2023
Semi-annual Report of the Capital Group of Bank Handlowy w Warszawie S.A.

citi handlowy

SELECTED FINANCIAL DATA	In PLN '000		In EUR '000***	
	First half of 2023	First half of 2022	First half of 2023	First half of 2022
	01.01. - 30.06. 2023	01.01. - 30.06. 2022	01.01. - 30.06. 2023	01.01. - 30.06. 2022
Condensed Interim Consolidated Financial Statements data				
Interest income and similar income	2,270,702	1,259,385	492,240	271,261
Fee and commission income	334,850	352,563	72,588	75,939
Profit before tax	1,539,622	1,010,810	333,757	217,720
Net profit	1,215,290	782,333	263,449	168,508
Comprehensive income	1,571,235	186,331	340,610	40,134
Changes in net cash	2,125,402	(2,141,317)	460,742	(461 222)
Total assets*	71,582,525	69,801,402	16,084,876	14,883,345
Amounts due to banks*	3,300,275	4,794,671	741,585	1,022,340
Amounts due to customers*	52,066,886	50,512,860	11,699,635	10,770,562
Equity*	8,355,543	7,960,245	1,877,524	1,697,317
Share capital*	522,638	522,638	117,439	111,439
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	63.95	60.92	14.37	12.99
Total capital ratio (in %)*	20.3	19.0	20.3	19.0
Earnings per ordinary share (PLN/EUR)	9.30	5.99	2.02	1.29
Diluted earnings per share (PLN/EUR)	9.30	5.99	2.02	1.29
Condensed Interim Stand-alone Financial Statements data				
Interest income and similar income	2,270,702	1,258,890	492,240	271,157
Fee and commission income	335,071	330,174	72,636	71,117
Profit before tax	1,540,044	1,034,086	333,849	222,735
Net profit	1,216,173	806,380	263,640	173,689
Comprehensive income	1,572,347	210,300	340,851	45,297
Changes in net cash	2,125,402	(2,141,311)	460,742	(461,224)
Total assets*	71,674,338	69,892,966	16,105,507	14,902,869
Amounts due to banks*	3,300,275	4,794,671	741,585	1,022,340
Amounts due to customers*	52,219,891	50,667,780	11,734,016	10,803,595
Equity*	8,296,014	7,899,604	1,864,147	1,684,386
Share capital*	522,638	522,638	117,439	111,439
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	63.49	60.46	14.27	12.89
Total capital ratio (in %)*	20.0	18.6	20.0	18.6
Earnings per ordinary share (PLN/EUR)	9.31	6.17	2.02	1.33
Diluted earnings per share (PLN/EUR)	9.31	6.17	2.02	1.33
Declared dividends per share (PLN/EUR)**	9,00	5.47	2,02	1.17

**Comparative data according to balance sheet as at 31 December 2022. Data concerning total capital ratio for 31 December 2022 have been recalculated taking into account the retrospective recognition of a part of the profit for 2022 as own funds in connection with the resolution of the Ordinary General Meeting of the Bank described in Note 31 Dividends paid (or declared), in accordance with the position of EBA expressed in Q&A 2018_4085.*

Additional information on capital ratio is included in the supplementary note no. 5 in the section "Capital Adequacy" and "Information on capital adequacy of Bank Handlowy w Warszawie S.A. as at 30 June 2023" subject to publication on the Bank's website. Calculation of TCR as of 30.06.2023 was not subject to a separate review or audit by an auditor.

***On the April 26, 2023 the Ordinary General Meeting of Shareholders of the Bank Handlowy w Warszawie S.A. (hereinafter GM) adopted a resolution on distribution of the net profit for 2022. Additional information concerning dividend payout was presented in note 31.*

****The following exchange rates were applied to convert PLN to EUR: for the statement of financial position items - average NBP exchange rate as at 30 June 2023 4.4503 (as at 31 December 2022: PLN 4.6899 and as at 30 June 2022: PLN 4.6806); for the income statement, the statement of comprehensive income and the cash flow statement items – the rate is calculated as the arithmetic mean of NBP exchange rates prevailing as at the last day of each month of the first half of 2023: EUR 1 = PLN 4.6130 (in the first half of 2022: PLN 4.6427).*

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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. FOR THE 6 MONTH PERIOD ENDED 30 JUNE 2023

AUGUST 2023

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Condensed consolidated income statement

For the period		II quarter	I half of the year	II quarter	I half of the year
		01.04. - 30.06. 2023	01.01. - 30.06. 2023	01.04. - 30.06. 2022	01.01. - 30.06. 2022
PLN '000	Note				
Interest income	6	1,109,702	2,181,152	756,606	1,198,995
Similar income	6	45,914	89,550	27,871	60,390
Interest expense and similar charges	6	(323,678)	(591,460)	(117,644)	(147,693)
Net interest income	**6**	**831,938**	**1,679,242**	**666,833**	**1,111,692**
Fee and commission income	7	166,878	334,850	176,733	352,563
Fee and commission expense	7	(24,832)	(52,136)	(25,305)	(49,871)
Net fee and commission income	**7**	**142,046**	**282,714**	**151,428**	**302,692**
Dividend income		**9,769**	**9,773**	**9,395**	**9,451**
Net income on trading financial instruments and revaluation	**8**	**183,589**	**415,432**	**188,304**	**462,527**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	**27**	**(28,179)**	**(3,923)**	**-**	**(35,762)**
Net gain/(loss) on equity and other instruments measured at fair value through income statement		**14,166**	**15,474**	**(1,104)**	**3,534**
Net gain/(loss) on hedge accounting		**(2,421)**	**(5,023)**	**-**	**(1,722)**
Other operating income	9	5,864	11,921	6,029	11,834
Other operating expense	9	(6,748)	(13,208)	(8,615)	(16,243)
Net other operating income and expense	**9**	**(884)**	**(1,287)**	**(2,586)**	**(4,409)**
General administrative expenses	**10**	**(312,127)**	**(700,862)**	**(274,891)**	**(662,518)**
Depreciation and amortization		**(27,800)**	**(54,106)**	**(25,854)**	**(52,232)**
Profit on sale of other assets		**(57)**	**(78)**	**(481)**	**3,028**
Provision for expected credit losses on financial assets and provisions for contingent commitments	**11**	**5,700**	**(6,150)**	**(9,453)**	**(21,007)**
Operating profit		**815,740**	**1,631,206**	**701,591**	**1,115,274**
Tax on some financial institutions		**(44,540)**	**(91,584)**	**(58,495)**	**(104,464)**
Profit before tax		**771,200**	**1,539,622**	**643,096**	**1,010,810**
Income tax expense	**12**	**(159,672)**	**(324,332)**	**(142,755)**	**(228,477)**
Net profit		**611,528**	**1,215,290**	**500,341**	**782,333**
Including:					
Net profit attributable to Bank's shareholders (in PLN)			1,215,290		782,333
Weighted average number of ordinary shares (in pcs)			130,659,600		130,659,600
Earnings per share (in PLN)			9.30		5.99
Diluted net earnings per share (in PLN)			9.30		5.99

Explanatory notes are integral part of the condensed interim consolidated financial statements.

Financial data presented on quarterly basis for the period of 1 April 2023 to 30 June 2023, as well as comparative data for this period, was not subject to a separate review or audit by an auditor.

Condensed consolidated statement of comprehensive income

For the period		II quarter	I half of the year	II quarter	I half of the year
		01.04. - 30.06. 2023	01.01. - 30.06. 2023	01.04. - 30.06. 2022	01.01. - 30.06. 2022
PLN '000	Note				
Net profit		**611,528**	**1,215,290**	**500,341**	**782,333**
Other comprehensive income, that is or might be reclassified to the income statement		**136,309**	**360,175**	**(310,063)**	**(596,002)**
Remeasurement of financial assets measured at fair value through other comprehensive income (net)	13	113,700	357,226	(310,089)	(625,047)
(Profit)/Loss reclassification to income statement after derecognition of financial assets measured at fair value through other comprehensive income (net)	13	22,825	3,178	-	28,967
Currency translation differences		(216)	(229)	26	78
Other comprehensive income, that cannot be subsequrently reclassified to profit or loss		**(4,230)**	**(4,230)**	**-**	**-**
Net actuarial profits on specific services program valuation		(4,230)	(4,230)	-	-
Other comprehensive income net of tax		**132,079**	**355,945**	**(310,063)**	**(596,002)**
Total comprehensive income		**743,607**	**1,571,235**	**190,278**	**186,331**
Including:					
Comprehensive income attributable to Bank's shareholders		743,607	1,571,235	190,278	186,331

Explanatory notes are integral part of the condensed interim consolidated financial statements.

Financial data presented on quarterly basis for the period of 1 April 2023 to 30 June 2023, as well as comparative data for this period, was not subject to a separate review or audit by an auditor.

Condensed consolidated statement of financial position

As at		30.06.2023	31.12.2022
PLN '000	Note		
ASSETS			
Cash and balances with the Central Bank		2,576,498	595,969
Amounts due from banks	14	10,546,967	1,043,968
Financial assets held-for-trading, including:	15	6,194,357	7,029,163
Assets pledged as collateral		-	60,988
Hedging derivatives	27	-	623
Debt financial assets measured at fair value through other comprehensive income, including:	16	27,072,579	37,180,808
Assets pledged as collateral		701,317	697,698
Equity and other instruments measured at fair value through income statement		121,619	106,144
Amounts due from customers	17	22,793,666	21,620,507
Tangible fixed assets		475,848	455,418
Intangible assets	18	1,262,220	1,263,863
Deferred tax asset	19	230,547	287,368
Other assets	20	308,224	217,571
Total assets		**71,582,525**	**69,801,402**
LIABILITIES			
Amounts due to banks	21	3,300,275	4,794,671
Financial liabilities held-for-trading	15	4,622,605	4,896,099
Hedging derivatives	27	71,319	6,917
Amounts due to customers	22	52,066,886	50,512,860
Provisions		101,767	112,507
Current income tax liabilities		287,430	245,937
Deferred tax liabilities	19	132	165
Other liabilities	23	2,776,568	1,272,001
Total liabilities		**63,226,982**	**61,841,157**
EQUITY			
Share capital		522,638	522,638
Supplementary capital		3,001,260	3,001,259
Revaluation reserve		(213,124)	(573,528)
Other reserves		3,199,204	2,833,345
Retained earnings		1,845,565	2,176,531
Total equity		**8,355,543**	**7,960,245**
Total liabilities and equity		**71,582,525**	**69,801,402**

Explanatory notes are integral part of the condensed interim consolidated financial statements.

Condensed consolidated statement of changes in equity

PLN '000	Share capital	Supplementa-ry capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2023	**522,638**	**3,001,259**	**(573,528)**	**2,833,345**	**2,176,531**	**7,960,245**
Total comprehensive income, including:	-	-	360,404	(4,459)	1,215,290	1,571,235
Net profit	-	-	-	-	1,215,290	1,215,290
Other comprehensive income	-	-	360,404	(4,459)	-	355,945
Currency translation differences from the foreign operations' conversion	-	-	-	(229)	-	(229)
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	360,404	-	-	360,404
Net actuarial profits/(losses) on specific services program valuation	-	-	-	(4,230)	-	(4,230)
Dividends paid	**-**	**-**	**-**	**-**	**(1,175,937)**	**(1,175,937)**
Transfer to capital	**-**	**1**	**-**	**370,318**	**(370,319)**	**-**
Balance as at 30 June 2023	**522,638**	**3,001,260**	**(213,124)**	**3,199,204**	**1,845,565**	**8,355,543**

PLN '000	Share capital	Supplementa-ry capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2022	**522,638**	**3,001,699**	**(312,018)**	**2,814,030**	**1,357,046**	**7,383,395**
Total comprehensive income, including:	-	-	(596,080)	78	782,333	186,331
Net profit	-	-	-	-	782,333	782,333
Other comprehensive income	-	-	(596,080)	78	-	(596,002)
Currency translation differences from the foreign operations' conversion	-	-	-	78	-	78
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	(596,080)	-	-	(596,080)
Dividends to be paid	**-**	**-**	**-**	**-**	**(714,708)**	**(714,708)**
Transfer to capital	**-**	**1**	**-**	**11,927**	**(11,928)**	**-**
Balance as at 30 June 2022	**522,638**	**3,001,700**	**(908,098)**	**2,826,035**	**1,412,743**	**6,855,018**

PLN '000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2022	**522,638**	**3,001,699**	**(312,018)**	**2,814,030**	**1,357,046**	**7,383,395**
Total comprehensive income, including:	**-**	**-**	**(261,510)**	**7,388**	**1,545,680**	**1,291,558**
Net profit	-	-	-	-	1,545,680	1,545,680
Other comprehensive income	-	-	(261,510)	7,388	-	(254,122)
Currency translation differences from the foreign operations' conversion	-	-	-	89	-	89
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	(261,510)	-	-	(261,510)
Net actuarial profits/(losses) on defined benefit program valuation	-	-	-	7,299	-	7,299
Dividends paid	**-**	**-**	**-**	**-**	**(714,708)**	**(714,708)**
Transfer to capital	**-**	**(440)**	**-**	**11,927**	**(11,487)**	**-**
As at 31 December 2022	**522,638**	**3,001,259**	**(573,528)**	**2,833,345**	**2,176,531**	**7,960,245**

Explanatory notes are integral part of the condensed interim consolidated financial statements.

Condensed consolidated statement of cash flows

PLN '000 For the period	01.01. - 30.06. 2023	01.01. - 30.06. 2022
A. Operating activities		
I. Net profit	**1,215,290**	**782,333**
II. Adjustments:	**1,266,067**	**(3,584,663)**
Current and deferred income tax recognized in income statement	324,332	228,477
Depreciation and amortization	54,106	52,232
Net impairment due to expected credit losses	17,734	20,936
Net provisions	(6,566)	4,417
Net interest income	(1,679,242)	(1,111,692)
Dividend income	(9,773)	(9,451)
Profit/loss on sale of fixed assets	78	(3,028)
Net unrealized exchange differences	20,852	(36,424)
Net gain/(loss) on equity and other instruments measured at fair value through income statement	(15,474)	(3,534)
Other adjustments	11,907	13,062
Change in amounts due from banks	(9,360,145)	(1,150,617)
Change in amounts due from customers	(1,196,681)	(758,549)
Change in debt securities measured at fair value through other comprehensive income	10,989,034	(7,933,211)
Change in financial assets held-for-trading	862,650	(337,208)
Change in derivative securities	623	119,290
Change in other assets	(82,484)	(17,942)
Change in amounts due to banks	(1,468,911)	(97,478)
Change in amounts due to customers	1,521,936	2,457,241
Change in liabilities held-for-trading	(273,494)	2,889,807
Change in amounts due to hedging derivatives	64,402	-
Change in other liabilities	1,491,183	2,089,009
Interest received	**1,814,942**	**889,124**
Interest paid	**(586,586)**	**(125,654)**
Income tax paid	**(308,834)**	**(90,850)**
III. Net cash flows from operating activities	**3,400,879**	**(2,129,710)**
B. Investing activities		
Inflows	**2,493**	**17,169**
Disposal of tangible fixed assets	499	5,601
Disposal of fixed assets/liabilities held-for-sale	-	9,783
Dividends received	1,994	1,785
Outflows	**(72,740)**	**(60,365)**
Purchase of tangible fixed assets	(42,810)	(28,918)
Purchase of intangible assets	(29,930)	(31,447)
Net cash flows from investing activities	**(70,247)**	**(43,196)**
C. Financing activities		
Inflows	**-**	**-**
Outflows	**(1,181,954)**	**(5,803)**
Paid dividends	(1,175,937)	-
Outflows from lease payments	(6,017)	(5,803)
Net cash flows from financing activities	**(1,181,954)**	**(5,803)**
D. Exchange rates differences resulting from cash and cash equivalent calculation	**(23,276)**	**37,392**
E. Net increase/(decrease) in cash and cash equivalent	**2,125,402**	**(2,141,317)**
F. Cash and cash equivalent at the beginning of reporting period	**658,777**	**6,566,557**
G. Cash and cash equivalent at the end of reporting period (see note 28)	**2,784,179**	**4,425,240**

Explanatory notes are integral part of the condensed interim consolidated financial statements.

Supplementary notes to the condensed interim consolidated financial statements

1. General information about the Bank and the Capital Group of Bank Handlowy w Warszawie S.A. ("The Group")

Bank Handlowy w Warszawie S.A. ("the Bank" or "parent entity") has the registered office in Poland at Senatorska 16, 00-923 Warsaw. The Bank was established on the basis of Certificate of Incorporation of 13 April 1870 and is registered under entry No. KRS 0000001538 in the Register of Companies by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register. . Bank operates as a joint-stock company. During reporting period the name of entity has not changed.

The parent entity was granted a statistical REGON No. 000013037 and tax identification No. (NIP) 526-030-02-91.

The parent entity and the entities of the Group were set up for an unspecified period of time.

The share capital of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common bearer shares, with par value of PLN 4.00 per share. The Bank is a listed company on the Warsaw Stock Exchange.

The Group is a member of Citigroup Inc. The parent company of Bank is Citibank Overseas Investments Corporation, with headquarters in New Castle, USA. Citibank Overseas Investment Corporation is a subsidiary of Citibank N.A, with headquarters in New York, USA, whereas the ultimate parent company is Citigroup Inc.

Bank Handlowy w Warszawie S.A. is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients, and through Brokerage Department provides brokerage services for individual and institutional clients.

