Annual Report 2020

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This document is not the official version of the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended December 31, 2020. Official Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended December 31, 2020, it was prepared in accordance with the requirements of the ESEF. 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.

Sławomir S. Sikora
President of the Management Board

Ladies and Gentlemen,

Let me present to you the financial report for 2020. Unexpectedly for all of us, the outbreak of the pandemic forced us to face an unprecedented challenge, revise previous plans and redefine our priorities. In the Bank's Group, we focused, above all, on the safety of our employees and clients. Our facilities and branches were subjected to the highest standard of the sanitary regime and a shift work system for staff to ensure safe service and business continuity. At the peak of the pandemic, 80% of the bank's staff continued to work remotely, and yet we managed to maintain full operational efficiency.

No less important was the liquidity support for the clients whose lives and operations were affected by the pandemic. **We offered loan repayment deferrals, launched a dedicated platform via which 1,400 of our clients were granted over PLN 450 million of state aid**, as well as revolutionized our services through digitization. We continued to do what we do best – offering advice concerning transactions on financial and capital markets as well as effective wealth management – and thus we gained the trust of the clients, who chose our bank as a partner in their growth plans.
We also did not forget about the front line workers who fought for the health of Polish people and, as a bank, we set ourselves the goal of supporting medical professionals in that effort. For example, we offered them free meals, delivered nationally innovative equipment for the rapid diagnosis of COVID-19, and provided hospitals with mobile respirators, protective clothing, mobile ultrasound devices and video laryngoscopes.
The outbreak of the pandemic had a significant impact on the economic situation in 2020. Poland's GDP decreased by 2.8% last year, due to lower consumption and investment outlays. The anti-pandemic restrictions limited business activity of some companies, significantly affecting their financial results. At the beginning of the pandemic, the situation was worsened by the disruption to the supply chains resulting from the downtimes of manufacturing plants in some Asian and European countries, which had a negative impact on the business continuity of Polish companies.
In response to the economic shock, the National Bank of Poland reduced the reference rate to the record-low 0.1% and also commenced an asset purchase program. Toward the end of the year, the central bank also decided to carry out FX interventions to reduce the pressure for zloty appreciation. The easing of the monetary policy was accompanied by a fiscal easing, including introduction of assistance

Institutional Banking

+8% YoY
Increase in revenues in Institutional Banking Segment

+10% YoY
Deposit volumes

+5% YoY
Global clients

Wealth Management

+23% YoY
Investment products balance

+7% YoY
No. of affluent clients

Bank's key initiatives

Servicing the biggest IPO

Biometrics

e-Forms

CitiKantor

programs for the labor market and financial shields supporting the companies sector. The liquidity of enterprises improved mainly due to these actions and the economic slowdown turned out to be less severe than initially expected.

The pandemic has demonstrated that the Group's business model, where almost two thirds of the revenues come from cooperation with companies, is resilient to crisis. Our clients, being Polish and foreign companies, handled the pandemic-induced turmoil much better, and a visible increase in their activity on financial markets and high FX turnovers positively contributed to the results. **In 2020, we recorded a two-digit growth in global clients' liabilities for a third year in a row; in that year, the bank also strengthened its position as a first choice bank for domestic and international financial institutions**. In 2020, the bank's base of global clients increased by 5 percent. The gross profit in ICG grew by over 30 percent against 2019.

Moreover, our Group participated in all the most important transactions in financial markets, including a record-high IPO of Allegro on the Polish market. As a broker on the capital market, we arranged a total financing of over PLN 4 billion for automotive clients – VW FS Polska, Toyota Bank and Toyota Leasing.

With the conducted transactions, 2020 was the best year in the history of the Brokerage House of Bank Handlowy (DMBH) in terms of financial results, and the beginning of 2021 only strengthened its market position. The DMBH team together with Citigroup Global Markets Europe played a key role in executing the biggest IPO in the technology sector in EMEA in history – IPO of InPost, a Polish company, in January 2021 on the Amsterdam Stock Exchange, worth EUR 3.2 billion. This is, without a doubt, a good signal for this year.

The macroeconomic environment, and particularly interest rate cuts and the uncertainty about the further influence of the pandemic on client behaviors, had an impact on the situation of the retail business and its expected profitability. Therefore, we decided to update the valuation of goodwill in the part attributed to retail banking by PLN 214.7 million. As a result, the Group's net profit decreased to PLN 172.4 million. It is worth mentioning that, setting aside this write-off, which was posted in the fourth quarter, that quarter's results would have been the highest in all of 2020.

The Group supported the development of its clients not only by offering them financial solutions tailored to their individual needs but also by investing in innovative technologies. In consumer banking, since mid-2020, the Group has made it possible for new customers to **fully remotely open all basic retail products** (personal bank account, credit card and cash loan) based on **biometric identity verification**, without the need to leave home or contact a courier. With the launch of **CitiKantor**, retail clients received a revolutionary currency exchange tool, which uses the experience of our investment banking. Companies which operate globally or make settlements with foreign counterparties have gained access to a game-changing tool of **Citi Payment Insights**, which tracks and helps control payments on 88 markets. These innovations have been very well received by our clients.

Looking at the forecasts for 2021, I believe that the vaccine rollout increases the chance that the spread of the pandemic will be gradually mitigated and that the economic growth will accelerate significantly later during the year. This would let companies improve their financial results and gradually increase investment outlays in this sector. A time has come to support enterprises in their investment ideas and reconstruction of the economy. We want to play this role, one we have successfully performed for the last decade.

Of course, we shouldn't forget about the risks. The uncertainty about the future spread of the pandemic and the rate at which the population will develop herd immunity, as well as one of the biggest systemic problems for the entire banking sector at present – retail mortgage loans in CHF – can have a significant impact on the economy and the fate of individual companies.

With this annual report of our Group, I wish to express my thanks and respect to the Members of the Supervisory Board for their work and support for our activities. I also want to thank the shareholders and clients for their loyalty and trust, which make us feel ready to take up new challenges and for the next years of joint development and progress.

Best regards

Sławomir S. Sikora
President of the Management Board
Bank Handlowy w Warszawie S.A.

Contents

Independent Auditor's Report to the General Shareholders' Meeting and Supervisory Board of Bank Handlowy w Warszawie S.A.

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Independent Auditor's Report

To the General Shareholders' Meeting and Supervisory Board of Bank Handlowy w Warszawie S.A.

Report on the Audit of the Annual Consolidated Financial Statements

Opinion

We have audited the accompanying annual consolidated financial statements of Bank Handlowy w Warszawie S.A. Group (the "Group"), whose parent entity is Bank Handlowy w Warszawie S.A. (the „Parent Entity"), which comprise:

— the consolidated statement of financial position as at 31 December 2020;

and, for the period from 1 January to 31 December 2020:

— the consolidated statement of profit or loss;
— the consolidated statement of comprehensive income;
— the consolidated statement of changes in equity;
— the consolidated statement of cash flows;

and

— notes comprising a summary of significant accounting policies and other explanatory information;

(the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements of the Group:

— give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and the adopted accounting policy;
— comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Parent Entity's articles of association.

Our audit opinion on the consolidated financial statements is consistent with our report to the Audit Committee dated 24 March 2021.

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Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Statutory Auditors as National Standards on Auditing (the "NSA") by the resolution no. 3430/52a/2019 dated 21 March 2019 and the resolution no. 1107/15a/2020 dated 8 September 2020; and
- the act on statutory auditors, audit firms and public oversight dated 11 May 2017 (the "Act on statutory auditors"); and
- regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the "EU Regulation"); and
- other applicable laws.

Our responsibilities under those regulations are further described in the Auditor's Responsibility for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Ethics

We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") as adopted by the resolution of the National Council of Statutory Auditors, together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Poland and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. During our audit the key statutory auditors and the audit firm remained independent of the Group in accordance with requirements of the Act on statutory auditors and the EU Regulation.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

Expected credit losses on loans and other receivables from customer and off-balance sheet financial commitments

The book value of loans and advances from customers (excluding measured at fair value through profit and loss) amounted to PLN 21,914.2 million as at 31 December 2020 and PLN 23,731.9 million as at 31 December 2019. Allowances for expected credit losses as at 31 December 2020 amounted to PLN 997.7 million in comparison to PLN 1001.9 million as at 31 December 2019. Provisions for undrawn granted financial and guarantee commitments amounted to PLN 47.4 million as at 31 December 2020 and PLN 61.7 million as at 31 December 2019.

Net result on allowances for expected credit losses in 2020 amounted to PLN (190.3) million, and in 2019 PLN (245.7) million.

The items listed above were presented in the consolidated financial statements in Note 13 “Provisions for expected credit losses on financial assets and provisions for off–balance sheet commitments”, in Note 22 “Amounts due to customers”, in Note 31 “Provisions” and in Note 3 “Risk Management”, in subsection “Credit risk”.

Key audit matter	*Our response*
Loans and advances to customers are measured at amortized cost or in fair value through other comprehensive income, subject to allowances for expected credit losses. The procedures to estimate allowances comprise two major phases – identification of significant increase in credit risk or impairment triggers and measurement of expected credit losses. The impairment triggers and triggers indicating significant increase in credit risk are identified mainly on the basis of payment delinquencies, economic and financial standing of the debtor and current probability of default level as compared to the date of initial recognition of a given exposure, while allowances for expected credit losses are estimated individually for specific loans and advances to customers and collectively for homogenous loan portfolios using statistical methods on the basis of risk parameters. Significant assumptions for the portfolio method are risk parameters such as probability of default (PD), loss given default (LGD), exposure at default (EAD) or criteria/ allocation thresholds to risk categories (stages), which are determined for homogenous groups of loan exposures based on historical data taking into account forward looking information on expected macroeconomic conditions.	As part of our audit procedures, we critically assessed the accounting policy for the recognition of impairment losses on loans and advances to customers in terms of compliance with the requirements of applicable financial reporting standards, and we also critically analyzed the control environment with particular emphasis on the automated controls in the IT systems of the Bank. Audit procedures conducted with the support of our internal financial risk management and IT specialists included i.a.: · critical assessment of the design and implementation of relevant internal controls (including general IT system controls) applied in the process of the credit exposures classification into stages and estimating allowances for expected credit losses (including monitoring of collateral values) as well as testing the effectiveness of these controls; · critical analysis of the methodology for estimating risk parameters and the allowances for expected credit losses on both individual and portfolio basis in terms of compliance with the requirements of the relevant accounting standard and best market practice;

Allowances represent estimate of credit losses expected to be incurred on loans and advances to customers at the reporting date over a 12-month horizon or the lifetime of the exposure.

As required by the applicable accounting standard, the measurement of expected credit losses includes forecasts of future economic conditions. Making assumptions about expected macroeconomic scenarios and the likelihood of their occurrence requires Management to use a significant dose of judgment.

The main risk area comprises the failure to identify existing impairment triggers and significant increase in credit risk, the application of inappropriate data to calculate the parameters of statistical model, which include the use of inappropriate macroeconomic assumptions, which may not adequately reflect the expected credit losses existing as at a given reporting date. For loans that are assessed on an individual basis there is a risk of applying inappropriate assumptions regarding recovery scenarios and valuation of collateral. Moreover, there is a risk of errors and risk of fraud occurring during the allowances calculation process. A relatively small change in significant assumptions and model parameters such as data and methods, could have a significant impact on the Group's expected credit loss estimate.

Due to the COVID-19 pandemic and its impact on the macroeconomic environment, the uncertainty in the estimation of expected credit losses increased significantly compared to previous years.

The increased uncertainty caused by the sudden negative change in the macroeconomic situation required the Management Board of the Parent Entity to apply temporary qualitative changes to the existing credit risk models, which were developed based on the analysis of observed loss parameters in the past supplemented with management overlays. These changes were necessary as the models used in the Group, due to their design and the scope of data they were built upon, could not fully reflect the impact of a sudden change in the economic environment on expected credit losses.

- analysis of the structure and dynamics of the loan portfolio including quality ratios and provision coverage in order to identify groups of loans with underestimated allowances for expected credit losses;
- taking into account the results of historical assessment of the model validity performed by the Bank, a critical assessment of significant assumptions and input data used in the estimation of expected credit losses models for individual key credit risk parameters, such as in particular transfer logic between stages, probability of default (PD), exposure at default (EAD) or loss given default (LGD);
- critical assessment of temporary qualitative changes to model aiming to include the impact of the COVID-19 pandemic on expected credit losses, including: loss parameters in the context of assumed macroeconomic scenarios and the appropriateness of the treatment of granted borrower consents from the perspective of allocation to risk categories (stages);
- independent recalculation of selected risk parameters and allowances for expected credit losses for a selected sample of exposures, including selected methodology components designed to reflect the impact of the COVID-19 pandemic;
- assessment of the adequacy of the allowance for losses expected over a 12-month horizon by referring to credit losses realized on individual homogeneous portfolios in the past;
- analysis of the accuracy of allocation of loans and advances to customers to stages, taking into account qualitative and quantitative criteria;
- for loans and advances to customers assessed individually on the basis of a selected sample including the impact of COVID-19 on the financial situation of borrowers – assessment of the appropriateness of identification of significant increase in credit risk and impairment triggers and for impaired assets – critical assessment of relevant assumptions adopted by the Group and independent recalculation of impairment allowances;

Determining such temporary changes to the model requires the Management Board of the Parent Entity to apply a significant level of judgment.

We considered this area to be a key audit matter because estimating the allowances for expected credit losses involves significant inherent risks of error and fraud as well as uncertainty and requires the Management Board of the Parent Entity to use significant judgment and, considering the size of the loan portfolio, has a material impact on the consolidated financial statements.

- assessment of the completeness and appropriateness of disclosures in the financial statements regarding significant judgments and estimates of expected credit losses, including uncertainty arising from the possible impact of the COVID-19 pandemic, as well as a sensitivity analysis of the level of expected credit losses relative to key assumptions used in the model.

Impairment of goodwill

The carrying amount of goodwill amounted to PLN 1,031.3 million as at 31 December 2020 and PLN 1,246.0 million as at 31 December 2019. The amount of goodwill was presented in the consolidated financial statements in Note 24 “Intangible assets”, in Note 25 “Impairment test for goodwill” and in Note 48 “The impact of COVID-19 on the Group’s functioning”.

Key audit matter

In accordance with relevant financial reporting standards the Group performs a goodwill impairment at least once a year. The goodwill impairment test is performed at the level of cash-generating units ("CGUs") to which goodwill has been allocated. The book value of CGUs is then compared to recoverable amount. The carrying amount of these CGUs is then compared with their recoverable amount. The recoverable amount is estimated generally based on the value in use of the CGUs, which represents the present value of estimated future cash flows including the residual value.

Estimation of value in use is a complex process and requires significant judgments and assumptions regarding future cash flows, discount rates, including risk free rate, market risk premium, beta parameter, dividend payout ratio and growth rate in the residual period.

Our response

Our audit response included among others:

- evaluation of design and implementation of internal controls adopted by the Group in the process for testing impairment of goodwill, including in particular the timely manner of performing the goodwill impairment test and review and approval of the test results by authorized employees;
- assessment of appropriateness of the Group’s assumptions regarding allocation of goodwill to selected CGUs based on our knowledge about the Group;
- with support of our internal valuation specialists, an assessment whether the model used by the Group to estimate value in use of the given CGUs complies with requirements of the relevant standards;

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The estimates used in the goodwill impairment test relate to future events and are subject to significant risk of variability due to changing economic conditions and further due to the increased uncertainty arising from the impact of the COVID-19 pandemic on the economy.

- critical review of the assumptions and estimates adopted by the Group for the purpose of calculation of value in use of given CGUs, to which goodwill was allocated, including:
  - assessment of forecasted financial results by comparing them to historical results and the budget realisation in previous periods;
  - evaluation of models used for calculation of value in use (in terms of mathematical accuracy and logical consistency) and assessment of the rationale of the macroeconomic assumptions adopted by the Group by comparing to market data, including assumptions regarding the discount rate (risk free rate, market risk premium, beta parameter) and growth rate in the residual period;
- assessment of the accuracy and completeness of disclosures included in the consolidated financial statements in terms of goodwill and goodwill impairment testing as required by the relevant financial reporting standards

Responsibility of the Management Board and Supervisory Board of the Parent Entity for the Consolidated Financial Statements

The Management Board of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Parent Entity's articles of association and for such internal control as the Management Board of the Parent Entity determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board of the Parent Entity is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Parent Entity either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

According to the accounting act dated 29 September 1994 (the “Accounting Act”), the Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Parent Entity are responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the Management Board of the Parent Entity has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Parent Entity;
- conclude on the appropriateness of the Management Board of the Parent Entity’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report on the audit of the consolidated financial statements to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report on the audit of the consolidated financial statements. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Parent Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Parent Entity with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee of the Parent Entity, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Information

The other information comprises:

- the Letter of the President of the Management Board;
- the report on activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2020 (the "Report on activities"), including the corporate governance statement and the statement of the Management Board regarding accuracy and fairness of the statements presented, which is a separate part of the Report on activities;
- Non-Financial Statements of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2020 referred to in art. 49b paragraph 9 of the Accounting Act;
- Information of the Management Board of Bank Handlowy w Warszawie SA on the selection of the audit firm to audit annual financial statements of the Bank and the Capital Group of the Bank;
- Assessment of the Supervisory Board with justification concerning the Management's Report on activities and Financial statements for 2020;

(together the "Other information").

Responsibility of the Management Board and Supervisory Board

The Management Board of the Parent Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the report on activities of the Group for the year ended 31 December 2020 (the "Report on activities"), including the corporate governance statement and the report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our opinion on the consolidated financial statements does not cover the Other information.

In connection with our audit of the consolidated financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on statutory auditors our responsibility was to report if the Report on activities was prepared in accordance with applicable laws and the information given in the Report on activities is consistent with the consolidated financial statements.

Moreover, in accordance with the requirements of the Act on statutory auditors our responsibility was to report whether the Group included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the consolidated financial statements and to inform whether the Group prepared a separate report on non-financial information.

Opinion on the Report on Activities

Based on the work undertaken in the course of our audit of the consolidated financial statements, in our opinion, the accompanying Report on activities, in all material respects:

- has been prepared in accordance with applicable laws, and
- is consistent with the consolidated financial statements.

Opinion on the Statement on Corporate Governance

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (the "decree").

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the consolidated financial statements.

Information about the Statement on Non-financial Information

In accordance with the requirements of the Act on statutory auditors, we report that the Group has prepared a separate report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act.

