# REPORT ON ACTIVITIES
# OF THE CAPITAL GROUP OF
# BANK HANDLOWY W WARSZAWIE S.A.
# IN THE FIRST HALF OF 2022

AUGUST 2022

*This document is a translation from the original Polish version. In case of any discrepancies between the Polish and English versions, the Polish version shall prevail.*

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## TABLE OF CONTENTS

# I. Introduction

## 1. Characteristics of the Capital Group of Bank Handlowy w Warszawie S.A.

Bank Handlowy w Warszawie S.A. (further “Bank” or “Citi Handlowy”) is strategically focused on its defined target market.

In the institutional client segment, Citi Handlowy focuses on maintaining its leading position among the banks which service international corporations and the largest domestic companies. Enterprises from the SME sector (Small and Medium Enterprises) are another group of clients that are important to the Group. Acquiring new clients while actively expanding relations with existing clients in selected sectors as well as providing support to clients planning international expansion (the Emerging Market Champions initiative) are keys to further building the Group’s market position.

The goal of the Group is to be the Strategic Partner for Polish companies and to actively support their foreign expansion. This is clear from the range of products offered by the Bank in which foreign exchange transactions and products related to trade finance and guarantees occupy an important place. Additionally, the Bank strives to maintain its status as one of the safest places for institutional clients to deposit their savings, providing many useful modern solutions related to operating accounts and the day-to-day management of corporate finances.

The Bank’s stable capital position as well as its outstanding network of international contacts are also appreciated by individual consumers. The Bank uses this competitive advantage to strengthen its leading position in the affluent banking segment – Citigold and continues to develop unique offering for the most affluent clients – Citigold Private Client. In the consumer segment, the Bank focuses on investment products and its unique ways of rewarding those clients who decide to use the Bank’s online wealth management products. The Bank’s international connections enable it to expand the range of products offered to consumers by providing them with a unique global banking experience.

Moreover, Citi Handlowy is the unquestioned leader of the credit card market, since it offers products from the global Citi product range, which are accepted all over the world and offer exceptional value for the client, e.g. in the form of loyalty programs. The Bank’s objective will be also to increase the market share of unsecured loan products by meeting the credit needs of the growing number of clients with a competitive offering of cash loans or hire purchase products as well as innovative, fast processes.

Bank's competitive position

The Bank belongs to the group of 10 largest banks in Poland in terms of balance sheet total and it holds a special strong competitive position in institutional client banking and, specifically in:

- providing services to global enterprises and enterprises involved in international trade
- foreign exchange products and trade finance products
- securitization transactions
- cash management
- custody and brokerage services.

In consumer banking, the Bank retains its strong market position:
- in a complex offer for affluent clients (CPC, Citigold segments)
- services in Wealth Management
- on the credit card market

## *2.* Major achievements in the first half of 2022:

- **in the Institutional Banking:**
  - Revenue increase by 27% YoY due to a higher net interest income;
  - Continuation of the customer assets growth in the Commercial Banking segment, which grew by 38% YoY and in the Global Clients segment - an increase in assets by 39% YoY;
  - Strong dynamics of FX volumes - increase by 25% YoY, which confirms the Bank's expertise in the area of financial markets;
  - Continuation of the Bank's strategy in the ESG area - a loan transaction with a food industry company, taking into account the implementation of its sustainable development goals, including the reduction of greenhouse gases;
  - Strong increase in the Express Elixir payments volume by 89% YoY. especially in the area of digital clients.

- **in the Consumer Banking:**
  - Increase in revenues by 65% YoY due to higher net interest income and FX income;
  - Dynamic growth of FX volumes by 91% YoY, thanks to the modern online currency exchange system - Citi Kantor;
  - The number of clients in the strategic area - Citi Private Client - increased by 11% YoY;
  - Card transaction volumes increased by 13% YoY due to higher customer activity, especially in the travel-related area.

- **Strong capital base much above the regulatory requirement** – TCR of 17.7%. At the same time liquidity remains at a record-high level of 51% (Customer Loans/Customer Deposits ratio);
- **Once again the Bank demonstrated its high social responsibility** through global community day. As part of this action, volunteers spent 3,500 hours organizing, among others, children's day for over 200 children. The Bank's employees also took part in the equality parade in the "Here you are at home" campaign as part of the Pride Month.

## 3. Strategy of the Capital Group of Bank Handlowy w Warszawie S.A.

In 2021, the Bank adopted a new Strategy for 2022-2024. In the Institutional Banking segment, the Strategy assumes focus on the areas, where Bank has substantial competitive advantage, with particular emphasis on Polish companies operating internationally or planning international expansion, as well as global corporations investing in Poland. The strategy is based on the initiatives aimed at client revenue growth including among others: participation in investment banking transactions of clients, client acquisition in commercial banking segment, maintaining market leader position in global companies segment, as well as providing best solutions to Digital clients. Providing support in the area of Environmental, Social, Governance (ESG) transformation initiatives of clients will be also a crucial component of the Strategy.

The key to an effective implementation of the initiatives in the above-mentioned areas will be to leverage the wide experience of the Bank and the global Citi network. At the same time, the Bank is planning to continue its efforts toward automation of processes, allowing for a smoother contact between the Bank and the customer and for improving customer experience. The focus will be placed on liquidity solutions in real time and dynamic investment solutions enabling management of highly volatile financial flows, which is particularly important in a fast changing macroeconomic and geopolitical environment. The greater importance of these factors also makes the Bank put even more emphasis on solutions in risk management, primarily for the clients who are actively collaborating on an international scale.

From the technical point of view, the Strategy assumes further development of ecosystems, thus enabling a comprehensive servicing of customers' diverse needs, while offering maximum adjustability of the offered solutions to the specific needs of individual customers. In line with the assumptions, promotion efforts will focus on tools that increase the scope of unassisted services while exploiting the most advanced technology achievements, which accelerate processing and also ensure compliance with regulatory requirements and the highest security standards.

In 2021, the strategic investor announced the decision to exit retail operations in 14 countries, including Poland. Taking into account the fact, that no further decisions have been made on the implementation of the plan to sell the Consumer Banking segment, the Strategy assumes operating of the segment in the Bank structures. The Bank will be focused on tailoring Wealth Management offer to clients' needs and maintaining market leader position in credit cards as well as maintaining highest customer service quality in all channels and segments.

The effects of the implementation of the Strategy should translate into the achievement of specific results presented below.

**Strategy for 2022-2024 – financial goals:**

| | Goal | Implementation (1st half of 2022) |
|---|---|---|
| Client revenue compound annual growth rate including: | +9% | +41% YoY |
| *institutional clients* | +8% | +27% |
| *Individual clients* | +12% | +63% |
| Return on equity (ROE in 2024) | >12% | 15% |
| Maintaining cost discipline (C/I ratio) | <50% | 39% |
| Customer assets compound annual growth rate (% in three years) | +6% | +7% YoY |
| Continuation of dividend payment , subject to regulatory approvals (% of net profit) | min. 75% | 100% (of net profit for 2021) |

The Strategy of Bank Handlowy for the years 2022-2024 also aims at boosting employee engagement and building a shared feeling of ownership for implementing the broadly defined mission of the Bank. At the same time, the Bank implements programs with the goal to create a friendly work environment that supports development, in particular by fostering diversity, inclusion and being open to change.

## 4. Awards and honors

In the first half of 2022, the Bank, DMBH and the Leopold Kronenberg Foundation at Citi Handlowy received a number of prestigious titles and awards:

- **Citi Handlowy's private banking recognized again in the international Euromoney survey**

The prestigious British magazine Euromoney awarded Citi Handlowy in the annual Private Banking and Wealth Management Survey of the quality of the private banking offer. For another year in a row, the bank was at the forefront of institutions offering the best financial services for Polish millionaires and their families. The private banking offer of Citigold Private Client was on the podium in as many as 14 out of 17 categories surveyed in areas such as service quality, investment consulting, wealth management, global banking, asset succession, offer for clients from the HNWI group.

- **Citi Handlowy with the BondSpot award for the leader of the cash market**

Citi Handlowy confirmed its leadership position on the demanding capital market and once again received the award for the highest turnover on the Treasury BondSpot Poland cash market (Treasury Bonds).

- **Seventh "Golden Banker" for Citi Handlowy in the Credit Card category**

For another consecutive time the Citibank-BP Motokarta credit card from Citi Handlowy has been selected as the best product on the market in its category. It is the only credit card submitted for the ranking with no issuance, maintenance and renewal fees. In addition, the bank offers a possibility to convert the debt into installments without commission.

- **Citi Handlowy among perfect employers**

For the second time Citi Handlowy was listed in the WPROST weekly ranking of the 50 dream employers in Poland. Citi Handlowy was ranked the highest among commercial banks. It was appreciated not only for caring for employees and taking care of employment conditions, but also for supporting refugees from the Ukraine.

- **Citi Handlowy makes the Forbes ranking "Poland's Best Employers 2022"**

In the second edition of its "Poland's Best Employers 2022", Forbes has selected the winners – Poland's 300 most employee-friendly companies, by industry. Citi Handlowy is included in the category "The Best Employers. Banks and Financial Services".

- **Diversity IN CHECK – Citi Handlowy among the leaders in diversity management**

Citi Handlowy and the Citibank Europe shared services center have been listed in the group of 38 companies recognized as the most advanced in diversity management, caring about inclusion in the organization and striving to achieve social cohesion. The list was created on the basis of the Diversity IN Check survey conducted by the Responsible Business Forum, which coordinates the Diversity Charter in Poland. The purpose of the survey is to diagnose the extent to which a given organization is advanced in diversity management and the creation of an inclusive work environment. The survey questionnaire is based on the established international standards and guidelines, such as: Sustainable Development Goals, ISO 26000 and ISO 30415 GRI Standards as well as OECD's Guidelines for Multinational Enterprises.

- **Citi Handlowy on the podium in the "Efficiency Stars" category by Dziennik Gazeta Prawna**

The indicators evaluated in the "Efficiency" category were the following: return on equity (ROE), level of interest and commission margin and risk costs. Citi Handlowy ranked second in the category. As justified by the jury, this is a derivative of the bank's strategy – to focus on servicing companies, operating in financial markets and providing services to affluent customers.

# II. Market conditions of functioning of Poland's banking sector

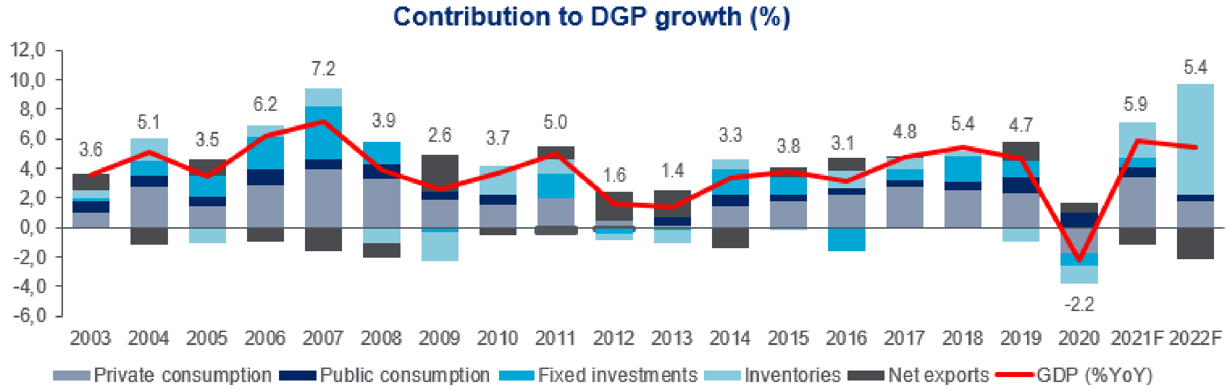
## 1. Macroeconomic conditions and the situation in money and foreign exchange markets

### External environment

After the very good global economy results in 2021, the first half of the current year brought a gradual slowdown of the activity. While the GDP growth remained strong in the first quarter of 2022, another global shock after the pandemic, i.e. the outbreak of the war in Ukraine, led to a gradual deterioration of the economic outlooks. In consequence of the war, the prices of energy commodities increased exponentially in global markets, including crude oil and natural gas as well as coal, among others, amidst decreasing demand for Russian oil, restrictions in oil supply by Russia and embargoes on Russian coal. Sanctions against Russia, limited trade also with Ukraine and, above all, increasing commodity prices translated into worsening outlooks for the global economic growth, and especially for the economic growth of European recipients. As much as the economic growth was strong in the first quarter of 2022, toward the end of the second quarter Germany saw clear signs of the approaching recession, and the activity in the USA was clearly slowing down both in the industry, in services and in the labor market. Given the persisting shortages in selected materials and products after the pandemic and the continuing interruptions in the supply chain and staff shortages coupled with low unemployment rates, the growing commodity prices boosted the inflationary pressure in the main economies. As a result, inflation was the highest it had been in decades, both in Europe and in the United States. This led central banks to begin the gradual monetary tightening. The Fed raised interest rates in the first half of 2022 from 0-0.25% to 1.50-1.75%, whereas the European Central Bank signaled interest rates hikes, carried out for the first time in July 2022 (by 50 bps).

We believe that in the second half 2022, the global economic growth will slow down gradually, but inflation will remain high, thus prompting central banks to continue monetary tightening. We expect a deeper recession in the eurozone, and above all in Germany, due to commodity prices and the risk of Russia cutting off gas supplies to Europe. Consequently, the scale of monetary tightening by the ECB will probably be much weaker than in the USA. According to the economic forecasts of Citi, the main rate of the ECB should increase to 1.5% from the current 0.5% and from 0% at the end of 2021. The economic situation in the USA was significantly better than in the eurozone, and high inflation sparked a risk of a wage-price spiral. As a result, the Fed decided to increase interest rates a lot sooner and on a much bigger scale than predicted. We assume that the Fed rates will increase to around 4% by the end of 2022 and ultimately to 4.50 in 2023. We do not expect the first interest rate cuts in the USA until 2024.

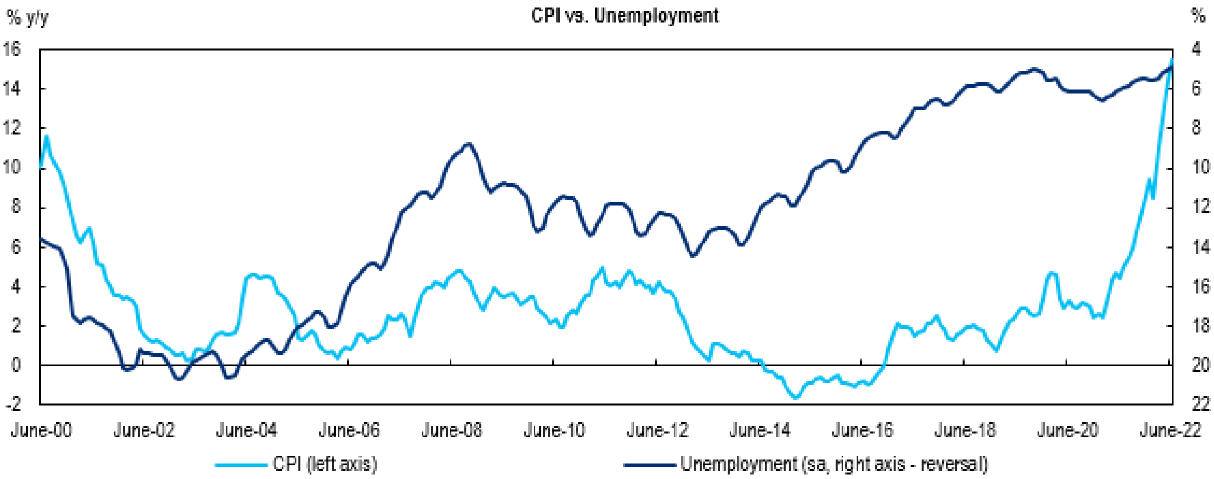
## Gross Domestic Product




*Source: Chief Statistical Office, Citi Handlowy forecasts*

In the first half of 2022, as in the entire year, Polish economy will record a much better result than expected at the beginning of the year, and especially after the outbreak of the war. It will be the result of very high dynamics displayed by the economy at the beginning of the year after a GDP growth of 5.9% last year. In the first quarter of 2022 the GDP grew by 2.4% QoQ, which translated into an annual dynamic of 8.5%. Meanwhile, the second quarter 2022, despite a strong beginning, already brought about a marked slowdown in the economic activity, which could have even translated into a GDP drop QoQ. Industrial output slowed down in the first half of 2022 to 13.7% YoY from 15.4% in 2021, construction output accelerated to 16.3% YoY from 0.4%, and retail sales accelerated to 9% YoY from 5.8%. GDP growth was negatively affected by a deterioration in the account of trade in goods, caused by the imports growth rate being higher than the exports growth rate. A higher trade deficit was caused, to a great extent, by the war in Ukraine, which boosted the prices of imported commodities and caused the exports outlooks to deteriorate. After May 2022, the cumulative 12-month deficit in the current account increased to about 3.8% of the GDP, as compared to about 0.6% of the GDP at the end of 2021. The clear weakening in the monthly economic data in May and June 2022 suggests that the economy entered into a recession toward the end of the second quarter of 2022. We expect a moderate drop of the GDP by 0.4% QoQ in the third and fourth quarter of 2022. Nevertheless, owing to a good first half of the year, GDP growth in the entire 2022 will probably exceed 5%. We expect a much lower GDP growth, at 1.4%, in 2023.

## Inflation

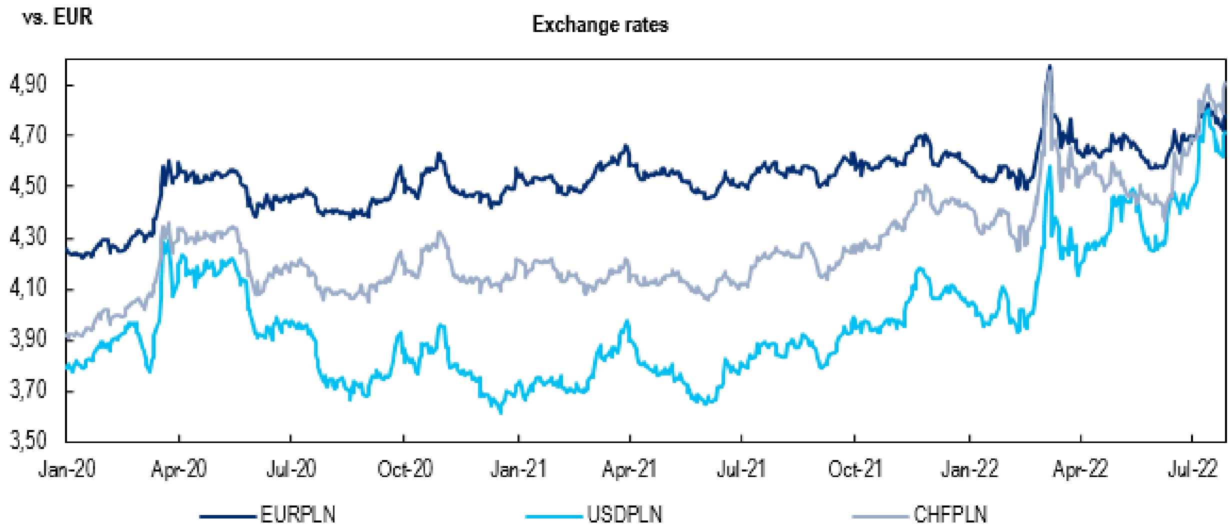



Price levels of consumer goods and services in the first half of 2022 rose on average by 11.8% YoY as compared with 5.4% in 2021. The higher inflation was mainly driven by all the main categories of the inflation basket, food, energy, fuels and core inflation. Inflation increased to 15.5% in June from 8.6% in December 2021, while net inflation increased to 9.1% YoY from 5.3%. The growth of consumer prices between February and May 2022 proved to be much higher than expected. The fast price increases were fueled by the persisting interruptions in supply chains, the situation in the markets of energy commodities (crude oil, natural gas and coal) in the wake of the war in Ukraine, as well as the high growth rate of food prices in response to the price increases of fertilizers and the general growth of costs and food shortages related to the war. Core inflation, on the other hand, increased amidst the continuously strong domestic demand and companies' ability to easily pass on growing costs to consumers given the good situation in the labor market. The unemployment rate decreased as at the end of June 2022 to 4.9%, a record-low level. At the same time, in the first half of 2022 the average increase of remuneration in the corporate sector accelerated to 12.4% YoY, from 8.6% in 2021.

In order to address the growing inflation, high activity and growing dynamics of remuneration, the Monetary Policy Council (RPP) continued its monetary tightening efforts initiated in 2021. The RPP raised the reference rate to 6% as at the end of June 2022 from 1.75% as at the end of 2021. Interest rates were also raised by another 50 basis points in July 2022. As announced by the President of the NBP, we may be approaching the end of monetary tightening. We assume that the reference rate may increase to 7.5%, and will first be cut probably no earlier than in 2024.

## 2. Money and foreign exchange markets

### Exchange rates




In the first half of 2022 the zloty depreciated 1.8% against the euro and 10.4% against the dollar. The domestic currency was negatively affected by, above all, the outbreak of the war, which has boosted risk aversion and the premium for geopolitical risk in the region, thus contributing to a significant deterioration of the current account balance. The zloty and other currencies of developing economies were adversely affected by the strengthening of the dollar in the world's markets, especially against the euro, which resulted from a better condition of the US economy and a greater scale of the expected monetary tightening in the USA. Higher commodity prices had a greater negative effect on the economic outlooks of Europe than of the United States of America. The nominal exchange rate of the zloty was negatively affected by inflation in the country, which was much higher than in the eurozone. The EUR/PLN rate increased from 4.60 as at the end of 2021 to 4.68 as at the end of June 2022 and the USD/PLN increased from 4.06 to 4.48 in the same period.

Monetary market rates increased in the first half of 2022 in the wake of growing NBP interest rates. The WIBOR 3M rate was 7.05% at the end of June, as compared with 2.54% at the end of 2021. NBP interest rate increases had a greater effect on the short end of the swap curve and the bond yield curve, which became flatter as a result. In the first half of 2022, the yield of 2-year bonds increased by 4.2 p.p., to 7.54% as at the end of June 2022 from 3.36% as at the end of 2021. The yield of 10-year bonds increased by 3.2 p.p., to 6.94% as at the end of June 2022 from 3.70% as at the end of 2021.

## 3. Capital market

The first half of 2022 saw dynamic drops in the world's stock markets. The following factors had a negative influence on the situation in the stock market: monetary tightening efforts by the main central banks and investors' concerns about the likelihood of a stagflation scenario materializing in the global economy. Higher risk aversion was also related to Russia's invasion of Ukraine. Given the significant position of the two countries in the global commodity market, this conflict led to increases in the prices of materials and energy, which will have a negative impact on companies' results. An additional negative factor with a local reach was the announcement of a tax on extraordinary profit to be imposed on some sectors.

Given such an environment, the indices in the domestic equity market recorded a dynamic depreciation. WIG, the main market index, lost 22.7% as compared to the end of 2021. The greatest pressure was exerted on the blue-chip index WIG20, which decreased by over one fourth. mWIG40, an index of mid-cap companies, depreciated 23.1%. A smaller drop was recorded by sWIG80, an index of small-cap companies (down 13.8%).

By sector, only two sub-indices recorded increases: WIG-Energy and WIG-Chemistry, which gained 26.1% and 13.7%, respectively, as compared to the end of 2021. On the other hand, a significant depreciation was recorded by the sub-indices of the following sectors: food (dominated by Ukrainian entities) – by 52.6%, medicines (46.1%), clothes (45.0%) and games (44.1%).

A clear deterioration in market sentiment was reflected in the low activity in the IPO market. Year to date, two new entities debuted on the main floor of the WSE as a result of transfer from the New Connect market (without selling the existing or newly issued shares). For comparison, the same period last year saw 8 débuts on the WSE, and the total value of the public offerings amounted to PLN 5.85 billion. A total of 12 companies were delisted from the WSE in the first half of 2022. In consequence, as at the end of June 2022, the number of companies listed on the WSE reduced to 420 (including 45 foreign ones), whereas the total market value of all entities listed on the main floor amounted to PLN 1,093 billion (drop by 16% YTD and by 11% YoY).

