REPORT ON ACTIVITIES OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. IN THE FIRST HALF OF 2021

AUGUST 2021

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.

citi handlowy®

TABLE OF CONTENTS

I. Introduction

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

Bank Handlowy w Warszawie S.A. (further “Bank” or “Citi Handlowy”) is strategically focused on its defined target market comprising the areas of Institutional Banking and Consumer Banking.

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. Focusing on acquiring new clients while actively expanding relations with existing clients in selected sectors as well as providing support to clients planning international expansion (the Emerging Market Champions initiative) are keys to further building the Group’s market position. The goal of the Group is to be the Strategic Partner for Polish companies and to actively support the expansion of Poland’s industry. 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.

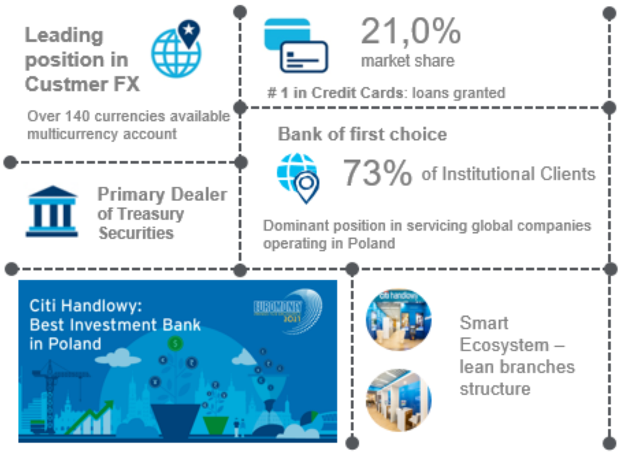
The Bank’s stable capital position as well as its outstanding network of international contacts are also appreciated by individual consumers. The Bank uses this competitive advantage to strengthen its leading position in the affluent banking segment – Citigold and continues to develop unique offering 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.

The Bank also stresses the importance of other groups of consumers, and especially so-called aspiring clients for whom the Bank is developing the special Citi Priority range of products. Citi Handlowy enhances the package solutions offered to this segment, tightening the clients’ deposit relations with the Bank and at the same time addressing their need for loans.

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.

In order to increase the share of remote channels in product acquisition, the Bank continues to develop advanced tools using biometric technology in the areas that include granting cash loans, applying for credit cards and opening personal accounts. As a result, the Bank has become the only bank in Poland that offers retail clients three main solutions that are contactless and secure and significantly reduce the time required to start using them.

The Bank’s brokerage house (Dom Maklerski Banku Handlowego S.A., further DMBH) is among the most active participants of the Polish capital market and a leading player in terms of share in Warsaw Stock Exchange turnover.



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:

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

- services in Wealth Management.

This is a good moment for the Group to generate further growth. It is possible thanks to its strong capital position and a high liquidity. In addition, a significant competitive advantage is the global range and unique proposal for institutional clients running international operations as well as for individual clients travelling and investing in global markets.

2. Major achievements in the first half of 2021 include:

- **In the Institutional Banking:**
  - Supporting the activity of domestic enterprises (Commercial Banking Segment) in international markets - assets in this segment increased by 4% compared to 2020, while FX volumes increased by 19% QoQ and 32% YoY;
  - Development of the offer for e-commerce companies and an increase in the Bank's transaction volumes along with the increase in the scale of operations of these companies, foreign transfers grew in the first half of 2021 by 20% compared to the same period last year;
  - Confirmation of the position of the best investment bank in Poland according to Euromoney, edition 2021. In the first half of 2021, DMBH acted as the Local Co-Bookrunner in the IPO on the Euronext Amsterdam exchange with a transaction value of EUR 3.2 billion;
  - As a result of the increase in customer transactions, the commission result after the first half of 2021 in Institutional Banking increased by 32% YoY;
  - The Bank uses its expertise to support sustainable growth, as a consequence Citi Handlowy conducted the largest public issue of Climate Awareness Bonds for the European Investment Bank for sustainable growth in the amount of PLN 1.25 billion addressed to Polish investors;
  - Citi Handlowy focused on further automation of processes in the area of document circulation as part of transaction activities. As a result the Bank noted an increase in documents submitted by clients with an electronic signature by 63% YoY in the first half of 2021. Additionally, the number of clients actively using the CitiDirect BE system increased by 16% compared to the end of June 2020.
- **Business development in strategic areas of the retail banking business:**
  - Increase of the client base in the strategic target groups: CitiPrivateClient +24% YoY, CitiGold +6% YoY, as a result, the balance of investment products grew by 39% YoY at the end of the first half of 2021;
  - Increase in credit card transactions, thanks to the return to normalization in customer purchasing decisions - spending on cards in the country and abroad increased by 9% in June 2021 compared to June 2020. Sales of credit cards at the OBI partner increased by 122% QoQ in the second quarter of 2021 and credit volumes in the cards segment rebounded by 1% QoQ.
- **Strong capital base much above the regulatory requirement**[1] – TCR of 20.8%. At the same time **liquidity remains at a record-high level** of 48% (Loans/Deposits ratio);
- **Once again the Bank demonstrated its high social responsibility** through global community day. As part of this action, 2,000 volunteers prepared over 1,000 food packages for seniors, additionally prepared personal cards for lonely people and conducted motivational interviews for young people from orphanages. As a result, there were over 14 thousand aid recipients. The bank also sponsors paralympics who compete at the Tokyo Paralympics.

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

In 2021, Citi Handlowy has continued to implement the 2019-2021 strategy developed in 2018 ("Strategy"), while also adapting to the situation the Group and the entire economy have found themselves in due to the COVID-19 pandemic. In its efforts, the Group aims not only at maintaining operational continuity and quality of the provided services, but also at addressing the needs and habits of its clients in the post-pandemic reality.

In April 2021, the main shareholder of the Bank (Citigroup) decided to sell its consumer segment in 13 countries, including Poland. The goal of the Group is thus to redirect the resources to the prioritized, very strong institutional business, while developing Wealth Management services concentrated across four centers located in Singapore, Hong Kong, United Arab Emirates and London. Citi Handlowy intends to continue its operations in consumer banking without any changes until the sales transaction is complete, and will make every effort to maintain the satisfaction level of individual clients and top quality of the offered products and services, while striving to preserve the business value for the shareholders.

Institutional Banking	Consumer Banking

[1] The regulatory requirement for the Group's TCR is 10.77% as at 30 June 2021

Foreign exchange– coherent offer for companies seeking for a global financial partner, solutions for companies planning foreign expansion and foreign enterprises investing in Poland	**Strategic partnerships –** building the scale of business that will allow for both growing the customer base and building additional credit volumes through access to new groups of customers
New economy companies – providing full services in the field of complex banking solutions. Adjusting the product offer to the needs of enterprises that base their business model on digital solutions.	**Affluent customers –**growing the affluent customer base (Citi Private Client, Citigold, Citi Private Client) thanks to continuous enlargement of product offer, launch of extended advisory and regular update of structured products and investment funds offer
Transformational transactions – for the largest corporate clients, also with involvement of private equity funds (e.g. LBO, IPO or M&A transactions)	**Customer Experience –** using modern contextual banking development tools
Global companies – maintaining a leading position	**Credit cards –** keeping a leading position

Digitization and simplification of processes using the latest technology (e.g. biometrics)	**Client security** in terms of both high liquidity, secure capital level and in cyber-security	**Organizational culture** simplifying processes and promoting cooperation and diversity

Increase in shareholder value

4. Awards and honors

In the first half of 2021, the Bank, DMBH and the Leopold Kronenberg Foundation at Citi Handlowy received a number of prestigious titles and awards:

- **Citi Handlowy again named "SuperEthical Company"**

In a Puls Biznesu survey of corporate operating standards, Citi Handlowy has confirmed its consistent adherence to the highest ethical requirements. The Bank has been regularly awarded in the competition since its beginning. Citi Handlowy has retained the title of the "SuperEthical Company", which is conferred every three years. It is the only bank among only nine laureates awarded in this year's survey and one of two banks entitled to use this prestigious title.

- **First place in the "Socially Sensitive Bank" category in the 12th edition of the Golden Banker ranking organized by "Puls Biznesu" and Bankier.pl.**

Together with the Citi Handlowy Foundation, the bank was also named a "socially sensitive bank" for its #SilentHeroes campaign, a title that is very important and meaningful during the challenging time of the pandemic. These intervention activities are organized by 2,000 volunteers from Citi in Poland. They are a series of initiatives developed overnight to address the needs of the groups most affected by the pandemic. Healthcare professionals received nationally innovative medical equipment – mobile ultrasound devices and respirators, video laryngoscopes, PPE for doctors and training in using the new equipment. 7 ambulances were thus additionally equipped. During the first weeks of lockdown, volunteers prepared over 8,300 meals for the paramedics in Warsaw and Olsztyn to help them get through the most difficult time of chaos. Moreover, over 100 computers were donated to children to help them with remote education, while over 1,000 packages with basic necessities were delivered to the elderly.

- **6th consecutive Golden Banker for the Citi Handlowy Credit Card in the 12th edition of the Golden Banker ranking organized by "Puls Biznesu" and Bankier.pl.**

For the sixth time, the Citi Handlowy credit card has won the Golden Banker ranking as the best product on the market in its category, thus confirming its position as a market leader. The Citibank-BP Motocard Credit Card was awarded for "zero issuance, renewal and maintenance fee, as well as access to a high limit and one of the market's longest interest-free periods," reads the justification.

- **Citi Handlowy named Poland's best investment bank according to Euromoney**

The British magazine Euromoney named Citi Handlowy "The Best Investment Bank in Poland" in the year 2020 in the prestigious Euromoney's Awards for Excellence. Last year, the Bank in cooperation with Citi supported Polish enterprises in the largest international M&A transactions.

- **Medals of NBP and ZBP for the 150th anniversary of Citi Handlowy**

During a virtual gala, presidents of the National Bank of Poland (NBP) and the Polish Bank Association (ZBP) presented merit medals for supporting the development of banking in Poland to 100 employees of Citi Handlowy. The awards for the employees were the culmination of the "150 years of progress" – celebrations of the anniversary of the oldest Polish commercial bank. 25 employees of Citi Handlowy received honorary badges of the National Bank of Poland, while 75 employees received medals of the Polish Bank Association. These are representatives of consumer, corporate and transactional banking, as well as employees of the risk and finance departments, support sectors and the Citi Handlowy Foundation.

- **Citi Handlowy tops rankings of Cash Management in Poland, for the seventh time**

Citi Handlowy was yet again named the “Market Leader” of transactional banking in the category of cash management of corporate clients in a prestigious Euromoney Cash Management Survey for 2020. The Bank celebrated the title of the market leader, obtained for the seventh consecutive time, in a special way. For the 150th anniversary of the Bank’s existence and during the ongoing pandemic, the Bank decided to financially support the #SilentHeroes campaign, which focuses, among others, on helping paramedics. Citi Handlowy funded a portable ultrasound device to equip an ambulance.

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

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

External environment

After the first quarter of 2021, which was under strain of the third wave of COVID-19, economic recovery was observed due to the gradual lifting of anti-pandemic restrictions. Progress in vaccination programs has led to improved sentiment and expectations as to the outlook for the global economy in the coming quarters, giving hope of herd immunity in a large number of countries already this year. This has contributed to growth in equity markets and higher yields on the underlying debt markets. Much faster vaccinations in the US than in the European Union and further fiscal packages have accelerated improvement in the prospects for the US economy.

Rising activity and inflation, as well as increased concerns about its sustainability in response to recovery and supply constraints, have led to increased expectations as to a reduction in the asset purchase program at the turn of the year and an increase in the rates by the Fed in 2022. On the other hand, in the euro area, the European Central Bank (ECB) has accelerated asset purchases and, as a result of a review of its strategy, has introduced a symmetrical inflation target of 2%, which may lead to a slightly softer monetary policy. As a result, the dollar strengthened against the euro.

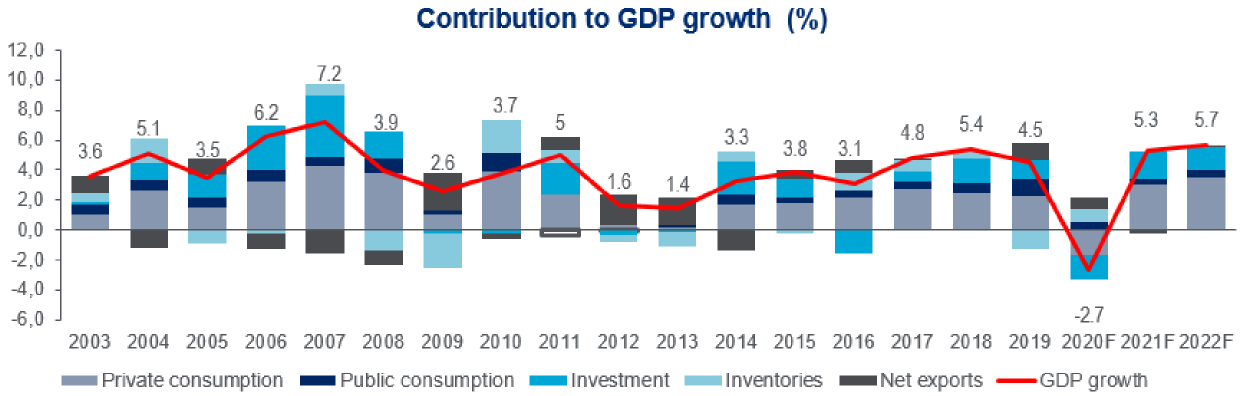
The COVID virus and the potential fourth wave of the pandemic, which have already begun in some countries, remain the biggest threat in the coming months and a major challenge to the current economic recovery. It may, like the rather slow vaccination rate and the higher infectivity of new virus mutations, lead to the return of anti-pandemic restrictions already in the coming months. On the other hand, thanks to vaccination programs, restrictions can be less severe for individual economies than in previous waves.

Gross Domestic Product

In the first half of 2021, there was a significant recovery in economic activity, and throughout 2021 the Polish economy is likely to show a much better result than expected at the beginning of the year. GDP grew by 1.1% after adjusting for seasonal factors in the first quarter of 2021 and probably by around 2% in the second quarter of 2021. As a result, annual GDP growth in the second quarter of 2021 is likely to have accelerated to more than 10% YoY from -0.9% in the first quarter of 2021 and -2.7% in the fourth quarter of 2020.

In addition to the effects of the base, less severe restrictions and faster lifting of restrictions, the Polish economy has benefited from the improving situation in the major trading partners. At the same time, consumer confidence and business sentiment indices have gradually improved. Industrial output was least affected by the successive waves of restrictions and spurred on by increased demand for durable goods during the pandemic and the feeble zloty. At the same time, the opening up of the economy and the improving labor market situation have contributed to a significant increase in consumption. This was reflected in monthly data on industrial output, which accelerated to around 30% YoY in the second quarter of 2021 from 7.4% in the first quarter of 2021, and retail sales, which accelerated to 14.5% YoY in the second quarter of 2021 from 2.5%. The recovery in foreign trade has had a positive impact on Polish exports, which increased by around 55% YoY between April and May 2021, compared to 12% in the first quarter of 2021. At the same time, imports accelerated to 57% from 8.5%. Strong retail sales were fueled by an acceleration in wages in the business sector to 9.9% YoY from 5.8% and a rebound in employment with the falling unemployment rate. The results of construction and assembly production, which dropped by 12.6% YoY in the first quarter of 2021, were disappointing, negatively affected by weather conditions and increased by merely 1.6% YoY despite the subsequent rebound in the second quarter of 2021.

While the new epidemic wave may lead to further restrictions, we assume that their impact on economic activity will be less severe than in the previous waves. As a consequence, we expect GDP to grow by more than 5% this and next year. We believe that private consumption (around 6% in 2021 and 2022), propped up by a drop in the savings rate and a good labor market situation and improved consumer sentiment, will drive growth. At the same time, we expect a strong recovery in investment (around 10% in 2021), a harbinger of which are the strong increases in building permits issued and the inflow of EU funds under the next EU perspective and recovery fund.

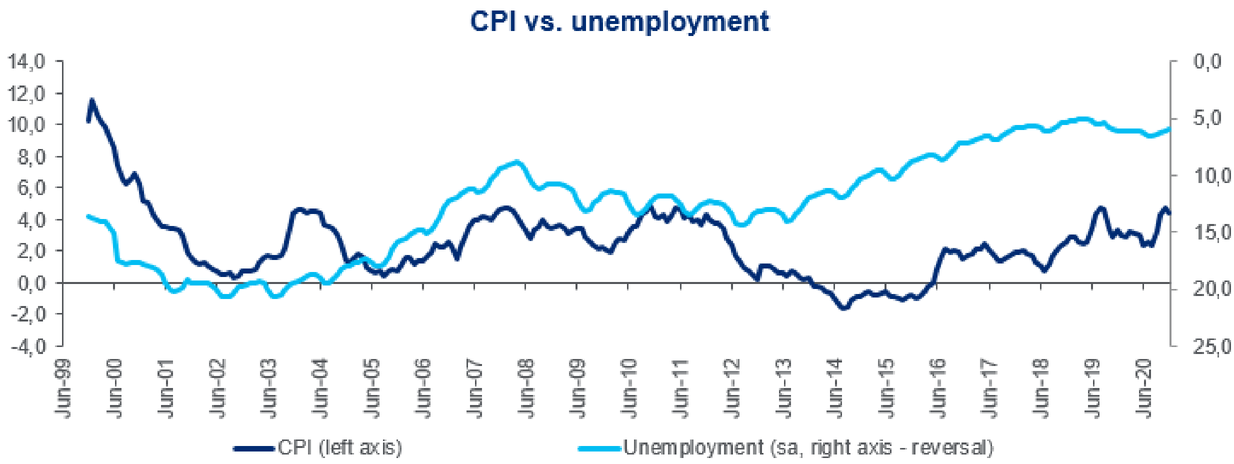


Source: Chief Statistical Office, Citi Handlowy forecasts

Inflation

The growth of prices of consumer goods and services accelerated to 3.6% YoY in the first half of 2021 from 2.9% YoY in the second half of 2020. The inflation rate was influenced during this period by increases in administered prices (including electricity), the introduction of a trade tax, a sugar tax and an increase in garbage collection charges. Fuel price increases also played their role. Net inflation remained high and in the first half of 2021 was at around 3.9% as compared to 4.1% in the second half of 2020. Meanwhile, services inflation remained below 7%, while average goods inflation was at around 2.6%. Inflation reached 4.7% in May 2021, the highest level shown since 2011. We expect inflation to be around 4.5-5% in the coming months and its gradual fall not earlier than in 2022. We expect inflation to remain above the NBP inflation target of 2.5%, for a long time. Rising commodity prices, low unemployment and strong demand will be the main factors keeping inflation at an elevated level.