The Group consists of the Bank and the following subsidiaries:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		30.06.2023	31.12.2022
Entities fully consolidated			
Handlowy Financial Services Spółka z ograniczoną odpowiedzialnością. (previously: Dom Maklerski Banku Handlowego S.A.)	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o. *(apart from indirect shareholding via Handlowy-Inwestycje Sp. z o.o. where the share in equity equals 2.53%)*	Warsaw	97.47	97.47
Handlowy Investments S.A.	Luxembourg	100.00	100.00
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

***In 2022 Bank concluded with Dom Maklerski Banku Handlowego S.A "Business transfer agreement" on the basis of which DBMH was transferred to the Bank on 1 August 2022. On April 7, 2023, the District Court entered the transformation of Dom Maklerski Banku Handlowego S.A. in the National Court Register. Upon transformation, the company adopted the name "HANDLOWY FINANCIAL SERVICES" Spółka z ograniczoną odpowiedzialnością.*

2. Declaration of conformity

The interim condensed consolidated financial statements of the Group have been prepared for the period from 1 January 2023 to 30 June 2023 and for the consolidated statement of financial position as at 30 June 2023. Comparative financial data are presented for the period from 1 January 2022 to 30 June 2022 and for the consolidated statement of financial position as at 31 December 2022.

The interim condensed consolidated financial statements are presented in PLN (currency of presentation), rounded to the nearest thousand.

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34 '*Interim Financial Reporting'*, adopted by European Union.

The financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the financial year ended 31 December 2022.

In accordance with the Decree of the Ministry of Finance dated 29 March 2018, regarding current and periodic information provided by issuers of securities, and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2018, No. 757) the Bank is obliged to publish its financial results for the six-month period ended 30 June 2023 which is deemed to be the current interim financial reporting period.

These condensed consolidated interim financial statements were approved by the Management Board on 29 August 2023.

This interim condensed consolidated financial statement of the Group has been prepared with the assumption of going concern in the period of at least 12 months since the date of publication. As of the day of signing the consolidated financial statement, the Bank's Management does not identifiy the existence of facts and circumstances that would indicate threats to the Group's ability to go concern in the period of 12 months since the balance sheet date due to omission or significant limitation of the Group's current activities.

3. Significant accounting policies

The interim condensed consolidated financial statements of the Group for the first half of 2023 has been prepared in accordance with accounting principles adopted and described in the annual consolidated financial statements of the Group for the financial year ended 31 December 2022, except for the income tax expense that was calculated according to the principles of IAS 34.

The preparation of interim condensed consolidated financial statements of the Group with accordance to International Financial Reporting Standards requires that the Management should make certain estimates and adopt related assumptions that affect the amounts reported in the financial statements. The financial statements are based on the same estimation rules which were used in the annual consolidated financial statements of the Group for the financial year ended 31 December 2022.

The estimations and respective assumptions are made based on historical data available and other multiple factors which under given conditions are considered proper and which form the basis for estimation regarding balance sheet values of assets and liabilities whose value cannot be determined clearly based on other sources. However, actual values may differ from estimates.

The estimations and respective assumptions are subject to recurring reviews. Changes of estimations are recognized in the period in which the estimation was modified if the adjustment concerns only this period or in the period of the change and future periods if the adjustment concerns both this period and the future periods.

The key estimates were presented in the annual consolidated financial statements of the Group for 2022. Additionally, with respect to interim financial statements, the Group applies the principle of recognizing the financial result income tax charges based on the estimate of the annual effective income tax rate expected by the Group in the full financial year.

Standards and interpretations awaiting European Union's approval:

- IAS 1 "Presentation of financial statements" amendment – in the area of classification of liabilities as current or non-current, clarifying criteria for classification a liability as long-term, and non-current liabilities with covenants, clarifying that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current, applicable from 1 January 2024;
- IFRS 16 "Leases" amendment concerning lease liabilities in the case of sale and leaseback, issued on 22 September 2022, applicable from 1 January 2024;
- IAS 7 "Statement of cash flows" and IFRS 7 "Financial intrsuments: disclosures" related to the disclosure of information on supplier financing arrangements, issued on May 25, 2023, applicable from January 1, 2024;
- IAS 12 "Income taxes" introducing international tax reform – model principles of Pillar II, defining the scope and key mechanisms of the system of global minimum tax rules of the second pillar, which includes the principle of income inclusion and the principle of payments below taxation collectively referred to as the "GloBE principles", issued on December 20, 2021, applicable from January 1, 2023

will not have significant impact on the financial statements.

Standards and interpretations applicable from 1 January 2023:

- Amendment to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2 "Making Materiality Judgements" with regard to the disclosure of accounting policies. According to new requirements, an entity discloses its material accounting policies, instead of previous requirement to disclose significant accounting policies, issued on 12 February 2021;
- Amendment to IAS 8 "Accounting policies, changes in accounting estimates and errors" introducing the definition of accounting estimates including changes in accounting estimates, instead of the previous definition of changes in accounting estimates, issued on 12 February 2021;
- IFRS 17 "Insurance" replacing IFRS 4 „Insurance contracts" and introducing comprehensive regulations for accounting of insurance contracts, in particular the measurement of relevant liabilities, issued on 25 June 2020;
- Amendments to IFRS 17 "Insurance contracts" - initial application of IFRS 17 and IFRS 9 - comparative information on enabling simplification for entities implementing IFRS 9 and IFRS 17 (arising from the difficult clarification of the requirements to present comparative information from both standard together) in comparative disclosures by recognizing that IFRS 9 was applied to financial assets, issued on 9 December 2021;
- Amendment to IAS 12 "Income taxes" narrowing the scope of deferred tax initial recognition exemption so that it does not apply to transactions in which both deductible and taxable temporary differences arise in equal amounts, issued on 7 May 2021

do not impact the financial statements significantly.

Income tax in interim financial statements

Income tax in interim financial statements is accrued in accordance with IAS 34. Interim period tax expense is accrued using the estimated average annual effective income tax rate applied to the pre-tax result of the interim period. The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base.

Foreign currency

The statement of financial position and contingent liabilities received and granted denominated in foreign currencies are converted to PLN equivalents using the average exchange rate of the currency determined by the Governor of the National Bank of Poland ("NBP") prevailing at the date of preparation of the condensed interim consolidated statement of financial position.

Foreign currency transactions are converted at initial recognition to the functional currency (PLN) using the exchange rates prevailing at the date of transactions.

Foreign exchange profits and losses resulting from revaluation of the statement of financial position items denominated in foreign currencies and settlement of transactions in foreign currencies are included in net profit on foreign exchange, within the Net income on trading financial instruments and revaluation.

The exchange rates of the major currencies applied in the preparation of these financial statements are:

PLN		30 June 2023	31 December 2022	30 June 2022
1	USD	4.1066	4.4018	4.4825
1	CHF	4.5562	4.7679	4.6904
1	EUR	4.4503	4.6899	4.6806

4. Segment reporting

An operating segment is a separable component of the Group engaged in business activity, generating income and expenses (including those on intragroup transactions), whose operating results are regularly reviewed by the Management Board of parent entity, the chief operating decision maker of the Group, in order to allocate resources and assess its performance.

The Group is managed in two main operating segments – Institutional Banking and Consumer Banking. The valuation of segment's assets and liabilities as well as calculation of its financial results is based on the Group's accounting policies, including intragroup transactions between segments.

The allocation of Group's assets, liabilities, income and expenses to operating segments was made on the basis of internal information prepared for management purposes. Transfer of funding between the Group segments is based on prices derived from market rates. Transfer prices are calculated using the same rules for both segments and any difference results solely from maturity and currency structure of assets and liabilities. The basis for assessment of the segment performance is gross profit or loss.

The Group conducts its operations solely on the territory of Poland.

Institutional Banking

Within the Institutional Banking segment, the Group offers products and provides services to commercial entities, municipalities and public sector. The offer in the Institutional Banking segment includes among others:

- Banking services covering credit and deposit activities,
- Cash management,
- Trade finance,
- Brokerage services,
- Leasing,
- Custody services,
- Treasury products on financial and commodity markets,
- Investment banking services on the local and international capital markets, including advisory services as well as obtaining and underwriting financing through public and non-public offerings.

The activities also comprise proprietary transactions in the equity, debt and derivative instruments' markets.

Consumer Banking

Within the Consumer Banking segment, the Group provides products and financial services to individual clients, micro enterprises and individual entrepreneurs that are within the framework of Citibusiness offer. The whole range of banking products in Consumer Banking segment includes:

- Current and savings accounts,

- Cash loans,
- Mortgage loans,
- Credit cards,
- Asset management services,
- Acting as an agent in investment and insurance products sale.

Consolidated income statement by business segment

For the period	01.01 – 30.06.2023			01.01 – 30.06.2022		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Net interest income	1,140,562	538,680	1,679,242	723,582	388,110	1,111,692
Internal interest income, including:	(258,084)	258,084	-	(37,501)	37,501	-
Internal income	-	258,084	258,084	-	37,501	37,501
Internal expenses	(258,084)	-	(258,084)	(37,501)	-	(37,501)
Net fee and commission income	201,174	81,540	282,714	207,821	94,871	302,692
Dividend income	1,691	8,082	9,773	1,714	7,737	9,451
Net income on financial instruments and revaluation	397,768	17,664	415,432	438,108	24,419	462,527
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	(3,923)	-	(3,923)	(35,762)	-	(35,762)
Net gain/(loss) on equity and other instruments measured at fair value through income statement	2,247	13,227	15,474	(929)	4,463	3,534
Net gain/(loss) on hedge accounting	(5,023)	-	(5,023)	(1,722)	-	(1,722)
Net other operating income	7,987	(9,274)	(1,287)	7,165	(11,574)	(4,409)
General administrative expenses	(356,160)	(344,702)	(700,862)	(353,658)	(308,860)	(662,518)
Depreciation and amortization	(12,278)	(41,828)	(54,106)	(11,881)	(40,351)	(52,232)
Profit on sale of other assets	(52)	(26)	(78)	3,215	(187)	3,028
Net impairment loss on financial assets and provisions for contingent commitments	20,769	(26,919)	(6,150)	(18,850)	(2,157)	(21,007)
Operating income	**1,394,762**	**236,444**	**1,631,206**	**958,803**	**156,471**	**1,115,274**
Tax on some financial institutions	(65,268)	(26,316)	(91,584)	(89,784)	(14,680)	(104,464)
Profit before tax	**1,329,494**	**210,128**	**1,539,622**	**869,019**	**141,791**	**1,010,810**
Income tax expense	-	-	(324,332)	-	-	(228,477)
Net profit	**-**	**-**	**1,215,290**	**-**	**-**	**782,333**

As at:	30.06.2023			31.12.2022		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Total assets	**64,763,692**	**6,818,833**	**71,582,525**	**62,743,837**	**7,057,565**	**69,801,402**
Total liabilities and shareholders' equity, including:	**50,243,850**	**21,338,675**	**71,582,525**	**49,092,954**	**20,708,448**	**69,801,402**
Liabilities	43,356,552	19,870,430	63,226,982	42,560,775	19,280,382	61,841,157

5. Risk Management

Credit Risk

The main purpose of risk management in the Group is to support a long-term plan for the stable development of the credit portfolio while maintaining its proper quality. Credit risk management is executed based on the policies and procedures that consistently and clearly define and communicate standards for risk identification, measurement, acceptance, control, monitoring and reporting.

In the current reporting period, the Group continued to perform activities related to credit risk management in light of the external environment situation development, including in particular the impact of war between Russia and Ukraine, energy and commodity prices increase and slowdown in Economy. In terms of Corporate Banking and Retail Banking, in the current reporting period, the Group did not observe a significant impact of the above factors on the credit portfolio quality. In case of lending, the Bank is not active in Ukraine, Russia or Belarus, and the Bank's credit exposure to companies significantly involved in these countries is insignificant.

In the first half of 2023 in the institutional banking segment, the cost of risk decreased thanks to good quality credit portfolio.

Net result on provisions for expected credit losses regarding receivables from Consumer Banking customers was driven by a stable portfolio (also caused by limitation of clients activity).

Due to persistent economic uncertainty and and historically observed performance results, despite good quality of portfolio, impact on expected credit losses due to financial assets might not by fully reflected in impairment models. Therefore, similarly to 31 December 2022, the Group maintains additional provisions for expected credit losses for this purpose.These provisions concern both the receivables from Institutional and Consumer Banking customers.

The Group manages its exposure by identifying and monitoring of limits, set within the capital limits and liquidity norms, taking into account the constraints of external regulations.

The Group monitors the concentration of credit exposures on an ongoing basis, in order to avoid a situation where the portfolio depends on a small number of clients. In the first half of 2023, the Group's credit exposure to non-bank entities did not exceed the limit of concentration required by law.

In the practice of credit risk management in the Bank, grouping of financial assets takes place within groups representing the level of credit risk of a given instrument. For receivables without impairment, in the area of retail banking, grouping takes place according to the periods of delinquent days, while in the area of institutional banking, the Bank groups financial assets into risk rating ranges.

Concentration of exposures – non-bank clients*

PLN '000	30 Jun 2023			31 Dec 2022		
	Balance sheet exposure**	Exposure due to granted financial commitments and guarantees	Total exposure	Balance sheet exposure**	Exposure due to granted financial commitments and guarantees	Total exposure
CLIENT 1	825,363	305,876	1,131,239	893,347	291,249	1,184,596
GROUP 2	1,003,132	-	1,003,132	1,006,608	-	1,006,608
GROUP 3	888,134	23,262	911,396	930,666	-	930,666
CLIENT 4	788,452	713,670	1,502,122	161,597	681	162,278
GROUP 5	-	165,455	165,455	8,836	729,745	738,581
GROUP 6	524,767	-	524,767	512,765	175,513	688,278
CLIENT 7	573,604	200,731	774,335	788,636	-	788,636
GROUP 8	356,912	313,597	670,509	148,963	433,050	582,013
GROUP 9	163,117	203,860	366,977	314,702	172,487	487,189
GROUP 10	256,836	-	256,836	247,304	196,108	443,412
Total 10	**5,380,317**	**1,926,451**	**7,306,768**	**5,013,424**	**1,998,833**	**7,012,257**

**As at 30.06.2023; data from 31.12.2022 are comparative and do not illustrate concentration of exposures as at 31.12.2022.*
***Excludes exposures due to shares and other securities.*
"The Group" is understood as a capital group composed of entities in relation to which the Capital Group of Bank Handlowy w Warszawie S.A. has involvement.

Concentration of exposure to industries*

Industry according to NACE*	30 Jun 2023		31 Dec 2022	
	PLN'000	%	PLN'000	%
Wholesale trade, except motor vehicles	3,719,116	13.6%	3,463,795	12.5%
Financial service activities, except insurance and pension funds	3,656,424	13.3%	3,561,155	12.8%
Activities supporting financial services and insurance and pension funds	2,133,975	7.8%	2,143,172	7.7%
Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,466,918	5.4%	1,745,586	6.3%
Food production	1,379,543	5.0%	1,533,203	5.5%
Activities of head offices; management consulting	1,313,358	4.8%	1,302,270	4.7%
Manufacture of electrical equipment	1,206,168	4.4%	1,375,954	4.9%
Retail trade, except motor vehicles	1,147,378	4.2%	1,081,852	3.9%
Manufacture of motor vehicles, trailers and semi-trailers, except motorcycles	762,382	2.8%	-	-
Beverage production	720,266	2.6%	-	-
First „10" industries total	**17,505,528**	**63.9%**	**16,206,987**	**58.3%**
Other industries	**9,903,132**	**36.1%**	**11,593,998**	**41.7%**
Total	**27,408,660**	**100.0%**	**27,800,985**	**100.0%**

**Gross balance sheet and off-balance-sheet exposure to institutional customers (including banks) as of the day 30.06.2023 based on NACE Revision 2 (The Statistical Classification of Economic Activities in the European Community); data as at 31.12.2022 are comparative and do not illustrate concentration of exposures as at 31.12.2022.*

The process of active portfolio quality management includes, depending on client type, assigning appropriate risk ratings and internal classification, monitoring days past due as well as application of the relevant remedial or debt collection actions. The Group has put in place a uniform internal system for classification of receivables based on predetermined criteria. Risk rating assignment and classification system are crucial in defining the level of impairment allowances.

The Group creates provisions for expected credit losses, for all financial assets, according to developed internal rules and methodologies. These provisions are created on an aggregated basis for each of 3 stages:

- Stage 1: Credit exposures that have not had a significant increase in credit risk since initial recognition,
  - For these assets, a 12-months ECLs are recognized (representing the portion of lifetime expected credit losses that result from default events that are possible within 12 months after the reporting date),
- Stage 2: Credit exposures that have experienced a significant increase in credit risk
  - For these assets, a lifetime ECLs are recognized,
- Stage 3: Credit exposures with credit loss that has already been suffered on the assets
  - For these assets, ECL is estimated for the whole period of exposure.

Assignment of the exposure to Stages takes place, depending on the approach to management over the client (individual vs. group approach), taking into account:

- the wide range of information obtained as part of standard risk management processes (including the Early Warning process) regarding both current and future events, including macroeconomic factors
- the number of days past due (where days past due calculation, for the purpose of exposure assignment to Stages, is done in line with EBA/GL/2016/07 guidance and the regulation of Ministry of Finance, Investment and Development of October 3rd 2019 on the significance level of overdue credit exposure).

Stage 1

All exposures not classified as Stage 2 and Stage 3 are classified as Stage 1.

In the Institutional Banking, the Group applies the Low Credit Risk criterion for high-rated credit exposures , however there are overriding criteria to Stage 2 classification such as 30 DPD. If the low risk of loss results only from the value of collateral and the credit exposure itself without that collateral would not be considered low credit risk then it is not considered as LCR.

Stage 2

In the area of Retail Banking for the Stage 2 classification, apart from the 30 days past due criterion and forborne categories, the quantitative measure is applied - analysis of the change in PD level since the initial recognition. In accordance with the IFRS 9 standard, the Group does not use a fixed threshold above which an increase in risk would automatically be considered significant. It results from the fact that the same increase of PD in absolute terms would be more significant for exposures with lower initial risk than for those with the higher initial risk. Therefore the Group appliesa designed model that sets a threshold above which an increase in risk is considered significant. In order to determine the relative growth, the Group uses a variable being the quotient of the probability of default on the current reporting date and the contingent probability calculated for the same period at the time of initial recognition. A threshold is defined as the cut-off point, where the probability of a default event occurring when the value of an explanatory variable increases is maximised.

