of Dom Maklerski w Warszawie S.A.” which was adopted by the Management Board and approved by the Supervisory Board of DMBH on 3 January 2018 (hereinafter referred to as “Remuneration Policy for Identified Staff”), both policies with subsequent amendments, that have replaced “Variable remuneration components policy for managerial staff at Bank Handlowy w Warszawie S.A.” binding from 26 September 2012 and “Variable remuneration components policy for managerial staff at Dom Maklerski Banku Handlowego S.A.” binding from 3 March 2012.

In the work on preparation and implementation of both policies mentioned above were involved:

- the members of the Bank’s Nomination and Remuneration Committee,
- the Bank’s and DMBH’s Management Board,
- the head of the Banks’s Legal Department and DMBH Legal Team,
- the head of the Banks’s Human Resources Department,
- the Bank’s and DMBH manager of the Compensation & Benefits Department,
- and, as an external Bank’s and DMBH consultant, the law firm “Clifford Chance Janicka, Krużewski, Namiotkiewicz i wspólnicy spółka komandytowa”.

Variable remuneration for Bank’s Management Board Members is granted by the Supervisory Board and for other employees covered by the “Remuneration Policy for Identified Staff” by the Management Board. It should be noted that the Nomination and Remuneration Committee of the Supervisory Board was established in the Bank. It provides recommendations and opinions on the levels and conditions of variable remuneration of employees

covered by the Remuneration Policy for Identified Staff and acknowledges information on the current List of employees whose professional activities have a material impact on the Bank's risk profile

Additionally, each time, in case of the change of the Remuneration Policy for Identified Staff, the Nomination and Remuneration Committee gives its opinion on the changes, including the amounts and components of remuneration, taking into account a cautious and stable risk, capital and liquidity management, and paying special attention to long-term interests of the Bank, the interest of the Bank's shareholders and investors.

In 2019 there were six meetings of the Nomination and Remuneration Committee.

As at December 31, 2019 the Nomination and Remuneration Committee was composed of:

1. Andrzej Olechowski – Chairman of the Committee,
2. Jenny Grey – Vice Chairman of the Committee,
3. Marc Luet – Member of the Committee,
4. Stanisław Sołtysiński – Member of the Committee.

In DMBH decisions related to remuneration and grant of variable remuneration for the Management Board Members are made by the Supervisory Board and for other employees covered by the Remuneration Policy for Identified Staff by the Management Board. Implementation of this policy is subject to at least annual review performed by the function responsible for internal control and risk management. Written report covering the assessment of implementation of Remuneration Policy for Identified Staff is presented to DMBH Supervisory Board.

Each time, in case of the change of the Remuneration Policy for Identified Staff, DMBH Supervisory Board approves the changes, including the amounts and components of remuneration of the Management Board, taking into account a cautious and stable risk, capital and liquidity management, and paying special attention to long-term interests of DMBH, the interest of the DMBH shareholders and investors. In 2019, apart from the assessment of the functioning of the Remuneration Policy, DMBH Supervisory Board adopted resolutions related to the remuneration of Identified Staff on a circulation basis four times.

In 2019 the Bank and DMBH analyzed the roles and the responsibilities of their employees in relation to the key manageable risks in the Bank and DMBH as well as quantitative and qualitative criteria described in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile and on this basis set the list of employees, who have a material impact on the risk profile of the Bank or DMBH accordingly and therefore should be the subject to the provisions of the Remuneration Policy for Identified Staff. Once a year, by 31 December, the current List of Identified Staff is submitted for the information of the Management Board and the Supervisory Board. The list of the employees under the Remuneration Policy for Identified Staff includes:

- President, Vice-Presidents and the Members of the Management Board of the Bank and DMBH,
- the members of the Risk and Capital Management Committee,
- the members of the Asset-Liability Committee,
- the heads of business lines,
- management staff responsible for control functions in the Bank, i.e. the head of internal audit, the head of compliance division and the heads of risk management, human resources and legal departments,
- other supervisors, whose actions significantly impact assets and liabilities of the Group and which directly influence entering into or changing the contracts and their conditions by the Group,

- other employees who met at least one criterion described in Commission Delegated Regulation.