We have not performed any assurance procedures in relation to the separate report on non-financial information and, accordingly, we do not express any assurance conclusion thereon.

Statement on Other Information

Furthermore, based on our knowledge about the Group and its environment obtained in the audit of the consolidated financial statements, we have not identified material misstatements in the Report on activities and the Other information.

Report on Other Legal and Regulatory Requirements

Information on Compliance with Prudential Regulations

The Management Board of the Parent Entity is responsible for the Group's compliance with the applicable prudential regulations defined in separate laws, in particular for the appropriate determination of the capital ratios.

Our responsibility was to inform in our auditor's report whether the Group complies with the applicable prudential regulations defined in separate laws, in particular whether the Group appropriately determined the capital ratios presented in note 3 "Risk Management".

The audit objective was not to express an opinion on the Group's compliance with the applicable prudential regulations and therefore we do not express such an opinion.

Based on our audit of the consolidated financial statements of the Group, we inform that we have not identified any instances of non-compliance, in the period from 1 January to 31 December 2020, of the Group with the applicable prudential regulations, defined in separate laws, in particular with respect to the determination of the capital ratios as at 31 December 2020, that could have a material impact on the consolidated financial statements.

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Opinion on the compliance of the consolidated financial statements prepared in the single electronic reporting format with the requirements of the regulations on technical standards on the specification of a single electronic reporting format

As part of our audit of the consolidated financial statements we were engaged to perform a reasonable assurance engagement in order to express an opinion on whether the consolidated financial statements of the Group as at 31 December 2020 and for the year then ended prepared in the single electronic reporting format included in the reporting package named '3 skons_sprawozdanie finansowe_2020.zip' (the 'consolidated financial statements in the ESEF format') were tagged in accordance with the requirements specified in the Commission Delegated Regulation (EU) of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format and other Commission Delegated Regulations (EU) with respect to updates of the taxonomy laid down in the regulatory technical standards for the single electronic reporting format, hereinafter jointly referred to as regulatory technical standards on ESEF (the 'ESEF RTS') and meet the technical conditions of a single electronic reporting format which are specified in these regulations.

Responsibility of the Management Board and Supervisory Board of the Parent Entity

The Management Board of the Parent Entity is responsible for the preparation of consolidated financial statements in the ESEF format in accordance with the tagging requirements and technical conditions of a single electronic reporting format which are specified in the ESEF RTS. Such responsibility includes the selection and application of appropriate XBRL tags using the taxonomy specified in the ESEF RTS.

This responsibility of the Management Board of the Parent Entity includes designing, implementing and maintaining internal control relevant to the preparation of the consolidated financial statements in the ESEF format that is free from material non-compliance with requirements specified in ESEF RTS, whether due to fraud or error.

The members of the Parent Entity's Supervisory Board are responsible for overseeing the financial reporting process, including the preparation of financial statements in the format required by applicable law.

Auditor's Responsibility

Our objective is to issue an opinion about whether the consolidated financial statements in the ESEF format were tagged in accordance with the requirements specified in the ESEF RTS and meet the technical conditions of a single electronic reporting format specified in those regulations.

We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (revised), 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' as adopted by the National Council of Statutory Auditors ('NCSA') by resolution no. 3436/52e/2019 dated 8 April 2019 as National Standard on Assurance Engagement 3000 (revised) ('KSUA 3000 (Z)'). That standard requires that the auditor plan and perform procedures to obtain reasonable assurance about whether the consolidated financial statements in the ESEF format were prepared in accordance with specified criteria.

Reasonable assurance is a high level of assurance, but it is not guaranteed that the assurance engagement conducted in accordance with KSUA 3000 (Z) will always detect material non-compliance with requirements specified in the ESEF RTS.

The procedures selected depend on our judgment, including the assessment of the risks of material non-compliance with requirements specified in the ESEF RTS, whether due to fraud or error.

In making those risk assessments, the auditor has considered internal controls relevant to the preparation of the consolidated financial statements in the ESEF format in accordance with the specified criteria in order to design procedures that are appropriate, which provide the auditor with sufficient and appropriate evidence under the circumstances. The assessment of internal controls was not performed for the purpose of expressing an opinion thereof. The procedures performed by the auditor also included assessing the appropriateness of the subject matter and the suitability of the criteria used under the circumstances.

Our procedures included, in particular:

- obtaining an understanding of the process of selection and application of XBRL tags by the Parent Entity and maintaining compliance with the ESEF RTS, including an understanding of the operation of internal control relevant to this process,
- assessing compliance with the technical conditions on the specification of a single electronic reporting format, including the use of the XHTML format,
- agreeing [on a selected sample] the tagged information included in the reporting package containing the consolidated financial statements in the ESEF format to the consolidated financial statements of the Group presented in human-readable format,
- evaluating the completeness of tagging of information in the consolidated financial statements in the ESEF format using XBRL tags,
- assessing whether the XBRL tags from the taxonomy specified in the ESEF RTS used by the Parent Entity were properly applied and that taxonomy extensions were used where the relevant elements have not been identified in the primary taxonomy specified in the ESEF RTS, including whether the applied taxonomy extensions were correctly anchored in the primary taxonomy specified in the ESEF RTS.

Defining the criteria

The criteria for assessing compliance of the consolidated financial statements in the ESEF format are defined in the ESEF RTS.

The firm applies International Standard on Quality Control 1 as adopted by National Council of Statutory Auditors by resolution no 2040/37a/2018 dated 3 March 2018 (with subsequent amendments) as national standard on quality control and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the IESBA Code which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior as well as other independence and ethical requirements, applicable to this assurance engagement in Poland.

Opinion

Our opinion has been formed on the basis of, and is subject to, the matters outlined above.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on assurance engagement.

In our opinion, the consolidated financial statements in the ESEF format as at 31 December 2020 and for the year then ended was prepared, in all material respects, in accordance with the requirements of the ESEF RTS.

Statement on Services Other than Audit of the Financial Statements

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the act on statutory auditors.

Services other than audit of the financial statements, which were provided to the Group and entities under the control of the Parent Entity in the audited period are listed in in point XII of the Report on activities.

Appointment of the Audit Firm

We have been appointed for the first time to audit the annual consolidated financial statements of the Group by resolution of the Supervisory Board dated 25 March 2017 and reappointed in the following years, including the resolution dated 7 December 2018, to audit the annual consolidated financial statements for the year ended 31 December 2020. Our period of total uninterrupted engagement is 4 years, covering the periods ended 31 December 2017 to 31 December 2020.

On behalf of audit firm
KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546

Signed on the Polish original

Justyna Zań

Key Statutory Auditor
Registration No. 12750
Limited Partner, Proxy

Signed on the Polish original

Tadeusz de Ville

Limited Partner, Proxy

Warsaw, 24 March 2021

Selected financial data

SELECTED FINANCIAL DATA	PLN'000		EUR'000***	
	2020	2019	2020	2019
Interest and similar income	1,118,882	1,406,479	250,074	326,954
Fee and commission income	645,163	653,409	144,196	151,893
Profit before tax	317,277	658,192	70,913	153,005
Net profit	172,395	480,124	38,531	111,611
Total comprehensive income	506,312	506,572	113,163	117,759
Increase/decrease of net cash	722,779	(3,678,117)	161,544	(855,026)
Total assets	60,941,538	51,978,543	13,205,673	12,205,834
Amounts due to banks	5,118,861	2,125,495	1,109,227	499,118
Amounts due to customers	43,393,906	39,787,802	9,403,204	9,343,149
Shareholders' equity	7,580,967	7,074,655	1,642,751	1,661,302
Share capital	522,638	522,638	113,253	122,728
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	58	54.15	13	12.71
Total capital adequacy ratio (in %)*	22.5	17.2	22.5	17.2
Earnings per share (PLN/EUR)	1.32	3.67	0.30	0.85
Diluted net earnings per share (PLN/EUR)	1.32	3.67	0.30	0.85
Declared or paid dividends per share (PLN/EUR)**	-	-	-	-

* *Additional information on TCR calculation in the supplementary note no. 3 in the section "Capital Adequacy". Calculation of TCR as of 31.12.2020 was subject to a separate review or audit by an auditor.*

** *On January 19, 2021, the Management Board of Bank Handlowy w Warszawie S.A. adopted a resolution confirming, within Management Board competencies, the acceptance of the recommendation of the Polish Financial Supervision Authority expressed in the letter of January 13, 2021. In the letter Polish Financial Supervision Authority recommends that the Bank refrain from dividend payout in the first half of 2021 (including the undivided profit from previous years) and not take in the first half of 2021, without prior consultation with the Authority, any actions beyond its core business and operational activity that can result in lowering the capital base, including buyback.*

*** *The following foreign exchange rates were applied to convert PLN into EUR: for the statement of financial position - NBP mid exchange rate as at 31 December 2020 - PLN 4.6148 (as at 31 December 2019: PLN 4.2585); for the income statement, statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in 2020 – PLN 4.4742 in 2019: PLN 4.3018).*

The Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the Financial Year ending 31 December 2020

March 2021

Contents

Consolidated income statement

PLN'000	Note	2020	2019
Interest income	5	1,019,691	1,300,146
Similar income	5	99,191	106,333
Interest expense and similar charges	5	(117,205)	(252,752)
Net interest income	**5**	**1,001,677**	**1,153,727**
Fee and commission income	6	645,163	653,409
Fee and commission expense	6	(85,201)	(88,533)
Net fee and commission income	**6**	**559,962**	**564,876**
Dividend income	**7**	**11,794**	**11,080**
Net income on trading financial instruments and revaluation	**8**	**311,405**	**379,525**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	**39**	**203,402**	**97,969**
Net gain/(loss) on equity and other instruments measured at fair value through income statement		**15,836**	**17,392**
Net gain/(loss) on hedge accounting	**9**	**556**	**(3,493)**
Other operating income	10	19,696	24,460
Other operating expenses	10	(56,028)	(28,782)
Net other operating income and expense	**10**	**(36,332)**	**(4,322)**
General administrative expenses	**11**	**(1,115,338)**	**(1,128,269)**
Depreciation expense	**12**	**(106,653)**	**(86,499)**
Net impairment allowances on non-financial assets	**25**	**(214,707)**	**-**
Profit/loss on sale of other assets		**(480)**	**(354)**
Provision for expected credit losses on financial assets and provisions for off-balance-sheet commitments	**13**	**(190,267)**	**(245,718)**
Operating profit		**440,855**	**755,914**
Tax on some financial institutions		**(123,578)**	**(97,722)**
Profit before tax		**317,277**	**658,192**
Income tax expense	**14**	**(144,882)**	**(178,068)**
Net profit		**172,395**	**480,124**
Including:			
Net profit attributable to the Bank's shareholders		172,395	480,124
Weighted-average number of ordinary shares (in pcs)	15	130,659,600	130,659,600
Net earnings per share (PLN)	15	1.32	3.67
Diluted net earnings per share (PLN)	**15**	**1.32**	**3.67**

Explanatory notes on following pages are an integral part of the annual consolidated financial statements.

Consolidated statement of comprehensive income

PLN'000	Note	2020	2019
Net profit		**172,395**	**480,124**
Other comprehensive income, that might be subsequently reclassified to profit or loss:		**335,516**	**30,474**
Change in value of financial assets measured at fair value through other comprehensive income	16	335,124	30,521
Currency translation differences		392	(47)
Other comprehensive income, that cannot be subsequently reclassified to profit or loss		**(1,599)**	**(4,026)**
Net actuarial profits/(losses) on defined benefit program valuation	16	(1,599)	(4,026)
Other comprehensive income net of tax		**333,917**	**26,448**
Total comprehensive income		**506,312**	**506,572**
Including:			
Comprehensive income attributable to the Bank's shareholders		506,312	506,572

Explanatory notes on following pages are an integral part of the annual consolidated financial statements.

Consolidated statement of financial position

As at (PLN'000)	Note	31.12.2020	31.12.2019
ASSETS			
Cash and balances with the Central Bank	17	4,488,332	3,736,706
Amounts due from banks	18	570,247	1,165,684
Financial assets held-for-trading	19	4,350,540	5,446,511
Debt financial assets measured at fair value through other comprehensive income	20	27,323,571	15,484,578
Equity and other instruments measured at fair value through income statement	21	78,473	62,638
Amounts due from customers	22	21,914,223	23,731,874
Tangible fixed assets	23	476,909	499,753
Intangible assets	24	1,252,583	1,443,139
Current income tax receivables		48,714	3,016
Deferred income tax asset	26	174,223	238,065
Other assets	27	257,560	166,579
Non-current assets held-for-sale	28	6,163	-
Total assets		**60,941,538**	**51,978,543**
LIABILITIES			
Amounts due to banks	29	5,118,861	2,125,495
Financial liabilities held-for-trading	19	3,656,422	1,877,898
Hedging derivatives		98,025	19,226
Amounts due to customers	30	43,393,906	39,787,802
Provisions	30	84,775	65,199
Current income tax liabilities		3,666	41,725
Other liabilities	32	1,004,916	986,543
Total liabilities		**53,360,571**	**44,903,888**
EQUITY			
Share capital	34	522,638	522,638
Supplementary capital	34	3,002,265	3,003,290
Revaluation reserve	34	450,017	114,893
Other reserves	34	2,793,561	2,867,358
Retained earnings		812,486	566,476
Total equity		**7,580,967**	**7,074,655**
Total liabilities and equity		**60,941,538**	**51,978,543**

Explanatory notes on following pages are an integral part of the annual consolidated financial statements.

Consolidated statement of changes in equity

PLN'000	Share capital	Supple-mentary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Restated balance as at 1 January 2020	**522,638**	**3,003,290**	**114,893**	**2,867,358**	**566,476**	**-**	**7,074,655**
Total comprehensive income, including:	-	-	335,124	(1,207)	172,395	-	506,312
Net profit	-	-	-	-	172,395	-	172,395
Currency translation differences from conversion of foreign operations	-	-	-	392	-	-	392
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	335,124	-	-	-	335,124
Net actuarial profits/(losses) on defined benefit program valuation	-	-	-	(1,599)	-	-	-
Dividends	-	-	-	-	-	-	-
Transfer to capital	-	(1,025)	-	(72,590)	73,615	-	-
As at 31 December 2020	**522,638**	**3,002,265**	**450,017**	**2,793,561**	**812,486**	**-**	**7,580,967**

PLN'000	Share capital	Supple-mentary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2019	**522,638**	**3,003,290**	**84,372**	**2,883,838**	**562,612**	**-**	**7,056,750**
Total comprehensive income, including:	-	-	30,521	(4,073)	480,124	-	506,572
Net profit	-	-	-	-	480,124	-	480,124
Currency translation differences from the conversion of foreign operations	-	-	-	(47)	-	-	(47)
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	30,521	-	-	-	30,521
Net actuarial profits/(losses) on defined benefit program valuation	-	-	-	(4 026)	-	-	-
Dividends	-	-	-	-	(488,667)	-	(488,667)
Transfer to capital	-	-	-	(12,407)	12,407	-	-
As at 31 December 2019	**522,638**	**3,003,290**	**114,893**	**2,867,358**	**566,476**	**-**	**7,074,655**

Explanatory notes on following pages are an integral part of the annual consolidated financial statements.

Consolidated cash flow statement

PLN'000	2020	2019
A. DZIAŁALNOŚĆ OPERACYJNA		
I. Net profit	**172,395**	**480,124**
II. Adjustments:	**(320,071)**	**(4,598,184)**
Current and deferred income tax recognized in income statement	144,882	178,068
Depreciation expense	106,653	86,499
Net impairment due to financial assets value loss	204,636	210,563
Net impairment due to nonfinancial assets value loss	214,707	-
Net provisions (recoveries)	20,722	36,795
Net interest income	(1,001,677)	(1,153,727)
Dividend income	(11,794)	(11,080)
Profit/loss on sale of fixed assets	480	354
Net unrealized exchange differences	(1,487)	(643)
Equity and other investment measured at fair value though the income statement	(15,799)	(17,366)
Other adjustments	17,742	7,243
Change in amounts due from banks	566,457	25,397
Change in amounts due from customers	1,635,224	(1,940,056)
Change in debt securities measured at fair value through other comprehensive income	(11,600,225)	(1,338,302)
Change in financial assets held-for-trading	1,044,019	(3,203,023)
Change in other assets	(85,236)	55,984
Change in non-current held-for-sale	(6,163)	-
Change in amounts due to banks	2,993,837	725,029
Change in amounts due to customers	3,587,299	1,436,822
Change in liabilities held-for-trading	1,785,553	254,906
Change in amounts due to hedging derivatives	78,799	19,226
Change in other liabilities	1,300	29,127
Interest received	**1,358,691**	**1,501,305**
Interest paid	**(128,007)**	**(244,613)**
Income tax paid	**(246,010)**	**(243,505)**
III. Net cash flows from operating activities	**836,998**	**(3,104,873)**
B. Investing activities		
Inflows	**12,966**	**32,050**
Disposal of tangible fixed assets	1,502	627
Disposal of capital shares	-	20,640
Received dividends	11,464	10,783
Outflows	**(119,367)**	**(101,077)**
Purchase of tangible fixed assets	(28,931)	(31,031)
Purchase of intangible assets	(90,436)	(70,005)
Purchase of capital shares	-	(41)
Net cash flows from investing activities	**(106,401)**	**(69,027)**
C. Financing activities		
Inflows	**-**	**-**
Outflows	**(13,837)**	**(504,270)**
Paid dividends	-	(488,667)
Repayment of long-term loans from financial sector	-	(1,673)
Outflows from lease payments	(13,837)	(13,930)
Net cash flows from financing activities	**(13,837)**	**(504,270)**
D. Exchange rate differences resulting from cash and cash equivalent calculation	**6,019**	**53**
E. Net increase/(decrease) in cash and cash equivalent	**722,779**	**(3,678,117)**
F. Cash and cash equivalent at the beginning of reporting period	**3,796,861**	**7,474,978**
G. Cash and cash equivalent at the end of reporting period (see note 44)	**4,519,640**	**3,796,861**

Explanatory notes on following pages are an integral part of the annual consolidated financial statements.

Additional information including the description of adopted accounting principles and other explanatory information

1. General information about the Bank and the Capital Group ("the Group")

Bank Handlowy w Warszawie S.A. ("Bank" or "parent entity") has its registered office in Poland at Senatorska 16, 00-923 Warszawa. The Bank was founded on the basis of Deed of foundation of 13 April 1870 and is registered in the Register of Entrepreneurs in the National Court Register kept by the District Court for the Capital City of Warsaw, XII Commercial Department in Warsaw, under KRS number 0000001538. The Bank operates as a joint stock company. The name of entity did not change during the period.