In case of credit exposures from the retail banking area, the overdue criterion of over 30 days is a direct trigger for identifying a significant increase in credit risk. In addition, qualitative premises are included on the modification without impairment activities carried out and the fact that information about the probability of default is not available.

For credit exposures in the area of institutional banking, overdue by more than 30 days is taken into account when assessing the potential occurrence of a significant increase in credit risk, while these are factors supporting the assessment and have an indirect character.

In order to assess if there has been an increase in credit risk, Group periodically, as per internal classification process and ongoing monitoring process, analyses changes in risk of default by comparing the current assessment of default with the assessment of default in the initial recognition.

Assessment of change in risk of default for given credit exposure is conducted during internal classification process and monitoring process and include:

- Qualitative indicators (including Early Warning System),
- Quantitative information (including among others rating and rating change compared to initial recognition, financial data),
- Expected exposure life period,
- Occurrence of economic or legal reasons related to the borrower’s financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider (assuming that those changes does not imply deterioration in future payment flows).

Stage 3

The Group applies the general principle that the creditor's default occurs when one or both of the following events occur:

a) delay in the debtor's repayment of any material loan obligations to the Group is 90 days or more,

b) it is unlikely that the debtor fully fulfills his credit obligations towards the Group, without the institution having to undertake activities such as collateral execution.

At each balance sheet date, the Group assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets.

A financial asset or a group of financial assets lost their value and the impairment loss was incurred only when there is objective evidence of impairment resulting from one or more events taking place after the initial recognition of the asset (event causing the loss) and the event (or events) causing a loss has an impact on the expected future cash flows resulting from a financial asset or a group of financial assets whose reliable estimation is possible.

In the institutional banking area, materialization of credit exposure value loss takes place if there is an objective evidence of impairment, which can be a result of, among others, events as below:

- obtaining information on significant financial difficulties of the client;
- reduction of the client credit rating by an accepted by the Group External Credit Assessment Institution[1];
- occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, granting permission for emergency restructuring of credit exposure, if it might result in decreasing financial requirements, reduction of financial liabilities by redeeming a significant part of the principal, interest or, where applicable, fees or deferring their repayment or payment (forborne exposure);
- high likelihood of bankruptcy, gaining informatinon on:
  - declaration of bankruptcy;
  - commencing bankruptcy proceedings or submitting a bankruptcy petition / petition for bankruptcy proceedings
  - putting the debtor into bankruptcy or liquidation;
  - dismissing the bankruptcy petition because the debtor's assets are insufficient or only sufficient to cover the costs of bankruptcy proceedings;
  - dissolution or annulment of the company;
  - appointing a guardian;
  - establishing a trustee (bancupcy administrator);
  - submitting an application for restructuring proceedings within the meaning of the Restructuring Law;
  - or granting to the obligor a similar protection if it would allow him to avoid or delay repayment of credit obligations;
- Group initiates procedure to obtain an enforcement title,
- delay in payment equal to 90 days or more (where days past due are calculated in line with EBA/GL/2016/07 guidance and the regulation of Ministry of Finance, Investment and Development of October 3rd 2019 on the significance level of overdue credit exposure),
- default contagion in line with EBA/GL/2016/07 guidance,
- status of exposure has been changed from "accrual" / "performing" to "non-accrual" / "non-performing",
- exposure has been classified (as per internal classification) to category: "Substandard–non–performing" / "non-accrual" and "Loss",
- Obligor Risk Rating (ORR) is worse than 7- which is applied for Obligors that are defaulted,
- justified suspicion of extorting a credit exposure, or identifying cases of a probable criminal act related to a credit exposure, documented by submitting a notification of suspected crime to the competent state authority,
- termination of the loan agreement due to high credit risk,
- obtaining information on the execution of a court judgment process against the debtor in an amount which, in the opinion of the Group, may result in the loss of creditworthiness,
- lack of payment by the debtor the amount of the realized Government guarantee,
- death of the debtor (in the case of debtors running a company in the form of entrapreneurship), resulting in the inability to continue the activity,
- obtaining information about a customer's default under agreements with other Citi group entities,
- in cese the Economic Loss (L) resulting form the sale of credit obligations is higher than 5%, all other remaining client exposures should be considered defaulted

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

Objective evidence of impairment of a financial asset or a group of assets in the Retail Banking area includes the fulfillment of even one of the following conditions by any of the customer's exposures:

- occurrence of delays in repayment of principal and interest, the minimum amount to be paid, commission or exceeding the permitted limit. For the purpose of default identification it is assumed that the delay in repayment is equal to or exceeds 90 days at the moment of calculating the write-down (where days past due are calculated in line with EBA/GL/2016/07 guidance and the regulation of Ministry of Finance, Investment and Development of October 3rd 2019 on the significance level of overdue credit exposure;

[1] Below risk level corresponding to internal 7- rating (i.e. to CCC- for Standard & Poors, Caa3 Moody's)

- granting modifications to the terms of the agreement (restructuring), as a result of which the current value of cash flows falls below the book value before the modification;
- termination of the contract for reasons other than a delay in the repayment of mortgage products;
- default contagion in line with EBA/GL/2016/07 guidance;occurrence of qualitative circumstances:
  - death,
  - bankruptcy,
  - permanent disability or serious illness,
  - fraud,
  - obtaining information about initiating bankruptcy proceedings of the client or announcing bankruptcy by the client,
  - impairment or threat of collateral impairment,
  - obtaining information about significant financial problems of the client,
  - justified suspicion of extortion of credit exposure or identifying cases of the substantiated criminal offense concerning credit exposure,
  - obtainig information about the execution of the debtor in the amount, which in the bank's opinion may result in the loss of creditworthiness,
  - the client's stay in custody or prison,
  - partial capital write-off,
  - agreement termination,
  - the Group's request to initiate enforcement proceedings against the client.

In the case of clients who do not meet the restructuring criteria, and in particular, for which the legal path has been implemented (bankruptcy, enforcement, court dispute) without the prospects of returning the repayment formula from the client's core operations, the debt collection process is carried out and the receivables are written off. The main goal of this process is to maximize the amount of outstanding exposures recovered by the Group . In the debt collection process, the Group will develop a cooperation formula with the client, in the course of which the Group's activity is not limited only to legal actions, but also, if possible, ongoing cooperation. In the event that the repayment of the exposure is jeopardized due to the poor financial standing of the debtor or by the transfer of assets beyond the scope of recovery, the exposures can be sold in exceptional cases.

The Group has established and applies a quarantine period for exposures that cease to be classified as Stage 3 assets. In the area of institutional banking, a change in status may take place when there are no arrears to the Bank within a period of 12 months and the principal amount and related additional claims under the contract are recoverable in full. The main premise for changing the status from impairment to no impairment is complete recovery of creditworthiness. In the retail area, the quarantine mechanism consists in maintaining the customer in the status of impairment for the next 9 months from the disappearance of all indications of impairment.

The expected credit loss, which is the basis for determining the level of the provision for impaired receivables and receivables with a significant increase of credit risk since the initial recognition, is determined throughout the lifetime of the exposure. In the case of installment exposures, this is the period to the contractual maturity date. For revolving exposures, the contractual maturity is not specified, in replacement of the so-called behavioral maturity resulting from the empirical estimation of the life of the credit product.

Provisions for expected credit losses for consumer banking portfolio are calculated on the basis of statistical models for groups of assets combined in portfolios with common credit risk features. Financial instruments for the purpose of measurement of expected credit losses, are grouped on product level in consumer banking and on segment level for homogenous micro-entrepreneurships portfolio with minimal shareholding in the sum of gross receivables of the Group. In terms of product aggregation the following portfolios are defined: credit cards, cash loan within credit card, credit line, cash loan and mortgages.

In case individually significant exposure is impaired in Stage 3, in the area of Consumer Banking, provisions are measured using individual approach. Exposures are deemed to be individually significant, if an expected credit loss for the borrower in Stage 3 exceeds 10% of average provisions related to receivables in Stage 3 in the last quarter.

In the area of institutional banking, the main sources of parameters included in the methodology of expected credit losses ('ECL') are the results of internal customer assessment processes and the results of loan models.

- The rate of impairment is derived from the client's rating determined based on internal rating models. The ECL methodology describes the process of applying existing migration ratings, expected in a given macroeconomic scenario, to migration schedules. In this way, in the following forecast periods, the probability of migration to a given rating range is obtained.
- The value of the LGD parameter results directly from the dedicated model for impaired clients.
- The exposure value for subsequent forecast periods is based on available repayment schedules as well as (for renewable products) on the expected change in exposure described by the value of the CCF parameter. The basis for estimating this parameter was internal data on amounts used by customers before the Group identified impairment of value.
- The assignment to the stage is based on the customer assessment process used in the Group to manage the client. This process includes both quantitative factors (e.g. customer rating) and a number of qualitative factors (e.g. Early Warning Signals).
- The maturity dates adopted by the Group result directly from agreements with customers and periods in which the Group is exposed to possible risks.

In the area of retail banking, the basis of parameters included in the ECL methodology are the existing internal models of the client's creditworthiness assessment in the Bank, information about the stage of debt collection proceedings and information from the Bank's data warehouse.

- The rate of impairment is the submission of a number of models of customer creditworthiness assessment, connected to each other by process called integration logic. The ECL methodology, based on forecasts provided by the Chief Economist of the Bank, transforms the results of integration logic so that the result reflects the expected changes in the economy. The obtained parameters are then applied to the loss vectors during the life of the product, estimated on the basis of historically observed loss rates. Recovery value vectors are the result of the analysis of the amount of historically collected receivables for homogeneous populations. The population was segmented against similar features such as product type, time from default, amount of exposure left for repayment or historically observed repayments.
- The value of the EAD parameter is based on installment products on the expected repayment schedules generated based on the length of the contract and the interest rate on the product. For renewable products, EAD is based on the internally estimated CCF vector.

The Group takes into account macroeconomic information about the future in determining the expected credit losses. Scenarios are prepared by the Chief Economist of the Bank at least once a quarter in the three years horizon in division into quarters (based scenario with 60% weight and positive and negative variation from scenario with 20% weight).

In the area of institutional banking, the Group divided the loan portfolio into industries in terms of their sensitivity to macroeconomic conditions, identified macroeconomic variables that best explained the historical changes in credit quality and analyzed the dependence on macroeconomic factors using statistical methods. Finally, the Group has built a model for each of the established industry sensitivity classes allowing for the dependence of the coefficient determining the level of client migration between ratings from these factors.

In the area of retail banking, at the level of homogeneous product portfolios, the Group, using statistical methods, built equations making the level of annual loss rates dependent on macroeconomic factors. The models allow for dynamic shaping of the provision for expected credit losses depending on the expected changes in the economy.

Macroeconomic scenarios in the area of institutional banking comprise the following variables:
- annual amendment of index WIG,
- unemployment rate,
- inflation,
- GDP,
- unemployment rate „BAEL",
- WIBOR 3M rate.

However retail banking uses two variables in modeling the expected credit losses:
- unemployment rate „BAEL",
- annual amendment of index WIG.

The scenarios for the variables used to estimate ECL as at 30 June 2023 are presented below

Base economic scenario	1q22	2q22	3q22	4q22	1q23	2q23	3q23	4q23	1q24	2q24	3q24	4q24	1q25
GDP growth y/y	1.5	0.6	3.7	1.1	3.0	3.7	3.8	3.4	3.2	3.3	3.3	3.3	3.4
Inflation y/y (average)	13.1	10.6	8.2	7.2	6.4	6.1	5.8	4.5	4.3	4.1	4.0	3.5	3.4
Registered unemployment rate	5.2	5.4	5.6	6.0	5.5	5.4	5.6	6.0	5.5	5.3	5.3	5.5	5.2
Unemployment rate „BAEL"	2.9	3.1	3.3	3.7	3.2	3.1	3.3	3.7	3.2	3.0	3.0	3.2	2.9
WIBOR 3M (end of the period)	6.90	6.88	6.77	6.27	6.02	5.60	5.27	4.85	4.52	4.44	4.27	4.19	4.19
WIG (end of the period)	66175	64736	63297	64847	66396	67946	69495	70788	72080	73373	74665	75980	77319

Pessimistic economic scenario	1q22	2q22	3q22	4q22	1q23	2q23	3q23	4q23	1q24	2q24	3q24	4q24	1q25
GDP growth y/y	0.9	-0.6	1.9	-1.2	0.9	1.9	2.3	2.2	2.2	2.5	2.7	3.1	3.3
Inflation y/y (average)	12.5	9.3	6.4	3.6	3.3	3.4	3.4	2.8	2.8	2.8	2.9	2.7	2.6
Registered unemployment rate	5.3	5.6	5.9	6.4	6.0	6.0	6.3	6.8	6.4	6.2	6.3	6.5	6.2
Unemployment rate „BAEL"	2.9	3.2	3.5	4.0	3.6	3.6	3.9	4.4	4.0	3.9	3.9	4.1	3.8
WIBOR 3M (end of the period)	6.90	6.38	5.77	4.77	4.52	4.10	3.77	3.35	3.02	2.94	2.77	2.94	2.94
WIG (end of the period)	63734	59694	55881	54922	56234	57546	58859	59953	61048	62143	63237	64351	65485

Optimistic economic scenario	1q22	2q22	3q22	4q22	1q23	2q23	3q23	4q23	1q24	2q24	3q24	4q24	1q25
GDP growth y/y	2.1	1.8	5.6	3.5	5.1	5.5	5.3	4.7	4.2	4.1	3.8	3.5	3.5
Inflation y/y (average)	13.8	11.8	10.1	10.0	8.9	8.1	7.4	5.9	5.5	5.0	4.8	4.1	4.0
Registered unemployment rate	5.1	5.2	5.3	5.6	5.0	4.8	4.9	5.2	4.6	4.4	4.3	4.5	4.2
Unemployment rate „BAEL”	2.9	3.0	3.1	3.4	2.7	2.5	2.7	3.0	2.4	2.1	2.1	2.3	1.9
WIBOR 3M (end of the period)	6.90	7.38	7.27	7.27	7.27	6.85	6.52	6.10	5.77	5.69	5.52	5.44	5.44
WIG (end of the period)	68616	69982	71341	76058	77876	79693	81510	83026	84542	86058	87574	89117	90687

As part of the assessment of the adequacy of the methodology used to determine expected credit losses and provision, the Group regularly, at least annually, carries out an analysis to verify to what extent the expected credit losses provisions were reflected in actual losses. In addition, the models used for determining reserves are subject to evaluation by an independent Model Risk Management and Validation Department.

The Group assesses sensitivity of expected credit losses with respect to applied methods and underlying assumptions, in particular concerning macroeconomic parameters. The table below presents change of expected credit losses for not impaired exposures that were determined as a difference between the expected credit losses estimated assuming one particular scenario and expected credit losses estimated using probability-weighted approach (the sign "-" means lower, the sign "+" means higher expected losses).

Change of expected credit losses for stage 1 and 2 assuming 100% scenario weight *as at 30.06.2023*	Optimistic scenario	Pessimistic scenario
Consumer Bank	(1,239)	992
Institutional Bank	(2,359)	2,716
	(3,598)	**3,708**

Change of expected credit losses for stage 1 and 2 assuming 100% scenario weight *as at 31.12.2022*	Optimistic scenario	Pessimistic scenario
Consumer Bank	(874)	761
Institutional Bank	79	(506)
	(795)	**255**

The Group identifies and manages counterparty credit risk in financial instruments transactions based on internal limits for pre-settlement and settlement commitment. These exposures are also assigned credit ratings.

The maximum Group's credit risk exposure is presented below.

PLN '000	Note	30.06.2023	31.12.2022
Gross receivables due from the Central Bank		2,029,202	33,752
Gross receivables due from banks	14	10,549,584	1,045,528
Gross receivables due from institutional customers*	(below)	17,316,726	15,923,381
Gross receivables due from individual customers*	(below)	6,267,756	6,553,305
Debt securities held-for-trading	15	1,512,283	2,272,515
Derivative instruments	15	4,605,272	4,730,752
Debt investment financial assets measured at fair value though other comprehensive income	16	27,072,579	37,180,808
Other financial assets	20	239,408	155,423
Contingent liabilities granted	33	16,972,045	16,320,507
		86,564,855	**84,215,971**

** As at June 30, 2023, the value of collateral reducing the maximum exposure to credit risk for receivables from institutional clients amounted to PLN 3,149,991 thousand (31 December 2022: PLN 3 506 019 thousand) and for receivables from individual clients amounted to PLN 2,108,191 thousand (31 December 2022: PLN 2 182 645 thousand).*

The table below present the mortgage-backed receivables from individual customers in a given Loan-to-value (LtV) interval. The amount of exposure is measured by unpaid principal amount.