## Warsaw Stock Exchange (WSE) Equity Indices as of June 30, 2022

| Index | 30.06.2022 (1) | 31.12.2021(2) | Change (%) (1)/(2) | 30.06.2021 (3) | Change (%) (1)/(3) |
|---|---|---|---|---|---|
| WIG | 53,573.42 | 69,296,26 | (22.7%) | 66,067,21 | (18.9%) |
| WIG-PL | 54,965.35 | 70,792,15 | (22.4%) | 67,395,78 | (18.4%) |
| WIG-div | 1,072.12 | 1,255,85 | (14.6%) | 1,305,80 | (17.9%) |
| WIG20 | 1,695.97 | 2,266,92 | (25.2%) | 2,218,41 | (23.6%) |
| WIG20TR | 3,188.01 | 4,243,99 | (24.9%) | 4,075,41 | (21.8%) |
| WIG30 | 2,082.70 | 2,764,93 | (24.7%) | 2,655,71 | (21.6%) |
| mWIG40 | 4,069.37 | 5,291,72 | (23.1%) | 4,825,09 | (15.7%) |
| sWIG80 | 17,284.34 | 20,056,08 | (13.8%) | 20,581,88 | (16.0%) |
| **Sector sub-indices** | | | | | |
| WIG-Banks | 5,455.75 | 8,640,27 | (36.9%) | 6,547,82 | (16.7%) |
| WIG-Construction | 3,676.19 | 3,763,20 | (2.3%) | 4,212,95 | (12.7%) |
| WIG-Chemicals | 11,171.69 | 9,822,11 | 13.7% | 10,232,21 | 9.2% |
| WIG- Energy | 3,045.44 | 2,415,19 | 26.1% | 2,694,54 | 13.0% |
| WIG-Games | 10,995.38 | 19,684,68 | (44.1%) | 21,024,47 | (47.7%) |
| WIG- Mining | 4,330.91 | 4,539,55 | (4.6%) | 5,940,09 | (27.1%) |
| WIG-IT | 4,029.15 | 4,706,08 | (14.4%) | 4,509,26 | (10.6%) |
| WIG-Medicines | 2,745.32 | 5,096,92 | (46.1%) | 6,332,77 | (56.6%) |
| WIG-Media | 6,584.57 | 8,762,86 | (24.9%) | 7,770,02 | (15.3%) |
| WIG-Motorisation | 5,854.32 | 6,728,61 | (13.0%) | 5,851,97 | 0.0% |
| WIG- Developers | 2,549.24 | 2,841,12 | (10.3%) | 3,014,43 | (15.4%) |
| WIG-Clothing | 5,214.10 | 9,479,24 | (45.0%) | 7,539,69 | (30.8%) |
| WIG- Fuel | 6,180.50 | 6,494,21 | (4.8%) | 6,357,84 | (2.8%) |
| WIG- Food | 2,125.36 | 4,484,31 | (52.6%) | 4,357,72 | (51.2%) |

*Source: WSE, Dom Maklerski Banku Handlowego S.A. ("DMBH")*

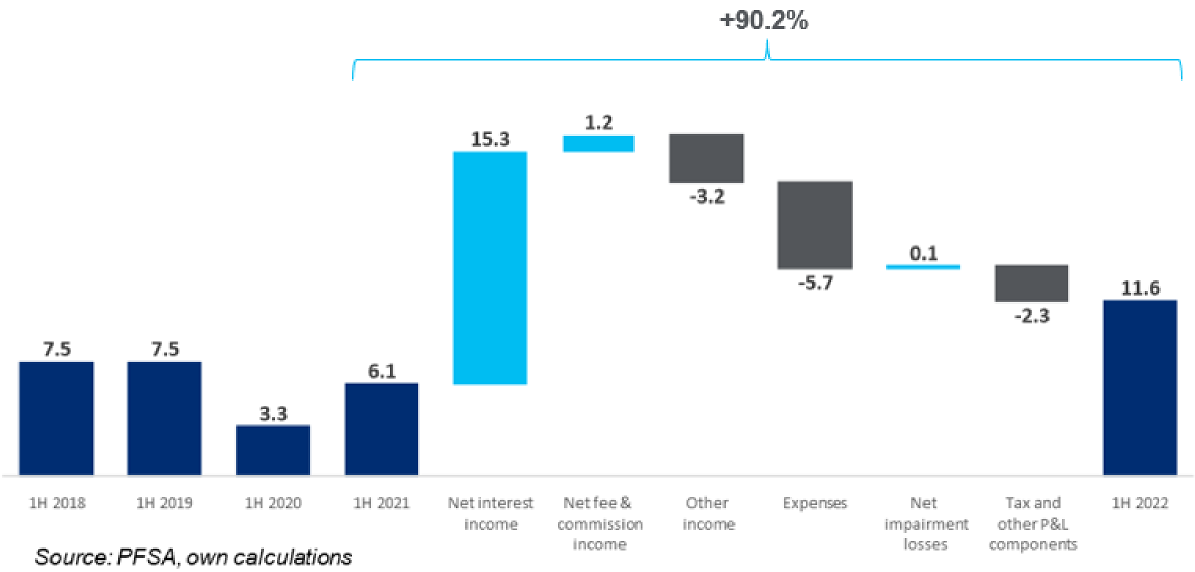
### Equity, bond and derivatives trading volumes on WSE in the first half of 2022

| | 1st half of 2022 (1) | 2nd half of 2021 (2) | Change (%) (1)/(2) | 1st half of 2021 (3) | Change (%) (1)/(3) |
|---|---|---|---|---|---|
| Equity (PLN million)* | 331,676 | 298,477 | 11.1% | 363,513 | (8.8%) |
| Bonds (PLN million) | 7,280 | 2,074 | 251.0% | 2,122 | 243.0% |
| Futures ('000 contracts) | 14,621 | 11,903 | 22.8% | 11,511 | 27.0% |
| Options ('000 contracts) | 358 | 253 | 41.4% | 303 | 18.2% |

** figures excluding calls*
*Source: WSE, DMBH*

## 4. Banking sector

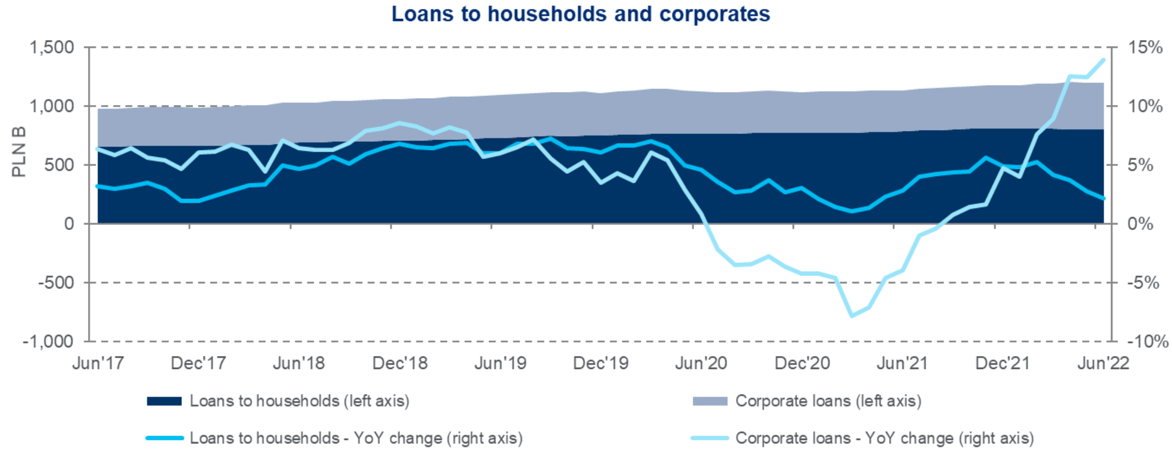
### Net profit of the banking sector (PLN billion)




*Source: PFSA, own calculations*

### Financial results

According to the data published by the Polish Financial Supervision Authority, in the first half of 2022 the banking sector generated a very record high net profit of almost PLN 11.6 B, up by 90.2% (PLN 5.5 B) compared to the corresponding period of the previous year. The rapid increase in interest rates was the main factor in the improvement of banks' revenues, translating the increase in the net interest income by +70.0% YoY (PLN 15.3 billion). Fee and commission income also recorded a significant increase by +13.9% YoY (PLN 1.2 billion). On the other hand, the other income of banks were much smaller than in the first half of last year (-79.3% YoY, PLN 3.2 billion), among others, due to a much weaker result on debt securities due to their prices. Nevertheless, the total revenues of the banking sector achieved the largest value in history PLN 47.5 billion, i.e. +39.0% (PLN 13.3 billion) more than in the first 6 months of 2021. Higher revenues, however, were also accompanied by record high expenses (PLN 23.3 billion, +32.1% YoY, PLN 5.7 billion). In addition to the rising employee expenses and IT, banks incurred in the first half of 2022 also significantly higher burdens for regulatory expenses, including BFG (premium for the restructuring fund, which was booked in full in the first quarter of PLN 1.7 billion, it is +38% YoY, on the other hand, the determined value of the contribution to the Deposit Guarantee Fund for the entire 2022 increased by as much as +101% YoY, exceeding the level of PLN 2 billion) and the protection system for commercial banks founded by eight commercial banks - Institution Protection Scheme (cost approx. PLN 3.2 billion). At the same time, the costs of depreciation dropped by -3.4% YoY, PLN 80 million without significantly translating the entire cost of the sector. The Cost/Income ratio has improved by 2.6 pp. YoY reaching 49%. The impact of write-offs and provisions on the financial result remained at a level similar to the first half of 2021, (-2.1% YoY, PLN 110 million). The high level of provisions resulted, inter alia, from the recovery of provisions for legal costs related to the mortgage portfolio in Swiss franc (over PLN 3 billion in January - June 2022), as well as because the title of the deteriorating macroeconomic situation (among other things, due to the outbreak of war in Ukraine, as well as a potential decrease in the ability of some clients to serve credit liabilities due to higher interest rates). In the period January-June 2022, the banking sector also paid a higher income tax ( +66.3% YoY, PLN 2.0 billion) as well as bank levy (approx. +16% YoY). Later in the year, the continuation of the increase in interest revenues is expected, but the results of the banks will be under high pressure from credit holiday costs, the value of which may be charged to the sector of up to a dozen billions of zlotys.

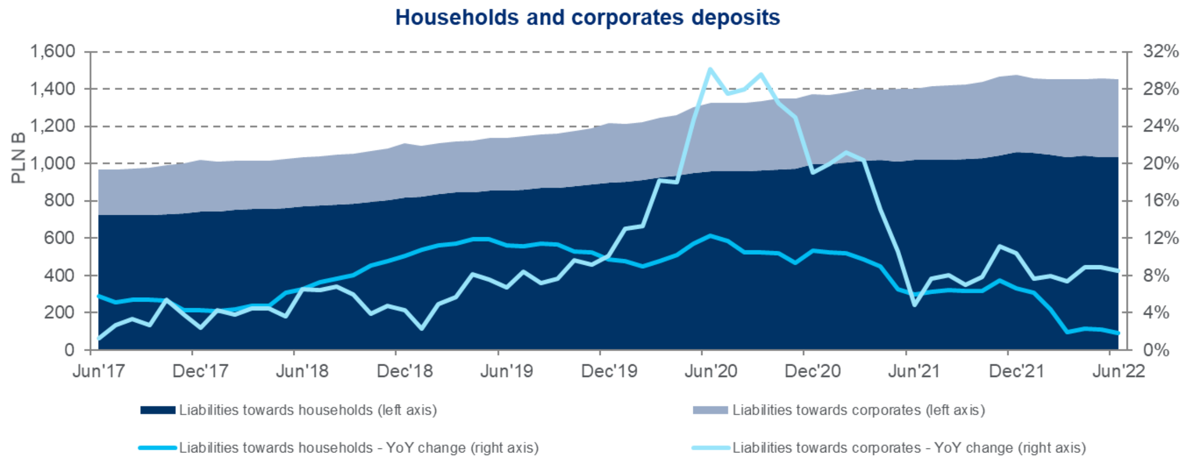



*Source: NBP, own calculations*

In the first half of 2022, the growth rate of the volume of loans to the non-financial sector accelerated from +4.4% YoY (PLN +55 billion) as at the end of 2021 to +5.6% YoY (PLN +70 billion), as at the end of June 2022. The main contributor was the improved growth rate of loans to non-financial enterprises (+13.9% YoY, PLN 49 billion), in particular in current loans (+29.5% YoY, PLN 37 billion). At the same time, the growth rate of investment loans was much lower (+4.8% YoY, PLN 9 billion). An analysis of the growth rate of loans in terms of their maturity confirms the above trends. The volume of loans with a maturity up to 12 months increased by as much as 37.8% YoY, PLN 28 billion, whereas of loans with a maturity of 1-5 years by 12.7% YoY, PLN 16 billion. The lowest growth rate was recorded in the group of loans with a maturity above 5 years (+3.1% YoY, PLN 6 billion). As at the end of the first half of 2022, the total receivables of the banking sector from non-financial enterprises reached almost PLN 400 billion.

Unlike in corporate loans, in the first half of 2022 the growth rate of the volume of loans granted to households dropped from 4.9% YoY (PLN 38 billion) to 2.2% YoY (PLN 17 billion). The lower growth rate was recorded across all loan categories, however, the most meaningful event was the slowdown in housing loans (to +4.7% YoY, PLN 23 billion), especially mortgage loans in PLN (+7.1%, PLN 27 billion). Although the annual growth rate continues to be quite high in this area, a minor drop in the volume of loans has been observed since April 2022 on a monthly basis (for the first time since October 2008). The whole household mortgage portfolio reached almost PLN 510 billion as at the end of June 2022, of which PLN-denominated loans amounted to PLN 402 billion (79%). The general trend was also greatly influenced by the lower dynamic of consumer loans (-0.1% YoY, PLN -0.2 billion), as well as by the stronger negative dynamic of current loans for businesses and farmers (-4.1% YoY, PLN 2 billion) and investment loans (-8.1% YoY, PLN 2 billion). In terms of maturity, the growth rate of loan volumes was lower than at the end of 2021 both for mid-term and long-term loans. On the other hand, the growth rate of loans with a maturity up to 12 months increased by +6.5% (PLN 3 billion). Among the other categories isolated by the NBP, only loans with a maturity exceeding 20 years continued to have a positive growth rate (+5.7% YoY, PLN 24 billion). The greatest decrease was recorded for loans with a maturity of 1-5 years (-4.8% YoY, PLN 4 billion). As at the end of June 2022, the value of the loan portfolio for households totaled nearly PLN 801 billion.

Data on the quality of the credit portfolio from the end of June 2022 suggest that despite the increase in interest rates, there have not been big problems with debt service yet. NPL ratio with a delay over 90 days (stage 3) for the non-financial sector (including the public sector) fell by -0.8 pp. YoY to a record low level of 5.2%, thanks to the lower share of non-performing loans in the portfolio of credit receivables from small and medium-sized enterprises (-1.9 pp YoY. to 9.8%), large enterprises ( -1.5 pp YoY to 3.6%) as well as the unsecured loans of retail clients (-1.5 pp. YoY to 9.2%). The share of stage 3 in the mortgage portfolio in PLN fell slightly to 1.7%. However, there is a further strong increase in delays in repayment of swiss franc loans, which is not so much with the ability of borrowers to service them as to the abandonment of repayments for the period of pending court proceedings.




*Source: NBP, own calculations*

Despite the significant interest rate increases, the growth rate of deposits volume of the non-financial sector dropped considerably from +11% YoY (PLN 173 billion) as at the end of 2021 to +5.6% YoY (PLN 93 billion) as at the end of June 2022. The slowdown of the growth dynamic was recorded both in the corporate and consumer segment. The growth rate of the deposits volume of non-financial companies dropped to +8.5% YoY (PLN 33 billion). An even stronger drop was recorded in household deposits – to +1.8% YoY (PLN 18 billion). In both cases the drop was caused by a negative dynamic of current deposits (-4.8% YoY, PLN -16 billion for deposits of non-financial companies and -3.4% YoY, PLN 29 billion for deposits of households). At the same time, the raised interest rates offered by banks led to a recovery in term deposits both in the corporate (+87.3% YoY, PLN 48 billion) and household segment (+27.2% YoY, PLN 47 billion). As a result, as at the end of the first half of 2022, the volume of deposits of non-financial companies was PLN 415 billion, and of households – PLN 1,036 billion. Due to the simultaneous weakening of the dynamic of loans and deposits, the liquidity ratio in the banking sector (loans/deposits) persisted at a record low level of 76%.

Russia's invasion of Ukraine and the consequent energy crisis as well as a number of other risk factors effectively discourage businesses and natural persons from taking out new liabilities, especially long-term ones. The expected economic slowdown as well as the environment of high interest rates will cause this trend to continue at least until the end of the year, despite the high excess liquidity of the sector. At the same time, banks' clients will continue their efforts to secure their savings, at least to a certain extent, against the consequences of high inflation. This could encourage allocation of funds outside the banking sector, but should mostly further boost the value of term deposits. In terms of the quality of the loan portfolio, given the factors listed above, the quality of banks' receivables can be expected to deteriorate.

# 5. Factors that will affect the Group's operations in the future

## The impact of the war in Ukraine on the operational activity of the Group

The Management Board of the Bank monitors the situation of the outbreak of war in Ukraine and its direct impact on the Bank's operational activity, including the quality of the credit portfolio. In the case of credit activities, the Bank does not conduct activity in Ukraine, Russia or Belarus, and the Bank's credit exposure towards companies significantly involved in these countries is less than 0.5% of the Bank's exposure related to credit risk.

## Trends in the Polish and global economy in 2022

The most significant risk driver in 2022 is the war between Russia and Ukraine. If this conflict escalates, commodity prices can go even higher and the supplies of oil, gas and coal from Russia to the European Union can stop before the storage facilities can be filled up to an appropriate level and before these energy sources are replaced with imports from other countries. This could lead to a recession in the European economy and significantly higher inflation. Faced with high inflation, it would be difficult for central banks to ease monetary policy despite the recession. Recession triggered by commodities shortages and high inflation would have a negative impact on economic activity, performance of companies and the unemployment rate.

In the quarters to come, one of the risk factors will still be the COVID-19 pandemic and its effects on the economy. The emergence of virus variants resistant to vaccines could prompt Poland and other European countries to reimpose restrictions and phase out business activity, and could also lead to stronger disruptions in global supply chains. In face of high inflation, the space for use of additional fiscal and monetary policy measures is very limited as compared to the beginning of 2020, which means that additional burdensome restrictions could trigger a tidal wave of bankruptcies and a surge in unemployment.

## Legal and regulatory risks

- The Bank is carefully following the changes of the legal environment arising out of the courts' case law regarding mortgage loans indexed to foreign currencies, including the judgment of the Court of Justice of the European Union (CJEU), case no. C 260/18, of 3 October 2019. The Bank has identified a number of doubts as regards interpretation of the above-mentioned judgment. Despite the still unresolved issues (e.g. the possibility for banks to demand remuneration for use of capital), as at the day of these financial statements, most courts have ruled against banks on indexed loan cases. The expected resolution of the Civil Law Division of the Supreme Court to rule again on issues on which courts are still inconsistent has been postponed to an indefinite date. The Supreme Court formulated the question of the CJEU as to whether the current composition of the Civil Law Division of the Supreme Court is competent to pass a resolution, taking into account doubts as to the correctness of appointment of some of its judges. In February 2022, the Regional Court in Łódź dismissed the claims of 1,700 CHF-denominated loan customers (filing a lawsuit against one of the Polish banks), who wanted their loan agreements declared invalid. The Regional Court held that the first provision of the bank loan contract providing for conversion of the disbursed amount of the loan from PLN into CHF was not abusive. However, it also found that the provision according to which the bank converts CHF loan installments into PLN according to its own table is abusive. At the same time, according to the court, CHF borrowers involved in this case can repay their loans in CHF after all.

  It should be noted, however, that apart from the doubts in court cases, the measures of the Polish Financial Supervision Authority set out the direction of possible settlements between banks and the Swiss franc borrowers.

  As at 30 June 2022, the Bank had receivables under CHF-indexed retail mortgage loans at the gross carrying amount of PLN 50 million. The Bank maintains a portfolio provision for this in the amount of PLN 12.7 million. Estimation of the provision assumed the expected level of customer complaints based on the trend observed by the Bank, which is different for active loans and for loans repaid before the balance sheet date, as well as the probability of a settlement or court solution and the Bank's loss estimate in the event of a dispute in court. This value, as well as provisions for individual disputes, are included in the Bank's consolidated statement of financial position under item: Provisions.

As at June 30, 2022, the Bank was sued in 61 cases relating to a CHF-indexed loan for a total amount of approximately PLN 21 million. Two cases were legally lost and the Bank decided to file cassation appeals. Most of the cases are in the first instance.

- On September 11, 2019, CJEU passed a ruling in the case C 383/18, indicating the following interpretation of Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers (Directive): “the right of the consumer to a reduction in the total cost of the credit in the event of early repayment of the credit includes all the costs imposed on the consumer.” Hence, according to the provisions of the Directive, the above-mentioned right of the consumer includes costs both related and not related to the duration of the contract.

  Starting from 28 September 2020, the Bank has been reimbursing fees using the “straight-line method” to all the consumers who repaid their consumer loans before the contractual deadline, after 11 September 2019, provided that the fee was charged during the term of the consumer loan act.

  On 13 November 2020, the Bank received a decision initiating proceedings by the UOKiK (Office for Competition and Consumer Protection) regarding the practice of non-lowering the total loan cost by the prorated costs (calculated by the straight-line method) attributable to the period by which the term of the consumer loan agreement is reduced in the event of total or partial loan prepayment.

  Proceeding has been closed by means of a UOKiK’s binding decision from 6 May 2021 after Bank made commitments satisfactory to the regulator to change that practice. In accordance with the decision, consumers who repaid their cash or card loans before contractual maturity date in the period between 18 December 2011 and 10 September 2019 may apply for recalculating the commission indicating the product, agreement and bank account number for which repayment is due. The Bank is obligated to close all the legal proceedings regarding the recalculation of the commission in which consumers are a party, and to inform about the decision as described, in particular through e-mail communication and publication of a statement on the website. Decision is implemented in accordance with its terms.

  After the decision was issued, the President of the UOKiK asked the Bank to provide explanations regarding the manner in which the Bank reimburses a proportional part of the commission in the case where customer takes out another loan with the Bank in such a way that it replaces the original agreement (“Increase agreement”) The Bank assessed such a situation as an increase of existing credit obligation, which does not result in the obligation to the settle the previous debt, however in view of the doubts expressed by the President of UOKiK about the previously presented approach, the Bank, despite the different factual and legal assessment of the Increased agreement, for the purpose of refunding the commission, adopted the date of the Increasing agreement as the date of early repayment of the previous obligation. Considering its relationship with clients and emphasizing its will to cooperate with the UOKiK the Bank decided to align its practice with the position of the UOKiK President and decided to proactively settle the proportionate part of the commission in relation to clients who entered into the Increased agreement after 11 September 2019.

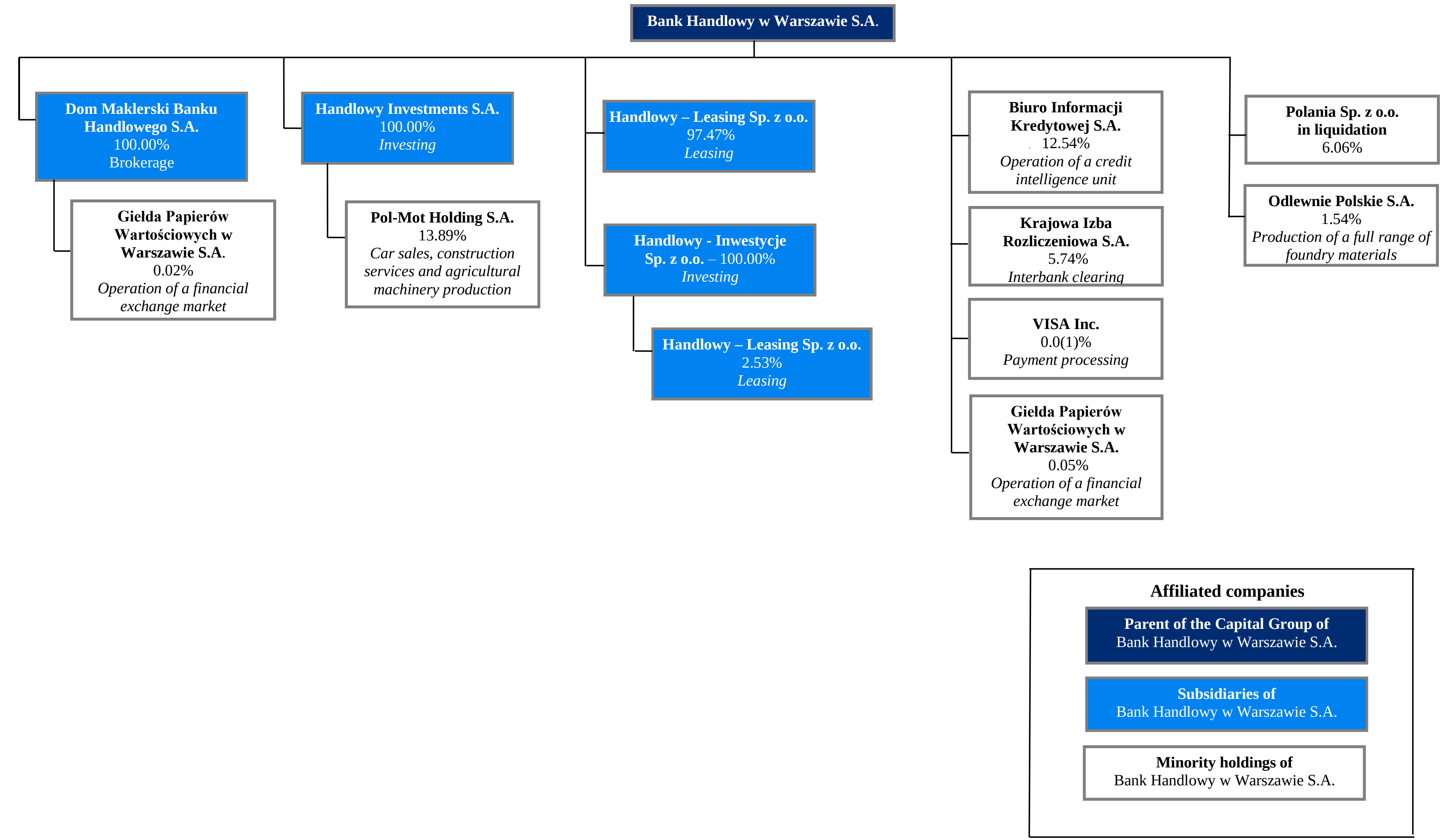
  The Group constantly monitors and estimates provisions for legal risk resulting from the ruling of the CJEU regarding the reimbursement of commissions for prepaid consumer loans and updates the possible amount of cash outflow as reimbursement of consumer loan commissions.

  As of June 30, 2022, the Bank was sued in 888 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 3.8 million.

The above factors may affect the financial performance of the Group in the future.

# III. Organizational chart of the Capital Group of Bank Handlowy w Warszawie S.A.

The organizational chart below depicts the structure of the Capital Group of Bank Handlowy w Warszawie S.A. (“Bank”) as of June 30, 2022; the Bank’s share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego S.A. 100.00% Brokerage
Gielda Papierów Wartościowych w Warszawie S.A. 0.02% Operation of a financial exchange market
Handlowy Investments S.A. 100.00% Investing
Pol-Mot Holding S.A. 13.89% Car sales, construction services and agricultural machinery production
Handlowy – Leasing Sp. z o.o. 97.47% Leasing
Handlowy - Inwestycje Sp. z o.o. – 100.00% Investing
Handlowy – Leasing Sp. z o.o. 2.53% Leasing
Biuro Informacji Kredytowej S.A. 12.54% Operation of a credit intelligence unit
Krajowa Izba Rozliczeniowa S.A. 5.74% Interbank clearing
VISA Inc. 0.0(1)% Payment processing
Giełda Papierów Wartościowych w Warszawie S.A. 0.05% Operation of a financial exchange market
Polania Sp. z o.o. in liquidation 6.06%
Odlewnie Polskie S.A. 1.54% Production of a full range of foundry materials
Affiliated companies
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiaries of Bank Handlowy w Warszawie S.A.
Minority holdings of Bank Handlowy w Warszawie S.A.

# IV. The organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The Capital Group of Bank Handlowy w Warszawie S.A. ("Group") consists of a parent company and subsidiaries:

**BANK HANDLOWY W WARSZAWIE S.A. GROUP ENTITIES FULLY CONSOLIDATED**

| Entity | Core business | Capital relationship | % of authorized capital held | Accounting method | Equity (PLN '000) 30 Jun 2022 |
|---|---|---|---|---|---|
| Bank Handlowy w Warszawie S.A.* | Banking | parent | - | - | 6,811,632 |
| Dom Maklerski Banku Handlowego S.A. ("DMBH") | Brokerage activities | subsidiary | 100.00% | full consolidation | 100,610 |
| Handlowy - Leasing Sp. z o.o. | Leasing activities | subsidiary | 100.00%** | full consolidation | 20,197 |
| Handlowy Investments S.A. | Investing activity | subsidiary | 100.00% | full consolidation | 4,398 |
| Handlowy - Inwestycje Sp. z o.o. | Investing activity | subsidiary | 100.00% | full consolidation | 10,398 |

** Equity of Bank Handlowy w Warszawie S.A. as per statement of financial position of the Bank for the first half of 2022*
*** Including indirect participations*

In the first half of 2022 there was no change in the structure of Group's entities comparing to the end of 2021.

# V. Selected financial data of the Capital Group of Bank Handlowy w Warszawie S.A.

## 1. Summary financial data of the Group

| *PLN million* | 30 Jun 2022 | 31 Dec 2021 |
|---|---|---|
| Total assets | 69,421.4 | 61,862.8 |
| Total equity | 6,855.0 | 7,383.4 |
| Amounts due from customers* | 22,117.2 | 21,327.6 |
| Customer deposits* | 43,666.2 | 42,781.9 |
| Net profit** | 782.3 | 467,6 |
| Total capital ratio | 17.7% | 20.1% |

** Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.*
*** Net profit for the first half of adequately 2022 and 2021.*

## 2. Financial result of the Group for the first half of 2022

The following financial results are presented on the basis of the abridged semi-annual financial statement of the Group for the period of the first 6 months of the year ended June 30, 2022.

### 2.1 Income statement

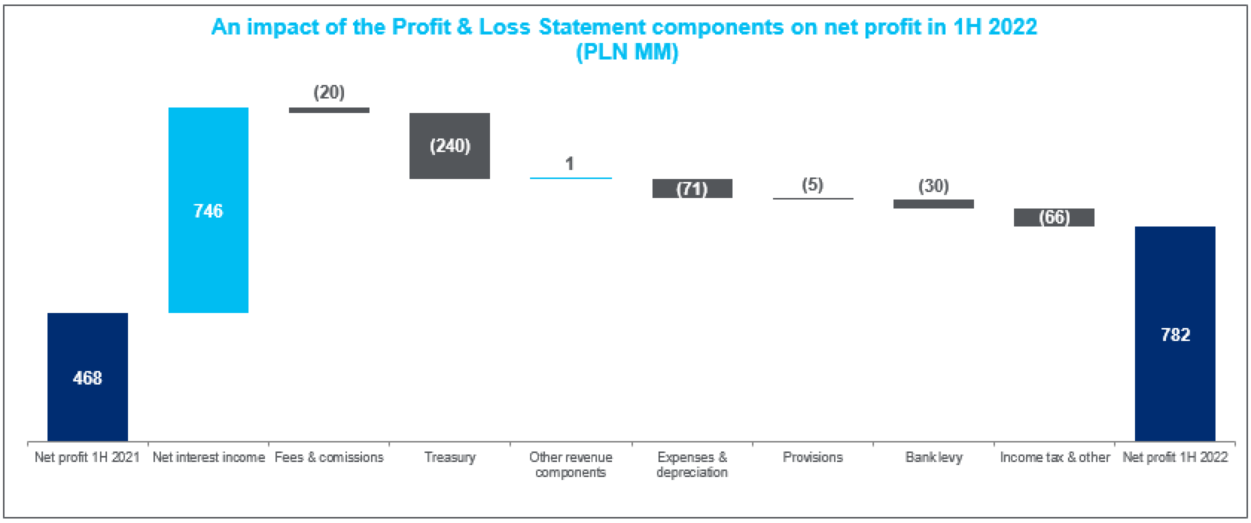
In the first half of 2022 the Group delivered a consolidated net profit of PLN 782.3 million compared to PLN 467.6 million in the first half of 2021 (increase by PLN 314.7 million), mainly due to higher interest income, which is a consequence of an interest rate increases cycle made by the Monetary Policy Council, variability on financial markets and customer activity (increase in loan volumes by 7% YoY).