The parent entity was given REGON number: 000013037 and tax identification number NIP: 526-030-02-91.

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

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

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

The Bank is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients on domestic and foreign markets. Additionally, the Group operates in brokerage operations through its subsidiaries.

These annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. show the data for the Bank as the parent and its subsidiaries (jointly "Group").

From 1 January 2019 Handlowy-Inwestycje Sp. z o.o. is fully consolidated.

The Group consists of the Bank and the following subsidiaries:

Subsidiaries	Registered office	% of share capital/votes at the General Meeting	
		31.12.2020	31.12.2019
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	97.47	97.47
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

Financial information on subsidiaries, 31.12.2020

Subsidiaries fully consolidated

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Assets	Liabilities	Equity	Revenues	Profit/ Loss
HANDLOWY - LEASING Sp. z o.o.	Warszawa	Leasing	Subsidiary	97,47	21,585	181	21,404	63	(513)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warszawa	Brokerage	Subsidiary	100	736,813	622,568	114,245	170,557	16,666
PPH SPOMASZ Sp. z o.o. w likwidacji	Warszawa	-	Subsidiary	100	Entity under liquidation				
HANDLOWY INVESTMENTS S.A.	Luksemburg	Investment activity	Subsidiary	100	4,853	96	4,757	520	(470)
HANDLOWY - INWESTYCJE Sp. z o.o. 1/	Warszawa	Investment activity	Subsidiary	100	10,701	47	10,654	28	(125)

* *direct share*

Explanation of indirect relationships:

1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o.

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/ Loss
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	414	21,585	181	21,404	63	(513)

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2021, which is the entity's balance sheet date.

Financial information on subsidiaries, 31.12.2019

Subsidiaries fully consolidated PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Assets	Liabilities	Equity	Revenues	Profit/ Loss
HANDLOWY - LEASING Sp. z o.o.	Warszawa	Leasing	Subsidiary	97,47	21,929,	525	21,404	266	(502)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warszawa	Brokerage	Subsidiary	100	421,708	322,903	98,805	64,521	1,256
PPH SPOMASZ Sp. z o.o. w likwidacji	Warszawa	-	Subsidiary	100	Entity under liquidation				
HANDLOWY INVESTMENTS S.A.	Luksemburg	Investment activity	Subsidiary	100	4,903	79	4,824	376	(212)
HANDLOWY - INWESTYCJE Sp. z o.o. 1/	Warszawa	Investment activity	Subsidiary	100	10,820	40	10,780	117	(33)

** direct share*

Explanation of indirect relationships:

1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o. PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/ Loss
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	414	21,929	525	21,404	266	(502)

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 29 February 2020, which is the entity's balance sheet date.

2. Significant accounting policies

Declaration of conformity

The annual consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("IFRS EU") and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2019, item 351, 1495, 1571, 1655 and 1680, and from 2020, item 568, 2122 and 2123)), respective operating regulations and regulations relating to issuers of securities admitted or sought to be admitted to trading on the official stock exchange quotation market.

The financial statements of the Group were prepared on the assumption that the Group will continue as a going concern for at least 12 months from balance sheet day. As at the date of signing this financial statements, the Management Board of the Bank does not state any facts or circumstances that would indicate a threat to the Bank's ability to continue as a going concern for at least 12 months from the balance sheet date as a result of an intentional or forced discontinuance or material limitation of the Bank's existing business. Especially, the COVID-19 pandemic's influence has been examined with regard to the Group's financial situation – described in the note no. 48.

The annual consolidated financial statements were approved by the Management Board of the Bank for publication on 23 March 2021. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

The annual standalone financial statements were approved by the Management Board of the Bank for publication on 23 March 2021. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

Basis of preparation

These annual financial statements of the Group were prepared as at 31 December 2020 and the comparable financial data are presented as at 31 December 2019.

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

The financial statements have been prepared on the fair-value-basis for financial assets and financial liabilities measured at fair value through profit and loss including derivatives and capital investments (minority shareholdings) and financial assets measured at fair value through other comprehensive income. Other financial assets are presented at cost decreased by depreciation/amortization and impairment losses. Other financial liabilities are presented at amortized cost.

The preparation of consolidated annual financial statement of the Group in accordance with IFRS requires the Management to estimate and adopt assumptions that affect the amounts reported in financial statement. The most important accounting policies, estimations and assessments applied in the preparation of this annual financial statements were applied by the Group in all the presented years on a continuous basis.

Estimates and associated assumptions are made on the basis of available historical data and many other factors that have been considered as relevant in the presented period. These factors form the basis for estimates of the balance-sheet value of assets and liabilities whose value cannot be estimated on the basis of other sources. Actual results may differ from those estimates.

Estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Due to the pandemic situation and its influence on the economy, the estimations within particular balance sheet items were subject to special verification, which has been described in the note no. 48.

Significant estimates applied in the year ending 31 December 2020 related to:

- Provisions for expected credit losses of financial assets (Note 3);
- Fair value of derivatives (Note 19);
- Goodwill testing (Note 25);
- Reserves (including provisions for disputes, Note 40);
- Employee benefits (Note 47).

Significant accounting policies applied to prepare the financial statements are presented either in the notes to the financial statements or below:

Income statement	No of note with accounting policy description
Net interest income	5
Net fee and commission income	6
Dividend income	7
Net income on trading financial instruments and revaluation	2.1
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	2.1
Net gain/(loss) on equity and other instruments measured at fair value through income statement	2.1
Net gain/(loss) on hedge accounting	37
Provisions for expected credit losses on financial assets and provisions for off-balance-sheet commitments	3

Statement of financial position	No of note with accounting policy description
Amounts due from banks	2.1
Financial assets held-for-trading	2.1
Debt financial assets measured at fair value through other comprehensive income	2.1
Equity and other instruments at fair value through the income statement	2.1
Amounts due from customers	2.1
Tangible fixed assets	23
Intangible assets	24
Deferred income tax asset	26
Non-current assets held-for-sale	28
Amounts due to banks	2.1
Financial liabilities held-for-trading	2.1
Hedging derivatives	37
Amounts due to customers	2.1
Provisions	31
Other liabilities	32

Standards and interpretations approved but not obligatory as at 31 December 2020 that may have an impact on financial statements of the Group

The standards and interpretations approved but not obligatory as at 31 December 2020 that may have an impact on financial statements of the Group include:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Phase 2 providing practical expedient not to recognize immediate gain or loss from modification of a financial instrument or right-of-use, applying to the extent it is only a result of the benchmark rates reform, and the new rate is economically equivalent to the previous one. The amendments introduce also additional practical expedients in the area of hedge accounting, as well as new obligatory disclosures related to transition management and risks,
- IFRS 4 'Insurance contracts' amendment issued on 25 June 2020, extending the expiry date for the temporary exemption from IFRS 9 Financial Instruments by two years to annual periods beginning on or after 1 January 2023 to align with the effective date of IFRS 17 Insurance Contracts which replaces IFRS 4 Insurance Contracts.

The above-mentioned changes are applicable from 1 January 2021 and will not impact the financial statements significantly.

Other standard amendments awaiting endorsement by the European Union

- Amendment to IAS 1 „Presentation of Financial Statements" and IFRS Practice Statement 2 "Making Materiality Judgements" with regard to the disclosure of accounting policies. According to new requirements, an entity discloses its material accounting policies, instead of previous requirement to disclose significant accounting policies.
- Amendment to IAS 8 „Accounting policies, changes in accounting estimates and errors" introducing the definition of accounting estimates including changes in accounting estimates, instead of the previous definition of changes in accounting estimates, issued on 12 February 2021.
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture clarifying that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
- IFRS 17 „Insurance" " issued on 18 May 2017 (including amendments issued on 25 June 2020), replacing IFRS 4 „Insurance contracts" and introducing comprehensive regulations for accounting of insurance contracts, in particular the measurement of relevant liabilities. Standard eliminates differences in accounting of insurance contracts depending on local jurisdictions, allowed by IFRS 4, and amendments issued in June 2020 deferred the implementation date and introduced a number of practical expedients and clarifications as a response to implementation issues,
- IAS 1 'Presentation of financial statements' amendment – in the area of classification of liabilities as current or non-current, clarifying criteria for classification a liability as long-term,
- Amendments to IFRS 3 updating reference to conceptual framework, without changing the accounting requirements for business combinations,
- Amendments to IAS 16 prohibiting from deduction from fixed assets production costs of any proceeds from selling items produced while the entity is preparing the assets for its intended use. Instead, an entity recognizes those proceeds, together with the costs of producing them, in profit and loss. Effective date - an annual period beginning on January 1, 2022 or after that date,
- Amendments to IAS 37 specifying that „costs of fulfilling" an onerous contract include „ costs that relate directly to the contract". Those costs can be both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. Effective date - an annual period beginning on January 1, 2022 or after that date,
- Annual improvements including changes that clarify the wording or correct minor consequences, oversights or conflicts between requirements in IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases,

will not impact the financial statement significantly.

Standards and interpretations applicable from 1 June 2020

- IFRS 16 'Leases' amendment introducing practical expedient from accounting treatment of rent concessions related to COVID-19 as lease modifications. Effective for annual periods beginning on or after 1 June 2020. The change will not impact the financial statement significantly.

Standards applicable from 1 January 2020

- IFRS 3 'Business combinations' amendment - introducing a clarification of the definition of a project that helps to distinguish between acquisitions as a group of assets or a project - the amendment does not have a significant impact on the financial statements.
- Amendments in the Conceptual Framework introducing comprehensive clarifications in respect of financial reporting, among others regulating the area of measurement and its basis, presentation and disclosures, derecognition of assets and liabilities from balance sheet, and updates and explanations of specific terms - the amendment does not have a significant impact on the financial statements.
- IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' to clarify the definition of the term ‚significant' and to align it with the definition used in the conceptual assumptions - the amendment does not have a significant impact on the financial statements.
- IFRS 9, IAS 39 and IFRS 7 applicable to all hedging relationships directly affected by interest rate benchmark reform and uncertainties it gives rise to. Amendments introduce temporary exceptions from applying specific hedge accounting requirements that allow not to discontinue hedging relationships. Changes require entities to disclose additional information on hedging relationships that are affected by the above mentioned uncertainties - the amendment does not have a significant impact on the financial statements.

Basis of consolidation

Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group has power over an entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Any identifiable purchased assets and assumed liabilities, including contingent liabilities, acquired in a business combination, are measured initially at fair value at the acquisition date, irrespective of the extent of any minority interest. Any excess of the cost of acquisition over the fair value of the Group's interest in the acquired identifiable net assets is recognized as goodwill. If the cost of acquisition is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement.

Intra-group transactions and balances are eliminated on consolidation. Material unrealized gains and losses on transactions between Group companies are also eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency in all material aspects with the accounting policies adopted by the Group.

Foreign currency

The values reported in annual consolidated financial statement are presented in PLN, which is the functional currency and currency of presentation of the Group.

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

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

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

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

PLN	31 December 2020	31 December 2019
1 USD	3.7584	3.7977
1 CHF	4.2641	3.9213
1 EUR	4.6148	4.2585

2.1 Financial assets and liabilities – classification and measurement

Classification

The Bank classifies financial instruments into the following categories:

- financial assets measured at fair value through profit and loss,
- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income,
- financial liabilities measured at fair value through profit and loss,
- financial liabilities measured at amortized cost.

Financial assets measured at fair value through profit and loss (Financial assets held-for-trading and Equity and other instruments at fair value through the income statement)

This category comprises:

1) financial assets that were classified neither as measured at amortized cost nor as measured at fair value through other comprehensive income
2) financial assets classified at initial recognition as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases
3) minority shareholdings

Assets are included in this category especially if they are held-for-trading (held-for-trading model), that is: they were purchased with the primary objective of selling or repurchasing to generate short-term profits, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of generating short-term profits, they are derivatives.

Minority shareholdings are presented in the consolidated financial statement as "Equity and other investments at fair value through the income statement".

Financial assets measured at amortized cost (Amounts due from banks and due from clients)

A financial asset is measured at amortized cost if both conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category comprises, in the first instance, amounts due in respect of loans, purchased receivables and debt securities that are not quoted on the active market and interbank deposits and also reverse repo transactions.

In accordance with the Transition Resource Group for Impairment of Financial Instruments, the Bank presented the gross carrying amount of receivables in Stage 3 in the amount increased by accrued contract interest in note 22 "Amounts due from customers". The value of credit provisions is increased by the same amount.

Purchased or originated credit-impaired assets (POCI)

Purchased or originated credit-impaired assets on initial recognition may be identified when the Bank has originated or purchased exposures already impaired at the moment of initial recognition or the Bank has modified (significant modification) an impaired exposure and a derecognition criterion has been met. POCI assets would be recognized at fair value at initial recognition and subsequently at amortized cost using the effective interest rate adjusted by expected credit losses. Expected credit losses would be considered and recognized in the relation to the lifetime of those instruments.

Financial assets measured at fair value through other comprehensive income (Debt financial assets measured at fair value through other comprehensive income)

A financial asset is measured at fair value through other comprehensive income if both conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank includes in this category selected debt instruments.

Financial liabilities measured at fair value through profit and loss (Financial liabilities held-for-trading)

The category comprises derivative liabilities which are not hedging instruments and short sale liabilities.

Financial liabilities measured at amortized cost (Amounts due to banks and clients)

Customer deposits are primarily classified in this category as are commercial commitments and liabilities from repo transactions, measured at amortized cost.

Recognition, derecognition and insignificant modifications

Transactions of purchase or sale of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are recognized in the Bank's statement of financial position and derecognized at the transaction settlement date, i.e. the date on which the Bank will receive or transfer the ownership right to assets. The rights and liabilities from a concluded transaction are measured at fair value from the transaction conclusion day to the transaction settlement day.

Loans and receivables are recognized at the time of disbursement of funds for the borrower.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when and only when they are extinguished, i.e. the obligation described in the agreement was discharged, cancelled or expired.

The Bank applies the following criteria, which result in asset derecognition from the balance sheet and obligation to recognize them according to the classification rules:

- a contract change that causes change of SPPI test assessment,
- a change of the debtor,
- currency conversion,
- granting additional loan amount of at least 10% of the outstanding loan principal.

At the moment of derecognition, the undepreciated part of the commission is recognized fully in interest income. The newly charged commission is settled in time using the effective interest rate method.

If there is a change in the cash flows of financial assets containing the repayment schedule measured at amortized cost that results from the annex to the contract, the Bank recalculates the gross balance-sheet value of financial assets and recognizes modification profit or loss in profit and loss. The gross balance-sheet value of that financial asset is calculated as present value of renegotiated or modified contract cash flows, discounted at the original effective interest rate of financial assets (or credit risk adjusted effective interest rate for credit risk for originated or purchased financial assets credit-impaired at initial recognition). All origination costs and fees adjust the balance-sheet value of modified assets and are amortized until the maturity date of modified financial assets.

Derivative financial instruments value from the trade date and are derecognized from the balance on the settlement date.

Valuation

When financial assets or financial liabilities are recognized initially, they are measured at fair value plus, in the case of assets and liabilities not measured at fair value, through profit or loss, significant transactional costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

After initial recognition, the Bank measures financial assets:

- at fair value without deducting transactional costs which it may incur in connection with the sale or disposal of assets. This measurement relates to financial assets held-for-trading, debt financial assets measured at fair value through other comprehensive income and equity and other instruments at fair value through the income statement),
- at amortized cost using the effective interest rate method – for amounts due from banks and from clients. Amounts measured at amortized cost include provisions for expected credit losses.

Financial liabilities:

- financial liabilities held-for-trading are measured at fair value through the income statement,
- amounts due to banks and amounts due to clients after initial recognition are measured at amortized cost using the effective interest rate method.

Profits or losses resulting from the change of fair value of financial assets or financial liabilities, which are not part of the hedging relationship, are recognized in the following way:

- in the case of financial assets or financial liabilities measured at fair value through profit or loss, they are shown in revenues or expenses;
- profits or losses resulting from measurement of financial assets classified as measured at fair value through other comprehensive income are recognized in other comprehensive income. Impairment of financial assets measured at fair value through other comprehensive income and exchange rate differences on monetary assets and liabilities are recognized in the income statement. When financial assets are excluded from the statement of financial position, accumulated profits or losses which were previously included in equity are recognized through profit or loss.

The fair value of derivatives is established based on quotations in active markets, prices of transactions recently closed, and measurement techniques, including discounted cash flow models and option measurement models, depending on which method is appropriate for a given case. The derivatives that were not designated as hedging instruments according to hedge accounting principles are classified as trading assets or liabilities measured at fair value through profit or loss.

Embedded derivatives in host contracts that are liabilities are separated from the host and accounted for as derivatives, if their characteristics and risks are not closely related to the characteristics and risks of the host, and if the hybrid contract is not measured at fair value through profit or loss.

Impairment of financial assets

For financial assets measured at amortized cost,, the Bank makes impairments for expected credit losses, according to the developed internal rules and methodologies for their calculation. They are aggregated for each of the three stages:

- Stage 1: Credit exposures that have not had a significant increase in credit risk since initial recognition
- Stage 2: Credit exposures that have experienced a significant increase in credit risk since initial recognition
- Stage 3: Credit exposures with credit loss that has already been suffered by the assets

On the balance sheet date, the Bank assesses if there is objective evidence of impairment of one financial asset or a group of financial assets. A financial asset or a group of financial assets were impaired only when there is an objective evidence of impairment resulting from one or more events taking place after the initial recognition of an asset (the loss event) and the loss event (or events) influences the future expected cash flows resulting from a financial asset or a group of financial assets which may be reliably estimated. Objective evidence of impairment of a financial asset or a group of assets includes information obtained by the Bank concerning events, which are provided in the later part of the note 3 "Risk management". Exposures that has not been classified as impaired exposures, despite the occurrence of certain conditions require justification and documentation why there was no credit impairment.

The classification of exposures to Stage 1 and 2 depends on the occurrence of a significant increase in credit risk since the moment of initial recognition.

Assignment of the exposure to the Stage takes place, depending on the approach to management over the client (individual vs. Bank approach), taking into account the wide range of information obtained as part of standard risk management processes (including the Early Warning process) regarding both current and future events, including macroeconomic factors and the number of days past due.