PLN'000	30.06.2023	31.12.2022
Less than 50%	979,258	949,029
51 - 80%	1,096,545	1,229,197
81 - 100%	22,920	17,526
	2,098,723	**2,195,752**

The Group's portfolio is presented below, grouped into impaired receivables (stage 3) and receivables without impairment (stages 1 and 2).
The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 30 June 2023:

PLN '000	Receivables from institutional customers	Receivables from individual customers*	Receivables from banks	Total
Receivables without recognized impairment (Stage 1)				
By risk rating				
Risk rating 1-4-	12,812,158		10,491,463	23,303,621
Risk rating +5-6-	1,931,694		22,844	1 954,538
By delinquency				
No delinquency	3	4,699,647		4,699,650
1-30 days	-	67,180		67,180
31-90 days	-	1,232		1,232
Gross amount	**14,743,855**	**4,768,059**	**10,514,307**	**30,026,221**
Provision for expected for credit losses	(20,459)	(38,328)	(836)	(59,623)
Net amount	**14,723,396**	**4,729,731**	**10,513,471**	**29,966,598**
Receivables without recognized impairment (Stage 2)				
By risk rating				
Risk rating 1-4-	674,080		8,459	682,539
Risk rating +5-6-	1,244,533		18,454	1,262,987
Risk rating +7 and greater	216,929		8,364	225,293
By delinquency				
No delinquency		993,589		993,589
1-30 days		92,266		92,266
31-90 days		19,133		19,133
Gross amount	**2,135 542**	**1,104,988**	**35,277**	**3,275,807**
Provision for expected for credit losses	(38,833)	(64,537)	(1,781)	(105,151)
Net amount	**2,096,709**	**1,040,451**	**33,496**	**3,170,656**
Receivables with recognized impairment (Stage 3)				
By delinquency		380,201		380,201
By risk rating				
Risk rating +7 and greater	434,424		-	434,424
Gross amount	**434,424**	**380,201**	**-**	**814,625**
Provision for expected for credit losses	(335,900)	(292,577)	-	(628,477)
Net amount	**98,524**	**87,624**	**-**	**186,148**
Receivables with recognized impairment				
By delinquency		14,508		14,508
By risk rating				
Risk rating +7 and greater	2,905		-	2,905
Gross amount	**2,905**	**14,508**	**-**	**17,413**
Provision for expected for credit losses	30	(212)	-	(182)
Net amount	**2,935**	**14,296**	**-**	**17,231**
Total gross value	**17,316,726**	**6,267,756**	**10,549,584**	**34,134,066**
Provision for expected for credit losses	(395,162)	(395,654)	(2,617)	(793,433)

PLN '000	Receivables from institutional customers	Receivables from individual customers*	Receivables from banks	Total
Total net value	**16,921,564**	**5,872,102**	**10,546,967**	**33,340,633**

**As described above, one of the main factors influencing the management of individual customers portfolio are days of delay, while in the institutional customers segment rating is the key determinant of credit risk.*

The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 31 December 2022:

PLN '000	Receivables from institutional customers	Receivables from individual customers*	Receivables from banks	Total
Receivables without recognized impairment (Stage 1)				
By risk rating				
Risk rating 1-4-	11,555,463		774,754	12,330,217
Risk rating +5-6-	2,420,141		7,036	2,427,177
By delinquency				
No delinquency	8	4 ,973,199		4,973,207
1-30 days	-	77,510		77,510
31-90 days	-	730		730
Gross amount	**13,975,612**	**5,051,439**	**781,790**	**19,808,841**
Provision for expected for credit losses	(40,985)	(40,250)	(475)	(81,710)
Net amount	**13,934,627**	**5,011,189**	**781,315**	**19,727,131**
Receivables without recognized impairment (Stage 2)				
By risk rating				
Risk rating 1-4-	64,485		228,739	293,224
Risk rating +5-6-	1,065,852		34,567	1,100,419
Risk rating +7 and greater	355,308		432	355,740
By delinquency				
No delinquency		941,276		941,276
1-30 days		107,818		107,818
31-90 days		23,317		23,317
Gross amount	**1,485,645**	**1,072,411**	**263,738**	**2,821,794**
Provision for expected for credit losses	(43,614)	(64,771)	(1,085)	(109,470)
Net amount	**1,442,031**	**1,007,640**	**262,653**	**2,712,324**
Receivables with recognized impairment (Stage 3)				
By delinquency		419,514		419,514
By risk rating				
Risk rating +7 and greater	455,117	-	-	455,117
Gross amount	**455,117**	**419,514**	**-**	**874,631**
Provision for expected for credit losses	(331,769)	(333,032)	-	(664,801)
Net amount	**123,348**	**86,482**	**-**	**209,830**
Purchased or originated credit-impaired receivables				
By delinquency		9,941		9,941
By risk rating				
Risk rating +7 and greater	7,007		-	7,007
Gross amount	**7,007**	**9,941**	**-**	**16,948**
Provision for expected for credit losses	(1,354)	(404)	-	(1,758)
Net amount	**5,653**	**9,537**	**-**	**15,190**
Total gross value	**15,923,381**	**6,553,305**	**1,045,528**	**23,522,214**
Provision for expected for credit losses	(417,722)	(438,457)	(1,560)	(857,739)
Total net value	**15,505,659**	**6,114,848**	**1,043,968**	**22,664,475**

**As described above, one of the main factors influencing the management of individual customers portfolio are days of delay, while in the institutional customers segment rating is the key determinant of credit risk.*

Structure of derivatives in terms of credit risk:

PLN '000	30.06.2023			31.12.2022		
	Transactions with institutional customers	Transactions with individual customers	Transactions with banks	Transactions with institutional customers	Transactions with individual customers	Transactions with banks
Derivatives by risk rating						
Risk rating 1-4-	2,842,557	-	1,335,562	3,619,909	-	914,692
Risk rating+5-6-	381,965	8,535	35,797	135,519	13,811	45,841
Risk rating +7 and greater	856	-	-	981	-	-
Total	**3,225,378**	**8,535**	**1,371,359**	**3,756,409**	**13,811**	**960,533**

The breakdown of the exposures in the portfolio of debt securities held for trading in the portfolio of debt securities measured at fair value through other comprehensive income according to Fitch agency ratings is presented below.

PLN '000	30.06.2023		31.12.2022	
	Debt securities held-for-trading	Debt securities at fair value though other comprehensive income	Debt securities held-for-trading	Debt securities at fair value though other comprehensive income
Issuer rating by Fitch agency				
A (including: from A- to AAA)	1,512,283	27,072,579	2,272,515	37,180,808
Total	**1,512,283**	**27,072,579**	**2,272,515**	**37,180,808**

Structure of the granted contingent liabilities from the credit risk point of view as at June 30, 2023:

PLN '000	30.06.2023		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Contingent liabilities granted (Stage 1)	**10,492,968**	**3,816,317**	**289,865**
by risk rating			
Risk rating 1-4-	8,932,528	-	286,499
Risk rating+5-6-	1,560,440	-	3,366
Contingent liabilities granted (Stage 2)	**922,339**	**1,426,708**	**-**
by risk rating			
Risk rating 1-4-	328,516	-	-
Risk rating+5-6-	509,610	-	-
Risk rating +7 and greater	84,213	-	-
Contingent liabilities granted (Stage 3)	**1,994**	**6,039**	**-**
by risk rating			
Risk rating +7 and greater	1,994	-	-
Contingent liabilities granted	**15,815**	**-**	**-**
by risk rating			
Risk rating +7 and greater	15,815	-	-
Total	**11,433,116**	**5,249,064**	**289,865**

Structure of the granted contingent liabilities from the credit risk point of view as at December 31, 2022:

PLN '000	31.12.2022		
	Liabilities due to institutional customers	**Liabilities due to individual customers**	**Liabilities due to banks**
Contingent liabilities granted (Stage 1)	**9,831,703**	**3,964,409**	**302,538**
by risk rating			
Risk rating 1-4-	8,586,076	-	299,172
Risk rating+5-6-	1,245,627	-	3,366
Contingent liabilities granted (Stage 2)	**796,619**	**1,393,325**	**-**
by risk rating			
Risk rating 1-4-	276,058	-	-
Risk rating+5-6-	379,766	-	-
Risk rating +7and greater	140,795		
Contingent liabilities granted (Stage 3)	**6,722**	**6,166**	**-**
by risk rating			
Risk rating +7 and greater	6,722	6,166	-
Contingent liabilities granted	**19,025**	**-**	**-**
by risk rating			
Risk rating +7 and greater	19,025		
Total	**10,654,069**	**5,363,900**	**302,538**

In addition to general principles of credit risk mitigation, the Group has defined specific rules for institutional and retail for acceptance, assessment, establishment and monitoring of various types of collaterals, including warranties, guarantees and similar instruments of support (hereinafter called jointly: collaterals). These principles are used to minimize residual risk associated with taking collaterals.

Forborne exposures are identified in the Group within the credit risk management. The Group takes into account "forborne" exposures according to the reporting requirements under the EBA/ITS/2013/03 Technical Standards and document 2012/852 issued by the ESMA. For non-performing and restructured exposures, the Group applies the EBA guidelines EBA/GL/2018/06

As "forborne" the Group considers exposures that are in the process of troubled debt restructuring. This is a situation when the debtor is experiencing financial difficulties and BHW grants preferential financing conditions to the debtor that it would not otherwise consider (i.e., off-market terms). Preferential financing conditions are considered situations in which for example the yield of the modified facility is lower than the contractual yield prior to the restructuring and/or the yield on the modified loan is below a market yield for the relevant tenor and credit risk.

The extent to which financing conditions are changed is set individually for each debtor affected by the situation. In particular, such activities include:

- modification of the conditions of the existing commitment, including changes to the repayment schedule (e.g. extension of the loan period), change in the interest rate on the receivable or repayment method, or reduction of the repayment amount (principal amount or accrued interest),
- providing new, restructured commitment to partially or fully repay the existing exposure,
- repossessioning of assets.

The process of assigning "forborne" status for exposures is closely related to the credit risk management process, including the impairment recognition process for exposures.

In the case of institutional clients, the Group assigns "forborne" status for exposures with identified impairment, which triggers the need to write off due to expected credit losses.

In the case of individual clients, the "forborne" status may refer to both the exposures from the impaired portfolio and the portfolio without impairment. The Group treats exposures as "forborne" without impairment when restructuring activities were carried out, while the change in financing conditions did not imply a deterioration of future payment streams. In such cases, the change in the status of the "forborne" exposure is not evidence of impairment.

Exposures with modified conditions subject to forbearance rules (forborne exposures) are subject to regulatory and internal reporting.

In the area of retail banking the Group assumes that the exposures remain in the "forborne" status until they are fully repaid.

Exposure values in the "forborne" status:

PLN '000	As of	
	30.06.2023	**31.12.2022**
Receivables without recognized impairment	**22,752,444**	**21,585,107**
Receivables without recognized impairment (Stage 1), including	**19,511,914**	**19,027,051**
non-financial sector entities	13,174,989	15,213,891
Institutional customers	8,406,930	10,162,452
Individual customers	4,768,059	5,051,439
Receivables without recognized impairment (Stage 2), including:	**3,240,530**	**2,558,056**
non-financial sector entities	3,239,612	2,557,187
Institutional customers	2,134,623	1,484,776
Individual customers	1,104,989	1,072,411
Receivables with recognized impairment (Stage 3), including:	**814,625**	**874,631**
non-financial sector entities	814,625	874,631
Institutional customers, including:	434,411	455,104
„forborne"	64,618	53,039
Individual customers, including:	380,214	419,527
„forborne"	30,690	30,663
Purchased or originated credit-impaired receivables	**17,413**	**16,948**
non-financial sector entities	17,413	16,948
Institutional customers, including:	2,905	7,007
„forborne"	2,905	7,007
Individual customers, including:	14,508	9,941
„forborne"	10,472	7,809
Total gross amount, including:	**23,584,482**	**22,476,686**
non-financial sector entities	17,246,639	18,662,657
Institutional customers, including:	10,978,869	12,109,339
„forborne"	67,523	60,046
Individual customers, including:	6,267,770	6,553,318
„forborne"	41,162	38,472
Provision for expected credit losses	**(790,816)**	**(856,179)**
On „forborne" receivables	(54,800)	(52,536)
Total net amounts due from customers, including:	**22,793,666**	**21,620,507**
„forborne" receivables	53,885	45,982

The "forborne" exposures identification process has not undergone significant changes relative to the rules described in the Group's consolidated financial statements for the year 2022.

Liquidity Risk

Liquidity risk is defined as the risk of Group's lack of ability to meet its financial commitments to customers or counterparties when due.

The objective of liquidity risk management is to ensure that the Group can meet all commitments to customers when due and to secure liquidity necessary to clear all money market transactions when due.

In the first half of 2023 the Bank has maintained the foregoing mechanisms of liquidity risk management in the Group, i.e., no significant changes in liquidity risk management processes, procedures, systems and policies have been implemented.

The supervisory liquidity measures LCR and NSFR were as follows:

	30.06.2023	**31.12.2022**	**Change**
LCR	169%	158%	11pp
NSFR	200%	177%	23pp

The level of modified cash flow gap and the level of liquid assets as at 30 June 2023 and 31 December 2022 are shown below.

The cumulated liquidity gap as at 30 June 2023 in real terms:

PLN '000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	33,091,579	6,271,749	629,984	-	31,589,213
Liabilities and equity	10,541,278	5,313,912	51,940	-	55,675,395
Balance-sheet gap in the period	**22,550,301**	**957,837**	**578,044**	**-**	**(24,086,182)**
Conditional derivative transactions – inflows	41,880,748	9,869,362	33,441,688	23,854,351	19,325,853
Conditional derivative transactions – outflows	42,138,008	9,981,427	32,713,941	23,327,012	19,571,948
Off-balance-sheet gap in the period	**(257,260)**	**(112,065)**	**727,747**	**527,339**	**(246,095)**
Potential utilization of credit lines granted	499,909	333,273	(833,182)	-	-
Cumulative gap	**21,793,132**	**22,305,631**	**24,444,604**	**24,971,943**	**639,666**

The cumulated liquidity gap as at 31 December 2022 in real terms:

PLN '000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	35,231,376	442,464	761,706	-	33,365,856
Liabilities and equity	11,478,908	5,478,447	639,297	-	52,204,750
Balance sheet gap in the period	**23,752,468**	**(5,035,983)**	**122,409**	**-**	**(18,838,894)**
Conditional derivative transactions – inflows	40,657,353	11,757,921	30,757,011	13,616,887	22,790,452
Conditional derivative transactions –outflows	40,913,368	11,810,623	30,182,850	13,751,561	22,920,604
Off-balance-sheet gap in the period	**(256,015)**	**(52,702)**	**574,161**	**(134,674)**	**(130,152)**
Potential utilization of credit lines granted	294,357	598,717	(893,074)	-	-
Cumulative gap	**23,202,096**	**17,514,694**	**19,104,338**	**18,969,664**	**618**

Liquid assets and cumulated liquidity gap up to 1 year:

PLN '000	30.06.2023	31.12.2022	Change
Liquid assets, including:	**30,839,927**	**39,717,501**	**(8,877,574)**
nostro account in NBP and stable part of cash	2,255,065	264,178	1,990,887
debt securities held-for-trading	1,512,283	2,272,515	(760,232)
debt financial assets measured at fair value through other comprehensive income	27,072,579	37,180,808	(10,108,229)
Cumulative liquidity gap up to 1 year	**24,444,604**	**19,104,338**	**5,340,266**
Coverage of the gap with liquid assets	**Positive gap**	**Positive gap**	

Market risk

Market risk is the risk of negative impact on the Group's earnings and equity resulting from changes in market interest rates, foreign exchange rates, equity and commodity prices, as well all volatilities of these rates and prices.

The objective of market risk management is to ensure that the extent of risk accepted within the Group corresponds to the level acceptable to the shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Group.

In the first half of 2023 the Group has not made any changes in market risk management processes, procedures, systems and policies.

In market risk management there are two types of portfolios: trading and bank portfolios.

The following risk measures are applied to bank portfolios:

- Interest rate gap analysis;
- Value-at-Close and Total Return methods;
- Interest Rate Exposure (IRE); and
- Stress testing.

Interest rate gap analysis uses the schedule of maturities or revaluations of balance-sheet positions, and of derivative instruments used in hedge accounting or qualified as economic hedge for the purpose of establishing the differences between positions whose maturity or interest rate revaluation fall within a given time frame.

The general rule in the interest rate gap analysis is that of classifying transactions to respective bank portfolio position revaluation bands by the contracted or assumed transaction interest rate revaluation dates.

It is assumed that:

- transactions with a fixed interest rate (such as term deposits, interbank deposits, portfolio of debt securities at fair value through other comprehensive income with a fixed interest rate, granted loans both repaid in full at maturity and repaid in installments) are classified into appropriate revaluation bands in accordance with their maturity dates;
- transactions with a floating interest rate, updated on the regular basis (primarily, loans granted with interest set based on a specific rate such as, e.g., WIBOR 1M) are classified into appropriate revaluation bands in accordance with the nearest interest rate revaluation date;
- transactions with an administrated floating interest rate (i.e., any changes in the interest rate and its revaluation date are reserved to sole decision of the Bank) or undefined maturity or interest rate revaluation date are classified into appropriate revaluation bands in accordance with historically observed or expert assessed shifts in the moment and scale of change in the interest rate of given positions in relation to change in the market interest rates (model of minimizing product margin variability). This group of transactions / balance-sheet positions includes among others: current accounts, card loans, overdraft facilities. Additionally, early loan repayments are taken into account based on analysis of actual repayments made by customers before the due date and product interest rate revaluation profiles are set on that basis. This pertains particularly to installment loans;
- transactions insensitive to changes of interest rates, including cash, fixed assets, equity, other assets/liabilities, are classified into the longest revaluation band;
- transactions executed directly by the Financial Markets Sub Sector for the purpose of management of interest rate risk and liquidity risk (Financial Markets Sub-Sector's own portfolio) are always classified into appropriate revaluation bands in accordance with the contracted dates.

The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation of the trading portfolio. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and gains/losses on sale of assets or cancelling of obligations.

The Interest Rate Exposure (IRE) method is used for estimation of potential impact of a specific parallel shift in the interest rate curves on interest income from the bank portfolio before tax, which can be earned in a specific period of time. This is a prospective indicator, equivalent to Factor Sensitivity of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time horizon of 10 years; however, for the purpose of current monitoring and limiting of interest rate risk positions in bank portfolios, the Bank normally applies IRE measures with one-year and five-year time horizons.

Group's IRE measures as at 30 June 2023 and 31 December 2022 are presented below. The list is shown in the main currencies, i.e. PLN, USD and EUR which jointly account to over 90% of Group's balance sheet.

IRE – gap method

PLN '000	30.06.2023		31.12.2022	
	IRE 12M	IRE 5Y	IRE 12M	IRE 5Y
PLN	83	(75,482)	28,767	42,460
USD	27,570	44,461	28,560	44,450
EUR	(11,874)	(13,314)	(17,317)	(30,707)

IRE – cashflow method

PLN '000	30.06.2023*		31.12.2022	
	IRE 12M		IRE 12M	
	+100 bp	-100 bp	+100 bp	-100 bp
Total for All currencies	151,012	(152,452)	105,203	(106,083)

Stress tests measure the potential impact of material changes in the level or directionality of interest rate curves on open interest positions in the bank portfolio.