The Monetary Policy Council ("MPC") kept interest rates unchanged and the reference rate has remained at a record low level of 0.1% since May 2020. Although expectations as to an increase in the interest rates were gradually growing in the first half of 2021 due to the economic recovery and higher inflation, the MPC gradually sought to temper these expectations. Given the statements delivered so far by the NBP representatives, we expect that the uncertainty caused by the potential fourth wave of COVID and the risk of strengthening of the zloty can restrain the MPC from tightening its monetary policy. Our scenario for the coming months assumes that the first major discussions on increases are likely to take place at the November Meeting of the MPC, and the first increases are likely to take place around the first and second quarter of 2022.



Source: National Bank of Poland, Chief Statistical Office, own calculations

2. Money and foreign exchange markets

In the first half of 2021, the zloty remained feeble, but relatively stable against the euro and depreciated against the dollar. The volatility of the EUR/PLN exchange rate remained close to the rates recorded in the second half of 2020 and was temporarily raised due to concerns about the consequences of foreign currency credit conversions. In addition, the third wave of COVID and the related restrictions, including notably the accommodative monetary policy in the region and the strengthening of the dollar on international markets, have had a negative impact on the zloty. On the other hand, the national currency was aided by the improving economic data and progress in vaccination programs, which could alleviate the course of the epidemic in the subsequent quarters. The EUR/PLN rate decreased from 4.55 as at the end of 2020 to 4.51 as at the end of June 2021 and the USD/PLN increased from 3.73 to 3.81 in the same period.

The money market rates remained relatively stable in the first half of 2021. The WIBOR 3M rate was 0.21% at the end of June, as compared with 0.22% at the end of 2020. Improving economic prospects and higher inflation have led to a gradual increase in expectations as to increases in interest rates, which has translated into an increase in market rates. Swap rates increased by about 60-80 bps in the first half of 2021. Yields on Treasury bonds rose to a lesser extent compared to the credit spread increase. The yield of 2-year bonds increased by 31 bps, to 0.41% as at the end of June 2021 from 0.1% as at the end of 2020. The yield of 10-year bonds increased by 30 bps, to 1.55% as at the end of June 2021 from 1.25% as at the end of 2020.

3. Capital market

The first half of 2021 saw dynamic growths in stock markets. Positive sentiments – seen particularly in the second quarter of 2021 – were supported, above all, by the continuing recovery in global economy, the progressing vaccination of the society and the accommodating monetary policy maintained by the key central banks. What was also important for the economic situation on financial markets was the very good performance of companies in the first quarter of 2021, and the aid packages widely implemented by the governments (including the planned launch of the infrastructure investments plan in the USA). Financial markets were also significantly supported by the continued record-high inflows to investment funds, especially those with exposures in American companies.

The said global factors had also key influence on shares valuations on the national market. All the main indices on the WSE recorded two-digit increases. The main market index (WIG) grew by 15.9%. An exceptionally dynamic growth was recorded among companies with the lowest capitalization – the sWIG80 index increased by almost 28%. The blue-chip index WIG20 improved by 11.8%. On the other hand, the mid-cap index (mWIG40) grew by 21.3%.

Among the sector-specific sub-indices, the sector of gaming companies (one of last year's growth leaders) is especially of note, as it was the only sector that recorded a decline in the first half of 2021 (-17.8%). Meanwhile, cyclical sectors achieved the highest rates of return: the ranking was led by automotive (+47.0%) and clothing companies (+46.2%), whereas dynamic increases were also recorded by the banking sector (+37.4%).

In the first half of 2021, the public offering market experienced a recovery. Since the beginning of the year, eight entities have become listed on the main floor of the WSE (as compared to one IPO in the prior year period), four of them as part of a transfer from New Connect. The total value of the public offerings exceeded PLN 5.85 billion, against mere PLN 24.2 million a year before. On the other hand, we saw a higher number of delistings – 15 since the beginning of the year (vs. 10 in the prior year period). As at the end of June 2021, the shares of 426 companies were traded on the WSE (including 47 foreign ones), the market value of which totaled PLN 1,228 billion (domestic companies represented 52%). As compared to the first half of 2020, the aggregated capitalization of companies listed on the WSE increased by 42% YoY.

Warsaw Stock Exchange (WSE) Equity Indices as of June 30, 2021

Index	30.06.2021 (1)	31.12.2020(2)	Change (%) (1)/(2)	30.06.2020 (3)	Change (%) (1)/(3)
WIG	66,067.21	57,025.84	15.9%	49,569.17	33.3%
WIG-PL	67,395.78	58,270.52	15.7%	50,648.82	33.1%
WIG-div	1,305.80	1,102.18	18.5%	911.88	43.2%
WIG20	2,218.41	1,983.98	11.8%	1,758.82	26.1%
WIG20TR	4,075.41	3,633.75	12.2%	3,205.90	27.1%
WIG30	2,655.71	2,312.73	14.8%	2,023.71	31.2%
mWIG40	4,825.09	3,976.50	21.3%	3,468.48	39.1%
sWIG80	20,581.88	16,096.36	27.9%	13,411.95	53.5%
Sector sub-indices					
WIG-Banks	6,547.82	4,765.33	37.4%	4,157.20	57.5%
WIG-Construction	4,212.95	3,662.06	15.0%	2,754.02	53.0%
WIG-Chemicals	10,232.21	7,697.82	32.9%	8,067.33	26.8%
WIG- Energy	2,694.54	2,040.76	32.0%	1,958.16	37.6%
WIG-Games	23,725.64	28,873.53	(17.8%)	30,951.13	(23.3%)
WIG- Mining	5,940.09	5,625.47	5.6%	2,894.00	105.3%
WIG-IT	4,509.26	3,863.01	16.7%	3,419.23	31.9%
WIG-Medicines	6,332.77	4,682.94	35.2%	4,865.52	30.2%
WIG-Media	7,770.02	6,042.75	28.6%	5,042.77	54.1%
WIG-Motorisation	5,851.97	3,981.19	47.0%	3,388.79	72.7%
WIG- Developers	3,014.43	2,385.90	26.3%	2,119.03	42.3%
WIG-Clothing	7,539.69	5,158.73	46.2%	3,719.69	102.7%
WIG- Fuel	6,357.84	4,954.47	28.3%	5,087.79	25.0%
WIG- Food	4,357.72	3,641.75	19.7%	3,048.24	43.0%
WIG-Telecoms	987.40	977.01	1.1%	802.32	23.1%

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

Equity, bond and derivatives trading volumes on WSE in the first half of 2021

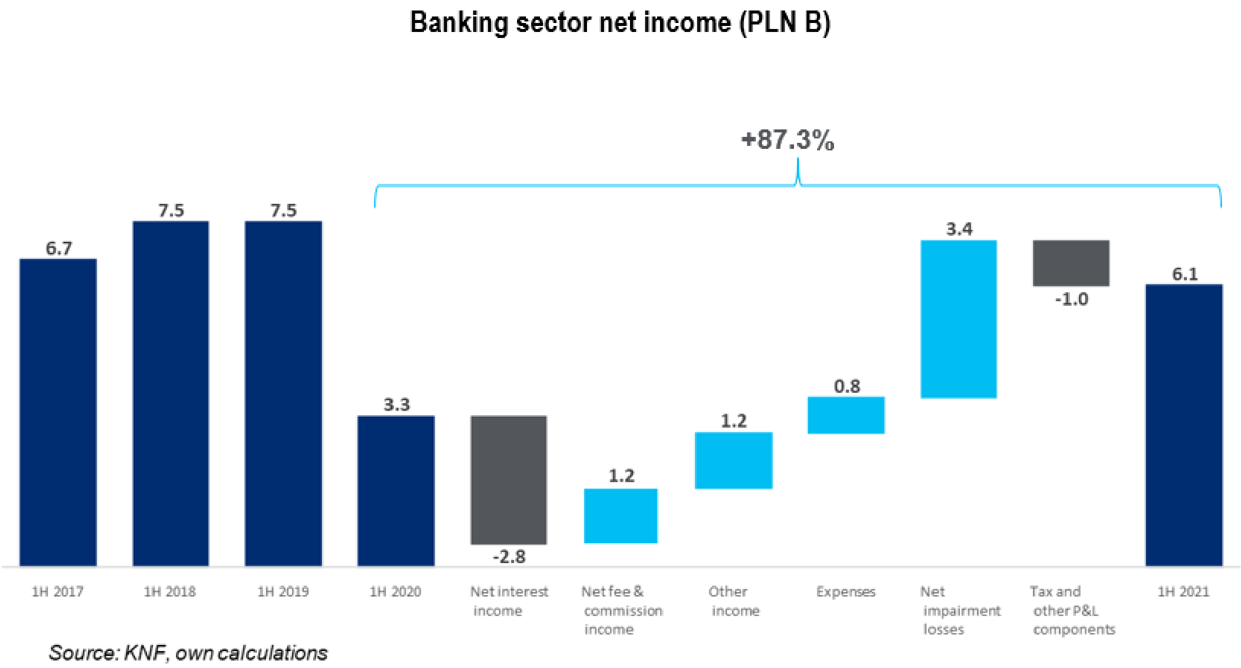
	1st half of 2021 (1)	2nd half of 2020 (2)	Change (%) (1)/(2)	1st half of 2020 (3)	Change (%) (1)/(3)
Equity (PLN million)*	363,513	353,703	2.8%	268,546	35.4%

	1st half of 2021 (1)	2nd half of 2020 (2)	Change (%) (1)/(2)	1st half of 2020 (3)	Change (%) (1)/(3)
Bonds (PLN million)	2,122	1,725	23.0%	1,524	39.2%
Futures ('000 contracts)	11,511	10,905	5.6%	11,325	1.6%
Options ('000 contracts)	303	385	(21.3%)	364	(16.9%)

** figures excluding calls*
Source: WSE, DMBH

4. Banking sector

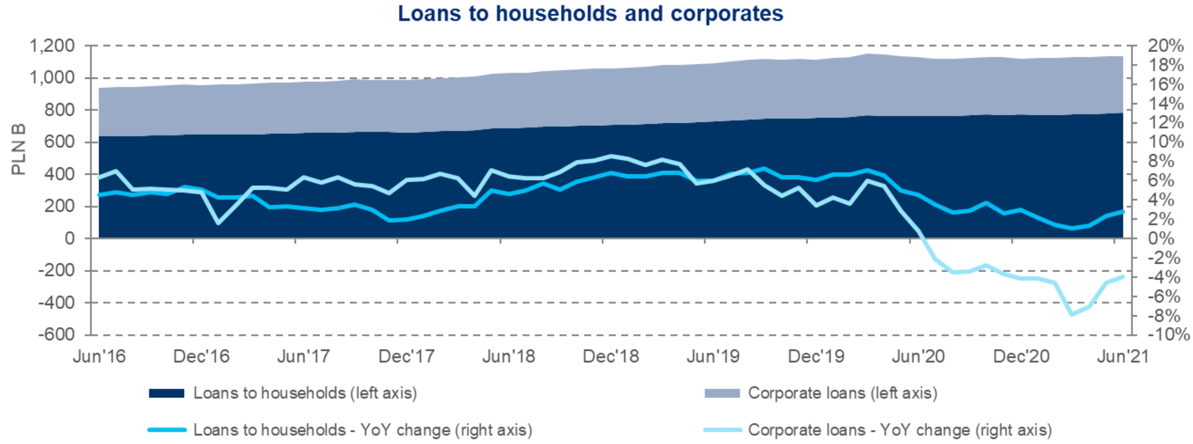
Net profit of the banking sector (PLN billion)



Financial results

According to the data published by the Polish Financial Supervision Authority, in the first half of 2021 the banking sector generated a net profit of PLN 6.1 B, up by 87.3% (PLN 2.9 B) compared to the corresponding period of the previous year. The significant decline in net interest income indicates that it was only this period that banks fully felt the full impact of the threefold cuts of interest rates, which translated into a 11.3% YoY reduction (PLN 2.8 B) of net revenues on this account. Banks compensated for the loss in net interest income with an improvement in net fee and commission income by 17.5% YoY, PLN 1.2 B. An even greater increase was recorded in other income, on which banks booked revenues for the first six months of 2021 higher by 43.3% YoY, PLN 1.2 B than in 2020. The value of total revenue of the banking sector exceeded slightly the level of PLN 34 B, which means a decrease by 1.0%, PLN 361 MM, compared to the first half of 2020. Operating expenses in the banking sector decreased by 4.2%, PLN 768 MM, mainly due to a significant reduction in both BFG contributions (in total -30% for the entire year 2021 compared to 2020), as well as a slight reduction in depreciation (-2.2% YoY, PLN 52 MM). Despite posting additional provisions for the costs of legal risk related to foreign currency mortgage loans, losses on provisions and impairment losses decreased by as much as 39.6%, PLN 3.4 B, due to the improving macroeconomic situation and the release of some provisions related to COVID-19. In the period of January-June 2021, the banking sector also paid a higher income tax (+41.8% YoY, PLN 882 million) as well as bank levy (approx. + 10% YoY). As a result, the cost-to-income ratio (C/I) improved, falling from 53% to the level of 51%.

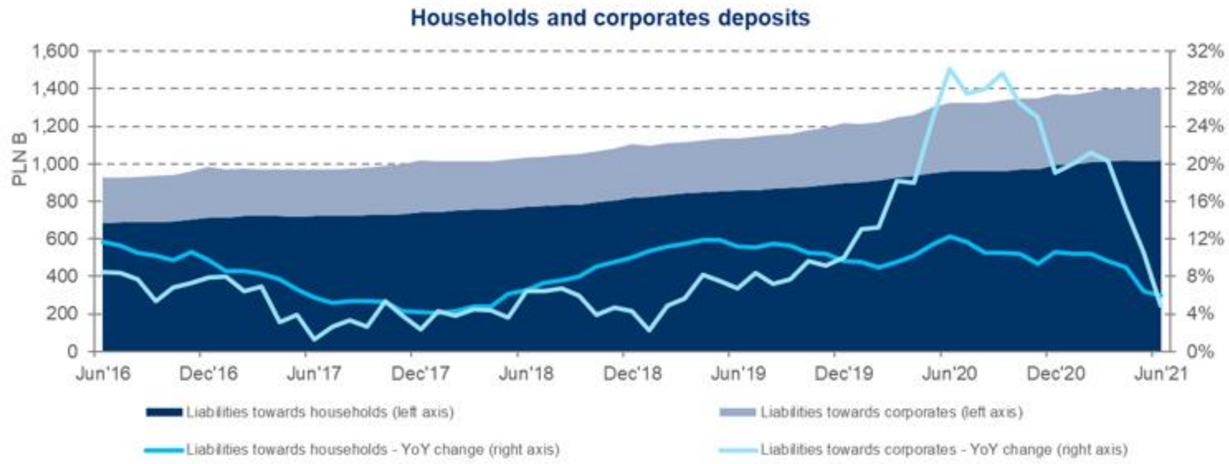
The loan portfolio quality data as at the end of June 2021 show an improvement in the ability to service the current debt after the pandemic period. The share of loans delayed over 90 days (stage 3) for the non-financial sector decreased by 0.4 pp. YoY, to 6.5%, due to a lower share of non-performing loans in the portfolio of loans from large enterprises (-0.4 pp YoY to 5.0%), as well as unsecured loans from retail customers (-0.6 pp YoY to the level of 10.7%). The share of stage 3 in the portfolio of mortgage loans in PLN remained almost unchanged, similarly as it was in the case of non-performing loans share in SME segment. Meanwhile a drastic increase in delays in the repayment of loans in Swiss francs is visible, which is probably related not so much to the borrowers' ability to service them, but to withholding repayments for the period of pending court proceedings.



Source: NBP, own calculations

In the first half of 2021, the growth rate of loans to the non-financial sector decreased slightly from +1.0% YoY (PLN 12 billion) as at the end of 2020 to +0.8% YoY (PLN 10 billion), as at the end of June 2021. The main reason for the weak credit dynamics was a further decrease in the volume of loans granted to non-financial enterprises (-3.9% YoY, -PLN 14 billion). Particularly high negative dynamics was reported in the area of current loans (-8.7% YoY, -12.0 billion), while in the area of real estate loans it was -4.0% YoY (-PLN 2.7 billion) and investment loans depleted by 1.7% YoY (-PLN 2.3 billion). It is worth noting, however, that in each of these categories the dynamics of PLN loans was much higher than the dynamics of loans in foreign currencies (in the case of investment loans, PLN loans showed even a slight increase of 0.7% YoY, PLN 612 million). In terms of maturity, the highest negative dynamics was reported in the category of loans with maturity of 1 to 5 years (-6.9% YoY). Short-term loans (up to 1 year) behaved very similarly with annual dynamics of -6.5%. By contrast, loans with maturity of more than 5 years reported the weakest decrease of 2.7% YoY. As at the end of the first half of 2021, the receivables of the banking sector from companies exceeded PLN 350 billion.