The methodology and assumptions used to determine the impairment level of loans are regularly reviewed and updated, as required. Further, data are back-tested (based on historical data) to compare the actual amounts with estimated credit impairment, what may have an influence on the methodology applied by the Bank.

The impairment provisions for expected credit losses are calculated using statistical parameters for the groups of assets combined in portfolios having similar credit risk characteristics. In the financial statements, the Bank corrects credit exposure with the value of expected credit losses provisions.

Non-recoverable loans (i.e., loans for which the Group does not expect any future cash flows and that may be treated as tax deductible costs under separate tax regulations or that were unconditionally written off under an agreement with the customer) are, on the basis of Bank's decision, written down against impairment allowances. If a written-down amount is subsequently recovered, the amount of income is presented in "Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments".

If the present value of the estimated cash flows increases after an event occurring after impairment was identified, the write-off that was previously made will be reversed as appropriate through profit or loss.

Impairment allowances for amounts due from banks and customers, allowances for impairment of securities and other assets adjust the value of particular asset categories. Provisions for contingent liabilities are shown in the liabilities section "Provisions".

On a commitment basis, the Group classifies assets measured at amortized cost into the portfolio of assets that are individually significant and the portfolio of assets that are not individually significant (portfolio basis).

The level of impairment provisions for receivables that are deemed as individually significant and for which evidence of impairment was detected is calculated as the difference between the carrying value of an asset and the present value of the future cash flows from expected repayments by the borrower, from cash settlement of collateral or the sale of receivables. The future cash flows are discounted to the present value with the effective interest rate for a given instrument.

The level of impairment allowances for receivables that are deemed as individually not significant, for which evidence of impairment was detected, is calculated on the basis of a portfolio assessment which is based on the history of losses incurred on assets with similar risk characteristics.

Forborne exposures are exposures for which concessions were granted due to economic or legal reasons (for financial conditions), resulting from financial difficulties of the Obligor that the lender would not otherwise extend.

The client's restructuring and its exposure does not always imply a loss of value (e.g. in the case of obtaining appropriate compensations). Impaired exposures are restructured exposures with forced restructuring.

In case the Group grants a concession to the debtor, if it does not change significantly the terms and expected cash flows of the financial asset, the expected cash flows from the financial asset subject to the concession are included in the measurement of the asset using the prior effective interest rate for the instrument.

If the concession granted significantly changes the important terms or expected cash flows, the financial asset is derecognized and the new one is recognized at fair value on the day of the initial recognition.

Credit risk in debt financial instruments at fair value through other comprehensive income

In order to calculate the expected credit losses for assets measured at fair value through other comprehensive income, the Bank uses an internal methodology to define default probability (PD parameter), loss value at default (LGD parameter) and exposure value at the time of default (EAD parameter).

For financial assets measured at fair value through other comprehensive income, the increase or decrease in expected credit losses is recognized in the profit and loss account under the item "Provision for expected credit losses on financial assets and provisions for off-balance-sheet commitments".

2.3 Accounting estimates and judgments

Determination of the carrying values of selected assets and liabilities as well as revenue and expense requires estimating the effect of uncertain future events on these items at the balance sheet date. The estimates and assumptions are subject to continuous evaluation and are based on historical experience and other factors, including expectations of future events which seem justified in a given situation. The most crucial estimates applied in the preparation of the financial statements are presented below.

Fair value of derivatives

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

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

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

The Group uses a Credit Default Swap quotation for valuation of counterparty credit risk.

The Group differentiates the valuation of counterparty risk due to the availability of quotations of credit derivatives (CDS):

- Counterparty Credit Risk of companies for which there is an active CDS market: It is considered that the CDS quotes reflect the market value of the credit risk;
- Counterparty Credit Risk of companies for which there is no active CDS market: On the basis of the credit rating (external or internal, when an external rating is not available) and industry, the CDS index (for a given industry) is assigned to the company. It is considered that the industry index CDS quotes reflect the market value of the credit risk.

In the case of valuation of own credit counterparty risk (DVA), the Group is using a method defined for clients for which there is no active CDS market.

The main factors determining the change of counterparty credit risk estimations are: (i) change of fair value of derivative instruments correlated with a change of, inter alia, fx rates and interests rates, (ii) a change of CDS quotes (iii) changes in credit risk ratings.

Provisions for expected credit losses

The methodology of estimating provisions for expected credit losses has been described in section Impairment of financial assets.

Impairment of goodwill

The Group carries out obligatory annual impairment tests of goodwill in accordance with the model based on guidance from IAS 36. The basis of valuation of the recoverable amount of cash-generating units to which the goodwill is assigned is their value in use which is estimated by the Bank's management based on the financial plan reflecting the adopted assumptions on future economic conditions and expected Bank performance, as well as the discount rate used in cash flow forecasts and the growth rate used to extrapolate cash flow forecasts beyond the period covered by the financial plan.

Employee benefits

Provisions for future payments in respect of employee benefits such as jubilee awards and retirement and pension allowances are subject to periodic actuarial estimation by an independent actuary. The amount of provisions corresponds to the current value of future long-term liabilities of the Group to its employees according to employment and salaries on reporting day and is based on a number of assumptions in the field of staff statistics. Provisions are calculated on the basis of a number of assumptions on financial discount and the probability of a given person reaching the retirement age as the Group's employee, including staff turnover, risk of death and risk of total work incapacity.

Reserves

The methodology recognition of provisions has been described in note 31 and note 40.

Interest rate benchmark reform

The Bank applies temporary reliefs which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. For the purpose of determining whether a forecast transaction is highly probable, the reliefs require to be assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform (further information can be found in note "Hedge accounting).

3. Risk management

Risk management organization structure and process

The Group's activities involve analysis, assessment, approval and management of all kinds of risks associated with its business, arising from the applied business strategy. Such a risk management process is performed at different units and levels of the organization and covers among others: credit risk (including counterparty credit risk, residual risk limited by accepted collateral, and concentration risk), liquidity risk, market risk, and operational risk.

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

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

In the risk management area, the Supervisory Board of Bank resolves upon:

- approving a strategy of the Group's activity and the rules of prudent and stable risk management, including operational risk strategy;
- approving a general level of the Group's risk appetite within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP),
- approving the fundamental organizational structure of the Group, determined by the Bank's Management Board and matched to the size and the profile of incurred risks.

In addition, the Supervisory Board supervises the compliance of the Group's policy related to risk-taking with the Group's strategy and financial plan and performs the duties resulted from mentioned above strategies, regulations or other documents approved by the Supervisory Board.

The Management Board of the Bank by way of a resolution:

- approves the organizational structure of the Group, with well-defined, transparent and consistent roles and responsibilities adequate for the size and risk profile, ensuring that the functions of risk measurement, monitoring and control are independent from risk taking activities;
- defines the Group's Risk's Profile by determining significant types of risk, at the same time providing implementation of processes to manage them and/or allocation of interior equity;
- establishes the principles of prudent and stable risk management which constitute, together with the ICAAP Document, the risk management strategy, including operational risk strategy;
- approves the acceptable risk level ("Overall risk appetite"), within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP).

The Management Board of Bank nominates an independent Member of the Management Board responsible for risk management sector (Chief Risk Officer) reporting directly to the President of the Management Board and responsible for the management and control of credit risk, market risk, and operational risk, including:

- introducing a risk management system in the Group as well as risk identification, measurement, control and reporting methods;
- developing the risk management policy and developing risk assessment and control systems;
- making credit decisions in compliance with the principles resulting from the credit procedures as well as documents determining the Group's credit policy;
- ensuring the proper safety level of the credit portfolio;
- managing the problem loans portfolio (including collections and debt restructurings).

Additionally responsible for:

- compile, implementation and update regulations, strategy and procedure in term of risk management, internal control and valuation of internal capital;
- review of valuation process and maintaining of internal capital and regulation of remuneration components.

Processes of managing of credit, market, operational risks are implemented in Group based upon written policies and principles of identification, valuation, monitoring and risk control accepted by the Management Board or appropriately nominated Committees,

In the risk management area there are following Committees:

- Assets and Liabilities Management Committee (ALCO);
- Risk and Capital Management Committee (RCMC), overseeing Model Risk Commission and Consumer Group (GCB) Risk Commission;
- New Products Committee,
- Operational Risk, Control and Compliance Committee.

Member of the Management Board responsible for risk management sector presents the organizational structure of the Risk Management Sector to the Management Board of the Bank, taking into account the specificity of credit, market, liquidity and operational risk management in the respective customer segments. For this purpose, organizational units have been set up within the Risk Management Sector that are responsible for:

- managing credit risk of the Corporate Bank;
- managing credit risk of the Commercial Bank;
- managing credit risk of the Consumer Bank;
- managing impaired receivables;
- managing market risk, including interest rate risk in banking book;
- managing liquidity risk;
- managing operational risk;
- managing the equity process and model risk;
- model validation;
- supporting risk management in the above areas including in control functions;
- the process of comprehensive and continuous assessment of credit risk (Fundamental Credit Risk Assessment).

Risk and Business managers are responsible for developing and implementing risk management policies and practices in their respective business units, overseeing risks in the business units, and responding to the needs and issues of the business units.

Risk management in the Group is supported by a range of IT systems in the following areas:

- obligor and exposure credit risk assessment;
- credit, market and operational risk measurement, reporting and monitoring;
- valuation, monitoring and reporting of collateral;
- calculation and reporting of expected credit losses.

Significant Risks

The Group manages all significant risks arising from the implementation of its business strategy.

In the process of significant risks identification in 2020, the Management Board considered the following type of risk as significant:

- Credit risk and counterparty risk,
- Liquidity risk,
- Market risk,
- Operational risk,
  - Compliance risk.

The Group monitors all the above types of risk. Due to portfolio characteristics in this chapter are presented principles related to management of credit risk (including counterparty risk and concentration), operational risk, liquidity risk, market risk in the trading book and interest rate risk in banking book.

Credit risk, including also counterparty credit risk, results from credit exposure or other exposure related to concluding and clearing below listed transactions, and is defined as the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations.

Credit risk arises in many of the Group's business activities, hereinafter "products," including:

- Loans and advances;
- FX and derivatives transactions;
- Securities transactions;
- Financing and handling settlements, including trade (domestic and foreign);
- Transactions in which the Group acts as an intermediary on behalf of its clients or other third parties.

The framework described in the "Credit Risk" section of this document covers different types of exposure, as defined in relevant Credit Policies of the Group.

Additionally, within the risk management system, the Group also applies credit risk mitigation rules (including by accepting collateral) thus mitigating the inherent **residual risk** and manages **concentration risk**, taking into account material concentration risk factors.

Liquidity risk is the risk that the Group may be unable to meet a financial commitment to a customer, creditor, or investor when due. Liquidity risk is measured in accordance with the applicable law, in particular with the Banking Act, under standards set by the regulator (regulatory liquidity measures) and with internal measures which support liquidity risk management.

Market risk is the risk to profits due to changes in interest rates, foreign exchange rates, commodity prices, and their volatilities. Market risk arises in non-trading portfolios, as well as in trading portfolios. Market risk is measured in accordance with established standards to ensure consistency across businesses and the ability to aggregate risk.

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk.

Credit risk

The main objective in the field of credit risk management is to support the long-term plan for the stable development of the credit portfolio while maintaining its proper quality. Credit risk is minimized through the Group's regulations and implemented controls.

Principles of the Credit Risk Management Policy

The Risk Management unit is responsible for establishing the principles of the Credit Policy for the Corporate Bank, the Credit Policy for the Commercial Bank and credit policies for the Consumer Bank as well as approving other policies, programs and procedures, monitoring credit risk management performance, providing ongoing assessment of the credit risk of the portfolio and approving individually significant credit risk limits.

The rules for approving risk are matched with the strategy of the Group, generally accepted risk level, credit portfolio performance and internal control results.

For corporate and commercial clients as well as investment banking activities across the organization, the credit process is based on a range of fundamental policies, including:

- Joint business and independent risk management responsibility for the quality of the credit portfolio and process as well as for credit loss;
- Adherence to portfolio guidelines to ensure diversification and maintain risk/capital alignment;
- Credit authorities system assuming that credit authority can be given to authorized, trained and experienced staff based upon their professional experience and tested qualifications concerning the risk assessment and making credit decisions.
- A minimum of two authorized credit approvers with delegated credit authority required for all significant exposures;
- Dependence of approval level from the risk taken – exposures with a higher risk (including size and risk assessment) require approval at a higher decision-making level;
- Diverse risk rating standards, adequate to every obligor and exposure, including remedial actions;
- Risk rating of every obligor and exposure in a consistent rating process using risk rating models and scorecards (scoring);
- Periodic monitoring of customers' business results and identification of negative changes in their standing which require immediate reclassification of exposure or remedial actions;
- Collateral selection, valuation, establishing legal basis and monitoring;
- Exceptions to Credit Policies are approved at higher levels within the organization to ensure control over risk policy implementation by higher level managers in accordance with internal Group's normative acts and generally applicable laws and regulations issued by the appropriate regulators.

In the Consumer Bank (GCB), the Management Board of the Group has approved credit policies for each credit product offered.

Credit risk in this area is managed by means of:

- detailed credit policies which define the credit scoring rules;
- a system for allocation of credit authority and independent supervision of the quality of credit analyst performance;
- a system of monitoring the quality of IT tools supporting credit scoring;
- a system of risk measurement and control for credit portfolios including: a detailed management information system covering the quality of the credit portfolio and debt collection, identification of impaired exposures, monitoring of delinquencies, monitoring of benchmarks, etc., internal limits of credit portfolio parameters approved by the Management Board;
- debt collection policy rules approved by the Management Board as well as a fraud prevention policy and a credit and debit card transaction authorization policy;
- credit portfolio quality reports to the GCB Risk Commission, the Risk and Capital Management Committee and the Supervisory Board's Risk and Capital Committee;
- stress testing rules;
- monitoring of the performance of scoring models and measurement and identification of impaired exposures;
- checking the behavior of Group customers in the Credit Information Bureau (BIK);
- collateral valuation policy for mortgage-secured credits offered by GCB.

Each portfolio has stress testing performed at least on an annual basis.

Credit risk assessment and rating

The Group maintains consistent risk ratings methodology across the corporate and commercial credit portfolio, which facilitates comparison of credit exposure across all lines of business, geographic regions and products.

Obligor Risk Rating and Obligor Limit Rating are elements of the assessment of credit risk associated with granted products. Obligor Risk Ratings reflect an estimated probability of default for an obligor within 1 year and are derived primarily through the use of statistical models, external rating agencies, or scoring models.

Obligor Limit Rating (OLR) as a measure of medium to long-term risk of the obligor is subject to assessment in terms of qualitative factors including: cyclicality, of sector, management quality, client's business strategy, influence of vulnerability to regulatory environment on client, transparency and quality of control processes.

Facility Risk Ratings are assigned using the obligor risk rating and facility-level characteristics such as collateral, thus decreasing the potential loss on a facility in case of default. As a result, Facility Risk Rating reflects a potential expected loss given-default.

Credit Risk is measured at a number of levels, including:

- At a facility level, which may include one or more contracts, disposals or transactions;
- At an obligor level, if there are multiple facilities approved for an obligor where the risk associated with an obligor default can be assessed jointly;
- At a group level, considering the group structure of connected clients;
- At a portfolio level where Portfolio Risk Rating is calculated as the average rating of individual facility exposure ratings weighted with the size of exposure.

For ICG and CCB customers' credit exposures, the Group uses scoring models of the various level of complexity i.e. depending on the size of customer's portfolio and customer's industry.

For retail credit exposures, the Group uses scoring models developed on the basis of the history of behavior of the Group's customers. Such models analyze the behavior of customers in the Credit Information Bureau, own data as well as customer demographics. The quality of performance of scoring models is reviewed on an ongoing basis and monitored annually. As a result, modifications are made in the model or the credit policy.

Credit risk of the retail credit portfolio is measured based on dedicated scoring models and reporting techniques including an analysis of ratios for new customers and existing portfolios with and without impairment.

The effectiveness of scoring models used in risk assessment processes is monitored regularly with population stability reports, KS (Kolmogorov-Smirnov) test reports and portfolio quality reports (delinquency and loss ratios). Each scoring model is validated annually.

Credit risk monitoring

Risk management units, supported by business units responsible for the cooperation with customers, are responsible for monitoring the probability of obligor default.

Credit risk exposure is monitored and managed at two levels: (a) customer level, and (b) portfolio level.

Exposure monitoring and management at a customer level includes periodic control reports, an early warning system and periodic reviews of the customer's standing.

Monitoring of portfolio performance and identification of portfolio trends include regular management reports and control reports which also support active response to negative signals or trends.

In addition to management information reports analysis, risk managers and business representatives take part in regular round tables regarding the portfolio in order to review business pipelines and discuss the credit issues.

In GCB, monitoring covers scoring models, impairment measurements, delinquencies, the effectiveness of debt collection, internal limits, customer behavior checks with BIK, benchmarks, etc.

Risk mitigation

Credit risk mitigation within the set risk appetite is an ongoing and key element of the Group's risk management processes. It is achieved as described below:

- Customers selection and credit confirmation:
  - Target market and customer selection criteria are determined;
  - Maximum credit exposure against the obligor is determined through obligor limits related to customer risk ratings and/or through risk acceptance criteria;
  - Limits are established and monitored in order to mitigate exposure concentration risk;
  - Robust credit due diligence standards are established and maintained;
  - Credit process standards are established in order to ensure a consistent approach to each segment;
  - Credit documentation standards are applied;
- Collateral is used in order to minimize the risk and to manage residual risk:
  - Establishing acceptable collaterals and their classification in view of regain possibility in case of execution;
  - Setting collaterals in right law's form (documentation standards);
  - Expected collateral structure or credit value in relation to collateral value is determined;
  - The value of collateral on property and equipment is determined by dedicated specialty functions within the Group using external valuation where required;
- Monitoring and early warning system:
  - Credit exposures periodic monitoring and an early warning system are used;
  - Regular inspection of portfolio ensuring identification of adverse tendencies and concentration;
  - Active portfolio management includes implementation of necessary modifications to the credit strategy based on portfolio reviews or stress testing.

Policy of collateral acceptance

Apart from general rules of credit risk mitigation, the Group has defined specific Corporate and Consumer rules of accepting, assessing, establishing and monitoring various types of collateral, including mortgages, pledge on fixed and current assets, guarantees and similar forms of support and assignment of receivables (jointly: "collateral"). The risk is limited by the requirement to insure the collateral for the time of credit exposure. These rules serve to minimize the residual risk.