The philosophy of awarding the persons under the Remuneration Policy for Identified Staff, adopted by the Group, implies the compensation differentiation of particular employees based on the financial and non-financial criteria, such as attitude to take risk and assurance of compliance to reflect their current and future contribution and to supplement mechanisms of efficient risk control by limiting the motivation for taking unreasonable risk impacting the Group and its activities and by rewarding the proper balance between risk and rate of return. According to this philosophy, the payment of variable remuneration to staff under the Remuneration Policy for Identified Staff depends on both the short-term and long-term evaluation of the individual performance and the financial results of the Bank or DMBH or specific organizational unit, whereby the persons responsible for control functions are not assessed for the financial results within business areas they control. The assessment of the Bank's results or results of DMBH is based on the data from three financial years, which takes into account the business cycle of the Bank or DMBH and risk of its economic activities. In case of staff employed less for than 3 years when evaluating the Bank's results and results of DMBH the data includes the span of time from the establishing working relationship. The variable remuneration for 2019, granted January 14, 2020, was divided into non-deferred and deferred portions. The deferred portion is subject to deferral over 3 or 5 years and will be paid out respectively in years 2021-2023 or in years 2021-2025, subject to conditions provided for in the Remuneration Policy for Identified Staff. Information on adopted solutions binding in 2019 was given in Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019 in the explanatory note 48 "Employee benefits".

Each time, vesting of particular tranches of deferred variable remuneration requires approval of the Supervisory Board in relation to remuneration of the Management Board Members and the Management Board in the relation to remuneration of other employees.

The portion being deferred depends on the amount of the variable remuneration awarded, as follows:

- less than PLN 100 thousand – no deferral,
- between PLN 100 thousand and equivalent of EUR 500 thousand (in DMBH up to the equivalent of EUR 1 million) – deferral over 3 or 5 years of 40% of the variable remuneration with 6 or 12 months retention period for each tranche of the award,
- above the equivalent of EUR 500 thousand (in DMBH above the equivalent of EUR 1 million) – deferral over 3 or 5 years of 60% of the variable remuneration with 6 or 12 months retention period for each tranche of the award.

The variable remuneration for adopted Remuneration Policy's and Remuneration Policy for Identified Staff's purposes is understood as – in case of the members of the Management Board – discretionary bonus granted by the individual decision of the Supervisory Board, and in case of other Identified Staff – the annual bonus.

At least 50% of the variable remuneration should be awarded in the form of non-cash instruments value of which depends on the financial results of the Bank or DMBH accordingly. This condition is fulfilled by the phantom shares, value of which in case of Bank Handlowy fluctuates depending on the market value of the Bank's shares and in case of DMBH is linked to the value of the DMBH's shares calculated on basis of DMBH book value. The remaining part of the variable remuneration is a cash award, whereby the interests for the period from grant to payment will be accrued to the given tranche of the deferred variable remuneration. Starting from the second year of deferral, to the capital of unpaid tranches of the Deferred Cash Award accrued interest of these tranches will be credited and will be subject to interest until the end of the retention period. In DMBH, in compliance with the Regulation of the Minister of Economic Development and Finance of 25 April 2017 on the internal capital, the risk management system, a supervisory examination programme and supervisory review and assessment, as well as the remuneration policy in brokerage house, in case a share of variable remuneration in fixed remuneration is lower than 50%, only deferred cash variable remuneration is applied.

During the deferral period, employees who are rewarded in Bank's phantom shares are entitled to dividend equivalent payments in respect of any dividends that are declared and paid to ordinary holders of BHW stock, in accordance with the Remuneration Policy for Identified Staff. Employees, who have variable remuneration deferred in DMBH phantom shares, are not entitled to dividend equivalent.

Starting from the day of adoption of the relevant resolution by the General Shareholders Meeting, both at the Bank and DMBH - respectively on June 21, 2016 at the Bank and June 27, 2017 at DMBH – the maximum ratio of variable remuneration to fixed remuneration of the Identified Staff was approved at 1:2.

Regardless of changes of the deferred variable remuneration's value associated with the fluctuation of the Bank's share price, changes of DMBH book value or accrued interest, the amount of deferred portion of the award to be paid out may be decreased or completely reduced based on decision of Supervisory Board or accordingly of the Management Board in of the following situations:

- standards concerning the guarantee of safe and prudent Bank management in BHW and the competencies and reputation standards in DMBH have not been met the which is verified by determination if:
  - Identified Staff engaged in gross misconduct in connection with his/her employment duties, in particular participated in or was responsible for conduct which resulted in significant losses to the Bank or DMBH; or
  - Identified Staff knowingly engaged in providing materially inaccurate information to the financial statements of the Bank or DMBH; or
  - The Bank or DMBH suffers a material failure of risk management; or
  - The Identified Staff materially violate any risk limits established or revised by senior management and/or risk management.
- In a situation set forth in Art. 142 sec. 1 of the Banking Law in case of Bank's employees and in situation set in w Art. 110zz sec. 1 of the Act on Trading in Financial Instruments dated 29 July 2005 in case of DMBH employees, or
- In case Identified Staff received the Variable Remuneration based on materially inaccurate financial statements, or
- In case the Bank or DMBH has suffered a material downturn in its financial performance; or
- In case of balance sheet loss, threat of insolvency of loss of liquidity by the Bank or DMBH.