The Group runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and adjusted as appropriate to changes in the market conditions of the Group's operation.

Activities relating to securities at fair value through other comprehensive income are the responsibility of the Assets and Liabilities Management Department within the Financial Markets and Corporate Banking Sector. Three basic goals of activities in the portfolio of securities at fair value through other comprehensive income have been defined as follows:

- management of the liquidity;
- hedging against the risk transferred to the Financial Markets and Corporate Banking Sector from other organizational units of the Bank or the Group's entities;
- opening of own interest rate risk positions on the Group's books by the Financial Markets and Corporate Banking Sector.

In order to avoid excessive fluctuations in the Bank's capital funds, caused by the revaluation of assets measured at fair value through other comprehensive income, the Bank sets the maximum limits of DV01 (Dollar Value of 1 basis point), that specify potential change of risk position's value for specific curve of interest rate in its specific node (into which are brought all of cash flows in set time interval), caused by movement of market's interest rate up by one basic point for this kind of portfolio. The limits also concern the open positions in derivatives (i.e. interest rate swap transactions), carried out to hedge the fair value of the portfolio.

The table below presents the risk measured with DV01 for the portfolio of securities at fair value through other comprehensive income, including the economic collateral contained in the hedge program (Fair Value Hedge Accounting Program), broken down by currency:

PLN '000	30.06.2023			Total in the period 01.01.2023 – 30.06.2023		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(2,724)	(3,081)	357	(1,795)	(1,321)	(2,786)
USD	(146)	(146)	-	(157)	(142)	(174)
EUR	(489)	(489)	-	(588)	(489)	(689)

PLN '000	30.06.2022			Total in the period 01.01.2022 – 30.06.2022		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(1,947)	(1,947)	-	(1,898)	(1,450)	(2,356)
USD	(194)	(194)	-	(221)	(194)	(253)
EUR	(121)	(121)	-	(158)	(121)	(227)

Both base risk and option risk of Bank's portfolio were considered as immaterial.

The following methods are applicable in measurement of the risk of the trading portfolios:

- Factor Sensitivity,
- Value at Risk (VaR),
- Stress testing.

Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a specific change in a market risk factor (e.g., change of the interest rate by 1 basis point at a given point on the interest rate curve, change of the currency exchange rate or share price by 1%).

In the case of interest rates, the applicable sensitivity measure is DV01 (Dollar Value of 1 basis point), which determines the potential change in the value of risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given time horizon), caused by a shift in the market interest rate by 1 basis point upwards, is established for this kind of portfolio

In the case of exchange rate (FX) risk, the Factor Sensitivity value is equal to the value of the FX position in a given currency.

In the case of positions held in equities, the Factor Sensitivity value is equal to the net value of the positions held in the respective instruments (shares, indices, participation units).

Value at Risk (VaR) is the integrated measure of the market risk of trading portfolios which combines the impact of positions in respective risk factors and accounts for the effect of correlation between the fluctuations of different factors. VaR is applied for the purpose of measuring the potential decrease in the value of a position or portfolio under normal market conditions, at a specific confidence level and within a specific time period. In the case of positions opened in the Group's trading portfolio, VaR is calculated at a 99% confidence level and a one-day holding period.

DV01 as well as VaR for the trading portfolio are calculated net of the economic hedge of the portfolio of securities at fair value through other comprehensive income, i.e., net of derivative instruments intended to hedge the fair value of the portfolio. The exposures to the risk of such transactions are mitigated through the application of relevant risk measurement methods and by the bank portfolio risk limits.

Each day, the Group runs stress tests on the assumption that the risk factors change by more than expected in the Value at Risk scenario, ignoring historical correlations of these factors.

The Group keeps records of exposures of the bank portfolios to market risk in over twenty currencies both for currency positions and exposures to interest rates risk. These exposures are significant only for a few currencies. For a large group of currencies, the exposures are the consequence of a gap between transactions executed on the customer's orders and closing transactions with other wholesale market counterparties. Significant exposures to market risk are opened for PLN, currencies of well-developed markets (predominantly USD and EUR with a lesser focus on GBP, CHF and JPY) and Central European currencies.

The values of significant exposures of the bank portfolios to the interest rates risk in terms of DV01 in the first half of 2023 are listed in the table below:

PLN '000	30.06.2023	31.12.2022	In the period 01.01.2023 - 30.06.2023			In the period 01.01.2022 - 30.06.2022		
			Average	Maximum	Minimum	Average	Maximum	Minimum
PLN	(381)	(45)	(255)	470	(661)	432	1 139	(632)
EUR	59	(214)	86	911	(246)	144	393	(10)
USD	13	(1)	(20)	29	(151)	(13)	36	(50)

The currency structure of the positions in the first half of 2023 has not changed in comparison with the year 2022, as positions in domestic currency USD and EUR were still the majority. The average exposure to PLN, EUR, and USD interest rates risk has slightly decreased in comparison to level of 2022. The average risk level for instruments denominated in PLN amounted to PLN (255) thousand and in EUR it was PLN 86 thousand. The highest exposures were taken in PLN and USD and were respectively PLN 470 thousand and PLN 911 thousand.

The table below shows the level of risk measured using VaR (excluding resulting from securities at fair value through other comprehensive income portfolio's economic), divided into currency risk and interest rate risk positions in the first half of 2023:

PLN '000	30.06.2023	31.12.2022	In the period 01.01.2023 – 30.06.2023			In the period 1.01.2022 – 30.06.2022		
			Average	Maximum	Minimum	Average	Maximum	Minimum
FX risk	1,278	426	523	3,297	99	459	3,630	77
Interest rate risk	15,864	7,107	13,532	20,647	4,405	15,754	28,647	5,986
Spread risk	10,732	7,268	12,930	17,749	4,117	6,291	7,533	3,909
Overall risk	**20,419**	**10,028**	**19,718**	**29,287**	**7,380**	**17,326**	**29,172**	**8,234**

The main risk factor was the interest rate risk, followed by the spread risk, where the credit spread risk determines the impact on the valuation of the instrument / portfolio resulting from changes in the market perception of the credit quality of certain instruments, such as "cross currency swap", "asset swap" or a portfolio of securities denominated in a foreign currency.

The overall average price risk (currency, interest rate, spread) of trade portfolios in the first half of 2023 increased by 127% comparing to the average price risk in the I half of 2022 and reached the level of PLN 19.7 million, mainly because of the interest rate risk exposure. Considering maximum risk levels, in case of interest rate risk and price risk of the currency portfolio they also decreased in comparison with the previous year. Maximum price risk expressed as Total VaR (Overall risk) amounted to PLN 29.3 million, while in the I half 2021 it settled at PLN 29.2 million.

Equity instruments risk

The Group is active in the field of trading in equity instruments through the Brokerage Department of Bank Handlowy (DMBH). In accordance with its core scope of activity, DMBH is entitled to take the price risk of the trading book of shares, rights to shares listed or to be traded on the WarsawStock Exchange (WSE) or BondSpot, Futures contracts on the WIG20 index and Indexed Equity Units, as well as shares on foreign exchanges of these companies that are listed simultaneously on the WSE. The price risk of a portfolio of DMBH instruments is limited by volume limits for individual types of financial instruments and concentration warning thresholds for individual issuers. DMBH is also subject to warning thresholds of potential loss for stress scenarios and cumulative realised loss on the trading book.

Among the equity instruments measured at fair value through profit and loss which are not subject to the Group's active trading are, i.a., Visa Inc. shares, the valuation method of which is presented in the note no. 25.

Currency exposure

Currency exposure of Group's assets and liabilities is presented in main currencies in the following table:

30 June 2023

PLN '000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	13,066,232	9,697,781	29,405,949	32,641,459	132,941
USD	6,887,296	8,084,886	24,773,779	23,551,424	24,765
GBP	23,900	564,639	620,095	74,358	4,998
CHF	48,262	342,252	461,728	169,554	(1,816)
Other currencies	42,665	180,657	1,719,533	1,563,696	17,845

PLN '000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
	20,068,355	**18,870,215**	**56,981,084**	**58,000,491**	**178,733**

31 December 2022

PLN '000	Balance-sheet transactions		Contingent derivative transactions		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	9,241,239	8,969,064	33,013,226	33,241,235	44,166
USD	2,438,403	7,736,025	20,182,424	14,905,002	(20,200)
GBP	24,784	568,690	626,045	82,814	(675)
CHF	75,186	397,094	500,325	178,888	(471)
Other currencies	24,378	174,051	2,521,606	2,359,349	12,584
	11,803,990	**17,844,924**	**56,843,626**	**50,767,288**	**35,404**

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, technical systems or from external events.

This definition of Operational Risk includes legal risk – which is the risk of loss (including litigation costs, settlements, and regulatory fines) resulting from the failure of BHW to comply with laws, regulations, prudent ethical standards, and contractual obligations in any aspect of Bank's business – but excludes strategic and reputation risks.

The operational risk framework enables effective management of operational risks across the Bank, by amongst other things bringing or maintaining operational risk exposures within operational risk appetite and adhering to regulatory requirements.

In the area of operational risk, the strategic objective of operational risk management is to ensure a permanent and effective approach to the identification, measurement/assessment, mitigation, control, monitoring and reporting of the risk, as well as the effective reduction of the level of exposure to operational risk and, as a consequence, to reduce the number and scale of operational risk events (policy of low tolerance to operational losses)..

In the first half of 2023 the Bank has not introduced significant changes to processes, procedures, systems and policies associated with operational risk management.

Capital adequacy

Capital ratios have been calculated in accordance with the principles set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 as amended ("CRR").

The table below presents financial data for the calculation of the Group's total capital ratio.

PLN '000		30.06.2023	31.12.2022*
I	**Common capital Tier I**	**5,927,686**	**5,634,175**
	Common capital Tier I	5,927,686	5,634,175
II	**Total capital requirement of which:**	**2,338,317**	**2,376,854**
	Credit risk capital requirements	1,662,877	1,728,066
	Counterparty capital requirements	152,519	149,289
	Credit valuation adjustment capital requirements	3,982	4,036
	Capital requirements related to large exposures	-	-
	Sum of capital requirements for market risk	120,973	97,497
	Capital requirement for operational risk	397,966	397,966
	Common Equity Tier 1 Capital ratio	**20,3%**	**19,0%**
	Total Capital ratio	**20,3%**	**19,0%**

**Data for 31 December 2022 have been recalculated taking into account the retrospective recognition of a part of the profit for 2022 as own funds in connection with the resolution of the Ordinary General Meeting of the Bank described in Note 31 Dividends paid (or declared), in accordance with the position of EBA expressed in Q&A 2018_4085.*

As informed in current report no 14/2023 of May 26, 2023, the Bank is a resolution entity that is part of a global systemically important institution (G-SII) in accordance with the definition contained in CRR and according to Art. 92a CRR must satisfy the following requirements for own funds and eligible liabilities:

a) a risk-based ratio of 18%, representing the own funds and eligible liabilities of the institution expressed as a percentage of the total risk exposure amount (TREA);

b) a non-risk-based ratio of 6,75%, representing the own funds and eligible liabilities of the institution expressed as a percentage of the total exposure measure (TEM).

In accordance with the CRR regulations, the amount of the required TLAC TREA plus the combined buffer requirement for the Bank is 20.8%, while the total capital ratio of the Bank on a consolidated level at the end of June 2023 was 20.3%.
Bearing in mind the need indicated by the BGF to immediately meet the TLAC TREA requirement, the Management Board will immediately apply to KNF to obtain approval to include an appropriate part of the profits from the current period in Common Equity Tier 1 capital on the basis of the Bank's reviewed results for the first half of 2023. The Board expects that inclusion of appropriate part of the profits in Common Equity Tier 1 will satisfy the CRR requirements and does not expect other consequences regarding TLAC TREA breach. Inclusion of appropriate part of current year profits in Common Equity Tier 1 will satisfy TLAC TREA requirement meeting regulator's expectations.

Due to the cessation at the end of 2022 of the possibility to apply a 0% risk weight to exposures to central governments and central banks of Member States, if these exposures are denominated and financed in the domestic currency of another Member State directly pursuant to Article 500a(1) of CRR, from 1 January 2023 the Group recorded exceeding the limit of concentration of exposures, referred to in Article 395(1) of the CRR concerning only foreign currency exposures under bonds issued by the State Treasury and Bank Gospodarstwa Krajowego SA and guaranteed by the State Treasury. The exceedance ceased after obtaining the consent of the Polish Financial Supervision Authority of June 5, 2023 issued on the basis of paragraph 2 of Article 500a CRR.

6. Net interest income

	II quarter	I half of the year	II quarter	I half of the year
PLN '000	**01.04. - 30.06. 2023**	**01.01. - 30.06. 2023**	**01.04. - 30.06. 2022**	**01.01. - 30.06. 2022**
Interest income from:	**1,109,702**	**2,181,152**	**756,606**	**1,198,995**
Financial assets measured at amortized cost	**618,768**	**1,179,185**	**454,651**	**743,752**
Balances with the Central Bank	35,915	74,174	30,588	49,702
Amounts due from banks	124,081	183,533	50,605	60,242
Amounts due from customers, in respect of:	458,772	921,478	373,458	633,808
financial sector entities	68,608	128,986	39,075	60,465
non-financial sector entities, including:	390,164	792,492	334,383	573,343
credit cards	89,411	182,887	93,353	166,645
Financial assets measured at fair value through other comprehensive income	**490,934**	**1,001,967**	**301,955**	**455,243**
Debt investment financial assets measured at fair value through other comprehensive income	490,934	1,001,967	301,955	455,243
Similar income from:	**45,914**	**89,550**	**27,871**	**60,390**
Debt securities held-for-trading	19,150	60,454	18,463	42,317
Liabilities with negative interest rate	6	182	9,408	17,887
Derivatives in hedge accounting	26,758	28,914	-	186
	1,155,616	**2,270,702**	**784,477**	**1,259,385**
Interest expense and similar charges for				
Financial liabilities measured at amortized cost	**(298,604)**	**(566,386)**	**(116,621)**	**(145,995)**
Balances with the Central Bank	(1)	(2)	(1)	(1)
Amounts due to banks	(53,138)	(104,942)	(39,515)	(49,198)
Amounts due to customers, in respect of:	(244,472)	(459,438)	(76,139)	(94,858)
Amounts due to financial sector entities	(40,944)	(88,558)	(30,083)	(40,436)
Amounts due to non-financial sector entities	(203,528)	(370,880)	(46,056)	(54,422)
Leasing liabilities	(993)	(2,004)	(966)	(1,938)
Assets with negative interest rate	**-**	**-**	**(1,023)**	**(1,582)**
Derivatives in hedge accounting	**(25,074)**	**(25,074)**	**-**	**(116)**
	(323,678)	**(591,460)**	**(117,644)**	**(147,693)**
Net interest income	**831,938**	**1,679,242**	**666,833**	**1,111,692**

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, has created the possibility of suspending mortgage repayments (so-called "credit holidays"). Suspended installments of two months for both the third and fourth quarter of 2022 and one month in each of the quarters of 2023, respectively extend the loan period, and no interest is charged during the loan repayment suspension period (applicable to contracts concluded before 1 July 2022).

In accordance to IFRS 9, the Group estimated the present value of cash flows taking into account the forecasted occurrence of credit holidays and compared the such value with the gross carrying amount of the portfolio affected by the change (according to the forecast). The amount of the difference reduced interest income on financial assets measured at amortized cost on receivables from customers.

The Group constantly monitors the amount and assesses the adequacy of the provision created in Q3 2022. In 2023, no changes were made to the assumptions of the estimate, according to which approx. 75% of the balance of the mortgage loan portfolio will be covered by credit holidays. As at 30 June 2023, participation amounted to approx. 63% of the balance of the entire mortgage loan portfolio.

7. Net fee and commission income

PLN '000	II quarter	I half of the year	II quarter	I half of the year
	01.04. - 30.06. 2023	01.01. - 30.06. 2023	01.04. - 30.06. 2022	01.01. - 30.06. 2022
Fee and commission income				
Credit activity (other than included in the calculation of the effective interest rate)	12,512	25,780	13,971	29,200
Maintaining bank accounts	28,342	59,174	31,547	64,038
Insurance and investment products distribution	11,050	21,410	11,298	24,809
Payment and credit cards	32,167	64,046	34,366	64,507
Payment services	26,966	53,901	26,410	50,733
Custody services	30,898	58,444	36,255	67,341
Brokerage activity	10,329	21,553	9,292	22,529
Clients' cash on account management services	4,543	11,266	4,431	11,081
Financial liabilities granted	7,144	14,137	6,841	13,531
Other	2,927	5,139	2,322	4,794
	166,878	**334,850**	**176,733**	**352,563**
Fee and commission expense				
Payment and credit cards	(7,646)	(17,508)	(7,431)	(14,260)
Brokerage activity	(3,368)	(6,832)	(3,374)	(6,458)
Fees paid to the National Depository for Securities (KDPW)	(7,819)	(15,291)	(7,344)	(14,735)
Brokerage fees	(887)	(2,197)	(1,185)	(1,932)
Other	(5,112)	(10,308)	(5,971)	(12,486)
	(24,832)	**(52,136)**	**(25,305)**	**(49,871)**
Net fee and commission expense	**142,046**	**282,714**	**151,428**	**302,692**

8. Net income on trading financial instruments and revaluation

PLN '000	II quarter	I half of the year	II quarter	I half of the year
	01.04. - 30.06. 2023	01.01. - 30.06. 2023	01.04. - 30.06. 2022	01.01. - 30.06. 2022
Net income on financial instruments valued at fair value through profit or loss				
Debt instruments	(115,946)	(153,401)	48,375	63,850
Equity instruments	8,262	7,093	(4,737)	(10,375)
Derivative instruments, including:	(57,309)	(5,267)	136,083	301,490
Interest rate derivatives	(51,070)	(2,209)	130,487	288,510
Equity	(6,245)	(3,065)	6,203	13,706
Commodities	6	7	(607)	(726)
	(164,993)	**(151,575)**	**179,721**	**354,965**
Net income on FX operations				
Operations on FX derivative instruments	100,746	182,907	245,878	328,296
FX gains and losses (revaluation)	247,836	384,100	(237,295)	(220,734)
	348,582	**567,007**	**8,583**	**107,562**
Net income on trading financial instruments and revaluation	**183,589**	**415,432**	**188,304**	**462,527**

Net income on trading financial instruments and revaluation for the first half of 2023 includes net change in the adjustment of the valuation of derivatives reflecting counterparty credit risk and in the adjustment of the valuation of derivatives reflecting own credit risk in the amount of PLN (83) thousand (for the first half of 2022: PLN 7,266 thousand).