As an additional element limiting the risk, in financing of companies and individuals who pursue business activity, is the rule that revenues from the customer's ongoing business are the key element of creditworthiness assessment of potential borrowers and the primary source of repayment of debt to the Group.

In order to diversify risks associated with collateral, the Group accepts various types of collateral:

- In the Consumer Bank, the most common type of collateral is residential real estate;
- In the Corporate and Commercial Bank, the following types of collateral are among other:
  - Guarantees;
  - Cash;
  - Securities;
  - Receivables;
  - Inventory;
  - Real estate;
  - Equipment and machines;
  - vehicles.

Detailed procedures outlining the types of collateral acceptable to the Group and the rules of their establishment and valuation as well as the creation of a special risk unit responsible for the collateral management process allow for the development of appropriate standards for this process, including:

- criteria for acceptance and valuation of collateral;
- documentation standards;
- rules and frequency of collateral value monitoring and updating (including inspections).

In addition, Corporate Banking credit regulations set such parameters as:

- the structure of collateral required for different types of credit receivables;
- the relationship of loan value to collateral value for each type of collateral;
- the desirable structure of the different types of collateral in the credit portfolio.

The Group periodically checks whether the current structure of the collateral portfolio in Corporate Banking is compatible with the objectives and whether the value of the collateral is appropriate.

Within the Corporate Bank, the expected ratio of loan value to collateral value is determined in each case in a credit decision. This ratio is also subject to periodic inspection / monitoring.

The principal type of collateral in GCB is a mortgage register for mortgage-secured loans. The Group also uses bridge insurance to mitigate the risk of the borrower's default between the time of disbursement of a loan and the time of a mortgage register. The value of collateral is measured at each time on the basis of an expert valuation of real estate commissioned by the Group. Expert valuations are reviewed by an independent valuation division according to valuation guidelines for real estate used as collateral of real estate loans for individuals who are GCB customers. The quality of the division's performance is monitored.

Concentration in credit risk

In order to prevent adverse events resulting from excessive concentration, the Group reduces the concentration risk by setting limits airing from law and concentration standards adopted internally, in order to ensure adequate diversification of risk in the portfolio. The Group establishes General and specific limits to mitigate the risk of credit concentration, adequate to the approved risk appetite in the Group as well as business strategy.

In its credit risk management, the Group takes into account in particular the risk arising from:

- exposure to single entities (including taking into account the effect of exposure to a single clearing house – KDPW CCP on the level of concentration risk exposure, particularly in the event of potential inability to meet the obligations of the clearing house), or related entities capitally or economically (counterparty concentration risk),
- exposure to the same industry, economic sector, similar type of activity or trading similar goods (industry concentration risk)
- exposure to the same geographical region, as well as individual countries (risk of geographical concentration)
- exposure to the entities belonging to the Capital Group of the Bank,
- exposure to counterparties in derivative transactions,
- used credit risk mitigation techniques (exposures secured by the same type of collateral), including due to large indirect credit exposures such as a single issuer (collateral concentration risk),
- specific of Group products/portfolio and exposure tenor,
- individual products, markets or currencies.

General concentration limits are approved on the Management Board level and monitored according to relevant Policy rules, primarily by the Risk and Capital Management Committee. Credit Risk and Business managers define (where appropriate) detailed internal concentration limits, control and reporting frequency and rules of approval for excesses and corrective action plans. Exceeding of established limits is reported, depending on the specific requirements of the Policy, to the approval of appropriate persons, the Risk and Capital Management Committee and the Bank Management Board together with corrective action plans.

In hedge concentration, , appropriate limits are settled and controlled , including commitments hedged with a mortgage in accordance with S Recommendation.

Obligor exposure concentration risk

The Group limits the concentration of its exposure to a single customer or a group of customers with common ownership and/or organization. As at 31 December 2020, the Group's exposure in bank portfolio transactions with groups of customers whose aggregate exposure exceeded 10% of the Group's equity (as defined below in this report) amounted to PLN 5,269,369 thousand, i.e., 85.62 % of equity (31 December 2019: 7,742,742 thousand, i.e., 152.51%). In 2020 and 2019 the Group complied with the provisions on limits of concentration of exposure.

Concentration of exposure to the top non-banking borrowers of the Group:

PLN'000	31.12.2020			31.12.2019		
	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure
CLIENT 1	1,200,000	-	1,200,000	1,200,000	-	1,200,000
GROUP 2	692,220	437,312	1,129,532	907,844	134,518	1,042,362
GROUP 3	609,489	187,832	797,321	631,959	171,724	803,683
CLIENT 4	370,800	379,200	750,000	653,720	96,280	750,000
CLIENT 5	624,115	101,613	725,728	605,484	-	605,484
GROUP 6	401,049	265,739	666,788	361,258	268,830	630,089
CLIENT 7	545,000	-	545,000	545,000	-	545,000
GROUP 8	345,324	195,489	540,813	798,876	206,306	1,005,181
GROUP 9	9	536,200	536,209	106,471	518,472	624,943
GROUP 10	536,000	-	536,000	536,000	-	536,000
Total	**5,324,006**	**2,103,385**	**7,427,391**	**6,346,612**	**1,396,130**	**7,742,742**

* *Excluding investment in shares and other securities.*

** *The Group is understood as a capital group consisting of entities in relation to which the Capital Group of Bank Handlowy w Warszawie S.A. has exposures.*

The limits of the Group's maximal exposure are determined in the Grouping Law Bill from 29 August 1997 and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Regulation No 575/2013). When keeping conditions determined in Regulation 575/2013, it is allowed for the Group to maintain an overdraft of liabilities level over limits determined in paragraph 71 of the Grouping Law Bill only in the case of liabilities resulting from operations rated in trade portfolio. Own funds for determining limits of exposure purposes were determined according to Regulation No 575/2013.

As at 31 December 2020, the Group did not have an exposure to one entity exceeding the statutory exposure concentration limits.

Concentration of exposure in individual industries*

Given that there is a large diversity of customers representing individual industries, the table below shows aggregate data for the Group's exposure to the industrial sectors.

Sector of the economy according to NACE*	31.12.2020		31.12.2019	
	PLN'000	%	PLN'000	%
Wholesale trade, except of motor vehicles	4,268,134	16.71%	4,672,631	17.45%
Financial service activities, excluding insurance and pension funds	3,529,937	13.82%	3,912,715	14.62%
Production and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,851,134	7.25%	1,919,053	7.17%
Activities of head offices; consulting related to the management	1,453,482	5.69%	1,499,261	5.60%
Financial services, insurance and pension funds supporting activities	1,240,611	4.86%	1,141,985	4.27%
Production of electrical equipment	1,239,137	4.85%	1,134,162	4.24%
Production of food products	1,097,669	4.30%	946,640	3.54%
Retail trade, except of motor vehicles	1,083,252	4.24%	937,344	3.50%
Manufacture of fabricated metal products, except machinery and equipment	875,523	3.43%	906,495	3.39%
Production and processing of coke and refined petroleum products	835,860	3.27%	759,755	2.84%
„10" industries total	**17,474,739**	**68.43%**	**17,830,041**	**66.60%**
Other industries	**8,063,039**	**31.57%**	**8,941,245**	**33.40%**
Total	**25,537,778**	**100.00%**	**26,771,286**	**100.00%**

* *Balance-sheet and off-balance-sheet exposure (capital) to institutional customers (including Groups), based on NACE Revision 2 (The Statistical Classification of Economic Activities in the European Community).*

Gross amounts due from customers and Groups by type of business

PLN'000		31.12.2020	31.12.2019
Gross amounts due from economic entities and Groups			
Financial		4,250,727	4,116,998
Production		4,031,923	4,956,141
Services		4,009,531	4,512,671
Other		3,414,023	4,106,024
		15,706,204	**17,691,835**
Gross amounts due from individual customers		**7,621,720**	**7,706,947**
Total	(see Note 18, 22)	**23,327,924**	**25,398,782**

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 22.

Determination of Expected Credit Loss

The Group makes impairments for expected credit losses, for all financial assets, according to developed internal rules and methodologies for calculating impairments. Expected credit loss impairments as per IFRS 9 are established with exposure classification into one of the 3 Stages:

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

Assignment of the exposure to the Stage takes place, depending on the approach to management over the client (individual vs. group approach), taking into account the wide range of information obtained as part of standard risk management processes (including the Early Warning process) regarding both current and future events, including macroeconomic factors and the number of days past due.

The Group aggregates financial instruments in order to measure expected credit losses in terms of product in the area of retail banking and on a segmented basis for a homogeneous portfolio of micro-enterprises with a minimal share in total amounts due from the Group.

Overdue payments for more than 30 days for financial assets are taken into account by the Group in identifying the occurrence of a significant increase in credit risk. In the case of credit exposures from the retail banking area, the overdue criterion of over 30 days is a direct trigger for identifying a significant increase in credit risk. For credit exposures in the area of institutional banking, overdue by more than 30 days is taken into account when assessing the potential occurrence of a significant increase in credit risk, while these are factors supporting the assessment and have an indirect character.

The Group identified overdue payments of financial assets for more than 30 days and the capability of this measure to identify significant increase in credit risk. The results of analysis indicated that extended review of customer exposure as part of periodic credit processes and in his results the internal classification is the measure more adequate in relation to days overdue. The process of override of Stages for institutional banking portfolio also confirmed this assumption. The analysis of 30 days overdue payments indicated the lack of correlations with above-mentioned credit risk because of the arrears on non-credit products in particular.

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

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

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

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

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

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

In order to assess whether there was a significant increase in credit risk for the Retail Banking portfolio, the Group periodically, as part of the analysis process changes the default risk for a given credit exposure, compares the current assessment of default risk for the credit exposure, with the risk of default assessment performed by at the time of initial recognition. In addition, quality-based premises are included on the current length of the credit product overdue period, the soft restructuring activities carried out and the fact that information about the probability of default is not available.

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

Provision for expected credit losses for consumer banking portfolio are calculated on the basis of statistical models for groups of assets combined in portfolios with common credit risk features. In the financial statements, the Group adjusts the value of credit exposures on the amount of expected credit losses. In case individually significant exposure is impaired, provisions are measured using individual approach. Exposures are deemed to be individually significant, if an expected credit loss for the borrower in Stage 3 exceeds 10% of average provisions related to receivables in Stage 3 in the last quarter.

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

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

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

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

In retail area of the Group is used, except from the 30 days criterion of arrears and forborne categories, the quantitative criterion is applied - analysis of the change in PD level since the exposure was created. In accordance with the standard, the Group does not use a fixed threshold above which an increase in risk would automatically be considered significant. It results from the fact that the same increase of PD in absolute terms would be more significant for exposures with lower initial risk than for those with the higher initial risk. So in Group there is used the designed model which target is to setting a threshold above which an increase in risk will be considered to be significant. In order to determine the relative growth, the Group uses a variable being the quotient of the probability of default on the current reporting date and the contingent probability calculated for the same period at the time of initial recognition. A threshold is defined as the cut-off point, where the probability of a default event occurring when the value of an explanatory variable increases is maximized.

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

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

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

- Significant financial difficulties of the client, which are described in detail in ICG / CCB / Micro Credit Procedures;
- Reduction of the client credit rating by an accepted by the Bank External Credit Assessment Institution (below risk level corresponding to internal 7- rating (i.e. to CCC- for Standard & Poors, Caa3 Moody's)
- Breach of contract conditions, e.g. delay in interest or principal payments;
- Occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, granting permission for emergency restructuring of credit exposure, if it might result in decreasing financial requirements, reduction of financial liabilities by redeeming a significant part of the principal, interest or, where applicable, fees or deferring their repayment or payment (forborne exposure);
- high likelihood of bankruptcy of the client or obtaining information about the opening of bankruptcy proceedings, appearance by the debtor for declaration of bankruptcy or for similar protection or putting the debtor in bankruptcy or granting him similar protection if it would allow him to avoid or delay repayment of credit obligations;
- request of the Group to initiate enforcement proceedings against the client;
- severe domestic or local economic conditions that may be related to the default of exposures;
- delay in payment equal to 90 days or more;

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

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

- occurrence of delays in repayment of principal and interest , the minimum amount to be paid, commission or exceeding the permitted limit. For the purpose of recognizing impairment, it is assumed that the delay in repayment is equal to or exceeds 90 days at the moment of calculating the write-down (regardless of the amount of exposure and the amount of overdue);
- granting modifications to the terms of the agreement (restructuring), as a result of which the current value of cash flows falls below the book value before the modification;
- termination of the contract for reasons other than a delay in the repayment of mortgage products;
- occurrence of qualitative circumstances:
  - death,
  - bankruptcy,
  - permanent disability or serious illness,
  - fraud,
  - obtaining information about initiating bankruptcy proceedings of the client or announcing bankruptcy by the client,
  - impairment or threat of collateral impairment,
  - the client's stay in custody or prison,
  - partial capital write-off,
  - agreement termination,
  - the Group's request to initiate enforcement proceedings against the client.

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

The Group has established and applies a quarantine period for exposures that cease to be classified as Stage 3 assets.

In the area of institutional banking, a change in status may take place when there are no arrears to the Bank within a minimum period of 12 months and the principal amount and related additional claims under the contract are recoverable in full.

The main premise for changing the status from impairment to no impairment is complete recovery of creditworthiness.

In the retail area, the quarantine mechanism consists in maintaining the customer in the status of impairment for the next 9 months from the disappearance of all indications of impairment.

The Group uses the macroeconomic scenarios including explanatory variables in models used to measure impairment. Scenarios are prepared by the Chief Economist of the Group min. once a quarter in the three years horizon in division into quarters (based scenario with 60% weight and positive and negative variation from scenario with 20% weight).

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

Macroeconomic scenarios in the area of institutional including below variables:

- annual amendment of index WIG20,
- unemployment rate,
- inflation,
- PKB,
- unemployment rate „BAEL",
- WIBOR 3M rate.

However retail banking uses three variables in modeling the expected credit losses:

- unemployment rate,
- unemployment rate „BAEL",
- annual amendment of index WIG.

Base macroeconomic scenario for the variables used to estimate expected credit losses as at December 31, is presented below:

Base macro-economic scenario	4q20	1q21	2q21	3q21	4q21	1q22	2q22	3q22	4q22	1q23	2q23	3q23	4q23
GDP growth YoY	(5.8)	(3.2)	8.9	2.1	7.9	6.7	5.2	5.0	4.1	4.2	4.1	4.1	4.0
Inflation YoY (average)	2.9	2.0	2.5	2.4	2.6	2.7	3.0	3.3	3.7	3.6	3.4	3.1	2.9
Registered unemployment rate	6.4	6.8	6.3	6.3	6.7	6.7	6.1	5.8	5.8	5.9	5.6	5.1	5.2
Unemployment rate LFS	3.7	4.1	3.6	3.6	4.1	4.1	3.6	3.3	3.4	3.5	3.3	2.8	3.0
WIBOR 3M (eop)	0.22	0.22	0.22	0.22	0.22	0.22	0.40	0.75	1.05	1.27	1.71	1.72	1.72
WIG20 (eop)	1939	1970	2005	2040	2075	2111	2146	2181	2216	2251	2287	2322	2357

Pessimistic macro-economic scenario	4q20	1q21	2q21	3q21	4q21	1q22	2q22	3q22	4q22	1q23	2q23	3q23	4q23
GDP growth YoY	(5.8)	(5.0)	6.9	0.1	5.8	6.1	4.3	3.8	2.6	3.0	3.4	3.9	4.3
Inflation YoY (average)	2.9	1.8	1.9	1.6	1.8	2.1	2.5	2.9	3.4	3.3	3.2	2.9	2.9
Registered unemployment rate	6.4	7.1	6.9	7.3	7.9	7.9	7.1	6.8	6.6	6.7	6.3	5.7	5.7
Unemployment rate LFS	3.7	4.4	4.2	4.6	5.3	5.3	4.6	4.3	4.2	4.3	4.0	3.4	3.5
WIBOR 3M (eop)	0.22	0.18	0.18	0.18	0.18	0.18	0.18	0.43	0.43	0.68	0.68	0.68	0.68
WIG20 (eop)	1820	1796	1871	1904	1959	1992	2048	2082	2139	2173	2207	2241	2275

Optimistic macro-economic scenario	4q20	1q21	2q21	3q21	4q21	1q22	2q22	3q22	4q22	1q23	2q23	3q23	4q23
GDP growth YoY	(5.8)	(2.2)	11.1	4.1	10.0	7.8	5.6	5.5	4.8	4.6	4.3	4.3	4.3
Inflation YoY (average)	2.9	2.2	3.1	3.2	3.4	3.3	3.5	3.7	4.0	3.9	3.6	3.3	2.9
Registered unemployment rate	6.4	6.5	5.7	5.3	5.5	5.5	5.1	4.8	5.0	5.1	4.9	4.5	4.7
Unemployment rate LFS	3.7	3.8	3.0	2.6	2.9	2.9	2.6	2.3	2.6	2.7	2.6	2.2	2.5
WIBOR 3M (eop)	0.22	0.23	0.24	0.3	0.75	1.1	1.65	2	2.25	2.25	2.25	2.25	2.25
WIG20 (eop)	2006	2096	2134	2171	2250	2279	2308	2338	2369	2400	2431	2462	2494

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

Scenarios and macroeconomic variables are updated on a quarterly basis.

As part of the assessment of the adequacy of the methodology used to determine impairment and provision, the Group regularly, at least annually, carries out an analysis to verify to which extent the revaluation provision were reflected in actual losses. In addition, the models used for determining reserves are subject to evaluation by an independent Model Validation Office.

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

Change of expected credit losses for stage 1 and 2 assuming 100% scenario weight as at 31.12.2020	Optimistic scenario	Pessimistic scenario
Consumer Bank	(1,923)	2,030
Institutional Bank	(3,040)	5,025
	(4,963)	**7,055**

Change of expected credit losses for stage 1 and 2 assuming 100% scenario weight as at 31.12.2019	Optimistic scenario	Pessimistic scenario
Consumer Bank	(1,166)	1,246
Institutional Bank	(2,967)	3,575
	(4,133)	**4,821**

The Group recognizes and manages counterparty credit risk in transactions in financial instruments based on internal limits for pre-settlement and settlement engagement. The exposures also include credit ratings.

