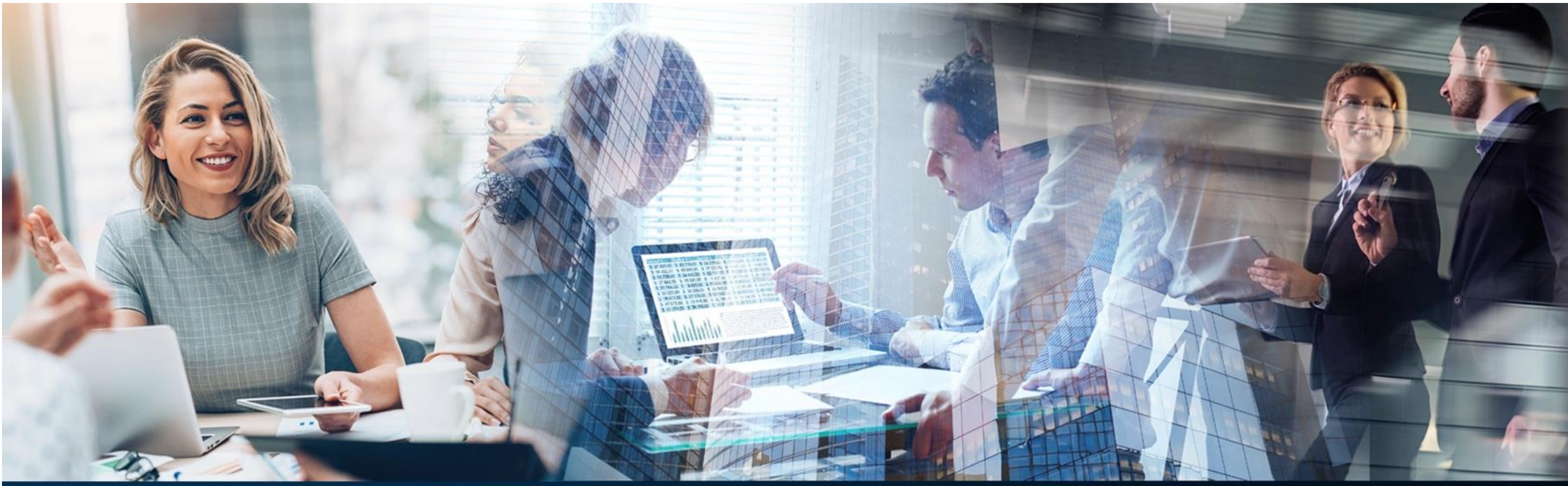

Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2023

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

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I. Introduction

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

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

In the institutional client segment, Citi Handlowy focuses on maintaining its leading position among the banks which service international corporations and the largest domestic companies. Enterprises from the SME sector (Small and Medium Enterprises) are another group of clients that are important to the Group. Acquiring new clients (including participants of the so-called "new economy" – software engineering companies) while actively expanding relations with existing clients in selected sectors as well as providing support to clients planning international expansion (the Emerging Market Champions initiative) are keys to further building the market position of Capital Group of Bank Handlowy w Warszaiwe S.A. ("Group").

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

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

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

Bank's competitive position

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

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

In consumer banking, the Bank retains its strong market position:

- in a complex offer for affluent clients (CPC, Citigold segments)
- services in Wealth Management
- on the credit card market

2. Major achievements in the first half of 2023:

Major achievements in the first half of 2023 include

- **in the Institutional Banking:**
  - Revenue increase by 30% YoY due to a higher net interest income;
  - Continuation of the increase in the activity of customers from the strategic segment – Commercial Banking, increase in the deposit balance by 35% YoY. and FX volumes by 4% YoY;
  - Bank acted as a Global Coordinator in the transaction of accelerated sale of shares combined with a capital increase in CCC S.A. worth PLN 505 million;
  - Bank was active in the primary market for debt securities by inter alia organizing the six bonds issues for the European Investment Bank (EIB) totaling PLN 2.2 billion, including bonds issued for the purposes of furthering the sustainable development goals;
  - Signing supplier financing agreements, factoring agreements, credit commitments and guarantees for the amount of PLN 490 million, i.e. increase by 36% as compared to the same period in previous year;
  - Strong increase in the Express Elixir transactions volume – 30 times more transactions of this type YoY;
  - A new version of the main transactional system for clients - CitiDirect, providing clients with greater transparency, efficiency and control.

- **in the Consumer Banking:**
  - Increase in revenues by 28% YoY due to higher net interest income;
  - Continuation of the increase in the number of FX transactions on the Citi Kantor platform by 32% YoY;

– The number of clients in the strategic area - Citi Private Client - increased by 14% YoY;
– Dynamic growth of deposits – the time deposits balance increased by 92% YoY. due to their attractive interest rates;
– Credit cards acquisition increased by 61% YoY.

- **Strong equity much above the regulatory requirement resulting from CRR Regulation**[1] – TCR of 20.3%. At the same time liquidity remains at a record-high level of 46% (Customer Loans/Customer Deposits ratio);
- **Once again the Bank demonstrated its high social responsibility** through global community day. As part of this action, 2,000 volunteers organized over 120 projects for the benefit of those in need - children, the elderly and Ukraine. In the ranking of companies that care about professional and social equality of LGBT+ people, organized by Cashless.pl, Citi received 100 out of 100 points.

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

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

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

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

In 2021, the strategic investor announced the decision to exit retail operations in 14 countries, including Poland. Until the decision on the potential sale of the Consumer Banking is made, the Strategy assumes operating of the segment in the Bank structures. The Bank is focused on tailoring Wealth Management offer to clients' needs and maintaining market leader position in credit cards as well as maintaining highest customer service quality in all channels and segments.

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

Strategy for 2022-2024 – financial goals:

	Goal	Implementation (1st half of 2023)
Client revenue compound annual growth rate including:	+9%	+13% YoY. (CAGR 1H'21 –1H'23)
institutional clients	+8%	+19%
Individual clients	+12%	+4%
Return on equity (ROE in 2024)	>12%	28.3%
Maintaining cost discipline (C/I ratio)	<50%	32%
Customer assets compound annual growth rate (% in three years)	+6%	+3% YoY
Continuation of dividend payment , subject to regulatory approvals (% of net profit)	min. 75%	75% (of net profit for 2022)

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

[1] 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").

4. Awards and honors

In the first half of 2023, the Bank and the Leopold Kronenberg Foundation at Citi Handlowy received a number of prestigious titles and awards:

- **Citi Poland among LinkedIn's 2023 Top Companies list**

Citi Handlowy and Citi Solutions Center have been named LinkedIn 2023 Top Companies, which awards companies that implement development policy and provide career-building opportunities. The list is compiled based on parameters such as the company stability, team diversity or career development opportunities for the employees.

- **Citi Handlowy with a maximum score in the ranking of financial institutions that care about professional and social equality for LGBT+ community**

In Cashless.pl's ranking of companies that care about professional and social equality for LGBT+ people, Citi Handlowy, together with the Citi Solutions Center, received the maximum score of 100 points. The ranking is a part of the Cashless for Equality project, during which surveys are sent out to dozens of companies in the financial industry. Surveys include questions about initiatives supporting the LGBT+ community, such as anti-discrimination training, additional social benefits or advertising activities.

- **Citi Handlowy among top 50 employers according to WPROST**

Citi Handlowy again ranked as one of the 50 best in WPROST employers. The financial industry is the largest group in the ranking, right after the commercial sector. According to the WPROST ranking, Citi Handlowy is one of the leaders among banks that care most about their employees. The ranking's questions concerned the stability of the employer, including the number of employees and the number of employment contracts.

- **The first place for Citi Handlowy in the "Efficiency Stars" category by Dziennik Gazeta Prawna**

In this year's edition of the "Gwiazdy Bankowości" (Stars of Banking) ranking, organized by the daily paper Dziennik Gazeta Prawna together with the consulting firm PwC, Citi Handlowy won in the "Efficiency" category. The ranking takes into account financial data for 2022 and more than a dozen detailed indicators. The jury's evaluation also influences the ranking's place.

- **City Handlowy's private banking once again recognized by the jury of the Euromoney international competition**

In the Euromoney Global Private Banking Awards 2023, the private banking offered by Citigold Private Client was awarded the title of "Best for Digital in Poland." The jury recognized the achievements in the development of the digital channel, such as the innovative Total Wealth Advisor tool and Citibank Global Wallet, as well as the security of clients and their assets.

- **Citi Handlowy among "SuperEthical Companies"**

In an annual Puls Biznesu survey of corporate operating standards, Citi Handlowy confirms its consistent adherence to the highest ethical requirements. The Bank has been regularly awarded in the competition since its beginning. The Forum of SuperEthical companies consists of organizations that have been awarded the titles of Ethical Companies for three years in a row and can boast good reputation, transparency in business operations, honesty, responsibility and market trust in day-to-day business.

- **Citi Handlowy honored with CSR White Leaf 2023 of POLITYKA weekly.**

The Bank has been awarded the CSR (Corporate Social Responsibility) White Leaf 2023 of POLITYKA weekly for its implemented ESG activities. The CSR Leaf initiative is one of the oldest on the market. Companies are evaluated in terms of environmental, social and corporate governance. Rating scores were awarded on the basis of surveys completed by companies. The surveys are devised in accordance with the standards for the basic principles of social responsibility of ISO 26000 and in relation to the European Sustainability Reporting Standards and the latest ESG trends.

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

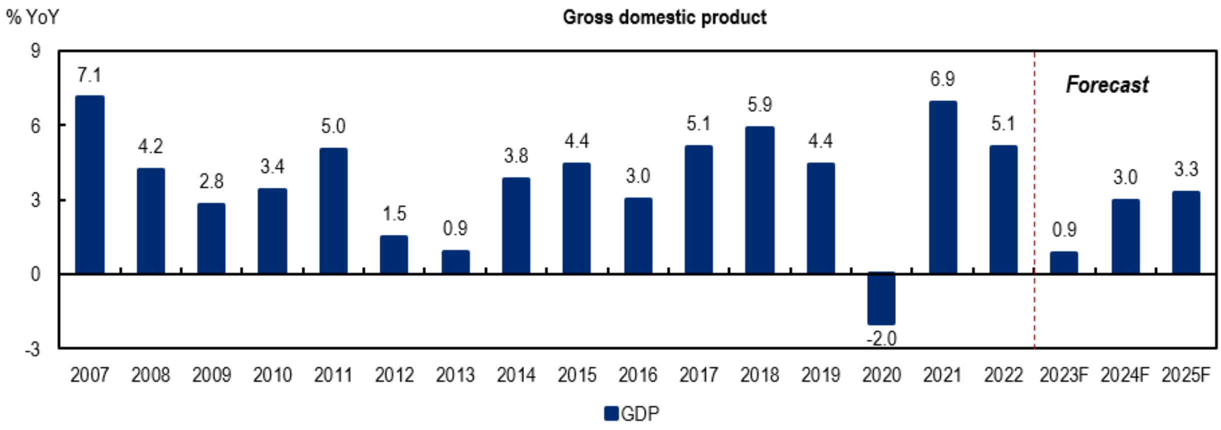
1. Macroeconomic conditions and the situation in money and foreign exchange markets

External environment

In the global economy, the first half of 2023 marked a slowdown in activity in the industrial sector, while services sector turned out to be more resilient. Services were supported by the good labor market situation, where nominal wage growth continued in the face of low unemployment. Problems in the industrial sector translated into underperformance of the German and Chinese economies compared to optimistic expectations at the beginning of the year. The German economy entered a technical recession in the first quarter of 2023 with a second consecutive decline in quarterly GDP. The pace of global economic growth has been negatively impacted by a cycle of interest rate hikes in recent months, when both the US Fed and the European Central Bank have increased the cost of money. The disinflation process and concerns about economic activity in the years ahead have initiated a discussion about the end of the monetary tightening cycle.

For 2023 as a whole, we believe global economic growth will remain below the medium-term growth rate of 3%, largely influenced by negative trends in the industrial sector. The moderation in the pace of the rebound in global growth, above all in China, and the clear deterioration in sentiment in Germany evident in surveys, remain risk factors. Both countries largely base their growth on the industrial sector, where new orders are limited. Citi forecasts that GDP growth in Germany will be negative throughout 2023.

Gross Domestic Product

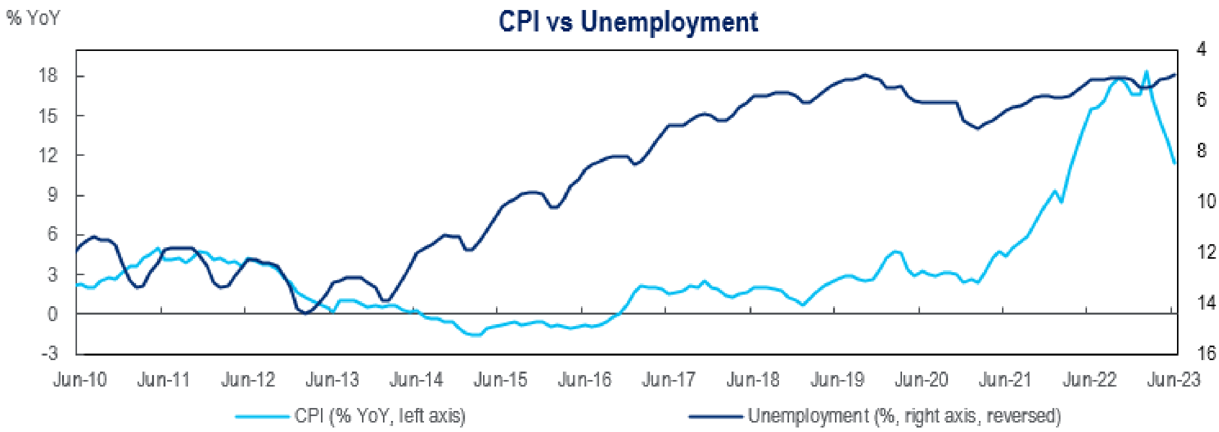


Source: Chief Statistical Office, Citi Handlowy forecasts

Poland's GDP decreased by 0.3% in the first quarter 2023 as compared to the same quarter of the previous year, and according to the flash estimate presented by the Chief Statistical Office also in the second quarter of this year there have been a year-on-year decline in GDP, which was 0.5% YoY. The first half of this year was marked by relatively weak consumer demand, caused by the real decline in income. Investments have a positive impact on GDP growth, fostered by the fact that until the end of this year Poland can apply for EU funds from the previous financial perspective. The lack of a stronger slowdown in the domestic economy was also due to the surplus of exports over imports together with a decline in commodity prices.

The Group expects a more pronounced rebound in economic growth in Poland to occur in the second half of 2023, with domestic demand supported by higher dynamics of wage than inflation. Monthly indicators for retail sales and industrial production show that an economic slump is likely to have been reached in the first half of 2023, with subsequent periods showing gradual improvement. Throughout 2023, Polish GDP growth could be close to 1%.

Inflation



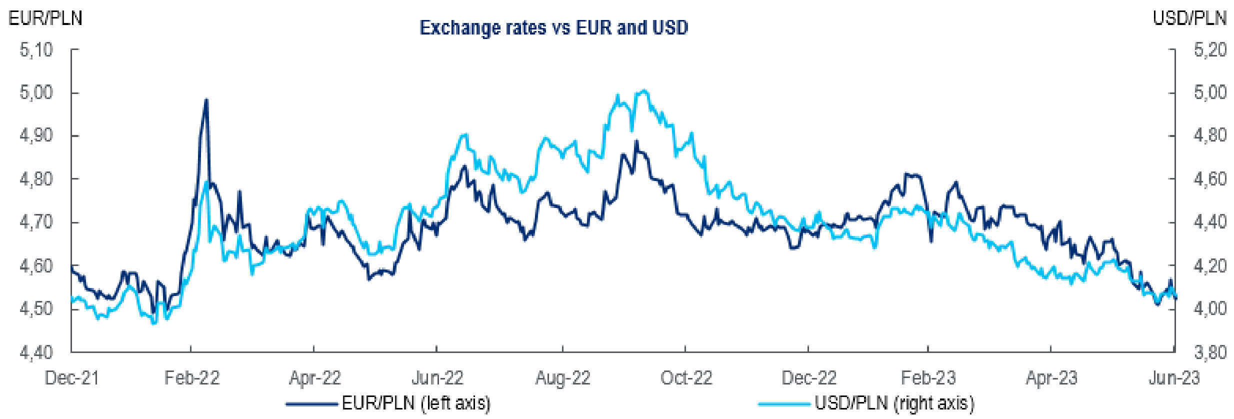
Source: NBP, Chief Statistical Office, Citi Handlowy

Prices of consumer goods and services in the first half of 2023 rose, on average, by 15.0% YoY as compared to 11.8% in the prior year period. The main contributors to higher inflation were food and core inflation. From the second quarter of 2023 onwards, the effect of last year's high fuel base price was noticeable, contributing to the decline in inflation from its February peak of 18.4% YoY. The CPI index reached a pace of 11.5% YoY in June. In the following months, the Group expects inflation to decrease further, below 10% YoY in the third and fourth quarter of 2023. Core inflation is also forecast to decline to single digits this year.

The Monetary Policy Council raised rates for the last time in September 2022, bringing the reference rate to 6.75%. Despite inflation well above the NBP's target (2.5% with +/- 1 pp. allowed for deviations), the MPC kept interest rates unchanged in the first half of 2023. The monetary authorities have also indicated that cycle of interest rate cuts is likely to start in the coming months, provided that inflation falls below 10% and the NBP's forecasts point to a further reduction in CPI growth. The Group's forecasts assume that this year, the MPC will cut the benchmark rate by a total of 50 bps to 6.25%.

2. Money and foreign exchange markets

Exchange rates



Source: Reuters, Citi Handlowy

In the first half of 2023, the zloty appreciated 5.6% against the euro and 7.3% against the dollar. The Polish currency was positively influenced by an improvement in the current account balance, as well as the inflow of new foreign direct investments. The zloty gained in the face of a favorable environment for risk assets, allowing the Polish currency to recover from the last year's losses caused by the outbreak of war in Ukraine. Emerging market currencies, including zloty, were positively impacted by the weakening of the US dollar. The EUR/PLN rate decreased from 4.69 as at the end of 2022 to 4.43 as at the end of June 2023 and the USD/PLN decreased from 4.38 to 4.06 in the same period.

Monetary market rates decreased in the first half of 2023 as expectations of NBP interest rate cuts increased. The WIBOR 3M rate was 6.90% at the end of June, as compared to 7.02% at the end of 2022. The prospect of likely NBP interest rate cuts affected more the short end of the swap curve and the bond yield curve, which became steeper as a result. In the first half of 2023, the yield of 2-year bonds decreased by 110 bps, to 5.78% as at the end of June 2023 from 6.88% as at the end of 2022. The yield of 10-year bonds declined by 88 bps, to 5.85% as at the end of June 2023 from 6.73% as at the end of 2022.

3. Capital market

The first half of 2023 marked dynamic increases in the world's stock markets. Despite the on-going concerns about the global economy, stock market has improved due to the delayed post-recession situation. The risk aversion related to Russia's invasion of Ukraine and the energy crisis have declined thanks to the mild winter. After the initial destabilization of the global commodities market due to the prominent position of both countries, new supply chains were established and the impact of the conflict on the global economy was neutralized. We could also see an improvement in the performance of most companies.

Given such an environment, the indices in the domestic equity market recorded a dynamic increases. WIG, the main market index, appreciated 25.6% as compared to the first half of 2022. The WIG-PL index showed the highest increases, at 26.0% YoY. A smaller increase was recorded by sWIG80, an index of small-cap companies (+25.6% YoY). The blue-chip WIG-20 index recorded an increase of 21.5% YoY. The lowest increases were noted on the mWIG40 comprising mid-cap companies (+19.2% YoY).

By sector, most indices showed an increase relative to the first half of 2022. Among them, the highest percentage change marked: WIG-Gaming (+50.6% YoY), WIG-Banks (+45.9% YoY), WIG-Construction (+43.0% YoY) and WIG-Clothing (+43.0% YoY). On the other hand, only four sub-indices recorded a decline in their quotations: WIG-Energy, WIG-Mining, WIG-Chemicals and WIG-Fuels, which lost 23.5% 8.2%, 3.5% and 1.7% respectively compared to the end of the first half of 2022.

A clear improvement in market sentiment was reflected in the activity in the IPO market. Since the beginning of 2023, the shares of seven entities have been introduced to trading on the WSE's main trading floor as part of a transfer from the New Connect market and an additional issue, worth approximately PLN 40 million, has been floated for two of them. By comparison, there were two IPOs on the WSE in the same period last year. Additionally, there were seven de-listings during the first half of 2023. In consequence, as at the end of June 2023, the number of companies listed on the WSE remained unchanged at 415 (including 43 foreign ones), whereas the total market value of all entities listed on the main floor amounted to PLN 1,322 billion (increase by 18.7% YTD and by 21.0% YoY).