Net income on debt instruments includes the net result on trading in: government securities, corporate debt securities, EBI securities (European Investment Bank) and money market instruments held-for-trading.

Net income on equity instruments includes the net result of shares in other entitites.

Net income on derivative instruments comprises net income on transactions regarding interest rate swaps, options, futures and other derivatives.

Net profit on foreign exchange includes profit and losses on valuation of assets and liabilities denominated in foreign currency and foreign currency derivatives, such as: forward, CIRS and option contracts. It additionally contains a margin realized on spot and forward currency transactions.

9. Net other operating income and expense

PLN '000	II quarter 01.04. - 30.06. 2023	I half of the year 01.01. - 30.06. 2023	II quarter 01.04. - 30.06. 2022	I half of the year 01.01. - 30.06. 2022
Other operating income				
Income from provision of services for related parties outside the Group	2,259	4,379	3,553	4,382
Income from office rental	1,684	3,407	1,697	3,403
Other	1,921	4,135	779	4,049
	5,864	**11,921**	**6,029**	**11,834**
Other operating expenses				
Amicable procedure and vindication expenses	(1,241)	(2,320)	(1,134)	(2,160)
Net provision for litigation*	(2,355)	(5,019)	(2,427)	(4,621)
Other**	(3,152)	(5,869)	(5,054)	(9,462)
	(6,748)	**(13,208)**	**(8,615)**	**(16,243)**
Net other operating income	**(884)**	**(1,287)**	**(2,586)**	**(4,409)**

**The item includes the (net) costs of provisions for litigation proceedings including those related to TSUE judgements*
***The item "Other" includes i.a. operating losses and donation costs*

10. General administrative expenses

PLN '000	II quarter 01.04. - 30.06. 2023	I half of the year 01.01. - 30.06. 2023	II quarter 01.04. - 30.06. 2022	I half of the year 01.01. - 30.06. 2022
Staff expenses				
Remuneration costs, including:	(127,559)	(257,647)	(109,958)	(222,726)
Costs of retirement benefits	(9,116)	(19,499)	(7,415)	(15,449)
Bonuses and rewards	(22,237)	(46,445)	(13,392)	(33,146)
Social insurance costs	(21,294)	(46,059)	(17,572)	(39,653)
	(171,090)	**(350,151)**	**(140,922)**	**(295,525)**
Administrative expenses				
Telecommunication costs and hardware purchase costs	(60,568)	(120,079)	(60,089)	(111,309)
Costs of external services, including advisory, audit, consulting services	(12,711)	(26,510)	(12,360)	(23,096)
Building maintenance and rent costs	(17,546)	(32,813)	(12,778)	(25,709)
Advertising and marketing costs	(11,186)	(20,093)	(8,976)	(17,275)
Costs of cash management services, costs of clearing services and other transaction costs	(8,674)	(17,179)	(9,043)	(17,569)
Costs of external services related to distribution of banking products	(13,571)	(24,707)	(11,204)	(21,756)
Postal services, office supplies and printmaking costs	(1,340)	(3,078)	(1,420)	(3,004)
Training and education costs	(415)	(997)	(621)	(798)
Banking and capital supervision costs	-	(7,522)	-	(7,200)
Costs paid to Bank Guarantee Fund	-	(73,791)	(6,115)	(116,896)

PLN '000	II quarter 01.04. - 30.06. 2023	I half of the year 01.01. - 30.06. 2023	II quarter 01.04. - 30.06. 2022	I half of the year 01.01. - 30.06. 2022
Other expenses	(15,026)	(23,942)	(11,363)	(22,381)
	(141,037)	**(350,711)**	**(133,969)**	**(366,993)**
General administrative expenses, total	**(312,127)**	**(700,862)**	**(274,891)**	**(662,518)**

Staff expenses include costs of the following benefits paid and payable to current and former members of the Bank's Management Board:

PLN '000	01.01 – 30.06. 2023	01.01 – 30.06. 2022
Short-term employee benefits (services)	8,676	7,047
Long-term employee benefits (services)	52	1,051
Equity compensations	6,639	2,806
	15,367	**10,904**

11. Provision for expected credit losses on financial assets and provisions for contingent commitments

PLN '000	II quarter 01.04. - 30.06. 2023	I half of the year 01.01. - 30.06. 2023	II quarter 01.04. - 30.06. 2022	I half of the year 01.01. - 30.06. 2022
Provision for expected credit losses on amounts due from banks				
Provision creation	(2,092)	(2,860)	(2,051)	(3,417)
Provision reversal	467	1,744	1,152	2,727
	(1,625)	**(1,116)**	**(899)**	**(690)**
Provision for expected credit losses on amounts due from customers				
Provision creation and reversals	**(14,196)**	**(30,820)**	**(21,004)**	**(33,640)**
Provision creation	(66,421)	(134,419)	(70,325)	(150,418)
Provision reversal	55,340	109,611	51,485	120,374
Other	(3,115)	(6,012)	(2,164)	(3,596)
Recoveries from debt sold	11,100	11,107	15,864	15,854
	(3,096)	**(19,713)**	**(5,140)**	**(17,786)**
Provision for expected credit losses on debt investment financial assets measured at fair value through other comprehensive income				
Provision creation	(1,439)	(1,780)	(1,154)	(2,541)
Provision reversal	4,265	4,875	39	81
	2,826	**3,095**	**(1,115)**	**(2,460)**
Provision for expected credit losses on financial assets	**(1,895)**	**(17,734)**	**(7,154)**	**(20,936)**
Created provisions for granted financial and guarantee commitments	(11,023)	(21,458)	(12,690)	(24,087)
Release of provisions for granted financial and guarantee commitments	18,618	33,042	10,391	24,016
Provision for expected credit losses for contingent commitments	**7,595**	**11,584**	**(2,299)**	**(71)**
Provision for expected credit losses on financial assets and provisions for contingent commitments	**5,700**	**(6,150)**	**(9,453)**	**(21,007)**

12. Income tax

Recognized in the income statement

PLN '000	II quarter 01.04. - 30.06. 2023	I half of the year 01.01. - 30.06. 2023	II quarter 01.04. - 30.06. 2022	I half of the year 01.01. - 30.06. 2022
Current tax				
Current year CIT	(230,220)	(348,642)	(73,977)	(130,567)
Adjustments for prior years	-	(2,844)	(2,998)	(2,997)
	(230,220)	**(351,486)**	**(76,975)**	**(133,564)**
Deferred tax				
Net changes on temporary differences	70,548	27,154	(65,780)	(94,913)
	70,548	**27,154**	**(65,780)**	**(94,913)**
Total income tax expense in income statement	**(159,672)**	**(324,332)**	**(142,755)**	**(228,477)**

Reconciliation of the effective tax rate

PLN '000	II quarter 01.04. - 30.06. 2023	I half of the year 01.01. - 30.06. 2023	II quarter 01.04. - 30.06. 2022	I half of the year 01.01. - 30.06. 2022
Profit before tax	**771,200**	**1,539,622**	**643,096**	**1,010,810**
Income tax at the domestic corporate tax rate of 19%	(146,527)	(292,528)	(122,188)	(192,054)
Provisions for impairment losses not tax deductible	13	523	(1,738)	(1,905)
Taxable income not recognized in the income statement	67	5,993	(175)	3,740
Non-taxable income	1,638	1,639	1,761	1,910
Tax on some financial institutions	(8,463)	(17,401)	(11,114)	(19,848)
Costs paid for Bank Guarantee Fund	-	(14,020)	(1,162)	(22,210)
Asset from average tax rate	(5,463)	(101)	(8,316)	5,938
Other permanent differences, including other expenses not deductible for income	(937)	(8,437)	177	(4,048)
Income tax expense	**(159,672)**	**(324,332)**	**(142,755)**	**(228,477)**
Effective tax rate	**20.70%**	**21.07%**	**22.20%**	**22.60%**

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity covering the period of condensed interim consolidated financial statements for the first half of 2023 is related to financial assets measured at fair value through other comprehensive income and valuation of defined benefit program and amounted to PLN 83,584 thousand (for the first half of 2022: PLN 139,821 thousand).

13. Statement of changes in other comprehensive income

Deferred income tax and reclassification recognized in other comprehensive income relates to the valuation of financial assets measured at fair value through revaluation reserve and the valuation of defined benefit program recognized in the other reserves.

PLN '000	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2023	**(711,063)**	**135,101**	**(575,962)**
Remeasurement of financial assets measured at fair value through other comprehensive income (net)	441,021	(83,795)	357,226
(Profit) or loss reclassification to income statement after derecognition of financial assets measured at fair value through other comprehensive income (net)	3,923	(745)	3,178
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**(266,119)**	**50,561**	**(215,558)**
Actuarial profits/(losses) on specific services program valuation	**(5,222)**	**992**	**(4,230)**
Balance as at 30 June 2023	**(271,341)**	**51,553**	**(219,788)**

PLN '000	Gross amount	Deferred income tax	Net amount
Balance as at 1 January 2022	**(397,222)**	**75,471**	**(321,751)**
Remeasurement of financial assets measured at fair value through other comprehensive income (net)	(771,663)	146,616	(625,047)
(Profit)/Loss reclassification to income statement after derecognition of financial assets measured at fair value through other comprehensive income (net	35,762	(6,795)	28,967
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**(1,133,123)**	**215,292**	**(917,831)**
Balance as at 30 June 2022	**(1,133,123)**	**215,292**	**(917,831)**

14. Amounts due from banks

PLN '000	30.06.2023	31.12.2022
Current accounts	209,422	75,367
Deposits	170,254	35,571
Credits and loans	1	1
Receivables due to purchased securities under repurchase agreement	9,384,450	265,745
Deposits pledged as collateral for derivative transactions and stock exchange transactions	785,457	663,059
Other receivables	-	5,785
Total gross value	**10,549,584**	**1,045,528**
Provision for expected credit losses	(2,617)	(1,560)
Total net value	**10,546,967**	**1,043,968**

15. Financial assets and liabilities held-for-trading

Financial assets held-for-trading

PLN '000	30.06.2023	31.12.2022
Debt securities held-for-trading		
Bonds issued by:		
Banks and other financial entities*	51,019	707,416
Central governments	1,461,264	1,565,099
	1,512,283	**2,272,515**
Including:		
Listed on the active market	1,512,283	2,272,515
Equity instruments held-for-trading	**76,802**	**25,896**
Including:		
Listed on the active market	76,802	25,896
Derivatives	**4,605,272**	**4,730,752**
Financial assets held-for-trading, total	**6,194,357**	**7,029,163**

**As at 30 June 2023 securities (bonds) issued by banks in the amount of PLN 46,858 thousands are covered by the state guarantee (31 December 2022: PLN 703,347 thousand).*

Financial liabilities held-for-trading

PLN '000	30.06.2023	31.12.2022
Liabilities related to short-sale of securities	492,983	234,203
Derivatives	4,129,622	4,661,896
Financial liabilities held-for-trading, total	**4,622,605**	**4,896,099**

As at 30 June 2023 and 31 December 2022 the Group did not hold any financial assets and liabilities designated at fair value through profit or loss initial recognition.

Derivative financial instruments as at 30 June 2023

PLN '000	Notional value of derivatives with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	27,440,968	44,605,596	83,238,566	22,716,859	178,001,989	1,359,544	1,510,412
Currency instruments	54,623,924	37,473,199	35,293,729	263,211	127,654,063	2,985,935	2,358,373
Securities transactions	1,973,694	6,812	-	-	1,980,506	1,701	2,912
Commodity transactions	8,835	46,405	388,429	-	443,669	258,092	257,925
Derivative instruments, total	**84,047,421**	**82,132,012**	**118,920,724**	**22,980,070**	**308,080,227**	**4,605,272**	**4,129,622**

Derivative financial instruments as at 31 December 2022

PLN '000	Notional value of derivatives with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	21,584,957	43,085,758	89,525,503	25,775,955	179,972,173	2,448,292	2,303,596
Currency instruments	56,739,996	29,454,572	23,955,154	523,694	110,673,416	1,629,316	1,704,438
Securities transactions	236,012	7,748	-	-	243,760	341	1,080
Commodity transactions	534,386	114,727	320,419	-	969,532	652,803	652,782
Derivative instruments, total	**79,095,351**	**72,662,805**	**113,801,076**	**26,299,649**	**291,858,881**	**4,730,752**	**4,661,896**

16. Debt investment financial assets measured at fair value through other comprehensive income

PLN '000	30.06.2023	31.12.2022
Bonds and notes issued by:		
Central Banks	998,127	13,951,438
Other banks*, including:	8,481,834	4,675,139
Covered bonds in fair value hedge accounting	535,821	485,494
Other financial sector entities	2,528,277	2,725,197
Central governments	15,064,391	15,829,034
Debt securities measured at fair value through other comprehensive income, total*	**27,072,579**	**37,180,808**
Including:		
Instruments listed on the active market	26,074,452	23,229,370
Instruments unlisted on the active market	998,127	13,951,438

As at 30 June 2023 securities (bonds) issued by banks in the amount of PLN 8,481,834 thousandare covered by the state guarantee (31 December 2022: PLN 4,675,139 thousand).

17. Amounts due from customers

PLN '000	30.06.2023	31.12.2022
Amounts due from financial sector entities		
Loans, placements and advances	743,334	766,786
Unlisted debt financial assets	1,143,527	1,227,130
Receivables due to purchased securities with a repurchase agreement	2,554,798	-
Guarantee funds and deposits pledged as collateral	1,896,184	1,820,113
Total gross value	**6,337,843**	**3,814,029**
Provision for expected credit losses	(2,755)	(3,517)
Total net value	**6,335,088**	**3,810,512**
Amounts due from non-financial sector entities		
Loans and advances	15,468,423	16,558,928

PLN '000	**30.06.2023**	**31.12.2022**
Purchased receivables	1,729,248	2,038,148
Realized guarantees	31,687	33,062
Guarantee funds and deposits pledged as collateral	-	8,269
Other receivables	17,281	24,250
Total gross value	**17,246,639**	**18,662,657**
Provision for expected credit losses	(788,061)	(852,662)
Total net value	**16,458,578**	**17,809,995**
Total net value of receivables from customers	**22,793,666**	**21,620,507**

Movement in provision for expected credit losses - amounts due from customers presents as follows:

PLN '000	**Stage 1**	**Stage 2**	**Stage 3**	**Originated credit- impaired assets**	**Total**
Provision for expected credit losses - amounts due from customers					
Provision for expected credit losses as at 1 January 2023	**(81,235)**	**(108,385)**	**(664,801)**	**(1,758)**	**(856,179)**
Transfer to Stage 1	(10,266)	9,447	570	249	-
Transfer to Stage 2	6,679	(8,036)	1,357	-	-
Transfer to Stage 3	1,052	20,473	(21,525)	-	-
Transfer to purchased or originated credit-impaired assets	-	-	11 658	(11 658)	-
(Creation)/Releases in the period though the income statement	24,487	(17,782)	(38,970)	1 445	(30,820)
Decrease in provisions due to write-offs	-	-	5,572	-	5,572
Decrease in provisions in connection with the sale of receivables	-	-	98,579	417	98,996
Changes in accrued interest in Stage 3 other than written off and sale of receivables	(3)	-	(25,811)	(1,528)	(27,342)
Decrease in provisions due to derecognition from the balance sheet as a result of significant change	-	-	-	12,382	12,382
Foreign exchange and other movements	498	914	4,894	269	6,575
Provision for expected credit losses as at 30 June 2023	**(58,788)**	**(103,369)**	**(628,477)**	**(182)**	**(790,816)**

PLN '000	**Stage 1**	**Stage 2**	**Stage 3**	**Originated credit- impaired assets**	**Total**
Provision for expected credit losses - amounts due from customers					
Provision for expected credit losses as at 1 January 2022	**(63,474)**	**(118,147)**	**(707,062)**	**-**	**(888,683)**
Transfer to Stage 1	(19,239)	16,226	3,013	-	-
Transfer to Stage 2	7,196	(11,352)	4,156	-	-
Transfer to Stage 3	2,290	23,663	(25,953)	-	-
Transfer to purchased or originated credit-impaired assets	-	-	17,273	(17,273)	-
(Creation)/Releases in the period though the income statement	(10 159)	(16,455)	(79,463)	943	(105,134)
Net changes due to update of estimating method (net)*	2,509	(1,967)	(790)	-	(248)
Decrease in provisions due to write-offs	-	-	12,282	-	12,282
Decrease in provisions in connection with the sale of receivables	-	-	127,488	-	127,488
Changes in accrued interest in Stage 3 other than written off and sale of receivables	(1)	(11)	(21,644)	(1,138)	(22,794)
Decrease in impairment losses due to de-balance sheet as a result of a material change	-	-	-	15,600	15,600
Foreign exchange and other movements	(357)	(342)	5,899	110	5,310
Provision for expected credit losses as at 31 December 2022	**(81,235)**	**(108,385)**	**(664,801)**	**(1,758)**	**(856,179)**

**concerns changes resulting from the implementation of the Recommendation R*

18. Intangible assets

Goodwill included PLN 1,243,645 thousand proceed from merger from 28 February 2001 between Bank Handlowy w Warszawie S.A and Citibank (Poland) S.A, and PLN 2,331 thousand proceed from acquisition of organized part of the banking enterprise ABN Amro Bank (Poland) S.A, which happened on 1 March 2005. At the end of 2020, the Management Board of Bank made a write-off reducing goodwill by PLN 214,707 thousand in the part attributable to the Consumer Banking segment.