The table below presents the maximum exposure of the Group to credit risk:

PLN'000	Note	31.12.2020	31.12.2019
Gross receivables due from the Central Bank	17	4,103,407	3,300,490
Gross receivables due from banks	18	571,955	1,168,278
Gross receivables due from institutional customers**	22	15,134,249	16,714,183
Gross receivables due from individual customers***	22	7,621,720	7,706,947
Debt securities held-for-trading	19	913,123	3,881,815
Derivative instruments	19	3,370,896	1,524,780
Debt investment financial assets measured at fair value though other comprehensive income	20	27,323,571	15,484,578
Other financial assets	27	185,809	106,183
Contingent liabilities granted	40	16,502,383	15,441,954
		75,727,113	**65,330,500**

* *As at December 31, 2020, the value of collateral diminishing the maximum exposure to credit risk for receivables from institutional clients amounted to PLN 3,022,172 thousand (31 December 2019: PLN 3,289,249 thousand).*

* *As at December 31, 2020, the value of collateral to reduce the maximum exposure to credit risk for receivables from individual clients amounted to PLN 2,241,268 thousand. PLN (31 December 2019: PLN 1,922,434 thousand).*

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 22.

The tables below present the portfolio grouped by receivables from customers with established impairment and receivables without impairment. The tables also present the details of impairment provision.

According to credit management process, Group identifies classifiable portfolio (individual assessment) and based on portfolio classification (portfolio assessment).

Exposures without impairment are classified based on the internal risk ratings from 1 to 7, where risk category 1 is the best rating.

Exposures, classified based, with identified impairment have assigned internal risk ratings from 8 to 10.

The internal risk ratings are received in the complex credit assessment's process, which consists of rating models and methodologies, additional corrections resulting among others from the acquired support and the security, and all the defined processes used in order to get risk ratings.

The risk rating defines the probability of breach of contract by the debtor within the 1 year period. Ratings from 1 to 4- inclusive are treated as the equivalent of ratings at investments levels of external credit rating agencies, which implies that they indicate a low or medium level of credit risk. Ratings below 4- indicate increased credit risk, wherein the rating 7 means high credit risk and low ability to service debt obligations, even in favorable macroeconomic conditions.

The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 31 December 2020:

PLN '000	31.12.2020				Total including interest accrued for exposure at Stage 3
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total	
Impaired receivables (Stage 3)					
Gross amount	**475,043**	**352,029**	**-**	**827,072**	**982,989**
Provision for expected for credit losses	(359,212)	(279,087)	-	(638,299)	(794,216)
Net amount	**115,831**	**72,942**	**-**	**188,773**	**188,773**
Not impaired receivables (Stage 2)					
By risk rating					
Risk rating 1-4-	76		3	79	79
Risk rating +5-6-	214,686		-	214,686	214,689
Risk rating +7 and greater	292,374		15	292,389	292,392
By delinquency					
No delinquency		691,831		691,831	691,831
1-30 days		74,792		74,792	74,792
31-90 days		36,037		36,037	36,037
Gross amount	**507,136**	**802,660**	**18**	**1,309,814**	**1,309,820**
Provision for expected for credit losses	(29,145)	(93,466)	-	(122,611)	(122,617)
Net amount	**477,991**	**709,194**	**18**	**1,187,203**	**1,187,203**
Not impaired receivables (Stage 1)					
By risk rating					
Risk rating 1-4-	9,847,376		571,934	10,419,310	10,419,310
Risk rating +5-6-	4,304,694		-	4,304,694	4,304,694
By delinquency					
No delinquency		6,345,084	3	6,345,087	6,345,087
1-30 days		121,947	-	121,947	121,947
Gross amount	**14,152,070**	**6,467,031**	**571,937**	**21,191,038**	**21,191,038**
Provision for expected for credit losses	(46,484)	(34,352)	(1,708)	(82,544)	(82,544)
Net amount	**14,105,586**	**6,432,679**	**570,229**	**21,108,494**	**21,108,494**
Total gross value	**15,134,249**	**7,621,720**	**571,955**	**23,327,924**	**23,483,847**
Provision for expected for credit losses	(434,841)	(406,905)	(1,708)	(843,454)	(999,377)
Total net value	**14,699,408**	**7,214,815**	**570,247**	**22,484,470**	**22,484,470**

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

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is in the last column.

The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 31 December 2019:

PLN '000	31.12.2019				Total including interest accrued for exposure at Stage 3
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total	
Impaired receivables (Stage 3)					
Gross amount	**526,651**	**315,109**	**-**	**841,760**	**1,153,104**
Provision for expected for credit losses	(316,380)	(242,829)	-	(559,209)	(870,553)
Net amount	**210,271**	**72,280**	**-**	**282,551**	**282,551**
Not impaired receivables (Stage 2)					
By risk rating					
Risk rating 1-4-	209,328		3	209,331	209,331
Risk rating +5-6-	1,062,988		-	1,062,988	1,062,993
Risk rating +7 and greater	103,981		-	103,981	103,981
By delinquency					
No delinquency		836,264		836,264	836,264
1-30 days		102,726		102,726	102,726
31-90 days		40,256		40,256	40,256
Gross amount	**1,376,297**	**979,246**	**3**	**2,355,545**	**2,355,550**
Provision for expected for credit losses	(18,896)	(61,054)	-	(79,950)	(79,954)
Net amount	**1,357,401**	**918,192**	**3**	**2,275,595**	**2,275,595**
Not impaired receivables (Stage 1)					
By risk rating					
Risk rating 1-4-	11,955,828	-	751,707	12,707,535	12,707,543
Risk rating +5-6-	2,856,700	433	416,556	3,273,690	3,273,690
By delinquency					
No delinquency		6,248,508	13	6,248,521	6,248,521
1-30 days		163,650	-	163,650	163,650
Gross amount	**14,812,528**	**6,412,591**	**1,168,276**	**22,393,396**	**22,393,404**
Provision for expected for credit losses	(28,174)	(23,216)	(2,594)	(53,984)	(53,991)
Net amount	**14,784,355**	**6,389,375**	**1,165,682**	**22,339,412**	**22,339,412**
Total gross value	**16,715,476**	**7,706,947**	**1,168,279**	**25,588,527**	**25,902,057**
Provision for expected for credit losses	(363,450)	(327,099)	(2,594)	(690,969)	(1,004,499)
Total net value	**16,352,026**	**7,379,848**	**1,165,685**	**24,897,559**	**24,897,559**

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

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is in the last column.

Structure of derivatives in terms of credit risk:

PLN '000	31.12.2020			31.12.2019		
	Transactions with institutional customers	Transactions with individual customers	Transactions with banks	Transactions with institutional customers	Transactions with individual customers	Transactions with banks
Derivatives by risk rating						
Risk rating 1-4-	2,406,138	540	869,702	863,566	8,894	587,849
Risk rating+5-6-	32,166	-	60,846	40,085	-	24,320
Risk rating +7 and greater	1,504	-	-	67	-	-
Total	**2,439,808**	**540**	**930,548**	**903,718**	**8,894**	**612,169**

The classification of exposures in the portfolio of debt securities held for trading and portfolio of debt securities measured at fair value through other comprehensive income by ratings agency Fitch is presented below:

PLN '000	31.12.2020		31.12.2019	
	Debt securities held-for-trading*	Debt securities measured at fair value though the income statement*	Debt securities held-for-trading	Debt securities available-for-sale
Issuer rating by Fitch agency				
A (including: from A- to AAA)	913,123	27,323,571	3,881,815	15,484,578
Total	**913,123**	**27,323,571**	**3,881,815**	**15,484,578**

Structure of the granted contingent liabilities from the credit risk point of view as at December 31, 2020:

PLN '000	31.12.2020		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Contingent liabilities granted (Stage3)	**37,112**	**1,081**	**-**
by risk rating			
Risk rating +7and greater	37,112	-	-
Contingent liabilities granted (Stage 2)	**420,043**	**1,266,562**	**-**
by risk rating			
Risk rating 1-4-	81,800	-	-
Risk rating+5-6-	112,134	-	-
Risk rating +7and greater	226,109	-	-
Contingent liabilities granted (Stage 1)	**9,459,421**	**4,963,153**	**355,011**
by risk rating			
Risk rating 1-4-	7,178,082	-	350,804
Risk rating+5-6-	2,281,339	-	4,207
Total	**9,916,576**	**6,230,796**	**355,011**

Structure of the granted contingent liabilities from the credit risk point of view as at December 31, 2019:

PLN '000	31.12.2019		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Contingent liabilities granted (Stage3)	**67,574**	**1,306**	**-**
by risk rating			
Risk rating +7and greater	67,574	-	-
Contingent liabilities granted (Stage 2)	**639,821**	**1,219,855**	**3,323**
by risk rating			
Risk rating 1-4-	132,895	-	-
Risk rating+5-6-	426,514	-	3,323
Risk rating +7and greater	80,412	-	-
Contingent liabilities granted (Stage 1)	**8,177,658**	**4,964,158**	**368,259**
by risk rating			
Risk rating 1-4-	6,828,244	-	364,951
Risk rating+5-6-	1,349,414	-	3,308
Total	**8,885,053**	**6,185,319**	**371,582**

"Forbearance" practices

Forborne exposures are identified in the Group within credit risk management. Bank takes into account „forborne" exposures according to the reporting requirements under the EBA Technical Standards EBA/ITS/2013/03.

The Group considers as „forborne" exposures, where the Group grants debtor experiencing financial difficulties preferential financing conditions (i.e. on non-market conditions), which would not have been considered in a different situation. Preferential financing conditions are considered situations in which for example the yield of the modified facility is lower than the contractual yield prior to the restructuring and/or the yield on the modified loan is below a market yield for the relevant tenor and credit risk.

The extent to which the financing conditions are changed is determined individually for each debtor in question. In particular, these activities include:

- receipt of assets;
- granting a new or restructured facility in partial or full satisfaction of a facility;
- modification of the terms of the existing facility, including rescheduling of future payments (e.g. extension of financing tenor), change of interest rate or methods of repayment, reduction of amount to be repaid (principal or accrued interest).

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

In terms of institutional clients,, the Group recognizes "forborne" status for exposures with identified impairment.

In terms of retail exposure, the „forborne" status may refer to both the exposures: from the impaired portfolio as well as from the portfolio without any impairment. As „forborne" without impairment are recognized by the Group exposures, where restructuring activities were applied, but change of financing conditions has not implied any deterioration of future payment streams. In such cases the change into "forborne" status is not an evidence of exposure's impairment.

The Group assumes, that exposures will remain in "forborne" status until they are entirely paid off.

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

Exposure values in the „forborne" status:

PLN '000	31.12.2020	31.12.2019
Receivables without recognized impairment	21,928,897	23,580,662
Receivables without recognized impairment (Stage 1), including	20,619,102	21,225,119
non-financial sector entities	16,879,946	18,072,331
Institutional customers	10,412,915	11,659,740
Individual customers	6,467,031	6,412,591
Receivables without recognized impairment (Stage 2), including:	1,309,795	2,355,543
non-financial sector entities	1,309,795	2,355,529
Institutional customers	507,135	1,376,283
Individual customers	802,660	979,246
Receivables with recognized impairment (Stage 3), including:	827,072	841,760
non-financial sector entities	827,072	841,760
Institutional customers, including:	475,043	526,651
„forborne"	148,091	169,297
Individual customers, including:	352,029	315,109
„forborne"	18,027	19,195
Total gross amount, including:	**22,755,969**	**24,422,422**
non-financial sector entities	19,016,813	21,269,620
Institutional customers, including:	11,395,093	13,562,674
„forborne"	148,091	169,297
Individual customers, including:	7,621,720	7,706,946
„forborne"	18,027	19,195
Provision for expected credit losses	**(841,746)**	**(690,548)**
On „forborne" receivables	(125,206)	(76,363)
Total net amounts due from customers, including:	**21,914,223**	**23,731,874**
„forborne" receivables	40,912	112,129

The gross amounts due does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in Note 22.

Liquidity risk

Procesy i organizacja zarządzania ryzykiem płynności

Liquidity risk is defined as the risk that the Group may not be able to meet its financial commitments to customers or counterparties when due.

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

Liquidity risk management is based on:

- Applicable law, in particular on the Banking Law;
- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable risk management of the Group as well as general risk levels approved by the Supervisory Board of the Bank;

taking into account the best market practice.

The ultimate responsibility for ensuring that the Group operates under approved liquidity risk limits lies within the Management Board of the Bank, and ongoing market risk management is performed by the:

- Member of the Management Board responsible for Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit;
- Persons delegated to risk management in the Group's entities.

Liquidity management

The objective of liquidity risk management is to ensure that the Bank and Group's entities have adequate access to liquidity in order to meet its financial obligations when due, including under extreme but probable stress conditions.

The Group analyses and manages liquidity risk in several time horizons while distinguishing current, short-, mid- and long-term liquidity, to which appropriate risk measurement methods and limits apply. The adopted measures and limits aim to limit the excessive concentration in terms of the balance sheet structure and sources of financing.

Long-term liquidity management is the responsibility of ALCO and as such it is reflected in the Group's strategy. It is based on the monitoring of balance sheet structural ratios and on long-term regulatory liquidity measures and includes the analysis of liquidity gaps, the ability to acquire in the future sufficient funding sources as well as funding costs in the light of the overall business profitability.

Mid-term liquidity management, in the one-year time horizon, is the responsibility of ALCO and is based on the established on annual bases Funding and Liquidity Plan which defines the size of internal limits taking into account the business plans for changes in assets and liabilities that are being prepared by business units of the Group as part of the financial plans for the next budget year.

Short-term liquidity management, in the three-month time horizon, is the responsibility of the Financial Markets and Corporate Banking Sector and is performed based on short-term regulatory liquidity measures as well as internal limits. In addition, the Group analyses liquidity under stress scenarios, assuming the lack of liquidity gaps in all tenors up to three months as a necessary condition.

Current liquidity management is the responsibility of the Financial Markets and Corporate Banking Sector and comprises the management of the balances on the Group's nostro accounts and especially the mandatory reserve account with NBP while applying available money market products and central bank facilitates.

Liquidity management with accordance to "Risk management principals" in Group entities is a part of the entities, management board responsibilities. ALCO is the supervisor of the Group's entities liquidity supervision.

In 2020 the Group has not implemented any changes significant in liquidity risk management processes, procedures, systems and policies.

Funding and Liquidity Plan

The Head of the Financial Markets and Corporate Banking Sector is responsible for preparing an annual Group's Funding and Liquidity Plan ("Plan") for the Group and obtaining the ALCO's approval for the Plan. The Plan addresses all funding or liquidity issues resulting from business plans, especially in the customer deposits and loans area, as defined in annual budgets of particular business entities, as well as any material changes in regulatory requirements and market dynamics.

Liquidity risk management tools

The Group measures and manages liquidity risk by applying both external regulatory measures and additional internal liquidity measures.

The supervisory liquidity measures

The supervisory liquidity measures M1-M4 and LCR were as follows:

	31.12.2020	31.12.2019	Change
M1 - Short-term liquidity gap (PLN)	17,720,491	9,126,042	8,594,449
M2 - Short-term liquidity ratio	1.37	1.26	0.10
M3 - Coverage of illiquid assets with regulatory capital	4.69	4.98	0-.29
M4 - Coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	2.04	1.58	0.46
LCR*	182%	163%	19%

Internal liquidity risk management tools

In addition to the regulatory liquidity measures, the Bank's Group applies a range of liquidity risk management tools including:

- Gap analysis –MAR/S2;
- Stress scenarios;
- Liquidity ratios;
- Market Triggers;
- Significant Funding Sources;
- Contingency Funding Plan.

Stress scenarios

Stress tests are intended to quantify the potential impact of an event on the Group's balance sheet and cumulative gap over a twelve-month period, and to ascertain what incremental funding may be required under any of the defined scenarios. The scenarios are proposed by the Bank's Financial Markets and Corporate Banking Sector and Market Risk and approved by ALCO.

The Group conducts the stress tests monthly. The scenarios assume material changes in the underlying funding parameters, i.e.:

- Concentration event;
- Highly Stressed Market Disruption ("S2") – serious disruptions of financial markets;
- Local market event.

Contingency Funding Plan

Financial Markets and Corporate Banking Sector is responsible for the preparation and annual update of the Contingency Funding Plan, which defines the Bank's action plan in case of a contingency, specifically in cases assumed in liquidity stress scenarios and described in the annual Funding and Liquidity Plan.

The Contingency Funding Plan is approved by ALCO.

The Contingency Funding Plan defines:

- Circumstances / symptoms of contingency events;
- Responsibilities for executing the action plan;
- Sources of liquidity, and in particular the principles of maintenance of a liquid assets portfolio to be used in the case of a liquidity contingency;
- Rules for assets disposal and balance sheet restructuring;
- Procedures for restoring customer confidence.

The levels of the cumulative liquidity gap in stress conditions and the level of liquid assets as at 31 December 2020 and 31 December 2019.

The cumulative liquidity gap as at 31 December 2020 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	29,503,084	60,293	582,149	-	30,796,071
Liabilities	12,055,930	4,828,015	16,795	-	44,040,857
Balance-sheet gap in the period	**17,447,154**	**(4,767,722)**	**565,354**	**-**	**(13,244,786)**
Conditional derivative transactions - inflows	35,237,768	5,587,109	17,581,465	8,645,374	15,833,016
Conditional derivative transactions - outflows	35,040,316	5,541,091	17,791,986	8,897,566	15,943,271
Off-balance-sheet gap in the period	**197,452**	**46,018**	**(210,521)**	**(252,192)**	**(110,255)**
Potential utilization of credit lines granted	573,674	608,141	475,245	-	(1,657,059)
Cumulative gap	**17,070,932**	**11,741,087**	**11,620,675**	**11,368,483**	**(329,499)**

The cumulative liquidity gap as at 31 December 2019 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	20,760,753	391,612	778,774	235,278	29,819,109
Liabilities	8,169,834	4,479,486	19,091	-	39,317,115
Balance-sheet gap in the period	**12,590,919**	**(4,087,874)**	**759,683**	**235,278**	**(9,498,006)**
Conditional derivative transactions - inflows	22,718,553	5,726,397	14,890,210	12,000,485	16,165,204
Conditional derivative transactions - outflows	22,792,316	5,752,159	14,908,722	11,913,776	16,189,238
Off-balance-sheet gap in the period	**(73,763)**	**(25,762)**	**(18,512)**	**86,709**	**(24,034)**
Potential utilization of credit lines granted	566,316	477,866	415,396	-	(1,459,578)
Cumulative gap	**11,950,840**	**7,359,338**	**7,685,113**	**8,007,100**	**(55,362)**

Liquid assets and the cumulative liquidity gap up to 1 year:

PLN'000	31.12.2020	31.12.2019	Change
Liquid assets, including:	32,546,813	22,875,757	9,671,056
nostro account in NBP and stable part of cash	4,310,119	3,509,364	800,755
debt securities held-for-trading	913,123	3,881,815	(2,968,692)
debt financial assets measured at fair value through other comprehensive income	27,323,571	15,484,578	11,838,993
Cumulative liquidity gap up to 1 year	11,620,675	7,685,113	3,935,562
Coverage of the gap with liquid assets	Positive gap	Positive gap	

Financial liabilities of the Group, by contractual maturity, are presented below. Presented amounts do not include the impact of the effective rate on the interest payable.