Warsaw Stock Exchange (WSE) Equity Indices as of June 30, 2023

Index	30.06.2023 (1)	31.12.2022(2)	Change (%) (1)/(2)	30.06.2022 (3)	Change (%) (1)/(3)
WIG	67,283.22	57,462.68	17.1%	53,573.42	25.6%
WIG-PL	69,234.30	58,864.46	17.6%	54,965.35	26.0%
WIG-div	1,332.21	1,088.23	22.4%	1,072.12	24.3%
WIG20	2,060.38	1,792.01	15.0%	1,695.97	21.5%
WIG20TR	3,988.76	3,465.54	15.1%	3,188.01	25.1%
WIG30	2,534.38	2,187.63	15.9%	2,082.70	21.7%
mWIG40	4,852.03	4,154.32	16.8%	4,069.37	19.2%
sWIG80	21,701.30	17,496.16	24.0%	17,284.34	25.6%
Sector sub-indices					
WIG-Banks	7,961.79	6,251.97	27.3%	5,455.75	45.9%
WIG-Construction	5,257.04	4,081.96	28.8%	3,676.19	43.0%
WIG-Chemicals	10,777.16	10,887.39	(1.0%)	11,171.69	(3.5%)
WIG- Energy	2,328.51	2,108.92	10.4%	3,045.44	(23.5%)
WIG-Games	19,730.02	16,816.67	17.3%	13,099.50	50.6%
WIG- Mining	3,976.05	4,612.64	(13.8%)	4,330.91	(8.2%)
WIG-IT	4,573.17	3,974.54	15.1%	4,029.15	13.5%
WIG-Medicines	2,920.65	2,923.20	(0.1%)	2,745.32	6.4%
WIG-Media	7,451.67	6,032.39	23.5%	6,584.57	13.2%
WIG-Motorisation	8,304.87	6,485.02	28.1%	5,854.32	41.9%
WIG- Developers	3,461.44	2,624.35	31.9%	2,549.24	35.8%
WIG-Clothing	7,454.96	5,889.48	26.6%	5,214.10	43.0%
WIG- Fuel	6,075.77	6,010.43	1.1%	6,180.50	(1.7%)
WIG- Food	2,152.65	2,016.48	6.8%	2,125.36	1.3%

Source: WSE, Brokerage Department of Bank Handlowy

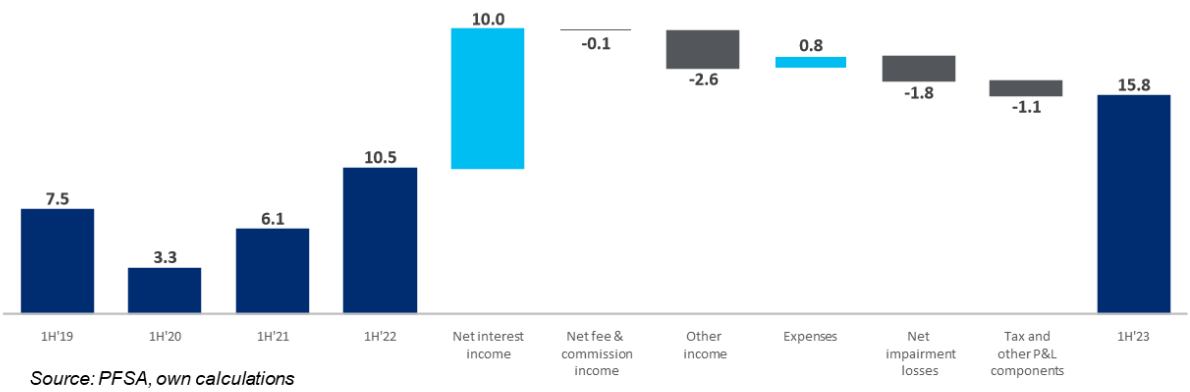
Equity, bond and derivatives trading volumes on WSE in the first half of 2023

	1st half of 2023 (1)	2nd half of 2022 (2)	Change (%) (1)/(2)	1st half of 2022 (3)	Change (%) (1)/(3)
Equity (PLN million)*	278,323	254,546	9.3%	331,676	(16.1%)
Bonds (PLN million)	4,341	4,523	(4.0%)	7,280	(40.4%)
Futures (‘000 contracts)	14,731	15,939	(7.6%)	14,621	0.8%
Options (‘000 contracts)	312	271	15.1%	358	(12.8%)

** figures excluding calls*
Source: WSE, Brokerage Department of Bank Handlowy

4. Banking sector

Net profit of the banking sector (PLN billion)



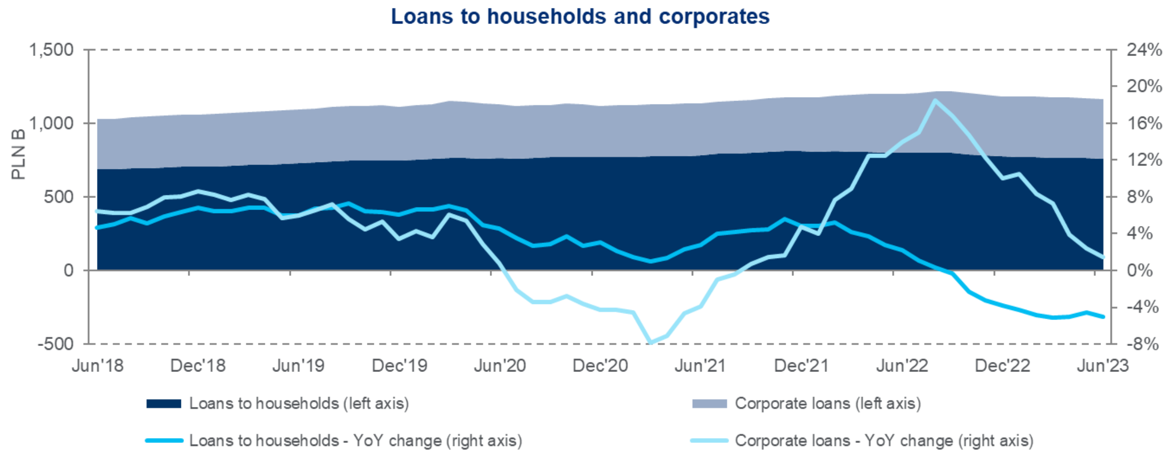
Source: PFSA, own calculations

Financial results

According to the data published by the Polish Financial Supervision Authority, in the first half of 2023 the banking sector generated a net profit of almost PLN 15.8 billion, up by 50.3% YoY (PLN 5.3 billion) compared to the corresponding period of the previous year. Still growing interest income was the main factor influencing the improvement of banks' results (increase by 66.6% YoY), despite the almost three times higher dynamics of interest costs (increase by 184.8% YoY). In total, net interest income increased by 26.8% YoY, i.e. PLN 10.0 billion, exceeding the level of PLN 47.4 billion. On the side of fee and commission income, there was only a slight decrease (1.3% YoY, PLN 125 million) to PLN 9.3 billion. On the other hand, in the category of other income, a loss of PLN 2.0 billion was recorded (PLN 0.7 billion in the first half of 2022). As a result, total revenues reached a record level of PLN 54.8 billion (+15.3% YoY, PLN 7.3 billion).

At the same time, the banking sector recorded a decrease in administrative expenses by 4.5% YoY, PLN 1.0 billion to PLN 20.2 billion, mainly due to significantly lower contributions to the BFG (including a zero contribution to the banks' guarantee fund). On the other hand, the growing staff expenses (increase by 20% YoY) were a significant burden for the banks. There was also an increase in depreciation costs (4.6% YoY, PLN 106 million) to PLN 2.4 billion. As a result, thanks to the much higher dynamics of revenues than costs, the banking sector was able to significantly improve the effectiveness measured by the cost to income ratio, to the level of 47% (compared to 51% in the first half of 2022).

The sector's results were strongly negatively affected by a significant increase in the costs of provisions related to the negative judgment of the CJEU for banks regarding mortgage loans in the Swiss franc. Total impairment and provisions amounted to PLN 7.9 billion, an increase of 28.8% YoY (PLN 1.8 billion). On the other hand, weak lending and a change in the structure of the sector's assets translated into a slightly lower bank tax amounting to PLN 2.6 billion (down 2.4% YoY, PLN 64 million), while income tax increased by 28.0% YoY, PLN 1.4 billion to PLN 6.5 billion.



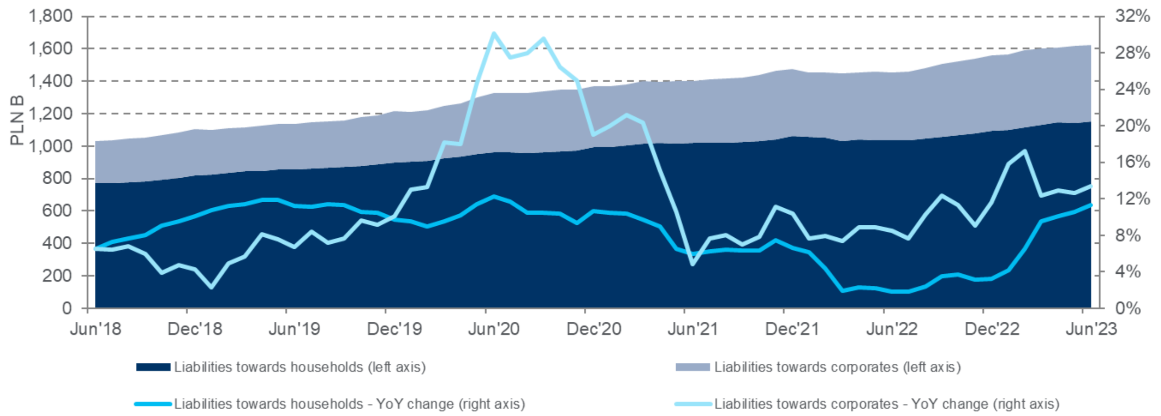
Source: NBP, own calculations

In the first half of 2023, the volume of loans to the non-financial sector decreased by 2.7% YoY (PLN 37 billion) to a level of PLN 1,299 billion, while still at the end of 2022 the dynamics of these loans was +1.5% YoY, (PLN 19 billion). The most significant influence on the above trend was exerted by the volume of loans to households, which fell by 5.0% YoY, PLN 40 billion, in June 2023, mainly due to a significantly lower level of home loans (-6.0% YoY, PLN 31 billion) compared to the previous year. In this category, foreign currency loans stood out negatively (-17.9% YoY, PLN 19 billion), which cannot be fully explained by the appreciation of the zloty, but above all by strong repayment/conversion and write-offs, with no new loans. The share of foreign currency loans in the housing loan portfolio of Polish banks has reduced to just 18%. Meanwhile, the volume of PLN loans also declined (-2.9% YoY, PLN 12 billion) to PLN 391 billion. Negative volume dynamics also affected all other household loan categories, with investment loans declining the most (-17.7% YoY, PLN 4 billion). The volume of current account loans to sole traders and individual farmers decreased by 5.9% YoY, PLN 3 billion, while the volume of consumer loans proved the most resilient to decreases resulting from persistently high interest rates (-0.6% YoY, PLN 1 billion). The data on the structure of timely receivables from households basically confirm the trends described above. The biggest downturn was observed in loans with long maturities (over 5 years) reaching -5.8% YoY, PLN 40 billion. The volume of short-term loans (up to 1 year) decreased by 3.2% YoY, i.e. PLN 1 billion. Some deviation from the rule is a slight increase in loans granted for a period of 1 to 5 years amounting to +1.4% YoY, PLN 1 billion. In total, the volume of loans to households was slightly above PLN 760 billion.

The situation was the opposite for the non-financial corporates, whose volumes, although down by 1.8% on a quarterly basis, maintained a positive growth rate of +1.5% YoY, PLN 6 billion) and that mainly resulted from investment loans (+3.6% YoY, PLN 5 billion), while the volume of current and real estate loans remained almost unchanged (respectively: +0.4% YoY, PLN 1 billion, and -0,1% YoY, PLN 82 million). In terms of term structure, increases were recorded mainly in the categories of short-term loans (+2.4% YoY, PLN 2 billion) and medium-term loans (+2.0% YoY, PLN 2 billion), while the volume of long-term loans decreased by 0.8% YoY, PLN 1 billion. However, it is worth noting the huge disparity between PLN and foreign currency loans (respectively: -1.4% YoY and +8.6% YoY). In total, the volume of loans granted by the Polish banking sector to non-financial companies reached almost PLN 406 billion at the end of the first half of 2023.

Data on the quality of the credit portfolio from the end of June 2023 suggest that, despite concerns, interest rate increases did not have a negative impact on customers' ability to service their debts. NPL ratio with a delay over 90 days (stage 3) remains at the level of 5.2%. An improvement was recorded in the portfolio of corporate loans (-0.4 p.p. YoY to 6.2%). Great attention should be paid in particular to the improvement in the timely servicing of small and medium-sized enterprises (SME) loans, where the share of loans with delays in repayment decreased by 0.6 p.p. YoY to the level of 9.2%. On the side of household loans, a slight deterioration in the quality of the portfolio was recorded (+0.1 p.p. YoY to 5.2%), but it should be borne in mind that this was only due to mortgage loans in foreign currencies, especially in Swiss franc. In other loan categories, an improvement in the timeliness of servicing was observed, with the share of stage 3 loans falling by as much as 0.7 p.p. in the case of consumer loans. YoY, to the level of 8.6%. What is worrying, however, is the consistent increase in the share of stage 2 (delays from 30 to 90 days), especially since it takes place both in the consumer and corporate segments. The share of such loans at the end of June was 10.2%, i.e. +0.7 p.p. YoY.

Households and corporates deposits



Source: NBP, own calculations

In contrast to loans, the banking sector saw the accelerated growth of volume of deposits from +6.0% YoY (PLN 103 billion) at the end of 2022 to +8.2% YoY (PLN 145 billion) at the end of the first half of 2023. The main contributor to the above trend was the increase in the rate of deposit inflows from households to +11.3% YoY, PLN 117 billion, i.e. to nearly PLN 1,153 billion. Under the influence of high interest rates, the term structure of deposits also significantly changed – the volume of current deposits in the retail sector recorded a decrease of 3.9% YoY, PLN 32 billion, while the volume of term deposits increased by 67.5% YoY, PLN 149 billion, which mainly concerns deposits with a maturity of up to 2 years (+75.1% YoY, PLN 148 billion). The share of term deposits increased during the year from 21% at the end of June 2022 to 32% at the end of June 2023.

Banks in Poland have also marked very similar trends in the corporate segment. The volume of deposits of non-financial companies rose by 13.4% YoY, PLN 56 billion to PLN 471 billion but the volume of current deposits declined by 1.8% YoY, PLN 6 billion, while the volume of term deposits increased by 59.5% YoY, PLN 61 billion.

The home loan support program introduced in July should translate into a recovery on the mortgage market, especially as borrowers' interest in new loans has already started increasing in view of the market's belief that further rate rises are unlikely and the first cuts by the MPC may occur any time now. However, a similar animation in the market is unlikely in other areas of lending, particularly business lending, as macroeconomic situation remains uncertain, while the prospect of an influx of EU funds to support investment is creeping away. In the liabilities area, further customer-oriented efforts to protect their funds from inflation can be expected, which should further boost the inflow of funds into term accounts at banks, given the high risk aversion.

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

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

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

Trends in the Polish and global economy in 2023

A significant risk factor in 2023 remains the further development of the war between Russia and Ukraine. A potential escalation of hostilities could again lead to higher commodity prices, as well as increased aversion to risky assets.

Weak performance of the global industry also raises the risk of hindering GDP growth among Poland's main trading partners, which could result in an increase in new orders for the Bank's customers.

Communication from central banks in developed economies points to the imminent end of the interest rate hike cycle. However, if the downward trend in inflation weakens, central banks could end up raising interest rates more than the financial markets expect. Such scenario coming true and returning to monetary tightening would have a negative impact on global economic growth.

Uncertainty about the timing and scale of the inflow of funds from the EU Recovery Fund remains a national risk factor. The overrunning lack of access to NRP funding could cause a decline in local government investment and exacerbate the downturn in the construction industry. The parliamentary election scheduled for the second half of this year may further contribute to a loosening of fiscal policy and an increase this and subsequent year.

Legal and regulatory risks

- The Bank is carefully following the changes of the legal environment arising out of the courts' case law regarding mortgage loans indexed to foreign currencies, including the judgment of the Court of Justice of the European Union (CJEU), case no. C 260/18, of 3 October 2019. The Bank has identified a number of doubts as regards interpretation of the above-mentioned judgment. Despite the still unresolved issues, as at the day of these report on activities, 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, shared, as to the principle, the opinion of the Advocate General of 16 February 2023 and ruled that only the consumer can claim additional benefits following the cancellation of a franking credit agreement. The bank can only claim repayment of the principal of the loan plus statutory interest for late payment and cannot claim compensation from the customer for the non-contractual use of the principal. It was concluded that the Directive 93/13 does not directly regulate the consequences of the invalidity of a contract between a trader and a consumer after the removal of unfair terms and conditions. It is for the Member States to determine the consequence of such conclusion, whereby the provisions they lay down in this regard must comply with the EU law and, in particular, with the objectives of that Directive. It will be for the national courts to determine, in the light of all circumstances of the dispute, whether it is compliant with the principle of proportionality to grant that kind of consumer claim.

  When estimating the risk resulting from court litigations regarding indexation clauses in mortgage loan agreements, Bank Handlowy w Warszawie S.A. invariably 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 it's assumptions following the CJEU judgment.

  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 consolidated statement of financial position under item: Provisions.

  As at June 30, 2023, the number of pending cases relating to a CHF-indexed loan in which the Bank was sued is 58 cases 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 period in which the Consumer Loan Act was in force.

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

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

  After the decision was issued, the President of the UOKiK asked the Bank to provide explanations regarding the method of reimbursement by the Bank of a proportional part of the commission in the event that the consumer takes another loan at 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.

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

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

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

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method
Bank Handlowy w Warszawie S.A.	Banking	parent	-	-
Handlowy Financial Services Sp. z o.o. (former Dom Maklerski Banku Handlowego S.A.)*	Investing activity	subsidiary	100.00%	full consolidation
Handlowy - Leasing Sp. z o.o.	Leasing activities	subsidiary	100.00%**	full consolidation
Handlowy Investments S.A.	Investing activity	subsidiary	100.00%	full consolidation
Handlowy - Inwestycje Sp. z o.o.	Investing activity	subsidiary	100.00%	full consolidation

** 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 Registry Court entered the transformation of the company Dom Maklerski Banku Handlowego S.A. into the National Court Register. After the transformation, the company is named HANDLOWY FINANCIAL SERVICES Spółka z ograniczoną odpowiedzialnością.*
***Including indirect participations*

In the first half of 2023 there was no change in the structure of Group's entities comparing to the end of 2022.

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

1. Summary financial data of the Group

PLN million	30 Jun 2023	31 Dec 2022
Total assets	71,583	69,801
Total equity	8,356	7,960
Amounts due from customers*	22,794	21,621
Customer deposits*	49,840	48,795
Net profit**	1,215	782
Total capital ratio	20.3%	19.0%

** Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.*
*** Net profit for the first half of adequately 2023 and 2022.*

2. Financial result of the Group for the first half of 2023

The following financial results are presented on the basis of the abridged semi-annual financial statement of the Group for the period of the first 6 months of the year ended June 30, 2023.

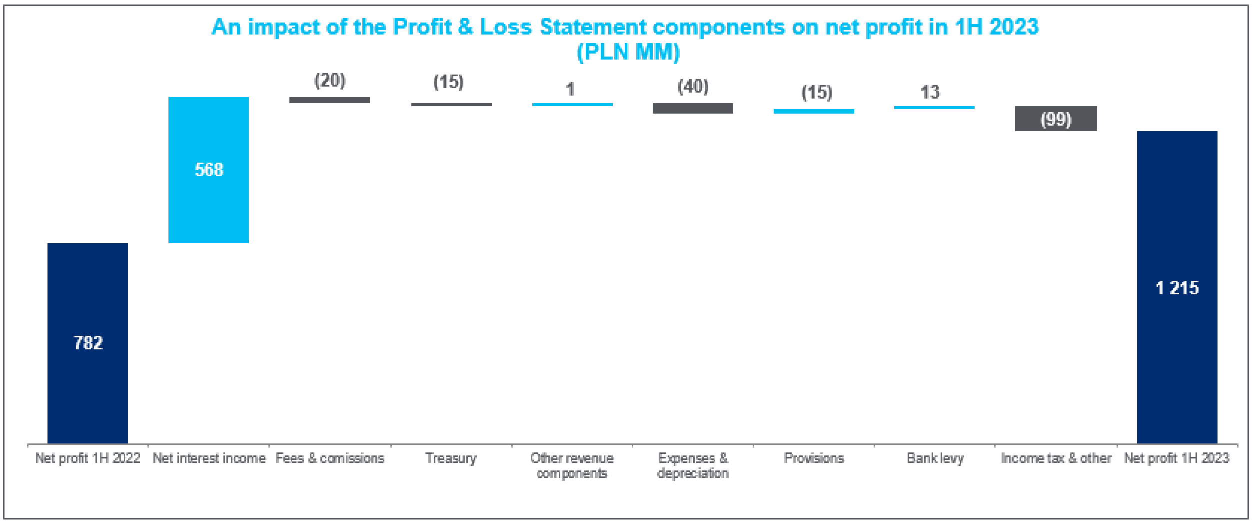
2.1 Income statement

In the first half of 2023 the Group delivered a consolidated net profit of PLN 1,215.3 million compared to PLN 782.3 million in the first half of 2022 (increase by PLN 433,0 million, i.e. 55.3%), due to higher interest income, realized mainly in the area of treasury activity as a result of persistent in the first half of 2023, higher interest rates compared to the same period of the last year.