Selected income statement items

| | 1st half of | | Change | |
|---|---|---|---|---|
| *PLN'000* | 2022 | 2021 | PLN'000 | % |
| Net interest income | 1,111,692 | 365,434 | 746,258 | 204.2% |
| Net fee and commission income | 302,692 | 323,153 | (20,461) | (6.3%) |
| Dividend income | 9,451 | 9,097 | 354 | 3.9% |
| Net income on trading financial instruments and revaluation | 462,527 | 207,587 | 254,940 | 122.8% |
| Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income | (35,762) | 459,106 | (494,868) | (107.8%) |
| Net gain/(loss) on equity and other instruments measured at fair value through income statement | 3,534 | 3,955 | (421) | (10.6%) |
| Net gain/loss on hedge accounting | (1,722) | 21 | (1,743) | - |
| Net other operating income | (4,409) | (7,029) | 2,620 | (37.3%) |
| **Total income** | **1,848,003** | **1,361,324** | **486,679** | **35.8%** |

| | 1st half of | | Change | |
|---|---|---|---|---|
| *PLN'000* | **2022** | **2021** | **PLN'000** | **%** |
| General administrative expenses and depreciation: | (714,750) | (643,766) | (70,984) | 11.0% |
| General administrative expenses | (662,518) | (587,397) | (75,121) | 12.8% |
| Depreciation and amortization | (52,232) | (56,369) | 4,137 | (7.3%) |
| Profit on sale of non-financial assets | 3,028 | (433) | 3,461 | - |
| Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments | (21,007) | (15,774) | (5,233) | 33.2% |
| Tax on some financial institutions | (104,464) | (74,893) | (29,571) | 39.5% |
| **Profit before tax** | **1,010,810** | **626,458** | **384,352** | **61.4%** |
| Income tax expense | (228,477) | (158,864) | (69,613) | 43.8% |
| **Net profit** | **782,333** | **467,594** | **314,739** | **67.3%** |

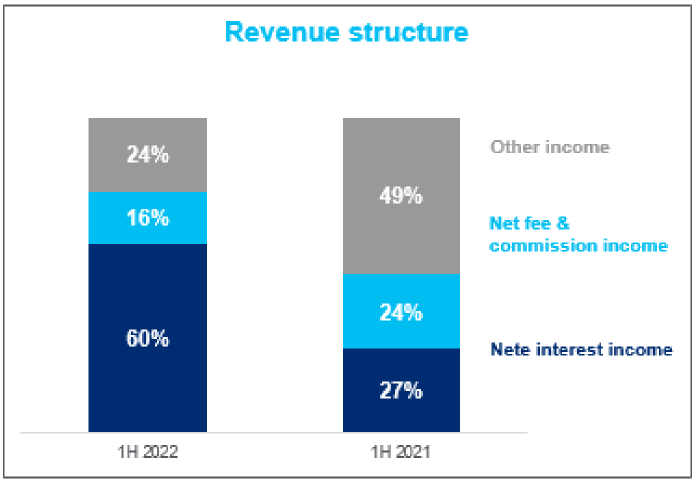
### 2.1.1 Revenues




**Net interest income** accounted for 60% of the Group's total revenues in the first half of 2022.It amounted to PLN 1.1 billion, which means a significant increase by PLN 746.3 million (or 204.2%) compared to the same period of the previous year (i.e. PLN 365.4 million).

Interest income in the first half of 2022 increased by PLN 886.8 million (or 238.0%) to PLN 1,259.4 million. Interest on amounts due from customers, which were the main source of interest income, amounted to PLN 633.8 million, up by PLN 363.5 million (or 134.4%) compared to the first half of 2021. The loan margin increased from 2.52% in the first half of 2021 to 5.61% in the first half of 2022 due to the cycle of interest rate increases by the Monetary Policy Council, initiated in the fourth quarter of 2021 as part of counteracting rising inflation. The increase had the greatest impact on the Consumer Banking segment (mainly on cards receivables). Another significant factor behind the increase in interest income was higher interest income on debt investment financial assets by PLN 377.9 million (i.e. almost six time more), due to the higher NBP reference rate, which was 6.50% at the end of June 2022 compared to 0.10% in June 2021.

The Group's interest expenses were higher by PLN 140.5 million in the first half of 2022 compared to the first half of 2021 and amounted to PLN 147.7 million. The largest nominal increase in interest expenses concerned amounts due to customers (from the financial and non-financial sectors) by PLN 93.0 million compared to the first half of 2021. The Institutional Banking segment (mainly the non-financial sector) had the greatest share in this increase.




**Net fee and commission income** in the first half of 2022 amounted to PLN 302.7 million compared to PLN 323.2 million in the corresponding period of 2021 – down by PLN 20.5 million (or 6.3%). The highest nominal decrease was recorded in revenues from brokerage services by PLN 22.3 million (or 49.7%) mainly due to a one-off transaction in the first half of 2021. At the same time, revenues from intermediation in the sale of insurance and investment products decreased by PLN 9.2 million (i.e. 27.0% YoY), mainly due to lower sales of participation units as a result of the deteriorating economic situation on financial markets. On the other hand, the Bank observed an increase in revenues in the area of custody activities, which increased by PLN 8.7 million YoY (i.e. 14.9%), in the area of payment and credit cards - an increase by PLN 7.8 million YoY (i.e.

13.7%), due to higher customer activity (the volume of transactions made with cards increased by 13% in the first half of 2022 compared to the corresponding period of the previous year) and an increase in revenues from payment orders - an increase by 4.3 PLN million YoY (i.e. 9.3%), mainly in the area of digital customers, which shows the growing share of banks in this customer segment.

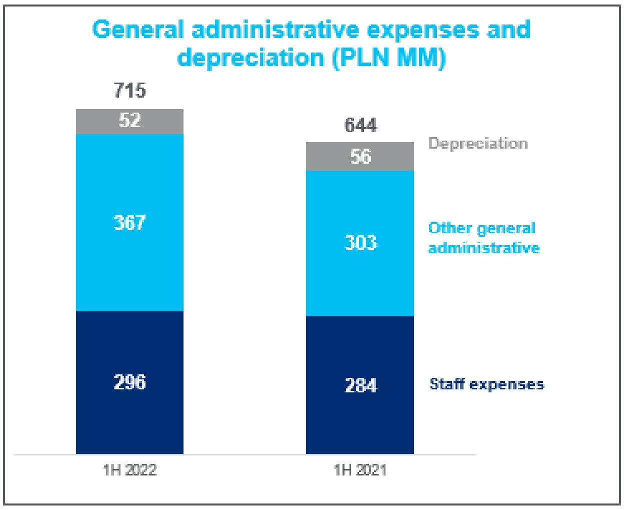
**Other operating income** (i.e. non-interest and non-commission income) in the amount of PLN 433.6 million compared to PLN 672.7 million in the first half of 2021 - a decrease by PLN 239.1 million (or 35.5% YoY). The decrease relates to the result on debt investment financial assets measured at fair value through other comprehensive income (loss achieved in the first half of 2022 in the amount of PLN 35.8 million compared to the profit of PLN 459.1 million in the corresponding period of the previous year). The decrease mentioned above was partially offset by higher net income on trading financial instruments and revaluation (PLN 462.5 million in the first half of 2022 compared to PLN 207.6 million in the first half of 2021). An increase in this result is influenced by the positive valuation of derivative instruments, mainly based on the interest rate due to the increase in market interest rates and higher customer FX income (volume increase by 25 YoY).

### 2.1.2 Expenses

In the first half of 2022 the Group's general administrative and depreciation expenses amounted to PLN 714.8 million vs. PLN 643.8 million in the corresponding period of the previous year, up by PLN 71.0 million (or 11.0%)

An increase was generally due to higher regulatory expenses – the costs of the Bank Guarantee Fund grew by PLN 45.9 million YoY (or 64.7%) due to higher contribution to the bank restructuring fund. As part of administrative expenses, the costs of telecommunications fees and IT equipment also increased by PLN 10.3 million YoY (i.e. 10.2%) due to further investments in digital solutions, also as a result of implementing further solutions in CitiDirect Electronic Banking.

The Bank also recorded an increase in employee expenses by PLN 11.6 million (i.e. 4.1% YoY) due to higher remuneration expenses.




### Employment within the Group

| *FTEs* | 1st half of 2022 | 1st half of 2021 | Change | |
|---|---|---|---|---|
| | | | FTEs | % |
| Average no. of jobs in the period | 2,902 | 2,958 | (56) | (1.9%) |
| No. of jobs at the end of the period | 2,893 | 2,933 | (40) | (1.4%) |

In the first half of 2022, average employment in the Group amounted to 2,902 FTEs, i.e. decreased by 1.9% compared to the first half of 2021. As at June 30, 2022, employment in the Group amounted to 2,893 FTEs, of which 1,524 in Consumer Banking, 620 in Institutional Banking and 749 in support units. As compared with the same period last year, the number of FTEs at the end of the period decreased by 40 (i.e. 1.4%).

### 2.1.3 Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments

### Net impairment and provisions

| *PLN'000* | 1st half of | | Change | |
|---|---|---|---|---|
| | 2022 | 2021 | PLN'000 | % |
| Net impairment allowances for receivables, including | (18,476) | (34,629) | 16,153 | (46.6%) |
| Net impairment allowances for financial assets – Stage 1 | 21,542 | 42,589 | (21,047) | (49.4%) |
| Net impairment allowances for financial assets – Stage 2 | (30,098) | (24,520) | (5,578) | 22.7% |
| Net impairment allowances for financial assets – Stage 3 | (9,920) | (52,698) | 42,778 | (81.2%) |
| Net provisions for granted financial and guarantee commitments | (71) | 14,537 | (14,608) | (100.5%) |
| Net impairment allowances for debt investment financial assets measured at fair value through other comprehensive income | (2,460) | 4,318 | (6,778) | (157.0%) |
| **Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments** | **(21,007)** | **(15,774)** | **(5,233)** | **33.2%** |

**Provision for expected credit losses** on financial assets and provisions for off-balance sheet commitments amounted to PLN 21,0 million (negative impact) in the first half of 2022 compared to PLN 15.8 million (negative impact) in the first half of 2021. The highest nominal change in the amount of net provisions was recorded in the Institutional Banking segment (deterioration by PLN 45.0 million YoY) due to the worsening outlook for the macroeconomic situation. An increase mentioned above of net provisions in Institutional Banking was partially offset by their decrease in the Consumer Banking segment (improvement in the result on expected credit losses by PLN 39.7 million YoY).

### 2.1.4 Tax on certain financial institutions

The total charge to the income statement of Bank Handlowy w Warszawie S.A. Capital Group due to the tax on certain financial institutions for the first half of 2022 amounted to PLN 104.5 million compared to PLN 74.9 million in the first half of 2021, primarily due to increase in the balance of all assets by PLN 11.8 billion (i.e. 20.4%).

### 2.1.5 Ratio analysis

#### Selected financial ratios

| | 1st half of 2022 | 1st half of 2021 |
|---|---|---|
| Return on equity (ROE) * | 14.8% | 7.1% |
| Return on assets (ROA) ** | 1.6% | 0.9% |
| Cost/Income (C/I) | 39% | 47% |
| Loans/Deposits | 48% | 48% |
| Loans/Total assets | 32% | 36% |
| Net interest income to total revenue | 60% | 27% |
| Net fee and commission income to total revenue | 16% | 24% |

** Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis.*

*** Net profit to average total assets calculated on a quarterly basis.*

## 2.2 Consolidated statement of financial position

As of June 30, 2022, total assets of the Group stood at PLN 69.4 billion, up by 7.6% (or 12.2%) compared to the end of 2021.

In terms of assets, the biggest nominal changes in the balance sheet took place in two lines: **debt investment financial assets** and **cash, operations with Central Bank**. The debt investment financial assets balance increased by PLN 7.5 billion (or 36.4%) compared to the end of 2021 as a result of the purchase of Polish treasury bonds and money bills, which resulted in a decrease in the balance in the position cash, operations with Central Bank by PLN 2.4 billion. Debt investment financial assets also had the largest share in the structure of the Group's assets at the end of June 2022. Their share in total assets was 40.4%.

The second largest share in the structure of the Group's assets at the end of June 2022 was amounts due from customers, their share in total assets was 31.9%. The value of amounts due from customers at the end of June 2022 amounted to PLN 22.1 billion and was higher by PLN 0.8 billion (i.e. 3.7%) compared to the end of 2021 thanks to higher loan volumes in the Institutional Banking segment.

#### Consolidated statement of financial position

| *PLN'000* | As of | | Change | |
|---|---|---|---|---|
| | 30 Jun 2022 | 31 Dec 2021 | PLN'000 | % |
| **ASSETS** | | | | |
| Cash and balances with the Central Bank | 4,087,076 | 6,526,743 | (2,439,667) | (37.4%) |
| Amounts due from banks | 2,419,732 | 967,677 | 1,452,055 | 150.1% |
| Financial assets held-for-trading | 10,320,601 | 9,956,212 | 364,389 | 3.7% |
| Hedging derivatives | 0 | 119,290 | (119,290) | (100.0%) |
| Debt financial assets measured at fair value through other comprehensive income | 28,075,626 | 20,590,284 | 7,485,342 | 36.4% |
| Equity and other investments measured at fair value though the income statement | 100,849 | 97,316 | 3,533 | 3.6% |
| Amounts due from customers | 22,117,173 | 21,327,600 | 789,573 | 3.7% |
| Tangible fixed assets | 452,615 | 451,671 | 944 | 0.2% |
| Intangible assets | 1,243,494 | 1,243,160 | 334 | 0.0% |
| Current income tax receivables | 12,057 | 54,721 | (42,664) | (78.0%) |
| Deferred tax asset | 309,220 | 264,313 | 44,907 | 17.0% |
| Other assets | 282,989 | 257,621 | 25,368 | 9.8% |
| Non-current assets held for sale | 0 | 6,163 | (6,163) | (100.0%) |
| **Total assets** | **69,421,432** | **61,862,771** | **7,558,661** | **12.2%** |
| **LIABILITIES** | | | | |
| Amounts due to banks | 3,293,286 | 3,383,353 | (90,067) | (2.7%) |
| Financial liabilities held-for-trading | 9,478,289 | 6,588,482 | 2,889,807 | 43.9% |
| Amounts due to customers | 45,981,076 | 43,507,474 | 2,473,602 | 5.7% |
| Provisions | 130,002 | 142,024 | (12,022) | (8.5%) |
| Current income tax liabilities | 0 | 5,974 | (5,974) | (100.0%) |
| Other liabilities | 3,683,761 | 852,069 | 2,831,692 | 332.3% |

| *PLN'000* | As of | | Change | |
|---|---|---|---|---|
| | 30 Jun 2022 | 31 Dec 2021 | PLN'000 | % |
| **Total liabilities** | **62,566,414** | **54,479,376** | **8,087,038** | **14.8%** |
| **EQUITY** | | | | |
| Ordinary shares | 522,638 | 522,638 | 0 | 0.0% |
| Share premium | 3,001,700 | 3,001,699 | 1 | 0.0% |
| Revaluation reserve | (908,098) | (312,018) | (596,080) | 191.0% |
| Other reserves | 2,826,035 | 2,814,030 | 12,005 | 0.4% |
| Retained earnings | 1,412,743 | 1,357,046 | 55,697 | 4.1% |
| **Total equity** | **6,855,018** | **7,383,395** | **(528,377)** | **(7.2%)** |
| **Liabilities and equity** | **69,421,432** | **61,862,771** | **7,558,661** | **12.2%** |

## 2.2.1 Assets

### Customer net receivables

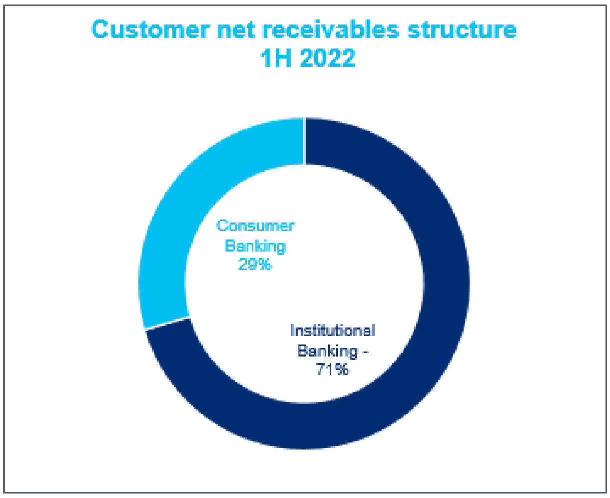
| *PLN '000* | As of | | Change | |
|---|---|---|---|---|
| | 30 Jun 2022 | 31 Dec 2021 | PLN '000 | % |
| **Receivables from financial sector entities** | **3,356,778** | **3,440,104** | **(83,326)** | **(2.4%)** |
| **Receivables from non-financial sector entities, including:** | **18,760,395** | **17,887,496** | **872,899** | **4.9%** |
| Institutional customers* | 12,242,875 | 10,907,847 | 1,335,028 | 12.2% |
| Individual customers, including: | 6,517,520 | 6,979,649 | (462,129) | (6.6%) |
| Unsecured receivables | 4,272,007 | 4,588,736 | (316,729) | (6.9%) |
| Mortgage loans | 2,245,513 | 2,390,913 | (145,400) | (6.1%) |
| **Total net customer receivables** | **22,117,173** | **21,327,600** | **789,573** | **3.7%** |

**Institutional clients include enterprises, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.*

In the first half of 2022 total **net amounts due from customers** amounted to PLN 22.1 billion, up by PLN 0.8 billion (or 3.7%) compared to the end of 2021.

**The net value of loans in the Institutional Banking segment,** being a sum of amounts due from financial sector entities and non-financial sector entities – institutional clients, amounted to PLN 15.6 billion, up by PLN 1.3 billion (or 8.7%) compared to the end of 2021. An increase in loan volumes concerned clients from Commercial Bank and Global segment. A detailed breakdown of assets by individual segments in management view is provided in Chapter VI.

**The net volume of loans made to individual customers** declined compared to the end of December 2021 by PLN 462 million (or 6.6%) and amounted to PLN 6.5 billion. The decrease in loan volumes was due to both lower unsecured receivables (a decrease by PLN 316.7 million), mainly due to a lower balance of cash loans and a decrease in the volume of mortgage loans (a decrease by PLN 145.4 million compared to 2021) resulting from, inter alia, lower credit sales.




### Gross receivables to customers

| *PLN'000* | As of | | Change | |
|---|---|---|---|---|
| | 30 Jun 2022 | 31 Dec 2021 | PLN'000 | % |
| Receivables in PLN | 18,761,603 | 18,663,357 | 98,246 | 0.5% |
| Receivables in foreign currency | 4,146,863 | 3,552,926 | 593,937 | 16.7% |
| **Total** | **22,908,466** | **22,216,283** | **692,183** | **3.1%** |

## Loans to customers by portfolio with/without recognized credit losses

| *PLN'000* | As of | | Change | |
|---|---|---|---|---|
| | 30 Jun 2022 | 31 Dec 2021 | PLN'000 | % |
| **Loans without recognized impairment (Stage 1), including:** | **20,021,979** | **19,571,178** | **450,801** | **2.3%** |
| financial sector entities | 3,358,954 | 3,443,448 | (84,494) | (2.5%) |
| non-financial sector entities | 16,663,025 | 16,127,730 | 535,295 | 3.3% |
| institutional clients* | 11,138,064 | 9,948,056 | 1,190,008 | 12.0% |
| individual customers | 5,524,961 | 6,179,674 | (654,713) | (10.6%) |
| **Loans without recognized impairment (Stage 2), including:** | **2,067,370** | **1,744,692** | **322,678** | **18.5%** |
| financial sector entities | 96 | 2 | 94 | - |
| non-financial sector entities | 2,067,274 | 1,744,690 | 322,584 | 18.5% |
| institutional clients* | 1,062,522 | 917,951 | 144,571 | 15.7% |
| individual customers | 1,004,752 | 826,739 | 178,013 | 21.5% |
| **Loans with recognized impairment (Stage 3), including:** | **806,287** | **900,413** | **(94,126)** | **(10.5%)** |
| financial sector entities | 0 | 0 | 0 | - |
| non-financial sector entities | 806,287 | 900,413 | (94,126) | (10.5%) |
| institutional clients* | 436,564 | 466,719 | (30,155) | (6.5%) |
| individual customers | 369,723 | 433,694 | (63,971) | (14.8%) |
| **Purchased or originated credit-impaired loans:** | **12,830** | **0** | **12,830** | **-** |
| financial sector entities | 0 | 0 | 0 | - |
| non-financial sector entities | 12,830 | 0 | 12,830 | - |
| institutional clients* | 7,687 | 0 | 7,687 | - |
| individual customers | 5,143 | 0 | 5,143 | - |
| **Total gross loans to customers, including:** | **22,908,466** | **22,216,283** | **692,183** | **3.1%** |
| financial sector entities | 3,359,050 | 3,443,450 | (84,400) | (2.5%) |
| non-financial sector entities | 19,549,416 | 18,772,833 | 776,583 | 4.1% |
| institutional clients* | 12,644,837 | 11,332,726 | 1,312,111 | 11.6% |
| individual customers | 6,904,579 | 7,440,107 | (535,528) | (7.2%) |
| **Provision for expected credit losses, including:** | **(791,293)** | **(888,683)** | **97,390** | **(11.0%)** |
| **Total net amounts due from customers** | **22,117,173** | **21,327,600** | **789,573** | **3.7%** |
| **Impairment provisions coverage ratio**** | **74.8%** | **78.8%** | | |
| institutional clients* | 73.2% | 76.1% | | |
| individual customers | 76.7% | 81.7% | | |
| **Non-performing loans ratio (NPL)** | **3.6%** | **4.1%** | | |

* Institutional *clients include enterprises, the public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households.*

** NPL ratio means the share of loans with recognized impairment, including purchased or originated credit-impaired loans in the gross loans to customers*

In the first half of 2022, the non-performing loans ratio (NPL) amounted to 3.58% and was lower than at the end of 2021 (by 0.47 percentage points).

On the other hand, the provision coverage ratio of impairment losses on impaired receivables decreased by 3.98 percentage points compared to the end of 2021 and amounted to 74.8%, mainly due to a decrease in provisions for expected credit losses in the Consumer Banking segment clients.

## Debt securities portfolio

| *PLN '000* | As at | | Change | |
|---|---|---|---|---|
| | 30.06.2022 | 31.12.2021 | PLN '000 | % |
| Treasury bonds, including: | 17,548,203 | 13,497,285 | 4,050,918 | 30.0% |
| Bonds issued by banks, including: | 1,461,904 | 1,663,203 | (201,299) | (12.1%) |
| Bonds hedged in the fair value hedge accounting | - | 848,928 | (848,928) | (100.0%) |
| Bonds issued by financial institutions | 1,833,183 | 2,214,569 | (381,386) | (17.2%) |
| NBP bills | 8,989,515 | 6,996,600 | 1,992,915 | 28.5% |
| **Total** | **29,832,805** | **24,371,657** | **5,461,148** | **22.4%** |

The debt securities portfolio increased as of the end of the first half of 2022 by PLN 5.5 billion (or 22.4%), due to an increase in the volumes of Treasury bonds and money bills of NBP.

### 2.2.2. Liabilities

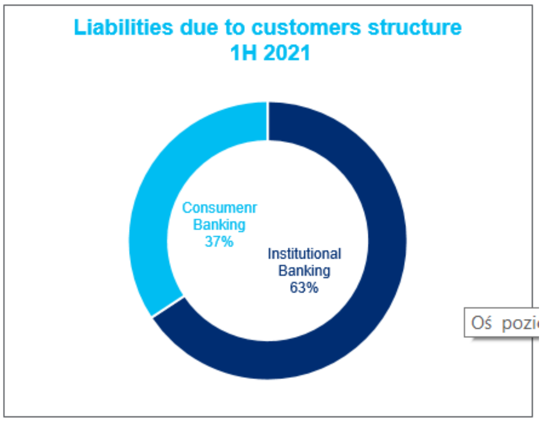
#### Liabilities due to customers

| *PLN'000* | As of | | Change | |
|---|---|---|---|---|
| | 30 Jun 2022 | 31 Dec 2021 | PLN'000 | % |
| **Deposits from financial sector entities** | **3,185,061** | **3,192,860** | **(7,799)** | **(0.2%)** |
| **Deposits of non-financial sector entities, including:** | **40,481,105** | **39,589,082** | **892,023** | **2.3%** |
| non-financial companies | 19,999,062 | 20,377,619 | (378,557) | (1.9%) |
| non-commercial institutions | 491,937 | 465,776 | 26,161 | 5.6% |
| individual customers | 17,716,219 | 16,817,016 | 899,203 | 5.3% |
| public sector units | 2,273,887 | 1,928,671 | 345,216 | 17.9% |
| **Other liabilities** | **2,314,910** | **725,532** | **1,589,378** | **219.1%** |
| **Liabilities towards customers, total** | **45,981,076** | **43,507,474** | **2,473,602** | **5.7%** |
| **Deposits of financial and non-financial sector entities, including:** | | | | |
| in PLN | 30,042,289 | 30,256,988 | (214,699) | (0.7%) |
| in foreign currency | 13,623,877 | 12,524,954 | 1,098,923 | 8.8% |
| **Deposits from financial and non-financial sector entities, total** | **43,666,166** | **42,781,942** | **884,224** | **2.1%** |

In the first half of 2022 **amounts due to customers** constituted the dominant source of financing of the Group's activity and constituted 66.2% of the Group's liabilities and equity. Total amounts due to customers as of the end of June 2022 amounted to PLN 46.0 billion, up by PLN 2.5 billion (or 5.7%) compared to the end of 2021, which was due to increase in term deposits by PLN 3.7 billion (or 73.5%), partially offset by decrease in funds on current accounts by PLN 2.8 billion (ie 7.4%).

**The deposit volumes in the Institutional Banking segment** amounted to PLN 25.9 billion and was stable compared to the end of 2021 (a decrease by PLN 15.0 million, i.e. 0.1%).

**The deposit volumes in the Consumer Banking segment** amounted to PLN 17.7 billion, compared to the end of December 2021 – up by PLN 899.2 million (or 5.3%) as a consequence of the higher balance of term deposits thanks to their increased attractiveness due to higher interest rates.




## 2.3 Contingent liabilities

As at June 30, 2022, exposure from contingent liabilities granted by the Group amounted to PLN 18.7 billion, up by PLN 423.7 million (or 2.3%) compared to the end of 2021. Promised loan commitments represent the largest share in total contingent liabilities granted (i.e. 69%). Promised loan commitments consist of committed but currently unutilized credit lines and unutilized overdraft facilities and credit card limits.

#### Contingent off-balance sheet liabilities granted

| *PLN'000* | As of | | Change | |
|---|---|---|---|---|
| | 30 Jun 2022 | 31 Dec 2021 | PLN'000 | % |
| Guarantees | 2,161,635 | 2,246,001 | (84,366) | (3.8%) |
| Import letters of credit issued | 309,670 | 450,109 | (140,439) | (31.2%) |
| Credit commitments | 12,942,088 | 13,218,765 | (276,677) | (2.1%) |
| Other | 3,330,205 | 2,405,072 | 925,133 | 38.5% |
| **Total** | **18,743,598** | **18,319,947** | **423,651** | **2.3%** |
| Provisions for contingent liabilities granted | 34,154 | 33,910 | 244 | 0.7% |
| Provisions coverage ratio | 0.18% | 0.19% | (0.01%) | (5.26%) |

As at 30 June 2022, the total value of accounts or assets of the Bank's borrowers pledged as collateral stood at PLN 7,136 million, compared to PLN 5,502 million on 31 December 2021.

## 2.4 Equity and total capital ratio

As compared to the end of 2021 the value of equity of the Group as of the end of the first half of 2022 decreased by PLN 528.4 million, i.e. by 7.2%.