As at 31 December 2020

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	29	**5,118,861**	**5,101,752**	**2,000**	**15,000**	**34**	**75**
Financial liabilities held-for-trading							
Short positions in financial assets	19	43,208	43,208	-	-	-	-
Amounts due to customers, including:	30	**43,393,906**	**42,516,234**	**639,607**	**215,013**	**22,976**	**76**
Deposits from financial sector entities	30	4,571,664	4,569,583	263	1,795	-	23
Deposits from non-financial sector entities	30	38,600,354	37,841,200	578,717	165,294	15,090	53
Other liabilities	30	221,888	105,451	60,627	47,924	7,886	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	4,868,291	58,854	70,086	557,432	2,805,360	1,376,559
Hedging derivatives		**98,025**	**-**	**-**	**-**	**98,025**	**-**
Unused credit lines liabilities	40	**14,035,449**	**12,175,535**	**4,000**	**274,085**	**1,398,056**	**183,773**
Guarantee lines	40	**2,304,411**	**2,304,411**	**-**	**-**	**-**	**-**
		69,862,149	**62,199,992**	**715,693**	**1,061,530**	**4,324,451**	**1,560,483**
Derivatives settled on a gross basis							
Inflows		75,770,215	35,434,287	5,520,929	16,363,340	11,860,068	6,591,591
Outflows		75,587,594	35,218,811	5,514,231	16,343,102	11,944,695	6,566,755
		182,621	**215,476**	**6,698**	**20,238**	**(84,627)**	**24,836**

As at 31 December 2019

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	29	**2,125,495**	**2,108,386**	**2,000**	**15,007**	**45**	**57**
Financial liabilities held-for-trading							
Short positions in financial assets	19	248,406	248,406	-	-	-	-
Amounts due to customers, including:	30	**39,787,807**	**37,228,862**	**1,233,802**	**1,291,452**	**33,615**	**76**
Deposits from financial sector entities	30	4,556,646	4,554,687	260	1,676	-	23
Deposits from non-financial sector entities	30	34,962,850	32,531,925	1,172,136	1,234,324	24,412	53
Other liabilities	30	268,311	142,250	61,406	55,452	9,203	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	1,974,225	41,303	35,685	99,783	1,077,118	720,336
Hedging derivatives		**19,226**	**-**	**-**	**-**	**19,226**	**-**
Unused credit lines liabilities	40	**12,935,767**	**11,620,970**	**-**	**236,039**	**870,275**	**208,483**
Guarantee lines	40	**2,321,513**	**2,321,513**	**-**	**-**	**-**	**-**
		59,412,439	**53,569,440**	**1,271,487**	**1,642,281**	**2,000,279**	**928,952**
Derivatives settled on a gross basis							
Inflows		72,862,917	23,340,936	6,612,768	15,187,355	19,967,407	7,754,451
Outflows		72,760,656	23,414,973	6,643,496	15,055,276	19,883,352	7,763,559
		102,261	**(74,037)**	**(30,728)**	**132,079**	**84,055**	**(9,108)**

Market risk

The processes and organization of market risk management

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

The objective of market risk management is to ensure that the extent of risk accepted within the Group corresponds to the level acceptable to the shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Group. The adopted market risk measures and limits aim to prevent excessive concentration of exposure to a single risk factor or a group of related risk factors, as well as to determine the overall maximum level of risk taken in the trading or banking book. Market risk management in the Group is based on:

- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable risk management of the Bank as well as general risk levels approved by the Supervisory Board of the Bank;

taking into account best market practice.

The ultimate responsibility for ensuring that the Group operates under approved market risk exposure limits lies within the Management Board of the Bank, and ongoing market risk management is performed by the:

- Member of the Management Board responsible for Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit;
- Heads of risk-taking business units;
- Persons delegated to risk management in Group entities.

Market risk management

Scope of risk

Market risk management applies to all portfolios generating income exposed to the negative impact of market factors including interest rates, foreign exchange rates, equity prices, commodity prices and the parameters of their volatility. Two types of portfolios have been defined for the purpose of market risk management: trading portfolios and bank portfolios.

The trading portfolios include transactions in financial instruments (balance-sheet and off-balance-sheet instruments) expected to generate income owing to a change in market parameters over a short period. The trading portfolios include balance-sheet items such as debt securities held-for-trading, i.e., debt securities acquired to be further traded and meeting pre-defined liquidity criteria, as well as all derivative instrument positions broken down into portfolios acquired purely for trading and transactions executed in order to provide an economic hedge of bank portfolio positions. The trading portfolios are valued directly at market prices or using market pricing-based valuation models. The trading portfolio operations are performed by the Bank's Financial Markets and Corporate Banking Sector in respect of interest rate risk portfolios and FX risk portfolios. The trading portfolio also includes options, manly foreign exchange options and interest rate and optional structures being a reflection of economic nature and risk resulting from products offered to customers of the Group. In this area, the Group concludes transactions in a way which ensures concurrent (at each time and immediate) conclusion of an opposite transaction with the same parameters and, in consequence, the option portfolio does not generate open exposition of market risk. The only item related to the conclusion of option transactions which is reflected in market risk measurement, and in particular in foreign exchange risk, is the premium paid/received in a foreign currency.

The bank portfolios include all other balance-sheet and off-balance-sheet positions not assigned to any of the trading portfolios. The transactions are executed to realize a profit over the entire contracted transaction period. The Group's and Corporate Banking Sector takes over the interest rate risk positions held in the bank portfolios of all other organizational units of the Group. The mechanism of transferring the interest rate risk positions is based on the transfer price system.

Measurement of the pricing risk of the bank portfolios

The Group typically uses the following methods for measuring the risk of the bank portfolios:

- Interest rate gap analysis;
- Value-at-Close and Total Return methods;
- Interest Rate Exposure (IRE), based both on the gap and cashflow/income method over the relevant time horizon;
- Stress testing.

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

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

It is assumed that:

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

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

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

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 base NIR and NIR in the interest rate shock scenario, i.e. +/- 100 basis points for all currencies together. Similar assumptions regarding the revaluation dates as described above for the gap method are made, with the difference that items not generating interest flows and the Bank's equity are excluded from the calculation.

The table below presents the IRE measures for the Group as at 31 December 2020 and 31 December 2019, separately for measures based on the gap method and interest flows. The statement is presented separately for the main currencies, i.e., PLN, USD and EUR, which jointly account for over 90% of the Group's balance-sheet, and for all currencies in total for the interest flow method.

IRE – gap method

PLN'000	31.12.2020		31.12.2019	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	42,136	232,315	27,103	78,293
USD	22,844	38,274	15,045	19,732
EUR	15,965	20,653	9,980	9,134

IRE – cashflow method

PLN'000	31.12.2020		31.12.2019	
	IRE 12M		IRE 12M	
	+100 pb	-100 pb	+100 pb	-100 pb
Total for All currencies	152,967	39,839	91,145	(64,561)

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

The Group runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are regularly assessed, and are adjusted as appropriate to changes in the market conditions of the Group's operation. Stress tests also include changes in the value of capital as a result of movements in interest rates for individual currencies in scenarios compliant with the CRR requirements.

Activities relating to securities available-for-sale are the responsibility of the Assets and Liabilities Management Department within the Professional Markets Division. Three basic goals of activities in the portfolio of securities available-for-sale have been defined as follows:

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

In order to avoid excessive fluctuations in the Group's capital funds, caused by the revaluation of assets held-for-sale, the maximum limits of DV01 (Dollar Value of 1 basis point), which determines the potential change in the value of risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given time horizon), caused by a shift in the market interest rate by 1 basis point upwards, are established for this kind of portfolio. The limits also concert the open positions in derivatives (i.e. interest rate swap transactions), carried out to hedge the fair value of the portfolio.

Hedge accounting program

In addition to the general rules limiting market risk, in particular, interest rate risk, the Group has defined rules for the application of fair value hedge accounting. The main risk, which is hedged under hedge accounting, is the risk of changes in interest rates resulting from holding portfolio of securities measured at fair value through other comprehensive income with fixed interest rates. At the end of each month, when the hedging relation happened, the Group shall evaluate the effectiveness of the hedging instrument used, by analyzing the changes in the fair value of the hedged and hedging instrument in respect of the risk being hedged.

The hedged item was part of a portfolio of securities measured at fair value through other comprehensive income at a fixed interest rate, denominated in PLN and EUR. In all cases, the hedging instrument was the interest rate swap (IRS), which converts the fixed interest rate on a variable. Gains and losses arising from revaluation at fair value of the hedging instrument and changes in the fair value of the hedged items are reflected - in part resulting from the hedged risk - in profit and loss item „Net income from hedge accounting".

The table below presents the risk measured with DV01 for the portfolio of securities available-for-sale, including the economic collateral, broken down by currency:

PLN'000	31.12.2020			Total in the period 01.01.2020 - 31.12.2020		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(3,636)	(6,878)	3,243	(2,719)	(1,505)	(3,856)
USD	(121)	(121)	-	(143)	(119)	(167)
EUR	(280)	(280)	-	(304)	(272)	(352)

PLN'000	31.12.2019			Total in the period 01.01.2019 - 31.12.2019		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(3,182)	(3,489)	307	(3,089)	(2,528)	(3,412)
USD	(159)	(159)	-	(109)	-	(186)
EUR	(357)	(357)	-	(439)	(311)	(533)

The Group's activities involving investments in debt securities available-for-sale were also one of the main factors influencing changes in the level of the risk of mismatch in revaluation periods as expressed by the IRE measure.

Measurement of the market risk of the trading portfolios

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

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

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

In the case of interest rates, the applicable sensitivity measure is DV01.

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

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

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

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

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

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

The values of significant exposures to the interest rate risk of the trading portfolios risk in terms of DV01 in 2020 are presented in the table below:

PLN'000	31.12.2020	31.12.2019	In the period 1.01.2020 - 31.12.2020		
			Average	Maximum	Minimum
PLN	(268)	(54)	195	834	(913)
EUR	95	(13)	5	202	(315)
USD	74	144	45	279	(71)

Average exposures to the interest rate risk in the local currency in 2020 was lower comparing to the level from the previous year and amounted to PLN 260 thousand. Average exposure to the interest rate risk in EUR was lower than in 2019 (DV01 amounted to PLN 45 thousand, compared to PLN 67 thousand in the previous year). Average exposure in USD was higher than in 2019 (DV01 amounted to PLN 54 thousand, compared to PLN 50 thousand in 2019). The maximum exposure in PLN of the biggest exposures accepted by the Treasury Division was PLN 913 thousand compared to PLN 974 thousand in 2019 and the position in EUR amounted to PLN 315 thousand compared to PLN 105 thousand in the previous year.

The Financial Markets and Corporate Banking Sector, which trades in financial instruments within the Group, continued the strategy of very active management of exposures to FX risk and interest rate risk by adjusting the volume and direction of such exposures depending on changing market conditions, which is reflected in the range of volatility of these exposures (the minimum and the maximum values in the table above).

The table below presents the levels of risk measured by VaR (net of economic hedges of the portfolio of securities available-for-sale) broken down by FX risk and interest rate risk position in 2020:

PLN'000	31.12.2020	31.12.2019	In the period 1.01.2020- 31.12.2020		
			Average	Maximum	Minimum
Currency risk	493	69	346	4,572	0
Interest rate risk	5,641	5,947	7,390	33,632	1,709
Spread risk	2,745	3,040	3,435	5,573	1,280
Total risk	**6,170**	**6,678**	**8,576**	**34,130**	**4,138**

The overall average level of the market risk of the trading portfolios was 12% lower in 2020 than the average level in 2019, representing a decrease by over PLN 1,119 thousand, mainly as a result of lower exposures to credit spread changes. The maximum price risk level was PLN 34,130 thousand, compared to PLN 13,775 thousand in 2019. The maximum level was reached for only a few days, as a result of a significant flows in BGK bonds issued at the beginning of the COVID-19 pandemic.

Equity instruments risk

Dom Maklerski Banku Handlowego S.A. ("DMBH") is the Group's key company trading in equity instruments. In its core business, DMBH has been authorized to accept pricing risk of the trading portfolio of shares, or rights to shares, traded or likely to be traded on the Warsaw Stock Exchange ("WSE"), or BondSpot, WIG20 index futures and Indexed Participation Units, as well as shares of companies dual-listed on the WSE which are traded on international stock exchanges. The pricing risk of DMBH's portfolios of instruments is managed by means of volume limits applicable to specific types of financial instruments and concentration warning thresholds applicable to instruments of specific issuers. Moreover, DMBH uses warning thresholds of potential loss under stress scenarios and the cumulative realized loss on the trading portfolio.

The Group's FX exposure

The table below presents the Group's FX exposure by main currencies:

31.12.2020

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	2,893,468	7,375,336	29,451,596	24,977,853	(8,125)
USD	1,512,413	5,800,454	16,816,733	12,494,874	33,818
GBP	22,410	435,521	446,678	36,066	(2,499)
CHF	316,636	263,405	1,599,455	1,656,134	(3,448)
Other currencies	47,962	178,023	2,902,149	2,749,083	23,005
	4,792,889	**14,052,739**	**51,216,611**	**41,914,010**	**42,751**

* *at present value which is the sum of discounted future cash flows*

31.12.2019

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	4,338,630	5,529,553	21,386,884	20,185,257	10,704
USD	1,642,699	5,122,036	20,863,504	17,393,833	(9,666)
GBP	17,279	389,976	742,199	371,438	(1,936)
CHF	468,768	227,731	2,029,207	2,274,823	(4,579)
Other currencies	96,855	201,225	2,173,226	2,064,715	4,141
	6,564,231	**11,470,521**	**47,195,020**	**42,290,066**	**(1,336)**

* *at present value which is the sum of discounted future cash flows*

Operational risk

Strategic goals and assumptions of the operational risk management system

The objective of operational risk management is to ensure a consistent and effective approach to identification, assessment, mitigation, control, monitoring and reporting of these risks, as well as the effective reduction of the level of exposure to operational risk, and consequently reduction of the amount of operational risk events and their severity.

Operational risk management is also aimed at the full integration of this risk management processes into business decision- making processes (i.e. business strategy is supported by an operational risk assessment, and the business is assessed on the basis of pre-determined indicators of control and operational risk).

While organizing operational risk management process, the Group takes into account business strategy, Group's risk profile, macroeconomic environment, available resources of capital and liquidity and regulatory requirements (in particular Recommendation M) that constitute a framework for the preparation of operational risk control and management system in the Group.

The Management Board and subsidiary Management Boards are responsible for the development, implementation and operation of proper operational risk management system through the introduction of appropriate internal regulations, ensures consistency between operational risk management system and Group's Strategy, as well as its proper functioning within the organization through an analysis of information that allow to assess whether the system is adequate for operational risk profile. If needed, operational risk management system is reinforced through implementation of crucial improvements.

Operational risk management system in the Group is built in a way that ensures proper risk management at every stage, i.e.: identification, assessment/measurement, mitigation, control, monitoring and reporting.

The implementation of the strategy by the Management Board shall be assessed by the Supervisory Board, assisted by Audit Committee and Risk and Capital Management Committee based on synthetic reports submitted by the Management Board with frequency correlated with the committees' meetings, determining the scale and types of operational risk that the Bank is exposed to, methods of operational risk management, probability of risk's occurrence, assessment of potential negative impact of operational risk management methods, as well as results of operational risk profile and operational risk appetite monitoring. If necessary, after evaluation the Supervisory Board may request revision of the entire or partial internal control system.

Operational risk definition

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

It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk.

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

Definition of Operational Risk covers: Compliance risk, Technological risk, Outsourcing risk, Misappropriation risk, Money Laundering risk, Information Security risk, External or internal events risk (Continuity of Business), Tax and Accounting risk, Product risk, Legal risk, Models risk, Staffing risk, Concentration risk, Conduct risk.

The operational risk was considered significant for 2020. Additionally, the Compliance Risk, which is included in the Operational Risk for the purposes of the ICAAP process, has also been considered material risk.

Rules of operational risk identification

Each Group's Business Unit identifies all significant operational risks related to its processes. This includes identification by the Group's Management of significant risks associated with all processes, products, human factors, systems and compliance with applicable laws, regulatory administrative actions, the Group's internal regulations and the Group's strategy, also taking into consideration risk associated with dependence on other entities in the Group.

Group's organizational units and the Independent Control and Operational Risk Department use in the operational risk identification processes, regular analysis of information generated using the tools of operational risk management (e.g. risk appetite, target risk profile, KRI, data loss and operational risk incidents, issues and corrective actions, self-assessment process (incl. risk map), key projects, risk areas concentration and areas of increasing risk exposure level of risk, scenario analysis, stress testing, changes in processes and products, operational risk attestations, information from internal and external reviews and audits, information reported to the Commissions and Committees).

Operational Risk Profile

Operational Risk Profile – scale and structure of exposure to operational risk, defining the level of exposure to operational risk, expressed in selected structural measures (e.g. types of operational risk events, types of business lines, significant processes) and scale measures (e.g. assessed potential loss). The Group defines its operational risk profile based on operational loss data and based on information gathered through utilized operational risk management tools.

The target operational risk profile, facilitating identification of concentration risk, was established with consideration of the scale and structure of operational risk, accepted appetite/tolerance for operational risk, analysis of historical data and utilizing tools applied for operational risk management. Established indicators are monitored for particular operational risk categories and the main areas of the Group's activity.

Measurement and assessment

In the process of risk estimation Group applies differentiated methods of risk measurement and assessment. Risk assessment is the determination of the probability of occurrence and scale of potential future operational losses. Group applies quantitative and quantitative methods for the purpose of risk assessment (e.g. appetite for risk, capital requirements, the target risk profile, KRI, data loss and operational risk events, issues and corrective actions, the process of self-assessment (incl. risk map), key projects, concentration risk areas and increasing the risk level, scenario analysis, stress tests, changes in processes and products, operational risk attestations, information from internal and external reviews and audits, information reported to the Commissions and Committees). Risk assessment analyses involve internal and external threats. Proper operational risk assessment enables adequate determination of risk profile and adequate risk management.