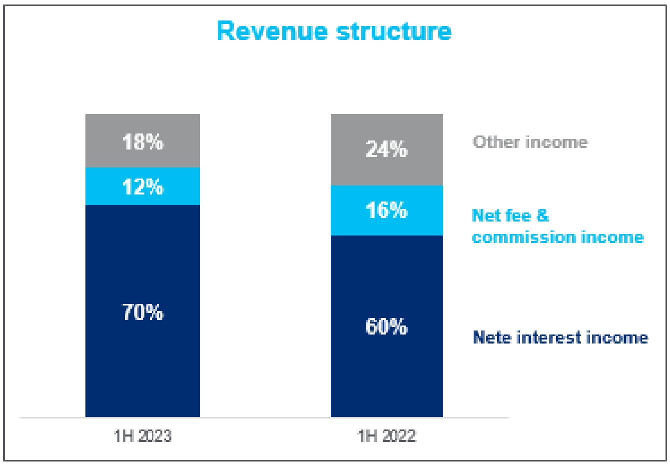
Selected income statement items

PLN'000	1st half of 2023	1st half of 2022	Change PLN'000	Change %
Net interest income	1,679,242	1,111,692	567,550	51.1%
Net fee and commission income	282,714	302,692	(19,978)	(6.6%)
Dividend income	9,773	9,451	322	3.4%
Net income on trading financial instruments and revaluation	415,432	462,527	(47,095)	(10.2%)
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	(3,923)	(35,762)	31,839	(89.0%)
Net gain/(loss) on equity and other instruments measured at fair value through income statement	15,474	3,534	11,940	337.9%
Net gain/loss on hedge accounting	(5,023)	(1,722)	(3,301)	191.7%
Net other operating income	(1,287)	(4,409)	3,122	(70.8%)
Total income	**2,392,402**	**1,848,003**	**544,399**	**29.5%**
General administrative expenses and depreciation:	(754,968)	(714,750)	(40,218)	5.6%
General administrative expenses	(700,862)	(662,518)	(38,344)	5.8%
Depreciation and amortization	(54,106)	(52,232)	(1,874)	3.6%
Profit on sale of non-financial assets	(78)	3,028	(3,106)	(102.6%)
Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments	(6,150)	(21,007)	14,857	(70.7%)
Tax on some financial institutions	(91,584)	(104,464)	12,880	(12.3%)
Profit before tax	**1,539,622**	**1,010,810**	**528,812**	**52.3%**
Income tax expense	(324,332)	(228,477)	(95,855)	42.0%
Net profit	**1,215,290**	**782,333**	**432,957**	**55.3%**

2.1.1 Revenues



Net interest income accounted for 70% of the Group's total revenues in the first half of 2023. It amounted to PLN 1.7 billion, which means a significant increase by PLN 567.6 million (or 51.1%) compared to the same period of the previous year (i.e. PLN 1.1 billion) due to persistently high interest rates.



Interest income in the first half of 2023 increased by PLN 1,011.3 million (or 80.3%) compared to the same period of the previous year to PLN 2,270.7 million.

The largest nominal increase by PLN 546.7 million (i.e. 120.1%) as compared to the first half of 2022 was recorded by interest income on debt investment financial assets which amounted to PLN 1,002.0 million, mainly due to higher yields on debt securities held by the Bank.

Another significant factor in the increase in interest income was higher interest income from amounts due from customers, which amounted to PLN 921.5 million at the end of the first half of 2023 and were higher by PLN 287.7 million (i.e. 45.4%) comparing to the first half of 2022. The loan margin increased from 5.61% in the first half of 2022 to 8.14% in the first half of 2023.

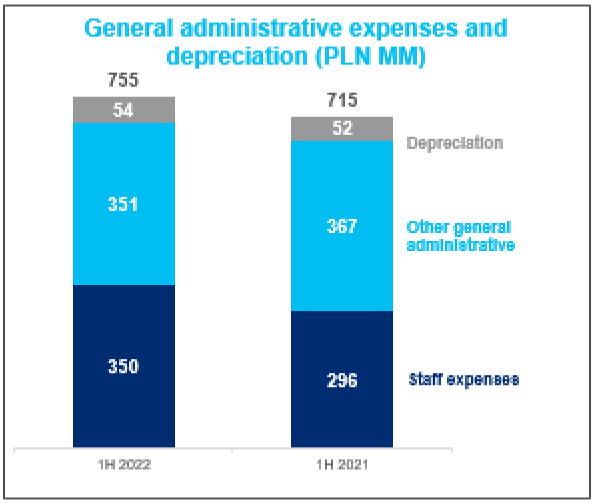
In turn, the Group's interest expenses were significantly higher by PLN 443.8 million in the first half of 2023 compared to the first half of 2022 and amounted to PLN 591.5 million. An increase in interest expenses concerned mainly clients deposits (up by PLN 364.6 million) due to higher interest rates and an increase in the volume of time deposits both from institutional clients and individual clients in the total deposit structure.

Net fee and commission income in the first half of 2023 amounted to PLN 282.7 million compared to PLN 302.7 million in the corresponding period of 2022 – down by PLN 20.0 million (or 6.6%) due to weaker income from activities related to capital markets, as a result of which the highest nominal decrease was recorded in revenues from custody activities by PLN 8.9 million (or 13.2% YoY). At the same time revenues from maintaining bank accounts decreased by PLN 4.9 million (i.e. 7.6% YoY), revenues from credit activity decreased by PLN 3.4 million (i.e. 11.7% YoY) and also the revenues from insurance and investment products distribution decreased by PLN 3.4 million (i.e. 13.7% YoY), due to lower sales of this products. On the other hand, the Bank observed an increase in revenues from the payment services - an increase of PLN 3.2 million YoY (i.e. 6.2%) due to the increased activity of institutional clients in the area of transactional banking.

Fee and commission expenses in the first half of 2023 amounted to PLN 52.1 million, up by PLN 2.3 million YoY (i.e. 4.5%). This increase mainly concerned the area of payment and credit cards.

Other operating income (i.e. non-interest and non-commission income) in the amount of PLN 430.5 million compared to PLN 433.6 million in the first half of 2022 - a decrease by PLN 3.2 million (or 0.7% YoY). The decrease relates to net income on trading financial instruments and revaluation (drop by PLN 47.1 million or 10.2% YoY) as a result of a weaker result on debt securities, partly offset by a higher result on equity investments due to a higher valuation of shares held by the Bank in other entities.

2.1.2 Expenses



In the first half of 2023 the Group's general administrative and depreciation expenses amounted to PLN 755.0 million vs. PLN 714.8 million in the corresponding period of the previous year, up by PLN 40.2 million (or 5.6%).

An increase was generally due to increase in staff expenses (remuneration costs increased by PLN 34.9 million, i.e. 15.7% YoY) and an increase in telecommunication fees and hardware purchase costs (increase by PLN 8.8 million, i.e. 7.9% YoY) offset by a decrease in the regulatory cost (lower contribution to the banking restructuring fund under the Bank Guarantee Fund of PLN 73.8 million in the first quarter of 2023 compared to PLN 104.7 million in the previous year).

Employment within the Group

FTEs	1st half of 2023	1st half of 2022	Change	
			FTEs	%
Average no. of jobs in the period	2,947	2,902	45	1.6%
No. of jobs at the end of the period	2,969	2,893	74	2.6%

In the first half of 2023, average employment in the Group amounted to 2,947 FTEs, i.e. increased by 1.6% compared to the first half of 2022. As at June 30, 2023, employment in the Group amounted to 2,969 FTEs, of which 1,547 in Consumer Banking, 667 in Institutional Banking and 755 in support units. As compared with the same period last year, the number of FTEs at the end of the period increased by 74 (i.e. 2.6%).

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

Net impairment and provisions

PLN'000	1st half of		Change	
	2023	2022	PLN'000	%
Net impairment allowances for receivables, including	(20,829)	(18,476)	(2,353)	12.7%
Net impairment allowances for financial assets – Stage 1	24,216	21,542	2,674	12.4%
Net impairment allowances for financial assets – Stage 2	(18,627)	(30,098)	11,471	(38.1%)
Net impairment allowances for financial assets – Stage 3	(27,863)	(9,920)	(17,943)	180.9%
Net impairment allowances for financial assets – Purchased or originated credit-impaired loans (POCI)	1,445	-	-	-
Net provisions for granted financial and guarantee commitments	11,584	(71)	11,655	-
Net impairment allowances for debt investment financial assets measured at fair value through other comprehensive income	3,095	(2,460)	5,555	(225.8%)
Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments	**(6,150)**	**(21,007)**	**14,857**	**(70.7%)**

Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments amounted to PLN 6.1 million (negative impact) in the first half of 2023 compared to PLN 21,0 million (negative impact) in the first half of 2022. The highest nominal change in the amount of provision for expected credit losses was recorded in the Institutional Banking segment (improvement by PLN 39.6 million YoY) due to improved outlook for the macroeconomic situation. The increase mentioned above in provisions for expected credit losses in Institutional Banking was partly offset by their decrease in the Consumer Banking segment (deterioration by PLN 24.8 million YoY).

2.1.4 Tax on certain financial institutions

The total charge to the income statement of Bank Handlowy w Warszawie S.A. Capital Group due to the tax on certain financial institutions for the first half of 2023 amounted to PLN 91.6 million compared to PLN 104.5 million in the first half of 2022, primarily due to the structure of the Bank's debt securities portfolio and the lower loan portfolio.

2.1.5 Ratio analysis

Selected financial ratios

	1st half of 2023	1st half of 2022
Return on equity (ROE) *	28.3%	14.8%
Return on assets (ROA) **	2.8%	1.6%
Cost/Income (C/I)	32%	39%
Loans/Deposits	46%	51%
Loans/Total assets	32%	32%
Net interest income to total revenue	70%	60%
Net fee and commission income to total revenue	12%	16%

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

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

2.2 Consolidated statement of financial position

As of June 30, 2023, total assets of the Group stood at PLN 71.6 billion, up by 1.8% (or 2.6%) compared to the end of 2022.

In terms of assets, the biggest nominal changes in the balance sheet took place in two lines: **debt investment financial assets** and **amounts due from banks**, whose balance increased by PLN 9.5 billion (i.e. 910.3%) as compared to the end of 2022 mainly due to the increase in the volume of receivables from reverse repo transactions. The debt investment financial assets balance decreased by PLN 10.1 billion (or 27.2%) compared to the end of 2022 as a result of lower volume of NBP money bills. At the same time, debt investment financial assets had the largest share in the structure of the Group's assets at the end of June 2023. Their share in total assets was 37.8%.

In turn, the second largest share in the structure of the Group's assets at the end of June 2023 was amounts due from customers, their share in total assets was 31.8%. The value of amounts due from customers at the end of June 2023 amounted to PLN 22.8 billion and was higher by PLN 1.2 billion (i.e. 5.4%) compared to the end of 2022 thanks to the higher volume of reverse repo transactions. Excluding these transactions, the loan volume decreased by PLN 1.4 billion (or 6.2%), mainly in the Institutional Banking segment due to lower demand for short-term financing reported by customers and the repayment of individual loans.

Consolidated statement of financial position

PLN'000	As of		Change	
	30 Jun 2023	31 Dec 2022	PLN'000	%
ASSETS				
Cash and balances with the Central Bank	2,576,498	595,969	1,980,529	332.3%
Amounts due from banks	10,546,967	1,043,968	9,502,999	910.3%
Financial assets held-for-trading	6,194,357	7,029,163	(834,806)	(11.9%)
Hedging derivatives	-	623	(623)	(100.0%)
Debt financial assets measured at fair value through other comprehensive income	27,072,579	37,180,808	(10,108,229)	(27.2%)
Equity and other investments measured at fair value though the income statement	121,619	106,144	15,475	14.6%
Amounts due from customers	22,793,666	21,620,507	1,173,159	5.4%
Tangible fixed assets	475,848	455,418	20,430	4.5%
Intangible assets	1,262,220	1,263,863	(1,643)	(0.1%)
Deferred tax asset	230,547	287,368	(56,821)	(19.8%)
Other assets	308,224	217,571	90,653	41.7%
Total assets	**71,582,525**	**69,801,402**	**1,781,123**	**2.6%**
LIABILITIES				
Amounts due to banks	3,300,275	4,794,671	(1,494,396)	(31.2%)
Financial liabilities held-for-trading	4,622,605	4,896,099	(273,494)	(5.6%)
Derivative hedging instruments	71,319	6,917	64,402	931.1%
Amounts due to customers	52,066,886	50,512,860	1,554,026	3.1%
Provisions	101,767	112,507	(10,740)	(9.5%)
Current income tax liabilities	287,430	245,937	41,493	16.9%
Deferred tax provision	132	165	(33)	(20.0%)
Other liabilities	2,776,568	1,272,001	1,504,567	118.3%
Total liabilities	**63,226,982**	**61,841,157**	**1,385,825**	**2.2%**
EQUITY				
Ordinary shares	522,638	522,638	-	-
Share premium	3,001,260	3,001,259	1	-
Revaluation reserve	(213,124)	(573,528)	360,404	(62.8%)
Other reserves	3,199,204	2,833,345	365,859	12.9%
Retained earnings	1,845,565	2,176,531	(330,966)	(15.2%)
Total equity	**8,355,543**	**7,960,245**	**395,298**	**5.0%**
Liabilities and equity	**71,582,525**	**69,801,402**	**1,781,123**	**2.6%**

2.2.1 Assets

Customer net receivables

PLN '000	As of		Change	
	30 Jun 2023	31 Dec 2022	PLN '000	%
Receivables from financial sector entities	**6,335,088**	**3,810,512**	**2,524,576**	**66.3%**
Receivables from non-financial sector entities, including:	**16,458,578**	**17,809,995**	**(1,351,417)**	**(7.6%)**
Institutional customers*	10,586,475	11,695,148	(1,108,673)	(9.5%)
Individual customers, including:	5,872,103	6,114,847	(242,744)	(4.0%)
Unsecured receivables	3,774,285	3,940,483	(166,198)	(4.2%)
Mortgage loans	2,097,818	2,174,364	(76,546)	(3.5%)
Total net customer receivables	**22,793,666**	**21,620,507**	**1,173,159**	**5.4%**

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

In the first half of 2023 total **net amounts due from customers** amounted to PLN 22.8 billion, up by PLN 1.2 billion (or 5.4%) compared to the end of 2022.

The net value of loans in the Institutional Banking segment, being a sum of amounts due from financial sector entities and non-financial sector entities – institutional clients, amounted to PLN 16.9 billion, up by PLN 1.4 billion (or 9.1%) compared to the end of 2022 and was a consequence of higher volume of reverse repo transactions in total amount of PLN 2,6 billion at the end of June 2023. Excluding these transactions, the net loan volume decreased by PLN 1.1 billion (or 7.0%) in the Institutional Banking segment due to lower demand for short-term financing reported by customers and the repayment of individual loans. A detailed breakdown of assets by individual segments in management view is provided in Chapter V.

The net volume of loans made to individual customers declined compared to the end of December 2022 by PLN 242.7 million (or 4.0%) and amounted to PLN 5.9 billion. The decrease in loan volumes was due to both lower unsecured receivables (a decrease by PLN 166.2 million), mainly due to a lower balance of cash loans and a decrease in the volume of mortgage loans (a decrease by PLN 76.6 million compared to 2022) resulting from, inter alia, lower sales of loans and partial overpayments of mortgage loans.

Gross receivables to customers

PLN'000	As of		Change	
	30 Jun 2023	31 Dec 2022	PLN'000	%
Receivables in PLN	19,560,671	17,813,379	1,747,292	9.8%
Receivables in foreign currency	4,023,811	4,663,307	(639,496)	(13.7%)
Total	**23,584,482**	**22,476,686**	**1,107,796**	**4.9%**

Loans to customers by portfolio with/without recognized credit losses

PLN'000	As of		Change	
	30 Jun 2023	31 Dec 2022	PLN'000	%
Loans without recognized impairment (Stage 1), including:	**19,511,914**	**19,027,051**	**484,863**	**2.5%**
financial sector entities	6,336,925	3,813,160	2,523,765	66.2%
non-financial sector entities	13,174,989	15,213,891	(2,038,902)	(13.4%)
institutional clients*	8,406,930	10,162,452	(1,755,522)	(17.3%)
individual customers	4,768,059	5,051,439	(283,380)	(5.6%)
Loans without recognized impairment (Stage 2), including:	**3,240,530**	**2,558,056**	**682,474**	**26.7%**
financial sector entities	918	869	49	5.6%
non-financial sector entities	3,239,612	2,557,187	682,425	26.7%
institutional clients*	2,134,623	1,484,776	649,847	43.8%
individual customers	1,104,989	1,072,411	32,578	3.0%
Loans with recognized impairment (Stage 3), including:	**814,625**	**874,631**	**(60,006)**	**(6.9%)**
financial sector entities	-	-	-	-
non-financial sector entities	814,625	874,631	(60,006)	(6.9%)
institutional clients*	434,411	455,104	(20,693)	(4.5%)
individual customers	380,214	419,527	(39,313)	(9.4%)
Purchased or originated credit-impaired loans (POCI), including:	**17,413**	**16,948**	**465**	**2.7%**
financial sector entities	-	-	-	-
non-financial sector entities	17,413	16,948	465	2.7%
institutional clients*	2,905	7,007	(4,102)	(58.5%)
individual customers	14,508	9,941	4,567	45.9%
Total gross loans to customers, including:	**23,584,482**	**22,476,686**	**1,107,796**	**4.9%**
financial sector entities	6,337,843	3,814,029	2,523,814	66.2%
non-financial sector entities	17,246,639	18,662,657	(1,416,018)	(7.6%)
institutional clients*	10,978,869	12,109,339	(1,130,470)	(9.3%)
individual customers	6,267,770	6,553,318	(285,548)	(4.4%)
Provision for expected credit losses	**(790,816)**	**(856,179)**	**65,363**	**(7.6%)**
Total net amounts due from customers	**22,793,666**	**21,620,507**	**1,173,159**	**5.4%**
Impairment provisions coverage ratio**	**74.2%**	**74.8%**		
institutional clients*	74.3%	72.1%		

PLN'000	As of		Change	
	30 Jun 2023	31 Dec 2022	PLN'000	%
individual customers	74.2%	77.6%		
Non-performing loans ratio (NPL)**	**3.5%**	**4.0%**		

* Institutional *clients include enterprises, the public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households.*
*** NPL ratio means the share of loans with recognized impairment, including purchased or originated credit-impaired loans in the gross loans to customers*

In the first half of 2023, the non-performing loans ratio (NPL) amounted to 3.53% and was lower than at the end of 2022 (by 0.47 percentage points).

On the other hand, the provision coverage ratio of impairment losses on impaired receivables decreased slightly by 0.57 percentage points compared to the end of 2022 and amounted to 74.23%, mainly due to a decrease in provisions for expected credit losses in the Consumer Banking segment clients.

Debt securities portfolio

PLN '000	As at		Change	
	30.06.2023	31.12.2022	PLN '000	%
Treasury bonds	16,525,655	17,394,133	(868,478)	(5.0%)
Bonds issued by banks, including:	8,528,692	5,378,487	3,150,205	58.6%
Bonds hedged in the fair value hedge accounting	535,821	485,494	50,327	10.4%
Bonds issued by financial institutions	2,532,388	2,729,265	(196,877)	(7.2%)
NBP bills	998,127	13,951,438	(12,953,311)	(92.8%)
Debt securities portfolio, total	**28,584,862**	**39,453,323**	**(10,868,461)**	**(27.5%)**

The debt securities portfolio decreased as of the end of the first half of 2023 by PLN 10.9 billion (or 27.5%), due to a decrease in the volumes of money bills of NBP.

2.2.2. Liabilities

Liabilities due to customers

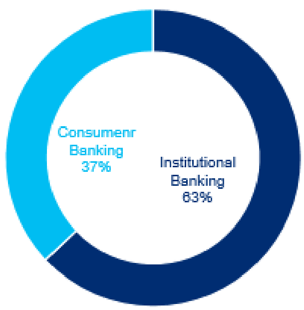
PLN'000	As of		Change	
	30 Jun 2023	31 Dec 2022	PLN'000	%
Deposits from financial sector entities	**3,494,518**	**3,635,151**	**(140,633)**	**(3.9%)**
Deposits of non-financial sector entities, including:	**46,345,397**	**45,160,337**	**1,18, 060**	**2.6%**
corporate customers	24,735,912	24,854,191	(118,279)	(0.5%)
individual customers	18,457,802	17,798,734	659,068	3.7%
public sector units	3,151,683	2,507,412	644,271	25.7%
Other liabilities	**2,226,971**	**1,717,372**	**509,599**	**29.7%**
Liabilities towards customers, total	**52,066,886**	**50,512,860**	**1,554,026**	**3.1%**
Deposits of financial and non-financial sector entities, including:				
in PLN	32,095,025	31,815,248	279,777	0.9%
in foreign currency	17,744,890	16,980,240	764,650	4.5%
Deposits from financial and non-financial sector entities, total	**49,839,915**	**48,795,488**	**1,044,427**	**2.1%**

In the first half of 2023 **amounts due to customers** constituted the dominant source of financing of the Group's activity and amounted to 72.7% of the Group's liabilities and equity. Total amounts due to customers as of the end of June 2023 amounted to PLN 52.1 billion, up by PLN 1.6 billion (or 3.1%) compared to the end of 2022, which was due to increase in time deposits by PLN 3.3 billion (or 25.3%), partially offset by decrease in funds on current accounts by PLN 2.3 billion (i.e. 6.4%).