The acquisition of the right to each tranche of deferred variable remuneration will depend on the Bank's results or DMBH results accordingly in the calendar year directly preceding the date of awarding of the right to given tranche ("Year Concerning the Results").

If the Bank or DMBH accordingly suffers a loss calculated as a loss before tax for the Year Concerning the Results, then the Long-term Bonus in the Phantom Shares, to which the right may be earned during the calendar year following the end of the Year Concerning the Results, will be reduced (but not below zero) by a percentage defined as (i) the absolute value of the loss before tax suffered by the Bank or DMBH accordingly in the given Year Concerning the Results, divided by (ii) the absolute value of the highest profit before tax made by the Bank or DMBH accordingly in the period covering three calendar years before the proper Year Concerning the Results, Irrespective of the above, if the Bank or DMBH accordingly suffers any loss calculated as the loss before tax for the Year Concerning the Results, the minimum percentage reduction of 20% will be applied.

The amount of profit (or loss) before tax for each adequate Year Concerning the Results will be the total value of profit (loss) before income tax for the current operations of the Bank or DMBH accordingly. The results for the calendar year will be defined on a basis of the local IFRS statements, which will be covering the audited results for the first three quarters (in accordance with the report to WSE and adequate public authorities), and the last quarter of the year will consist of the actual results for the first two months of this quarter and the estimates for the last

month. The estimates will be defined by the Financial Department of the Bank or DMBH accordingly and they will be final and binding regardless of the actual final results.

If the absolute value of the loss before tax suffered by the Bank or DMBH accordingly for the Year Concerning the Results equals or exceeds the total value of the highest profit before tax in the Group's calendar year in the Measurement Period, then the Authorized Persons will not earn the rights to the given tranche.

Based on the above information and based on own judgment as well as after review by the Nomination and Remuneration Committee when applicable, the Supervisory Board in relation to the members of the Management Board or the Management Board in relation to other Identified Staff takes final relevant decisions on the acquiring of right to a given tranche of Deferred Variable Remuneration.

**Table 37. Remuneration of employees covered by the Variable Remuneration Policy in 2019<sup>1</sup>**

Category/Sector	Number of Employees <sup>2</sup>	Total fixed remuneration <sup>3</sup>	Total variable remuneration <sup>4</sup>	Cash Award			Phantom shares of Bank Handlowy w Warszawie S.A.			
				Non deferred cash award	Deferred cash award		Short-term phantom shares award		Long-term phantom shares award	
					Paid <sup>5</sup>	Paid	Accrued, unvested	Paid	Accrued, unvested	Paid
Management Board	7	11 009	13 569	2 184	2 049	3 040	1 859	1 763	1 497	1 178
Consumer Bank Segment	6	3 866	2 314	933	155	506	233	257	123	108
Corporate Bank Segment <sup>6</sup>	61	30 943	13 886	5 147	1 388	1 698	1 924	2 088	1 107	535
<b>Total Bank</b>	<b>74</b>	<b>45 818</b>	<b>29 770</b>	<b>8 264</b>	<b>3 591</b>	<b>5 244</b>	<b>4 016</b>	<b>4 107</b>	<b>2 727</b>	<b>1 821</b>
Brokerage house	9	3 272	612	245	100	223	-	-	62	-17
<b>Total Group</b>	<b>83</b>	<b>49 090</b>	<b>30 382</b>	<b>8 508</b>	<b>3 691</b>	<b>5 466</b>	<b>4 016</b>	<b>4 107</b>	<b>2 790</b>	<b>1 804</b>

<sup>1</sup> Within the Group, there were separate Remuneration Policies of Identified Staff which have replaced the Variable Remuneration Policies binding in previous years, both in the Bank and DMBH. The above table presents remuneration under those Policies.

<sup>2</sup> Including employees covered by the Remuneration Policy for Identified Staff as of 31 December 2019, during whole 2019 there were 90 employees covered by Remuneration Policy for Identified Staff in the Bank and 9 employees in the Brokerage House.

<sup>3</sup> Represents fixed remuneration and covers gross amounts of base salary, benefits, insurance, payment in lieu of leave, benefits provided for in employment contracts of foreign employees.