On the retail side, the impact of the third wave of the pandemic and subsequent economic freezes and increased social distance was no longer so adverse. The volume of consumer loans to households bounced back by 0.2% YoY, PLN 312 million, however the adverse impact of foreign currency loans was also palpable here. On the other hand, housing loans grew at a slower rate from +7.6% YoY (PLN 33.7 billion) at the end of 2020 to +5.2% YoY, PLN 24.0 billion at the end of the first half of 2021, also in response to the decrease in the volume of foreign currency loans. The volume of PLN loans continued to grow with dynamics slightly above 10% YoY. The whole household mortgage portfolio reached PLN 487 billion as at the end of June 2021, of which PLN-denominated loans amounted to PLN 376 billion (77%). As regards maturities, the dynamics of growth in credit volumes was lower than at the end of 2020 only in the area of long-term loans (over 5 years) (+3.6% YoY, PLN 23 billion), which was a result of a lower volume of loans in foreign currencies, while the dynamics of loans up to 1 year bounced back from -18.5% YoY as at the end of December 2020 to +0.1% YoY, PLN 62 million, and of loans from 1 to 5 years – from -4.4% YoY to -1.7% YoY, PLN 1.4 billion. The household loan portfolio reached a total of almost PLN 784 billion.



Source: NBP, own calculations

Despite the maintenance of close to zero interest rates, the volume of deposits of the non-financial sector continued to grow at a high level of +7.5% YoY, PLN 117 billion, at the end of June 2021 (against +14.7%, PLN 198 billion at the end of December 2020). The slowdown of the dynamics was mainly seen in the area of deposits of non-financial enterprises (+4.9% YoY, PLN 18 billion, against +19.0% YoY, PLN 60 billion), which was directly related to the termination of distribution of funds funneled by government support schemes. However, there was a continued outflow of term deposits (-19.0% YoY, i.e. PLN 13 billion) to current deposits (+10.3% YoY, i.e. PLN 31 billion). Also in the area of households a decrease in the growth rate of deposit volume (+5.9% YoY, PLN 57 billion at the end of June 2021 against +10.7% YoY, PLN 96 billion at the end of 2020) was reported. Also this segment saw an outflow of time deposits (-31.8% YoY, i.e. PLN 80 billion) to current deposits (+19.4% YoY, i.e. PLN 138.0 billion). Such a high increase in deposits with a simultaneous low or moderate demand for loans contributed to a significant increase in liquidity in the banking sector – the loan-to-deposit ratio declined to a record low level of 76% as at the end of June 2021.

The available data reflect a significant recovery in the economic activity of companies and individuals as early as the first half of this year. At the same time, the latest data on the development of the epidemic indicate a high risk of another wave after the end of the holiday period. However, it appears that companies and individuals will be optimistic about further developments when making economic decisions. Therefore, demand for business investment loans as well as consumer spending by households is expected to gradually recover. There is no indication either of any exponential slowdown in the dynamics of PLN mortgage loans. Also in terms of the quality of the loan portfolio, further moderate improvements can be expected.

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

Trends in the Polish and global economy in 2020

The most serious risk factor in 2021 is continued development and potential intensification of the COVID-19 pandemic in the event of fast spread of the current virus mutations or development of new mutations resistant to currently available vaccines. Such a scenario would most likely mean that Poland’s and Europe’s economy will be again shut down on a regular basis, which would lead, indirectly, to a decline in trade with main partners from the EU. Under the above scenario, the room for additional fiscal and monetary measures would be more limited than in 2020. And this in turn could cause more bankruptcies of companies, a significant increase in unemployment and tensions in the financial sector and public finance. Alike, vaccination programs around the world could significantly be hampered by the reluctance of national populations and the resulting difficulties in achieving herd immunity.

With an unfavorable environment on financial markets, growth in the public debt and borrowing needs could contribute to a significant growth in the debt servicing costs and depreciation of zloty. This would lead to a higher risk of tax raises, which could contribute to pushing the long-term path of economic growth downwards and reducing the competitiveness of Polish enterprises.

Another negative factor for financial markets could be the escalation of trade tensions between the US and China. New barriers to trade could reduce demand also for Polish products and adversely affect growth in Poland. The uncertainty about the future relations between the UK and the European Union poses an additional threat.

If the above risks materialize, we will see a more downward trend of Poland’s GDP than expected, higher unemployment rate and more permanent reduction of investment outlays. As a result, the activity would most probably need more time to return to the levels from before the pandemic.

Legal and regulatory risks

- The Group 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 Group has identified a number of doubts as regards interpretation of the above-mentioned judgment. As at the day of these financial statements, these doubts do not yet provide a base for reliable and rational assessment of the influence of the judgment on proceedings pending before national courts. The anticipated resolution of the Civil Chamber of the Supreme Court regarding issues on which courts are still inconsistent has been postponed indefinitely. Public authorities are now holding consultations to assess the consequences of a potential judgment of the Supreme Court. It should be noted, however, that apart from the doubts in court cases, the recent measures of the Polish Financial Supervision Authority seeking to set out the direction and scope of possible settlements between banks and Swiss franc borrowers should be borne in mind. Some banks have started offering their clients settlements in disputes regarding CHF loans.

  As at June 30, 2021, the Bank had receivables under CHF-indexed retail mortgage loans at the gross carrying amount of PLN 51 million. Despite the marginal share of CHF-indexed mortgage loans in the entire lending portfolio, in 2020, the Bank recognized a portfolio provision for those loans at PLN 13 million. Estimating the provision assumes conversion of a Swiss franc loan into a zloty loan with interest equal to the relevant WIBOR reference rate plus a margin. Moreover, the estimation takes into account the likelihoods of considered scenarios as well as the number of court cases, filed complaints, the market environment and the size of the lending portfolio under analysis.

  In the first half of 2021, the Group did not change the estimation of the provision, which is included in the Provision items in the consolidated statement of financial position.

  As of June 30, 2021, the Group is sued in 33 cases concerning a credit indexed to CHF for the total amount of PLN 9.8 million (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. In performance of the banking activities falling under the definition of a consumer credit, the Bank charged commissions which were structurally not related to the duration of the contract, and thus not subject to reduction in the event of early repayment of a consumer credit. CJEU ruled on the interpretation of the provision of the Directive which is not directly binding upon domestic law.

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

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.

As a result of the proceedings, on May 6, 2021, UOKiK issued an order after the Bank had submitted satisfactory commitments to change its practices. According to the order, consumers who repaid a cash loan or a loan on a card before maturity in the period from December 18, 2011 to September 10, 2019, provided that the relevant agreements for these products were concluded within the same period, can request their commission to be settled again in order to recover the surplus amount. In the request, they have to indicate the relevant product and agreement as well as the bank account number to be credited with the surplus amount. The Bank is obliged to end the court litigations with consumers regarding settlement of the commission, and to inform them of the order as defined therein, and specifically by publishing a release on its website and sending email communication. Decision is implemented in accordance with its terms.

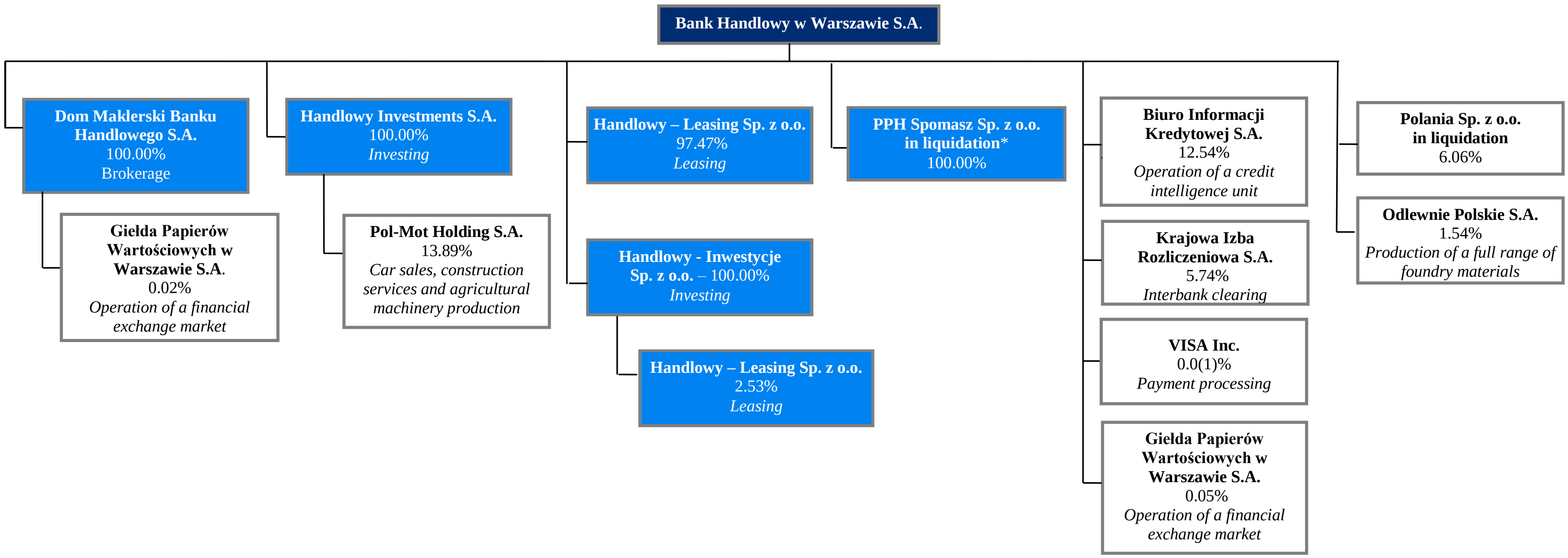
The Bank estimates the provision for potential commission returns in relation to the portfolio prepaid before 11 September 2011 and expected prepayment curves. The determination of the provision take into account the portfolio structure, observed and expected complaints and expected prepayment curves. The Bank continuously monitors level of provisions and costs related to updated assumptions under these provisions amounted to PLN 4.6 million in the first half of 2021.

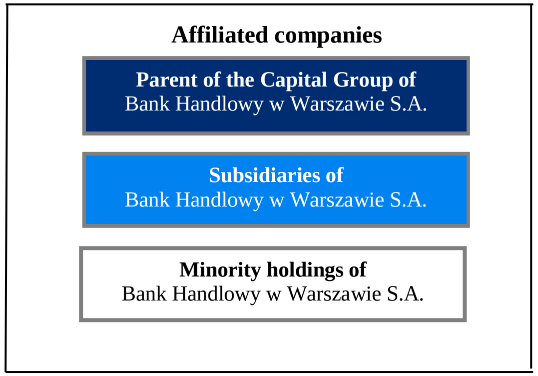
As of June 30, 2021, the Bank was sued in 603 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 2.7 million.

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

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

The organizational chart below depicts the structure of the Capital Group of Bank Handlowy w Warszawie S.A. (“Bank”) as of June 30, 2021; the Bank’s share interest in each specified.





*on April 30, 2021, the liquidation of PPH Spomasz Sp. z o.o. in liquidation has been completed and an application to the National Court Register to remove the Company from the commercial register has been submitted. On July 23, 2021, the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register issued a decision on the deletion of PPH Spomasz Sp. z o.o. in liquidation from the National Court Register.

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

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

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

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30 Jun 2021
Bank Handlowy w Warszawie S.A.*	Banking	parent	-	-	7,533,321
Dom Maklerski Banku Handlowego S.A. ("DMBH")	Brokerage activities	subsidiary	100.00%	full consolidation	118 ,710
Handlowy - Leasing Sp. z o.o.	Leasing activities	subsidiary	100.00%**	full consolidation	20,640
Handlowy Investments S.A.	Investing activity	subsidiary	100.00%	full consolidation	4,571
PPH Spomasz Sp. z o.o. w likwidacji***	Ceased operations	subsidiary	100.00%	full consolidation	Entity under liquidation
Handlowy - Inwestycje Sp. z o.o.	Investing activity	subsidiary	100.00%	equity valuation	10,577

** Equity of Bank Handlowy w Warszawie S.A. as per statement of financial position of the Bank for the first half of 2021*
*** Including indirect participations*
****On April 30, 2021, the liquidation of PPH Spomasz Sp. z o.o. in liquidation has been completed and an application to the National Court Register to remove the Company from the commercial register has been submitted. On July 23, 2021, the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register issued a decision on the deletion of PPH Spomasz Sp. z o.o. in liquidation from the National Court Register.*

Changes in Group's structure

In the first half of 2021 there was no change in the structure of Group's entities comparing to the end of 2020.

In March 2020, the Bank signed with DMBH a conditional agreement of sale of the enterprise of DMBH to the Bank, on condition that the Bank obtains the approval to extend the brokerage license. That agreement covers the transfer of the brokerage activities carried out by DMBH to the Bank by way of transfer to the Bank of all assets and liabilities of DMBH via sale of the enterprise, including the assets necessary to run the brokerage activities of DMBH and the other assets and liabilities making up its enterprise. The merger process is expected to be finalized after the process is completed under the Polish Financial Supervision Authority and the completion of the Bank's preparation for the takeover of DMBH.

On April 30, 2021, the liquidation of PPH Spomasz Sp. z o.o. in liquidation has been completed and an application to the National Court Register to remove the Company from the commercial register has been submitted. On July 23, 2021, the District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Division of the National Court Register issued a decision on the deletion of PPH Spomasz Sp. z o.o. in liquidation from the National Court Register.

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

1. Summary financial data of the Group

PLN million	30 Jun 2021	31 Dec 2020
Total assets	57,661.5	60,941.5
Total equity	7,595.4	7,581.0
Amounts due from customers*	20,597.0	21,914.2
Customer deposits*	43,279.0	43,172.0
Net profit**	467.6	115.7
Total capital ratio	20.8%	22.6%

** 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 2021 and 2020.*

2. Financial result of the Group for the first half of 2021

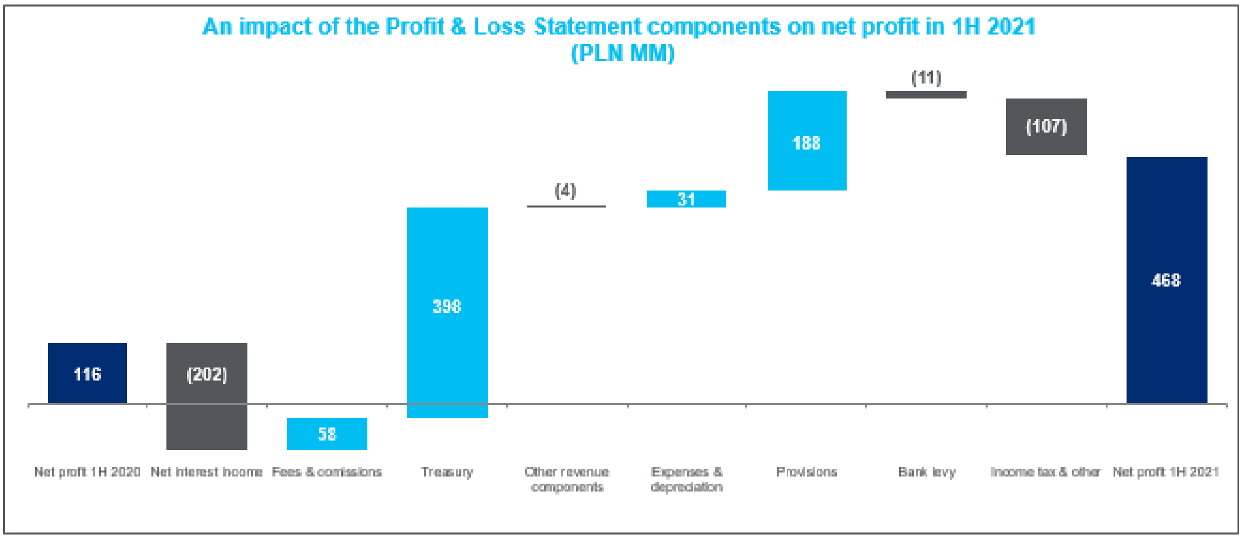
The following financial results are presented on the basis of the abridged semi-annual financial statement of the Group for the period of the first 6 months of the year ended June 30, 2021.

2.1 Income statement

In the first half of 2021 the Group delivered a consolidated net profit of PLN 467.6 million compared to PLN 115.7 million in the first half of 2020 (increase by PLN 351.9 million), mainly due to the profit on debt investment financial assets in the amount of PLN 459.1 million.

Selected income statement items

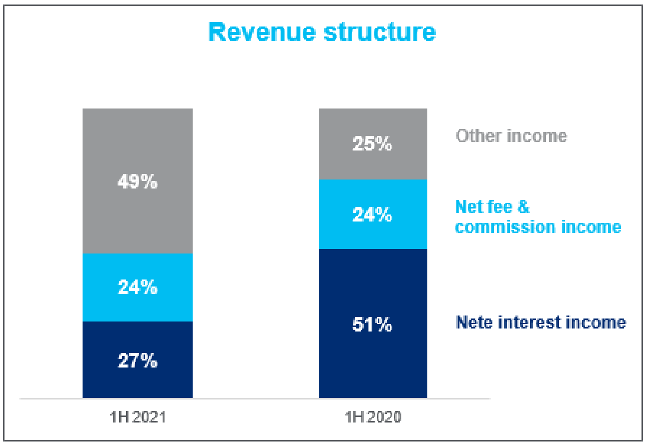
	1st half of		Change	
PLN'000	**2021**	**2020**	**PLN'000**	**%**
Net interest income	365,434	567,062	(201,628)	(35.6%)
Net fee and commission income	323,153	264,770	58,383	22.1%
Dividend income	9,097	11,428	(2,331)	(20.4%)
Net income on trading financial instruments and revaluation	207,587	94,342	113,245	120.0%
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	459,106	174,201	284,905	163.5%
Net gain/(loss) on equity and other instruments measured at fair value through income statement	3,955	4,145	(190)	(4.6%)
Net gain/loss on hedge accounting	21	(1,463)	1,484	(101.4%)
Net other operating income	(7,029)	(4,312)	(2,717)	63.0%
Total income	**1,361,324**	**1,110,173**	**251,151**	**22.6%**
General administrative expenses and depreciation:	(643,766)	(675,197)	31,431	(4.7%)
General administrative expenses	(587,397)	(621,172)	33,775	(5.4%)
Depreciation and amortization	(56,369)	(54,025)	(2,344)	4.3%
Profit on sale of non-financial assets	(433)	(394)	(39)	9.9%
Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments	(15,774)	(203,499)	187,725	(92.2%)
Tax on some financial institutions	(74,893)	(63,602)	(11,291)	17.8%
Profit before tax	**626,458**	**167,481**	**458,977**	**274.0%**
Income tax expense	(158,864)	(51,818)	(107,046)	206.6%
Net profit	**467,594**	**115,663**	**351,931**	**304.3%**



2.1.1 Revenues

Net interest income accounted for 27% of the Group's total revenues in the first half of 2021.It amounted to PLN 365.4 million, which means a significant decrease by PLN 201.6 million (or 35.6%) compared to the same period of the previous year (i.e. PLN 565.7 million).