The deposit volumes in the Institutional Banking segment amounted to PLN 31.4 billion and increased by PLN 385.4 million (or 1.2%) as compared to the end of 2022. This increase concerned mainly time deposits. A detailed breakdown of liabilities by individual segments in management view is provided in Chapter V.

The deposit volumes in the Consumer Banking segment amounted to PLN 18.5 billion, compared to the end of December

Liabilities due to customers structure 1H 2023



2022 – up by PLN 659.1 million (or 3.7%) as a consequence of the higher balance of time deposits thanks to their increased attractiveness due to higher interest rates.

2.3 Contingent liabilities

As at June 30, 2023, exposure from contingent liabilities granted by the Group amounted to PLN 17.0 billion, up by PLN 651.5 million (or 4.0%) compared to the end of 2022. Promised loan commitments represent the largest share in total contingent liabilities granted (i.e. 82.5%). Promised loan commitments consist of committed but currently unutilized credit lines and unutilized overdraft facilities and credit card limits.

Contingent off-balance sheet liabilities granted

PLN'000	As of		Change	
	30 Jun 2023	**31 Dec 2022**	**PLN'000**	**%**
Guarantees	2,729,330	2,352,867	376,463	16.0%
Import letters of credit issued	119,031	262,110	(143,079)	(54.6%)
Credit commitments	13,998,609	13,683,181	315,428	2.3%
Other	125,075	22,349	102,726	459.6%
Total	**16,972,045**	**16,320,507**	**651,538**	**4.0%**
Provisions for contingent liabilities granted	32,884	44,969	(12,085)	(26.9%)
Provisions coverage ratio	0.19%	0.28%		

As at 30 June 2023, the total value of accounts or assets of the Bank's borrowers pledged as collateral stood at PLN 5,258 million, compared to PLN 5,689 million on 31 December 2022.

2.4 Equity and total capital ratio

As compared to the end of 2022 the value of equity of the Group as of the end of the first half of 2023 increased by PLN 395.3 million, i.e. by 5.0%.

Equity

	As of		Change	
PLN'000	**30 Jun 2023**	**31 Dec 2022**	**PLN'000**	**%**
Ordinary shares	522,638	522,638	-	-
Share premium	3,001,260	3,001,259	1	-
Revaluation reserve	(213,124)	(573,528)	360,404	(62.8%)
Other reserves	3,199,204	2,833,345	365,859	12.9%
Retained earnings	1,845,565	2,176,531	(330,966)	(15.2%)
Total equity	**8,355,543**	**7,960,245**	**395,298**	**5.0%**

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

Total capital ratio

As at the end of the first half of 2023 the total capital ratio (TCR) amounted to 20.3%, compared to 19.0% as at the end of 2022..The increase in the ratio in the first half of 2023 compared to the ratio presented in the financial statement at the end of 2022 was due to increase in the reserve capital as a result of allocating a part of the net profit from 2022 and an increase in the revaluation reserve amount. The higher revaluation reserve for the first half of 2023 was caused by a decrease in the negative valuation of treasury securities valued through equity.

The Bank's capital ratio values take account of:

- The minimum capital adequacy requirement set out in the Capital Requirement Regulation (CRR): a total capital ratio of 8% and a Tier 1 capital ratio of 6%
- The combined buffer requirement – 2.80% on a consolidated basis, consisting of:
  - conservation capital buffer – 2.5%
  - O-SII capital buffer – 0.25%
  - systemic risk buffer – 0.00% (according to the Regulation of the Minister of Finance of March 18, 2020 on the systemic risk buffer liquidation, the obligation to maintain the systemic risk buffer has been abolished);
  - countercyclical capital buffer – 0.05%

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 Bank Guarantee Fund to immediately meet the TLAC TREA requirement, the Management Board of the Bank will immediately apply to the Polish Financial Supervision Authority (KNF) in order 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, which was described in the Note “Significant events after the balance sheet date”. Including an appropriate part of the profits from the current period in Common Equity Tier 1 capital will result in meeting the TLAC TERA requirement as expected by the regulator.

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.

Detailed information on capital adequacy of the Group in the first half of 2023 is included in the document *Information on capital adequacy of Bank Handlowy w Warszawie S.A. Group as at 30 June 2023.*

2.5 Earnings forecast for 2023

The Bank as the parent entity did not publish earnings forecast for 2023.

V. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2023

1. Institutional Bank

1.1 Segment results summary

PLN'000	1st half of 2023	1st half of 2022	Change	
			PLN'000	%
Net interest income	1,140,562	723,582	416,980	57.6%
Net fee and commission income	201,174	207,821	(6,647)	(3.2%)
Dividend income	1,691	1,714	(23)	(1.3%)
Net income on trading financial instruments and revaluation	397,768	438,108	(40,340)	(9.2%)
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	(3,923)	(35,762)	31,839	(89.0%)
Net gain/(loss) on equity and other instruments measured at fair value through income statement	2,247	(929)	3,176	(341.9%)
Net gain/(loss) on hedge accounting	(5,023)	(1,722)	(3,301)	191.7%
Net other operating income	7,987	7,165	822	11.5%
Total income	**1,742,483**	**1,339,977**	**402,506**	**30.0%**
General administrative expenses and depreciation	(368,438)	(365,539)	(2,899)	0.8%
Profit on sale of other assets	(52)	3,215	(3,267)	(101.6%)
Provisions for expected credit losses on financial assets and provisions for off–balance sheet commitments	20,769	(18,850)	39,619	(210.2%)
Tax on some financial institutions	(65,268)	(89,784)	24,516	(27.3%)
Profit before tax	**1,329,494**	**869,019**	**460,475**	**53.0%**
Cost/Income	**21%**	**27%**		

The key highlights that impacted the gross profit of the Institutional Banking segment in the first half of 2023 when compared to the corresponding period of 2022 were as follows:

- increase in **net interest income** realized mainly in the area of treasury activity due to higher yields on debt securities held by the Bank;
- decrease in **net fee and commission income** due to lower income from custody activity and maintaining the bank accounts;

- decrease in **other operating income** (i.e. non-interest and non-commission income) amounting to PLN 400.7 million at the end of the first half of 2023 compared to PLN 408.6 million in the first half of 2022 mainly due to a lower result on trading financial instruments and revaluation by PLN 47.1 million, i.e. 10.2%, which is primarily a consequence of a weaker result on debt securities, partially offset by a higher result on equity investments due to a higher valuation of shares held by Bank in other entities,
- insignificant increase in **operating costs** as a result of higher staff expenses and higher telecommunication fees and hardware purchase costs offset by a decrease in the regulatory cost (lower contribution to the banking restructuring fund under the Bank Guarantee Fund.

1.2 Institutional Bank and the Capital Markets

1.2.1 Institutional Bank

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

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

At the end of the first half of 2023 there were slightly above 5,400 institutional customers (including strategic, global and corporate banking customers) i.e. increase by 1% as compared to the first half of 2022.

In terms of client acquisition in the Commercial Bank segment the Bank attracted 228 new customers (75 new relationships) in the first half of 2023, the Bank acquired, including 10 from the Large Companies segment, 39 Small and Medium-Sized Companies, 66 International Commercial Bank Clients, 11 Digital and 102 public sector entities. Within the strategic and global client segments, the Bank acquired 19 customer relationships.

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

Assets

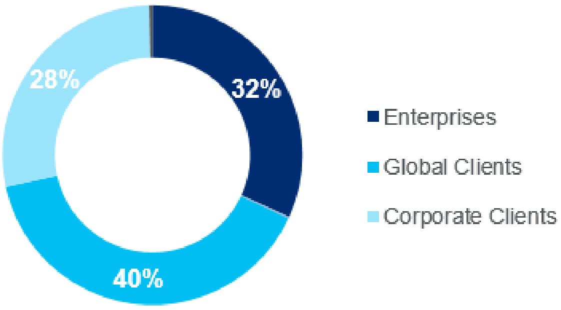
PLN million	30 Jun 2023	31 Dec 2022	30 Jun 2022	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises, including:	3,965	4,685	5,039	(720)	(15%)	(1,075)	(21%)
SMEs	1,761	1,789	2,013	(28)	(2%)	(252)	(13%)
Large enterprises	2,204	2,895	3,026	(692)	(24%)	(823)	(27%)
Public Sector	20	1	3	19	-	18	-
Global Clients	4,953	4,713	4,914	240	5%	39	1%
Corporate Clients	3,496	4,240	3,968	(744)	(18%)	(472)	(12%)
Other	46	48	48	(2)	(3%)	(2)	(4%)
Total Corporate Bank	**12,480**	**13,687**	**13,971**	**(1,207)**	**(9%)**	**(1,492)**	**(11%)**

Liabilities

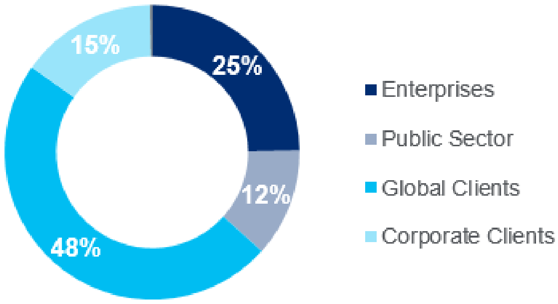
PLN million	30 Jun 2023	31 Dec 2022	30 Jun 2022	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises, including:	7,470	6,692	5,541	779	12%	1,929	35%
SMEs	4,935	4,432	3,597	503	11%	1,338	37%
Large enterprises	2,535	2,260	1,944	276	12%	591	30%
Public Sector	3,570	2,703	2,438	868	32%	1,132	46%
Global Clients	14,481	14,897	12,117	(416)	(3%)	2,364	20%
Corporate Clients	4,518	5,075	4,210	(557)	(11%)	308	7%
Other*	60	55	61	4	8%	(2)	(3%)
Total Corporate Bank	**30,100**	**29,421**	**24,368**	**678**	**2%**	**5,732**	**24%**

** 'Other' includes, among others, clients under restructuring.*

Structure of the Institutional Bank assets as of 30.06.2023



Structure of the Institutional Bank liabilities as of 30.06.2023



Key transactions and achievements of the Institutional Banking in the first half of 2023:

Credit activity	**Granting new financing or increasing/extending existing ones in the amount of PLN 1.7 billion** • PLN 964 MM for Commercial Banking clients including among others for a client trading in wholesale waste and scrap metal, a customer trading in retail electrical household appliances and a customer trading in poultry farming; • PLN 415 MM for corporate clients including one of the largest retail companies in Poland; • PLN 311 MM for global clients including a client from the automotive sector, a client from the automotive industry, a customer from the food industry, one of the global manufacturers of white goods and one of the world's largest steel producers.
Transactional Banking	**Increasing shares in banking services and transaction banking** • Winning 19 mandates for comprehensive banking services or extending the Bank's cooperation with its clients; • Signing supplier financing agreements, factoring agreements, credit commitments and guarantees for the amount of PLN 490 million.

1.2.2. Activity and business achievements of the Financial Market and Corporate Banking Sector

In the first half of 2023, the Treasury Division continued its strategy in the corporate client segment, aimed at providing the best solutions and expertise in the period of increased market uncertainty.

In order to meet and even anticipate customer expectations, particular emphasis was placed on:

- developing tools for electronic currency exchange, including the construction of new functionalities to support transaction processes;
- improving solutions that facilitate automatic FX exchange in order to reduce the operating involvement of the clients in FX risks mitigation processes,
- ensuring constant access to the market data, economic forecasts and analyses. The most relevant information was delivered to clients via a mobile app or in webinars with lead experts and economists;
- Supporting the Bank's customers in the process of building a currency exposure management policy.

The Treasury Division was also active in the primary market for debt securities by organizing the following transactions:

- Six bonds issues for the European Investment Bank (EIB) totaling PLN 2.2 billion, including bonds issued for the purposes of furthering the sustainable development goals and the first issue of 20-year bonds;
- Two issues of Eurobonds for BGK totaling EUR 400 million to be injected in the Anti-Covid-19 Fund and Ukraine Assistance Fund.

In the first half of 2023, the Bank remained among the leaders in terms of turnover in the spot market, as one of the leaders of Treasury BondSpot.

1.2.3. Transaction services

Improving the user experience of banking services and further simplifying and digitalizing processes are areas where the Bank focused its activities in the first half of 2023. The Bank organized numerous training sessions to popularize the new functionalities of the banking platforms, which enable customers to manage their finances more efficiently.

Banking account	In the area of bank accounts, the ongoing digital transformation of processes is reflected in the number of documents signed using an electronic qualified signature. In the first half of 2023, it amounted to 47% of all documents. Thus, the percentage of documents signed in this way increased by 16 percentage points compared to the same period in 2022, when documents signed using a qualified electronic signature accounted for 31%. The Bank has also marked an increase in audit certificates issued through the confirmation.com platform, with more than 1,000 audits issued in this way in the first half of 2023, representing 35% of the total.
Electronic Banking	In the area of electronic banking, the Bank continued its work to improve the user experience (customer experience) and to promote solutions that facilitate the automation of customer-side processes: • **API functionality** – further commercialization of Citi Connect API, implemented in 2020. The solution allows clients to order transfers directly in the ERP system of the supplier, without the need to use bank interfaces. In the first quarter of 2023, the Bank completed the integration process with another ERP platform's provider, Soneta. As a result, joint customers of Soneta and the Bank can count on significant process automation and the possibility to respond and settle accounts instantly. • **CitiDirect BE** – The Bank has begun the broad commercialization of a modern version of its electronic banking system **CitiDirect 3.0** which offers customers greater transparency, efficiency and control. In 2023, the new version of the system will already be available to most current users. At the same time, the Bank actively encouraged customers to use solutions that enable them to manage their finances quickly and independently. The Bank promoted **Mobile Token** which, together with biometric authentication (fingerprints or face recognition), is a convenient login method in the system, as well as mechanisms facilitating the management of CitiDirect users' entitlements by authorized **system administrators**. In the first half of 2023, the **Bank processed over 17.1 million transactions electronically**, which is the same level as in the same period of 2022.
Payments and receivables	The first half of 2023 was mainly characterized by a further dynamic **increase in Express Elixir transaction volumes**. During this period, the Bank's customers ordered as much as 30 times more transactions of this type than in the same period last year. This dynamic level of growth confirms the thesis that the immediate settlements and the extended hours of service availability is getting more and more valuable for customers, especially for those using the Bank's services in the *Banking as a Service* (BaaS) model. The upward trends can also be seen in total payment volumes (i.e. incoming and outgoing) in the group of **"new economy" clients**. The volume of payment transactions in this group executed in the first half of 2023 was 29% higher than in the prior year period. In the first half of 2023, the Bank saw a continued dynamic growth in volumes processed by the Bank under **correspondent banking** ("loro" transfers). The volumes of domestic transfers of other banks for which the Bank is a supplier providing access to domestic payment services in Poland increased by 29% against the prior year period. In continuation of the Bank's strategy to offer solutions that add new functionalities to the Bank's offer (such as *Citi Payment Insights* or *Citi Payment Outlier Detection*), the Bank also provided its clients with new possibilities as regards **bulk debit**, thus allowing them to customize access entitlements of individual users concerning confidential information included, for example, in payroll transfers. The service is currently available also to clients using the CitiConnect system. In the first half 2023, the Bank maintained a high share in the **Direct Debit** market at 34.5% (data as at the end of June 2023).

Corporate cards	In the first half of 2023, there was an increase in the number and total of non-cash transactions for deferred cards compared to the first half of 2022. These values increased respectively by **35% YoY** and **51% YoY**. Increases were also recorded for debit cards, where they amounted to **32% YoY** for the number of transactions and **15% YoY** for total transactions. There was also an increase in the average number of cards activated – by **14% YoY** over the period analyzed. The recorded increases confirm the continuation of the positive trends that the Bank has been observing since the end of the pandemic, indicating that the customers are keen on using deferred payment cards to manage their settlements. In addition, the Bank actively promoted tools among its customers to enable self-management of corporate card programs based on the CitiManager platform, including a module implemented in Q1 2023, that offers collective card applications. This is part of the Bank's efforts to enhance the corporate card experience and reduce paperwork through self-service tools.
Trade finance products	In the first half of 2023, the value of guarantees issued by the Bank **increased by 52% YoY,** which is mainly caused by the growing demand for collateral for commercial transactions carried out by the Bank's customers. At the same time, the value of the issued electronic guarantees **has increased to 76%** (compared to 71% in the first half of 2022). In the first half of 2023, the value of transactions concluded under trade finance products, such as reverse factoring, trade loan and supplier financing, rose almost 5% as compared to the prior year period. The growths are the result of the macroeconomic situation and, consequently, a higher demand for various forms of financing ongoing activity.

1.2.4 Custody services

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

As at 30 June 2023, the Bank maintained in total over 16 thousand of securities accounts and collective accounts.

In the reporting period, the Bank was the depository for open-end pension funds: Nationale - Nederlanden OFE (Open Pension Funds), voluntary pension funds: Nationale - Nederlanden DFE, Generali DFE and Employee Pension Fund Orange Polska. The Bank was also the depository of investment funds managed by the following investment fund companies: Santander TFI S.A., PKO TFI S.A., ESALIENS TFI S.A., Allianz Polska TFI S.A., Templeton Asset Management (Poland) TFI S.A., Skarbiec TFI S.A. and mTFI S.A. Moreover, the Bank was servicing an investment funds and pension funds operating under the Employee Capital Plans programme: PKO Emerytura SFIO, Santander PPK SFIO, Allianz SFIO PPK, Esaliens PPK SFIO, Nationale - Nederlanden DFE Nasze Jutro.

1.2.5 Brokerage activities

The Group pursues brokerage activity on the capital market via a separate organizational unit which is a brokerage house – the Brokerage Department of Bank Handlowy.

As at the end of the first half of 2023, DMBH was the market maker for 67 companies listed on the Warsaw Stock Exchange (of which 20 companies from the WIG20 index), i.e. 16.1% of the shares listed in its main equity market.

In the first half of 2023, DMBH was the intermediary in in-session transactions accounting for 3.75% of equity turnover in the secondary market. The value of the in-session transactions concluded via DMBH in the equity market on the WSE was PLN 10 billion. After the first half of 2023, DMBH was ranked tenth in terms of session turnovers on the WSE Main Market and fourth as a local WSE member.

The number of investment accounts maintained by DMBH was 12.8 thousand as at the end of the first half of 2023, and increased by 12.7% in comparison to the same period of 2022.

The increase in the number of accounts in the reporting period is attributable to the acquisition of new clients at the Brokerage Service Points located in CitiGold branches. Clients acquired for brokerage services are interested in the full offer of DMBH, i.e. investing on the domestic and foreign markets, as well as using the Investment Advisory Service.

There were 899 new accounts and registers opened in the first half of 2023, i.e. 24.2% more than in the same period of 2022.

The first half of 2023 noted a continuation of the significant weakening of activity among shareholders and issuers due to the war in Ukraine, high inflation and uncertain macroeconomic situation in Poland. During the first half of 2023, DMBH carried out a transaction of accelerated sale of shares combined with a capital increase in CCC S.A. worth PLN 505 million – DMBH acted as Global Coordinator in that transaction (April 2023).

Furthermore, DMBH worked on preparing transactions of initial and secondary public offerings to be carried out after the first half of 2023.

1.2.6 Leasing activities

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

2 Consumer Bank

2.1 Segment results summary

PLN'000	1st half of 2023	1st half of 2022	Change	
			PLN'000	%
Net interest income	538,680	388,110	150,570	38.8%
Net fee and commission income	81,540	94,871	(13,331)	(14.1%)
Dividend income	8,082	7,737	345	4.5%
Net income on trading financial instruments and revaluation	17,664	24,419	(6,755)	(27.7%)
Net gain/(loss) on equity and other instruments measured at fair value through income statement	13,227	4,463	8,764	196.4%
Net other operating income	(9,274)	(11,574)	2,300	(19.9%)
Total income	**649,919**	**508,026**	**141,893**	**(27.9%)**
General administrative expenses and depreciation	(386,530)	(349,211)	(37,319)	10.7%
Profit on sale of other assets	(26)	(187)	161	(86.1%)
Provisions for expected credit losses on financial assets and provisions for off–balance sheet commitments	(26,919)	(2,157)	(24,762)	1148.0%
Tax on some financial institutions	(26,316)	(14,680)	(11,636)	79.3%
Profit before tax	**210,128**	**141,791**	**68,337**	**48.2%**
Cost/Income	**59%**	**69%**		

The key highlights that impacted the gross profit of the Consumer Banking segment in the first half of 2023 compared to the corresponding period of 2022 were as follows:

- Increase in net interest income driven by an increase in interest rates, which has an impact on higher interest income. The positive variance in this line covered the decline in the net interest income a result of the decline in the loan portfolio (-10% YoY). Bank also recorded an increase in interest expenses as a consequence of significant increases in interest rates for the zloty with a simultaneous increase in the balance of deposits (6% YoY);
- Net fee and commission income decline driven among others by lower fees on loan products as a result of higher interest income;
- Decrease of net result on trading financial instruments and revaluation resulting mainly from the decreases in revenues from FX (from conversion transactions) which in 1H'22 reached the highest level due to the events behind the eastern border;
- Result on equity and other instruments measured at fair value through income statement – change of shares' valuation;
- Increase in operating expenses mainly as a result of higher remuneration costs and other operating costs partially offset by lower regulatory charges (BFG).