### Equity

| | As of | | Change | |
|---|---|---|---|---|
| *PLN'000* | **30 Jun 2022** | **31 Dec 2021** | **PLN'000** | **%** |
| Ordinary shares | 522,638 | 522,638 | 0 | 0.0% |
| Share premium | 3,001,700 | 3,001,699 | 1 | 0.0% |
| Revaluation reserve | (908,098) | (312,018) | (596,080) | 191.0% |
| Other reserves | 2,826,035 | 2,814,030 | 12,005 | 0.4% |
| Retained earnings | 1,412,743 | 1,357,046 | 55,697 | 4.1% |
| **Total equity** | **6,855,018** | **7,383,395** | **(528,377)** | **(7.2%)** |

The equity level is fully sufficient to ensure the financial security of the company and the security of funds deposited in the Bank as well as it fully supports growth opportunities of the Group.

### Total capital ratio

As at the end of the first half of 2022 the total capital ratio (TCR) amounted to 17.7%, compared to 20.1% as at the end of 2021 due to the allocation of a dividend to shareholders from the profit for 2021 in the amount of PLN 714.7 million in accordance with the resolution of the Bank's General Meeting of June 23, 2022.

In the first half of 2022, as well as in 2021 the Group fulfilled all capital adequacy requirements. The capital adequacy level of the Group in the first half of 2022 remained at a safe level, i.e. 6.93 percentage points.

The Bank's capital ratio values take account of:

- The minimum capital adequacy requirement set out in the Capital Requirement Regulation (CRR): a total capital ratio of 8% and a Tier 1 capital ratio of 6%
- The combined buffer requirement – 2.77% on a consolidated basis, consisting of:
  - conservation capital buffer – 2.5%
  - O-SII capital buffer – 0.25%
  - systemic risk buffer – 0.00% (according to the Regulation of the Minister of Finance of March 18, 2020 on the systemic risk buffer liquidation, the obligation to maintain the systemic risk buffer has been abolished);
  - countercyclical capital buffer – 0.02%

The decrease in the TCR in the first half of 2022 compared to the end of 2021 was due to the decrease in the revaluation reserve. The lower revaluation reserve in the first half of 2022 was caused by an increase in the negative valuation of Treasury securities valued by equity.

Detailed information on capital adequacy of the Group in the first half of 2022 is included in Disclosures on capital adequacy.

## 2.5 Earnings forecast for 2022

The Bank as the parent entity did not publish earnings forecast for 2022.

# VI. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2022

## 1. Institutional Bank

### 1.1 Segment results summary

| *PLN'000* | 1st half of 2022 | 1st half of 2021 | Change | |
|---|---|---|---|---|
| | | | PLN'000 | % |
| Net interest income | 723,582 | 172,873 | 550,709 | 318.6% |
| Net fee and commission income | 207,821 | 218,545 | (10,724) | (4.9%) |
| Dividend income | 1,714 | 1,508 | 206 | 13.7% |
| Net income on trading financial instruments and revaluation | 438,108 | 192,815 | 245,293 | 127.2% |
| Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income | (35,762) | 459,106 | (494,868) | (107.8%) |
| Net gain/(loss) on equity and other instruments measured at fair value through income statement | (929) | 3,955 | (4,884) | (123.5%) |
| Net gain/(loss) on hedge accounting | (1,722) | 21 | (1,743) | - |
| Net other operating income | 7,165 | 5,137 | 2,028 | 39.5% |
| **Total income** | **1,339,977** | **1,053,960** | **286,017** | **27.1%** |
| General administrative expenses and depreciation | (365,539) | (311,838) | (53,701) | 17.2% |
| Profit on sale of other assets | 3,215 | (166) | 3,381 | - |
| Provisions for expected credit losses on financial assets and provisions for off–balance sheet commitments | (18,850) | 26,124 | (44,974) | (172.2%) |
| Tax on some financial institutions | (89,784) | (61,376) | (28,408) | 46.3% |
| **Profit before tax** | **869,019** | **706,704** | **162,315** | **23.0%** |
| | | | | |
| **Cost/Income** | **27%** | **30%** | | |

The key highlights that impacted the gross profit of the Institutional Banking segment in the first half of 2022 when compared to the corresponding period of 2021 were as follows:

- Net interest income up by PLN 550.7 million YoY due to increases in the NBP reference rate, which translated into an increase in interest income, mainly in debt investment assets;
- Net fee and commission income down by PLN 10.7 million YoY, mainly thanks to to lower income from brokerage activity due to one-off transactions in the first half of 2021;
- Decrease in other operating income (i.e. non-interest and non-commission income) in the amount of PLN 618.3 million compared to PLN 883.1 million in the first half of 2021 - a decrease by PLN 264.8 million (i.e. 30.0% YoY) .). The decrease relates to the result on debt investment financial assets measured at fair value through other comprehensive income (loss generated in the first half of 2022 in the amount of PLN 35.8 million compared to the profit of PLN 459.1 million in the corresponding period of the previous year).
- Increase in operating expenses by PLN 53.7 million due to higher employee expenses and higher contributions to the bank restructuring fund under the Bank Guarantee Fund.

### 1.2 Institutional Bank and the Capital Markets

#### 1.2.1 Institutional Bank

In the area of institutional banking, the Group provides comprehensive financial services to the largest Polish companies and strategic companies with a large potential of growth, and also to the largest financial institutions and to companies from the public sector.

A shared characteristic of the institutional banking clients is that they need advanced financing products and advice relating to financial services. In this area, the Group ensures a coordinated offer of investment banking, treasury and cash management products and prepares loan proposals that cover differentiated forms of financing. The innovativeness and competitiveness of offered modern financing structures is achieved by combining the knowledge and experience of the Group and thanks to cooperation within the global structure of Citigroup.

At the end of the first half of 2022 there were 5,400 institutional customers (including strategic, global and corporate banking customers) i.e. which means maintaining the level from the first half of 2021. Within the framework of commercial banking (small and medium-sized enterprises, large companies and the public sector), the Group served slightly below 2,700 clients at the end of the first half of 2022, i.e. a decrease by 4% compared to the end of the first half of 2021, when the number of clients was almost 2,800.

In terms of client acquisition in the Commercial Bank segment the Bank attracted 90 new customers in the first half of 2022, the Bank acquired, including 5 from the Large Companies segment, 54 Small and Medium-Sized Companies, 16 International Commercial Bank Clients, 14 Digital and 1 public sector entity. Within the strategic and global client segments, the Bank acquired 25 customer relationships.

The table below presents balances of assets and liabilities in the particular segments according to the management reporting format.

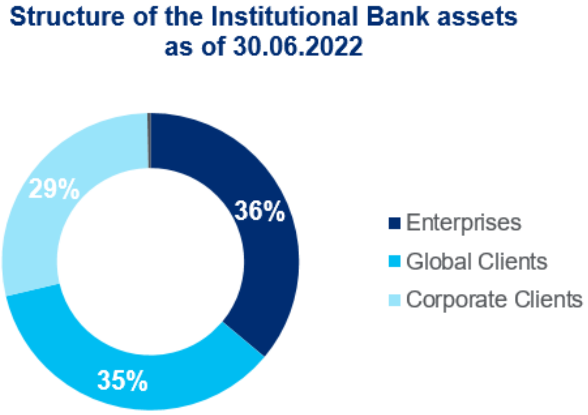
## Assets

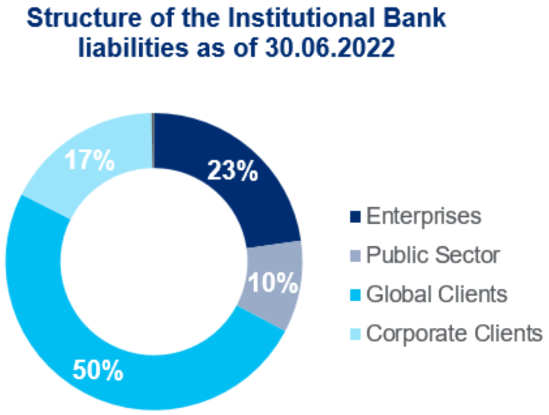
| *PLN million* | 30 Jun 2022 | 31 Dec 2021 | 30 Jun 2021 | Change (1)/(2) | | Change (1)/(3) | |
|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | in PLN | % | in PLN | % |
| Enterprises, including: | 5,039 | 3,968 | 3,650 | 1,071 | 27% | 1,389 | 38% |
| SMEs | 2,013 | 1,636 | 1,392 | 377 | 23% | 621 | 45% |
| Large enterprises | 3,026 | 2,332 | 2,258 | 695 | 30% | 768 | 34% |
| Public Sector | 3 | 55 | 6 | (52) | (95%) | (4) | (58%) |
| Global Clients | 4,914 | 3,999 | 3,528 | 914 | 23% | 1,386 | 39% |
| Corporate Clients | 3,968 | 5,187 | 5,215 | (1,219) | (24%) | (1,247) | (24%) |
| Other | 48 | 0 | 13 | 48 | - | 35 | 260% |
| **Total Corporate Bank** | **13,971** | **13,209** | **12,413** | **763** | **6%** | **1,559** | **13%** |

## Liabilities

| *PLN million* | 30 Jun 2022 | 31 Dec 2021 | 30 Jun 2021 | Change (1)/(2) | | Change (1)/(3) | |
|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | in PLN | % | in PLN | % |
| Enterprises, including: | 5,541 | 5,077 | 5,271 | 464 | 9% | 270 | 5% |
| SMEs | 3,597 | 3,135 | 3,230 | 462 | 15% | 367 | 11% |
| Large enterprises | 1,944 | 1,943 | 2,042 | 2 | 0% | (97) | (5%) |
| Public Sector | 2,438 | 2,083 | 2,311 | 355 | 17% | 127 | 6% |
| Global Clients | 12,117 | 12,806 | 12,553 | (688) | (5%) | (435) | (3%) |
| Corporate Clients | 4,210 | 4,721 | 5,598 | (511) | (11%) | (1,388) | (25%) |
| Other* | 61 | 58 | 69 | 4 | 7% | (8) | (11%) |
| **Total Corporate Bank** | **24,368** | **24,744** | **25,802** | **(377)** | **(2%)** | **(1,434)** | **(6%)** |

** 'Other' includes, among others, clients under restructuring and clients of Handlowy - Leasing Sp. z o.o. who are not clients of the Bank.*




### Key transactions and achievements of the Institutional Banking in the first half of 2021:

| Credit activity | Granting new financing or increasing/extending existing ones in the amount of PLN 2.6 billion<br>• PLN 1.3 B for Commercial Banking clients including a leader acting in a sector being the foundation of the sustainability economy, which is a Polish company and the world's second biggest manufacturer of platinum-group metal;<br>• PLN 750 MM for global clients including a global leader in the automotive industry operating in Poland and for one of the largest retail companies in Poland;<br>• PLN 550 MM for corporate clients including a leading company in the fuel and energy sector and for a company from the pharmaceutical sector. |
|---|---|

| | |
|---|---|
| **Transactional Banking** | **Increasing shares in banking services and transaction banking**<br>• Winning 22 mandates for comprehensive banking services or extending the Bank's cooperation with its clients;<br>• Signing supplier financing agreements, factoring agreements, credit commitments and guarantees for the amount of PLN 360 million. |

### 1.2.2. Activity and business achievements of the Treasury Division

Increased foreign exchange volatility, interest rate revisions, inflationary pressure and rising geopolitical tensions dictated the directions of the Bank's activities in the first half of 2022.

To support the companies working with the Bank, the Treasury Division engaged in particular in:

- ensuring constant access to the market data, economic forecasts and analyses. The most relevant information was delivered to clients via a mobile app or in webinars with lead experts and economists;
- proactively sharing experiences with clients on the possible approaches to questions of the interest rate volatility;
- enabling the settlement of trade contracts in over 140 currencies, addressing changes in supply chains dictated by the geopolitical developments;
- providing support in building a hedging policy for the Bank's clients' foreign currency exposures.

In the first half of 2022, the Bank remained among the leaders in terms of turnover in the spot market, as one of the leaders of Treasury BondSpot.

In the first half of 2022, the Bank was taking up BGK bonds issued for the Anti-COVID-19 Fund.

### 1.2.3. Transaction services

The bank continues efforts striving to simplify and further digitize the processes of managing the funds of corporate clients. In the first half of 2022, the Bank continued to support the digital transformation of its clients as well as their foreign expansion by offering solutions and comprehensive programs facilitating cooperation with counterparties, helping to exploit market trends and leading, as a result, to boosting the competitive edge of the Bank's clients.

| | |
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| **Electronic Banking** | In the first half of 2022, as regards electronic banking, the Bank continued its efforts aimed at offering its clients new functionalities and promoting the already implemented solutions:<br>• **API functionality** – the CitiConnect API, implemented in 2020, was subject to commercialization in the first half of 2022. The solution allows clients to order transfers directly in the ERP system of the supplier, without the need to use bank interfaces. Over 2.5 million API communications initiated by clients from Poland have been serviced in the CitiConnect API infrastructure. They pertained both to initiating payments and information about accounts and transactions.<br>• **CitiDirect BE** – the Bank carried out commercialization of the digital solutions among clients who use this solution. Digital solutions contributed significantly to facilitating the payment management process. The Bank promoted not only the biometric solution, which makes it easier to log in to the system, but also mechanisms which facilitate the management of CitiDirect BE users' entitlements by authorized system administrators. The Bank also continued work to provide customers with a new version of the system. In the following months, pilot disclosure of the system is planned. |
| | In the first half of 2022, the **Bank processed over 17.1 million transactions electronically, i.e. increase by 7% YoY.** During that time, the CitiDirect BE online banking system in Poland was used by more than **5,000 clients.** |
| **Payments and receivables** | First half of 2022 was **a period of a dynamic growth in the volume** of **Express Elixir transfers**. In that period, the Bank recorded a significant **89% increase in the volume of such transfers** compared to the same period of the previous year. The increase in this volume is a result of the continuously growing interest in solutions that make settlements both more available and faster. This also applies to the transfers executed using the **Split Payment Mechanism** – the volumes of instant settlements **increased by 38% YoY**.<br><br>A higher volume of transactions was also recorded in terms of **foreign payments**. The upward trend continued in the first half of 2022 and leveled at **19% YoY**. |

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| | Bank's customers present in international markets could support their financial management using the **Citi Payment Insights** tool, which enables tracking of the payment status or generation of confirmations at the beneficiary's request. |
| **Corporate cards** | In the first half of 2022 the Bank focused on the commercialization of **new system modules, i.e. card application (OLA) and card management (OLM)**, which were implemented in 2021. Owing to these modules, cards can be administered in a fully online process.<br><br>In addition, as compared to the first half of 2021, **the value and number of cashless transactions** with corporate credit cards **increased by 103% and 71%, respectively**, and with debit cards – **by 29% and 76%, respectively**. The achieved increases confirm that the Bank's clients are again active in the area of card payments, which can be connected with the return of business travel after the COVID-19 pandemic and a change in the card use pattern (e.g. for B2B transactions). |
| **Trade finance products** | The first half of 2022 saw a record value of the serviced trade finance transactions, which **increased** in that period by **5% as compared to the prior year period.**<br><br>In trade finance, the Bank actively supports its clients in meeting their needs and pursuing their ambitious business plans. In early 2022, the Bank raised the amount of the reverse factoring program for one of the international clients to PLN 700 million. It was **the biggest program of its kind in the Bank's history**.<br><br>In the first half of 2022, the value of the guarantees issued by the Bank increased by 11% YoY, and the value of opened **documentary letters of credit – by 41%** as compared to the value of these transactions issued in the first half of 2021. |

### 1.2.4 Custody services

The Bank provides custody services for domestic and foreign institutional investors and services of a custodian bank for domestic pension funds and investment funds. For many years, Citi Handlowy has been a leader in the Polish market of depository banks.

As at 30 June 2022, the Bank maintained over 16 thousand of securities accounts and collective accounts.

In the reporting period, the Bank was the depository for open-end pension funds: Aviva OFE Aviva Santander, Nationale - Nederlanden OFE (Open Pension Funds), voluntary pension funds: Nationale - Nederlanden DFE, Generali DFE and Employee Pension Fund Orange Polska.

The Bank was also the depository of investment funds managed by the following investment fund companies: Santander TFI S.A., PKO TFI S.A., ESALIENS TFI S.A., Aviva Investors Poland TFI S.A., Templeton Asset Management (Poland) TFI S.A. and Skarbiec TFI S.A.

Moreover, the Bank was servicing an investment funds and pension funds operating under the Employee Capital Plans programme: PKO Emerytura SFIO, Santander PPK SFIO, Aviva SFIO PPK, Esaliens PPK SFIO, Nationale - Nederlanden DFE Nasze Jutro.

The Bank implemented a system of fines for the delays in the settlement of transactions in the trade in securities. The mechanism was implemented pursuant to the provisions of the Regulation (EU) No 909/2014 of the European Parliament and of the Council on improving securities settlement in the European Union and on central securities depositories. This implementation was a substantial market change made by the European depositories, including KDPW S.A. and KDPW_CCP S.A. operating in the Polish market. The change was an important step in the course of the works carried out over the last few years to streamline the settlement discipline.

The Bank's employees participated actively in the works of the Council of Depository Banks at the Polish Bank Association (ZBP). These efforts aimed at providing comments and opinions regarding the planned amendments to the directives UCITS and AIFMD in the scope of servicing investment funds by depository banks to the ESMA regulator.

### 1.2.5 Brokerage activities

The Group pursues brokerage activity on the capital market via the Dom Maklerski Banku Handlowego S.A. (brokerage house), where the Bank holds 100% share.

As at the end of the first half of 2022, DMBH was the market maker for 67 companies listed on the Warsaw Stock Exchange (of which 20 companies from the WIG20 index), i.e. 16% of the shares listed in its main equity market.

In the first half of 2022, DMBH was the intermediary in in-session transactions accounting for 3.8% of equity turnover in the secondary market. The value of the in-session transactions concluded via DMBH in the equity market on the WSE was PLN 12.2 billion. After the first half of 2022, DMBH was ranked tenth in terms of session turnovers on the WSE Main Market and fourth as a local WSE member.

The number of investment accounts maintained by DMBH was 11.4 thousand as at the end of the first half of 2022, and decreased by 24.8% in comparison to the same period of 2021.

The number of accounts decreased in the reporting period following the termination of agreements for brokerage services after DMBH ceased to provide brokerage services as of July 31, 2022 and clients failed to consent to the further provision of brokerage services, starting from August 1, 2022, by a new entity, Brokerage Office of Bank Handlowy, established within the Bank's structures.

There were 724 new accounts and registers opened in the first half of 2022, 47.2% more than in the same period of 2021.

The first half of 2022 saw a considerable weakening of activity among shareholders and issuers due to the materialized geopolitical risks (the war in Ukraine) and uncertain macroeconomic situation in Poland. The value of capital transactions executed in the first half of 2022 decreased by over half as compared to the prior year period. In the first half of 2022, DMBH carried out the following transactions:

- Ten Square Games S.A. – DMBH acted as the Global Coordinator in the accelerated sale of Ten Square Games shares worth PLN 138 million (January 2022),
- Atlas Estates Limited – DMBH acted as an Intermediary in the RFP for Atlas Estates Limited shares (June 2022).

Furthermore, DMBH worked on preparing transactions of initial and secondary public offerings to be carried out after the first half of 2022.

**Summarized financial data as of June 30, 2022**

| Company | Headquarter | % of authorized capital held by the Bank | Total assets 30 Jun 2022 | Total equity 30 Jun 2022 | Net financial result for the period of 1 Jan – 30 Jun 2022 |
|---|---|---|---|---|---|
| | | % | PLN'000 | PLN'000 | PLN'000 |
| Dom Maklerski Banku Handlowego S.A. | Warsaw | 100.00 | 661,187 | 100,610 | 3,127 |

**Summarized financial data as of June 30, 2021**

| Company | Headquarter | % of authorized capital held by the Bank | Total assets 30 Jun 2021 | Total equity 30 Jun 2021 | Net financial result for the period of 1 Jan – 30 Jun 2021 |
|---|---|---|---|---|---|
| | | % | PLN'000 | PLN'000 | PLN'000 |
| Dom Maklerski Banku Handlowego S.A. | Warsaw | 100.00 | 1,001,591 | 118,710 | 21,120 |

### 1.2.6 Leasing activities

Leasing products continue to be offered by the Bank and are made available as part of the "open architecture", i.e. the Bank's partnership with organizations from outside its Group.

**Summary financial data as of June 30, 2022**

| Company | Headquarter | % of authorized capital held by the Bank | Total assets 30 Jun 2022 | Total equity 30 Jun 2022 | Net financial result for the period of 1 Jan – 30 Jun 2022 |
|---|---|---|---|---|---|
| | | % | PLN'000 | PLN'000 | PLN'000 |
| Handlowy-Leasing Sp. z o.o. | Warsaw | 100.00* | 20,913 | 20,197 | (200) |

* direct share of the Bank - 97.47%, indirect share of the Bank through its subsidiary Handlowy - Inwestycje Sp. z o.o. - 2.53%

**Summary financial data as of June 30, 2021**

| Company | Headquarter | % of authorized capital held by the Bank | Total assets 30 Jun 2021 | Total equity 30 Jun 2021 | Net financial result for the period of 1 Jan – 30 Jun 2021 |
|---|---|---|---|---|---|
| | | % | PLN'000 | PLN'000 | PLN'000 |
| Handlowy-Leasing Sp. z o.o. | Warsaw | 100.00* | 21,349 | 20,640 | (198) |

* direct share of the Bank - 97.47%, indirect share of the Bank through its subsidiary Handlowy - Inwestycje Sp. z o.o. - 2.53%

# 2 Consumer Bank

## 2.1 Segment results summary

| *PLN'000* | 1st half of 2021 | 1st half of 2020 | Change | |
|---|---|---|---|---|
| | | | PLN'000 | % |
| Net interest income | 388,110 | 192,561 | 195,549 | 101.6% |
| Net fee and commission income | 94,871 | 104,608 | (9,737) | (9.3%) |
| Dividend income | 7,737 | 7,589 | 148 | 2.0% |
| Net income on trading financial instruments and revaluation | 24,419 | 14,772 | 9,647 | 65.3% |
| Net gain/(loss) on equity and other instruments measured at fair value through income statement | 4 463 | - | 4,463 | - |
| Net other operating income | (11,574) | (12,167) | 593 | (4.9%) |
| **Total income** | **508,026** | **307,363** | **200,663** | **65.3%** |
| General administrative expenses and depreciation | (349,211) | (331,928) | (17,283) | 5.2% |
| Profit on sale of other assets | (187) | (267) | 80 | (30.0%) |
| Provisions for expected credit losses on financial assets and provisions for off–balance sheet commitments | (2,157) | (41,898) | 39,741 | (94.9%) |
| Tax on some financial institutions | (14,680) | (13,517) | (1,163) | 8.6% |
| **Profit before tax** | **141,791** | **(80,247)** | **222,038** | **(276.7%)** |
| | | | | |
| **Cost/Income** | **69%** | **108%** | | |

The key highlights that impacted the gross profit of the Consumer Banking segment in the first half of 2022 compared to the corresponding period of 2021 were as follows:

- Increase in the net interest income as a result of significant increase in interest rates by the Monetary Policy Council. The reference rate increased from 10 base points in the first half of 2021 to an average of 440 points in the first half of 2022. The aforementioned increase had the greatest impact on unsecured receivables due to the increase in the maximum interest rate from 7.2% to an average of 15.8% in the first half of 2022. At the same time, as a result of increasing the interest rate on deposits, interest expenses increased while increasing the deposit balance (+6.2% YoY). The credit products balance decreased by 8.4% YoY;
- Decrease in net fee & commission income mainly due to the decrease in investment products sale as a result of deterioration of market sentiment and lower commissions on credit products as a result of growing interest rates and price pressure on the market;
- Increase in the result on trading financial instruments, resulting from the increase in revenues on FX transactions, which particularly gained strength after the outbreak of the conflict behind the eastern border of Poland;
- Recognition of a valuation income in line result on equity investments;
- Increase in operating expenses caused mainly by an increase in regulatory charges (BFG) as well as by increasing remuneration and other operating costs, which have been partially offset by depreciation;
- Improving the result on the value of financial assets and reserves for non-balance liabilities thanks to the sale of part of the portfolio and improving the quality of the current portfolio.

## 2.2 Selected business data

| *'000* | 1st half of 2022 | 1st half of 2021 | Change | |
|---|---|---|---|---|
| Number of individual customers | 582.9 | 621.8 | (38.9) | (6.3%) |
| Number of current accounts | 472.9 | 453.0 | 19.9 | 4.4% |
| Number of savings accounts | 117.1 | 119.8 | (2.7) | (2.3%) |
| Number of credit cards | 504.5 | 568.3 | (63.8) | (11.2%) |
| Number of debit cards | 242.5 | 233.3 | 9.2 | 3.9% |

### Receivables from individual clients – management view*

| *PLN '000* | 30.06. 2022 (1) | 31.12.2021 (2) | 30.06.2021 (3) | Change YTD | | Change YoY | |
|---|---|---|---|---|---|---|---|
| | | | | PLN '000 | % | PLN '000 | % |
| Unsecured receivables, including: | 4,272,007 | 4,588,736 | 4,731,915 | (316,729) | (6.9%) | (459,908) | (9.7%) |
| Credit cards | 2,315,552 | 2,395,764 | 2,421,210 | (80,212) | (3.3%) | (105,658) | (4.4%) |
| Cash loans | 1,915,798 | 2,146,087 | 2,270,127 | (230,289) | (10.7%) | (354,329) | (15.6%) |
| Other | 40,657 | 46,885 | 40,578 | (6,228) | (13.3%) | 79 | 0.2% |
| Mortgage loans | 2,245,513 | 2,390,913 | 2,333,039 | (145,400) | (6.1%) | (87,526) | (3.8%) |
| **Total net individual clients' receivables** | **6,517,520** | **6,979,649** | **7,064,954** | **(462,129)** | **(6.6%)** | **(547,434)** | **(7.7%)** |

** The management view presents the breakdown of receivables from individual clients by product type in a subjective manner, based on the presentation assumptions adopted by the Bank.*

## 2.3 Business highlights

### Banking accounts

#### Current accounts

The total **balance on accounts** during the first half of 2022 decreased by less than 0,5% to **PLN 10.87 billion** as compared to the end of the first half of 2021. The decrease in the balance is a consequence of the transfer of funds accumulated on current accounts to the time deposits accounts. The **number of personal accounts** at the end of June 2022 reached the level of **473 thousand**, of which 259 thousand were accounts in PLN, and 213 thousand – accounts maintained in foreign currencies.

#### Savings accounts

The number of savings accounts as at the end of the first half of 2022 was **117 thousand**, their total balance exceeded **PLN 2.6 billion**, as compared to 120 thousand savings accounts with the total balance exceeding PLN 3.3 billion in the prior year period. The decrease in the number of savings accounts and balances is caused, as in the case of current accounts, by **moving funds to the accounts of time deposits, whose balance increased nearly four times from PLN 0.7 billion to PLN 2.7 billion as compared to the first half of 2021.**

#### Changes to the ranges to the products offered

In the first half of 2022, in response to the increase in market rates, the Bank increased interest rates on the PLN Savings Accounts twice. At present, on the Konto SuperOszczędnościowe (SuperSavings Account) deposits up to PLN 20,000 bear interest of **5.50%,** for deposits above that amount the interest is 2.50%. On the Konto Oszczędnościowe (Savings Account), the interest rate is 2.50%, regardless of the amount of the balance. The Bank implemented similar changes in the interest rates on PLN Term Deposits, for example, holders of a Citigold Private Client account are offered an interest rate of **4.20%** p.a. on a 6-month deposit.

In the first half of 2022, the Bank continued its efforts aimed at acquiring new CitiKonto, Citigold and Citigold Private Client accounts, by maintaining attractive rewards under special offers, promoting new editions of advertising campaigns on the Internet, on social media and under cooperation with external online platforms. Acquisition increased as a result of these activities, e.g. **the acquisition of CitiKonto account increased by 36% as compared to the first half of 2021.**

In June 2022, the Bank withdrew Citi Global Transfers from its offer.

#### Awards and honors

In this year's edition of the renowned Euromoney magazine survey, Citi Handlowy's private banking offer was once again named one of the best-of-its-kind services in Poland. The bank won the podium in 14 out of 17 surveyed categories. The results of the survey were published on 9 February 2022.