Intangible assets in the amount of PLN 1,262,220 thousand as at 30 June 2023 (as at 31 December 2022: PLN 1,263,863 thousand) include goodwill in the amount of PLN 1,031,269 thousand, which has not changed since 31 December 2020.

19. Deferred income tax asset

PLN '000	**30.06.2023**	**31.12.2022**
Deferred income tax asset	1,295,609	1,771,333
Deferred income tax liability	(1,068,484)	(1,487,814)
Deferred income tax net asset	**227,125**	**283,519**

Deferred income tax asset and liabilities are presented in the statement of financial position on net basis.

Deferred tax on the acquisition of an organized part of an enterprise, which was described in the Bank's annual separate financial statements, in the amount of PLN 3,487 thousand as at 30 June 2023, will be settled with the liability to the Tax Office until August 2027.

20. Other assets

PLN '000	**30.06.2023**	**31.12.2022**
Interbank settlements	18,456	14,238
Settlements related to securities trade	27	16
Settlements related to brokerage activity	133,524	55,681
Income to receive	52,404	52,430
Staff loans out of the Social Fund	16,300	14,300
Sundry debtors	71,101	71,188
Prepayments	16,412	9,718
Other assets, total	**308,224**	**217,571**
Including financial assets*	239,408	155,423

**Financial assets include all the positions "Other assets", except the positions "Income to receive" and "Prepayments".*

21. Amounts due to banks

PLN '000	**30.06.2023**	**31.12.2022**
Current accounts	2,799,634	2,230,930
Time deposits	315,808	2,419,247
Repo or sell/buy back transactions	-	61,131
Other liabilities, including:	184,833	83,363
Margin deposits	179,982	82,902
Total amounts due to banks	**3,300,275**	**4,794,671**

22. Amounts due to customers

PLN '000	**30.06.2023**	**31.12.2022**
Deposits from financial sector entities		
Current accounts	1,019,085	1,166,947
Time deposits	2,475,433	2,468,204
	3,494,518	**3,635,151**
Deposits from non-financial sector entities		
Current accounts, including:	32,366,328	34,496,846

PLN '000	30.06.2023	31.12.2022
institutional customers	18,075,606	20,418,782
individual customers	11,448,773	12,128,146
budgetary units	2,841,949	1,949,918
Time deposits, including:	13,979,069	10,663,491
institutional customers	6,660,306	4,435,409
individual customers	7,009,029	5,670,588
budgetary units	309,734	557,494
	46,345,397	**45,160,337**
Total deposits	**49,839,915**	**48,795,488**
Other liabilities		
Other liabilities, including:	2,226,971	1,717,372
cash collateral	291,799	125,429
margin deposits	1,900,538	1,526,384
Total other liabilities	**2,226,971**	**1,717,372**
Total amounts due to customers	**52,066,886**	**50,512,860**

23. Other liabilities

PLN '000	30.06.2023	31.12.2022
Staff benefits	31,418	25,260
Interbank settlements	1,717,154	448,991
Inter-system settlements	5,414	4,863
Settlements related to securities trade	16,065	9,815
Settlements related to brokerage activity	151,107	62,436
Liabilities due to leasing assets	115,259	121,815
Sundry creditors	221,828	175,619
Accruals, including:	431,090	362,407
Provision for employee payments	121,012	135,104
Provision for employee retirement	81,173	71,911
IT services and bank operations support	60,918	67,103
Consultancy services and business support	11,824	8,459
Other	156,163	79,830
Deferred income	16,163	13,113
Settlements with Tax Office and National Insurance (ZUS)	71,070	47,682
Other liabilities, total	**2,776,568**	**1,272,001**
Including financial liabilities*	2,689,335	1,211,206

**Financial liabilities include all the positions "Other liabilities", except the positions "Settlements with Tax Office and National Insurance (ZUS)" and "Deferred income".*

24. Financial assets and liabilities by maturity date

As at 30 June 2023

PLN '000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
Cash and balances with the Central Bank		**2,576,498**	**2,576,498**	**-**	**-**	**-**	**-**
Amounts due from banks (Gross)	**14**	**10,549,584**	**4,726,571**	**5,813,013**	**10,000**	**-**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	15	1,512,28	65,288	134,599	283,530	306,535	722,331
Financial assets measured at fair value through other comprehensive income							

PLN '000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
Debt securities measured at fair value through other comprehensive income	16	27,072,579	2,483,357	886,206	933,407	17,850,231	4,919,378
Amounts due from customers (gross)							
Amounts due from financial sector entities	17	6,337,843	4,542,231	6,112	139,500	1,650,000	-
Amounts due from non-financial sector entities	17	17,246,639	6,714,982	1,334,147	2,351,862	4,653,875	2,191,773
Amounts due to banks	**21**	**3,300,275**	**3,285,275**	**-**	**15,000**	**-**	**-**
Amounts due to customers							
Amounts due to financial sector entities:	22	4,377,920	4,312,104	28,876	36,940	-	-
Amounts due to non-financial sector entities	22	47,688,966	41,645,300	3,265,840	2,771,578	6,248	-

As at 31 December 2022

PLN '000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
Cash and balances with the Central Bank		**595,969**	**595,969**	**-**	**-**	**-**	**-**
Amounts due from banks (Gross)	**14**	**1,045,528**	**1,030,528**	**-**	**15,000**	**-**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	15	2,272,515	260,262	210,862	174,197	812,682	814,512
Financial assets measured at fair value through other comprehensive income							
Debt securities measured at fair value through other comprehensive income	16	37,180,808	13,951,439	393,571	2,880,356	17,991,383	1,964,059
Amounts due from customers (gross)							
Amounts due from financial sector entities	17	3,814,029	1,838,164	106,865	219,000	1,650,000	-
Amounts due from non-financial sector entities	17	18,662,657	7,255,789	1,484,623	2,162,955	5,430,649	2,328,641
Amounts due to banks	**21**	**4,794,670**	**3,870,670**	**320,000**	**604,000**	**-**	**-**
Amounts due to customers							
Amounts due to financial sector entities:	22	5,010,110	4,828,368	146,445	35,297	-	-
Amounts due to non-financial sector entities	22	45,502,750	40,905,414	2,915,718	1,674,282	7,336	-

25. Financial instruments disclosures

Fair value of financial assets and liabilities

The summary below provides statement of financial position (by category) and fair value information for each category of financial assets and liabilities.

PLN '000	Note	30.06.2023		31.12.2022	
		Balance value	Fair value	Balance value	Fair value
Assets					
Amounts due from banks	14	10,546,967	10,546,985	1,043,968	1,043,991
Amounts due from customers	17	22,793,666	22,857,269	21,620,507	21,643,547
Amounts due from institutional customers		16,921,564	16,891,109	15,505,659	15,566,995
Amounts due from individual customers		5,872,102	5,966,160	6,114,848	6,076,552
Liabilities					
Amounts due to banks	21	3,300,275	3,300,384	4,794,671	4,793,332
Amounts due to customers	22	52,066,886	52,040,530	50,512,860	50,492,881

Valuation methods and assumptions used for the purposes of measurement at fair value

Fair value of assets and financial liabilities are estimated as follows:

- The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are tested and approved before application. As far as possible, only observable data are used in the models, although in some areas, the Bank's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.

The Group applies the following methods of measurement of particular types of derivative instruments:

- FX forwards: discounted cash flow model;
- options – option market-based valuation model;
- interest rate transactions – discounted cash flow model;
- futures – current quotations.

- For valuation of securities' transactions current quotations are used. In case of lack of quotations, adequate models based on discount and forward curves, including decrease of credit spread, if needed, are used for valuation.

- The fair value of other assets and financial liabilities (excluding described above) are estimated in accordance to commonly accepted models of valuation based on discounted cash flow analysis, taking into account fluctuations in market interest rates and changes in margins during the financial period.

Fair value included in consolidated statement of financial position

Depending on the method of determining fair value, individual financial assets or liabilities are classified into the following categories:

- Level I: financial assets / liabilities valued directly on the basis of prices from an active market where the regular quotations are available and turnover is sufficient.

  The active market includes stock and brokerage quotes and quotes in pricing services type systems, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include securities held-for-trading or measured at fair value through other comprehensive income.

- Level II: financial assets / liabilities valued on the basis of models based on input data from the active market, presented in Reuters and Bloomberg systems. Depending on financial instruments, the following specific valuation techniques are used:
  - listed prices for a given instrument or listed prices for an alternative instrument,
  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments,
  - other techniques, such as yield curves based on alternative prices for a given financial instrument.

- Level III: financial assets / liabilities valued on the basis of valuation techniques using relevant, non-market parameters.

The tables below present values of financial instruments in the consolidated statement of financial position, in accordance with a fair value classified by above levels.

As at 30 June 2023

PLN '000	Level I	Level II	Level III	Total
Financial assets				
Financial assets held-for-trading	1,606,383	4,587,974	-	6,194,357
derivatives	17,298	4,587,974	-	4,605,272
debt securities	1,512,283	-	-	1,512,283
equity instruments	76,802	-	-	76,802
Debt financial assets measured at fair value through other comprehensive income	26,074,452	998,127	-	27,072,579
Equity and other investments measured at fair value through income statement	18,541	-	103,078	121,619
Financial liabilities	-	-	-	-
Financial liabilities held-for-trading	523,570	4,099,035	-	4,622,605
short sale of securities	492,983	-	-	492,983
derivatives	30,587	4,099,035	-	4,129,622
hedging derivatives	-	71,319	-	71,319

As at 31 December 2022

PLN '000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	15	2,318,895	4,710,268	-	7,029,163

PLN '000	Note	Level I	Level II	Level III	Total
Derivatives		20,484	4,710,268	-	4,730,752
Debt securities		2,272,515	-	-	2,272,515
Equity instruments		25,896	-	-	25,896
Hedging derivatives		-	623	-	623
Debt investment financial assets measured at fair value through other comprehensive income	16	23,229,370	13,951,438	-	37,180,808
Equity and other instruments measured at fair value through income statement		17,660	-	88,484	106,144
Financial liabilities					
Financial liabilities held-for-trading	15	286,719	4,609,380	-	4,896,099
short sale of securities		234,203	-	-	234,203
derivatives		52,516	4,609,380	-	4,661,896
hedging derivatives		-	6,917	-	6,917

As at June 30, 2023, the amount of financial assets classified to level III includes the value of the share in Visa Inc. (preference series C) in the amount of PLN 14,731 thousand and the value of other minority shareholding in the amount of PLN 88,347 thousand (as at December 31. 2022 respectively PLN 14,039 thousand and PLN 74,445 thousand).

The sensitivity analysis for equity instruments classified to level III as at 30 June 2023 is presented in the table below:

PLN '000	Fair Value	Scenario	Fair value in positive scenario	Fair value in negative scenario
Capital instruments compulsorily measured at fair value through profit or loss	103,078	Change of the key parameter (cost of capital by - 10% / + 10% or conversion rate by + 10% / - 10%)	117,126	91,798

The method of estimating the fair value of series C Visa Inc preference shares takes into account the value of Visa Inc. shares and corrections resulting from disputes (current or potential) to which Visa or the Bank would be a party. Minority shareholding in structured companies are measured at fair value taking into account, inter alia, the expected discounted dividends using an assumed cost of capital and the history of profit distribution in the particular companies. Changes in the valuation are taken to the Income statement and presented in the Net gain/(loss) on equity and other instruments measured at fair value through income statement.

Changes in financial assets and liabilities, measured at a fair value that was estimated using relevant parameters not-market based are presented below:

	Equity and other investments measured at fair value through income statement	
PLN '000	01.01.-30.06.2023	01.01.-31.12.2022
As at the beginning of period	**88,484**	**96,156**
Conversion of shares - transfer to Level I	-	(10,466)
Sale	-	(184)
Revaluation	14,594	2,978
As at the end of period	**103,078**	**88,484**

In the first half of 2023, the Group has not made any changes in classification criteria of financial instruments (presented in the consolidated statement of financial position at fair value) to each category reflecting the fair value (level I, level II, level III).

In the same period, the Group did not change the classification of financial assets as a result of a change in the purpose or use of the asset.

26. Net gain/(loss) on derecognition of asset from balance sheet

The net gain/(loss) on derecognition of financial assets in Group relates to the gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income and amounted to PLN (3 923) thousand in the first half of 2023 (in the first half of 2022: PLN (35,762) thousand).

	II quarterl	half of the year	II quarterl	half of the year
PLN '000	01.04.-30.06.2023	01.01. - 30.06. 2023	01.04. - 30.06. 2022	01.01. - 30.06. 2022
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income				
Polish treasury bonds	110	24,294	-	(7,063)
EBI securities	(28,289)	(28,289)	-	(28,699)

PLN '000	**II quarterl 01.04.- 30.06.2023**	**half of the year 01.01. - 30.06. 2023**	**II quarterl 01.04. - 30.06. 2022**	**half of the year 01.01. - 30.06. 2022**
Others	-	72	-	-
	(28,179)	**(3,923)**	**-**	**(35,762)**

Due to specific activity of the Group, changes in debt investment financial assets measured at fair value through other comprehensive income are presented in operating activities in the statement of cash-flows.

27. Hedge accounting

The Group hedges the risk of change in fair value of fixed interest rate debt securities measured at fair value though other comprehensive income. The hedged risk results from changes in interest rates.

IRS is the hedging instrument denominated in the same currency as hedged instruments in which the Groups receives variable inflows and pays fixed.

The gain or loss on the hedged item attributable to the hedged risk is recognized in result on hedge accounting in the income statement. The remainder of the change in the fair value of debt securities measured at fair value through other comprehensive income is recognized in other comprehensive income. Interest income on debt securities are recognized in net interest income.

Changes in the fair value of derivatives designated as qualifying hedging instruments are recognized in result on hedge accounting in the income statement. Interest income and interest expenses related to the hedging derivatives under fair value hedge are presented in the net interest income.

As at 30 June 2023 and as at 31 December 2022, the Group had active hedging relationships. Details of the positions designated as hedging instruments and the effectiveness of the designated hedging relationships are set out in the tables below:

As at 30 June 2023:

PLN '000	**Notional value**	**Balance value**		**Listing in the statement of financial position**	**Change in fair value used to take hold of hednge ineffectiveness**
		Assets	**Liabilities**		
Fair value hedge accounting					
Interest rate risk					
IRS Transactions	683,000	-	71,319	Hedging derivatives	(43,124)

Details of hedged items as at 30 June 2023 are presented in the table below:

PLN '000	**Balance value**		**Cumulative amount of hedging fair value in balance value of heged item corrections**	**Listing in the statement of financial position**	**Change in fair value used to take hold of hednge ineffectiveness**
	Assets	**Liabilities**			
Fair value hedge accounting					
Interest rate risk					
Bond issued by banks	535,821	-	45,055	Debt investement securities measured at fair value through other comprehensive income	38,101

The cumulative amount of fair value hedge adjustments remaining in the statement of financial position for all hedged items for which adjustments for fair value hedge gains and losses were discontinued as at 30 June 2023 amounted to PLN (132,300) thousand.

Information on the effectiveness of designated hedging relationships as at 30 June 2023 is presented in the table below:

	Hedge ineffectiveness recognized in income statement	**Listing in the statement of financial position**

Fair value hedge accounting		
Interest rate risk	(5,023)	Net income on hedge accounting

As at 31 December 2022:

PLN '000	Notional value	Balance value		Listing in the statement of financial position	Change in fair value used to take hold of hednge ineffectiveness
		Assets	Liabilities		
Fair value hedge accounting					
Interest rate risk					
IRS Transactions	683,000	623	6,917	Hedging derivatives	1,834

Details of hedged items as at 30 June 2023 are presented in the table below:

PLN '000	Balance value		Cumulative amount of hedging fair value in balance value of heged item corrections	Listing in the statement of financial position	Change in fair value used to take hold of hednge ineffectiveness
	Assets	Liabilities			
Fair value hedge accounting					
Interest rate risk					
Bond issued by banks	485,494	-	6,954	Debt investment securities measured at fair value through other comprehensive income	(3,648)

The cumulative amount of fair value hedge adjustments remaining in the statement of financial position for all hedged items for which adjustments for fair value hedge gains and losses were discontinued as at 31 December 2022 amounted to PLN 6,954 thousand.

Information on the effectiveness of designated hedging relationships as at 31 December 2022 is presented in the table below:

	Hedge ineffectiveness recognized in income statement	Listing in the statement of financial position
Fair value hedge accounting		
Interest rate risk	(1,814)	Net income on hedge accounting

28. Additional information to the statement of cash flows

PLN '000	30.06.2023	31.12.2022	30.06.2022
Cash related items:			
Cash in hand	547,296	562,217	615,002
Nostro current account in Central Bank	2,029,202	22,079	3,472,074
Current accounts in other banks (nostro, overdrafts on loro accounts)	207,681	74,481	338,164
	2,784,179	**658,777**	**4,425,240**

29. Seasonality or periodicity of business activity

The business activity of the Group does not involve significant events that would be subject to seasonal or cyclical variations.

30. Issue, redemption and repayment of debt and equity securities

In the first half of the year 2023 no issue, pay back or repurchase of debt or equity securities took place.

31. Paid or declared dividends

On March 17, 2023, the Bank's Management Board adopted a resolution on the proposed distribution of 2022 profit and this proposal was accepted by the Supervisory Board on March 24, 2023.

On April 26, 2023, the Annual General Meeting of the Bank adopted a resolution on distribution of net profit for 2022. Pursuant to the resolution the net profit for 2022 in the amount of PLN 1,569,309,967.45 was distributed as follows:

- Dividend: PLN 1,175,936,400.00, i.e. PLN 9.00/per share,
- Reserve capital: PLN 393,373,567.45

Dividend day was set for May 8, 2022, and the dividend payment date for May 15, 2023. The number of shares covered by dividend was 130 659 600.