2.2 Selected business data

'000	1st half of 2023	1st half of 2022	Change	
Number of individual customers	567.4	582.9	(15.5)	(2.7%)
Number of current accounts	505,0	472.9	32.1	6.8%
Number of savings accounts	118,3	117.1	1.2	1.0%
Number of credit cards	471.0	504.5	(33.5)	(6.6%)
Number of debit cards	259.2	242.5	16.7	6.9%

Receivables from individual clients – management view*

PLN '000	30.06. 2023 (1)	31.12.2022 (2)	30.06.2022 (3)	Change YTD		Change YoY	
				PLN '000	%	PLN '000	%
Unsecured receivables, including:	3,774,285	3,940,483	4,272,007	(166,198)	(4.2%)	(497,722)	(11.7%)
Credit cards	2,147,616	2,209,679	2,315,552	(62,063)	(2.8%)	(167,936)	(7.3%)
Cash loans	1,584,838	1,680,598	1,915,798	(95,760)	(5.7%)	(330,960)	(17.3%)
Other	41,831	50,206	40,657	(8,375)	(16.7%)	1,174	2.9%
Mortgage loans	2,097,818	2,174,364	2,245,513	(76,546)	(3.5%)	(147,695)	(6.6%)
Total net individual clients' receivables	**5,872,103**	**6,114,847**	**6,517,520**	**(242,744)**	**(4.0%)**	**(645,417)**	**(9.9%)**

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

2.3 Business highlights

Banking accounts

Current accounts

The total **balance on accounts** during the first half of 2023 decreased by 17% to **PLN 9 billion** as compared to the end of the first half of 2022. The decrease in the balance is a consequence of the transfer of funds accumulated on current accounts to the time deposits accounts. The **number of personal accounts** at the end of June 2023 reached the level of **505 thousand**, of which 274 thousand were accounts in PLN, and 231 thousand – accounts maintained in foreign currencies.

Savings accounts and time deposits

The number of savings accounts as at the end of the first half of 2023 was **118 thousand**, their total balance amounted to **PLN 2.2 billion**, as compared to 117 thousand savings accounts with the total balance exceeding PLN 2.6 billion in the prior year period. The decrease balances is caused, as in the case of current accounts, by **moving funds to the accounts of time deposits, whose balance increased by 92% as compared to the first half of 2022 from PLN 2.7 billion to PLN 5.3 billion.**

Changes to the ranges to the products offered

In response to the increase in market rates at the beginning of the year, the Bank introduced deposits in EUR and offered all customers a special 3-month "Your Deposit" deposit offer with an attractive interest rate.

In the first half of 2023, the Bank continued its active acquisition steps aimed at procuring new CitiKonto, Citigold and Citigold Private Client Accounts, offering attractive interest-bearing deposits or a savings account as part of special offers. The bank has launched the next round of advertising campaigns on the internet, in social media and in partnership with external web portals.

Awards and honors

Citi Handlowy's private banking business (Citigold Private Client) has been named Best for Digital in Poland, awarded at the Euromoney Global Private Banking Awards 2023. In awarding the title Best for Digital in Poland, the competition jury acknowledged the achievements that the Bank has made over the last few years in developing the digital channel, putting matters such as the security of customers and their assets, as well as the functionality of wealth management tools, in first place.

Credit cards

As at the end of the first half of 2023, the number of credit cards was 471,000.

The credit cards portfolio amounted to PLN 2.3 billion as at the end of the first half of 2023, which means that the Bank was **still the leader in the credit card market, in terms of the credits** granted on the credit cards, with a market share of 17.6%, according to data as at the end of June 2023.

A high level of activation and transactions was maintained for newly-acquired clients. In the first half of 2023, the acquisition structure of credit cards was dominated by the Citi Simplicity card, with a share in acquisition leveling at 64%.

In the first half of 2023, the **Bank increased the acquisition of cards by 61% comparing to the first half of 2022.**

Cash loans and hire purchase products associated with credit card accounts

The balance of unsecured loans (cash loans and limits to credit cards) amounted to PLN 1.5 billion as at the end of the first half of 2023, i.e. it declined by 17% versus the same period in the previous year.

The sales of the above loans totaled PLN 323 million in the first half of 2023 and was higher by 4% as compared to the same period in the previous year. The increase in sales a consequence of the stabilization of interest rates and the increase in demand for cash loans on the market.

Mortgage products

In the first half of 2023, the Bank was still selling mortgage loans via its own sales channels and credit agencies, rolling out its sales also in the online channel. The offer of mortgage loans was continuously directed primarily to selected client segments, that is, Citigold Private Client, CitiGold and Citi Priority.

The sales of mortgage products in the first half of 2023 reached the value of PLN 111 million. As at the end of that period, the mortgage portfolio amounted to PLN 2.1 billion, i.e. by 6% less than in the first half of 2022. Decrease in the balance is caused by overpayments that reflect the dynamic increase in interest rates.

Investment and insurance products

As at the end of the first half of 2023, the funds under management as part of investment products (including investment insurance products, without dual currency investments) acquired by retail clients via the Bank were 7% higher as compared to the same period in 2022.

This increase was recorded mainly by investment funds, financial instruments purchased by the Bank’s Clients through the Brokerage Department of Bank Handlowy, primarily as a result of a increase in market valuation. In the structured product segment, the Bank completed 2 subscriptions for PLN denominated structured notes in the first half of 2023.

The Bank introduced 2 participation units of new investment funds to its offer.

During the first half of 2023, the Bank continued the development of offering insurance products in the various sales channels. It focused its offer on the affluent clients of the Citigold and Citigold Private Client segments. The Bank introduced two insurance products, Warta Ochrony and Warta Posag, to its offer.

2.4 Development of distribution channels

2.4.1 Branch network

Citigold and Smart Branches

In the hirst half of 2023, the Bank did not make any changes to the number or location of its outlets. The current structure of the branch network and the number of outlets is optimal and ensures stable implementation of acquisition and operational activities. The bank branch network includes 18 outlets, including 9 Hub Gold branches, 8 Smart branches and one corporate branch.

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

	30.06.2023 (1)	31.12.2022 (2)	30.06.2022 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	**18**	**18**	**18**	**-**	**-**
HUB Gold	9	9	9	-	-
Smart branch	8	8	8	-	-
Corporate branch	1	1	1	-	-

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

2.4.2 Internet and telephone banking

Internet Banking

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

At the end of January 2023, the Bank implemented a new method of authenticating payment card transactions online, involving authorization of transactions by entering a one-time SMS code and an individual ePIN code set by customers in e-banking. This solution has replaced the method of clicking on a link received by SMS and providing login details for electronic banking. Thus, the new ePIN solution has increased the security of online card payments.

The number of active users of Citibank Online, i.e. those who logged in to the online or mobile banking service via a browser or the Citi Mobile application at least once in every 90-day period, was 357,000 as at the end of the first half of 2023. The **share of active Citibank Online users** in the entire client portfolio of the Bank was **65%** as at the end of June 2023, i.e. **increased by 1 p.p. YoY**.

At the same time, **digital users accounted for 89% of all transactionally active clients** at the end of the first half of 2023, i.e. **increase by 6 p.p.** as compared to the first half of 2022.

Mobile Banking

Responsive technology gives the client access to all functionalities in Citibank Online on any device they may use. In addition, clients have access to the mobile application which features such functions as free Push notifications, which keep the client updated on the changes on the account or card, and login activation with the use of a fingerprint or face recognition, which makes access to the application easier. The clients shall profit from the simplified and intuitive navigation, new graphic design and mobile authorization service - Citi Mobile Token. The clients have had access to, among other functionalities, simplified and intuitive navigation, a new layout and a mobile authorization service - Citi Mobile Token. The application also offers a currency exchange module, Citi Kantor, and a multi-currency service, Citibank Global Wallet, which permits automatic currency account alignment with the transaction currency without manually reassigning the card. The application also includes a module presenting offers of products and services tailored to the needs of customers, and a section that allows you to recommend products to friends directly from the application. At the end of the first half of 2023, the application was enhanced with a module that allows the customer contact to view and update their contact details – phone number, email addresses and mailing, residence and registered addresses.

The Bank's application also offers **the BLIK payment method**, which allows payments at online, traditional and service outlets and ATM withdrawals, as well as instant BLIK Phone Transfers between the clients of different banks. Consequently, each month of the first half of 2023 saw regular **increase of BLIK payments by 4% per month on average,** and the number of BLIK Phone Transfers **increased by 8% per month**.**on average.**

The total number of BLIK transactions conducted by clients in the first half of 2023 **increased by 92%** comparing to the first half of 2022. However**, the total number of mobile phone transfers for the first half od 2023 increased by 145%** in comparison to the first half of 2022.

As at the end of the first half of 2023, the number of active users of mobile banking, i.e. those who used mobile banking at least once in every 90-day period via the application or Citibank online in responsive technology, amounted to 268,000, i.e. decreased by 5% as compared to the end of the first half of 2022.

The share of active users of mobile banking in the retail client portfolio of the Bank was 49%, as at the end of June 2023, i.e. decreased by 1 p.p. as compared to the same period in 2022.

At the same time, at the end of the first half of 2023, **mobile users accounted for 67% of all transactional active customers, which is an increase by 1 p.p. compared to the first half of 2022**.

Social media

The first half of 2023 was a continuation of the Bank's active operations in Social Media channels. In addition to its presence on Facebook, Twitter and LinkedIn, the Bank is also increasing its activity on the constantly developing Instagram – further publishing in "stories" format and "reels" format in order to expand the points of bank-customer interactions.

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

In the first half of 2023, Bank's communication on Facebook reached an average 1.6 million unique users per month, the same level as in first half of 2022. Users of Facebook and Instagram had, an average, 2.1 contacts with the marketing materials of the Bank per month. This is slightly less than in the first half of last year, but this result is in line with the number of contact with an advertisment recommended by the Meta platform. In the first half of 2023, 116 posts were published on Facebook.

The engagement rate (video views and activity for post views ratio), which shows what percentage of recipients interacted with the Bank's communication, leveled at 44.2%, as averaged for all posts published in the first half of 2023, i.e. up by 8.8 p.p. as compared to the same period in 2022.

In the second half of 2022, an additional KPI related to the number of clicks on a link has been implemented. In the first half of 2023, the Bank averaged 6,200 link clicks per month, compared to 4,600 thousand clicks in the second half of 2022.

3. Changes in information technology

In the first half of 2023, a strategic goal of the Bank in the area of IT technology was to continue increasing the competitiveness of the Bank by providing top quality products and services with the extensive use of innovative solutions, digitization and automation and concurrently with cost optimization. In accordance with prevailing market trends, the technology of the Bank is based, to a large extent, on centralized services and outsourcing. The services centralization processes enable the Bank to generate savings, improve quality, standardize processes and ensure a high level of control and information security. The Technology Division of the Bank focused its activities on the development and implementation of solutions which promote an electronic distribution the channels based on the most advanced online and mobile solutions. Projects supporting the automation and digitization of the Bank's internal processes were also important.

IT processes of the Bank are executed in accordance with international standards, which was confirmed, in the first half of 2023, by the positive outcome of recertification/supervisory audits of compliance with ISO 20000 version 2018 (information technology – service management), ISO22301 (continuity of business) and ISO 27001 (information security management).

The most crucial modifications and improvements implemented in the first half of 2023 included:

- **in institutional banking:**
  - implementation of solutions to support SWIFT payments in the new ISO 20022 format – implementation of the solution will enable SWIFT payments to be supported in the new global ISO format. As a result of the implementation, the Bank expects to maintain its international transaction flows at current levels.
- **in consumer banking:**
  - implementation of a new solution eliminating active links in SMS messages for online card payments. In the new solution, credentials are entered by customers when called up on the merchant/store page;
  - implementation of a new convenient feature for the Bank's current customers, who can apply for a cash loan directly on the Bank's website, with the entire process being fully automated;
  - implementation of a new system to store recordings of recorded users' calls.
  - implementation of a number of changes to improvement of the online and mobile banking platform (addition of a new functionality) in order to increase the client satisfaction level, revenues and security;
  - implementation of tools supporting automation and digitization of sales processes (straight through processing) in the area of consumer banking products - for credit card processes, cash loans and accounts.
- **in the scope of adaptation of systems of the Bank to ensure their compliance with regulatory requirements:**
  - adaptation of the Bank to the revised STIR (Clearing House Information and Communication System) reporting requirements and the launch of reporting to SINF (Financial Information System).
- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - continued implementation of improvements to increase the security of use of the CitiBank Online platform, including the implementation of additional authentication mechanisms at the server level to secure the systems against possible attacks and manipulation of data of defined customers of the client;
  - introduction of improvements in mobile banking for retail clients to minimize the exposure of applications to the risk of fraudulent transactions and to control versions of certificates, requirements related to a secure runtime environment as well as pinning a device and application to a specific user;
  - extension of existing and addition of new solutions in the data leakage prevention (Data Leakage prevention systems), which have significantly mitigated the risks connected with data leaks;
  - implementation of network infrastructure in a new backup data processing center in Poland (under the co-location model) as a location alternative to the local infrastructure in Warsaw;
  - completion of the second phase of the Microsoft365 office suite implementation, in which the SharePoint Online service (without bank data) was launched for internal communication;
  - adaptation of the end-user infrastructure to the requirements of the Hybrid Work Act;
  - Launch of the first modules of the IT infrastructure management system, ServiceNow 3.0, in the cloud.

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

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

- **in institutional banking:**
  - Integration with the National Invoice Register;
  - Implementation of the new WIRON benchmark;
  - implementation of solutions for robotization and automation of operating processes of the Bank;
  - expansion of the ICT environment for financial reporting – by automating current processes, this implementation will ensure greater cost efficiency and reliability of financial and supervisory reporting processes;
  - ongoing identification and elimination of safety gaps in used systems;

- optimization of the technology services portfolio through the elimination and consolidation of obsolete IT architecture elements.

- **in consumer banking:**
  - implementation of solutions for robotization and automation of operating processes of the Bank;
  - continued automation and digitization of sales processes (straight through processing);
  - continued improvement of the online and mobile banking platform (addition of a new functionalities and products);
  - ongoing identification and elimination of safety gaps in used systems.

- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - implementation of additional new-generation security solutions in banking systems;
  - continued modernization of the architecture of network infrastructure of the Bank's main locations using SDN technology (software defined network);
  - continued implementation of a new backup data processing center in Poland (under the co-location model) as a location alternative to the local infrastructure in Warsaw;
  - implementation of the Microsoft365 office bundle to improve the efficiency of the Bank's employees (in the next phase, users are planned to be migrated to M365 in the computing cloud with the possibility of processing banking data);
  - continued migration of the IT infrastructure management system, ServiceNow 3.0, to the cloud;
  - preparation works before using AWS cloud and GCP services for data processing (in the first stage for data classified as internal):
  - implementation of the mechanisms additionally raising the accessibility and redundancy of mobile phone recordings.

The Bank developed, implemented and has maintained a business continuity management system (BCMS), which is oriented to achieving results reflecting the core principles and values of the Bank in line with the Bank's strategy. The Bank designed business continuity plans and contingency plans for critical processes, which ensure continuity of processes during an emergency. The plans ensure an efficient and well-balanced continuity of critical services and products of the Bank in the required time. The plans are subject to periodic reviews and tests, and the test results are used to improve the plans and the entire BCMS. The Bank maintains the BCMS in line with the international ISO22301 standard – in the first quarter of 2023 the Bank passed the periodic audit for ISO22301 recertification.

4. Equity investments of the Group

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In the first half of 2023, the Bank continued to pursue its earlier equity investment policy. The Bank managed the strategic investment portfolio in order to maximize profits in the long term, increase its market share, stimulate development of the Bank's relations and expand the Bank's offering; the Bank managed the divestment portfolio in order to optimize gains on equity transactions and minimize the risk inherent in such transactions.

4.1 Strategic investment portfolio

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

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

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

4.2 Portfolio of investments intended for sale

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

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

4.3 Special-purpose investment vehicles

As at 30 June 2023, the Group included two investment vehicles through which the Bank runs capital transactions. The activity of the companies was financed with the partner's returnable contributions to capital and with their net profits.

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

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

1. Regulatory risk

In the first half of 2023, the financial and organizational situation of the Group was affected, among other things, by:

Legal acts / regulations	Effective date and summary of new requirements
Announcement of the UKNF (Office of the Polish Financial Supervision Authority) of 28 February 2022 on supporting solidarity of the financial sector Announcement of the UKNF of 4 March 2022 on the product offer for refugees from the areas of military operations in Ukraine	• Date: February/March 2022 • The UKNF has said it appreciates and supports the ethical and responsible approach as well as the solidarity of many institutions of the Polish financial sector in the face of the ongoing humanitarian crisis caused by the aggression of the Russian Federation against Ukraine, • The Polish watchdog expects supervised entities to display exceptional business ethics during this difficult time for everyone and to actively counteract any practices consisting in abusing and exploiting the tragedy of the Ukrainian nation to achieve non-standard benefits. • The UKNF said it expected banks to implement offers addressed to the group of refugees from Ukraine as soon as possible, in order to grant them access to the basic payment services and facilitate the distribution of the financial support among them. The Office also emphasized the need to help them easily satisfy their everyday life needs that require standard payment transactions.
Announcement of the European Banking Authority (EBA) on ensuring compliance with sanctions against Russia following the invasion of Ukraine	• Date: 11 March 2022 • The EBA has called on financial institutions to ensure compliance with sanctions against Russia following the invasion of Ukraine and emphasized that it will continue to closely monitor and assess the situation. • The EBA underscored that financial institutions are required to assess the adequacy and effectiveness of internal controls and governance to ensure compliance with restrictive measures adopted in response to the above-mentioned crisis. They should also adapt or enhance systems and processes as appropriate. • Moreover, the EBA called on them to facilitate access to basic payment accounts for refugees. • The EBA's announcement was also locally supported by the UKNF through its published stances and communiqués.
EBA guidelines on the compliance management policies and procedures and the role and responsibilities of the AML / CFT Compliance Officer (AMLRO) in accordance with Article 8 and chapter VI of Directive (EU) 2015/849 UKNF position on the AMLRO in the light of the EBA guidelines	• Date: 1 December 2022 • The guidelines set out the role, tasks and responsibilities of an AML/CFT compliance officer, the management body and the senior manager responsible for ensuring AML/CFT compliance, and also internal strategies, controls and procedures referred to in Articles 8, 45 and 46 of Directive (EU) 2015/849. • The Guidelines, at the EU level, refer to the entire structure of managing anti-money laundering and countering the financing of terrorism (AML/CFT) in a comprehensive way. • In connection with the guidelines, the UKNF also issued its position of 1 December 2022, which includes good practices relating to performance of the obligations arising from the AML Act connected with the role and responsibilities of: AML/CFT compliance officer – AMLRO, the management body or a senior manager responsible for AML/CFT compliance, and the supervisory body. The KNF expects that