<sup>4</sup> In addition in 2019 the Bank and the Brokerage House paid out deferred cash award with interest and long-term phantom shares award with dividends to the employees who were not covered in 2019 by the Remuneration Policy for Identified Staff. The full cost of the payouts of those awards in 2019 is included in financial statement.

<sup>5</sup> Paid out in 2020.

<sup>6</sup> Covers employees not being Members of the Management Board of the Bank and who are not employed in the Consumer Bank Segment.

The table above does not include the compensation and benefits of individuals who were not covered by the Remuneration Policy for Identified Staff.

Information related to payments in 2019 associated with hiring of employees covered by the Remuneration Policy for Identified Staff:

- No. of employees: 2 employees,
- Payment amount: PLN 406,3 thousand<sup>2</sup>.

Information related to 2019 severance payments for employees covered by the Remuneration Policy for Identified Staff:

- No. of employees: 1 employee,
- Payment amount: PLN 186,1 thousand,
- Highest such payment to a single person: PLN 186,1 thousand.

Number of individuals being remunerated in 2019 at least EUR 1 million:

- 1 person in the pay band of EUR 1,0 mm – 1,5 mm.

Within the scope of the Remuneration Policy for Identified Staff, in the column “Non - deferred cash award” of the table above there is presented the non - deferred part, paid out in 2020, being a cost of 2019. The remaining, deferred part – consisting of deferred cash award and phantom share award – will be paid tranches in years 2021-2023 or 2021-2025 and is given in the values of the cost of 2019 in accordance with the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended December 31, 2019.

There were no reductions of remuneration awarded under the Remuneration Policy for Identified Staff within the correction connected with the results.

## **IX. Unencumbered assets**

For the purposes of these disclosures assets are encumbered, when they are pledged or used as collateral or as enhancement of transaction’s credit quality and their transferability is restricted.

As at 31 December 2019 the Group had encumbered assets due to securities sold under agreements to repurchase, negative valuation of derivative transactions and securities and received credit collateral.

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<sup>2</sup>Those payments are not performance-related. Therefore, in the table on the previous page, it is disclosed under total fixed remuneration.



**Table 38. Encumbered and unencumbered assets**

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
<b>010</b>	<b>Assets of the reporting institution*</b>	1 013 016	-	51 752 410	-
030	Equity instruments	-	-	102 554	-
040	Debt securities	265 005	265 005	21 172 211	21 172 211
050	of which: covered bonds	-	-	-	-
060	of which: asset-backed securities	-	-	-	-
070	of which: issued by general governments	265 005	265 005	17 397 229	17 397 229
080	of which: issued by financial corporations	-	-	2 469 258	2 469 258
090	of which: issued by non-financial corporations	-	-	305 808	305 808
120	Other assets	748 011	-	30 477 645	-
121	of which: Loans and advances	748 011	-	25 388 653	-

\* The presented values take into account the adjustment resulting from different offsetting rules in the amount of PLN 786,882 thousand, referred to Table 3 illustrating the main sources of differences between regulatory exposure amounts and balance sheet values in the financial statements.

**Table 39. Collateral received by the reporting institution**

		Fair value of encumbered collateral received or own debt securities issued	Unencumbered
			Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
<b>130</b>	<b>Collateral received by the reporting institution</b>	-	1 525 052
140	Loans on demand	-	214 882
150	Equity instruments	-	9 998
160	Debt securities	-	696 775
170	of which: covered bonds	-	-
180	of which: asset-backed securities	-	-
190	of which: issued by general governments	-	696 775
200	of which: issued by financial corporations	-	-
210	of which: issued by non-financial corporations	-	-
220	Loans and advances other than loans on demand	-	13 716
230	Other collateral received	-	589 681
<b>240</b>	<b>Own debt securities issued other than own covered bonds or asset-backed securities</b>	-	-
<b>241</b>	<b>Own covered bonds and asset-backed securities issued and not yet pledged</b>	-	-
<b>250</b>	<b>TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED</b>	<b>1 013 016</b>	

**Table 40. Sources of encumbrance**

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
<b>010</b>	<b>Carrying amount of selected financial liabilities</b>	681 896	903 609
011	of which: derivatives	447 769	666 295
012	of which: repurchase agreements	214 135	212 648
013	of which: collateralised deposits other than repurchase agreements	24 666	24 666
<b>014</b>	<b>Other sources of encumbrance</b>	85 208	109 408
<b>015</b>	<b>TOTAL SOURCES OF ENCUMBRANCE</b>	771 777	1 013 016

## X. Leverage ratio

Information on the leverage ratio at 31 December 2019: summary reconciliation of accounting assets and leverage ratio exposures, the calculation of the leverage ratio and the split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) are presented in the following tables:

**Table 41. Summary reconciliation of accounting assets and leverage ratio exposures**

		Applicable Amounts in 000'PLN
1	Total assets as per published financial statements	51 978 543
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation No. 575/2013 "CRR")	0
4	Adjustments for derivative financial instruments	3 241 838
5	Adjustments for securities financing transactions "SFTs"	218 375
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3 590 304
6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation No. 575/2013)	0
6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation No. 575/2013)	0
7	Other adjustments	-24 392
<b>8</b>	<b>Total leverage ratio exposure</b>	<b>59 004 667</b>

**Table 42. Leverage ratio common disclosure**

		<b>CRR leverage ratio exposures in 000'PLN</b>
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	50 209 417
2	(Asset amounts deducted in determining Tier 1 capital)	-1 467 531
3	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	48 741 885
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	2 066 837
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2 916 765
5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-216 984
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective Notional amount of written credit derivatives	0
10	(Adjusted effective Notional offsets and add-on deductions for written credit derivatives)	0
11	<b>Total derivative exposures (sum of lines 4 to 10)</b>	4 766 618
<b>Securities financing transaction exposures</b>		
12	Gross SFT assets (with No. recognition of netting), after adjusting for sales accounting transactions	462 721
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation No. 575/2013	-
15	Agent transaction exposures	-
15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	462 721
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross Notional amount	15 441 956
18	(Adjustments for conversion to credit equivalent amounts)	-11 851 652
19	<b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>	3 590 304

<b>Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)</b>		
19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation No. 575/2013 (on and off balance sheet))	
19b	(Exposures exempted in accordance with Article 429 (14) of Regulation No. 575/2013 (on and off balance sheet))	
<b>Capital and total exposures</b>		
<b>20</b>	<b>Tier 1 capital</b>	5 122 175
<b>21</b>	<b>Total leverage ratio exposures (sum of lines 3, 11, 16, 19, 19a and 19b)</b>	57 561 528
<b>Leverage ratio</b>		
<b>22</b>	<b>Leverage ratio</b>	8,9%
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>		
23	Choice on transitional arrangements for the definition of the capital measure	
24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation No. 575/2013	-

**Table 43. Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

		<b>CRR leverage ratio exposures in 000'PLN</b>
1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	50 202 120
2	Trading book exposures	3 921 731
3	Banking book exposures, of which:	46 280 389
4	Covered bonds	0
5	Exposures treated as sovereigns	18 328 790
6	Exposures to regional governments, MDB, international organisations and PSE No.T treated as sovereigns	713 690
7	Institutions	1 004 580
8	Secured by mortgages of immovable properties	2 745 923
9	Retail exposures	5 699 067
10	Corporate	13 162 152
11	Exposures in default	283 304
12	Other exposures (e.g. equity, securitisations, and other Non-credit obligation assets)	4 342 883

The Group does not use exemptions specified in Articles 499. 2 and 3 of the CRR when calculating leverage ratio. The Group does not exempt amounts from total exposure on the basis of Article 429.11 of the CRR. The main factor impacting the leverage ratio was increase in Nostro account balance and one-day placement in Narodowy Bank Polski, as well as increase in credit exposures and decrease in value of available for sale securities.

The level of leverage ratio is monitored periodically. Information about the current ratio is reported to the Asset and Liability Management Committee on a monthly basis and to the Risk and Capital Management Committee of the Bank's Management Board and to the Risk and Capital Committee of the Supervisory Board on a quarterly basis.

The Group manages the risk of excessive leverage, among others, by establishing the risk appetite levels and tolerance thresholds for leverage ratio. Risk appetite, tolerance thresholds for leverage ratio and the escalation process in case of breach of thresholds set up in process ICAAP are approved by the Management Board in the form of "Capital Group of Bank Handlowy w Warszawie S.A. Capital Management" document.

Signatures of Management Board Members

25.03.2020 ..... Date	Sławomir S. Sikora ..... Name	President of the Management Board ..... Position/function
25.03.2020 ..... Date	Natalia Bożek ..... Name	Vice-President of the Management Board ..... Position/function
25.03.2020 ..... Date	Maciej Kropidłowski ..... Name	Vice-President of the Management Board ..... Position/function
25.03.2020 ..... Date	Barbara Sobala ..... Name	Vice-President of the Management Board ..... Position/function
25.03.2020 ..... Date	James Foley ..... Name	Member of the Management Board ..... Position/function
25.03.2020 ..... Date	Katarzyna Majewska ..... Name	Member of the Management Board ..... Position/function