Interest income in the first half of 2021 declined by PLN 265.4 million (or 41.6%) to PLN 372.6 million. Interest on amounts due from customers, which were the main source of interest income, amounted to PLN 270.3 million, down by PLN 152.6 million



(or 36.1%) compared to the first half of 2020. It was mainly due to the interest rate cut by the Monetary Policy Council (including a decline in the reference rate from 1.50% to 0.10% and the lombard rate from 2.50% to 0.50% between March and May 2020). The above cuts had the biggest impact on the Consumer Banking segment (mainly cards receivables) Another significant factor behind the decrease in interest income was lower interest income on debt investment financial assets by PLN 86.4 million (i.e. 52.8%), due to the lower volume of these assets at the end of June 2021 by 46%YoY.

The Group's interest expenses were lower by PLN 63.7 million (i.e. 89.9%) in the first half of 2021 compared to the first half of 2020 and amounted to PLN 7.1 million. The largest nominal decrease in interest expenses concerned amounts due to customers (from the financial and non-financial sectors) by PLN 58.9 million (i.e. 97.0%) compared to the first half of 2020. The Institutional Banking segment (mainly the non-financial sector) had the greatest share in this decline.

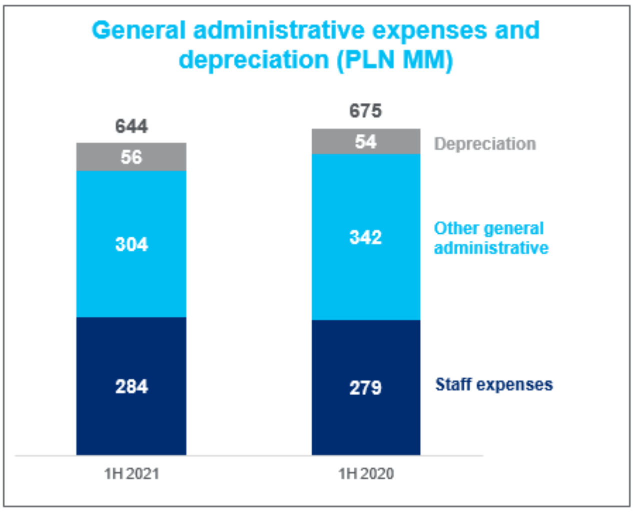
Net fee and commission income in the first half of 2021 amounted to PLN 323.2 million compared to PLN 264.8 million in the corresponding period of 2020 – up by PLN 58.4 million (or 22.1%). The highest nominal increase was recorded in revenues from maintaining bank accounts by PLN 35.0 million (i.e. 105.1%). At the same time, revenues from the capital market (i.e. brokerage and custody services) recorded an increase by PLN 26.4 million YoY (or 37.7%) due to the continued recovery in the domestic market of capital transactions.

Other operating income (i.e. non-interest and non-commission income) in the amount of PLN 672.7 million compared to PLN 278.3 million in the first half of 2020 - an increase by PLN 394.4 million, due to significantly better results in treasury activities. The result on the sale of investment debt securities increased by PLN 284.9 million YoY due to the advantageous situation on the debt market in the first quarter of 2021, and the result on trading financial instruments and revaluation was also significantly higher by PLN 113.2 million YoY.

2.1.2 Expenses

In the first half of 2021 the Group's general administrative and depreciation expenses amounted to PLN 643.8 million vs. PLN 675.2 million in the corresponding period of the previous year, down by PLN 31.4 million (or 4.7%)

The decrease was generally due to lower costs for the Bank Guarantee Fund (the contribution to the bank restructuring fund amounted to PLN 64.7 million in the first quarter of 2021 compared to PLN 84.3 million in the same period last year). The decrease mentioned above was compensated by a slightly higher employee expenses by PLN 5.0 million (1.8%) and an increase in depreciation by PLN 2.3 million (i.e. 4.3%) due to the implementation of new solutions in CitiDirect BE - the online system for institutional clients and the introduction of new currencies to the Citi Kantor offer.



Employment within the Group

FTEs	1st half of 2021	1st half of 2020	Change	
			FTEs	%
Average no. of jobs in the period	2,958	3,046	(88)	(2.9%)
No. of jobs at the end of the period	2,933	3,009	(76)	(2.5%)

In the first half of 2021, average employment in the Group amounted to 2,958 FTEs, i.e. decreased by 2.9% compared to the first half of 2020. As at June 30, 2021, employment in the Group amounted to 2,933 FTEs, of which 1,593 in Consumer Banking, 605 in Institutional Banking and 735 in support units. As compared with the same period last year, the number of FTEs at the end of the period decreased by 76 (i.e. 2.5%).

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	
	2021	2020	PLN'000	%
Net impairment allowances for receivables, including	(34,629)	(179,875)	145,246	(80.7%)
Net impairment allowances for financial assets – Stage 1	42,589	(35,390)	77,979	(220.3%)
Net impairment allowances for financial assets – Stage 2	(24,520)	(65,322)	40,802	(62.5%)
Net impairment allowances for financial assets – Stage 3	(52,698)	(79,163)	26,465	(33.4%)
Net provisions for granted financial and guarantee commitments	14,537	(20,678)	35,215	(170.3%)
Net impairment allowances for debt investment financial assets measured at fair value through other comprehensive income	4,318	(2,946)	7,264	(246.6%)
Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments	**(15,774)**	**(203,499)**	**187,725**	**(92.2%)**

Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments amounted to PLN 15.8 million (negative impact) in the first half of 2021 compared to PLN 203.5 million in the first half of 2020 due to the creation of an additional impairment provision of ca. PLN 137 million dedicated to the impact of the COVID-19 pandemics in 2020. In the Institutional Banking segment, write-offs were reversed in the first half of 2021, which was a consequence of improving forecasts of macroeconomic parameters and the observed stable quality of the loan portfolio. In the first half of 2021, customers did not take advantage of the statutory or non-statutory repayment moratorium, and the 2020 moratoria were repaid.

On the other hand, due to the continuing economic uncertainty related to the subsequent waves of the COVID-19 epidemic, the Bank maintains additional write-offs for this purpose, as per as of December 31, 2020. These write-downs concern both the receivables of Institutional Banking and Retail Banking customers.

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 2021 amounted to PLN 75.0 million compared to PLN 63.6 million in the first half of 2020, primarily due to a decline in the balance of investment financial assets that are exempt from banking tax.

2.1.5 Ratio analysis

Selected financial ratios

	1st half of 2021	1st half of 2020
Return on equity (ROE) *	7.1%	5.9%
Return on assets (ROA) **	0.9%	0.7%
Cost/Income (C/I)	47%	61%
Loans/Deposits	48%	51%
Loans/Total assets	36%	38%
Net interest income to total revenue	27%	51%
Net fee and commission income to total revenue	24%	24%

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

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

2.2 Consolidated statement of financial position

As of June 30, 2021, total assets of the Group stood at PLN 57.7 billion, down by 5.4% compared to the end of 2020.

In terms of assets, the biggest nominal changes in the balance sheet took place in two lines: **debt investment financial assets** and **cash, operations with Central Bank.** The debt investment financial assets balance decreased by PLN 13.7 billion (or 50.1%) compared to the end of 2020 as a result of the sale of Polish treasury bonds, which in turn contributed to an increase in the balance in cash, operations with Central Bank by PLN 10.5 billion..

Consolidated statement of financial position

PLN'000	As of		Change	
	30 Jun 2021	31 Dec 2020	PLN'000	%
ASSETS				
Cash and balances with the Central Bank	14,961,644	4,488,332	10,473,312	233.3%
Amounts due from banks	901,679	570,247	331,432	58.1%
Financial assets held-for-trading	5,173,773	4,350,540	823,233	18.9%
Hedging derivatives	7,055	-	7,055	100.0%
Debt financial assets measured at fair value through other comprehensive income	13,647,310	27,323,571	(13,676,261)	(50.1%)
Equity and other investments measured at fair value though the income statement	82,427	78,473	3,954	5.0%

PLN'000	As of		Change	
	30 Jun 2021	31 Dec 2020	PLN'000	%
Amounts due from customers	20,597,024	21,914,223	(1,317,199)	(6.0%)
Tangible fixed assets	461,516	476,909	(15,393)	(3.2%)
Intangible assets	1,229,389	1,252,583	(23,194)	(1.9%)
Current income tax receivables	43,521	48,714	(5,193)	(10.7%)
Deferred tax asset	219,137	174,223	44,914	25.8%
Other assets	330,852	257,560	73,292	28.5%
Non-current assets held for sale	6,163	6,163	-	0.0%
Total assets	**57,661,490**	**60,941,538**	**(3,280,048)**	**(5.4%)**
LIABILITIES				
Amounts due to banks	1,639,176	5,118,861	(3,479,685)	(68.0%)
Financial liabilities held-for-trading	3,116,777	3,656,422	(539,645)	(14.8%)
Hedging derivatives	-	98,025	(98,025)	(100.0%)
Amounts due to customers	43,278,955	43,393,906	(114,951)	(0.3%)
Provisions	75,590	84,775	(9,185)	(10,8%)
Current income tax liabilities	5,463	3,666	1,797	49.0%
Other liabilities	1,950,138	1,004,916	945,222	94.1%
Total liabilities	**50,066,099**	**53,360,571**	**(3,294,472)**	**(6,2%)**
EQUITY				
Ordinary shares	522,638	522,638	-	0.0%
Share premium	3,002,266	3,002,265	1	0.0%
Revaluation reserve	(3,057)	450,017	(453,074)	(100.7%)
Other reserves	2,808,854	2,793,561	15,293	0.5%
Retained earnings	1,264,690	812,486	452,204	55,7%
Total equity	**7,595,391**	**7,580,967**	**14,424**	**0,2%**
Liabilities and equity	**57,661,490**	**60,941,538**	**(3,280,048)**	**-5,4%**

2.2.1 Assets

Customer net receivables

PLN '000	As of		Change	
	30 Jun 2021	31 Dec 2020	PLN '000	%
Receivables from financial sector entities	**3,376,118**	**3,735,746**	**(359,628)**	**(9.6%)**
Receivables from non-financial sector entities, including:	**17,220,906**	**18,178,477**	**(957,571)**	**(5.3%)**
Institutional customers*	10,155,952	10,963,662	(807,710)	(7.4%)
Individual customers, including:	7,064,954	7,214,815	(149,861)	(2.1%)
Unsecured receivables	4,731,915	5,015,003	(283,088)	(5.6%)
Mortgage loans	2,333,039	2,199,812	133,227	6.1%
Total net customer receivables	**20,597,024**	**21,914,223**	**(1,317,199)**	**(6.0%)**

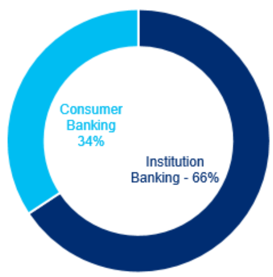
**Institutional clients include enterprises, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.*

In the first half of 2021 total **net amounts due from customers** amounted to PLN 20.6 billion, down by PLN 1.3 billion (or 6.0%) compared to the end of 2020.

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 13.5 billion, down by PLN 1.2 billion (or 7.6%) compared to the end of 2020. The decline in loan volumes affected clients from the Global and Corporate segment. A detailed breakdown of assets by individual segments in management view is provided in Chapter VI.

The net volume of loans made to individual customers declined compared to the end of December 2020 by PLN 150 million (or 2.1%) and amounted to PLN 7.1 billion. The decrease in loan volumes was due to lower unsecured receivables (a decrease by PLN 283.1 million), partially offset by an increase in mortgage loans (an increase by PLN 133.2 million compared to 2020).

Customer net receivables structure 1H 2021



Gross receivables to customers

PLN'000	As of		Change	
	30 Jun 2021	31 Dec 2020	PLN'000	%
Receivables in PLN	18,574,241	19,891,511	(1,317,270)	(6.6%)
Receivables in foreign currency	2,800,492	2,864,458	(63,966)	(2.2%)
Total	**21,374,733**	**22,755,969**	**(1,381,236)**	**(6.1%)**

Loans to customers by portfolio with/without recognized credit losses

PLN'000	As of		Change	
	30 Jun 2021	31 Dec 2020	PLN'000	%
Loans without recognized impairment (Stage 1), including:	**19,082,385**	**20,619,102**	**(1,536,717)**	**(7.5%)**
institutional entities	**3,378,213**	3,739,156	(360,943)	(9.7%)
non-financial sector entities	15,704,172	16,879,946	(1,175,774)	(7.0%)
institutional clients*	9,329,155	10,412,915	(1,083,760)	(10.4%)
individual customers	6,375,017	6,467,031	(92,014)	(1.4%)
Loans without recognized impairment (Stage 2), including:	**1,466,344**	**1,309,795**	**156,549**	**12.0%**
non-financial sector entities	1,466,344	1,309,795	156,549	12.0%
institutional clients*	743,530	507,135	236,395	46.6%
individual customers	722,814	802,660	(79,846)	(9.9%)
Loans with recognized impairment (Stage 3), including:	**826,004**	**827,072**	**(1,068)**	**(0.1%)**
non-financial sector entities	826,004	827,072	(1,068)	(0.1%)
institutional clients*	496,690	475,043	21,647	4.6%
individual customers	329,314	352,029	(22,715)	(6.5%)
Total gross loans to customers, including:	**21,374,733**	**22,755,969**	**(1,381,236)**	**(6.1%)**
non-financial sector entities	17,996,520	19,016,813	(1,020,293)	(5.4%)
institutional clients*	10,569,375	11,395,093	(825,718)	(7.2%)
individual customers	7,427,145	7,621,720	(194,575)	(2.6%)
Provision for expected credit losses, including:	**(777,709)**	**(841,746)**	**64,037**	**(7.6%)**
Total net amounts due from customers	**20,597,024**	**21,914,223**	**(1,317,199)**	**(6.0%)**
Impairment provisions coverage ratio**	**73.61%**	**77.18%**		
institutional clients*	70.98%	75.62%		
individual customers	77.58%	79.28%		
Non-performing loans ratio (NPL)	**3.86%**	**3.63%**		

* 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.*

*** In accordance with Transition Resource Group for Impairment of Financial Instruments the value of receivables in Stage 3 shall be presented increased by accrued contract interest in total amount of PLN 139,206 thousand (PLN 155,923 thousand as the end of 2020).*

In the first half of 2021, the non-performing loans ratio (NPL) amounted to 3.86% and was slightly higher than at the end of 2020 (i.e. 0.23 percentage points), due to the implementation, as of January 1, 2021, of the EBA guidelines on the application of the definition of default, as set out in Art. 178 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26, 2013. The implementation of the changes is aimed at standardizing the approach on the European market, thus ensuring the comparability of the levels of non-performing loans presented by financial institutions. The main changes relate to changes in the method of calculating the number of days past due, including the definition of materiality thresholds (relative and absolute) for past due amounts or the detailed rules for the treatment of joint credit obligations and the rules for contagion with a default status. The impact of the implementation of the EBA guidelines on the Group's credit risk costs was not significant.

On the other hand, the provision coverage ratio of impairment losses on impaired receivables decreased by 3.57 percentage points compared to the end of 2020 and amounted to 73.6%, mainly due to a decrease in provisions for expected credit losses in the Institutional Banking segment clients.

Debt securities portfolio

PLN'000	As of		Change	
	30 Jun 2021	31 Dec 2020	PLN'000	%
Treasury bonds, including:	12,463,542	22,731,457	(10,267,915)	(45.2%)
Bonds hedged in the fair value hedge accounting	927,049	11,347,069	(10,420,020)	(91.8%)
Bonds issued by financial institutions	3,629,517	2,460,132	1,169,385	47.5%
Bonds hedged in the fair value hedge accounting	806,544	-	806,544	-
Debt securities, total	**16,093,059**	**28,236,694**	**(12,143,635)**	**(43.0%)**

The debt securities portfolio decreased as of the end of the first half of 2021 by PLN 12.1 billion (or 43.0%), due to the decreased position in treasury bonds.