	• supervised entities will conduct an analysis of the extent of compliance with the requirements set out in the position document and implement them into their internal regulations without undue delay.
List of recommendations of the PSC on measures to reduce fraudulent transactions in retail payments in Poland	• At its meeting on 19 December 2022, the Payment System Council (RSP) approved an updated list of recommendations for actions to reduce fraudulent transactions in retail payments in Poland, as proposed by the Payment Security Working Group, • The list adopted by the RSP aims to reduce fraudulent transactions in retail payments and includes recommendations in four areas: law, processes, technology and education.
Recommendations of the National Working Group for Benchmark Reform (NGR) on new agreements for PLN products	• Date: 2023/2024 • The purpose of the recommendation is to identify best practice for financial market participants in the use of the WIRON (Warsaw Interest Rate Overnight) benchmark or the indices from the WIRON Family of Composite Indices to determine variable interest rates when entering into new contracts with customers for gold products based on the benchmark. The recommendations include recommended interest calculation guidelines, • The guidelines specified in the recommendations are not mandatory and may be applied voluntarily taking into account the specific characteristics of a financial market participant and of customers with whom agreements are made.
PFSA's stand on the assessment of creditworthiness when granting floating and periodically fixed interest rate loans	• Date: 2023 • The PSFA has published a position paper on the assessment of creditworthiness when granting variable and periodically fixed interest rate loans, • The position states that the level of minimum interest rate change to be adopted in the credit assessment process should be reviewed and possibly redefined by the bank. The right level should be differentiated according to the risk factors recognized by the bank and should also correspond to the characteristics of the product. The PFSA also indicated that the Management Boards of banks should be cautious in setting the percentage decrease in the income buffer indicated in Recommendation S, • The position withdraws the obligation for banks to accept an absolute minimum change in the level of the interest rate of 5 p.p. in the creditworthiness assessment process.
Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014.	• Date: 01 January 2018 • This regulation implements, among other things, a common framework which is to ensure accuracy and integrity of indices used in the EU as benchmarks in financial instruments and financial contracts, as well as the protection of consumers and investors. • The regulation also applies to entities which provide benchmarks or input data for a benchmark and to supervised entities which use benchmarks in financial contracts and financial instruments.
Act of 25 February 2021 r. amending the Banking Law Act and certain other acts	• Date: 2021 and partially in 2023. • The regulation is meant, among other things, to implement Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (CRD V) and to apply Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, as well as Regulation (EU) No. 648/2012;
The ruling of the Court of Justice of the European Union of 11 September 2019 on the interpretation of Article 16.1 of the Directive of the European Parliament and of the Council 2008/48/EC of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC,	• Announcement date: 11 September 2019 • The position of the UOKiK (Office of Competition and Consumer Protection) clearly shows how the conclusions from the judgment should be taken into account in activities of lenders.

concerning the settlement of cost of borrowing in the case of an earlier repayment.	• The expected response is a proportionate, i.e. in accordance with the so-called straight-line method, return of part of the commission on early repaid consumer loans. • As revealed in an official communiqué published on the UOKiK's website, the majority of banks have promised to use practice in line with the UOKiK's expectations.
Judgment of the Court of Justice of the European Union of 3 October 2019 on the interpretation of Article 1(2), Article 4, Article 6(1) and Article 7(1) of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts (OJ 1993 L 95, p. 29) concerning clauses in foreign currency indexed mortgage contracts	• Announcement date: 3 October 2019 • According to the CJEU ruling, if Polish courts find that indexation clauses in foreign currency indexed mortgage loan agreements are abusive: a) courts may assume that the contract cannot continue to operate without such clauses because this would change the nature of the contract, b) as a rule, the consequences of contract invalidation for the consumer must be assessed as at the moment the dispute arose (not as at the time the contract was made), c) courts cannot freely supplement their terms based on equity principles (e.g. by introducing settlements based on NBP exchange rates into contracts), d) courts cannot uphold the indexation even if the contract has to be invalidated and such invalidation is disadvantageous to the client if the client does not agree to maintain the indexation. • As a result of this judgment, a case law unfavorable for banks may develop, affirming the ability to invalidate mortgage loan contracts indexed to a foreign currency.
Banking package CRD V/CRR II, which includes: Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No. 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, as well as Regulation (EU) 648/2012, Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.	• Date: most of the new regulations will come into force in mid-2021, some in 2022, • The amendment to the existing solutions is intended to implement the reforms agreed at the international level after the financial crisis of 2007–2008. It aims to strengthen the banking sector and eliminate the remaining problems in the field of financial stability. The package includes the following measures in particular: • a binding leverage ratio for all institutions and a leverage ratio buffer for all global systemically important institutions • a net stable funding ratio • new market risk reporting rules, including reducing reporting and disclosure requirements and simplifying market risk and liquidity requirements for small, less complex banks to ensure that all banks in the EU have a proportionate framework • a requirement for non-EU institutions with significant activity in the EU to have an EU intermediate parent undertaking • a new Total Loss Absorption Capacity (TLAC) requirement for Global Systemically Important Institutions • a more refined minimum requirement for own funds and eligible liabilities (MREL) and compliance rules for Global Systemically Important Institutions and other large banks • new moratorium powers for resolution authorities.
Act of 7 July 2022 on crowdfunding and on assistance for borrowers	• Date: 29 July 2022, • The Act introduces the so-called credit holidays – deferral of up to 8 mortgage installments, available to borrowers who took out a mortgage loan in the Polish currency (excluding loans indexed to or denominated in a currency other than the Polish currency), • The deferral of mortgage installments can only be applied to one agreement concluded to satisfy the consumer's own housing needs – upon a relevant declaration under the pain of criminal liability. • It applies to agreements concluded before 01 July 2022 if the loan term set out in the agreements expires after 6 months from that date. • The deferral period is excluded from the loan term. The loan term and the deadlines provided for in the agreement are postponed by the deferral period. • The legal basis for benchmark reform and WIBOR phase-out.
Act of 1 December 2022 amending the Labor Code and certain other acts	• Effective date: 07 April 2023,

	• Repeal of the currently applicable provisions of the Labor Code on telework and their replacement with the drafted provisions on remote work,
Act of 9 March 2023 amending the Labor Code and certain other acts	• Effective date: 27 April 2023 • The act introduces, among others, new employee rights (parenting rights) and other rights such as leave due to force majeure, • The act implements two directives into the Polish law, i.e. a) Directive (EU) 2019/1152 of the European Parliament and of the Council of 20 June 2019 on transparent and predictable working conditions in the European Union, • Directive (EU) 2019/1158 of the European Parliament and of the Council of 20 June 2019 on work-life balance for parents and carers and repealing Council Directive 2010/18/EU.
Act on the Financial Information System	• The effective date of the Act is 10 February 2023 and the banks will have 2 months or 3 months after the effective date, whichever ends sooner, and investment firms and custodian banks 7 months or 9 months after the effective date, whichever ends sooner, to start providing reports, • The Act requires banks to provide the Financial Information System with information about account opening, account data changes and account closing. This will apply to all types of accounts (payment accounts, non-payment bank accounts, securities accounts, omnibus accounts and cash accounts used to service them) as well as safe deposit boxes. The scope of the information provided includes, data of the account holder, beneficial owner and agent. The bank is required to provide that information via STIR within 3 days from the date of account opening, data change or account closing. • Adoption of the act is necessary in order to ensure alignment with EU requirements, including regulations on counteracting money laundering and financing of terrorism. The purpose of the act is to provide authorized bodies (the Police, the Central Anticorruption Bureau, the Internal Security Agency, the Military Counterintelligence Service, the Foreign Intelligence Agency, the Military Intelligence Service, the Military Police, the Border Guard, the General Inspector of Financial Information, the National Tax Administration) with the ability to quickly access information about the identity of account holders and safe deposit boxes. The system will be used, inter alia, for counteracting money laundering and terrorism financing, as well as to prevent and combat serious crimes such as drug trafficking, human trafficking, homicide, financial fraud and abuses, corruption, etc.

The following factors, among others, will affect the financial and organizational situation of the Group of Bank Handlowy w Warszawie S.A. in the second half of 2023:

Legal acts / regulations	**Effective date and summary of new requirements**
Amendment to Recommendation G concerning interest rate risk management at banks (draft)	• Date: 2023 • The planned amendment to Recommendation G is to adjust its requirements to changing regulations applicable to market risk and interest rate risk throughout the world, and in particular guidelines issued by the European Banking Authority (EBA). After the new EBA guidelines come into force and the CRD IV/CRR package is revised, the regulatory environment for interest rate risk will be defined. It will mainly consist of the CRR with accompanying technical standards, the above EBA guidelines and the Regulations of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, the remuneration policy and the detailed method of estimation of internal capital at banks.
Amendment to Recommendation U on good bancassurance practices (KNF's Resolution No. 402/2022)	• Date: 1 July 2024 (deadline for adjusting activity), • The Polish Financial Supervision Authority (KNF) published an amendment to Recommendation U on good bancassurance practices that will replace the current Recommendation U of 2014. • The aim of Recommendation U is to improve the standards of bancassurance business and to set the conditions for the stable development of the bancassurance market, The adopted Recommendation U introduces new provisions concerning in particular: a) ensuring that the insurance products offered through bancassurance, including in credit or loan repayment insurance (so-called CPI products), provide adequate value for the customer,

	b) the way insurance products are offered in bancassurance, c) the relationship of a bank, operating in the field of bancassurance, with an insurance financier who, on the basis of a contract concluded with the bank, is obliged to cover the costs of the bank's insurance cover, d) monitoring, as part of the bank's internal control and risk management system and by the audit committee, of the processes involved in the offering of insurance products by these entities.
Amendment to Recommendation J on the rules of collection and processing by banks of real property market data	• Date: 31 December 2023 • The published Recommendation J is a revision of the 2012 Recommendation. The main objective of the amendment is to adapt the content of the recommendations to the changed regulatory environment, • Recommendation J applies to the following areas: a) collection of property market data, b) creation of property market databases, c) reliability of property market databases, d) use of property market databases.
Amendment to Recommendation S on good practices for management of credit exposures secured with mortgages (KNF's Resolution No. 242/2023)	• Date: 1 July 2024 (deadline for adjusting activity), • The adoption of the amendment is dictated by the need to adapt Recommendation S to changing legislation and to implement the regulatory and supervisory policy of the Financial Supervision Commission, • The changes introduced in Recommendation S relate to: a) the inclusion in Recommendation S of a guaranteed housing loan covered by a government program, b) the inclusion in Recommendation S of a housing loan covered by the government's interest rate subsidy program, c) a buffer against rising interest rates, which is taken into account in determining a customer's creditworthiness, d) the introduction of new expectations regarding the inclusion of models estimating the risk of early repayment of loans (prepayment models), e) the introduction of new expectations regarding the information on mortgage risks that should be provided to customers.
ESMA guidelines on MiFID II product governance requirements	• Date: 2 months after publication of the official translation (the guidelines are in the translation process). • The main changes made to the guidelines concern: a) Determine all the purposes connected with sustainable growth, to which a product is aligned (ESG), b) the practice of defining a target market for each cluster of products instead of for a single product ("cluster approach"), c) Define a consistent distribution strategy where a distributor deems that a more complex product may be distributed via sales not covered by advice services, d) Carry out periodic product reviews, including the application of the proportionality principle.
EBA Guidance Note amending EBA/2021/02 Guidance Note on risk factors for money laundering and terrorist financing	• Date: 3 months after publication of the official translation (the guidelines are in the translation process), • The changes introduced by the EBA Guidelines consist in: a) Adding a definition of 'Not-for-profit organizations' (NPOs), b) the introduction of an annex to the Guidelines specifying the factors that should be taken into account when assessing the risk profile of an NPO customer/potential customer (amendment in respect of Guideline 2 - Identification of risk factors for money laundering and terrorist financing), c) the existing point 2.7 of the Guidelines (concerning the NPO customer) is replaced by a reference to the Annex on NPO.
EBA Guidelines on Principles and Controls for Effective Management of Money Laundering and Terrorist Financing Risks in Providing Access to Financial Services	• Date: 3 months after publication of the official translation (the guidelines are in the translation process), • The Guidelines on Principles and Controls for Effective Management of Money Laundering and Terrorist Financing Risks in Providing Access to Financial Services set out the rules, procedures and controls that credit and financial institutions should apply to mitigate and effectively manage money laundering and terrorist financing risks,

	• The issuance of the Guidelines is linked to the EBA's observations that deciding to refuse to establish or terminate relationships with entire categories of clients (without an adequate assessment of individual clients) may be indicative of ineffective ML/TF risk management. The premise of the EBA's new guidelines is to indicate the steps that institutions should take to facilitate access to financial services for those categories of customers who are particularly vulnerable to unjustified risk mitigation (resulting in denial of access to financial services).
ESMA guidelines on certain aspects of MiFID II remuneration requirements	• Date: 3 October 2023 (translation published) • The purpose of ESMA's guidelines is to ensure a common, uniform and consistent application of the MiFID II (Directive 2014/65/U of the European Parliament and of the Council) remuneration requirements, including the MiFID II conflict of interest requirements and the conduct of business rules for the provision of investment services to clients. The guidance also clarifies the application of governance requirements on remuneration under MiFID II. • The ESMA guidance specifically addresses the following issues: a) development of remuneration policies and practices (e.g. the identification of appropriate criteria to align the interests of the individuals and companies involved with those of the clients), b) governance with regard to remuneration (including, inter alia, periodically reviewing its remuneration policy, maintaining proper documentation on the remuneration policy and decision-making process, ensuring the compliance function has access to documents and information, approving any material changes to the company's remuneration policy by the governing body), c) putting in place appropriate controls to assess compliance of its activities with its remuneration policies and practices. In addition, the Guidelines include examples of good and bad remuneration practices.
ESMA guidelines on certain aspects of the MiFID II suitability requirements	• Date: October 4, 2023 • The guidelines are to clarify the application of certain aspects of the MiFID II suitability requirements to ensure the common, uniform and consistent application of Article 25(2) of MiFID II and Articles 54 and 55 of the MiFID II delegated regulation. • The guidelines cover investment advisory and portfolio management, The guidelines cover the following issues: a) Information for clients on the suitability assessment and its scope b) Know Your Customer and Know Your Product c) Scope of information to be collected from clients (proportionality) d) Reliability of client information e) Updating client information f) Client information for clients or groups g) Arrangements necessary to understand investment products and ensure the suitability of investments h) Cost and complexity of equivalent products i) Costs and benefits of switching investments j) Qualifications of firm Staff k) Record-keeping
Amendment to Recommendation A on the management by banks of the risks associated with operations on derivative instruments (KNF's Resolution No. 402/2022)	• Date: 31 December 2023 • Recommendation A is a set of good practices relating to roles and responsibilities of the management board and supervisory board, risk identification and assessment, monitoring, internal control system and risk control & reporting in the area covered by the Recommendation. The Recommendation covers derivative transactions between banks with all categories of clients, provided that it should be noted that the definition of the client has changed as compared to the version that is currently in force. In addition, it covers all types of derivative instruments, including those admitted to organized trade within the meaning of the Act of 29 July 2005 on trade in financial instruments and derivative instruments outside such trade. • Recommendation A applies to the following areas: a) Management Board and Supervisory Board

	b) Risk identification and assessment (including risk measurement / estimation), monitoring, control and reporting c) internal control system. • Recommendation A should be implemented taking into account the principle of proportionality, defined as the alignment of implemented solutions with the individual characteristics and profile of a bank's operations and the scale of the risk taken by the bank.
EBA guidelines on the use of remote customer onboarding solutions in accordance with Article 13(1) of Directive (EU) 2015/849	• Date: October 2, 2023. • The EBA guidelines set out how an institution should proceed when accepting or reviewing solutions used to fulfil the obligations arising from items (a), (b) and (c) of Article 13(1) of Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing in the case of remote customer onboarding (customer due diligence measures). • The guidelines also set out the steps to be taken when using third party services to meet the customer due diligence requirements (Chapter II Section 4 of Directive (EU) 2015/849), principles of control, procedures which credit and financial institutions should implement to identify and mitigate the AML / CFT risks if customer due diligence measures are used remotely.
ESMA guidelines on the EMIR reporting requirements	• Date: 29 April 2024 • The guidelines are to harmonize and standardize EMIR REFIT reporting requirements. • The guidelines include explanations of the following aspects: a) transition to the new reporting rules, b) reportable derivatives, c) exemption of intra-group derivatives from reporting, d) responsibility for reporting, e) data quality assurance, f) access to data.
EBA Guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive 2013/36/EU	• Date: 31 December 2022 • The Guidelines specify what information should be provided to the competent authorities to benchmark remuneration trends and practices, among others, in accordance with the requirements of Regulation (EU) 575/2013 (CRR) in the scope of disclosure of remuneration policy ('remuneration data'). • The Guidelines also specify the information to be provided for benchmarking the gender pay gap ('gender pay gap data'). • These Guidelines also specify the common reporting format to be used for the purposes of the benchmarking of approved higher ratios between the fixed and variable components of remuneration ('higher ratios data'), referred to in Directive 2013/36/EU. Moreover, they specify how competent authorities will collect from institutions the above-mentioned information for benchmarking and how they will then submit the benchmarking data to the European Banking Authority (EBA). The first reporting according to the new Guidelines will take place in the second half of 2023.
EBA Guidelines on the data collection exercises regarding high earners under the CRD and IFD	• Date: 31 December 2022 • These Guidelines refer to, in particular, Article 73 of Directive 2013/36/EU (CRD) and clarify the specifics of data collection on the number of natural persons per institution remunerated EUR 1 million or more per financial year ('high earners'). • The Guidelines apply to information on high earners to be collected by competent authorities to be forwarded to the European Banking Authority (EBA). • Pursuant to the Guidelines, high-earners data for the financial year ending in 2022 should be submitted by firms to competent authorities by 31 August 2023.
Recommendations of the National Working Group for Benchmark Reform (NGR) on new agreements for PLN products	• Date: 2023/2024 • These recommendations are to present to financial market entities the best practices relating to the use of the WIRON interest rate benchmark (Warsaw Interest Rate Overnight) or rates from the WIRON composite index family for determination of variable interest rates when concluding new

	agreements with customers for benchmark-based PLN products. The recommendations include recommended interest calculation guidelines. • The guidelines specified in the recommendations are not mandatory and may be applied voluntarily taking into account the specific characteristics of a financial market participant and of customers with whom agreements are made.
Banking package CRD V/CRR II, which includes: Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No. 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, as well as Regulation (EU) 648/2012, Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.	• Date: most of the new regulations will come into force in mid-2021, some in 2022, • The amendment to the existing solutions is intended to implement the reforms agreed at the international level after the financial crisis of 2007–2008. It aims to strengthen the banking sector and eliminate the remaining problems in the field of financial stability. The package includes the following measures in particular: • a binding leverage ratio for all institutions and a leverage ratio buffer for all global systemically important institutions • a net stable funding ratio • new market risk reporting rules, including reducing reporting and disclosure requirements and simplifying market risk and liquidity requirements for small, less complex banks to ensure that all banks in the EU have a proportionate framework • a requirement for non-EU institutions with significant activity in the EU to have an EU intermediate parent undertaking • a new Total Loss Absorption Capacity (TLAC) requirement for Global Systemically Important Institutions • a more refined minimum requirement for own funds and eligible liabilities (MREL) and compliance rules for Global Systemically Important Institutions and other large banks • new moratorium powers for resolution authorities.
The ruling of the Court of Justice of the European Union of 11 September 2019 on the interpretation of Article 16.1 of the Directive of the European Parliament and of the Council 2008/48/EC of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC, concerning the settlement of cost of borrowing in the case of an earlier repayment.	• Announcement date: 11 September 2019 • The position of the UOKiK (Office of Competition and Consumer Protection) clearly shows how the conclusions from the judgment should be taken into account in activities of lenders. • The expected response is a proportionate, i.e. in accordance with the so-called straight-line method, return of part of the commission on early repaid consumer loans. • As revealed in an official communiqué published on the UOKiK's website, the majority of banks have promised to use practice in line with the UOKiK's expectations.
Judgment of the Court of Justice of the European Union of 3 October 2019 on the interpretation of Article 1(2), Article 4, Article 6(1) and Article 7(1) of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts (OJ 1993 L 95, p. 29) concerning clauses in foreign currency indexed mortgage contracts	• Announcement date: 3 October 2019 • According to the CJEU ruling, if Polish courts find that indexation clauses in foreign currency indexed mortgage loan agreements are abusive: a) courts may assume that the contract cannot continue to operate without such clauses because this would change the nature of the contract, b) as a rule, the consequences of contract invalidation for the consumer must be assessed as at the moment the dispute arose (not as at the time the contract was made), c) courts cannot freely supplement their terms based on equity principles (e.g. by introducing settlements based on NBP exchange rates into contracts), d) courts cannot uphold the indexation even if the contract has to be invalidated and such invalidation is disadvantageous to the client if the client does not agree to maintain the indexation. • As a result of this judgment, a case law unfavorable for banks may develop, affirming the ability to invalidate mortgage loan contracts indexed to a foreign currency.
EU Cybersecurity Package 1. Directive on the resilience of critical entities ("DRCE"),	• DRCE extends the scope of existing EU legislation on critical infrastructure from two to ten sectors: energy, transport, banking, financial market infrastructure, health, drinking water, waste water, digital infrastructure, public administration and space technologies. The directive also introduces new solutions to strengthen the resilience of critical entities.