The dividend accounted for 75% of the net profit for 2022, 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 dividend payment from net profit generated in 2022.

The dividend represents 75% of the net profit for 2022, and the amount of funds in this high amount took into account the guidelines of the Polish Financial Supervision Authority on the Bank's requirementsto qualify for dividend payment from the net profit generated in 2022.

32. Changes in the Bank Capital Group's structure

In the first half of 2023 the structure of the Bank's Capital Group has not changed compared to the end of 2022.

In 2022 Bank concluded with Dom Maklerski Banku Handlowego S.A "Business transfer agreement" on the basis of which DBMH was transferred to the Bank on 1 August 2022. On April 7, 2023, the District Court entered the transformation of Dom Maklerski Banku Handlowego S.A. in the National Court Register. Upon transformation, the company adopted the name "HANDLOWY FINANCIAL SERVICES" Spółka z ograniczoną odpowiedzialnością.

33. Changes in granted and received financial and guarantee commitments

The detailed specification of granted and received financial and guarantee commitments as at 30 June 2023 and changes in comparison with the end of 2022 are as follows:

PLN '000	State as at		Change	
	30.06.2023	**31.12.2022**	**PLN '000**	**%**
Contingent commitments and guarantees granted				
Letters of credit	119,031	262,110	(143,079)	(54.59%)
Guarantees granted	2,729,330	2,352,867	376,463	16.00%
Credit lines granted	13,998,609	13,683,181	315,428	2.31%
Other financial liabilities	105,182	-	105,182	100,00%
Other guaranteed liabilities	19,893	22,349	(2,456)	(10.99%)
	16,972,045	**16,320,507**	**651,538**	**3.99%**
Letters of credit				
Import letters of credit issued	119,031	262,110	(143,079)	(54.59%)
	119,031	262,110	**(143,079)**	(54.59%)

The provisions of contingent commitments and guarantees granted by the Group are established. As at 30 June, 2023 the amount of provisions of granted contingent commitments and guarantees was PLN 32,885 thousand (31 December 2022: PLN 44,969 thousand).

Guarantees granted include guarantees of credit repayment for payer, other guarantees of payment, guarantees on advance payments, guarantees on properly performance, tender guarantees and endorsements on bills.

PLN '000	State as at		Change	
	30.06.2023	31.12.2022	PLN '000	%
Contingent commitments and guarantees received				
Guarantees	24,089,791	28,600,496	(4,510,705)	(15.77%)
	24,089,791	**28,600,496**	**(4,510,705)**	**(15.77%)**

34. Information about shareholders

In the period from the publication of the previous interim report, i.e. from 11 May 2023 to the date of publication of this half-year report for the first half of 2023, the ownership structure of significant blocks of the Bank's shares changed.

As a result of the acquisition of the Bank's shares in transactions on the Warsaw Stock Exchange, concluded on 31 May 2023, Nationale – Nederlanden Powszechne Towarzystwo Emerytalne S.A. increased the total ownership of the Bank's shares above 5% of votes at the General Meeting of Shareholders of the Bank.

As a result of the acquisition of the Bank's shares in transactions on the Warsaw Stock Exchange concluded on 11 August 2023, Nationale-Nederlanden Otwarty Fundusz Emerytalny increased its shareholding above 5% in the share capital and in the total number of votes.

The table below present the list of shareholders that hold at both 30 June 2023 and the day of publishing the consolidated financial statements for the first half of 2023 directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital:

	Number of shares	% Shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	97,994,700	75,0	97,994,700	75,0
Nationale – Nederlanden General Pension Company S.A.	6,838,385	5,23	6,838,385	5,23
Other shareholders	25,826,515	19,77	25,826,515	19,77
	130,659,600	**100**	**130,659,600**	**100**

**Based on current report no. 15/2023 from June 2, 2023*

As at the date of publication of this consolidated half-year report for the first half of 2023, in accordance with the information held by the Bank on shareholders holding, directly or indirectly, through subsidiaries, at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital, the following entities were:

	Number of shares	% Shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	97,994,700	75,0	97,994,700	75,0
Pension funds manager by Nationale-Nederlanden PTE S.A, including:	6,876,766	5,26	6,876,766	5,26
Nationale Nederlanden OFE	6,539,514	5,01	6,539,514	5,01
Other shareholders	25,788,134	19,74	25,788,134	19,74
	130,659,600	**100**	**130,659,600**	**100**

**Based on current report no.16/2023 from August 16, 2023*

Citigroup Inc. with its registered office in Wilmington - United States, through Citibank Europe plc. with its registered office in Dublin - Ireland ("CEP") plans to acquire the Bank's shares in a number exceeding 50% of the total number of votes at the General Meeting and a share in the share capital of the Bank.The transaction is to be carried out within the Citi Group in order to fulfil the obligations of domestic banks belonging to the third country group, i.e. from outside the European Union (in this case the United States), to hold an intermediate EU parent undertaking ("IPU"). As part of this transaction, the Bank's shares are to be transferred to CEP as the Bank's IPU.

The transaction results from the obligations arising from Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC Text with EEA relevance and the Act of 29 August 1997 Banking Law. The planned transaction is subject to the approval of the relevant regulators. On May 31, 2023, the Polish Financial Supervision Authority found no grounds for objecting to the planned transaction.

35. Ownership of issuer's shares by members of the Management Board and Supervisory Board

According to the best knowledge of the Bank – the dominant entity, at the date of submission of this periodic report for the first half of 2023, as well as at the date of submission of the previous periodic report for the fisrt quarter if 2023, both the Members of the Management Board and Members of Supervisory Board did not own any Bank's shares.

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

36. Information on pending proceedings

No proceedings regarding receivables or liabilities of the Group conducted in the first half of 2023 in court, public administration authorities or an arbitration authority is of significant value. In Group's opinion no proceedings conducted in court, public administration authority or an arbitration authority, pose a threat to the Group's financial liquidity, individually or in total.

In the case of legal proceedings involving the risk of cash outflow as a result of meeting the Group's commitments, the appropriate provisions are created. The value of provisions for disputes as at 30 June 2023 is PLN 36.8 million, of which the provisions for cases related to derivative products is PLN 14.2 million and provisions for individual cases relating to the judgments of the CJEU is PLN 19.8 million (PLN 18.4 million for cases related to CHF-indexed loans and PLN 1.4 million for cases related to the return of a part of the commission for granting consumer loan). As at December 31, 2022: PLN 34.1 million, of which the provisions for cases related to derivative products is PLN 12.9 million and provisions for individual cases relating to the judgments of the CJEU is PLN 19.0 million, including PLN 17.1 million for cases related to CHF-indexed loans and PLN 1.9 million for cases related to the return of a part of the commission for granting consumer loan. This value does not include portfolio provisions created in connection with the judgments of the CJEU.

No significant settlements occurred in the first half of 2023 due to court cases concluded with a final judgment.

- On 27 May 2019 the Bank received a statement of claim submitted by Rigall Arteria Management spółka z ograniczoną odpowiedzialnością sp. k. for the payment of PLN 386,139,180.89 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 50,017,463.89 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014. The Court has referred the matter to mediation proceedings, which have not resulted in a mutual agreement, so the case is pending before the court of first instance.

  On 10 February 2020 the Bank received a statement of claim submitted by Rotsa Sales Direct sp. z o.o. for the payment of PLN 419,712,468.48 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 33,047,245.20 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014. The court referred the matter to mediation proceedings, so the case is pending before the court of first instance.

  In the Bank's opinion, the amount of claims filed by the companies is not justified. The Bank's position is confirmed by legally binding resolutions of legal actions taken by the companies against the Bank, which are beneficial for the Bank, as well as by the judgement expressed in the proceedings with reference number C-64/21 pending before the Court of Justice of the European Union in connection with preliminary ruling from the Supreme Court of October 13, 2022.

- As at June 30, 2023, the Bank was, among others, a party to 18 court proceedings associated with derivative transactions. Among these, 11 proceedings have not been terminated with a legally binding conclusion, and 7 have been terminated with a legally binding conclusion, all of these proceedings are pending in the Supreme Court cassation proceeding, and in the case of one it will be decided in the near future whether a cassation appeal will be lodged. In 11 proceedings the Bank acted as a defendant and in 7 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank.

- The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressees of the President of UOKiK's decision in the case. The proceedings have concerned alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was the subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set in the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. As the Bank submitted extraordinary appeal on the 25 October 2017 the Supreme Court has overturned the Appeal Court's verdict and the case has been returned to the Appeal Court for a second review. The appeals proceedings has begun again. In the first quarter of 2018, the Bank received the reimbursed. By the judgment of November 23, 2020, the Appeal Court set aside the judgment of November 21, 2013 and remitted the case to the court of first instance for reconsideration.

- 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 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. 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.

  On 15 June 2023, the Court of Justice of the European Union (CJEU) in case C 520/21 essentially duplicated the opinion of the Advocate General from February 16, 2023 and ruled that only the consumer may demand additional benefits resulting from the cancellation of the Swiss franc loan agreement. The Bank may only demand the return of the loan capital together with statutory interest for delay without the possibility of demanding remuneration from the customer (consumer) for non-contractual use of capital. It has been held that Directive 93/13 does not directly govern the consequences of the invalidity of a contract concluded between a seller or supplier and a consumer after the unfair terms have been removed. It is for the Member States to determine the consequences of such a finding and the measures which they adopt in that regard must comply with EU law and, in particular, with the objectives of that directive. It will be for the national courts to assess, in the light of all the circumstances of the dispute, whether the acceptance of such consumer claims is compatible with the principle of proportionality.

  When estimating the risk resulting from court litigations regarding indexation clauses in mortgage loan agreements, Bank Handlowy w Warszawie S.A. continuously did not factor in receivables under its claims against borrowers for the payment of amounts equivalent to a fee for using the loan capital, therefore, the Bank does not have to revise its assumptions following the Advocate General's and CJEU's opinion.

  As at June 30, 2023, the Bank had receivables under CHF-indexed retail mortgage loans at the gross carrying amount of PLN 38.4 million. The Bank maintains a collective provision in the amount of PLN 10.5 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 condensed consolidated statement of financial position under item: Provisions.

  As at June 30, 2023, the Bank was sued in 58 cases relating to a CHF-indexed loan for a total amount of approximately PLN 21.9 million. Twelve cases were legally lost, and the Bank decided to file two cassation appeals (one appeal was rejected on formal grounds). 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 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 decided to align its practice with the position of the UOKiK President and decided to 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, 2023, the Bank was sued in 932 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 4.2 million.

37. Transactions with the key management personnel

PLN '000	30.06.2023		31.12.2022	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**72**	**18**	**87**	**72**
Deposits				
Current accounts	7,947	8,370	6,914	14,030
Term deposits	1,119	36,080	1,261	29,788
Total Deposits	**9,066**	**44,450**	**8,175**	**43,818**

As at 30 June 2023 and 31 December 2022, no guarantees were granted to members of the Management Board and the Supervisory Board.

All transactions of the Bank with members of the Management Board and the Supervisory Board are at arm's length.

Staff costs for the first half of 2023 include salaries and rewards costs of both current and former Members of the Management Board amounting to PLN 15,367 thousand (for the first half of 2022: PLN 10,904 thousand).

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.

A separate non-competition agreement conducted with the Bank applies to each member of the Bank's Management Board. According to its provisions, in case of termination of employment in the Bank, in the period of 12 months (in case of one member of the Management Board – of 6 months) from the date of employment termination, the member of the Management Board is obligated to refrain from competitive activities against the Bank. Due to limitations mentioned above, the Bank will be obliged to pay the compensation to the member of the Management Board.

38. Related parties

Transactions with related parties

The Group is a member of Citigroup Inc. The parent company of Bank is Citibank Overseas Investments Corporation, with headquarters in New Castle, USA. Citibank Overseas Investments Corporation is a subsidiary of Citibank N.A, with headquarters in New York, USA, whereas the ultimate parent company is Citigroup Inc.

Within its normal course of business activities, the Group enters into transactions with related entities, in particular with entities of Citigroup Inc.

The transactions with related entities result from current activity of the Group, and mainly include deposits, guarantees and derivatives transactions.

Apart from the transactions described in this section, in the presented period neither the Bank nor the Bank's subsidiaries conducted any transactions with related entities, which would be individually or jointly significant. No transaction with related entities was concluded on terms other than market terms.

Transactions with Citigroup Inc. entities

The receivables and liabilities towards Citigroup Inc. companies are as follows:

PLN '000	30.06.2023	31.12.2022
Receivables	**965,005**	**718,063**
Liabilities, including:	**2,611,894**	**2,449,657**
Deposits*	195,639	559,617

PLN '000	**30.06.2023**	**31.12.2022**
Balance-sheet valuation of derivative transactions		
Assets held-for-trading	1,148,334	963,376
Liabilities held-for-trading	1,855,173	1,589,866
Contingent liabilities granted	**272,277**	**283,686**
Contingent liabilities received	**206,176**	**201,873**
Contingent derivative transactions (liabilities granted/received), including:	**116,086,266**	**76,227,497**
Interest rate instruments	40,908,526	17,824,346
Currency instruments	73,831,715	57,877,530
Securities transactions	1,124,190	40,855
Commodity transactions	221,835	484,766

**Including deposits of parent undertaking in amount of PLN 12 thousand as of 30 June 2023 (31 December 2022: PLN 12 thousand)*

PLN '000	**01.01. – 30.06. 2022**	**01.01. – 30.06. 2021**
Interest and commission income*	40,973	25,898
Interest and commission expense*	8,648	8,661
General administrative expenses	95,349	99,722
Other operating income	4,379	4,382

**Interest and commission income in amount of PLN 800 thousand for the first half of 2023 (for the first half of 2022: PLN 603 thousand) refer to parent undertaking*

The Group receives income and incurs costs on derivative transactions with entities of Citigroup Inc. in order to hedge market risk. These are back to back derivative transactions, opposite to transactions with Group's other clients and closing Bank's own position. On 30 June 2023 net balance valuation of transactions on derivatives amounted to PLN (706,839) thousand (31 December 2022: PLN (626,490) thousand).

Furthermore the Group incurs costs and receives income from agreements between Citigroup Inc. entities and the Bank, regarding the provision of mutual services.

The costs incurred and accrued (including VAT reflected in the Bank's costs) in the first half of 2023 and also in the first half of 2022, due to the concluded agreements were concerned, in particular, with costs of services regarding maintenance of the Bank's information systems and advisory support. The income was related to data processing and other services rendered by the Bank.

In the first half of 2023, capitalization of capital expenditures related to work on modifying the functionality of the Bank's IT systems took place. The total amount of payments to Citigroup Inc. entities in this respect amounted to PLN 61,445 thousand (in the first half of 2022 there was no capitalization of capital expenditures).

39. The impact of the war in Ukraine

On February 24, 2022, an unprecedented event took place – the invasion of the independent state of Ukraine by Russian troops. The outbreak of war in a country neighboring Poland has a significant impact on the economic and operational environment in which the Bank operates.

The Bank's Management Board monitors the situation of the outbreak of war in Ukraine and its direct impact on lending activities and operational risk (mainly threats in cyberspace). In the case of lending activities, the Bank does not operate in Ukraine, Russia or Belarus, and the Bank's credit exposure to companies significantly involved in these countries is insignificant.

40. Significant events after the balance sheet date

In reference to current report no. 14/2023 of Bank Handlowy w Warszawie S.A. ("the Bank") on setting the TLAC requirement for the Bank of May 26, 2023, the Management Board of the Bank announces that on August 29 2023 the Bank will file a motion to the Polish Financial Supervision Authority ("KNF") on the consent for recognition part of the net profit generated by the Bank for period from 1 January 2023 to 30 June 2023 in the Bank's Tier 1 capital on a stand alone and consolidated basis.

For this purpose, the Management Board of the Bank recommends to the Ordinary General Meeting of the Bank approving the financial statements of the Bank for 2023 to:

1. allocate the amount of at least PLN 800 million from the net profit of the Bank for 2023 to the Common Equity capital of the Bank;
2. allocate for the payment of dividend an amount not higher than the net profit of the Bank for 2023, reduced by the amount indicated in point 1, taking into account the required regulatory approvals and individual recommendation of KNF on meeting the criteria for dividend payment.

The filing of the motion to KNF on the consent for recognition part of first half of 2023 net profit in the Bank's Tier 1 capital is due to the fact that, the Bank is a resolution entity that is a part of a global systemically important institution (G-SII) in accordance with the definition contained in Art. 4 (136) of 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") and is obliged to meet TLAC requirement. In accordance with provisions of the CRR, the amount of TLAC increased by the combined buffer requirement for the Bank is 20.8%, while the Bank's Total Capital Ratio (TCR) on a consolidated level, as of the end of June 2023 was 20.3%.
In accordance with the dividend policy of the Bank, the Bank aims to allocate the majority of its profits to the payment of dividends. The Management Board will specify the amount of the dividend in the form of a separate resolution adopted after determining the amount of the Bank's net profit for the year 2023.
The part of net profit recommended by the Management Board of the Bank, which is to be allocated to the Bank's Common Equity capital was estimated taking into account the Ban's financial plans and strategy, among others, in terms of increasing capital requirements for credit and operational risk.

Additional information can be found in the Risk Management Note in the capital adequacy section.

After the balance sheet date, there were no other material events that should be additionally included in these financial statements.

Members of the Management Board

Date	Name	Position/Function
29 August 2023	Elżbieta Światopełk-Czetwertyńska	President of the Management Board
29 August 2023	Natalia Bożek	Vice-president of the Management Board
29 August 2023	Maciej Kropidłowski	Vice-president of the Management Board
29 August 2023	Barbara Sobala	Vice-president of the Management Board
29 August 2023	Andrzej Wilk	Vice-president of the Management Board
29 August 2023	Katarzyna Majewska	Vice-president of the Management Board
29 August 2023	Ivan Vrhel	Member of the Management Board