2.2.2. Liabilities

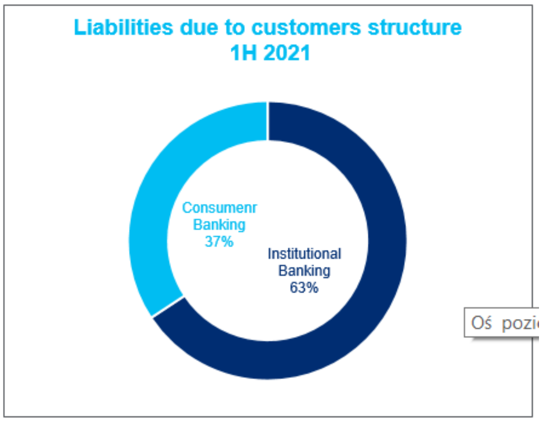
Liabilities due to customers

PLN'000	As of		Change	
	30 Jun 2021	31 Dec 2020	PLN'000	%
Deposits from financial sector entities	**4,053,306**	**4,571,664**	**(518,358)**	**(11.3%)**
Deposits of non-financial sector entities, including:	**38,982,637**	**38,600,354**	**382,283**	**1.0%**
non-financial companies	20,465,262	19,555,711	909,551	4.7%
non-commercial institutions	435,086	195,104	239,982	123.0%
individual customers	15,882,956	15,496,846	386,110	2.5%
public sector units	2,199,333	3,352,693	(1,153,360)	(34.4%)
Other liabilities	**243,012**	**221,888**	**21,124**	**9.5%**
Liabilities towards customers, total	**43,278,955**	**43,393,906**	**(114,951)**	**(0.3%)**
Deposits of financial and non-financial sector entities, including:				
in PLN	31,043,244	32,078,916	(1,035,672)	(3.2%)
in foreign currency	11,992,699	11,093,102	899,597	8.1%
Deposits from financial and non-financial sector entities, total	**43,035,943**	**43,172,018**	**(136,075)**	**(0.3%)**

In the first half of 2021 **amounts due to customers** constituted the dominant source of financing of the Group's activity and constituted 75.1% of the Group's liabilities and equity. Total amounts due to customers as of the end of June 2021 amounted to PLN 43.3 billion, slightly down by PLN 115 million (or 0.3%) compared to the end of 2020, which was due to decrease in term deposits by PLN 625.3 million (or 9.0%), partially offset by increase in higher current account balances by PLN 489.2 billion (or 1.3%).

The deposit volumes in the Institutional Banking segment amounted to PLN 27.2 billion, down by PLN 522.2 million (or 11.3%) compared to the end of 2020, mainly in term deposits in the financial sector client segment.

The deposit volumes in the Consumer Banking segment amounted to PLN 15.9 billion, compared to the end of December 2020 – up by PLN 386.1 million (or 2.5%) as a consequence of the increase in the number of clients in the strategic client segments (CPC and Citigold.



2.3 Contingent liabilities

As at June 30, 2021, exposure from contingent liabilities granted by the Group amounted to PLN 16.7 billion, up by PLN 228.4 million (or 1.4%) compared to the end of 2020. Promised loan commitments represent the largest share in total contingent liabilities granted (i.e. 83%). 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 2021	31 Dec 2020	PLN'000	%
Guarantees	2,227,468	2,250,542	(23,074)	(1.0%)
Import letters of credit issued	219,706	162,523	57,183	35.2%
Credit commitments	13,944,827	14,035,449	(90,622)	(0.6%)
Other	338,791	53,869	284,922	528.9%

PLN'000	As of		Change	
	30 Jun 2021	31 Dec 2020	PLN'000	%
Total	**16,730,792**	**16,502,383**	**228,409**	**1.4%**
Provisions for contingent liabilities granted	32,807	47,354	(14,547)	(30.7%)
Provisions coverage ratio	0.20%	0.29%	(0.09%)	(31.0%)

As at 30 June 2021, the total value of accounts or assets of the Bank's borrowers pledged as collateral stood at PLN 5,257 million, compared to PLN 5,263 million on 31 December 2020.

2.4 Equity and total capital ratio

As compared to the end of 2019 the value of equity of the Group as of the end of the first half of 2021 remained unchanged.

Equity

	As of		Change	
PLN'000	30 Jun 2021	31 Dec 2020	PLN'000	%
Ordinary shares	522,638	522,638	0	0.0%
Share premium	3,002,266	3,002,265	1	0.0%
Revaluation reserve	(3,057)	450,017	(453,074)	(100.7%)
Other reserves	2,808,854	2,793,561	15,293	0.5%
Retained earnings	1,264,690	812,486	452,204	55.7%
Total equity	**7,595,391**	**7,580,967**	**14,424**	**0.2%**

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

Total capital ratio

As at the end of the first half of 2021 the total capital ratio (TCR) amounted to 20.8%, compared to 22.6% as at the end of 2020 due to the allocation of a dividend to shareholders from the profit for 2020 in the amount of PLN 156.8 million in accordance with the resolution of the Bank's General Meeting of June 17, 2021.

In the first half of 2021, as well as in 2020 the Group fulfilled all capital adequacy requirements. The capital adequacy level of the Group in the first half of 2021 remained at a safe level, i.e. 10 basis points above the regulatory thresholds.

The Bank's capital ratio values take account of:

- The minimum capital adequacy requirement set out in the Capital Requirement Regulation (CRR): a total capital ratio of 8% and a Tier 1 capital ratio of 6%
- The combined buffer requirement – 2.77% on a consolidated basis, consisting of:
  - conservation capital buffer – 2.5%
  - O-SII capital buffer – 0.25%
  - systemic risk buffer – 0.00%
  - countercyclical capital buffer – 0.02%

2.5 Earnings forecast for 2021

The Bank as the parent entity did not publish earnings forecast for 2021.

VI. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2021

1. Institutional Bank

1.1 Segment results summary

PLN'000	1st half of 2021	1st half of 2020	Change	
			PLN'000	%
Net interest income	172,873	302,783	(129,910)	(42.9%)
Net fee and commission income	218,545	165,239	53,306	32.3%
Dividend income	1,508	1,186	322	27.2%
Net income on trading financial instruments and revaluation	192,815	77,932	114,883	147.4%

PLN'000	1st half of 2021	1st half of 2020	Change	
			PLN'000	%
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	459,106	174,201	284,905	163.5%
Net gain/(loss) on equity and other instruments measured at fair value through income statement	3,955	4,145	(190)	(4.6%)
Net gain/(loss) on hedge accounting	21	(1,463)	1,484	(101.4%)
Net other operating income	5,137	1,462	3,675	251.4%
Total income	**1,053,960**	**725,485**	**328,475**	**45.3%**
General administrative expenses and depreciation	(311,838)	(322,137)	10,299	(3.2%)
Profit on sale of other assets	(166)	(160)	(6)	3.8%
Provisions for expected credit losses on financial assets and provisions for off–balance sheet commitments	26,124	(137,963)	164,087	(118.9%)
Share in net profits/(losses) of entities valued at equity method	-	-	-	-
Tax on some financial institutions	(61,376)	(50,862)	(10,514)	20.7%
Profit before tax	**706,704**	**214,363**	**492,341**	**229.7%**
Cost/Income	**30%**	**44%**		

The key highlights that impacted the gross profit of the Institutional Banking segment in the first half of 2021 when compared to the corresponding period of 2020 were as follows:

- Net interest income down by PLN 129.9 million YoY due to lower interest income on investment financial assets;
- Net fee and commission income up by PLN 53.3 million YoY, mainly due to higher income from maintaining bank accounts and brokerage activities;
- Increase in the result on debt investment financial assets due to the profit generated in the first quarter of 2021;
- decrease in operating expenses by PLN 10.3 million due to lower contributions to the bank restructuring fund under the Bank Guarantee Fund.

1.2 Institutional Bank and the Capital Markets

1.2.1 Institutional Bank

At the end of the first half of 2021 there were 5,400 institutional customers (including strategic, global and corporate banking customers) i.e. decrease by 3% compared to the end of the first half of 2020. Within the framework of commercial banking (small and medium-sized enterprises, large companies and the public sector), the Group served slightly below 2,800 clients at the end of the first half of 2021, i.e. a decrease by 8% compared to the end of the first half of 2020, when the number of clients was 3,000.

In terms of client acquisition in the Commercial Bank segment the Bank attracted 97 new customers in the first half of 2021, the Bank acquired, including 9 from the Large Companies segment, 55 Small and Medium-Sized Companies, 16 International Commercial Bank Clients, 12 Digital and 5 public sector entities. Within the strategic and global client segments, the Bank acquired 26 customer relationships.

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

Assets

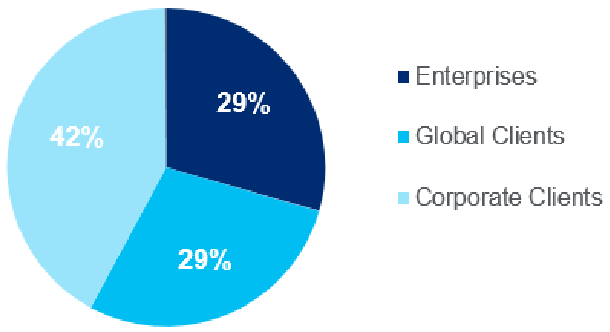
PLN million	30 Jun 2021	31 Dec 2020	30 Jun 2020	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises, including:	3,650	3,518	4,357	132	4%	(707)	(16%)
SMEs	1,392	1,125	1,476	268	24%	(83)	(6%)
Large enterprises	2,258	2,394	2,881	(136)	(6%)	(623)	(22%)
Public Sector	6	10	17	(4)	(38%)	(11)	(64%)
Global Clients	3,528	4,194	4,098	(666)	(16%)	(570)	(14%)
Corporate Clients	5,215	5,678	6,099	(463)	(8%)	(884)	(14%)
Other	13	(14)	30	27	(198%)	(16)	(55%)
Total Corporate Bank	**12,413**	**13,387**	**14,600**	**(974)**	**(7%)**	**(2 187)**	**(15%)**

Liabilities

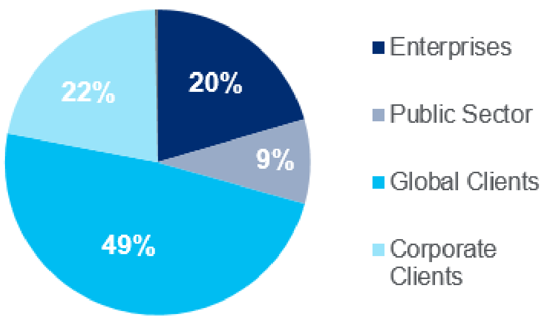
PLN million	30 Jun 2021	31 Dec 2020	30 Jun 2020	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises, including:	5,271	4,396	5,864	875	20%	(592)	(10%)
SMEs	3,230	2,555	3,453	675	26%	(223)	(6%)
Large enterprises	2,042	1,841	2,411	201	11%	(369)	(15%)
Public Sector	2,311	3,434	3,791	(1,123)	(33%)	(1,480)	(39%)
Global Clients	12,553	12,025	13,150	528	4%	(597)	(5%)
Corporate Clients	5,598	6,293	7,056	(695)	(11%)	(1,458)	(21%)
Other*	69	66	65	3	5%	4	6%
Total Corporate Bank	**25,802**	**26,214**	**29,926**	**(413)**	**(2%)**	**(4,124)**	**(14%)**

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

Structure of the Institutional Bank assets as of 30.06.2021



Structure of the Institutional Bank liabilities as of 30.06.2021



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

<table>
<tr><td>Credit activity</td><td><u>Granting new financing or increasing existing ones in the amount of PLN 1.3 billion</u>
• PLN 240 MM for corporate clients including leading e-commerce company;
• PLN 420 MM for Commercial Banking clients;
• PLN 669 MM for global clients including a leader in the automotive industry and a client from the commercial industry.</td></tr>
<tr><td>Investment Banking</td><td><u>Investment Banking</u>
• The Bank was active in debt securities by participating in the following transactions:
– participation in the issue of corporate bonds on the local market in the amount of PLN 500 million,
– cooperation with Citigroup in the issue of Eurobonds up to the amount of EUR 490 million.
The funding raised based on the above transactions was allocated to EUR 513 million acquisition on international markets.
– arranging, in cooperation with Dom Maklerski Banku Handlowego S.A. and Citigroup, the purchase of shares for a client from the Large Enterprise Segment.</td></tr>
<tr><td>Transactional Banking</td><td><u>Increasing shares in banking services and transaction banking</u>
• Winning 16 mandates for comprehensive banking services or extending the Bank's cooperation with its clients;
• Granting financing for a total amount of PLN 117 MM (supplier finance, guarantee and letters of credit);</td></tr>
</table>

1.2.2. Activity and business achievements of the Treasury Division

In the first half of 2021, the Bank has remained among the leaders in terms of turnover in the spot market, as one of the leaders of Treasury BondSpot.

In the first half of 2021, the Bank was active in the market of debt securities through its participation in the following transactions:

- Conducting the largest public issue of Climate Awareness Bonds for the European Investment Bank supporting sustainable growth in the amount of PLN 1.25 billion, dedicated to Polish investors;
- An issue of bonds for PLN 1.5 billion for European Investment Bank;
- The Bank was taking up BGK bonds issued for the Anti-COVID-19 Fund.

In order to ensure efficient and stable business for its clients, the Bank focused, among others, on:

- Developing Puls Rynku FX, a mobile application – addition of comments on the technical analysis of FX rates fluctuations;
- Promoting the CitiFX Pulse electronic currency exchange platform which enables remote transactions. About 85% of all FX transactions are executed via that platform. CitiFX Pulse provides 24h access to quotations, continuous access to market information, economic forecasts, permits currency exposure management and online transactions confirmation;

1.2.3. Transaction services

The Bank continues its efforts to simplify and further digitize its funds management processes for corporate clients, in particular by developing and promoting self-service functions that facilitate administration and management of corporate finances within a company.

Bank account	In the first half of 2021, there was a continued growth in the clients' use of **electronic signature** implemented in 2020, which **grew** in the first half of 2021 **by 63%** as compared to the monthly average in 2020. On average, clients submitted 819 documents with an electronic signature per month, which confirms that clients are ever more enthusiastic about using electronic document flow. The launch in the fourth quarter of 2020 of a platform for electronic processing of bank certificates and reports (audits) contributed to further increase in the electronic document flow. In the first half of 2021, an average of 120 audits a month were issued by electronic means, which represents 25% of all audits.
Electronic Banking	In the first half of 2021, as regards electronic banking, the Bank continued its efforts aimed at offering its clients new functionalities and promoting the already implemented solutions: • **API functionality** – the CitiConnect API, implemented in 2020, was subject to commercialization in the first half of 2021. The solution allows clients to order transfers directly in the ERP system of the supplier, without the need to use bank interfaces. Over 3.3 million API communications initiated by clients from Poland have been serviced in the CitiConnect API infrastructure. They pertained both to initiating payments and information about accounts and transactions. • **CitiDirect BE** – the Bank carried out commercialization of the digital solutions among clients who use this solution. Digital solutions contributed significantly to facilitating the payment management process. The Bank promoted not only the biometric solution, which makes it easier to log in to the system, but also mechanisms which facilitate the management of CitiDirect BE users' entitlements by authorized system administrators. Furthermore, the Bank continued to work on the implementation of new system functionalities. In the coming months, after a positive completion of the pilot phase, the Bank will make available a new version of the CitiDirect BE system.
	In the first half of 2021, the Bank processed over **15.4 million transactions electronically, i.e. increase by 5% QoQ.** During that time, the CitiDirect BE online banking system in Poland was used by more than **5,100 clients, i.e. increase by over 16% in the number of active customers** compared to the same period of 2020.
Payments and receivables	The first half of 2021 is a period of a dynamic growth in the volume of foreign transfers. In that period, the Bank recorded a significant **20% increase in the volume of foreign transfers** compared to the same period of the previous year. The Bank owes this result to, among others, a higher number of **SEPA transactions** (**up by 31%** as compared to the first half of 2020 and **16%** as compared to the first quarter of 2021). The dynamic reflects the progressing internationalization of businesses, including development of e-commerce activity. Bank's customers present in international markets could support their financial management using the **Citi Payment Insights** tool, which enables tracking of the payment status or generation of confirmations at the beneficiary's request.

	The 2020 growing trend in **Split Payment Mechanism** transactions was also present during the first half of this year. The Bank noted a **10% increase** in such transactions compared to the same period of 2020. As in the case of foreign transfers, it is a real growth in transfers value (the volume of Split Payment transfers **increased by 6% QoQ)**.
Corporate cards	In the first half of 2021, the value of card payments made by the Bank's clients was lower by 28% vs. the prior year period (the effect of a solid base of the first quarter of 2020, before the COVID-19 pandemic). Meanwhile, in the second quarter of 2021, the Bank recorded a dynamic **growth in transaction value**, by as much as **22% QoQ**, or by **64% YoY**. This indicates the return to the growth trend in corporate card payments and a gradual recovery of the economic activity to the pre-pandemic levels. In the segment of corporate cards, in that period the Bank focused on **changing the existing method of confirming online payments** made with cards. An additional security feature has been added to the existing SMS-code based solution. Following the change, when authenticating a transaction, a card holder has to enter not only a single-use SMS code, but also several digits of the card's PIN code used for transactions executed on POS terminals. To sum up, two methods of authentication of online payments made with corporate cards are currently available: (1) with the use of the Citi Manager application and using biometric data (it is the main authentication method for online transactions); and (2) with the use of single-use SMS code texted to the card holder's telephone number identified to the Bank, which recently also requires entering the second and fourth digits from the PIN code used for transactions made via POS terminals (this is a back-up solution available when the mobile application-based method cannot be used).
Trade finance products	The Bank maintains its position as a leading financial institution in the area of supplies and procurement financing. The average level of Bank's assets in this area of activity increased by **10%** in the first half of 2021 compared to the same period of the previous year. **The use of electronic signatures** remains at a stable, high level – Bank's clients often and willingly use this form of signature, which permits much faster document processing. The value of the **guarantees** issued by the Bank **increased by 30%**, and the value of **letters of credit** – by **5%** as compared to the value of these transactions issued in the first half of 2020.

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 and investment funds. For many years, Citi Handlowy has been a leader in the Polish market of depository banks.

As at 30 June 2021, the Bank maintained over 15 thousand of securities accounts and collective accounts.

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

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

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

1.2.5 Brokerage activities

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

As at the end of the first half of 2021, DMBH was the market maker for 69 companies listed on the Warsaw Stock Exchange (of which all companies from the WIG20 index), i.e. 16% of the shares listed in its main equity market.

In the first half of 2021, DMBH was the intermediary in in-session transactions accounting for 4.3% 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 14.5 billion. In the first half of 2021, 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 15.1 thousand as at the end of the first half of 2021, and increased by 3.8% in comparison to the same period of 2020.