High marks were given to the wealth management, investment advice for different client groups, technological advancement and the Bank's ESG/sustainable investing initiatives, among others.

| | |
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| **Credit cards** | As at the end of the first half of 2022, the number of credit cards was 504,500.<br><br>The credit cards portfolio amounted to PLN 2.4 billion as at the end of the first half of 2022, which means that the Bank was **still the leader in the credit card market, in terms of the credits** granted on the credit cards, with a market share of 19.3%, according to data as at the end of June 2022.<br><br>A high level of activation and transactions was maintained for newly-acquired clients. In the first half of 2022, the acquisition structure of credit cards was dominated by the Citi Simplicity card, with a share in acquisition leveling at 95%. **Credit Card of Citi Handlowy wins the Golden Banker award for the seventh consecutive time, in the category The Best Credit Card in Poland – this time it is the Citibank BP Motocard.**<br><br>In the first half of 2022, the Bank increased the acquisition of cards issued in cooperation with **OBI** in the scope of **purchases under the "Komfort" Instalment Payment Plan on a credit card** by 50% vs. second half of 2021. The partner's clients can apply online, in an entirely self-service mode, for a credit card with an option of instalments on the card. |
| **Cash loans and hire purchase products associated with credit card accounts** | The balance of unsecured loans (cash loans and limits to credit cards) amounted to PLN 2.0 billion as at the end of the second quarter of 2022, i.e. it declined by 12% versus the same period in the previous year.<br><br>The sales of the above loans totaled PLN 309 million in the second quarter of 2022 and was lower by 13% as compared to the same period in the previous year. The decrease in sales and the loan balance is related to the increase in interest rates (as a result of which, inter alia, the number of customers deciding to repay loans earlier in order to avoid higher interest costs and the decrease in customer creditworthiness) as well as the geopolitical situation increased. |
| **Mortgage products** | In the first half of 2022, the Bank was still selling mortgage loans via its own sales channels and credit agencies, rolling out its sales also in the online channel. The offer of mortgage loans was continuously directed primarily to selected client segments, that is, Citigold Private Client, CitiGold and Citi Priority.<br><br>The sales of mortgage products in the first half of 2022 reached the value of PLN 202 million. As at the end of that period, the mortgage portfolio amounted to PLN 2.2 billion, i.e. by 4% less than in the first half of 2021. Decrease in the balance is caused by overpayments that reflect the dynamic increase in interest rates. |
| **Investment and insurance products** | As at the end of the first half of 2022, the funds under management as part of investment products (including investment insurance products, without dual currency investments) acquired by retail clients via the Bank were 26% lower as compared to the same period in 2021.<br><br>This decrease was recorded mainly by investment funds, financial instruments purchased by the Bank's Clients through the Brokerage House of Bank Handlowy S.A., primarily as a result of a drop in market valuation and structured notes upon their maturity dates. In the structured product segment, the Bank completed 2 subscriptions for PLN denominated structured notes in the first half of 2022.<br><br>The Bank introduced 4 participation units of new investment funds to its offer<br><br>During the first half of 2022, the Bank continued the development of offering insurance products in the various sales channels. It focused its offer on the affluent clients of the Citigold and Citigold Private Client segments. |

## 2.4 Development of distribution channels

### 2.4.1 Branch network

#### Citigold and Smart Branches

In the hirst half of 2022, the Bank did not make any changes to the number or location of its outlets. The bank branch network included 18 outlets, including 9 Hub Gold branches, 8 Smart branches and one corporate branch.

In the retail network of the Bank, the first six months of the year were, above all, a period of a gradual (and safe both for employees and clients) lifting of restrictions and preventive measures implemented during the COVID-19 pandemic, as the standard customer service processes were being restored. At the same time, the Bank carried out optimization activities to improve the effectiveness and functioning of the retail ecosystem.

Bank focused on the ability to service customers – refugees from Ukraine. Along with the introduction of a dedicated product, a personal account based on a Basic Payment Account, the Bank had all documents prepared in Ukrainian and in Russian and it also adapted the account opening procedures. Branch employees received additional information and training as well as more support in the scope of servicing Ukrainian customers,

### Number of branches and other points of sale / touch points at the end of the period

| | 30.06.2022 (1) | 31.12.2021 (2) | 30.06.2021 (3) | Change (1)/(2) | Change (1)/(3) |
|---|---|---|---|---|---|
| **Number of branches*:** | **18** | **18** | **19** | **0** | **(1)** |
| HUB Gold | 9 | 9 | 9 | 0 | 0 |
| Smart branch | 8 | 8 | 9 | 0 | (1) |
| Corporate branch | 1 | 1 | 1 | 0 | 0 |

*Branches classified according to a type of provided services into: Hub Gold (branches with separate Citigold customer service zones) and modern Smart branches.

## 2.4.2 Internet and telephone banking

### Internet Banking

The online platform of the Bank for retail clients is built in a responsive technology, i.e. it aligns itself with a device used by the client. Modern design was inspired by comments of clients and extended functionality makes other channels unnecessary. One of the improvements is for credit card holders, which can manage their card limit, convert transactions into installments or buy insurance products by themselves. In addition, an investment profile can be created and updated in accordance with the MIFID II regulation. Electronic banking also includes a transaction module for investment funds and a Citi Kantor - currency exchange module, which allows, among others, to place a conditional order and set a currency alert.

The number of active users of Citibank Online, i.e. those who logged in to the online or mobile banking service via a browser or the Citi Mobile application at least once in every 90-day period, was 363,000 as at the end of the first half of 2022. The **share of active Citibank Online users** in the entire client portfolio of the Bank was **64%** as at the end of June 2022, i.e. it **increased by 3 p.p. YoY**.

At the same time, **digital users accounted for 83% of all transactionally active clients** at the end of the first half of 2022, i.e. the same level as in the second quarter of 2021.

### Mobile Banking

Responsive technology gives the client access to all functionalities in Citibank Online on any device they may use. In addition, clients have access to the mobile application which features such functions as free Push notifications, which keep the client updated on the changes on the account or card, and login activation with the use of a fingerprint or face recognition, which makes access to the application easier. The clients shall profit from the simplified and intuitive navigation, new graphic design and mobile authorization service - Citi Mobile Token. The clients have had access to, among other functionalities, simplified and intuitive navigation, a new layout and a mobile authorization service - Citi Mobile Token. The application also offers a currency exchange module, Citi Kantor, and a multi-currency service, Citibank Global Wallet, which permits automatic currency account alignment with the transaction currency without manually reassigning the card. The application also includes a module presenting offers of products and services tailored to the needs of customers, and a section that allows you to recommend products to friends directly from the application.

The Bank's application also offers the BLIK payment method, which allows payments at online, traditional and service outlets and ATM withdrawals, as well as instant BLIK Phone Transfers between the clients of different banks. Consequently, each month of the first half of 2022 saw regular increase of BLIK payments. **The number of BLIK payments by the Bank's clients increased by 14% and the number of BLIK Phone Transfers increased by 18% per month on average.**

As at the end of the first half of 2021, the number of active users of mobile banking, i.e. those who used mobile banking at least once in every 90-day period via the application or Citibank online in responsive technology, amounted to 282,000, i.e. increased by 12% as compared to the end of the first half of 2021.

The share of active users of mobile banking in the retail client portfolio of the Bank was 50%, as at the end of June 2022, i.e. increased by 8 p.p. as compared to the same period in 2021.

At the same time, at the end of the first half of 2022, **mobile users accounted for 66% of all transactional active customers, which is an increase by 9 p.p. compared to the second quarter of 2021**.

### Social media

The first half of 2022 was a continuation of the Bank's active operations in Social Media channels. In addition to its presence on Facebook, Twitter and LinkedIn, the Bank is also increasing its activity on the constantly developing Instagram – further publishing in "stories" format and testing the new possibilities in "rees" format in order to expand the points of bank-customer interactions. Also, the bank's creations are visible on Tiktok - the platform beating records of the popularity. The campaigns on this platform were awarded the Golden Arrow statuette.

Communications in Social Media are based on areas that build awareness of new products, activate client portfolios, inform clients about the Bank's CSR activities. Social Media is also a channel for acquiring new customers.

In the first half of 2022, Bank's communication on Facebook reached an average 1.6 million unique users per month. Users of Facebook and Instagram had, an average, 2.3 contacts with the marketing materials of the Bank per month. In the first half of 2022, 126 posts were published on Facebook (both on the Wall and as part of Dark Posts).

The engagement rate (video views and activity for post views ratio), which shows what percentage of recipients interacted with the Bank's communication, leveled at 35.4%, as averaged for all posts published in the first half of 2022.

The Bank has **138,000** followers on Facebook.

## 3. Changes in information technology

In the first half of 2022, a strategic goal of the Bank in the area of IT technology was to continue increasing the competitiveness of the Bank by providing top quality products and services with the extensive use of innovative solutions, digitization and automation and concurrently with cost optimization. In accordance with prevailing market trends, the technology of the Bank is based, to a large extent, on centralized services and outsourcing. The services centralization processes enable the Bank to generate savings, improve quality, standardize processes and ensure a high level of control and information security. The Technology Division of the Bank focused its activities on the development and implementation of solutions which promote an electronic distribution the channels based on the most advanced online and mobile solutions. Projects to implement products that support the COVID-19 anti-crisis shield were still continued.

IT processes of the Bank are executed in accordance with international standards, which was confirmed, in the first half of 2022, by the positive outcome of recertification/supervisory audits of compliance with ISO 20000 version 2018 (information technology – service management) and ISO 27001 (information security management).

The most crucial modifications and improvements implemented in the first half of 2021 included:

- **in institutional banking:**
  - **continuation of the implementation of the governmental PFR Anti-Crisis Shield,** which is to help companies maintain their financial liquidity during COVID-19 pandemic. The role of a Bank is to implement a solution that enables its business clients to process documents required to obtain PFR support and enables the Bank to exercise indirect control of an applicant, and to implement a process for subvention repayment administration;
  - **implementation of further solutions in the CitiDirect electronic banking system** - aimed at increasing the level of digitization of the services offered, including a new module for managing credit positions. As a result of the implementation, the Bank expects to increase the level of digitization of its services and improve customer satisfaction with electronic banking.
  - **implementation of a number of tools supporting automation and efficiency of back-office processes** – the implemented workflow solutions are aimed at boosting business effectiveness and quality in the Bank's back-office processes;
- **in consumer banking:**
  - **implementation of a number of changes to improvement of the online and mobile banking platform** (addition of a new functionality and products) in order to increase the client satisfaction level, revenues and security;
  - **implementation of tools supporting automation and digitization of sales processes** (straight through processing) in the area of consumer banking products - for credit card processes, cash loans and accounts;
- **in the scope of adaptation of systems of the Bank to ensure their compliance with regulatory requirements:**
  - **implementation of a number of changes to adapt the Bank to the regulatory changes** – the solutions are implemented to prepare the Bank to service new rates, the so-called Risk-Free-Rates;
- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - continued implementation of improvements to increase the security of use of the CitiBank Online platform, including the implementation of additional authentication mechanisms at the server level to secure the systems against possible attacks and manipulation of data of defined customers of the client;
  - introduction of improvements in mobile banking for retail clients to minimize the exposure of applications to the risk of fraudulent transactions and to control versions of certificates, requirements related to a secure runtime environment as well as pinning a device and application to a specific user;
  - extension of existing and addition of new solutions in the data leakage prevention (Data Leakage prevention systems), which have significantly mitigated the risks connected with data leaks;
  - modernization of the network infrastructure architecture of the Bank's main locations using SDN (software defined network) technology, increasing the degree of automation of control and management of the Bank's network layer devices;

Technology units proactively develop and improve their portfolios of services to fully meet both current and future business needs of the Bank. They propose and deliver to their business partners optimal technology solutions used to build competitive advantage. Technology units actively support initiatives which enable a broader use of information technologies that automate processes at the Bank and increase the services digitization level.

Pending and not completed initiatives and modifications of systems which will affect the operations of the Bank in the near future are presented below:

- **in institutional banking:**
  - **implementation of solutions for robotization and automation of operating processes of the Bank** – the implementation of further automations for current business processes;
  - **implementation of solutions supporting outgoing and incoming payments processing within an extended time window** – the solution is meant to enable corporate payments handling in a wider availability window close to 24/7. As a result of the implementation, the Bank expects higher processed payment volumes;
  - **integration of Bank Handlowy and Brokerage House systems** - the implementation of solutions is aimed at enabling the service of clients of the brokerage house from the structures of Bank Handlowy and optimizing costs by achieving the synergy effect;
  - **ongoing identification and elimination of safety gaps in used systems, including updating systems components to versions supported by manufacturers;**
- **in consumer banking:**
  - **implementation of solutions for robotization and automation of operating processes of the Bank** – implementation of automation for current business processes;
  - continued **automation and digitization of sales processes (straight through processing) in the area of consumer banking products** – for credit card, cash loan and account-related processes**;**
  - **continued improvement of the online and mobile banking platform** (addition of a new functionalities and products) in order to increase the client satisfaction level, revenues and security;
  - **ongoing identification and elimination of safety gaps in used systems, including updating systems components to versions supported by manufacturers;**
- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - implementation of additional new-generation security solutions in banking systems;
  - continued modernization of the architecture of network infrastructure of the Bank's main locations using SDN technology (software defined network), increasing automation of control and management of the Bank's network devices.
  - implementation of a new backup data processing center in Poland (under the co-location model) as a location alternative to the local infrastructure in Warsaw;
  - implementation of the Microsoft365 office bundle to improve the efficiency of the Bank's employees (in the first phase, users are planned to be migrated to M365 in the version without the computing cloud);
  - migration of the IT infrastructure management system, ServiceNow 3.0, to the cloud;
  - preparation works before using AWS cloud and GCP services for data processing (in the first stage for data classified as internal):
  - implementation of the mechanisms additionally raising the accessibility and redundancy of mobile phone recordings.

The Bank developed, implemented and has maintained a business continuity management system (BCMS), which is oriented to achieving results reflecting the core principles and values of the Bank in line with the Bank's strategy. The Bank designed business continuity plans and contingency plans for critical processes, which ensure continuity of processes during an emergency. The plans ensure an efficient and well-balanced continuity of critical services and products of the Bank in the required time. The plans are subject to periodic reviews and tests, and the test results are used to improve the plans and the entire BCMS. The Bank maintains the BCMS in line with the international ISO22301 standard – in Q1 2022 the Bank passed the periodic audit for ISO22301 recertification.

## *4.* Equity investments of the Group

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In the first half of 2022, the Bank continued to pursue its earlier equity investment policy. The Bank managed the strategic investment portfolio in order to maximize profits in the long term, increase its market share, stimulate development of the Bank's relations and expand the Bank's offering; the Bank managed the divestment portfolio in order to optimize gains on equity transactions and minimize the risk inherent in such transactions.

## 4.1 Strategic investment portfolio

This portfolio includes companies running a business in the financial sector which contribute to the Bank's product offering, bring prestige to the Bank's operations and strengthen its competitive position in the Polish financial services market.

Strategic holdings also include infrastructure providers operating for the benefit of the financial sector. The Bank holds minority interest in such companies but they are of strategic importance to the Bank in view of their operations as well as their cooperation with the Bank.

The Bank intends to retain its strategic holdings in infrastructure providers and play an active role in defining the strategic directions of their development by exercising its right of vote. The overall aim of the Bank when exercising corporate governance over such companies is to maintain their development without affecting their business operations, which is taken advantage of by the Bank as well as other financial market participants.

## 4.2 Portfolio of investments intended for sale

Divestment holdings are entities in which the Bank's investment is not strategic. They include entities held directly and indirectly by the Bank, as well as special purpose vehicles used by the Bank to execute equity transactions. Some of these holdings are restructured exposures which originate from debt-to-equity conversion performed by the Bank.

The strategic aims for the Bank with regard to such companies is to gradually reduce the Group commitment. The assumption is that individual participations will be sold whenever market conditions are most favorable. The portfolio of companies intended for sale includes equity investments without a predetermined rate of return. The Bank is not planning any new equity investments which would be sold later. The portfolio of companies intended for sale might be increased with additional exposure taken over by the Bank as part of debt for capital swaps or acquired in the course of operating activities.

## 4.3 Special-purpose investment vehicles

As at 30 June 2022, the Group included two investment vehicles through which the Bank runs capital transactions. The activity of the companies was financed with the partner's returnable contributions to capital and with their net profits.

As the Bank continues to pursue a strategy of restricting the activity run through special-purpose investment vehicles, it is expected that further investment vehicles will be gradually sold or liquidated.

According to information available as at the date of preparation of the financial statements, the main financial data of the companies in question as at 30 June 2022 were as follows:

| Company | Headquarter | % of authorized capital held by the Bank | Total assets 30 Jun 2022 | Total equity 30 Jun 2022 | Net financial result for the period of 1 Jan – 30 Jun 2022 |
|---|---|---|---|---|---|
| | | % | PLN '000 | PLN '000 | PLN '000 |
| Handlowy - Inwestycje Sp. z o.o. | Warsaw | 100.00 | 10,440 | 10,398 | (60) |
| Handlowy Investments S.A. | Luxemburg | 100.00 | 4,496 | 4,398 | (191) |

| Company | Headquarter | % of authorized capital held by the Bank | Total assets 30 Jun 2021 | Total equity 30 Jun 2021 | Net financial result for the period of 1 Jan – 30 Jun 2021 |
|---|---|---|---|---|---|
| | | % | PLN '000 | PLN '000 | PLN '000 |
| Handlowy - Inwestycje Sp. z o.o. | Warsaw | 100.00 | 10,613 | 10,557 | (52) |
| Handlowy Investments S.A. | Luxemburg | 100.00 | 4,687 | 4,571 | (62) |

# VII. Key risk factors relating to the operations of the Capital Group of Bank Handlowy w Warszawie S.A.

## 1. Regulatory risk

In the first half of 2022, the financial and organizational situation of the Group was affected, among other things, by:

| Legal acts / regulations | Effective date and summary of new requirements |
|---|---|
| Regulation of the Minister of Finance, Funds and Regional Policy dated 08 June 2021 on the risk management and internal control system and remuneration policy at banks | • Date: 11 June 2021, with exceptions:<br>• The most important changes include:<br>1) remuneration policy;<br>• requirement to ensure that the remuneration policy adopted at the bank is gender neutral;<br>• requirement to ensure that a part of the variable remuneration will be paid no earlier than within 4 to 5 years from the completion of the evaluation period, and in the case of the supervisory board of an important bank and the senior management of an important bank – no earlier than within 5 years;<br>2) internal control system:<br>• the obligation to maintain controls adapted to the bank's specific nature covering, among others, legal safeguards (possibility to file a lawsuit when an agreement is violated by a supplier or counterparty and when contractual penalties are imposed) and insurance (mandatory or necessary for a safe and uninterrupted business activity of the bank);<br>• procedures of anonymous notification of infringements of law and policies and ethical standards applied at a bank;<br>• protection of personal data of a reporting person and a person accused of the infringement, in compliance with the GDPR;<br>3) estimation of internal capital and maintenance of an appropriate level of equity according to the bank's policy – revocation of the relevant provisions of the Regulation;<br>4) risk management system. |
| Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014. | • Date: 01 January 2018<br>• This regulation implements, among other things, a common framework which is to ensure accuracy and integrity of indices used in the EU as benchmarks in financial instruments and financial contracts, as well as the protection of consumers and investors.<br>• The regulation also applies to entities which provide benchmarks or input data for a benchmark and to supervised entities which use benchmarks in financial contracts and financial instruments. |
| Regulation of the Council of Ministers of 06 May 2021 on the implementation of certain restrictions, obligations and prohibitions in connection with the state of epidemic | • Those regulations have introduced various restrictions and prohibitions related to the SARS-CoV-2 epidemic. |
| The Act of 31 July 2019 on amending certain acts to reduce regulatory burdens | • Date: 01 January 2021<br>• amendment of the Civil Code whereby protective measures will apply to consumers regarding, among other things, abusive clauses in respect of natural persons concluding an agreement (with, for instance, the Bank) directly connected to that person's business activity if and when it can be inferred from its provisions that the agreement is not of professional nature to that person. |
| Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on prudential requirements for investment firms and amending Regulations (EU) 1093/2010, (EU) 575/2013, (EU) 600/2014 and (EU) 806/2014 (IFR) and the Draft Act | • Its effective date is 26 June 2021.<br>• The purpose of the IFD Directive and the IFR Regulation is to create a uniform, integrated regulatory framework for investment firms. Due to their diverse business profiles, investment firms are subject to numerous exemptions from legal requirements in individual EU countries. This results in regulatory complexity for many companies, especially those operating across multiple EU countries. |

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| amending the Act on Trading in Financial Instruments and Certain Other Acts implementing the IFD Directive (Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU | • Therefore, the above-mentioned EU rules aim to create a system of prudential supervision for non-systemically important investment firms depending on their size and their interconnectedness with other financial and economic actors.<br>• Under the new prudential regime for investment firms in the IFD/IFR package, investment firms are divided into three categories based on their size and their interconnectedness with other financial and economic actors. The first category includes systemically important investment firms, the largest and most interconnected, which are still subject to the existing prudential framework under the CRR and the CRD (need to be authorized as a credit institution). The second category includes entities that do not generate systemic risk, but are most likely to generate risk to clients, markets or proper functioning of investment firms. These should, therefore, be subject to specific prudential requirements tailored to their specific risks. The third category are small and non-interconnected investment firms with the least stringent requirements. At the same time, mechanisms for monitoring companies are provided using the criteria based on which the category (classification) depends.<br>• Polish legislation implementing the IFD/IFR package includes, above all:<br>1) The Act of 01 October 2021 amending the act on trading in financial instruments and certain other acts<br>2) Regulation of the Minister of Finance of 08 December 2021 on estimation of internal capital and liquid assets, risk management system, supervisory review and evaluation, as well as remuneration policy at a brokerage house and a small brokerage house. |
| Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on disclosure of information related to sustainable development in the financial services sector. | • Date: 10 March 2021 (with exceptions)<br>• Introducing obligations related to disclosure requirements for specific information on risks to sustainable development (an environmental, social or management event or conditions that, if occur, may have a material adverse effect on the value of investment).<br>• Applicable to the investment advice activities of the Bank and DMBH<br>• The detailed requirements concern, inter alia, publication of strategies for implementing into business activities sustainable development risks, transparency of remuneration policies and disclosure of information on how to ensure consistency of these policies with the implementation of sustainable development risks in business activities, inclusion in the information presented to the client on how sustainable development risks are introduced in services and on the outcome of assessment of the likely impact of these risks on returns on financial products covered by investment advice, transparency in promoting the environmental or social aspect in information for the client.<br>• Integration of sustainability risks into risk policies and procedures. |
| Act of 25 February amending the Banking Law Act and certain other acts | • Date: 2021 and partially in 2023.<br>• The regulation is meant, among other things, to implement Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (CRD V) and to apply Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, as well as Regulation (EU) No. 648/2012; |
| The ruling of the Court of Justice of the European Union of 11 September 2019 on the interpretation of Article 16.1 of the Directive of the European Parliament and of the Council 2008/48/EC of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC, concerning the settlement of cost of borrowing in the case of an earlier repayment. | • Announcement date: 11 September 2019<br>• The position of the UOKiK (Office of Competition and Consumer Protection) clearly shows how the conclusions from the judgment should be taken into account in activities of lenders.<br>• The expected response is a proportionate, i.e. in accordance with the so-called straight-line method, return of part of the commission on early repaid consumer loans.<br>• As revealed in an official communiqué published on the UOKiK's website, the majority of banks have promised to use practice in line with the UOKiK's expectations. |

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| Judgment of the Court of Justice of the European Union of 3 October 2019 on the interpretation of Article 1(2), Article 4, Article 6(1) and Article 7(1) of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts (OJ 1993 L 95, p. 29) concerning clauses in foreign currency indexed mortgage contracts | • Announcement date: 03 October 2019<br>• According to the CJEU ruling, if Polish courts find that indexation clauses in foreign currency indexed mortgage loan agreements are abusive:<br>1) courts may assume that the contract cannot continue to operate without such clauses because this would change the nature of the contract,<br>2) as a rule, the consequences of contract invalidation for the consumer must be assessed as at the moment the dispute arose (not as at the time the contract was made),<br>3) courts cannot freely supplement their terms based on equity principles (e.g. by introducing settlements based on NBP exchange rates into contracts),<br>4) courts cannot uphold the indexation even if the contract has to be invalidated and such invalidation is disadvantageous to the client if the client does not agree to maintain the indexation.<br>• As a result of this judgment, a case law unfavorable for banks may develop, affirming the ability to invalidate mortgage loan contracts indexed to a foreign currency. |
| Trade and Cooperation Agreement between the European Union and the United Kingdom | • The agreement agreed between the European Union and the United Kingdom has been applied since 1 January 2021. The text of the agreement does not devote any specific provisions to financial services. The agreement covers financial services in the same way as they are generally covered by other free trade agreements between the European Union and third countries, i.e. to a minimum extent.<br>• As part of the arrangements made, it was declared that the parties would endeavor to agree a Memorandum of Understanding establishing a framework for regulatory cooperation in the field of financial services.<br>• An important issue that has not been resolved by the arrangements is the principle of recognition of the equivalence of legal and supervisory frameworks in the area of financial services. These were considered to be unilateral decisions of each party and that the provisions of the agreed contract do not apply to them.<br>• In 2020, the European Commission issued adequacy decisions in only two areas – for central securities depositories and – for a limited period – for central counterparties (CCPs) – which have been applicable since the beginning of January 2021.<br>• Further negotiations are expected on the functioning of the financial markets of the United Kingdom and the Member States in relation to each other. |
| The Electronic Service of Documents Act of 18 November 2020 | • Effective date: 05 October 2021<br>• The Act provides for an obligation to have an address for electronic service of documents entered in the database of electronic addresses, which will have to be used for correspondence with public and private entities as well as consumers.<br>• The obligation of entities entered in the National Court Register (KRS) to have an address for electronic deliveries has been postponed. The changes will be introduced under the Act of 28 April 2022 amending certain Acts in connection with the development of public ICT systems. The Act has just been adopted and referred to the President for signing. The new effective date will be announced in the communique of the Minister competent for digitization, which should be no later than 1 January 2024. |
| The Act of 28 November 2020 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Act on Flat-Rate Income Tax on Certain Revenues Obtained by Natural Persons and certain other acts | • Date: 01 January 2021 – the entities concerned will have to prepare and publish such information on the tax strategy implemented in 2020 for the first time by 31 December 2021.<br>• One of the main objectives of the Act is to impose a new reporting obligation on CIT payers, obliging them to publish information about the tax strategy implemented in a given tax year;<br>• The information about the implemented tax strategy will have to cover a wide catalogue of information about the taxpayer's approach to the proper settlement of tax liabilities. The Act includes an open catalogue of information subject to disclosure in fulfilling this reporting obligation, |
| The Act of 30 March 2021 on amending the act on counteracting money laundering and terrorist financing and certain other acts | • Effective date: 15 May 2021, with exceptions,<br>• The Act introduces a number of changes to adapt Polish legislation to the provisions of the so-called Anti-money laundering directive V. The most important changes concern the catalogue of obliged entities, definition of a politically exposed person, rules of applying financial security measures and changes to the Central Register of Beneficial Owners. |