2. Directive on measures for high common level of cybersecurity across the Union ("NIS 2"), 3. draft Regulation on operational resilience to digital threats ("DORA" – Digital Operational Resilience Act).	• NIS2 Directive extends the scope of the first NIS Directive, tightens security and reporting requirements for enterprises, introduces stricter supervision measures for national authorities and stricter enforcement requirements, and improves information exchange and cooperation between national authorities of member states. The deadline for the implementation of the NIS 2 directive in the national order is October 17, 2024, • DORA – The regulation will apply to entities such as: investment funds, payment and credit institutions, ASI managers, insurance companies, audit companies, ICT service providers (Information and communication technologies), crypto-asset service providers, securities depositories. The DORA Regulation aims at harmonizing the provisions regarding the digital resilience of the financial sector in the EU and at boosting the digital and operational resilience of the financial sector organizations. The regulation entered into force on January 16, 2023, and will enter into force on January 17, 2025.
Draft Act amending the Act on the National Cybersecurity Protection System	• In 2023/2024, regulation may affect the Bank in the context of the proposed provisions on internal and external SOC infrastructure (obligation to operate infrastructure in the territory of the Republic of Poland). The UKSC is the regulation by means of which the provisions of the NIS Directive2 will be introduced into the Polish legal order. The bill will be subject to a public hearing on 11 September 2023.
Draft act amending certain acts intended to ensure the development of the financial market and the protection of investors in that market	• Act adopted by the Sejm (lower chamber of Polish parliament), submitted to the Senate on July 14, 2023. The plan is to apply a 30-day *vacatio legis*. The draft act provides for changes in over ten acts governing business activity of financial market entities, with the aim to facilitate the functioning of supervised entities by simplifying the procedures for obtaining licenses and reporting obligations, as well as to reinforce the protection of individual investors. The draft act provides for, in particular: a) expanding and strengthening the supervisory competence of the KNF and granting the KNF additional authorizations to impose fines on supervised entities; b) introduction of regulations related to bank outsourcing and sub-outsourcing in order to simplify the applicable procedures and adapt them to the Guidelines of the European Banking Authority on Outsourcing Arrangements (Case file no. EBA/GL/2019/02); c) elimination of excessive or faulty regulations (so-called gold plating) in the scope of the obligations imposed on financial market entities; d) expansion of the catalogue of situations permitting the disclosure of professional and banking secrets without violation thereof e) amendment to the provisions on dormant accounts – reduced scope of account information provided to municipalities, longer period within which banks should provide such information.
Act of 7 July 2022 on crowdfunding and on assistance for borrowers	• Date: 29 July 2022 • The Act introduces the so-called credit holidays – deferral of up to 8 mortgage installments, available to borrowers who took out a mortgage loan in the Polish currency (excluding loans indexed to or denominated in a currency other than the Polish currency), • The deferral of mortgage installments can only be applied to one agreement concluded to satisfy the consumer's own housing needs – upon a relevant declaration under the pain of criminal liability. • It applies to agreements concluded before 01 July 2022 if the loan term set out in the agreements expires after 6 months from that date. • The deferral period is excluded from the loan term. The loan term and the deadlines provided for in the agreement are postponed by the deferral period. • The legal basis for benchmark reform and WIBOR phase-out.
Financial Conduct Authority's announcement of 5 March 2021 on future cessation and loss of representativeness of the LIBOR benchmarks.	The UK Financial Conduct Authority ("FCA"), on 5 March 2021 and 29 September 2021, announced that: • the following indices will permanently cease to be developed: a) CHF LIBOR (all tenors) • as of the end of December 31, 2021;

	b) LIBOR EUR (for all tenors) – at the end of 31 December 2021, c) GBP LIBOR (O/N, 1W, 2M and 12M) – as of the end of December 31, 2021; d) JPY LIBOR (S/N, 1W, 2M and 12M) • as of the end of December 31, 2021; e) USD LIBOR (1W and 2M) – as of the end of December 31, 2021; f) USD LIBOR (O/N, 12M) – as of the end of June 30, 2023; • the following rates will no longer be representative for the underlying market and economic reality that these rates were intended to measure: a) GBP LIBOR (1M, 3M and 6M) – as of the end of December 31, 2021; b) JPY LIBOR (1M, 3M and 6M) – as of the end of December 31, 2021; c) USD LIBOR (1M, 3M, 6M) – at the end of 30 June 2023, and their representativeness will not be restored. • The FCA will require the continued publication of USD LIBOR in synthetic form for 1M, 3M and 6M tenors until 30 September 2024, after which there will be a permanent cessation of the index.
Regulation (EU) No. 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088	• Date: 01 January 2022 (effective date) • The Regulation establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable for the purpose of determining the extent to which an investment is environmentally sustainable. • It also introduces an obligation to report the so-called green asset ratio as part of non-financial reporting, which indicates how much of the bank's activity is related to activity qualified as environmentally sustainable.
Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives	• Date: 01 January 2022 (effective date) • The Regulation establishes technical screening criteria for determining the conditions under which a specific economic activity qualifies as "environmentally sustainable" as regards two environmental objectives: (1) climate change mitigation and (2) climate change adaptation, and also does no significant harm to any of the other environmental objectives – for the purposes of determining whether funding or an investment in a business activity is "environmentally sustainable" in accordance with Regulation (EU) No. 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.
Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organizational requirements and operating conditions for investment firms	• Date: 02 August 2022 (effective date) • Implementation of requirements applicable to investment firms as regards the integration of sustainability factors, risks and preferences into certain organizational requirements and operating conditions. • This applies to the activity of DMBH and the Bank in the scope of the activity conducted under Article 70(2) of the Act of 29 July 2005 on Trade in Financial Instruments.
Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU with regard to corporate sustainability reporting	• Under the Directive, all large entities and small and medium-sized listed companies are to provide information on: environmental, social, human rights and corporate governance issues in their management report. This information will be reported according to the Common European Sustainability Reporting Standards (ESRS). The provisions of the Directive provide for a three-stage timetable for the application of the new obligations, depending on the size of the obliged entity Bank Handlowy w Warszawie S.A. as a large entity with more than 500 employees, will be required to provide information first – for the financial year 2024. The directive needs to be implemented in Polish law.
A bill on the protection of persons signaling violations of law	Date: II half of 2023. The bill regulates: a) The terms of protection of employees and other individuals who report or publicly disclose information on violations of law, b) The protective measures for individuals who report or publicly disclose information on violations of law, c) The rules of establishment of the internal procedure for reporting violations of law and taking follow-up activities,

	d) Reporting violations of law to a public authority, e) The rules of public disclosures of violations of law, f) Tasks of authorities competent for reported law violation cases.
Commission Delegated Regulation (EU) 2016/2251 of 4 October 2016 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories with regard to regulatory technical standards for risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty	• Upcoming dates: (i) effective date of the last (sixth) phase of implementation of obligations to post initial margin ("IM") (i.e. 1 September 2022) and (ii) expiration of certain deviations in posting initial margin ("IM") and variation margin ("VM") in the case of certain intragroup transactions (i.e. 30 June 2022) – on OTC derivatives not cleared by a central counterparty ("CCP"), in accordance with Regulation (EU) 2016/2251 of 4 October 2016
Commission Delegated Regulation (EU) 2022/2360 of 3 August 2022 amending the regulatory technical standards laid down in Delegated Regulation (EU) 2018/389 as regards the 90-day exemption for account access.	• Introduction of the mandatory exemption from the SCA use if a user wants to get access to information on a payment account (check the balance or transactions for last 90 days) via a provider that provides information on the account (AISP), • Implementation of the requirement to use SCA when a user gets access to account information via an AISP for the first time or after at least 180 days from the last SCA.
The Electronic Service of Documents Act of 18 November 2020	• Effective date: 5 October 2021, provided that for some entities, including banks, the obligation to use the National Electronic Service System depends on the date specified in the announcement of Digitization Minister, which cannot be later than 10 December 2023, • The Act provides for an obligation to have an address for electronic service of documents entered in the database of electronic addresses, which will have to be used for correspondence with public and private entities as well as consumers.
The draft act on debt collection activities and the debt collector profession	• Effective date: 2023, provided that the Act lays down a 1-year transition period, • The draft implements regulations concerning the functioning of debt collection companies and activities of debt collectors. It introduces, among other things, a requirement to keep debt recovery records and the list of conducted collections. The draft will affect the activities of debt enforcement companies as it regulates the rules they must adhere to in the course of their activities, • The Act may affect the prices of disposed receivables.
Proposed Regulations on Artificial Intelligence (AI Act)	• This proposed regulation is to ensure that AI systems introduced in the EU market and used in the EU are safe and in compliance with the law in the area of fundamental rights and EU values. One of the assumptions is that comprehensive requirements will be implemented for so-called high-risk Artificial Intelligence systems, which include creditworthiness assessment systems for individuals, but also other systems that may be used in the banking system.
The Act of 25 February 2021 amending the Banking Law act and certain other acts	• In 2023 the Bank's activities will be affected by the requirement to establish an intermediary EU parent entity of the Bank, arising from the above Act.
Technical standards approved by the European Parliament on 7 October 2022 concerning the implementation of changes in the EMIR regulatory system set out in EMIR Refit.	• These standards are to significantly affect the obligations of derivative market participants arising from EMIR, and in particular their reporting requirements. The standards will become effective from the end of April 2024, but adaptation works should start in 2023 due to the scale of the project.
Road Map for the process to replace WIBOR and WIBID benchmarks	• The Road Map approved by the Steering Committee of the National Working Group for Benchmark Reform (NGR) established by the UKNF presents the key assumptions and work schedule for the benchmark reform pending in Poland. According to the Road Map, it is assumed that, with the effective cooperation of all parties involved, the reform of the indices will be implemented in its entirety by the end of 2024. The assumptions of the Road Map developed as part of the NGR's work indicate a readiness to stop developing and publishing the WIBOR and WIBID reference indices from the beginning of 2025. The NGR

	Steering Committee has chosen the WIRON rate as the recommended replacement for WIBOR and WIBID rates.
Amendments to the Corporate Income Tax Act implemented by the Act of 7 October 2022 on amendments to the Corporate Income Tax and certain other Acts (so called “Polish Deal 3.0”, “Act”).	Changes in taxation at source of Polish T-bond interest and discount (effective date: 1 January 2023) • Under previous regulations, interest and discount were tax exempt for non-residents in the case of bonds issued and admitted to trade in a regulated market or a multilateral trading facility with time to maturity of 1 year or longer, however only for bonds issued on or after 1 January 2019. • The Act repeals, effective 1 January 2023, the condition of issuance of bonds in a series after 2018. • Under the Act, tax exemption will also apply to distributions made, put at disposal or disbursed after 31 December 2022 from Polish T-bonds issued in a series before 1 January 2019. Changes to transfer pricing regulations with respect to tax haven transactions • The Act repeals the obligation to apply the arm’s length price principles and documentation requirements for intermediary tax haven transactions – i.e. transactions where the beneficial owner of a receivable is a resident in a tax haven. • The amendment is to come into force upon the promulgation of the Act with a retroactive effect from 1 January 2021.
The mCitizen Application Act	• Effective date – 14 July 2023, whereby obliged institutions are to apply the provisions of the Act with regard to the use of the mCitizen document as a financial security measure for customer identification and identity verification, from 1 September 2023, • The Act sets out a new legal basis for the functioning of the mCitizen application and the services made available within the application, in particular: a) introduction of legal changes that provide a basis for the use and recognition of electronic documents, supported by the mCitizen application, b) definition of the legal basis for the scope of data that users of the mCitizen application can use in the services made available and provided within this application, c) enabling the use of the mCitizen application as a trusted profile authentication factor, d) ensuring that payments can be made for services provided by public bodies in the mCitizen app, e) regulating the functioning of a new means of electronic identification – the so-called mCitizen profile. • According to the Act, an mCitizen document is a document stating identity and Polish citizenship in the territory of Poland.
The Act of 7 July 2023 on the amendment of certain acts to reduce some of the effects of identity theft	• Possibility for an individual to block a PESEL number, • The bank will be obliged to verify in the so-called block register, before concluding certain agreements with consumers, withdrawing cash in a branch, submitting data to the BIK whether the PESEL number is blocked at the date of the agreement or withdrawing funds from the account, • When the PESEL number was blocked at the date of the contract and a contract will nevertheless be concluded, it will be inadmissible for the bank to assert claims arising from that contract against the person who is the holder of the PESEL number. It will also not be possible to dispose of such a claim.
Bill on Combating Abuse in Electronic Communications	• Prohibition of spoofing, smishing, generation of artificial traffic, unauthorized change of address information. Introducing an obligation for telecoms companies to prevent these activities (Article 3) and granting a number of powers in this connection, including the right to process SMS / MMS data, • The President of the ECO will maintain a list of numbers for receiving voice calls only. The bank may apply for inclusion in this list. The effect of the alert will be to block incoming calls by the telecoms operator from the number notified to the list.
Proposal for a Regulation of the European Parliament and of the Council amending	• As part of the revision of EU Regulation 648/2012, further legislative action was identified as necessary to limit excessive exposures to third-

Regulations (EU) No 648/2012, (EU) No 575/2013 and (EU) 2017/1131 concerning measures to mitigate excessive exposures to third country central counterparties and improve the efficiency of Union clearing markets	country central counterparties and to improve the efficiency of EU clearing markets (CCPs). In view of the above, the European Commission has proposed amendments to EU regulations, i.e. Regulations 648/2012, 575/2013 and 2017/1131, regarding, inter alia, the recognition of exemptions from central clearing for intragroup transactions, the need to maintain a so-called active account with an EU CCP, the authorization of CCPs, supervisory competence in this respect. The proposed amendments will apply to Bank Handlowy w Warszawie S.A. inter alia, with regard to the bank's OTC derivative transactions that are subject to central clearing and relationships with central counterparties.
The Act of 14 April 2023 amending the Act on Goods and Services Tax and certain other acts	• Its effective date is on 1 January 2024. • individual payment service providers involved in cross-border transactions will be required to report certain cross-border transactions to a central electronic payments information system ("CESOP") managed by the European Commission, • Payment service providers will be required to keep quarterly records of payment recipients and cross-border payments, in electronic form, for the payment services provided. The obligation will arise when the number of services provided by the provider amounts to more than 25 cross-border payments to the same recipient in a quarter.
The draft Act amending the Act on Goods and Services Tax and certain other acts – the so-called National e-Invoice System (KSeF).	• Effective date: 1 July 2024., • Introducing the obligation for taxpayers to issue invoices using the National e-Invoicing System (with some exceptions, such as where the taxpayer has no place of business in the country, when there is a KSeF failure, with the taxpayer being obliged to send invoices issued outside the system to KSeF for an identification number after the failure period anyway), • Payment using the split payment mechanism is made using a transfer message provided by the bank, whereby the taxpayer will additionally be required to indicate the invoice identification number in KSeF, • Introducing an obligation for the relevant heads of tax offices to impose fines on taxpayers in the event of invoices being issued outside KSeF, invoices issued outside the system not being sent to KSeF after a period of failure, electronic invoices being issued during the period of failure not being in accordance with the template provided - up to 100% of the amount of tax shown.

2. Risk management principles

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

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

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

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

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

- Asset and Liability Committee (ALCO);
- Risk and Capital Management Committee, supervising the Risk Models Commission and the Consumer Bank Risk Commission;

- New Products Committee;
- Operational Risk, Control and Compliance Committee.

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

The Group carries out the management of all significant risk families arising from the execution of its business strategy. As part of the process initiated in 2023 to identify key risk families, the Management Board of the Bank concluded that the following risk families were significant for the purposes of risk management and the internal capital estimation and maintenance process:

- Credit risk;
- Counterparty credit risk;
- Market risk for the trading book;
- Interest rate risk for the banking book;
- Liquidity risk;
- Operational risk;
- Compliance risk;
- Technology and cybersecurity risk, information security risk and continuity of business risk;
- Geopolitical risk.

Credit risk and counterparty risk

Definition	• Risk of a client's failure to perform their liabilities. • Risk of the counterparty's failure to perform their liabilities arising from a transaction, before or on the date of its final settlement.
Risk management strategy	• The primary objective of credit risk management is to support the long-term plan of stable growth of the credit portfolio, while maintaining appropriate quality. The credit process is based on a number of fundamental principles, such as: – Business and independent risk management units share responsibility for quality of the credit portfolio and credit process and for any credit losses; – Conduct must be in compliance with the guidelines on the portfolio structure to ensure its diversification and to keep balance between risk and capital; – A system of credit-related authorizations must be implemented which assumes that special authorization to make credit decisions may only be granted to properly trained and experienced employees, taking into account their track record and risk assessment skills and abilities; – Acceptance level must depend on assumed risk – higher-risk exposures (defined taking into account both amount and level of risk) require higher-level approval; – Diversified and adequate risk assessment standards must be used for each borrower and each commitment, including as part of corrective actions; – A consistent rating process is required, which is based, *inter alia*, on results produced by rating or scoring models; – Periodic, regular monitoring of results of a client's activities and identification of adverse changes in their situation which require immediate activities to classify receivable or corrective actions are necessary; – External environment must be monitored to ensure early detection of economic threats which may adversely affect particular portfolios; – The credit policy rules must be complied with and, in special cases, approval of exceptions to the Credit Policy is required at higher organizational levels in order to ensure control of implementation of its principles in compliance with internal regulations applicable at the Bank, generally applicable laws and regulations and regulations issued by competent regulators.
Risk measurement	• Risk measurement is carried out using: rating models, scoring models and scorecards at the level of a client and provision models for portfolio risk assessment and an integrated ICAAP process, both at aggregate level and by business line.
Monitoring	• Credit risk exposures are monitored and managed at two levels: client level and portfolio level. Tools used to monitor the current creditworthiness of a borrower include: – annual comprehensive review of limits, exposures, financial situation of and cooperation with borrowers, – reports generated in the Early Warning process, – periodic financial reviews of borrowers, – periodic reviews of negatively classified credit exposures, – periodic visits to clients, – reports on ongoing contacts of employees of business units/bankers with clients,

	– analysis and assessment of external information (rating reports, analytical reports, press, sector sources, etc.), – internal classification system. • Portfolio-level monitoring – monitoring of utilization of risk concentration limits in the credit portfolio on the basis of appropriate reports, – regular periodic reviews of the credit portfolio, – "ad hoc" portfolio reviews due to sudden important external information, – monitoring of indicators determined for the retail exposure portfolio. • The monitoring of portfolio performance and the identification of trends in the portfolio are carried out using regular management information and control reports taking into account, *inter alia*, analysis of pace of changes in value and segmentation (sectors) of the credit portfolio, client risk (rating), quality of credit exposure collateral and exposures affected by non-performance, departures from applicable risk acceptance rules and limit utilization level. • The package of control reports for each portfolio is prepared on a regular basis and delivered to unit heads responsible for the client segment in question, the Risk and Capital Management Committee and the Management Board of the Bank.

Market risk

Definition	• Market risk is the risk that the financial result and equity of the Bank may be adversely affected by a change in: – market interest rates; – currency rates; – stock prices; – commodity prices; and – any parameters of volatility of such rates and prices.
Risk management strategy	• Market risk management is to ensure that the amount of risk accepted in the Group is consistent with the level acceptable for the shareholders and banking supervision authorities and to ensure that all market risk exposures are adequately reflected in calculated risk measures notified to relevant managers and governing bodies. • Adopted market risk measures and limits should prevent excessive concentrations of exposures to a single risk factor or a group of related risk factors and should enable determination of the maximum level of the risk accepted in the trading book or the banking book. • Market risk management at the Bank is based on: – applicable Polish laws and regulations, in particular the Banking Act, – applicable EU regulations, in particular the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR), – requirements of Polish and EU regulatory institutions and especially resolutions of the Polish Financial Supervision Authority (KNF), – principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market. • Market risk management covers all portfolios that generate incomes which are exposed to an adverse impact of market factors, such as interest rates, currency rates, stock prices, commodity prices and parameters of volatility of those factors. In market risk management, two portfolio types are distinguished: trading portfolios and banking portfolios. • Trading portfolios include transactions in financial instruments (on- and off-balance sheet ones) the purpose of which is to earn income connected with a change of market parameters in a short period. Trading portfolios cover on-balance sheet items, such as debt securities, categorized as held for trading, i.e. purchased for trading purposes and meeting specified liquidity criteria, and any positions in derivative instruments, provided that in this case portfolios are divided into those acquired for purely trading purposes and those created as hedging against the risk of positions included in a banking portfolio (so-called economic hedge). Valuation of trading portfolios is carried out either directly on the basis of market prices or by using valuation models that make use of price parameters quoted in the market. Activities on trading portfolios are carried out by the Interbank Transaction Division in the Financial Markets and Corporate Banking Sector for those portfolios which cover interest rate risk and currency risk. Trading portfolios also include options, including currency option transactions, interest rate options and option structures, which reflect the economic nature and risk arising from products offered to clients of the Bank. The operations of the Bank in that area are carried out so that they ensure the simultaneous (each time and immediate) conclusion of a counter transaction having the same parameters, as a result of which the option transaction portfolio

	generates no open market risk exposure. The only factor connected with the conclusion of option transactions which is taken into account in measurement of market risk, and specifically currency risk, is the amount of the premium paid/received in the foreign currency.
Risk measurement	• The following risk measurement methods are applied to trading portfolios: factor sensitivity (DV01) method, value at risk (VaR) method and stress tests. • Sensitivity factors measure the change in the value of the position in a given underlying instrument in the case of a specified change of the market risk factor (for example a change of the interest rate in a given point on the interest rate curve by 1 basis point or a change of the currency rate or stock price by 1%). – For interest rates, the sensitivity measure is DV01; – For currency risk the sensitivity factor is equal in value to the position in a given currency; – For positions in equity securities, the sensitivity factor is equal in value to the net position in a given instrument (stocks, index, participation unit). • The integrated measure of market risk for trading portfolios, which combines the impact of the positions in particular risk factors and takes into account the correlation effect between volatilities of individual factors, is value at risk (VaR). VaR is used to estimate the potential decline in value of a position or portfolio in normal market conditions, for a fixed confidence level and in a specified period. For positions opened in a trading portfolio of the Bank, VaR is calculated using the 99% confidence level and one-day holding period. • Both DV01 and VaR for a trading portfolio are calculated as net amounts without any economic hedging of the portfolio of securities available for sale, i.e. excluding any derivative instruments which are to secure the fair value of the portfolio. The risk exposure of such transaction is controlled by using appropriate risk measurement methods and mitigated with risk limits adopted for banking portfolios. • On a daily basis, the analysis of stress test scenarios is carried out, while assuming risk factor changes higher than those adopted for VaR measurement and ignoring any observed historical correlations between those factors. • The Bank has market risk exposures of trading portfolios in more than twenty currencies, both for currency positions and exposures to interest rate risk, but only exposures to a few currencies are significant. For a large group of currencies, exposures arise from the imperfect match of the transactions concluded upon the client's order and the counter transactions with other counterparties from wholesale markets. Significant exposures to market risk are opened for PLN, developed market currencies (mainly USD and EUR and less frequently GBP, CHF or JPY) and even currencies from Central European countries.
Monitoring	• The Market Risk Department by the dedicated IT system provides the relevant executives and managers, on a regular basis, with reports on portfolio sensitivity, value at risk (VAR), securities positions, stress test results for market risk, allocation of capital requirements relating to market risk and utilization of Trading MAT and Trading Stop Loss limits (warning thresholds). • In addition, market risk analyses are presented systematically to the following committees: the Asset and Liability Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

Interest rate risk for the banking book

Definition	• Interest rate risk for the banking book is the risk of an adverse impact of interest rate changes on the interest income and capital of the Group. • Interest rate risk may occur if assets and liabilities (including capital and derivative instruments that meet the requirements of hedge accounting) have different maturity dates or if their interest rates change on different dates or their interest rates are connected with different interest rate curves (basis risk), or if they include options.
Risk management strategy	• Interest rate risk management is to minimize the risk connected with the possibility of occurrence of adverse changes in market interest rates and with a negative impact of those changes on the net interest rate and, subsequently, financial result of the Group. • Market risk management at the Bank is based on: the requirements of Polish and European regulatory institutions, and especially resolutions of the Polish Financial Supervision Authority (KNF) and the EBA; and the principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market.