In the first half of 2021, the Polish equity trading market continued to experience a recovery. In that period, DMBH carried out the following transactions:

- Inpost S.A. - DMBH acted as a Local Co-Bookrunner in the IPO (the company was listed on Euronext Amsterdam; the transaction value was EUR 3.2 billion (January 2021),
- Termet S.A. - DMBH acted as an investment company in the implementation and settlement of a non-public purchase and sale of Termet S.A. shares by Ferro S.A., worth PLN 43.7 million, completed in February 2021,
- ZPUE S.A. - DMBH acted as an intermediary in an RFP for 100% of ZPUE S.A. shares, the transaction value was approximately PLN 39.7 million (February – March 2021),
- Talanx S.A. - DMBH acted as an intermediary in an RFP announced to end the listing of Talanx S.A. on the Warsaw Stock Exchange (settled in February 2021).

Furthermore, DMBH worked on preparing transactions of initial and secondary public offerings to be carried out after the first half of 2021.

Summarized financial data as of June 30, 2021

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

Summarized financial data as of June 30, 2020

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2020	Total equity 30 Jun 2020	Net financial result for the period of 1 Jan – 30 Jun 2020
		%	PLN’000	PLN’000	PLN’000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	548,011	103,109	5,552

1.2.6 Leasing activities

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

Summary financial data as of June 30, 2021

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

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

Summary financial data as of June 30, 2020

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2020	Total equity 30 Jun 2020	Net financial result for the period of 1 Jan – 30 Jun 2020
		%	PLN’000	PLN’000	PLN’000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00*	21,768	21,158	(246)

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

2 Consumer Bank

2.1 Segment results summary

PLN’000	1st half of 2021	1st half of 2020	Change	
			PLN’000	%
Net interest income	192,561	264,279	(71,718)	(27.1%)
Net fee and commission income	104,608	99,531	5,077	5.1%
Dividend income	7,589	10,242	(2,653)	(25.9%)
Net income on trading financial instruments and revaluation	14,772	16,410	(1,638)	(10.0%)

PLN'000	1st half of 2021	1st half of 2020	Change	
			PLN'000	%
Net gain/(loss) on equity and other instruments measured at fair value through income statement	-	-	-	-
Net other operating income	(12,167)	(5,774)	(6,393)	110.7%
Total income	**307,363**	**384,688**	**(77,325)**	**(20.1%)**
General administrative expenses and depreciation	(331,928)	(353,060)	21,132	(6.0%)
Profit on sale of other assets	(267)	(234)	(33)	14.1%
Provisions for expected credit losses on financial assets and provisions for off–balance sheet commitments	(41,898)	(65,536)	23,638	(36.1%)
Tax on some financial institutions	(13,517)	(12,740)	(777)	6.1%
Profit before tax	**(80,247)**	**(46,882)**	**(33,365)**	**71.2%**
Cost/Income	**108%**	**92%**		

The key highlights that impacted the gross profit of the Consumer Banking segment in the first half of 2021 compared to the corresponding period of 2020 were as follows:

- decrease in net interest income as a result of reduction of interest rates by the Monetary Policy Council (including the reference rate drop by 140 basis points in March, April and May 2020). This reduction had the greatest impact on unsecured receivables, as the maximum interest rate was reduced by 280 basis points (from 10% to 7.2%). Interest expenses dropped as a result of interest rates on deposits reduction despite a significant increase in the deposit balances (+11.4% YoY). The credit products balance decreased by 2% YoY.
- increase in net fee and commission income mainly due to payment card commissions and sales of investment products as a result of improved market sentiment;
- lower operating expenses due to lower regulatory burdens and savings from the cost base optimization initiatives, partly reinvested in marketing and technology.

2.2 Selected business data

'000	1st half of 2021	1st half of 2020	Change	
Number of individual customers	621.8	661.9	(40.1)	(6.1%)
Number of current accounts	453.0	454.0	(1.0)	(0.2%)
Number of savings accounts	119.8	138.1	(18.3)	(13.3%)
Number of credit cards	568.3	632.9	(64.6)	(10.2%)
Number of debit cards	233.3	234.1	(0.8)	(0.3%)

Receivables from individual clients – management view*

PLN '000	30.06. 2021 (1)	31.12.2020 (2)	30.06.2020 (3)	Change YTD		Change YoY	
				PLN '000	%	PLN '000	%
Unsecured receivables, including:	4,731,915	5,015,003	5,175,792	(283,088)	(5.9%)	(443,877)	(8.6%)
Credit cards	2,421,210	2,486,574	2,512,481	(65,363)	(2.8%)	(91,271)	(3.6%)
Cash loans	2,421,210	2,481,093	2,615,110	(210,967)	(8.9%)	(344,983)	(13.2%)
Other	40,578	47,336	48,201	(78,583)	(18.5%)	(143,168)	(26.9%)
Mortgage loans	2,333,039	2,199,812	2,033,603	(6,758)	(16.1%)	(7,623)	(15.8%)
Total net individual clients' receivables	**7,064,954**	**7,214,815**	**7,209,395**	**(149,861)**	**(2.1%)**	**(144,441)**	**(2.0%)**

** 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 in accounts** during the first half of 2021 increased, in comparison to the end of the first half of 2020, by over 30% and exceeded **PLN 10.9 billion**. The **number of personal accounts** at the end of June 2021 reached the level of **453 thousand**, of which 252 thousand were accounts in PLN, and 201 thousand – accounts maintained in foreign currencies.

Savings accounts

The number of savings accounts as at the end of the first half of 2021 was 120 thousand, their total balance exceeded PLN 3.3 billion, as compared to 138 thousand savings accounts with the total balance exceeding PLN 3.5 billion in the prior year period. The decrease in the number of savings accounts and balances is due to the withdrawal from the offer in the second half of 2020 of savings accounts in EUR.

Changes to the ranges to the products offered

- In April 2021, the Bank launched bank accounts in 10 new foreign currencies for its clients. At present, holders of a personal account with the Bank can use a total of 15 accounts in different currencies. In addition to a Polish zloty account, clients may open bank accounts in: Australian dollar (AUD), Canadian dollar (CAD), Swiss Franc (CHF), Czech Crown (CZK), Danish Krone (DKK), Euro (EUR), British Pound (GBP), Croatian Kuna (HRK), Hungarian Forint (HUF), Norwegian Krone (NOK), Russian Ruble (RUB), Swedish Krona (SEK), US Dollar (USD) and South African Rand (ZAR). As a result, together with the Citibank Global Wallet service, transactions without currency conversion costs can be performed with a single bank account card in 33 countries around the world. This includes point-of-sale payments, ATM cash withdrawals and online payments. Clients can also exchange currencies via, among others, Citi Kantor and Citibank Online.
- In June 2021, a new Table of Fees and Commissions for individual customers became effective. The implemented changes concern the rules related to the zero-fee maintenance of a Citigold and Citigold Private Client account, and include raising the fees for the holders of CitiKonto opened on or before August 20, 2020 and withdrawing from the acquisition of the CitiPriority account.
- Also in June 2021, the service of Express Elixir instant payments was also expanded – since then, the service has been available 24/7.

Credit cards

As at the end of the first half of 2021, the number of credit cards was 568.300.

The credit cards portfolio amounted to PLN 2.4 billion as at the end of the first half of 2021, 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 21.0%, according to data as at the end of June 2021.

A high level of activation and transactions was maintained for newly-acquired clients. In the first half of 2021, the acquisition structure of credit cards was dominated by the Citi Simplicity card, with a share in acquisition leveling at 90%. **Credit Card of Citi Handlowy wins the Golden Banker award for the sixth consecutive time, in the category The Best Credit Card in Poland – this time it is the Citibank BP Motocard.**

In the first half of 2021, the Bank increased the acquisition of cards issued in cooperation with **OBI** in the scope of **purchases under the "Komfort" Instalment Payment Plan on a credit card** by 185% vs. second half of 2020. The partner's clients can apply online, in an entirely self-service mode, for a credit card with an option of instalments on the card.

Cash loans and hire purchase products associated with credit card accounts

The balance of unsecured loans (cash loans and limits to credit cards) amounted to PLN 2.3 billion as at the end of the second quarter of 2021, i.e. it declined by 11% versus the same period in the previous year.

The sales of the above loans totaled PLN 357 million in the second quarter of 2021 and was lower by 28% as compared to the same period in the previous year. The decrease in sales is due to the restrictions introduced as part of the epidemic.

Mortgage products

In the first half of 2021, 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 2021 reached the value of **PLN 243 million.** As at the end of that period, the mortgage portfolio amounted to PLN 2.3 billion, i.e. by **15% more** than in the first half of 2020.

Investment and insurance products

As at the end of the first half of 2021, 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 36% higher as compared to the same period in 2020.

The increase concerned mainly investment funds and financial instruments purchased by the Bank's clients through Dom Maklerski Banku Handlowego S.A. In the structured product segment, the Bank completed 1 subscription for PLN denominated structured bonds in the first half of 2021.

The Bank added to its offer 4 participation units of new investment funds.

During the first half of 2021, the Bank continued the development of offering insurance products in the various sales channels. It focused its offer on the affluent clients of the Citigold and Citigold Private Client segments.

2.4 Development of distribution channels

2.4.1 Branch network

Citigold and Smart Branches

As at the end of the first half of 2021, there were 19 outlets dedicated to customer service. The outlet network includes 9 Smart, 9 Hub Gold and one corporate branch.

In the first half of 2021, the Bank implemented a new technology of issuing payment cards across the entire branch network. Owing to the new printing method, the Bank can offer clients access to a unique service of issuing debit and credit cards directly on the spot at the branch. Following the change, clients who open a product at a branch can receive cards with new, more secure designs, which conceal important data on the card's reverse side.

During the first six months of 2021, the Bank ensured full operating readiness of its outlets, and the imposed COVID-19 pandemic restrictions did not hinder the access to services or reduce the standard of service. The stringent principles applied at the branches in combating the pandemic continue to apply, thus helping ensure proper safety of the people at Citi Handlowy branches.

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

	30.06.2021 (1)	31.12.2020 (2)	30.06.2020 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	**19**	**19**	**19**	**0**	**0**
HUB Gold	9	9	9	0	0
Investment Center	0	0	0	0	0
Smart branch	9	9	9	0	0
Corporate branch	1	1	1	0	0

2.4.2 Internet and telephone banking

Internet Banking

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

The number of active users of Citibank Online, i.e. those who logged in to the online or mobile banking service via a browser or the Citi Mobile application at least once in every 90-day period, was 369,000 as at the end of the second quarter of 2021. The share of active Citibank Online users in the entire client portfolio of the Bank was 61% as at the end of June 2021, i.e. it increased by 1 p.p. YoY.

At the same time, digital users accounted for 83% of all transactionally active clients at the end of the second quarter of 2021, which is 1 p.p. increase as compared to the second quarter of 2020.

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.

As at the end of the second quarter of 2021, the number of active users of mobile banking, i.e. those who used mobile banking at least once in every 90-day period via the application or Citibank online in responsive technology, amounted to 251,000, i.e. increased by 11% as compared to the end of the second quarter of 2020.

The share of active users of mobile banking in the retail client portfolio of the Bank was 42%, as at the end of June 2021, i.e. increased by 7 p.p. as compared to the same period in 2020.

At the same time, at the end of the second quarter of 2021, mobile users accounted for 57% of all transactional active customers, which is an increase by 22 p.p. compared to the second quarter of 2020.

Social media

The first half of 2021 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 Instagram, taking advantage of the constantly growing popularity of this medium. In order to follow consumer trends, the Bank has been developing its presence in such formats as “Stories” and, thus, expanding 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 2021, Bank's communication on Facebook reached an average 2.2 million users per month. Users of Facebook and Instagram had, an average, 2.4 contacts with the marketing materials of the Bank per month. In the first half of 2021, 124 posts were published on Facebook.

The engagement rate, which shows what percentage of recipients interacted with the Bank’s communication, leveled at 26%, as averaged for all posts published in the first half of 2021.

The Bank has **140,000** followers on Facebook.

3. Changes in information technology

In the first half of 2021, a strategic goal of the Bank in the area of IT technology was to continue increasing the competitiveness of the Bank by providing top quality products and services with the extensive use of innovative solutions, digitization and automation and concurrently with cost optimization. In accordance with prevailing market trends, the technology of the Bank is based, to a large extent, on centralized services and outsourcing. The services centralization processes enable the Bank to generate savings, improve quality, standardize processes and ensure a high level of control and information security. The Technology Division of the Bank focused its activities on the development and implementation of solutions which promote an electronic distribution the channels based on the most advanced online and mobile solutions. Projects to implement products that support the COVID-19 anti-crisis shield were still continued.

IT processes of the Bank are executed in accordance with international standards, which was confirmed, in the first half of 2021, by the positive outcome of recertification/supervisory audits of compliance with ISO 20000 version 2018 (information technology – service management), ISO 27001 (information security management) and ISO 22301 (business continuity management).

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

- **in institutional banking:**
  - **continuation of the implementation of the governmental PFR Anti-Crisis Shield,** which is to help companies maintain their financial liquidity during COVID-19 pandemic. The role of a Bank is to implement a solution that enables its business clients to process documents required to obtain PFR support and enables the Bank to exercise indirect control of an applicant, and to implement a process for subvention repayment administration;
  - **implementation of further solutions in the CitiDirect electronic banking system** - aimed at increasing the level of digitization of the services offered, including a new module for managing credit positions. As a result of the implementation, the Bank expects to increase the level of digitization of its services and improve customer satisfaction with electronic banking.
- **in consumer banking:**
  - **expansion of the FX accounts offer by adding 10 new currencies:** Australian Dollar, Canadian Dollar, Swedish Krona, Norwegian Koruna, Danish Krone, Hungarian Forint, Russian Ruble, South African Rand, Croatian Kuna and Czech Koruna;
  - **introduction of a new credit card Citibank-Aliexpress to the Bank’s offer.** The new card was issued in cooperation with the Aliexpress online platform. The holders of this card can take advantage of a number of financial benefits in exchange for active purchases both on the Aliexpress platform as well as other platforms;
- **in the scope of adaptation of systems of the Bank to ensure their compliance with regulatory requirements:**
  - analysis and implementation of regulatory requirements tied to designation of the Bank as key services operator within the meaning of the Act on the National Cybersecurity System;

- implementation of solutions to adapt the Bank to the changes resulting from the amendment of the tax law as regards reporting to STIR and Standard Audit File;

- **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;
  - modifications of the CTI infrastructure at the Bank's branches, MAN and international WAN connections to mitigate operating risks, enhance quality control and improve cost optimization of the relevant services;

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

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

- **in institutional banking:**
  - **implementation of solutions for robotization of operating processes of the Bank** – the implementation of further robotizations for current business processes including, among other things, foreign trade operations services and handling of applications submitted under the Polish Development Fund (PFR) Financial Shield scheme due to increase the effectiveness of back-office processes used by the Bank;
  - **implementation of solutions supporting outgoing and incoming payments processing within an extended time window** – the solution is meant to enable corporate payments handling in a wider availability window close to 24/7. As a result of the implementation, the Bank expects higher processed payment volumes;
  - **implementation of a number of tools supporting automation and efficiency of back-office processes** – the implemented workflow solutions are aimed at boosting business effectiveness and quality in the Bank's back-office processes;
  - **implementation of a number of regulatory changes aimed at adapting the Bank to regulatory changes –** solutions are implemented to adapt the Bank to the changes resulting from the regulatory environment of the Bank, in particular the necessity to start servicing new types of rates, so-called Risk-Free-Rates, and changes in the AML monitoring.

- **in consumer banking:**
  - **expansion of the mortgage loan offer** by adding a loan with a fixed interest rate.
  - continued **automation and digitization of sales processes (straight through processing) in the area of consumer banking products** – for credit card, cash loan and account-related processes**;**
  - **continued improvement of the online and mobile banking platform** (addition of a new functionalities and products) in order to increase the client satisfaction level, revenues and security;
  - **implementation of solutions for robotization of operating processes of the Bank** – robotization kicked off for the billing process and the report processing in order to increase the effectiveness of back-office processes used by the Bank;

- **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;
  - modernization of the architecture of network infrastructure of the Bank's main locations using SDN technology (software defined network), increasing automation of control and management of the Bank's network devices.

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 2021, 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 2021, the Group included two investment vehicles through which the Bank runs capital transactions. The activity of the companies was financed with the partner's returnable contributions to capital and with their net profits.