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| Amendment to the goods and services tax act and the banking law act (so-called SLIM VAT 2) | • Effective date: 01 October 2021<br>• Regulation of the release of funds moved from a closed VAT account to the so-called technical account.<br>• Possibility to consent to the release of funds from a VAT account if the taxpayer's tax liabilities have been deferred or converted into installments.<br>• Possibility to use the funds accumulated on the VAT account to pay the KRUS (Agricultural Social Insurance Fund) contribution (effective as of 01 January 2022). |
| Banking package CRD V/CRR II, which includes:<br>Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No. 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, as well as Regulation (EU) 648/2012,<br>Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures. | • The amendment to the existing solutions is intended to implement the reforms agreed at the international level after the financial crisis of 2007–2008. It aims to strengthen the banking sector and eliminate the remaining problems in the field of financial stability.<br>The package includes the following measures in particular:<br>• a binding leverage ratio for all institutions and a leverage ratio buffer for all global systemically important institutions<br>• a net stable funding ratio<br>• new market risk reporting rules, including reducing reporting and disclosure requirements and simplifying market risk and liquidity requirements for small, less complex banks to ensure that all banks in the EU have a proportionate framework<br>• a requirement for non-EU institutions with significant activity in the EU to have an EU intermediate parent undertaking<br>• a new Total Loss Absorption Capacity (TLAC) requirement for Global Systemically Important Institutions<br>• a more refined minimum requirement for own funds and eligible liabilities (MREL) and compliance rules for Global Systemically Important Institutions and other large banks<br>• new moratorium powers for resolution authorities.<br>• Most of the new rules will enter into force in mid-2021, some in 2022. |
| ESMA guidelines on the MiFID II compliance function. | • Date: 2021/2022 (implementation).<br>• The guidelines replace the ESMA guidelines issued in 2012 and include updates that improve transparency and increase consistency in the implementation of and supervision over new requirements for the compliance function under MiFID II. Although the objectives of the compliance function and the key rules creating the basis of regulatory requirements have not changed, the obligations have been additionally reinforced, enhanced and clarified under MiFID II. The guidelines will make the existing standards more useful by providing additional explanations of issues such as new obligations in connection with product management requirements under MiFID II, and in particular by describing in detail the reporting obligations of the compliance function. The guidelines are addressed to investment firms and credit institutions that provide services and carry out investment activities, investment firms and credit institutions that sell or advise clients on structured deposits, companies that manage UCITS and third party managers of alternative investment funds (AIF) when providing services and carrying out investment activities in accordance with the UCITS and AIF Directive. |
| Recommendation Z on internal governance at banks<br>EBA and ESMA's guidelines on suitability assessment for management body members and key function holders<br>EBA guidelines on internal governance | • Date: 2021 (implementation).<br>• Recommendation Z provides a set of good practices in the area of internal governance. In particular, the document refers to such issues as general principles of internal governance at a bank, organizational structure, roles and responsibilities, the composition and functioning of the supervisory board, the management board, and senior management, a bank's code of conduct (ethics) and conflict of interests, rules of remuneration at a bank, risk management and internal controls, information systems and communication, the introduction of new products at a bank, a dividend policy, an outsourcing policy, business continuity and the transparency and integrity of management system at a bank. Recommendation Z is being prepared taking into account guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA). The implementation of the indicated regulatory requirements took place at the end of 2021, and the implementation of the new obligations will be implemented from 2022. |

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| Recommendation R on principles of credit risk management and recognition of expected credit losses (project) | • Date: 1 January 2022<br>• Recommendation is addressed to banks and is a set of principles and guidelines regarding credit risk management and recognition of expected credit losses. The amendment to Recommendation R is the result of the entry into force on January 1, 2018 of the new International Financial Reporting Standard - IFRS 9 Financial Instruments. The purpose of Recommendation R is to show banks a set of good practices in credit risk management, classification of credit exposures and estimation of expected credit losses in accordance with the accounting policy adopted and binding in the bank. |
| Guidelines on sound remuneration policies | • Date: 31 December 2021<br>• The update includes amendments implemented by the Fifth Capital Requirements Directive (CRD V) as regards proper remuneration policy at institutions, and in particular the requirement that remuneration policy be gender neutral. The final guidelines also take into account supervisory practices and clarify certain aspects of retention bonuses and severance pays.<br>• They also specify how the remuneration framework applies on a consolidated basis to financial institutions that are subject to specific remuneration frameworks (for example Investment Firms Directive (IFD), Undertakings for the Collective Investment in Transferable Securities Directive (UCITS) or Alternative Investment Fund Managers Directive (AIFMD)). Finally, sections on severance pays and retention bonuses have been amended based on supervisory experience with situations where institutions used such measures to circumvent the requirements for linking them to individual performance or the maximum rate. |
| Announcement of the UKNF (Office of the Polish Financial Supervision Authority) of 28 February 2022 on supporting solidarity of the financial sector<br>Announcement of the UKNF of 4 March 2022 on the product offer for refugees from the areas of military operations in Ukraine | • Date: February/March 2022<br>• The UKNF has said it appreciates and supports the ethical and responsible approach as well as the solidarity of many institutions of the Polish financial sector in the face of the ongoing humanitarian crisis caused by the aggression of the Russian Federation against Ukraine,<br>• The Polish watchdog expects supervised entities to display exceptional business ethics during this difficult time for everyone and to actively counteract any practices consisting in abusing and exploiting the tragedy of the Ukrainian nation to achieve non-standard benefits.<br>• The UKNF said it expected banks to implement offers addressed to the group of refugees from Ukraine as soon as possible, in order to grant them access to the basic payment services and facilitate the distribution of the financial support among them. The Office also emphasized the need to help them easily satisfy their everyday life needs that require standard payment transactions. |
| Announcement of the UKNF of 2 March 2022 on the disclosure obligations of issuers in connection with the political and economic situation in Ukraine | • Date: March 2022<br>• The UKNF has recommended that issuers take, as soon as possible, at least the following actions:<br>– monitor whether the reports made publicly available by the issuer via the Electronic Data Transfer System (hereinafter referred to as the "ESPI") are provided solely by authorized persons. In addition, the UKNF recommends that the issuers verify the number of their active accounts in the ESPI,<br>– analyze and monitor the impact of the political and economic situation in Ukraine on the operations of the issuer or its group of companies, or on their financials in the following periods and, in the event that inside information referred to in Article 7 of MAR is identified, to submit a relevant report without delay,<br>• present information on the actual and potential impact of the said situation on the operations of the issuer or its group of companies in the periodic report for 2021 as well as in quarterly and interim periodic reports for 2022. |
| Announcement of the European Banking Authority (EBA) on ensuring compliance with sanctions against Russia following the invasion of Ukraine | • Date: 11 March 2022<br>• The EBA has called on financial institutions to ensure compliance with sanctions against Russia following the invasion of Ukraine and emphasized that it will continue to closely monitor and assess the situation.<br>• The EBA underscored that financial institutions are required to assess the adequacy and effectiveness of internal controls and governance to ensure compliance with restrictive measures adopted in response to the above-mentioned crisis. They should also adapt or enhance systems and processes as appropriate.<br>• Moreover, the EBA called on them to facilitate access to basic payment accounts for refugees.<br>• The EBA's announcement was also locally supported by the UKNF through its published stances and communiqués. |

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| Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and Regulation (EU) No 236/2012<br><br>and Commission Delegated Regulation (EU) 2018/1229 of 25 May 2018 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline | • Date: 01 February 2022 (in the scope of settlement discipline)<br>• Introduction of obligations to discipline the settlement of transactions in specified financial instruments so that transaction settlements can be more efficient and seamless, specifically transactions settled by central securities depositories. |
| Commission Implementing Regulation 2021/1847 of 14 October 2021 on the designation of a statutory replacement for certain settings of CHF LIBOR | • designation of the compounded SARON as a replacement rate for CHF LIBOR applied in every agreement and financial instrument:<br>a) CHF LIBOR 1-Month is replaced by the SARON 1-Month Compound Rate as calculated on the basis of the 1-month period directly preceding the interest period;<br>b) CHF LIBOR 3-Month is replaced by the SARON 3-Month Compound Rate as calculated on the basis of the 3-month period directly preceding the interest period;<br>c) CHF LIBOR 6-Month is replaced by the SARON 3-Month Compound Rate as calculated on the basis of the 3-month period directly preceding the interest period;<br>d) CHF LIBOR 12-Month is replaced by the SARON 3-Month Compound Rate as calculated on the basis of the 3-month period directly preceding the interest period.<br>• A fixed spread adjustment should be added to such replacement rates. |
| EBA guidelines on incorporating Environmental, Social and Governance (ESG) risks into the governance, risk management and supervision of credit institutions and investment firms (consultations) | • Date: 2022/2023<br>• The main goal of the Guidelines under consultation is to include the risks to which credit institutions are exposed due to environmental, social and governance (ESG) factors influencing their counterparties. The guidelines will include detailed information on the threats related to environmental factors, and especially climate change. The EBA also sees the need to include ESG risks in business strategies and processes of institutions to a greater extent and to incorporate them proportionately to the internal arrangements regarding governance, which should be reflected in the guidelines being designed. The intention is also to introduce a framework for evaluating long-term resilience of institutions' business models by setting ESG risk-related objectives, engaging with customers and considering the development of sustainable products. The guidelines will also include the need to adjust the business strategy of an institution to incorporate ESG risks as drivers of prudential risks. |
| Commission Implementing Regulation (EU) 2021/1848 of 21 October 2021 on the designation of a replacement for the benchmark Euro Overnight Index Average | • Replacement of the Euro Overnight Index Average (EONIA) by the euro short-term rate (€STR) published by the European Central Bank to be used in any contract, and in any financial instrument as defined in Directive 2014/65/EU. |

The following factors, among others, will affect the financial and organizational situation of the Group of Bank Handlowy w Warszawie S.A. in the second half of 2022:

| Legal acts / regulations | Effective date and summary of new requirements |
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| Amendment to Recommendation G concerning interest rate risk management at banks (draft) | • Date: 2022/2023<br>• The planned amendment to Recommendation G is to adjust its requirements to changing regulations applicable to market risk and interest rate risk throughout the world, and in particular guidelines issued by the European Banking Authority (EBA). After the new EBA guidelines come into force and the CRD IV/CRR package is revised, the regulatory environment for interest rate risk will be defined. It will mainly consist of the CRR with accompanying technical standards, the above EBA guidelines and the Regulations of the |

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| | Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, the remuneration policy and the detailed method of estimation of internal capital at banks. |
| Amendment to Recommendation A on the management by banks of the risks associated with operations on derivative instruments (draft) | • Date: 2022/2023<br>• Public consultations of Recommendation A – draft amendment of Recommendation A on the management by banks of the risks associated with operations on derivative instruments, to replace the currently applicable Recommendation A from 2010. Recommendation A covers all types of derivative instruments, including those admitted to the organized trade system within the meaning of the provisions of the Act of 29 July 2005 on trade in financial instruments as well as derivative instruments outside that system. The regulatory environment determining specific obligations in concluding and executing transactions on derivative instruments has changed significantly since the introduction of Recommendation A, therefore the Polish Financial Supervision Authority started working on an update to adapt the content of the recommendation to the currently applicable legal provisions. |
| Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and Regulation (EU) No 236/2012<br>and Commission Delegated Regulation (EU) 2018/1229 of 25 May 2018 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline | • Date: 01 February 2022 (in the scope of settlement discipline)<br>• Introduction of obligations to discipline the settlement of transactions in specified financial instruments so that transaction settlements can be more efficient and seamless, specifically transactions settled by central securities depositories. |
| Banking package CRD V/CRR II, which includes:<br>Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No. 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, as well as Regulation (EU) 648/2012,<br>Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures. | • The amendment to the existing solutions is intended to implement the reforms agreed at the international level after the financial crisis of 2007–2008. It aims to strengthen the banking sector and eliminate the remaining problems in the field of financial stability.<br>The package includes the following measures in particular:<br>• a binding leverage ratio for all institutions and a leverage ratio buffer for all global systemically important institutions<br>• a net stable funding ratio<br>• new market risk reporting rules, including reducing reporting and disclosure requirements and simplifying market risk and liquidity requirements for small, less complex banks to ensure that all banks in the EU have a proportionate framework<br>• a requirement for non-EU institutions with significant activity in the EU to have an EU intermediate parent undertaking<br>• a new Total Loss Absorption Capacity (TLAC) requirement for Global Systemically Important Institutions<br>• a more refined minimum requirement for own funds and eligible liabilities (MREL) and compliance rules for Global Systemically Important Institutions and other large banks<br>• new moratorium powers for resolution authorities.<br>• Most of the new rules will enter into force in mid-2021, some in 2022. |
| Trade and Cooperation Agreement between the European Union and the United Kingdom | • The agreement agreed between the European Union and the United Kingdom has been applied since 1 January 2021. The text of the agreement does not devote any specific provisions to financial services. The agreement covers financial services in the same way as they are generally covered by other free trade agreements between the European Union and third countries, i.e. to a minimum extent.<br>• As part of the arrangements made, it was declared that the parties would endeavor to agree a Memorandum of Understanding establishing a framework for regulatory cooperation in the field of financial services. |

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| | • An important issue that has not been resolved by the arrangements is the principle of recognition of the equivalence of legal and supervisory frameworks in the area of financial services. These were considered to be unilateral decisions of each party and that the provisions of the agreed contract do not apply to them.<br>• In 2020, the European Commission issued adequacy decisions in only two areas – for central securities depositories and – for a limited period – for central counterparties (CCPs) – which have been applicable since the beginning of January 2021.<br>• Further negotiations are expected on the functioning of the financial markets of the United Kingdom and the Member States in relation to each other. |
| Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on disclosure of information related to sustainable development in the financial services sector. | • Date: 10 March 2021 (with exceptions)<br>• Introducing obligations related to disclosure requirements for specific information on risks to sustainable development (an environmental, social or management event or conditions that, if occur, may have a material adverse effect on the value of investment).<br>• Applicable to the investment advice activities of the Bank and DMBH<br>• The detailed requirements concern, inter alia, publication of strategies for implementing into business activities sustainable development risks, transparency of remuneration policies and disclosure of information on how to ensure consistency of these policies with the implementation of sustainable development risks in business activities, inclusion in the information presented to the client on how sustainable development risks are introduced in services and on the outcome of assessment of the likely impact of these risks on returns on financial products covered by investment advice, transparency in promoting the environmental or social aspect in information for the client.<br>• Integration of sustainability risks into risk policies and procedures. |
| The ruling of the Court of Justice of the European Union of 11 September 2019 on the interpretation of Article 16.1 of the Directive of the European Parliament and of the Council 2008/48/EC of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC, concerning the settlement of cost of borrowing in the case of an earlier repayment. | • Announcement date: 11 September 2019<br>• The position of the UOKiK (Office of Competition and Consumer Protection) clearly shows how the conclusions from the judgement should be taken into account in activities of lenders.<br>• The expected response is a proportionate, i.e. in accordance with so called straight-line method, return of part of the commission on early repaid consumer loans.<br>• As revealed in an official communiqué published on the UOKiK's websites, the majority of banks have promised to use practice in lined with the UOKiK's expectations. |
| Judgment of the Court of Justice of the European Union of 3 October 2019 on the interpretation of Article 1(2), Article 4, Article 6(1) and Article 7(1) of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts (OJ 1993 L 95, p. 29) concerning clauses in foreign currency indexed mortgage contracts | • Announcement date: 03 October 2019<br>• According to the CJEU ruling, if Polish courts find that indexation clauses in foreign currency indexed mortgage loan agreements are abusive:<br>1) courts may assume that the contract cannot continue to operate without such clauses because this would change the nature of the contract,<br>2) as a rule, the consequences of contract invalidation for the consumer must be assessed as at the moment the dispute arose (not as at the time the contract was made),<br>3) courts cannot freely supplement their terms based on equity principles (e.g. by introducing settlements based on NBP exchange rates into contracts),<br>4) courts cannot uphold the indexation even if the contract has to be invalidated and such invalidation is disadvantageous to the client if the client does not agree to maintain the indexation.<br>• As a result of this judgment, a case law unfavorable for banks may develop, affirming the ability to invalidate mortgage loan contracts indexed to a foreign currency. |
| Act on the Financial Information System | • In July 2022, another, fifth version of the draft act on the Financial Information System (draft of July 13, 2021) was posted on the RCL website. Its effective date is 14 days after publication, with banks having three months to start reporting.<br>• The Act requires banks to provide the Financial Information System with information about account opening, account data changes and account closing. This will apply to all types of accounts (payment accounts, non-payment bank accounts, securities accounts, omnibus accounts and cash accounts used to service them) as well as safe deposit boxes. The scope of the information provided includes, data of the account holder, beneficial owner and agent. The bank is required to provide that information via STIR within 3 days from the date of account opening, data change or account closing. |

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| | • Adoption of the act is necessary in order to ensure alignment with EU requirements, including regulations on counteracting money laundering and financing of terrorism. The purpose of the act is to provide authorized bodies (the Police, the Central Anticorruption Bureau, the Internal Security Agency, the Military Counterintelligence Service, the Foreign Intelligence Agency, the Military Intelligence Service, the Military Police, the Border Guard, the General Inspector of Financial Information, the National Tax Administration) with the ability to quickly access information about the identity of account holders and safe deposit boxes. The system will be used, inter alia, for counteracting money laundering and terrorism financing, as well as to prevent and combat serious crimes such as drug trafficking, human trafficking, homicide, financial fraud and abuses, corruption, etc. |
| EU Cybersecurity Package<br><br>1. Directive on the resilience of critical entities ("DRCE"),<br><br>2. Directive on measures for high common level of cybersecurity across the Union ("NIS 2"),<br><br>3. draft Regulation on operational resilience to digital threats ("DORA" – Digital Operational Resilience Act). | • DRCE extends the scope of existing EU legislation on critical infrastructure from two to ten sectors: energy, transport, banking, financial market infrastructure, health, drinking water, waste water, digital infrastructure, public administration and space technologies. The directive also introduces new solutions to strengthen the resilience of critical entities.<br>• (revision of the NIS Directive or the NIS2 Directive), which extends the scope of the first NIS Directive, tightens security and reporting requirements for enterprises, introduces stricter supervision measures for national authorities and stricter enforcement requirements, and improves information exchange and cooperation between national authorities of member states.<br>• DORA – The regulation will apply to entities such as: investment funds, payment and credit institutions, ASI managers, insurance companies, audit companies, ICT service providers (Information and communication technologies), crypto-asset service providers, securities depositories. The DORA Regulation aims at harmonizing the provisions regarding the digital resilience of the financial sector in the EU and at boosting the digital and operational resilience of the financial sector organizations. |
| EBA guidelines on incorporating Environmental, Social and Governance (ESG) risks into the governance, risk management and supervision of credit institutions and investment firms (consultations) | • Date: 2022/2023<br>• The main goal of the Guidelines under consultation is to include the risks to which credit institutions are exposed due to environmental, social and governance (ESG) factors influencing their counterparties. The guidelines will include detailed information on the threats related to environmental factors, and especially climate change. The EBA also sees the need to include ESG risks in business strategies and processes of institutions to a greater extent and to incorporate them proportionately to the internal arrangements regarding governance, which should be reflected in the guidelines being designed. The intention is also to introduce a framework for evaluating long-term resilience of institutions' business models by setting ESG risk-related objectives, engaging with customers and considering the development of sustainable products. The guidelines will also include the need to adjust the business strategy of an institution to incorporate ESG risks as drivers of prudential risks. |
| Guidelines on the policies and procedures regarding compliance risk management as well as the role, tasks and responsibilities of AML officers in compliance with Article 8 and Title VI of the EU Directive 2015/849 (AML) | • Date: 1 December 2022<br>• The Guidelines, at the EU level, refer to the entire structure of managing anti-money laundering and countering the financing of terrorism (AML/CFT) in a comprehensive way. They set clear expectations of the role, tasks and responsibilities of the AML/CFT compliance officer and the management body and how they interact, including at group level. According to the Guidelines, the management body, member of the AML board and the AML inspector should have appropriate skills and experience enabling understanding of AML/CFT risks.<br>• Without prejudice to the overall and collective responsibility of the management body, the draft Guidelines also specify the tasks and role of the member of the management board, who is in charge of AML/CFT overall. |
| Draft act amending certain acts in order to prevent the usury | • The Act is currently at the stage of the first reading in the Sejm. Effective date – 6 months after publication date, except for:<br><br>- changes that become effective within 30 days of the publication date (e.g. as regards the change of the maximum non-interest costs of a consumer loan calculated according to the formula specified in Article 36a (1) of the Act on collection costs; reducing the limit of non-interest loan costs during the whole crediting period from 100% to 45% of the loan amount – Article 36a (3) of the Act on collection costs).<br><br>• A formula was introduced for the maximum non-interest costs, i.e. of 25 percent, to be incurred by the person who takes out a cash loan. |

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| | • The upper limit of non-interest costs of a consumer loan has been reduced. The previous percentages – 25 percent (costs independent of the crediting period) and 30 percent (costs dependent on the crediting period) – have been replaced with 10 and 10 percent, respectively.<br>• The maximum limit of additional charges for installment-based purchases with a 12-month repayment period was set at 20 percent p.a. of the loan amount.<br>• Stringent rules will apply to short-term low-value loans, the so-called “payday” loans. The limit of additional charges for “payday” loans was reduced drastically to 20 percent p.a. of the loan amount.<br>• In order to reinforce consumer protection, the Polish Financial Supervision Authority has been entrusted with the supervision of lending institutions. |
| Draft act amending certain acts intended to ensure the development of the financial market and the protection of investors in that market | • The draft act is currently pending discussions and public consultations. The plan is to apply a 30-day *vacatio legis*.<br><br>The draft act provides for changes in over ten acts governing business activity of financial market entities, with the aim to facilitate the functioning of supervised entities by simplifying the procedures for obtaining licenses and reporting obligations, as well as to reinforce the protection of individual investors. The draft act provides for, in particular:<br><br>• expanding and strengthening the supervisory competence of the KNF and granting the KNF additional authorizations to impose fines on supervised entities;<br>• introduction of regulations related to bank outsourcing and sub-outsourcing in order to simplify the applicable procedures and adapt them to the Guidelines of the European Banking Authority on Outsourcing Arrangements (Case file no. EBA/GL/2019/02);<br>• determining specific rules for bank outsourcing in the case of mortgage banks;<br>• elimination of excessive or faulty regulations (so-called gold plating) in the scope of the obligations imposed on financial market entities;<br>• expansion of the catalogue of situations permitting the disclosure of professional and banking secrets without violation thereof<br>• amendment to the provisions on dormant accounts – reduced scope of account information provided to municipalities, longer period within which banks should provide such information. |
| Draft act amending Payment Services Act | • The draft act is currently pending discussions and public consultations. The plan is to apply a 30-day *vacatio legis*.<br><br>The draft act provides for changes in the functioning of certain categories of entities providing payment services:<br><br>• Functioning of payment services bureaus by reducing administrative burdens;<br>• Functioning of small payment institutions by adapting AML issues;<br>• Releasing Bank Gospodarstwa Krajowego and the National Bank of Poland from the obligation to apply CAF.<br><br>However, during the opinion process, the KNF proposed that the Act also include an amendment to Article 45 of the Payment Services Act to ensure proper transposition of the PSD2 to the Polish legislation. In the KNF's opinion, the provisions of Article 72 of PSD2 had not been transposed to the Payment Services Act precisely enough, which may lead to interpretation and application issues with the provisions of the Payment Services Act, and especially its Article 45. In the KNF's opinion, when establishing the circumstances regarding the responsibility for unauthorized payment transactions, according to PSD2:<br><br>• the burden to prove that the payment transaction was authorized by the user shall not lie with the service provider (which does not mean, of course, that they are not obliged to prove statements in this scope);<br>• it is for the payment service provider to prove that the payment transaction was authenticated, accurately recorded, entered in the accounts and not affected by a technical breakdown or some other deficiency of the service provided by the payment service provider;<br>• use of a payment instrument registered by the service provider may in principle serve as proof that the payment transaction was authorized by the payer or that the payer acted fraudulently or failed with intent or gross negligence to fulfill its obligations related to the use of the payment instrument; nevertheless, depending on the circumstances, this does not have to be sufficient proof;<br>• where the use of a payment instrument is registered, the service provider should not be obliged to prove fraud or gross negligence on part of the payment service user, but rather to provide documentation necessary to prove such circumstances; |

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| | • the evidence and the burden of proof described above should apply only where the user denies having authorized an executed payment transaction or claims that the payment transaction was not correctly executed. |
| Regulation of the Minister of Finance of 07 December 2021 amending the Regulation on the procedure and conditions of conduct for investment companies, banks referred to in Article 70(2) of the Act on trading in financial instruments and custodian banks | • The Regulation implements Directive (EU) 2021/338 of the European Parliament and of the Council of 16 February 2021 amending Directive 2014/65/EU as regards information requirements, product governance and position limits, and Directives 2013/36/EU and (EU) 2019/878 as regards their application to investment firms, to help the recovery from the COVID-19 crisis in the scope of provisions that:<br>1) make it possible to provide certain information to the client or a potential client after the performance of the provided service using means of distance communication;<br>2) exclude, from the system covering non-monetary benefits, research services concerning middle-capitalization issuers whose market capitalization does not exceed a specific threshold.<br>• Changes include, among others:<br>1) allowing investment firms to provide all information required under the law to a client or a potential client after having performed the service rather than before – as regards services consisting in accepting and passing on orders for purchase or sale of financial instruments and services consisting in performing such orders for the account of the ordering party, provided that they are rendered using means of distance communication that prevent the delivery of the required information prior to the provision of the services. This applies to information indicated in Article 9 (2) and (3) of the Regulation (information on incentives).<br>2) excluding specific research services from the scope of regulations regarding non-monetary benefits within the framework of accepting and passing on monetary or non-monetary benefits in relation to brokerage activity (incentives).<br>• The Regulation shall come into effect on 28 February 2022. |
| Draft act amending certain acts intended to ensure the development of the financial market and the protection of investors in that market. | • The draft act provides for implementation of new solutions and facilitations to the applicable legal regulations in the area of the financial market for a number of acts<br>• The draft act is intended to systematize and streamline the functioning of the financial market institutions, especially as regards removing barriers to entering the financial market, facilitating supervision over the financial market, protecting the clients of financial institutions, protecting minority shareholders at public companies, increasing digitization in the performance of the supervisory obligations of the Polish Financial Supervision Authority (KNF) and harmonizing legal solutions pertaining to the protection and access to legally protected secrets by making appropriate changes to the acts regulating this access.<br>• the changes include, among others, changes to the Act on public offering, Trade in Financial Instruments Act, Capital Market Supervision Act and Financial Market Supervision Act<br>• The Act is to enter into force within 30 days of its publication. The draft act is currently subject to the legislative procedures. |
| Regulation of the Council of Ministers of 7 December 2021 on the list of protected entities and the competent inspection authorities | • establishing a current list of protected entities referred to in Article 4(2) of the Act of 24 July 2015 on the inspection of certain investments |
| The Act of 23 July 2021 amending the act on investment funds and alternative investment fund management and certain other acts | • Publication date: 30 August 2021<br>• The changes include, among others, introduction of uniform provisions on marketing communications addressed to investors for UCITS and AFI, lifting the obligation of a foreign fund to establish its representative or a payment agent, introduction of an obligation of a foreign fund to notify the KNF of a change to the methods of selling participation titles issued by the foreign fund in the Republic of Poland or a change to the categories of participation titles sold in the Republic of Poland at least one month before the introduction of the change; specification of the conditions on which a foreign fund may cease selling its issued participation titles in the Republic of Poland. |
| Commission Implementing Regulation (EU) 2021/1848 of 21 October 2021 on the designation of a replacement for the benchmark Euro overnight index average | • The EONIA benchmark will cease to be published on 3 January 2022.<br>• Pursuant to the Commission Implementing Regulation (EU) 2021/1848 of 21 October 2021 on the designation of a replacement for the benchmark Euro overnight index average, the euro short-term rate (€STR) published by the European Central Bank shall be designated as a replacement rate for the |

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| Announcement of the European Money Markets Institute ("EMMI"): the Euro overnight index average (EONIA) benchmark ceases to be published on 3 January 2022 | Euro Overnight Index Average (EONIA) when a reference is made to the EONIA benchmark in any contract and in any financial instrument as defined in Directive 2014/65/EU. A replacement for EONIA replaces, by operation of law, all references to that benchmark in any contract, and in any financial instrument as defined in Directive 2014/65/EU not containing fall-back provisions or suitable fall-back provisions, pursuant to Article 23b(3) of Regulation (EU) 2016/1011. That replacement does therefore not affect contracts that have been successfully renegotiated to cater for the cessation of EONIA, as provided for under Article 23b(11) of Regulation (EU) 2016/1011.<br>• The Regulation also establishes a fixed spread adjustment that shall be added to the replacement rate designated as above, equal to 8,5 basis points |
| Financial Conduct Authority's announcement of 5 March 2021 on future cessation and loss of representativeness of the LIBOR benchmarks. | • On March 5, 2021, FCA announced that the following LIBOR settings would be ceased permanently:<br>1) CHF LIBOR (all settings) – as at the end of 2021;<br>2) EUR LIBOR (all settings) – as at the end of 2021;<br>3) GBP LIBOR, JPY LIBOR (selected settings1) – as at the end of 2021;<br>4) USD LIBOR (selected settings2) – as of 30 June 2023<br><br>As regards the selected key3 settings of GBP LIBOR, JPY LIBOR and US LIBOR, FCA announced that it was considering taking supervisory measures to order the administrator (IBA4) to publish the so-called "synthetic" benchmark to allow the financial market to gradually close the portfolio of agreements and products using these benchmarks.<br><br>FCA announced that the above decision resulted from the intention of a number of panel banks to leave the group of entities providing input data necessary to publish LIBOR benchmarks, and the resulting loss of representativeness of the benchmark.<br><br>UKNF has emphasized that FCA's statement is a basis for the supervised entities which apply LIBOR benchmarks to take actions specified in their contingency plans referred to in Article 28(2) of BMR.<br><br>The supervision authority expects supervised entities that apply LIBOR benchmarks to take immediate actions to inform their clients who have agreements, financial instruments and participation units of investment funds based on the above benchmarks of the planned cessation of these benchmarks and the resulting consequences. |
| Regulation (EU) No. 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 | • Date: 01 January 2022 (effective date)<br>• The Regulation establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable for the purpose of determining the extent to which an investment is environmentally sustainable.<br>• It also introduces an obligation to report the so-called green asset ratio as part of non-financial reporting, which indicates how much of the bank's activity is related to activity qualified as environmentally sustainable. |
| Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives | • Date: 01 January 2022 (effective date)<br>• The Regulation establishes technical screening criteria for determining the conditions under which a specific economic activity qualifies as "environmentally sustainable" as regards two environmental objectives: (1) climate change mitigation and (2) climate change adaptation, and also does no significant harm to any of the other environmental objectives – for the purposes of determining whether funding or an investment in a business activity is "environmentally sustainable" in accordance with Regulation (EU) No. 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. |
| Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain | • Date: 02 August 2022 (implementation)<br>• Implementation of requirements applicable to investment firms as regards the integration of sustainability factors, risks and preferences into certain organizational requirements and operating conditions. |