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

	positions (for example interest rate swaps) established to hedge the fair value of a portfolio.
Monitoring	• The Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers with reports on portfolio sensitivity, securities positions, stress test results for interest rate risk of the banking book. • In addition, market risk analyses are presented systematically to the following committees: the Asset and Liability Committee and the Risk and Capital Committee of the Supervisory Board.

Liquidity risk

Definition	• Liquidity risk is the risk of inability to perform financial liabilities to a client, lender or investor by their due dates as a result of mismatch between financial flows.
Risk management strategy	• The overriding goal of liquidity risk management is to ensure that the Bank and other companies from the Group have access to liquid funds sufficient to meet their financial liabilities when due (also in the event of probable extreme crisis situations). • Liquidity risk management is based on: – applicable polish laws and regulations, in particular the Banking Act; – applicable provisions of EU law, in particular Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR), – requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority (KNF); – principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank; – taking into account best practices applied in the market. • The Group analyses and manages liquidity risk in different time horizons and, to this end, distinguishes between current, short term, medium term and long term liquidity and applies adequate risk measurement and limitation methods. The adopted measures and limits are to limit excessive concentrations with respect to the assumed structure of the balance sheet or sources of funding. • The management of long-term liquidity is a task of Assets & Liabilities Committee (ALCO) and is covered by the strategy of the Bank. It is carried out on the basis of monitoring of structural relations of the balance sheet and on the basis of regulatory long-term liquidity measures, and covers the liquidity gap analysis and the possibilities of obtaining sufficient financing sources in the future, as well as the analysis of funding costs in the context of the impact on the profitability of business operations. • The management of medium-term liquidity, within the 1-year time horizon, is a task of Assets & Liabilities Committee and is carried out on the basis of annual financing plans, which determine the levels of internal limits, plans prepared by business units of the Bank concerning changes in assets and liabilities, elaborated within the framework of financial plans for the next budget year. • The management of short-term liquidity, within the 3-month time horizon, is a task of the Financial Markets Sector and Corporate Banking Sector, and is carried out on the basis of both regulatory measures of short-term liquidity and internal limits. The Bank also analyses the liquidity level in emergency situations, assuming, as a must, that there will be no negative gap in all time brackets in a 12-month time horizon. • Current liquidity management is a task of the Financial Markets and Corporate Banking Sector and is carried out on the basis of nostro accounts of the Bank, including in particular the mandatory reserve account with the National Bank of Poland, using available products offered by the money market and the central bank.
Risk measurement	• Liquidity risk measurement is carried out by using external supervisory measures (M3-M4, LCR/NSFR and additional liquidity monitoring indicators – ALMM) and additional measures and tools developed internally: – gap analysis – MAR/S2 – crisis/stress scenarios, – structural liquidity ratios, – market warning signals,

	– significant sources of financing, – emergency financing plan, – intra-day liquidity management process, – short-term liquidity gap – M1, – short-term liquidity ratio – M2, – illiquid assets with own funds coverage ratio - M3, – illiquid assets and assets of limited liquidity with own funds and stable external funds coverage ratio - M4.
Monitoring	• Liquidity risk monitoring and management are carried out using: supervisory liquidity risk limits determined by the Office of the Polish Financial Supervision Authority and internal prudential limits and thresholds determined for liquidity risk by the Asset and Liability Committee (ALCO): – limits for the S2 Report – for pre-determined currencies and time ranges; – warning thresholds for structural liquidity ratios; – warning threshold for tests of stress scenarios. • On a regular basis, the Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers with reports on the liquidity position, stress test results for liquidity risk and allocation of capital requirements relating to liquidity risk. • In addition, liquidity risk analyses are presented systematically to the following committees: the Asset and Liability Committee, and the Risk and Capital Committee of the Supervisory Board.

Operational risk

Definition	• Operational risk should be understood as a possibility of loss as a result of application of inappropriate or defective internal processes, human, systems or external events. The definition of operational risk also includes legal risk, i.e. the risk of loss (including litigation costs, settlements and penalties imposed by the regulator) resulting from non-compliance with the law, prudent ethical standards and contractual obligations in every aspect of the Bank's business, excluding strategic and reputational risk. • For the purposes of the ICAAP process, the compliance risk is also included in the operational risk (i.e. the risk of negative effects of non-compliance with legal provisions, supervisory regulations, internal normative acts of the bank and the practices and standards available on the market).
Risk management strategy	• In terms of operational risk, the strategic goal of operational risk management is to ensure a permanent and effective approach to identification, measurement/assessment, limitation, control, monitoring and reporting of risk, as well as effective reduction of the level of exposure to operational risk, and as a consequence limiting the number and scale of events of an operational risk (low level of tolerance to operational losses). • The main assumptions of the operational risk strategy focus on increasing the bank's capacity to early identifying areas of increased system risk and reduction of exposure areas resulting from the risk resulting from human errors. • When organizing the operational risk management process the Group takes into account the business strategy, risk profile of the Group, macroeconomic environment, available capital and liquidity resources and regulatory requirements, which make up the framework of preparation of the system used to control and manage operational risk at the Group. • The Group's operational risk management system is built to ensure proper risk management at every stage, i.e. identification, assessment/measurement, mitigation, monitoring and reporting.
Risk measurement	• In the risk assessment process, the Group uses combinations of various risk measurement or estimation methods. – Risk assessment is to determine the probability of occurrence and the amount of future losses attributable to operational risk. To this end both quantitative and qualitative indicators are used (such as risk appetite, capital requirements, target risk profile, KRIs, data about losses and operational risk events, control issues and corrective actions, self-assessment process (incl. risk map), key projects, risk concentration areas and rising-risk areas, scenario analysis, stress tests, changes in processes and products, operational risk escalation, information from internal and external reviews and audits and information reported to Commissions and Committees).

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

Geopolitical risk

Definition	• Geopolitical risk is defined as the risk associated with terrorist threats, threats of war, nuclear attacks and the build-up of armed forces between states or countries that disrupt the normal, peaceful course of international affairs.
Risk management strategy	• Geopolitical risk can be manifested or amplified through existing risks within the risk taxonomy. Risk management, therefore, includes processes applicable to other types of risk, among others, a comprehensive risk management cycle including risk identification, measurement, monitoring, control and reporting, as well as monitoring of the geopolitical situation with assessment of several crisis scenarios.
Risk measurement	• The Bank carries out regular monitoring of the level of risk in order to increase the effectiveness and efficiency of its operations and to minimize the potentially adverse impact of changes in the market environment. Macroeconomic reports prepared by the Bank's Chief Economist are also used in the risk monitoring process. Risk monitoring is presented at the Risk and Capital Management Committee of the Bank's Management Board on a quarterly basis.
Monitoring	• The Bank's Articles of Association do not restrict the assignment of the Bank's shares or the exercise of voting rights attributable to the Bank's shares. Restrictions related to the acquisition of significant stakes in banks and public companies are set out in Article 25 et seq. of the Banking Law Act of 29 August 1997 and Article 69 et seq. of the Act of 29 July 2005 on Public Offerings and Conditions for the Introduction of Financial Instruments to the Organized Trading System and on Public Companies

VII. Investor information

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

1.1 Shareholders

The strategic majority shareholder of the Bank that holds 75% of shares in equity and votes at the General Shareholders Meeting, is Citibank Overseas Investment Corporation (COIC), a Citigroup company that holds the group's overseas investments. In the first half of 2023, the number of shares held by COIC as well as its stake in share capital and in total voting rights at the General Meeting of Shareholders remained unchanged and amounted to 97,994,700 and 75%, respectively.

In addition, according to the notification about which the Bank informed by the Current Report No. 15 of June 2, 2033 and 16 of August 16, 2023, the share of funds managed by Nationale Nederlanden PTE S.A. exceeds the threshold of 5% of shares in the capital and votes at the General Meeting of the Bank.

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:

	Value of shares ('000)	Number of shares	% Shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation,	391,979	97,994,700	75,0	97,994,700	75,0
Funds under management of Nationale – Nederlanden PTE S.A.*	27,438	6,838,385	5,23	6,838,385	5,23
Other shareholders	103,221	25,826,515	19,77	25,826,515	19,77
	522,638	**130,659,600**	**100**	**130,659,600**	**100**

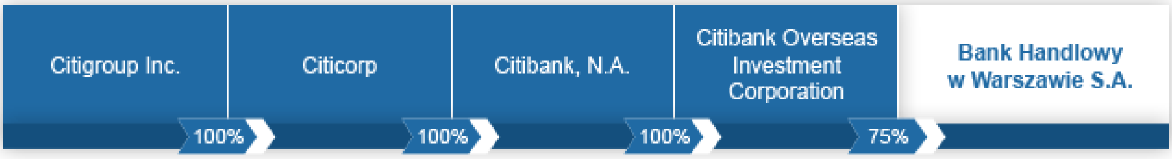
**Based on current report no. 15/2023 of June 2, 2023*

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,	97,994,700	75,0	97,994,700	75,0
Pension funds under management of 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 of August 16, 2023*

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



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.

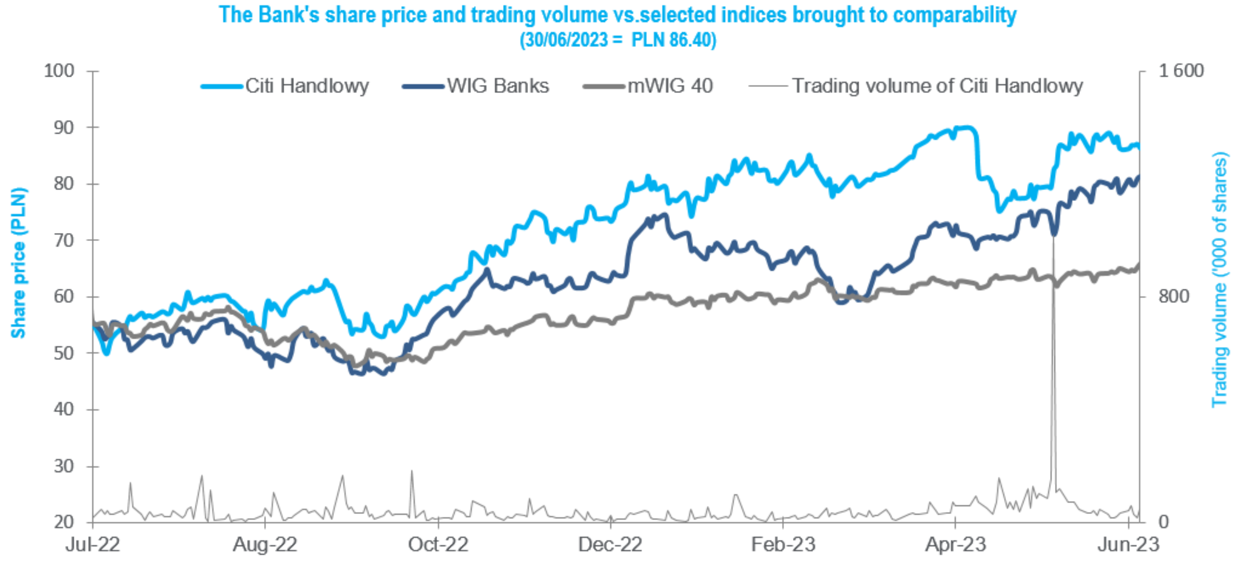
The transaction is to be carried out within the Citi Group in order to fulfil the obligations of domestic banks belonging to the third country group, i.e. from outside the European Union (in this case the United States), to hold an intermediate EU parent undertaking ("IPU"). As part of this transaction, 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.

1.2 Performance of the Bank's shares on the WSE

The Bank's share price was PLN 86.40 at the end of the first half of 2023, an increase of 54% within the last 12 months (i.e. compared to the closing price of PLN 56.20 as at 30 June 2022). During the same time, the mWIG 40 index recorded a year-on-year increase by 19%, while the WIG-Banks index grew by 46% YoY.



The Bank's highest share price since the end of the first half of 2023 was reached on April 27 and May 2, 2023 and amounted to PLN 90.00 while the lowest level was achieved on July 6, 2022 and amounted to PLN 50.00. The average share price of the Bank in the last 12 months was PLN 71.97 and the average daily turnover in the Bank's shares was approximately 3,028,000 shares.

As at the end of June 2023, the Bank's capitalization was PLN 11.3 billion (compared to PLN 9.9 billion as at 31 December 2022 and PLN 7,3 billion as at end of the first half of 2022). As at the end of June 2023, stock exchange ratios were as follows: P/E (price/earnings) – 4.6 (compared to 6.4 as at 31 December 2022 and 3.6 as at the end of the first half of the previous year), P/B (price/book) – 1.4 (compared to 1.2 as at 31 December 2022 and 1.1 as at the end of June 2022).

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

2. Dividend

On 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, 2023, 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 table below presents the history of dividend payments since 1997 when the Bank was floated on the Warsaw Stock Exchange.

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*)
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%
2014	970,800,828	7.43	7.43	99.9%
2015	611,486,928	4.75	4.68	98.6%
2016	591,887,988	4.62	4.53	98.0%
2017	537,010,956	4.11	4.11	100.0%
2018	488,666,904	5.00	3.74	74.8%
2019***	-	3.66	-	-
2020	156,791,520	1.21	1.20	99.2%
2021	714,708,012	5.48	5.47	99.8%
2022	1,175,936,400	12.01	9.00	74.9%

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

3. Rating

As of end of the first half of 2023, the Bank had full ratings awarded by Fitch Ratings ("Fitch").

On 14 September 2022, after the annul rating review, Fitch downgraded the viability rating ("VR") of the Bank from a- to BBB+ and kept this rating on the rating watch negative. Simultaneously, Fitch affirmed the other ratings of the Bank as follows:

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

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

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

In the rationale, the rating agency explained that the decision to downgrade the Bank's VR was a result of the score cut-down for the operating environment of the Polish banking sector from *bbb+* to *bbb* in the wake of the implementation of "credit holidays" and concerns about further government interventions in the banking sector and the possibility that the banks will have to incur additional costs of such interventions while macroeconomic outlooks show a downgrade tendency. Therefore, Fitch believes that the risk affecting both quality of assets and capitalization of the Bank has increased, even if the financial ratios are now solid and profitability has improved. Despite that VR downgrade to BBB+, it is still the highest score among all the Polish banks, which reflects the low risk appetite, diversified business model, high capitalization and high liquidity of the Bank. All these factors make the Bank more resilient to the risks existing in the Polish operating environment. The balance sheet of the Bank mainly includes low-risk assets and the quality of its loan portfolio is solid, thanks to the Bank's strategy to focus on top quality corporate and retail borrowers. However, the Bank cannot be isolated from the discussed threats occurring in the operating environment.

And the decision to keep the VR on the rating watch negative is connected with Citigroup's strategy to exit retail banking activities, and, precisely, the lack of information on the details of that process (scope, timeframe), and it reflects the uncertainty how this divestment will affect the risk and financial situation of the Bank. The Bank's VR can be removed from the rating watch negative if, after the divestment is complete, Fitch concludes that that the risk profile and financial profile of the Bank still justifies a BBB+ score or if the transaction is cancelled.

For the full announcement published by Fitch please visit:
Fitch Downgrades Bank Handlowy's VR to 'bbb+'/RWN; Affirms IDR at 'A-' (fitchratings.com)

4. Investor relations

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

- regular contacts with investors and analysts in the form of conference calls and meetings, also at the Bank's premises, attended by members of the Bank's Management Board;
- support of the Press Office during quarterly press conferences for the media held after the publication of interim reports;

- publishing on the website current information on the Bank and its projects, and all current and interim reports. The website also enables contacts with the Investor Relations Office which has a broad knowledge of the Bank and its Group of Companies.

In the first half of 2023, the Bank organized meetings regarding the publication of financial results after each quarter with capital market analysts and representatives of investors.

VIII. Corporate governance rules in the Group

1. Best practice at the Bank

Corporate Governance Principles applied in the Group of the Bank are described in the Report of the Management Board on the activities in 2022.

2. Governing bodies of the Bank

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

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

In the first half of 2023, the Bank's Management Board consisted of:

Elżbieta Światopełk-Czetwertyńska	President of the Bank's Management Board
Natalia Bożek	Vice-President of the Bank's Management Board
Andrzej Wilk	Vice-President of the Bank's Management Board
Maciej Kropidłowski	Vice-President of the Bank's Management Board
Barbara Sobala	Vice-President of the Bank's Management Board
Katarzyna Majewska	Vice-President of the Bank's Management Board
Ivan Vrhel	Member of the Bank's Management Board

In the first half of 2023, there were no changes in the composition of the Bank's Management Board.

2.1.2 Changes in the composition of the Supervisory Board during the first half of 2023

During the first half of 2023 the Supervisory Board of the Bank consisted of:

Sławomir S. Sikora	Chair of the Supervisory Board
Kristine Braden	Deputy Chair of the Supervisory Board
Silvia Carpitella	Member of the Supervisory Board
Helen Hale	Member of the Supervisory Board
Marek Kapuściński	Member of the Supervisory Board
Andras Reiniger	Member of the Supervisory Board
Anna Rulkiewicz	Member of the Supervisory Board
Barbara Smalska	Member of the Supervisory Board

In the first half of 2023, there were no changes in the composition of the Bank's Supervisory Board.

2.2 Rules of appointing and dismissing members of the Management Board

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

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

2.3 Rights of the Management Board

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

By way of resolutions, the Management Board in particular:

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

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

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

3. Other principles

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

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

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

The Bank's Articles of Association do not provide for restrictions on the transfer of ownership of the Bank's shares and restrictions on the exercise of voting rights attached to the Bank's shares. Restrictions related to the acquisition of significant blocks of shares in banks and public companies are specified in Art. 25 of the Act of August 29, 1997, the Banking Law and Art. 69 et seq. of the Act of 29 July 2005 on Public Offering and Conditions for Introducing Financial Instruments to Organized Trading and on Public Companies.

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

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

According to the best knowledge of the Bank – the parent company, at the end of the first half of 2023, as well as at the date of submission of the previous periodic report for the first quarter of 2023 none of the members of the Management Board and Supervisory Board declared holding the Bank's shares.

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

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

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

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

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

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 section *Equity and Total Capital Ratio*.

After the balance sheet date, there were no other material events that should be additionally included in this Report on activities of the Capital Group.

XI. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Management Board of the Bank, composed as at the date of preparation of the financial statements of: Ms. Elżbieta Światopełk - Czetwertyńska – President of the Management Board, Ms. Natalia Bożek – Vice-President, Mr. Maciej Kropidłowski – Vice-President, Mr. Andrzej Wilk – Vice-President, Ms. Barbara Sobala – Vice-President and Mrs. Katarzyna Majewska – Vice-President, Ivan Vrhel – Member, the semi-annual financial data and comparative data presented in the "Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2023" and the "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2023" were prepared in accordance with the applicable accounting principles and give a true, fair and clear picture of the assets and the financial standing of the Bank and the Group as well as the financial result of the Bank and the Group. The "Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2023", contained in the semi-annual consolidated report, gives a true picture of developments, achievements and situation (and describes major risk) of the Group in the first half of 2023.

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

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