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

According to information available as at the date of preparation of the financial statements, the main financial data of the companies in question as at 30 June 2021 were as follows:

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2021	Total equity 30 Jun 2021	Net financial result for the period of 1 Jan – 30 Jun 2021
		%	PLN '000	PLN '000	PLN '000
Handlowy - Inwestycje Sp. z o.o.	Warsaw	100.00	10 613	10 577	(52)
Handlowy Investments S.A.	Luxemburg	100.00	4 687	4 571	(62)

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2020	Total equity 30 Jun 2020	Net financial result for the period of 1 Jan – 30 Jun 2020
		%	PLN '000	PLN '000	PLN '000
Handlowy - Inwestycje Sp. z o.o.	Warsaw	100.00	10,754	10,747	(32)
Handlowy Investments S.A.	Luxemburg	100.00	4,968	4,833	(226)

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

1. Regulatory risk

In the first half of 2021, the financial and organizational situation of the Group was affected, among other things, by:

Legal acts / regulations	Effective date and summary of new requirements

EBA loan moratoria guidelines / Guidelines on COVID-19 loan moratoria measures reporting and disclosure	• Date: 2020 • The guidelines implement broad measures, such as legislative moratoria (so called “loan vacation”) for repayments of loans and public guarantees in EU Member States, in order to support operational and liquidity challenges faced by borrowers. The guidelines are to eliminate gaps in data connected with such measures in order to ensure an appropriate understanding of the risk profile of institutions and the quality of assets on their balance sheets, both for supervisory authorities and the public.
EBA Guidelines on outsourcing:	• Date: 31 December 2021. • The Guidelines lay down consistent rules for internal governance and management of risk associated with the entrusting of certain activities by financial institutions to external providers (outsourcing), including outsourcing of services with the use of cloud processing. • The main goal of the activities taken in 2021 is to ensure compliance with the outsourcing requirements of the EBA Guidelines, including classification of vendor agreements, update of the existing agreements with the required clauses and EBA process maps, as well as to create a register of EBA outsourcing agreements.
Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No. 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges.	• Date: 15 December 2019 • The Regulation induces equality of charges on cross-border payment transactions in EUR with corresponding charges on national payment transactions in PLN (the equality of charges rule). Effective 19 April 2020, the transparency rule will be in force which induces the obligation to inform customers by payment services providers before a payment transaction is delivered, of the range of charges related to currency conversion and extra fees resulting therefrom.
Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on prudential requirements for investment firms and amending Regulations (EU) 1093/2010, (EU) 575/2013, (EU) 600/2014 and (EU) 806/2014 (IFR) and the Draft Act amending the Act on Trading in Financial Instruments and Certain Other Acts implementing the IFD Directive (Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU	• Its effective date is 26 June 2021. • The purpose of the IFD Directive and the IFR Regulation is to create a uniform, integrated regulatory framework for investment firms. Due to their diverse business profiles, investment firms are subject to numerous exemptions from legal requirements in individual EU countries. This results in regulatory complexity for many companies, especially those operating across multiple EU countries. • Therefore, the above-mentioned EU rules aim to create a system of prudential supervision for non-systemically important investment firms depending on their size and their interconnectedness with other financial and economic actors. • Under the new prudential regime for investment firms in the IFD/IFR package, investment firms are divided into three categories based on their size and their interconnectedness with other financial and economic actors. The first category includes systemically important investment firms, the largest and most interconnected, which are still subject to the existing prudential framework under the CRR and the CRD (need to be authorized as a credit institution). The second category includes entities that do not generate systemic risk, but are most likely to generate risk to clients, markets or proper functioning of investment firms. These should, therefore, be subject to specific prudential requirements tailored to their specific risks. The third category are small and non-interconnected investment firms with the least stringent requirements. At the same time, mechanisms for monitoring companies are provided using the criteria based on which the category (classification) depends. • Polish legislation implementing the IFD/IFR package is currently at the parliamentary stage.
Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on disclosure of information related to sustainable development in the financial services sector.	• Date: 10 March 2021 (with exceptions) • Introducing obligations related to disclosure requirements for specific information on risks to sustainable development (an environmental, social or management event or conditions that, if occur, may have a material adverse effect on the value of investment). • Applicable to the investment advice activities of the Bank and DMBH • The detailed requirements concern, inter alia, publication of strategies for implementing into business activities sustainable development risks,

	transparency of remuneration policies and disclosure of information on how to ensure consistency of these policies with the implementation of sustainable development risks in business activities, inclusion in the information presented to the client on how sustainable development risks are introduced in services and on the outcome of assessment of the likely impact of these risks on returns on financial products covered by investment advice, transparency in promoting the environmental or social aspect in information for the client. • Integration of sustainability risks into risk policies and procedures.
Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and Regulation (EU) No 236/2012	• Further obligations to discipline the clearing of transactions in specified financial instruments, effective February 1, 2021, so that transaction clearings can be more efficient and seamless, specifically transactions settled by central securities depositories.
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. EBA guidelines on remuneration policies	• 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. • Most of the new rules entered into force in mid-2021.
Act of February 25, 2021 amending the Banking Law Act and certain other acts	• 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 act entered into force in April 2021 and partially will enter into force in January 2023.
The Act of 30 August 2019 amending the Code of Commercial Companies and certain other acts	• Date: 01 March 2021 (with exceptions) • The most important changes included: ➢ The obligatory dematerialization of all shares • Registration of shares in the register of shareholders kept by an authorized entity

Act of 21 January 2021 on amendments to the Act on specific solutions related to the prevention, counteraction and combating COVID-19 and other infectious diseases and crisis situations caused by them and some other acts	• the legal provisions reducing the cap on the non-interest costs of consumer loans ceased to be effective as of June 30, 2021.
Regulation of the Minister of Health of 13 March 2020 on the declaration of the state of epidemiological threat in the territory of the Republic of Poland (Journal of laws item 433; revoked on 20 March 2020) Regulation of the Minister of Health of 20 March 2020 on the declaration of the state of epidemic in the territory of the Republic of Poland (Journal of Laws item 491 as amended). Regulation of the Council of Ministers of 31 March 2020 on the implementation of certain restrictions, obligations and prohibitions in connection with the state of epidemic (Journal of Laws item 566, as amended), and subsequent Regulations that replaced it.	• Those regulations have implemented various restrictions and prohibitions. The key restrictions and prohibitions from the point of view of the Bank include restrictions on the functioning of certain institutions or work establishments, temporary restrictions on certain business activities and an obligation to carry out certain sanitary activities; • The restrictions that are most important for the Bank include: obligation to provide clients and employed persons, irrespective of the basis of employment, with disposable hand gloves or hand disinfectants, obligation to carry out, during opening hours, at least every hour, disinfection of cash registers or service desks, obligation to keep a distance of at least 1.5 meters between work stations unless it is impossible due to the nature of activities carried out in a given work establishment and such establishment ensures personal protective equipment connected with combating the pandemic.
Act on the National Cybersecurity Protection System	• Announcement date: 28 August 2018 • The purpose of the legislation was to implement Directive (EU) 2016/1148 of the European Parliament and of the Council concerning measures for a high common level of security of network and information systems across the Union (the so-called NIS Directive) and to create a system for identifying and responding to cybersecurity incidents in service sectors of key importance for maintaining critical socio-economic activity, including banking; • The Bank was recognized as one of key service operators charged with obligations related to ensuring information security as well as security handling; • The bill amending the Act on the national cybersecurity system and the Public Procurement Law (draft version of 7 September 2020) provides for: • Reconstruction of the cooperation model within the national cybersecurity system – sectoral CSIRTs and SOCs (security operations centers) will replace the existing sectoral cybersecurity teams and entities providing cybersecurity services; • Strengthening of the position of the Government Plenipotentiary for Cybersecurity by conferring specific powers to issue security warnings and instructions; • Suppliers of hardware or software will undergo a screening procedure in terms of threats to the socio-economic security of the state – if identified as a source of threat, they will be excluded from the public procurement system in Poland. The result of the assessment may be a requirement for entities of the national cybersecurity system to limit the use of products, software and services of a given hardware or software supplier.
The Act of 31 July 2019 on amending certain acts to reduce regulatory burdens	• The amendment of the Civil Code takes effect as of 1 January 2021 whereby protective measures will apply to consumers regarding, among other things, abusive clauses in respect of natural persons concluding an agreement (with, for instance, the Bank) directly connected to that person's business activity if and when it infers from its provisions that the agreement is not of professional nature to that person.
Trade and Cooperation Agreement between the European Union and the United Kingdom	• The agreement agreed between the European Union and the United Kingdom has been applied since 1 January 2021. The text of the agreement does not devote any specific provisions to financial services. The agreement covers financial services in the same way as they are generally covered by other free

	trade agreements between the European Union and third countries, i.e. to a minimum extent. • As part of the arrangements made, it was declared that the parties would endeavor to agree a Memorandum of Understanding establishing a framework for regulatory cooperation in the field of financial services. • An important issue that has not been resolved by the arrangements is the principle of recognition of the equivalence of legal and supervisory frameworks in the area of financial services. These were considered to be unilateral decisions of each party and that the provisions of the agreed contract do not apply to them. • In 2020, the European Commission issued adequacy decisions in only two areas – for central securities depositories and – for a limited period – for central counterparties (CCPs) – which have been applicable since the beginning of January 2021. • Further negotiations are expected on the functioning of the financial markets of the United Kingdom and the Member States in relation to each other.
The 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 judgement should be taken into account in activities of lenders. • The expected response is a proportionate, i.e. in accordance with so called straight-line method, return of part of the commission on early repaid consumer loans. • As revealed in an official communiqué published on the UOKiK's websites, the majority of banks have promised to use practice in lined with the UOKiK's expectations.
EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013	• Date: 01/01/2021 (impact on the bank) • These guidelines lay down the requirements for the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013 in accordance with the powers conferred on the EBA under Article 178(7) of that regulation

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 2021:

Legal acts / regulations	**Effective date and summary of new requirements**
Recommendation S on good practices for management of credit exposures secured with mortgages	• Date: 30 June 2021 • The amended Recommendation S will affect the product offer in terms of mortgage loans as well as some aspects related to managing the risk of such credit exposures. The amendment provides, among other things, for an obligation to add to product offers of banks fixed-rate loans with an option to convert a variable-rate loan to a fixed-rate loan or to a periodically fixed-rate loan. In addition, the amended Recommendation S implements provisions related to loans with an option under which a liability to a bank arising from a credit exposure secured with a mortgage on a residential property may be waived if the borrower assigns to the bank the ownership titles to the property financed with that loan, which is called the "key for debt" option, whereby the implementation of such a product is optional.
ESMA guidelines on the MiFID II compliance function.	• Date: second half of 2021 (implementation). • The guidelines replace the ESMA guidelines issued in 2012 and include updates that improve transparency and increase consistency in the implementation of and supervision over new requirements for the compliance function under MiFID II. Although the objectives of the compliance function and the key rules creating the basis of regulatory requirements have not changed, the obligations have been additionally reinforced, enhanced and clarified under MiFID II. The guidelines will make the existing standards more useful by providing additional explanations of issues such as new obligations in connection with product management requirements under MiFID II, and in particular by describing in detail the reporting obligations of the compliance function. The guidelines are addressed to investment firms and credit institutions that provide services and carry out investment activities, investment firms and credit institutions that sell or advise clients on structured deposits, companies that manage UCITS and

	third party managers of alternative investment funds (AIF) when providing services and carrying out investment activities in accordance with the UCITS and AIF Directive.
Recommendation R on principles of credit risk management and recognition of expected credit losses (project)	• Date: 2021/2022 • Recommendation is addressed to banks and is a set of principles and guidelines regarding credit risk management and recognition of expected credit losses. The amendment to Recommendation R is the result of the entry into force on January 1, 2018 of the new International Financial Reporting Standard - IFRS 9 Financial Instruments. The purpose of Recommendation R is to show banks a set of good practices in credit risk management, classification of credit exposures and estimation of expected credit losses in accordance with the accounting policy adopted and binding in the bank.
Amendment to Recommendation G concerning interest rate risk management at banks (draft)	• Date: 2021/2022 • 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.
Recommendation Z on internal governance at banks EBA and ESMA's guidelines on suitability assessment for management body members and key function holders EBA guidelines on internal governance EBA guidelines on appropriate remuneration policies in accordance with Directive 2013/36 / EU (CRD V)	• Date: 2021/2022 (implementation). • Recommendation Z will provide a set of good practices in the area of internal governance. In particular, the document will refer to such issues as general principles of internal governance at a bank, organizational structure, roles and responsibilities, the composition and functioning of the supervisory board, the management board, and senior management, a bank's code of conduct (ethics) and conflict of interests, rules of remuneration at a bank, risk management and internal controls, information systems and communication, the introduction of new products at a bank, a dividend policy, an outsourcing policy, business continuity and the transparency and integrity of management system at a bank. Recommendation Z is being prepared taking into account guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA). The updated Guidelines of these authorities introduce some expectations in the scope of, among others, diversity in remuneration policies, reducing the gender pay gap, including ESG factors (Environmental, Social, and Governance) in remuneration policy, framework of corporate governance and suitability assessment of members of corporate authorities, as well as clarifications regarding identification, management and mitigation of risk of money laundering and terrorist financing, as part of corporate governance and the framework of risk management at banks.
EBA Guidelines on Loan Origination and Monitoring	• Date: second half of 2021 (implementation) • These guidelines specify the internal governance arrangements, processes and mechanisms, as laid down in Article 74(1) of Directive 2013/36/EU11, requirements on credit and counterparty risk, as laid down in Article 79 of that directive, and requirements in relation to the creditworthiness assessment of the consumer, as laid down in Chapter 6 of Directive 2014/17/EU12 and Article 8 of Directive 2008/48/EC13.
Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on prudential requirements for investment firms and amending Regulations (EU) 1093/2010, (EU) 575/2013, (EU) 600/2014 and (EU) 806/2014 (IFR) and the Draft Act	• Its effective date is 26 June 2021. • The purpose of the IFD Directive and the IFR Regulation is to create a uniform, integrated regulatory framework for investment firms. Due to their diverse business profiles, investment firms are subject to numerous exemptions from legal requirements in individual EU countries. This results in regulatory complexity for many companies, especially those operating across multiple EU countries.

amending the Act on Trading in Financial Instruments and Certain Other Acts implementing the IFD Directive (Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU	• Therefore, the above-mentioned EU rules aim to create a system of prudential supervision for non-systemically important investment firms depending on their size and their interconnectedness with other financial and economic actors. • Under the new prudential regime for investment firms in the IFD/IFR package, investment firms are divided into three categories based on their size and their interconnectedness with other financial and economic actors. The first category includes systemically important investment firms, the largest and most interconnected, which are still subject to the existing prudential framework under the CRR and the CRD (need to be authorized as a credit institution). The second category includes entities that do not generate systemic risk, but are most likely to generate risk to clients, markets or proper functioning of investment firms. These should, therefore, be subject to specific prudential requirements tailored to their specific risks. The third category are small and non-interconnected investment firms with the least stringent requirements. At the same time, mechanisms for monitoring companies are provided using the criteria based on which the category (classification) depends. • Polish legislation implementing the IFD/IFR package is currently at the parliamentary stage.
Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on disclosure of information related to sustainable development in the financial services sector.	• Date: 10 March 2021 (with exceptions) • Introducing obligations related to disclosure requirements for specific information on risks to sustainable development (an environmental, social or management event or conditions that, if occur, may have a material adverse effect on the value of investment). • Applicable to the investment advice activities of the Bank and DMBH • The detailed requirements concern, inter alia, publication of strategies for implementing into business activities sustainable development risks, transparency of remuneration policies and disclosure of information on how to ensure consistency of these policies with the implementation of sustainable development risks in business activities, inclusion in the information presented to the client on how sustainable development risks are introduced in services and on the outcome of assessment of the likely impact of these risks on returns on financial products covered by investment advice, transparency in promoting the environmental or social aspect in information for the client. • Integration of sustainability risks into risk policies and procedures.
Expected publication of amendments to the Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014.	• The expected changes are aimed, inter alia, to empower the European Commission to set a replacement benchmark in place of the index used in specific contracts and financial instruments, which due to certain events has ceased to be published on a permanent basis. The planned regulations should provide detailed rules for determining the replacement benchmark.
EU Cybersecurity Package 1. Directive on the resilience of critical entities ("DRCE"), 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). Financial Conduct Authority's announcement of 5 March 2021 on future cessation and loss of	• 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. • (revision of the NIS Directive or the NIS2 Directive), which extends the scope of the first NIS Directive, tightens security and reporting requirements for enterprises, introduces stricter supervision measures for national authorities and stricter enforcement requirements, and improves information exchange and cooperation between national authorities of member states. • 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. • On March 5, 2021, FCA announced that the following LIBOR settings would be ceased permanently:

150years of progress

representativeness of the LIBOR benchmarks.	• CHF LIBOR (all settings) – as at the end of 2021; • EUR LIBOR (all settings) – as at the end of 2021; • GBP LIBOR, JPY LIBOR (selected settings1) – as at the end of 2021; • USD LIBOR (selected settings2) – as of 30 June 2023 • As regards the selected key 3 settings of GBP LIBOR, JPY LIBOR and US LIBOR, FCA announced that it was considering taking supervisory measures to order the administrator (IBA4) to publish the so-called “synthetic” benchmark to allow the financial market to gradually close the portfolio of agreements and products using these benchmarks. • FCA announced that the above decision resulted from the intention of a number of panel banks to leave the group of entities providing input data necessary to publish LIBOR benchmarks, and the resulting loss of representativeness of the benchmark. • UKNF has emphasized that FCA’s statement is a basis for the supervised entities which apply LIBOR benchmarks to take actions specified in their contingency plans referred to in Article 28(2) of BMR5. • The supervision authority expects supervised entities that apply LIBOR benchmarks to take immediate actions to inform their clients who have agreements, financial instruments and participation units of investment funds based on the above benchmarks of the planned cessation of these benchmarks and the resulting consequences.
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. EBA guidance on remuneration policy	• 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. • Most of the new rules will enter into force in mid-2021.
Act of February 25, 2021 amending the Banking Law Act and certain other acts	• 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 act entered into force in April 2021 and partially will enter into force in January 2023.

The Electronic Service of Documents Act of 18 November 2020	• Effective date: 05 October 2021 • 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.
Draft act amending certain acts in connection with the transfer of funds from open-end pension funds to individual pension accounts	• The previous draft act from 2020 was rejected by the Senate. On March 12, 2021 the Sejm received a new draft. • Date: 01 June 2021 (with exceptions). • The draft act provides for the liquidation of open-end pension funds (OFE) and voluntary pension funds (DFE) by converting them into specialized open-end investment funds and by transferring funds of OFE and DFE members to individual pension accounts of the members kept with such funds. • The universal pension companies (PTE) which manage OFE will become investment fund companies. • The draft act also provides for the collection of a conversion fee in the amount of 15% of funds gathered in OFE unless an OFE member submits a declaration in which the member declares that he or she joins Zakład Ubezpieczeń Społecznych (the Social Insurance Institution) and in that case, no such fee will be collected. • The draft changes may affect services provided by a depositary to OFE and DFE and they necessitate adaptations to the draft provisions.
Draft Act amending the Code of Commercial Companies and certain other acts	• the main goal of the act is to introduce legal regulation of the holding company law into Polish law (group of companies law, corporate group law); • the purpose of the act is also to provide supervisory boards with tools enabling more effective corporate supervision; • the act is to enter into force in 2021.
Act on the Financial Information System	• The act is still at the pre-parliamentary stage. Its effective date is 14 days after publication, with banks having three months to start reporting. • 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, inter alia: 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.
Best Practice for WSE Listed Companies	• Date: July 2021 • Best Practice for WSE Listed Companies is a compilation of rules of corporate governance, which have to be observed (since 2002) by the issuers of shares listed on the Main WSE Market pursuant to the Rules of the Warsaw Stock Exchange.
EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013	• Date: 01/01/2021 (impact on the bank) • These guidelines lay down the requirements for the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013 in accordance with the powers conferred on the EBA under Article 178(7) of that regulation
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	• Announcement date: 11 September 2019 • The position of the UOKiK (Office of Competition and Consumer Protection) clearly shows how the conclusions from the judgement should be taken into account in activities of lenders. • The expected response is a proportionate, i.e. in accordance with so called straight-line method, return of part of the commission on early repaid consumer loans.