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| organizational requirements and operating conditions for investment firms | • This applies to the activity of DMBH and the Bank in the scope of the activity conducted under Article 70(2) of the Act of 29 July 2005 on Trade in Financial Instruments. |
| Commission Delegated Regulation (EU) 2021/1257 of 21 April 2021 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products | • Date: 02 August 2022 (implementation)<br>• Implementation of obligations applicable to the manufacturers of insurance products as regards integration of sustainability factors, risks and preferences into the business conducted<br>• This applies to the activity of the Bank in the scope of distribution of insurance-based investment products. |
| Commission Delegated Directive (EU) 2021/1269 of 21 April 2021 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors into the product governance obligations | • Date: 22 November 2022 (implementation)<br>• Implementation of obligations applicable to investment firms as regards the integration of sustainability factors into the product governance<br>• This applies to the activity of DMBH and the Bank in the scope of the activity conducted under Article 70(2) of the Act of 29 July 2005 on Trade in Financial Instruments. |
| Regulation of the Minister of Finance of 23 December 2021 amending the regulation on the charges to cover the costs of the capital market supervision | • Date: 01 January 2022 (effective date)<br>• Change of the amount and calculation method of the charges to cover the costs of the supervision of the capital market by supervised entities. |
| New requirements related to concluding Security-Based Swap transactions, hereinafter: "SBS") | • Date: 01 November 2021 (effective date)<br><br>Changes under the Dodd-Frank Act, in consequence of which, starting from 1 November 2021, for an entity to conclude SBS transactions:<br>• that are concluded with US entities or are linked (there is a *nexus*) to the USA (see below), and<br>• where the total face value of all SBS transactions concluded by an entity exceeds specific thresholds (see below),<br><br>it has to be registered with the SEC as the SBS Dealer. |
| Draft act on the protection of persons who report breaches of the law | The draft act provides for:<br>• the terms and conditions for the protection of employees and other persons who report or publicly disclose breaches of the law The provisions protecting persons who report breaches will apply not only to the breaches of the law provided for by the Directive (legislation listed in an annex to the directive), but also to all breaches of the law in the fields of the national law corresponding to the ones mentioned in the directive, in accordance with Article 3 of the Act.<br>• measures for the protection of employees and other persons who report or publicly disclose breaches of the law;<br>• internal reporting regulations setting forth the internal procedure for reporting breaches of the law as applied by the employer;<br>• reporting of breaches of the law to a public or central authority;<br>• principles of public disclosure of breaches of the law;<br>• authorities competent for processing breaches reports and providing support<br><br>According to the presented draft, the act will become effective within 14 days of its publication. |
| Commission Delegated Regulation (EU) 2016/2251 of 4 October 2016 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories with regard to regulatory technical standards for risk-mitigation | • Upcoming dates: (i) effective date of the last (sixth) phase of implementation of obligations to post initial margin ("IM") (i.e. 1 September 2022) and (ii) expiration of certain deviations in posting initial margin ("IM") and variation margin ("VM") in the case of certain intragroup transactions (i.e. 30 June 2022) – on OTC derivatives not cleared by a central counterparty ("CCP"), in accordance with Regulation (EU) 2016/2251 of 4 October 2016 |

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| techniques for OTC derivative contracts not cleared by a central counterparty | |
| ESMA Guidelines on certain aspects of the MiFID II appropriateness and execution-only requirements | • Date: 12 October 2022<br>• The purpose of these guidelines is to clarify the application of certain aspects of the MiFID II appropriateness and execution-only requirements in order to ensure the common, uniform, and consistent application of, respectively, MiFID II requirements and supplementing regulations,<br>• Pursuant to the guidelines, for example, firms should, in good time before the provision of non-advised services, inform their clients, by using clear and simple language, about the appropriateness assessment and its purpose which is to enable the firm to act in the client's best interest. |
| EBA Guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive 2013/36/EU | • Date: 31 December 2022 (the guidelines are awaiting translation)<br>• The Guidelines specify what information should be provided to the competent authorities to benchmark remuneration trends and practices, among others, in accordance with the requirements of Regulation (EU) 575/2013 (CRR) in the scope of disclosure of remuneration policy ('remuneration data').<br>• The Guidelines also specify the information to be provided for benchmarking the gender pay gap ('gender pay gap data').<br>• These Guidelines also specify the common reporting format to be used for the purposes of the benchmarking of approved higher ratios between the fixed and variable components of remuneration ('higher ratios data'), referred to in Directive 2013/36/EU.<br>• Moreover, they specify how competent authorities will collect from institutions the above-mentioned information for benchmarking and how they will then submit the benchmarking data to the European Banking Authority (EBA). |
| EBA Guidelines on the data collection exercises regarding high earners under the CRD and IFD | • Date: 31 December 2022 (the guidelines are awaiting translation)<br>• These Guidelines refer to, in particular, Article 73 of Directive 2013/36/EU (CRD) and clarify the specifics of data collection on the number of natural persons per institution remunerated EUR 1 million or more per financial year ('high earners').<br>• The Guidelines apply to information on high earners to be collected by competent authorities to be forwarded to the European Banking Authority (EBA).<br>• Pursuant to the Guidelines, high-earners data for the financial year ending in 2022 should be submitted by firms to competent authorities by 31 August 2023. |
| The Act of 29 October 2021 amending the Personal Income Tax Act, the Corporate Income Tax Act and certain other acts | Date: 01 January 2022 (effective date)<br>Amendments related to withholding tax:<br>• payment of dividends, interest and royalties to affiliates which are not Polish residents is subject to the pay and refund mechanism,<br>• the pay and refund mechanism is applicable when the total income-related payments made to an affiliate exceed PLN 2 million in a given year,<br>• tax preferences (tax exemption or reduced tax rate) can apply provided that: (i) tax authority issues an opinion approving application of the preference or (ii) the taxpayer submits a declaration that they meet the conditions to apply tax exemption or reduced tax rate. |
| Regulation of the Minister of Finance of 20 June 2022 amending the regulation on reporting obligations concerning trading in securities issued by the State Treasury | • Change of the template reports concerning transactions on Treasury securities. |
| Commission Delegated Regulation (EU) of 6 April 2022 with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable | • specify the content, methodologies and presentation of information required by Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 from financial market participants and financial advisers regarding transparency about the risk to sustainability introduced in the economic activity and incorporation of adverse sustainability impacts in their activity, and regarding sustainability-related disclosures relating to financial products. |

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| investment objectives in pre-contractual documents, on websites and in periodic reports | |
| Act on specific solutions to prevent support for aggression against Ukraine and to protect national security | • Effective date: 16 April 2022<br>• The Act introduces solutions to prevent support for aggression against Ukraine by, among others, banning coal imports from the Russian Federation, and provides for a possibility to freeze the assets of entities and persons supporting the aggression of the Russian Federation against Ukraine.<br>• Apart from the persons listed in Regulation 765/2006/EU and Regulation 269/2014/EU, subject to restrictive measures specified in these regulations, the Minister of Home Affairs will maintain, pursuant to the Act, a separate list of persons and entities having financial resources, funds and economic resources, within the meaning of Regulation 765/2006/EU and Regulation 269/2014/EU, who support, directly or indirectly, the aggression of the Russian Federation against Ukraine, initiated on 24 February 2022, or directly affiliated with such persons or entities, or who are likely to use their financial resources, funds and economic resources for such purposes. |
| Council Regulation (EU) 2022/328 of 25 February 2022 amending Regulation (EU) No 833/2014 concerning restrictive measures in view of Russia's actions destabilizing the situation in Ukraine | • The Regulation imposes sanctions on Russia following its invasion of Ukraine and affects the conclusion by the Bank of financial transactions with – or provision by the Bank of services to – Russian citizens, natural persons residing in Russia, legal persons, entities and bodies seated in Russia, or persons/entities affiliated with such persons, bodies or entities (depending on a given sanction). |
| Act of 7 July 2022 on crowdfunding and on assistance for borrowers | • Date: 29 July 2022<br>• The Act introduces the so-called credit holidays – deferral of up to 8 mortgage installments, available to borrowers who took out a mortgage loan in the Polish currency (excluding loans indexed to or denominated in a currency other than the Polish currency),<br>• The deferral of mortgage installments can only be applied to one agreement concluded to satisfy the consumer's own housing needs – upon a relevant declaration under the pain of criminal liability.<br>• It applies to agreements concluded before 01 July 2022 if the loan term set out in the agreements expires after 6 months from that date.<br>• The deferral period is excluded from the loan term. The loan term and the deadlines provided for in the agreement are postponed by the deferral period. |
| Act of 09 February 2022 amending the Code of Commercial Companies and certain other acts | • Date: 13 October 2022<br>• Changes to the operation of bodies of a joint-stock company |
| Draft Act amending the Labor Code and certain other acts | • Date: 14 days after being announced,<br>• Repeal of the currently applicable provisions of the Labor Code on telework and their replacement with the drafted provisions on remote work,<br>• possibility of testing employee sobriety |
| Draft Act amending the Labor Code and certain other acts | • Date: August 2022 or January 2023<br>• The draft act introduces, among others, new employee rights (parenting rights) and other rights such as leave due to force majeure,<br>• The draft act implements two directives into the Polish law, i.e.<br>1) Directive (EU) 2019/1152 of the European Parliament and of the Council of 20 June 2019 on transparent and predictable working conditions in the European Union<br>2) Directive (EU) 2019/1158 of the European Parliament and of the Council of 20 June 2019 on work-life balance for parents and carers and repealing Council Directive 2010/18/EU |

## 2. Risk management principles

The Group carries out risk management by implementing cohesive rules, controls and tools through the Group, taking into account supervisory requirements and best market practices.

The risk management system used in the Group, which is based on the shared responsibility concept, is arranged on three independent levels ("three lines of defense"):

- Level 1, i.e. organizational units responsible for the activity which results in taking risks and responsible for risk management in the Bank's operational activity, as well as for risk identification and reporting to the second-line units,
- Level 2, i.e. risk management at organizational units, regardless of the first-line risk management, and the activity of the compliance unit – units or persons responsible for setting risk management standards in identifying, measuring or assessing, limiting, controlling, monitoring and reporting and for supervising control mechanisms applied by other organizational units of the Bank to mitigate risk – organizational units of the Risk Management Sector, Compliance Department, Finance Management Sector, Legal Division, Human Resources Division;
- Level 3, i.e. Internal Audit units which ensure independent assessment of both risk management processes and internal control system.

When organizing its risk management processes, the Group takes into account its risk profile, strategic and business objectives, available capital and liquidity resources, macroeconomic environment and regulatory requirements – these factors make up the framework of the risk control and management system.

Risk management processes are implemented on the basis of documented policies and rules relating to identification, measurement, mitigation, control, monitoring and reporting of risks to which the Group is exposed, approved by the Management Board, authorized persons in accordance with the rules of issuance of legislative acts at the Bank or duly established Committees, including:

- Asset and Liability Committee (ALCO);
- Risk and Capital Management Committee, supervising the Risk Models Commission and the Consumer Bank Risk Commission;
- New Products Committee;
- Operational Risk, Control and Compliance Committee.

The risks connected with activities of the Group are mitigated by a system of limits arising from risk appetite and the management information system used by the Bank enables it to monitor risk levels by providing management with portfolio information on a regular basis.

The Group carries out the management of all significant risk families arising from the execution of its business strategy. As part of the process initiated in 2022 to identify key risk families, the Management Board of the Bank concluded that the following risk families were significant for the purposes of risk management and the internal capital estimation and maintenance process:

- Credit risk;
- Counterparty credit risk;
- Market risk for the trading book;
- Interest rate risk for the banking book;
- Liquidity risk;
- Operational risk;
- Compliance risk;
- Technology and information security risk (including continuity of business risk and cybersecurity risk);
- Outsourcing/Vendor management risk;
- Fraud risk;
- HR risk (human capital);

### Credit risk and counterparty risk

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| Definition | • Risk of a client's failure to perform their liabilities.<br>• Risk of the counterparty's failure to perform their liabilities arising from a transaction, before or on the date of its final settlement. |
| Risk management strategy | • The primary objective of credit risk management is to support the long-term plan of stable growth of the credit portfolio, while maintaining appropriate quality. The credit process is based on a number of fundamental principles, such as:<br>– Business and independent risk management units share responsibility for quality of the credit portfolio and credit process and for any credit losses;<br>– Conduct must be in compliance with the guidelines on the portfolio structure to ensure its diversification and to keep balance between risk and capital;<br>– A system of credit-related authorizations must be implemented which assumes that special authorization to make credit decisions may only be granted to properly trained and experienced employees, taking into account their track record and risk assessment skills and abilities; |

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| | – Acceptance level must depend on assumed risk – higher-risk exposures (defined taking into account both amount and level of risk) require higher-level approval;<br>– Diversified and adequate risk assessment standards must be used for each borrower and each commitment, including as part of corrective actions;<br>– A consistent rating process is required, which is based, *inter alia*, on results produced by rating or scoring models;<br>– Periodic, regular monitoring of results of a client's activities and identification of adverse changes in their situation which require immediate activities to classify receivable or corrective actions are necessary;<br>– External environment must be monitored to ensure early detection of economic threats which may adversely affect particular portfolios;<br>– The credit policy rules must be complied with and, in special cases, approval of exceptions to the Credit Policy is required at higher organizational levels in order to ensure control of implementation of its principles in compliance with internal regulations applicable at the Bank, generally applicable laws and regulations and regulations issued by competent regulators. |
| Risk measurement | • Risk measurement is carried out using: rating models, scoring models and scorecards at the level of a client and provision models for portfolio risk assessment and an integrated ICAAP process, both at aggregate level and by business line. |
| Monitoring | • Credit risk exposures are monitored and managed at two levels: client level and portfolio level. Tools used to monitor the current creditworthiness of a borrower include:<br>– annual comprehensive review of limits, exposures, financial situation of and cooperation with borrowers,<br>– reports generated in the Early Warning process,<br>– periodic financial reviews of borrowers,<br>– periodic reviews of negatively classified credit exposures,<br>– periodic visits to clients,<br>– reports on ongoing contacts of employees of business units/bankers with clients,<br>– analysis and assessment of external information (rating reports, analytical reports, press, sector sources, etc.),<br>– internal classification system.<br>• Portfolio-level monitoring<br>– monitoring of utilization of risk concentration limits in the credit portfolio on the basis of appropriate reports,<br>– regular periodic reviews of the credit portfolio,<br>– "ad hoc" portfolio reviews due to sudden important external information,<br>– monitoring of indicators determined for the retail exposure portfolio.<br>• The monitoring of portfolio performance and the identification of trends in the portfolio are carried out using regular management information and control reports taking into account, *inter alia*, analysis of pace of changes in value and segmentation (sectors) of the credit portfolio, client risk (rating), quality of credit exposure collateral and exposures affected by non-performance, departures from applicable risk acceptance rules and limit utilization level.<br>• The package of control reports for each portfolio is prepared on a regular basis and delivered to unit heads responsible for the client segment in question, the Risk and Capital Management Committee and the Management Board of the Bank. |

**Market risk**

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| Definition | • Market risk is the risk that the financial result and equity of the Bank may be adversely affected by a change in:<br>– market interest rates;<br>– currency rates;<br>– stock prices;<br>– commodity prices; and<br>– any parameters of volatility of such rates and prices. |
| Risk management strategy | • Market risk management is to ensure that the amount of risk accepted in the Group is consistent with the level acceptable for the shareholders and banking supervision authorities and to ensure that all market risk exposures are adequately reflected in calculated risk measures notified to relevant managers and governing bodies.<br>• Adopted market risk measures and limits should prevent excessive concentrations of exposures to a single risk factor or a group of related risk factors and should enable determination of the maximum level of the risk accepted in the trading book or the banking book.<br>• Market risk management at the Bank is based on:<br>– applicable Polish laws and regulations, in particular the Banking Act, |

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| | – applicable EU regulations, in particular 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 (CRR),<br>– requirements of Polish and EU regulatory institutions and especially resolutions of the Polish Financial Supervision Authority (KNF),<br>– principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market.<br>• Market risk management covers all portfolios that generate incomes which are exposed to an adverse impact of market factors, such as interest rates, currency rates, stock prices, commodity prices and parameters of volatility of those factors. In market risk management, two portfolio types are distinguished: trading portfolios and banking portfolios.<br>• Trading portfolios include transactions in financial instruments (on- and off-balance sheet ones) the purpose of which is to earn income connected with a change of market parameters in a short period. Trading portfolios cover on-balance sheet items, such as debt securities, categorized as held for trading, i.e. purchased for trading purposes and meeting specified liquidity criteria, and any positions in derivative instruments, provided that in this case portfolios are divided into those acquired for purely trading purposes and those created as hedging against the risk of positions included in a banking portfolio (so-called economic hedge). Valuation of trading portfolios is carried out either directly on the basis of market prices or by using valuation models that make use of price parameters quoted in the market. Activities on trading portfolios are carried out by the Interbank Transaction Division in the Financial Markets and Corporate Banking Sector for those portfolios which cover interest rate risk and currency risk. Trading portfolios also include options, including currency option transactions, interest rate options and option structures, which reflect the economic nature and risk arising from products offered to clients of the Bank. The operations of the Bank in that area are carried out so that they ensure the simultaneous (each time and immediate) conclusion of a counter transaction having the same parameters, as a result of which the option transaction portfolio generates no open market risk exposure. The only factor connected with the conclusion of option transactions which is taken into account in measurement of market risk, and specifically currency risk, is the amount of the premium paid/received in the foreign currency. |
| Risk measurement | • The following risk measurement methods are applied to trading portfolios: factor sensitivity (DV01) method, value at risk (VaR) method and stress tests.<br>• Sensitivity factors measure the change in the value of the position in a given underlying instrument in the case of a specified change of the market risk factor (for example a change of the interest rate in a given point on the interest rate curve by 1 basis point or a change of the currency rate or stock price by 1%).<br>– For interest rates, the sensitivity measure is DV01;<br>– For currency risk the sensitivity factor is equal in value to the position in a given currency;<br>– For positions in equity securities, the sensitivity factor is equal in value to the net position in a given instrument (stocks, index, participation unit).<br>• The integrated measure of market risk for trading portfolios, which combines the impact of the positions in particular risk factors and takes into account the correlation effect between volatilities of individual factors, is value at risk (VaR). VaR is used to estimate the potential decline in value of a position or portfolio in normal market conditions, for a fixed confidence level and in a specified period. For positions opened in a trading portfolio of the Bank, VaR is calculated using the 99% confidence level and one-day holding period.<br>• Both DV01 and VaR for a trading portfolio are calculated as net amounts without any economic hedging of the portfolio of securities available for sale, i.e. excluding any derivative instruments which are to secure the fair value of the portfolio. The risk exposure of such transaction is controlled by using appropriate risk measurement methods and mitigated with risk limits adopted for banking portfolios.<br>• On a daily basis, the analysis of stress test scenarios is carried out, while assuming risk factor changes higher than those adopted for VaR measurement and ignoring any observed historical correlations between those factors.<br>• The Bank has market risk exposures of trading portfolios in more than twenty currencies, both for currency positions and exposures to interest rate risk, but only exposures to a few currencies are significant. For a large group of currencies, exposures arise from the imperfect match of the transactions concluded upon the client's order and the counter transactions with other counterparties from wholesale markets. Significant exposures to market risk are opened for PLN, developed market currencies (mainly USD and EUR and less frequently GBP, CHF or JPY) and even currencies from Central European countries. |
| Monitoring | • The Market Risk Department by the dedicated IT system provides the relevant executives and managers, on a regular basis, with reports on portfolio sensitivity, |

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| | value at risk (VAR), securities positions, stress test results for market risk, allocation of capital requirements relating to market risk and utilization of Trading MAT and Trading Stop Loss limits (warning thresholds).<br>• In addition, market risk analyses are presented systematically to the following committees: the Asset and Liability Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board. |

**Interest rate risk for the banking book**

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| Definition | • Interest rate risk for the banking book is the risk of an adverse impact of interest rate changes on the interest income and capital of the Group.<br>• Interest rate risk may occur if assets and liabilities (including capital and derivative instruments that meet the requirements of hedge accounting) have different maturity dates or if their interest rates change on different dates or their interest rates are connected with different interest rate curves (basis risk), or if they include options. |
| Risk management strategy | • Interest rate risk management is to minimize the risk connected with the possibility of occurrence of adverse changes in market interest rates and with a negative impact of those changes on the net interest rate and, subsequently, financial result of the Group.<br>• Market risk management at the Bank is based on: the requirements of Polish and European regulatory institutions, and especially resolutions of the Polish Financial Supervision Authority (KNF) and the EBA; and the principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market.<br>• Interest rate risk management is carried out both at strategic and operational level. Division into particular risk management levels depends on the nature and type of decisions made by particular decision-making fora at the Bank which affect the profile and level of interest rate risk.<br>– The strategic risk management perspective is covered by the decision-making powers of the Asset and Liability Committee (ALCO) of the Bank. which carries out interest rate management by setting risk limits for banking portfolios and by conducting monthly reviews of exposures and results of management of those portfolios.<br>– The operational management of interest rate risk is carried out by the Asset and Liability Management Department, which is authorized to open risk positions within the framework of adopted limits. |

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| Risk measurement | • The following risk measurement methods apply to banking portfolios: interest rate gap analysis, method based on costs of closure of open interest positions (Value-at-Close) / total return on portfolio (Total Return), method based on interest income exposed to risk (Interest Rate Exposure, IRE) and stress tests.<br>• The interest rate gap analysis uses the schedule of maturity or revaluation of on-balance sheet positions and derivatives recognized using hedge accounting or categorized as economic hedge in order to determine differences between positions whose maturity date or interest rate update date is in the subject time interval.<br>• As a general rule applied in the interest rate gap analysis, transactions are allocated to particular bands of revaluation of positions in banking portfolios on the basis of contractual or assumed dates of change of transaction interest rates.<br>• The Value-at-Close method determines the economic or "fair" value of positions, corresponding to market valuation of a trading portfolio. Total return on a portfolio is the sum of changes of value-at-close, accrued interest and gains/losses on sale of assets or cancellation of liabilities.<br>• The Interest Rate Exposure (IRE) method, based on the revaluation gap method, is used for measurement of the potential impact of a pre-determined parallel shift of interest rate yields on pre-tax interest income on the banking book which may be earned in a specified time interval. This is a prospective measure. In addition, it is assumed that in standard conditions interest rate moves are identical for each currency and equal to 100 basis points up. The IRE measure is calculated separately for the position in each currency over a 10-year time horizon, provided, however, that 1-year and 5-year IRE measures are mainly used for the purposes of day-to-day monitoring and limitation of interest rate risk positions for banking portfolios. Additionally, the Bank measures the interest rate risk using the income method (cash flow net interest revenue NIR/IRE). This measure, like the IRE calculated using the gap method, determines the potential pre-tax impact on net interest income for banking book items due to specific changes in interest rates over a specific reporting period – generally 12 months. NIR is the difference between accrued interest income earned on assets (e.g. loans to customers) and the cost of interest paid on liabilities (e.g. customer deposits). NIR/IRE is the delta between the Baseline NIR and NIR in the interest rate shock scenario (e.g. + 100 bp, + 200 bp, -100 bp, -200 bp)<br>• Stress tests measure a potential impact of significant changes in the level or shape of interest rate yields on the positions opened in a banking portfolio.<br>• The Bank carries out stress tests for pre-defined scenarios of movements of interest rates, which are combinations of moves of market factors, both defined as significant changes (large move) and crisis changes (stress move), which occur both in Poland and abroad. The extent of assumed shifts of market factors are reviewed at least annually and adjusted as appropriate to changes in the market conditions in which the Bank operates.<br>• Bank calculates also the change to capital value as the result of fluctuations of interest rates for the individual currencies, under scenarios consistent with requirements of the EBA.<br>• The Asset and Liability Management Department in the Interbank Transaction Division carries out activities relating to securities available for sale. Three key objectives have been adopted for activities relating to the portfolio of securities available for sale:<br>– carrying out financial liquidity management,<br>– hedging against the risk taken over by the Interbank Transaction Division from other organizational units of the Bank<br>– opening own interest rate risk positions in portfolios of the Bank by the Interbank Transaction Division.<br>• In order to avoid excessive fluctuations of capital funds of the Bank, caused by revaluation of assets held for sale, maximum limits are set for the DV01 (Dollar Value of 1 basis point) position, which determines the potential change in the value of risk position for a given interest rate curve on a specified nodal point (to which all cash flows in a given period are brought) caused by a shift of the market interest rate by 1 basis point up for such portfolios. Limits also cover open derivative instrument positions (for example interest rate swaps) established to hedge the fair value of a portfolio. |
| Monitoring | • The Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers with reports on portfolio sensitivity, securities positions, stress test results for interest rate risk of the banking book.<br>• In addition, market risk analyses are presented systematically to the following committees: the Asset and Liability Committee and the Risk and Capital Committee of the Supervisory Board. |

## Liquidity risk

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| Definition | • Liquidity risk is the risk of inability to perform financial liabilities to a client, lender or investor by their due dates as a result of mismatch between financial flows. |
| Risk management strategy | • The overriding goal of liquidity risk management is to ensure that the Bank and other companies from the Group have access to liquid funds sufficient to meet their financial liabilities when due (also in the event of probable extreme crisis situations).<br>• Liquidity risk management is based on:<br>– applicable polish laws and regulations, in particular the Banking Act;<br>– applicable provisions of EU law, in particular 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 (CRR),<br>– requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority (KNF);<br>– principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank;<br>– taking into account best practices applied in the market.<br>• The Group analyses and manages liquidity risk in different time horizons and, to this end, distinguishes between current, short term, medium term and long term liquidity and applies adequate risk measurement and limitation methods. The adopted measures and limits are to limit excessive concentrations with respect to the assumed structure of the balance sheet or sources of funding.<br>• The management of long-term liquidity is a task of Assets & Liabilities Committee (ALCO) and is covered by the strategy of the Bank. It is carried out on the basis of monitoring of structural relations of the balance sheet and on the basis of regulatory long-term liquidity measures, and covers the liquidity gap analysis and the possibilities of obtaining sufficient financing sources in the future, as well as the analysis of funding costs in the context of the impact on the profitability of business operations.<br>• The management of medium-term liquidity, within the 1-year time horizon, is a task of Assets & Liabilities Committee and is carried out on the basis of annual financing plans, which determine the levels of internal limits, plans prepared by business units of the Bank concerning changes in assets and liabilities, elaborated within the framework of financial plans for the next budget year.<br>• The management of short-term liquidity, within the 3-month time horizon, is a task of the Financial Markets Sector and Corporate Banking Sector, and is carried out on the basis of both regulatory measures of short-term liquidity and internal limits. The Bank also analyses the liquidity level in emergency situations, assuming, as a must, that there will be no negative gap in all time brackets in a 12-month time horizon.<br>• Current liquidity management is a task of the Financial Markets and Corporate Banking Sector and is carried out on the basis of nostro accounts of the Bank, including in particular the mandatory reserve account with the National Bank of Poland, using available products offered by the money market and the central bank. |
| Risk measurement | • Liquidity risk measurement is carried out by using external supervisory measures (M3-M4, LCR/NSFR and additional liquidity monitoring indicators – ALMM) and additional measures and tools developed internally:<br>– gap analysis – MAR/S2<br>– crisis/stress scenarios,<br>– structural liquidity ratios,<br>– market warning signals,<br>– significant sources of financing,<br>– emergency financing plan,<br>– intra-day liquidity management process,<br>– short-term liquidity gap – M1,<br>– short-term liquidity ratio – M2,<br>– illiquid assets with own funds coverage ratio - M3,<br>– illiquid assets and assets of limited liquidity with own funds and stable external funds coverage ratio - M4. |
| Monitoring | • Liquidity risk monitoring and management are carried out using: supervisory liquidity risk limits determined by the Office of the Polish Financial Supervision Authority and internal prudential limits and thresholds determined for liquidity risk by the Asset and Liability Committee (ALCO):<br>– limits for the S2 Report – for pre-determined currencies and time ranges;<br>– warning thresholds for structural liquidity ratios;<br>– warning threshold for tests of stress scenarios. |