87/102/EEC, concerning the settlement of cost of borrowing in the case of an earlier repayment.	• As revealed in an official communiqué published on the UOKiK's websites, the majority of banks have promised to use practice in lined with the UOKiK's expectations.
Judgment of the Court of Justice of the European Union of 3 October 2019 on the interpretation of Article 1(2), Article 4, Article 6(1) and Article 7(1) of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts (OJ 1993 L 95, p. 29) concerning clauses in foreign currency indexed mortgage contracts	• Announcement date: 03 October 2019 • According to the CJEU ruling, if Polish courts find that indexation clauses in foreign currency indexed mortgage loan agreements are abusive: 1) courts may assume that the contract cannot continue to operate without such clauses because this would change the nature of the contract, 2) as a rule, the consequences of contract invalidation for the consumer must be assessed as at the moment the dispute arose (not as at the time the contract was made), 3) courts cannot freely supplement their terms based on equity principles (e.g. by introducing settlements based on NBP exchange rates into contracts), 4) courts cannot uphold the indexation even if the contract has to be invalidated and such invalidation is disadvantageous to the client if the client does not agree to maintain the indexation. • As a result of this judgment, a case law unfavorable for banks may develop, affirming the ability to invalidate mortgage loan contracts indexed to a foreign currency.
Trade and Cooperation Agreement between the European Union and the United Kingdom	• The agreement agreed between the European Union and the United Kingdom has been applied since 1 January 2021. The text of the agreement does not devote any specific provisions to financial services. The agreement covers financial services in the same way as they are generally covered by other free trade agreements between the European Union and third countries, i.e. to a minimum extent. • As part of the arrangements made, it was declared that the parties would endeavor to agree a Memorandum of Understanding establishing a framework for regulatory cooperation in the field of financial services. • An important issue that has not been resolved by the arrangements is the principle of recognition of the equivalence of legal and supervisory frameworks in the area of financial services. These were considered to be unilateral decisions of each party and that the provisions of the agreed contract do not apply to them. • In 2020, the European Commission issued adequacy decisions in only two areas – for central securities depositories and – for a limited period – for central counterparties (CCPs) – which have been applicable since the beginning of January 2021. • Further negotiations are expected on the functioning of the financial markets of the United Kingdom and the Member States in relation to each other.
The Act of 28 November 2020 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Act on Flat-Rate Income Tax on Certain Revenues Obtained by Natural Persons and certain other acts	• One of the main objectives of the act is to impose a new reporting obligation on CIT payers, obliging them to publish information about the tax strategy implemented in a given tax year; • The information about the implemented tax strategy will have to cover a wide catalogue of information about the taxpayer's approach to the proper settlement of tax liabilities. The act includes an open catalogue of information subject to disclosure in fulfilling this reporting obligation; • The act became effective as of January 1, 2021 – the entities concerned will have to prepare and publish such information on the tax strategy implemented in 2020 for the first time by December 31, 2021.

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 Division, 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 Model Risk 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 2021 to identify key risk families, the Management Board of the Bank concluded that the following risk families were significant for the purposes of risk management and the internal capital estimation and maintenance process:

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

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 of risk management units, 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 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 (cashflow 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.
- The 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 CRR.
- 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.

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 and compliance risk

Definition	• Operational risk should be understood as a possibility of loss as a result of application of inappropriate or defective internal processes, human factors or technological systems, or as a result of external events. • Operational risk covers technology risk, outsourcing risk, fraud risk, money laundering risk, information security risk, external event (business continuity) risk, tax and accounting risk, product risk, legal risk, model risk, HR risk, concentration risk, conduct risk and reputational risk, connected with operational risk events, business and market practices, as well as operational risk embedded in other risks (for example credit, counterparty, liquidity or compliance risk); • Operational risk excludes strategic risk and the risk of potential losses resulting from decisions connected with taking credit, market, liquidity or insurance risks. • The risk of non-compliance should be understood as risk of negative consequences arising from the failure to observe legal provisions, regulatory provisions, the Bank's internal normative acts, as well as practices and standards available on the market.
Risk management strategy	• Operational risk management is to ensure a consistent and effective approach to identification, assessment, mitigation, control, monitoring and reporting of that risk and effective reduction in exposure to operational risk and, in consequence, reduction in the number of operational risk events and the severity of their outcomes. • Operational risk management is also to ensure the full integration of processes used for the management of that risk with the processes used for decision making purposes. • 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 • Management of non-compliance risk takes place as part of the Internal Control System. Management of non-compliance risk includes the following elements: identification, assessment, control, monitoring of the size and profile of compliance risk, reporting.
Risk measurement	• In the risk assessment process, the Group uses combinations of various risk measurement or estimation methods. – 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 attestation, 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 processes of risk identification, self-assessment, measurement, monitoring and reporting, in essential respects, are standardized and generally accepted in all organizational units of the Group. Risk mitigation processes are defined for each organizational unit and may be different for individual units. • The ongoing monitoring of operational risk is the responsibility of the Operational Risk Committee, the Control and Compliance System, the Risk and Capital Management Committee, the New Products Committee, the Bonus 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.

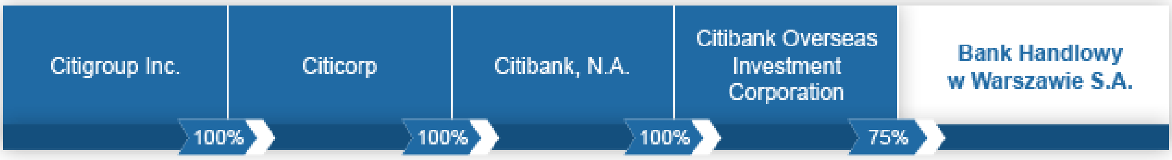
VIII. Investor information

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

1.1 Shareholders

The only shareholder of the Bank that holds at least 5% of share capital and of total voting rights at the General Meeting of Shareholders is Citibank Overseas Investment Corporation (COIC), a company belonging to the Citi Group and focused on its foreign investments. COIC is at the same time the strategic majority shareholder of the Bank. In the first half of 2021, the number of shares held by COIC as well as its stake in share capital and in total voting rights at the General Meeting of Shareholders remained unchanged and amounted to 97,994,700 and 75%, respectively.

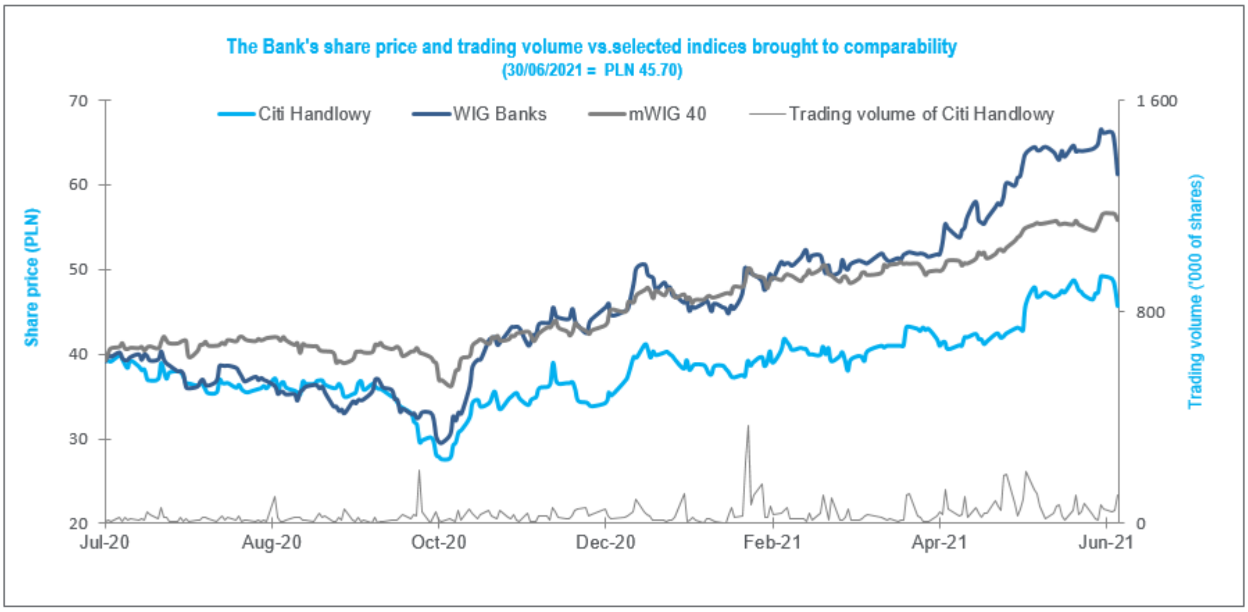
The position of Bank Handlowy w Warszawie S.A. within the Citi Group structure is shown in the diagram below:



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

1.2 Performance of the Bank's shares on the WSE

The Bank's share price was PLN 45.70 at the end of the first half of 2021, an increase of 19.3% within the last 12 months (i.e. compared to the closing price of PLN 38.30 as at 30 June 2020). During the same time, the mWIG 40 index recorded a year-on-year increase by 39.1%, while the WIG-Banks index grew by 57.5% YoY.



The Bank's highest share price since the end of the first half of 2020 was reached on June 25, 2021 and amounted to PLN 49.20 while the lowest level was achieved on October 30, 2020 and amounted to PLN 27.60. The average share price of the Bank in the last 12 months was PLN 38.48 and the average daily turnover in the Bank's shares was approximately 1,424,000 shares.

As at the end of June 2021, the Bank's capitalization was PLN 6.0 billion (compared to PLN 4.6 billion as at 30 December 2020 and PLN 5.0 billion as at end of the first half of 2020). As at the end of June 2021, stock exchange ratios were as follows: P/E (price/earnings) – 12.7 (compared to 29.6 as at 31 December 2020 and 12.4 as at the end of the first half of the previous year), P/B (price/book) – 0.8 (compared to 0.6 as at 31 December 2020 and 0.7 as at the end of June 2020).

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 17 June 2021, the Annual General Meeting of the Bank adopted a resolution on distribution of the net profit for 2020 and undistributed net profit for 2019. Both resolutions provide that the appropriate part of the profit for 2020 and 2019 will be allocated to the dividend payment, provided that by September 10, 2021 (inclusive), the Polish Financial Supervision Authority allows one of the following methods of distribution of the profit:

a) Whole Profit Distribution Condition,
b) 75% Profit Distribution Condition - if the Whole Profit Distribution Condition fail to be fulfilled,
c) 50% Profit Distribution Condition - if the 75% Profit Distribution Condition fail to be fulfilled,
d) If the 50% Profit Distribution Condition fail to be fulfilled, the net profit for 2020 and the undistributed profit for 2019 will remain fully undistributed.

If the Polish Financial Supervision Authority approves the payment of the dividend, the General Meeting of the Bank decided to set the dividend date for September 15, 2021 (the dividend day) and the date of dividend payment for September 22, 2021 (the dividend payment date). The number of shares covered by the dividend is 130 659 600.

On July 20, 2021, the Bank received an individual recommendation of the Polish Financial Supervision Authority on the dividend payment, allowing the payment of 100% of the profit for 2020, i.e. a dividend of PLN 156,791,520.00 (PLN 1.20 per 1 share). At the same time, the PFSA recommended the Bank not taking, prior to consultation with PFSA, any actions beyond the scope of current business and operational activities that may result in lowering the capital base including possible dividend payments from undistributed profit from previous years (i.e. from 2019 and earlier) and buyouts of own shares.

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%

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
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%
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%

** 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 2021, the Bank had full ratings awarded by Fitch Ratings ("Fitch").

On April 27, 2021 Fitch Ratings agency ("Fitch") affirmed the Bank's long-term rating, shortterm rating (IDR's) and national ratings. The Bank's ratings remained unchanged. On the other hand, the Bank's viability rating ("VR rating") was placed on Negative Watch, following the Citigroup's announcement of the revised strategy to exit the consumer business in 13 markets including Poland.

Fitch expects to resolve the Ratings Watch Negative (RWN) of VR rating upon the Citigroups' release of further details on the exit plan and the new corporate structure as a consequence of the changes.

The Viability rating reflects an exceptionally low-risk business model and good capitalization together with high levels of liquidity. The Viability rating is one notch higher than the rating for the Polish banking sector.

On May 18, 2021 Fitch revised its outlook under the Bank's long-term rating ("Long-term IDR") from "Negative" to "Stable". The outlook revision follows the revision of the outlook of Citigroup Inc. – a parent company of the Bank from "Negative" to "Stable". At the same time,

At the same time, Fitch has affirmed the Bank's long-term rating ("Long-term IDR") at "A-" and Bank's short-term rating ("Short-term IDR") at "F1".

The full current rating of the Bank assigned by Fitch is as follows:

Long-term entity ranking *Long-term rating outlook*	A- *stable*
Short-term entity ranking	F1
Viability rating*	a- Rating Watch Negative
Support rating	1
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.*

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 2021, the Bank organized meetings regarding the publication of financial results after each quarter with capital market analysts and representatives of investors.

IX. Corporate governance rules in the Group

1. Best practice at the Bank

Corporate Governance Principles applied in the Group of the Bank are described in the Report of the Management Board on the activities in 2020.

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 2021

In the first half of 2020, the Bank's Management Board consisted of:

Sławomir S. Sikora	President of the Bank's Management Board (to June 17, 2021)
Elżbieta Świątopełk-Czetwertyńska	Vice-President of the Bank's Management Board (from June 18, 2021)
Natalia Bożek	Vice-President of the Bank's Management Board
Dennis Hussey	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
James Foley	Member of the Bank's Management Board
Katarzyna Majewska	Member of the Bank's Management Board

2.1.2 Changes in the composition of the Supervisory Board during the first half of 2021

During the first half of 2021 the Supervisory Board of the Bank consisted of:

Sławomir S. Sikora	Chair of the Supervisory Board (from June 18, 2021)
Kristine Braden	Deputy Chair of the Supervisory Board (Member of the Supervisory Board to June 17, 2021)
Andrzej Olechowski	Chair of the Supervisory Board (to June 17, 2021)
Frank Mannion	Deputy Chair of the Supervisory Board (to June 17, 2021, Member of the Supervisory Board from June 18, 2021)
Shirish Apte	Member of the Supervisory Board
Igor Chalupec	Member of the Supervisory Board (to June 17, 2021)
Jenny Grey	Member of the Supervisory Board
Marek Kapuściński	Member of the Supervisory Board
Gonzalo Luchetti	Member of the Supervisory Board
Anna Rulkiewicz	Member of the Supervisory Board
Barbara Smalska	Member of the Supervisory Board
Stanisław Sołtysiński	Member of the Supervisory Board (to June 17, 2021)
Zdenek Turek	Member of the Supervisory Board (to June 17, 2021)
Stephen Volk	Member of the Supervisory Board (to June 17, 2021)

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 an individual term of office of three years. At least half of the members of the Management Board should be of Polish nationality. The term of appointment of a Management Board member expires:

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

2.3 Rights of the Management Board members

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

By way of resolutions, the Management Board:

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

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

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

3. Other principles

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

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

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

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

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

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

According to the information available to the Bank as the parent company, none of the members of the Management Board and Supervisory Board declared holding the Bank's shares as at June 30, 2021.

As at June 30, 2020, the following persons - the members of the Management Board and Supervisory Board at that time declared their ownership of the Bank's shares:

Name	Function	Number of shares as at the day of submitting this consolidated	Number of shares as at the day of submitting the previous

		semi-annual report for the first half of 2020	quarterly interim report for Q1 of 2020
Andrzej Olechowski	Chairman of the Supervisory Board	2,200	2,200
Total		**2,200**	**2,200**

Members of the Management Board and Supervisory Board of the Bank do not have any Bank share options.

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

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

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

XI. 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 – Vice-President of the Management Board in charge of the Management Board’s work, Ms. Natalia Bożek – Vice-President, Mr. Maciej Kropidłowski – Vice-President, Mr. Dennis Hussey – Vice-President, Ms. Barbara Sobala – Vice-President, Mr James Foley – Member and Mrs. Katarzyna Majewska – Member, the semi-annual financial data and comparative data presented in the “Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2021” 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 2021” 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 2021”, 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 2021.

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

19.08.2021	Elżbieta Światopełk - Czetwertyńska	Vice-President of Management Board in charge of the Management Board's work
....	....	....
Date	Name	Position/Function
19.08.2021	Natalia Bożek	Vice-President of Management Board
....	....	....
Date	Name	Position/Function
19.08.2021	Maciej Kropidłowski	Vice-President of Management Board
....	....	....
Date	Name	Position/Function
19.08.2021	Dennis Hussey	Vice-President of Management Board
....	....	....
Date	Name	Position/Function
19.08.2021	Barbara Sobala	Vice-President of Management Board
....	....	....
Date	Name	Position/Function
19.08.2021	James Foley	Member of Management Board
....	....	....
Date	Name	Position/Function
19.08.2021	Katarzyna Majewska	Member of Management Board
....	....	....
Date	Name	Position/Function