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| | • On a regular basis, the Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers with reports on the liquidity position, stress test results for liquidity risk and allocation of capital requirements relating to liquidity risk.<br>• In addition, liquidity risk analyses are presented systematically to the following committees: the Asset and Liability Committee, and the Risk and Capital Committee of the Supervisory Board. |

### Operational risk

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| Definition | • Operational risk should be understood as a possibility of loss as a result of application of inappropriate or defective internal processes, human factors or technological systems, or as a result of external events.<br>• Operational risk covers technology risk, outsourcing risk, fraud risk, money laundering risk, information security risk, external event (business continuity) risk, tax and accounting risk, product risk, legal risk, model risk, HR risk, conduct risk and reputational risk, connected with operational risk events, business and market practices, as well as operational risk embedded in other risks and/or managed in separate processes (for example credit, counterparty, liquidity);<br>• Operational risk excludes strategic risk and the risk of potential losses resulting from decisions connected with taking credit, market, liquidity or insurance risks.<br>• For the purposes of the ICAAP process, the risk of lack of compliance is also included in the operational risk (i.e. the risk of negative effects of non -compliance with legal provisions, supervisory regulations, internal normative acts of the bank and the practices and standards available on the market).<br>• In terms of operational risk, the strategic goal of operational risk management is to ensure a permanent and effective approach to identification, measurement/assessment, limitation, control, monitoring and reporting of risk, as well as effective reduction of the level of exposure to operational risk, and as a consequence limiting the number and scale of events of an operational risk (low level of tolerance to operational losses).<br>• The main assumptions of the operational risk strategy focus on increasing the bank's capacity to early identifying areas of increased system risk and reduction of exposure areas resulting from the risk resulting from human errors. |
| Risk management strategy | • In terms of operational risk, the strategic goal of operational risk management is to ensure a permanent and effective approach to identification, measurement/assessment, limitation, control, monitoring and reporting of risk, as well as effective reduction of the level of exposure to operational risk, and as a consequence limiting the number and scale of events of an operational risk (low level of tolerance to operational losses).<br>• The main assumptions of the operational risk strategy focus on increasing the bank's capacity to early identifying areas of increased system risk and reduction of exposure areas resulting from the risk resulting from human errors.<br>• When organizing the operational risk management process the Group takes into account the business strategy, risk profile of the Group, macroeconomic environment, available capital and liquidity resources and regulatory requirements, which make up the framework of preparation of the system used to control and manage operational risk at the Group.<br>• The Group's operational risk management system is built to ensure proper risk management at every stage, i.e. identification, assessment/measurement, mitigation, monitoring and reporting<br>• Management of non-compliance risk takes place as part of the Internal Control System. Management of non-compliance risk includes the following elements: identification, assessment, control, monitoring of the size and profile of compliance risk, reporting. |
| Risk measurement | • In the risk assessment process, the Group uses combinations of various risk measurement or estimation methods.<br>  – Risk assessment is to determine the probability of occurrence and the amount of future losses attributable to operational risk. To this end both quantitative and qualitative indicators are used (such as risk appetite, capital requirements, target risk profile, KRIs, data about losses and operational risk events, control issues and corrective actions, self-assessment process (incl. risk map), key projects, risk concentration areas and rising-risk areas, scenario analysis, stress tests, changes in processes and products, operational risk escalation and attestation, information from internal and external reviews and audits and information reported to Commissions and Committees). |

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| | – Such assessment also includes an analysis of both internal and external threats. A correct assessment of operational risk enables the Group to properly determine and manage the risk profile. |
| Monitoring | • As part of consolidated supervision, operational risk data relating to the Bank and subsidiaries are presented to Commissions and Committees that support the Management Board and Supervisory Board of the Bank in the operational risk management process.<br>• The processes of risk identification, self-assessment, measurement, monitoring and reporting, in essential respects, are standardized and generally accepted in all organizational units of the Group. Risk mitigation processes are defined for each organizational unit and may be different for individual units.<br>• The ongoing monitoring of operational risk is the responsibility of the Operational Risk Committee, the Control and Compliance System, the Risk and Capital Management Committee, the New Products Committee, the Remuneration Committee, Regulatory Reporting Committee and the various Commissions supporting the Committees.<br>• Quality of the operational risk management process (including the self-assessment process) in particular units of the Group is checked and assessed by the Internal Audit function.<br>• The Supervisory Board oversees the operational risk management system and assesses its adequacy and effectiveness. The Supervisory Board is supported by its committees: Audit Committee, Risk and Capital Committee and Remuneration Committee.<br>• On the basis of synthetic reports which present the scale and types of operational risk to which the Group is exposed, risk concentration areas, operational risk management methods, probability of occurrence of operational risk events, assessment of potential adverse impact of the operational risk management methods, results of operational risk profile monitoring and operational risk appetite, submitted by the Management Board at least semiannually, the Supervisory Board, supported by the Audit Committee and the Risk and Capital Committee, assesses the implementation of the assumptions of the strategy by the Management Board (including with respect to the operational risk management principles) and may order a review of the strategy if it deems it necessary. |

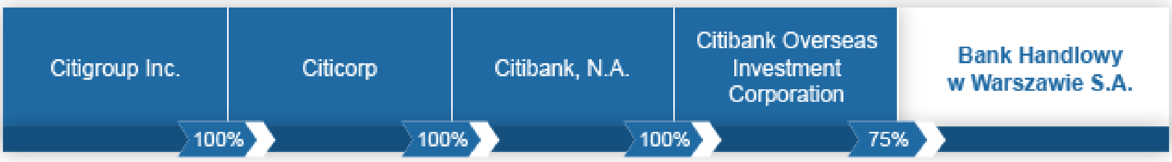
# VIII. Investor information

## 1. The Bank's shareholding structure and performance of its shares on the WSE

### 1.1 Shareholders

The only shareholder of the Bank that holds at least 5% of share capital and of total voting rights at the General Meeting of Shareholders is Citibank Overseas Investment Corporation (COIC), a company belonging to the Citi Group and focused on its foreign investments. COIC is at the same time the strategic majority shareholder of the Bank. In the first half of 2022, the number of shares held by COIC as well as its stake in share capital and in total voting rights at the General Meeting of Shareholders remained unchanged and amounted to 97,994,700 and 75%, respectively.

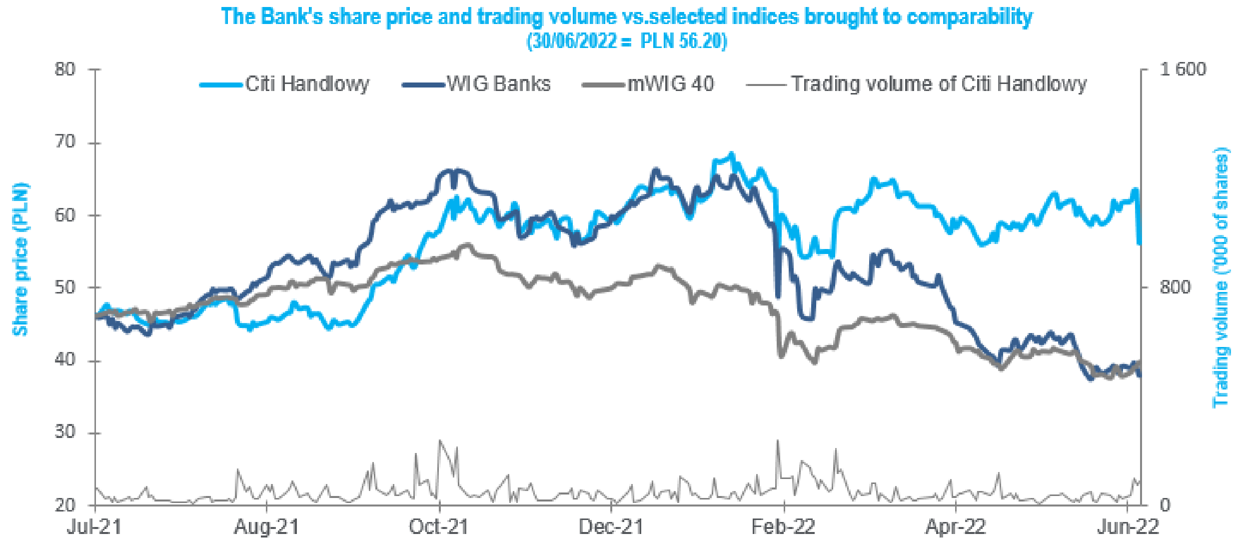
The position of Bank Handlowy w Warszawie S.A. within the Citi Group structure is shown in the diagram below:




The remaining shares (32,664,900 shares representing 25% of the share capital) are free floating, which means that they are publicly traded and listed on the Warsaw Stock Exchange (WSE).

## 1.2 Performance of the Bank's shares on the WSE

The Bank's share price was PLN 56.20 at the end of the first half of 2022, an increase of 23% within the last 12 months (i.e. compared to the closing price of PLN 45.70 as at 30 June 2021). During the same time, the mWIG 40 index recorded a year-on-year decrease by 16%, while the WIG-Banks index grew by 17% YoY.




The Bank's highest share price since the end of the first half of 2022 was reached on February 8, 2022 and amounted to PLN 68.50 while the lowest level was achieved on August 24, 2021 and amounted to PLN 44.20. The average share price of the Bank in the last 12 months was PLN 56.20 and the average daily turnover in the Bank's shares was approximately 2,797,000 shares.

As at the end of June 2022, the Bank's capitalization was PLN 7.3 billion (compared to PLN 7.7 billion as at 31 December 2021 and PLN 6.0 billion as at end of the first half of 2021). As at the end of June 2022, stock exchange ratios were as follows: P/E (price/earnings) – 7.1 (compared to 10.7 as at 31 December 2021 and 12.7 as at the end of the first half of the previous year), P/B (price/book) – 1.1 (compared to 1.0 as at 31 December 2021 and 0.8 as at the end of June 2021).

The current consensus on the expected results of the Group is available on the Citi Handlowy's website at: http://www.citibank.pl/poland/homepage/english/consensus.htm

## 2. Dividend

On June 23, 2022, the Annual General Meeting of the Bank adopted a resolution on distribution of net profit for 2021. Pursuant to the resolution the net profit for 2021 in the amount of PLN 715 972 070.88 was distributed as follows:

- dividend: PLN 714,708,012.00, i.e. PLN 5.47/per share,
- Reserve capital: PLN 1,264,058.88.

Dividend day was set for July 1, 2022, and the dividend payment date for July 11, 2022. The number of shares covered by dividend was 130 659 600.

The dividend accounted for 99.82% of the net profit for 2021, and the payment of funds in this amount was in line with the individual recommendation of the Polish Financial Supervision Authority regarding fulfilling by the Bank of requirements for payment of 100% dividend from net profit generated in 2021.

The table below presents the history of dividend payments since 1997 when the Bank was floated on the Warsaw Stock Exchange.

| Financial year | Dividend (PLN) | Earnings per share (PLN) | Dividend per share (PLN) | Dividend payout ratio |
|---|---|---|---|---|
| 1997 | 130,000,000 | 6.21 | 1.40 | 22.5% |
| 1998 | 93,000,000 | 3.24 | 1.00 | 30.8% |
| 1999 | 186,000,000 | 5.08 | 2.00 | 39.4% |
| 2000 | 130,659,600 | 1.57 | 1.00 | 63.8% |
| 2001 | 163,324,500 | 1.25 | 1.25 | 99.8% |
| 2002 | 241,720,260 | 1.86 | 1.85 | 99.6% |
| 2003 | 241,720,260 | 1.86 | 1.85 | 99.7% |
| 2004 | 1,563,995,412 | 3.17 | 11.97 | *) |
| 2005 | 470,374,560 | 4.51 | 3.60 | 79.8% |
| 2006 | 535,704,360 | 4.75 | 4.10 | 86.4% |
| 2007 | 620,633,100 | 6.19 | 4.75 | 76.8% |
| 2008** | - | 4.94 | - | - |

| Financial year | Dividend (PLN) | Earnings per share (PLN) | Dividend per share (PLN) | Dividend payout ratio |
|---|---|---|---|---|
| 2009 | 492,586,692 | 4.02 | 3.77 | 94.0% |
| 2010 | 747,372,912 | 5.72 | 5.72 | 99.9% |
| 2011 | 360,620,496 | 5.52 | 2.76 | 50.0% |
| 2012 | 756,519,084 | 7.72 | 5.79 | 75.0% |
| 2013 | 934,216,140 | 7.15 | 7.15 | 99.9% |
| 2014 | 970,800,828 | 7.43 | 7.43 | 99.9% |
| 2015 | 611,486,928 | 4.75 | 4.68 | 98.6% |
| 2016 | 591,887,988 | 4.62 | 4.53 | 98.0% |
| 2017 | 537,010,956 | 4.11 | 4.11 | 100.0% |
| 2018 | 488,666,904 | 5.00 | 3.74 | 74.8% |
| 2019*** | - | 3.66 | - | - |
| 2020 | 156,791,520 | 1.21 | 1.20 | 99.2% |
| 2021 | 714,708,012 | 5.48 | 5.47 | 99.8% |

** Dividend-pay-out ratio for 2004 - 100% plus prior year profits.*
*** On June 18, 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008 following the recommendation of the Polish Financial Supervision Authority (KNF) for the whole banking sector.*
**** On June 4, 2020, the Bank's Ordinary General Meeting decided to pay no dividend for 2019 following the recommendation of the Polish Financial Supervision Authority (KNF) for the whole banking sector.*

## 3. Rating

As of end of the first half of 2022, the Bank had full ratings awarded by Fitch Ratings ("Fitch").

On September 23, 2021 Fitch as part of the annual review, affirmed all ratings of the Bank in the following levels:

| | |
|---|---|
| Long-term entity ranking<br>*Long-term rating outlook* | A-<br>*stable* |
| Short-term entity ranking | F1 |
| Viability rating* | a-<br>Rating Watch Negative |
| Support rating | 1 |
| National long-term rating | AA+ (pol)<br>stable |
| National short-term rating | F1+ (pol) |

** Viability rating is the view of the intrinsic creditworthiness of an institution, independent of external factors.*

The Bank's Ratings (IDRs) are driven by its intrinsic strength (as reflected in Viability rating ("VR") and potential parental support.

In the justification for the assessment, the rating agency stated that the Bank's Individual VR Rating is one notch higher than the rating for the Polish banking sector, which reflects the Bank's low risk appetite, diversified business model, high capitalization and high levels of liquidity, which makes the Bank more resilient to inherent risks in the Polish operating environment. The Bank's balance sheet is dominated by low-risk assets, the quality of the loan portfolio is solid, which is the result of focusing on lending to high quality corporate and retail borrowers.

However, this also means that due to its high level in the local context, the VR has only narrow headroom to absorb deterioration of the financial profile, weakening of the bank's franchise or changes to the business model. Fitch expects to resolve the RWN upon release of details about the planned exit of Handlowy's retail operations and further development plans for the institutional business.

For the full announcement published by Fitch please visit: https://www.fitchratings.com/research/banks/fitch-affirms-bank-handlowy-idr-at-a-maintains-vr-on-rwn-23-09-2021

## 4. Investor relations

Investor relations, which ensure information to existing and prospective investors, capital market analysts and rating agencies, are an integral element of the Bank's information policy, the purpose of which is to cater for information needs of all persons and institutions interested in corporate information. In terms of investor relations, the main information policy tools are:

- regular contacts with investors and analysts in the form of conference calls and meetings, also at the Bank's premises, attended by members of the Bank's Management Board;
- support of the Press Office during quarterly press conferences for the media held after the publication of interim reports;
- publishing on the website current information on the Bank and its projects, and all current and interim reports. The website also enables contacts with the Investor Relations Office which has a broad knowledge of the Bank and its Group of Companies.

In the first half of 2022, the Bank organized meetings regarding the publication of financial results after each quarter with capital market analysts and representatives of investors.

# IX. Corporate governance rules in the Group

## 1. Best practice at the Bank

Corporate Governance Principles applied in the Group of the Bank are described in the Report of the Management Board on the activities in 2021.

## 2. Governing bodies of the Bank

### 2.1 Changes in the composition of the Management Board and Supervisory Board during the first half of 2021

#### 2.1.1 Changes in the composition of the Management Board during the first half of 2022

In the first half of 2022, the Bank's Management Board consisted of:

| | |
|---|---|
| Elżbieta Światopełk-Czetwertyńska | President of the Bank's Management Board |
| Natalia Bożek | Vice-President of the Bank's Management Board |
| Dennis Hussey | Vice-President of the Bank's Management Board (to June 30, 2022) |
| Maciej Kropidłowski | Vice-President of the Bank's Management Board |
| Barbara Sobala | Vice-President of the Bank's Management Board |
| James Foley | Member of the Bank's Management Board (to February 28, 2022) |
| Katarzyna Majewska | Member of the Bank's Management Board |

As of July 1, 2022, Mr. Andrzej Wilk was appointed to the position of the Vice-President of the Management Board of the Bank.

#### 2.1.2 Changes in the composition of the Supervisory Board during the first half of 2022

During the first half of 2022 the Supervisory Board of the Bank consisted of:

| | |
|---|---|
| Sławomir S. Sikora | Chair of the Supervisory Board |
| Kristine Braden | Deputy Chair of the Supervisory Board |
| Frank Mannion | Member of the Supervisory Board (to March 31, 2022) |
| Silvia Carpitella | Member of the Supervisory Board (from June 24, 2022) |
| Jenny Grey | Member of the Supervisory Board (to June 23, 2022) |
| Helen Hale | Member of the Supervisory Board (from June 24, 2022) |
| Marek Kapuściński | Member of the Supervisory Board |
| Gonzalo Luchetti | Member of the Supervisory Board (to June 23, 2022) |
| Andras Reiniger | Member of the Supervisory Board (from June 24, 2022) |
| Anna Rulkiewicz | Member of the Supervisory Board |
| Barbara Smalska | Member of the Supervisory Board |

### 2.2 Rules of appointing and dismissing members of the Management Board

The Management Board consists of five to nine members. Each member of the Bank's Management Board is appointed by the Supervisory Board for three years. At least half of the members of the Management Board should be of Polish nationality. The term of appointment of a Management Board member expires:

- on the day of the General Meeting of Shareholders approving the Management Report on the activities of the Bank and financial report for the full past year of the term of office of the Management Board member;
- upon death of the Management Board member;
- upon dismissal of the Management Board member;
- upon resignation of the Management Board member, submitted in writing to the Chair of the Supervisory Board.

### 2.3 Rights of the Management Board members

The Management Board makes decisions in matters concerning the Bank by way of resolutions, provided that decisions in such matters are not reserved for other governing bodies of the Bank by law or the Articles of Association.

By way of resolutions, the Management Board in particular:

1) defines the Bank's strategy;

2) establishes and abolishes the committees supporting the work of the Bank and defines their mandates;
3) decides the Management Board's bylaws and submits them to the Supervisory Board for approval;
4) decides the rules of handling special purpose funds created from net profit and submits them to the Supervisory Board for approval;
5) decides on the date of payment of dividend within the time limits defined by the General Meeting of Shareholders;
6) appoints holders of general commercial power of attorney, attorneys and attorneys with powers of substitution;
7) decides in matters defined in Management Board bylaws;
8) makes decisions on matters brought by the President, Vice-President or Member of the Management Board;
9) passes a resolution on the Bank's annual financial plan, accepts investment plans and reports of implementation of such plans;
10) accepts reports on the Bank's operations and financial reports;
11) formulates decisions regarding distribution of profit or coverage of losses;
12) approves the Bank's human resources policy, credit policy and legal principles of its operations;
13) approves the rules of the Bank's equity management;
14) approves the employment structure;
15) establishes the basic structure of the Bank's organization, appoints and dismisses Heads of Sectors, appoints and dismisses Heads of Divisions, and makes decisions on their competences;
16) establishes the audit plan at the Bank and accepts audit reports;
17) resolves other issues which, according to the Articles of Association, are submitted to the Supervisory Board or the General Meeting of Shareholders;
18) makes decisions on contracting liabilities or disposing of assets, when the total value of such liabilities or assets in relation to a single entity exceeds 5% of the Bank's own funds, or appoints authorized persons to make such decisions; however, in matters within the powers of Committees appointed by the Bank the decisions are made after consulting the relevant Committee.

The acquisition and transfer of ownership or the right of perpetual usufruct of a real estate property or a share in those rights by the Bank shall not require a resolution by the General Meeting. Decisions in these matters shall be taken independently by the Management Board of the Bank by way of resolution. However, in matters including acquisition and transfer of ownership or the right of perpetual usufruct of a real estate property or a share in those rights by the Bank, if the value of those rights in the individual case does not exceed PLN 500,000.00 and the acquisition or transfer is connected with the Bank's seeking collection of debts resulting from banking operations, such acquisition or transfer can be made also without the resolution of the Management Board.

The Bank's Management Board designs, implements, and ensures the operation of, the Bank's management system as well as designs, implements and updates written strategies and procedures, and undertakes actions relating to the system of risk management, internal controls and internal capital assessment as well as reviews of the internal capital assessment and maintenance processes.

## 3. Other principles

### 3.1 Information on owners of securities with special control rights towards the Bank

All shares issued by the Bank are common bearer shares and have no special control rights related to them.

### 3.2 Limitations regarding transfer of ownership of the Bank's shares or exercising the voting rights relating to the Bank's shares

Beside limitations stipulated by the Banking Law (Article 25 et seq.), the Bank's Articles of Association put no limitations with regard to transfer of Bank's shares.

# X. Other information on the Bank's governing bodies and management principles

## 1. Information on the total number of the shares of the Bank held by Management Board or Supervisory Board members

According to the best knowledge of the Bank – the parent company, at the end of the first half of 2022, as well as at the date of submission of the previous periodic report for the first quarter of 2022 none of the members of the Management Board and Supervisory Board declared holding the Bank's shares.

Managing and supervising officers have not declared any options for Bank's shares.

## 2. Information on any agreements between the Bank and the Management Board members that provide for compensation in case of resignation or dismissal of such members without a valid reason, or when such dismissal is a result of a merger or acquisition of the Bank

Among all employment contracts between the Bank and the members of the Management Board of the Bank, there is no contract that provides for financial compensation in the case of termination with prior notice or for reasons specified in Article 53 of the Labour Code.

Each member of the Management Board of the Bank has signed a separate non-competition agreement with the Bank. In accordance with this agreement, if the employment relationship with the Bank is terminated, the member of the Management Board is obliged to refrain from undertaking any competitive activities in a period of 12 months (or 6 months in the case of one of the Management Board members). On account of this restriction, the Bank will be obliged to pay compensation to a terminated member of the Management Board.

# XI. Significant events after the balance sheet date not included in the financial statements

After June 30, 2022, the following significant events took place:

- On July 29, 2022, the Act of July 7, 2022 on crowdfunding for business ventures and aid to borrowers (Journal of Laws 2022, item 1488) entered into force, which, inter alia, creates the possibility of suspending mortgage repayments (so-called “credit holidays”).

  The Act allows the borrower to suspend mortgage installments for two months for both the third and fourth quarter of 2022 and for one month in each of the quarters of 2023. The borrower is entitled to the credit holidays only in relation to one agreement, which was concluded to meet his own housing needs, and for loans granted in the Polish currency. Suspended installments extend the loan period accordingly and no interest is charged during the period of suspension of loan repayment. The above-mentioned regulations apply to contracts concluded before July 1, 2022.

  The introduced regulations will have a negative impact on the Group’s gross financial result in the third quarter of 2022, estimated at approx. PLN 60 million, and will be recognized as one-time adjustment to the gross balance sheet value of mortgage loans, along with reduction in interest income. This estimate is based on the assumption that approx. 63% of customers with mortgage loans granted in the Polish currency will decide to take credit holidays. The impact of taking credit holidays by all authorized bank borrowers is estimated at approx. PLN 102 million. The actual impact of regulations on the financial result will depend on the actual number of customers who decide to take credit holidays, the time when the holidays begins for individual customers and the number of suspended installments.

  Pursuant to the Act, the lenders were obliged to make additional contributions to the Borrowers Support Fund by December 31, 2022.It is not possible to estimate the amount of additional payment to the Borrowers' Support Fund per Group, because it depends on a number of factors, among others from the data of other banks to which the Bank has no access.

  The act also provides for the possibility of introducing a substitute for the WIBOR reference index, while the details of the substitute and the date of its introduction will be determined by a dedicated decree of the Minister of Finance. As at the date of approval of these financial statements, due to the lack of more detailed information on the substitute for the WIBOR reference index, the Group was not able to reliably estimate the potential impact of this planned change.

- On July 29, 2022, in the execution of the enterprise sale agreement of March 11, 2020, Bank Handlowy w Warszawie S.A. ("Bank") and Dom Maklerski Banku Handlowego S.A. ("DMBH") concluded an agreement to transfer the enterprise of DMBH to the Bank.

  As a result of the agreement, on August 1, 2022, the process of transferring the brokerage activities conducted by DMBH to the Bank was completed. The Brokerage Team of Bank Handlowy took over the full service of DMBH clients and from August 1, 2022, it is the only organizational unit in the Bank's group that conducts brokerage activities on the basis of a brokerage license issued by the Polish Financial Supervision Authority.

- On August 5, 2022 the Fitch Ratings rating agency confirmed the placement of Bank’s Viability Rating on the Rating Watch Negative. The above assessment of Fitch Ratings reflects the deterioration of the operating environment and the decision announced by Citigroup Inc. on revised exit strategy from the retail segment in 13 markets, including Poland.

# XII. Statement of the Bank’s Management Board

## Accuracy and fairness of the statements presented

To the best knowledge of the Management Board of the Bank, composed as at the date of preparation of the financial statements of: Ms. Elżbieta Światopełk - Czetwertyńska – President of the Management Board, Ms. Natalia Bożek – Vice-President, Mr. Maciej Kropidłowski – Vice-President, Mr. Andrzej Wilk – Vice-President, Ms. Barbara Sobala – Vice-President and Mrs. Katarzyna Majewska – Member, the semi-annual financial data and comparative data presented in the “Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2022” and the “Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2022” were prepared in accordance with the applicable accounting principles and give a true, fair and clear picture of the assets and the financial standing of the Bank and the Group as well as the financial result of the Bank and the Group. The “Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2022”, contained in the semi-annual consolidated report, gives a true picture of developments, achievements and situation (and describes major risk) of the Group in the first half of 2022.

Other information required by the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as equivalent to information required by the law of a non-Member State (Journal of Laws [Dz. U.] of 2018 item 757, as amended) was provided in the Condensed Interim Consolidated Financial Statements of the Bank's Group of Companies.

| | | |
|---|---|---|
| 29.08.2022 | Elżbieta Światopełk - Czetwertyńska | President of Management Board |
| ........................... | ............................................. | ............................... |
| Date | Name | Position/Function |
| 29.08.2022 | Natalia Bożek | Vice-President of Management Board |
| ........................ | ............................................. | ............................... |
| Date | Name | Position/Function |
| 29.08.2022 | Maciej Kropidłowski | Vice-President of Management Board |
| ........................ | ............................................. | ............................... |
| Date | Name | Position/Function |
| 29.08.2022 | Andrzej Wilk | Vice-President of Management Board |
| ........................ | ............................................. | ............................... |
| Date | Name | Position/Function |
| 29.08.2022 | Barbara Sobala | Vice-President of Management Board |
| ........................ | ............................................. | ............................... |
| Date | Name | Position/Function |
| 29.08.2022 | Katarzyna Majewska | Member of Management Board |
| ........................ | ............................................. | ............................... |
| Date | Name | Position/Function |