Assessed capital requirement for operational risk covers all risk categories included by the Group in operational risk definition.

Risk tolerance framework, risk control and mitigation

The Group sets tolerance levels for each operational risk category and business areas within a determined risk appetite. Excess of the established level of tolerance thresholds for particular operational risk category requires undertaking of corrective actions in line with the decision of the Risk and Capital Management Committee.

Risk and Capital Management Committee or Management Boards of subsidiaries can decide on the following treatment of the identified risks by:

- accepting (conscious avoidance of activities, aiming at mitigation of probability and results of an event, including ensuring of funds for covering of potential losses);
- mitigation (mainly by adequate definition of processes, products, systems, procedures and implementation of control mechanisms);
- transfer (movement of part or whole risk related to a particular threat to the external party, in particular by outsourcing of activity to an external services provider or by insurance);
- avoidance of activities, leading to risk exposure.

In key aspects, processes of risk identification, self-assessment, measurement, monitoring and reporting are unified and generally accepted in all organizational units of the Group. Risk mitigation processes are determined for each entity, and may be different for individual units.

Control is a process designed to mitigate cause(s), reduce the probability of an event occurring and/or minimize the severity of an effect. Risk mitigation measures include also risk transfer mechanisms (outsourcing, insurance). Risk mitigation measures include internal controls as well as risk transfer mechanisms, i.e. transfer of part or whole risk related to a given threat to an external entity, in particular by outsourcing or insurance. The Group regularly assesses and monitors the proper functioning of risk transfer mechanisms.

Monitoring and reporting

The Risk and Capital Management Committee, Operational Risk, Control and Compliance Committee, New Products Committee, Remuneration Committee and commissions supporting the Committees are accountable for ongoing monitoring of operational risk. Quality and effectiveness of operational risk management processes (including the self-assessment process) in the respective organizational units of the Capital Group are subject to inspections and assessment carried out by the internal audit.

Within the consolidated oversight operational risk data of Group and subsidiaries is presented to Commissions and Committees, supporting the Management and Supervisory Board in the operational risk management process.

The Supervisory Board supervises and assesses the adequacy and effectiveness of operational risk management. The Supervisory Board is supported by Committees of Supervisory Board - Audit Committee, Risk and Capital Committee and Remuneration Committee.

Based on synthetic operational risk reports, presented periodically by the Management Board at least twice a year, prepared based on data resulting from operational risk monitoring, covering scale and types of operational risk the Group is exposed at, probability of its occurrence, dimension of its possible negative impact, operational risk management principles and the operational risk profile, and risk concentration areas, Supervisory Board, supported by the Audit Committee and Risk and Capital Committee, monitors the effectiveness of internal control and risk management and the Supervisory Board shall review the implementation by the Management of the risk management strategy (including operational risk management).

Assumptions of internal control of operational risk

Internal control system and risk management system, functioning in the Group, are organized at three, independent levels.

Within the Management Board, one of its members – Risk Management Sector Head - supervises Independent Control and Operational Risk Department and is responsible for providing the Management Board and the Supervisory Board with complex information on the risk management.

The Management Board is supported by Risk and Capital Management Committee, Operational Risk, Control and Compliance Committee, New Products Committee, GCB and ICG Investment and Insurance Commission and Ethical Commission.

Each Business Unit must establish an appropriate system of controls that are commensurate with the level of risk (incl. operational risk), including proper documentation of the control procedures and appropriate staff training. Each Business Unit must evaluate the risks that are unacceptable or outside of the Business Unit's risk appetite/tolerance and determine the appropriate actions for their mitigation or transfer.

Settings of control standards, coordination of the management, as well as monitoring of operational risk for key risk categories are supported by specialized organizational units.

Independent Control and Operational Risk Department - ICOR (internal control system second line of defense) is responsible for operational risk management within the Bank, in particular for setting and enforcing standards and tools of the operational risk management (covering risk categories included in operational risk definition), self-assessment process, management of the operational risk indicators monitoring process, monitors prevents and reports operational losses, performs corrective action plans' monitoring. Additionally the Department is responsible for maintaining operational risk management-supporting systems, calculation of regulatory and assessment of economic capital requirement for operational risk, management and regulatory reporting with regard to operational risk, operational risk market disclosures, recommending changes in the processes and operations of the Bank to adjust control functions to the acceptable risk exposure level. The Department conducts also reviews within the organizational units of the Bank regarding the increased operational risk areas, and recommends changes in the procedures, processes and banking operations in order to mitigate the operational risk level. In the scope of internal control system Independent Control and Operational Risk Department is responsible for Control Function Matrix coordination and vertical monitoring

The Audit Department (IA-Internal Audit) is responsible for independent assessment of the effectiveness of operational risk management processes and assessment of adequacy and effectiveness of operational risk management system, as well as for its regular reviews. Results of internal and external audits are considered in the management information system, the process of decision making with regard to risk management and management of the Group.

According to the Banking Act, banks in Poland are obliged to maintain equity at a level adequate for their specific business risks. The capital level presented below is considered sufficient for conducting business activity. The capital level is regularly monitored by using the capital adequacy ratio.

In 2008, the Group launched the process of estimating internal capital. The Group identified significant risks and assessed the capital required for coverage of these risks.

The Bank determines a policy of future dividend payment to the shareholders as part of the capital management process. The dividend policy depends on a number of factors including the Bank's profits, the Bank's expectations concerning future financial results, the level of capital requirements, as well as tax, regulatory and legal issues.

Capital adequacy*

As a result of a completed inspection, as at 22 June 2019, the Polish Financial Supervision Authority issued a recommendation according to the rules of recognition of compensation agreements according to Article 296 of the Capital Requirements Regulation. The Bank was recommended to obtain a suitable formal confirmation from PFSA that compensation agreements fulfill Article 296 of CRR. The PFSA in the post-inspection protocol, based on selected agreements verified during the inspection, did not object the compensation process.

In the first half of current year the bank received a letter from the Polish Financial Supervision Authority (PFSA) specifying the required conditions in order to consider offsetting agreements in the capital adequacy account as limiting risk. The bank submitted the required documents to the PFSA and since March this year has included all its key contracts in the capital adequacy account as risk mitigation.

Financial data necessary to calculate the Group's capital adequacy ratio is presented in the table below:

PLN'000	31.12.2020	31.12.2019
Common Equity Tier 1 Capital	**6,204,936**	**5,122,175**
Total capital requirements, including:	**2,205,669**	**2,379,064**
credit risk capital requirements	1,719,477	1,889,760
counterparty risk capital requirements	95,295	95,797
credit valuation correction capital requirements	11,763	26,314
total market risk capital requirements	89,930	81,802
operational risk capital requirements	289,204	285,391
Common Equity Tier 1 Capital ratio	**22.5%**	**17.2%**

* *Total capital ratio was calculated according to the rules stated in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.*

The amount of regulatory own funds as at December 31, 2020 compared to December 31, 2019 increased by PLN 1,082,761 thousand (21.1 p.p.), mainly as a result of the increase funds with the Bank's retained net profit of 2019, the increase of accumulated other comprehensive income and the decrease of adjustment to Common Equity Tier 1 Capital due to intangible assets resulting from a temporary shift between the amounts deducting own funds at the end of the financial year (goodwill) and not included in the calculation of funds the financial result for 2020 which was decreased by goodwill impairment, as well as changes related to the Regulation of the European Parliament and the Council (EU) 2020/2176 of November 12, 2020.

Both in 2020 and 2019 there was a single concentration limit breach that was immediately reduced and KNF was notified.

4. Segment reporting

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

The Group is managed at the level of two main business segments – the Institutional Bank and Consumer Bank. The valuation of a segment's assets and liabilities as well as calculation of financial results comply with the Group's accounting policies applied in the preparation of the financial statements, including intergroup transactions between segments.

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

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

Institutional Bank

Within the Institutional Bank segment, the Group offers products and renders services to business entities, local government units and the public sector. Apart from traditional banking services, including credit and deposit activities, the segment provides services in the area of cash management, trade financing, leases, brokerage, custody services in respect of securities and offers treasury products on financial and commodity markets. In addition, the segment offers investment banking services on local and international capital markets, including advisory services, obtaining and underwriting financing via public and non-public issues of financial instruments. The activities of the segment also include proprietary transactions in the equity, debt and derivative instruments markets.

Consumer Bank

Within the Consumer Bank segment, the Group provides products and financial services to individuals as well as to micro-enterprises and individual entrepreneurs within the framework of CitiBusiness offer. Apart from keeping bank accounts and providing credit and deposit offers, the Group offers cash loans, mortgage loans, credit cards, provides asset management services, and acts as an agent in the sale of investment and insurance products.

Income statement of the Group by business segment

PLN'000	2020			2019		
	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Net interest income	549,720	451,957	1,001,677	514,992	638,735	1,153,727
Internal interest income, including:	(53,838)	53,838	-	(71,563)	71,563	-
Internal income	-	53,838	53,838	-	71,563	71,563
Internal expenses	(53,838)	-	(53,838)	(71,563)	-	(71,563)
Net fee and commission income	348,767	211,195	559,962	303,405	261,471	564,876
Dividend income	1,489	10,305	11,794	2,360	8,720	11,080
Net income on financial instruments and revaluation	279,668	31,737	311,405	351,856	27,669	379,525
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	203,402	-	203,402	97,969	-	97,969
Net gain/(loss) on equity and other instruments measured at fair value through income statement	7,554	8,282	15,836	16,467	925	17,392
Net gain/(loss) on hedge accounting	556	-	556	(3,493)	-	(3,493)
Net other operating income	5,902	(42,234)	(36,332)	9,915	(14,237)	(4,322)
General administrative expenses	(525,349)	(589,989)	(1,115,338)	(533,086)	(595,183)	(1,128,269)
Depreciation and amortization	(21,583)	(85,070)	(106,653)	(19,846)	(66,653)	(86,499)
Net impairment allowances on non-financial assets	-	(214,707)	(214,707)	-	-	-
Profit on sale of other assets	(179)	(301)	(480)	(113)	(241)	(354)
Net impairment loss on financial assets and provisions for off-balance-sheet commitments	(81,968)	(108,299)	(190,267)	(168,266)	(77,452)	(245,718)
Operating income	**767,979**	**(327,124)**	**440,855**	**572,160**	**183,754**	**755,914**
Tax on some financial institutions	(97,193)	(26,385)	(123,578)	(73,155)	(24,567)	(97,722)
Profit before tax	**670,786**	**(353,509)**	**317,277**	**499,005**	**159,187**	**658,192**
Income tax expense			(144,882)			(178,068)
Net profit			**172,395**			**480,124**

As at (PLN'000)	31.12.2020			31.12.2019		
	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Total assets	**53,396,826**	**7,544,712**	**60,941,538**	**44,299,208**	**7,679,335**	**51,978,543**
Total liabilities and shareholder equity, including:	**42,506,741**	**18,434,797**	**60,941,538**	**35,665,583**	**16,312,960**	**51,978,543**
Liabilities	36,231,131	17,129,440	53,360,571	30,254,827	14,649,061	44,903,888

5. Net interest income

Accounting policy:

For all financial instruments, interest income and interest expense is recognized through the profit or loss account using the effective interest rate method.

The effective interest rate method calculates the amortized cost of a financial asset or a financial liability and allocates interest income or interest expense to appropriate periods. The effective interest rate is a rate that discounts the estimated futures inflows or payments in the expected period until the maturity of the financial instrument to the carrying value of a financial asset or a financial liability. When calculating the effective interest rate, the Bank takes into account all the terms and conditions of a financial instrument agreement (e.g. prepayments, call options, etc.), but excludes potential future losses in connection with non-recoverable loans. The calculation covers all the commissions payable to and receivable from the parties to the agreement, integral components of the effective interest rate, transactional costs and any other premiums and discounts. As a result, commissions that are an integral part of the effective interest rate less direct costs of obtaining the financial instrument are recognized as components of interest income.

The effective interest rate applies for the gross carrying amount of financial asset, except for purchased or originated credit-impaired financial assets or impaired financial assets.

In the case of financial assets for which impairment losses were recognized, interest income is measured using the interest rate that was used to discount the future cash flows to estimate such impairment losses.

Interest income in respect of purchased or originated credit-impaired financial assets is determined by the effective interest rate adjusted for credit risk.

Financial information:

PLN'000	2020	2019
Interest income from:	**1,019,691**	**1,300,146**
Financial assets measured at amortized cost	**704,380**	**997,084**
Balances with Central Bank	2,869	7,334
Amounts due from banks	6,847	17,831
Amounts due from customers, in respect of:	694,664	971,919
financial sector entities	43,756	55,411
non-financial sector entities, including:	650,908	916,508
credit cards	153,017	281,531
Financial assets measured at fair value through comprehensive income	**315,311**	**303,062**
Debt investment financial assets measured at fair value through comprehensive income	315,311	303,062
Similar income from:	**99,191**	**106,333**
Debt securities held-for-trading	**35,288**	**77,607**
Liabilities with negative interest rate	**28,345**	**13,644**
Derivatives in hedge accounting	**35,558**	**15,082**
	1,118,882	**1,406,479**
Interest expense and similar charges for		
Financial liabilities measured at amortized cost	**(79,334)**	**(236,208)**
Balances with the Central Bank	(8)	-
Amounts due to banks	(6,998)	(64,131)
Amounts due to customers	(68,098)	(167,396)
Amounts due to financial sector entities	(14,988)	(49,503)
Amounts due to non-financial sector entities	(53,110)	(117,893)
Loans and advances acquired	-	(345)
Lease liabilities	(4,230)	(4,336)
Assets with negative interest rate	**(3,234)**	**(756)**
Derivatives in hedge accounting	**(34,637)**	**(15,788)**
	(117,205)	**(252,752)**
Net interest income	**1,001,677**	**1,153,727**

The impact on value of financial assets, whose cash flows resulting from the contract were modified however were not discontinued recognition, as at 31 December 2020 amounted to PLN 54 thousand and net modification gain in 2020 amounted to PLN (1,141) thousand, respectively as at 31 December 2019 (44) thousand and net modification gain in 2020 amounted to PLN 207 thousand.

6. Net fee and commission income

Accounting policy:

Commission and fee income is generated when the Bank renders financial services to its customers. The Bank classifies its commission into the following categories:

- commissions that are an integral part of the effective interest rate,
- commissions for services rendered,
- commissions for executing significant transactions.

Commissions that are an integral part of the effective interest rate are recognized in the income statement adjusted by the calculation of the effective interest rate and are shown in interest income.

In the case of loans and borrowings with undetermined installment payment dates, e.g. overdrafts or credit cards, commissions and fees are recognized using the straight-line method until the expiry date of a credit limit. Such commissions and fees are recognized as commission income.

For other commissions, the Bank performs the principles of IFRS 15. In particular if the Group transfers control of service over time and, therefore, satisfies a performance obligation and the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs, then fees are recognized over time in proportion to the completion of the service in fee income, In other cases, the fees are recognized at a point in time when services have been completed and are presented in fee income. There are no situations of withholding services which would affect the manner of revenue recognition described above in connection with meeting the obligation to provide services. The nature of services provided by the Bank is described in the Statutes, including situations in which the Bank acts as an intermediary. In the area of commission income, the remuneration received is in principle non-refundable.

The Group considers the terms of the contract to determine the transaction price. The transaction price is the amount of consideration (fixed, variable or both) to which Bank expects to be entitled in exchange for transferring promised services to a customer, excluding amounts collected on behalf of third parties.

The Bank renders intermediary services for insurance products. Income for the distribution of insurance products not directly relating to the occurrence of financial assets is recognized in the income statement when the service has been provided or renewal of the insurance policy has taken place, except for the part of remuneration for services provided after the sale, which is amortized over the life of the facility using the straight-line method.

In the case of products directly attributable to financial assets, where income is received up front for a period longer than one month, to establish the way of showing income on distributing this insurance, a model of relative fair value is used as a result of which income from the sale of an insurance product is divided into the following components:

- income on account of services provided as an insurance agent, and
- income recognized in the Income Statement as an effective interest rate component, adjusted by the estimated amounts of potential future returns in case of early termination of insurance products based on the share of the fair value of each of these parts in the total of their fair values.

The income described above takes into account the estimation of future returns on customers renouncing their insurance in given conditions.

Costs directly attributable to the acquisition of a cash loan are amortized over the life of the product as an effective interest rate component and are part of the interest income.

If the Bank incurs costs directly associated with the sale of an insurance product, such costs are accounted for in accordance with the principle of matching revenues and expenses. Costs not directly associated with the sale of insurance products are recognized when incurred.

Financial information:

PLN'000	2020	2019
Fee and commission income		
Credit activities (other than income covered by the calculation of the effective interest rate process)	67,459	75,411
Servicing bank accounts	84,045	55,470
Insurance and investment products distribution	59,247	67,456
Payment and credit cards	123,842	161,336
Payment services	84,266	88,618
Custody services	104,034	94,805
Brokerage operations	56,622	36,206
Clients' cash on account management services	22,061	20,663
Financial liabilities granted	25,532	29,790
Other	18,055	23,654
	645,163	**653,409**
Fee and commission expense		
Payment and credit cards	(27,265)	(32,896)
Brokerage operations	(13,310)	(12,553)
Fees paid to the National Depository for Securities (KDPW)	(22,403)	(20,820)
Broker's fees	(3,794)	(4,184)
Other	(18,429)	(18,080)
	(85,201)	**(88,533)**
Fee and commission income	**559,962**	**564,876**

* *the presented items have been reviewed by the Group and the following items: "Fee and commission income from credit activities" and "Fee and commission income from servicing bank accounts" have been separated. Simultaneously "Fee and commission income from guarantees granted" and "Fee and commission income from financial liabilities granted" have been presented together. The comparative data has been appropriately transformed in both cases.*

7. Dividend income

Accounting policy:

Dividends resulting from equity investments are recognized in profit and loss when the entity's right to receive payment is established. There is a possibility that the entity will obtain economic benefits connected with the dividend and the dividend will be set credibly.

Financial information:

PLN'000	2020	2019
Equity and other instruments at fair value through the income statement	11,540	9,807
Securities held-for-trading	254	1,273
Total dividend income	**11,794**	**11,080**

8. Net income on trading financial instruments and revaluation

Accounting policy:

This item covers net income on trading financial instruments measured in fair value through profit or loss (as described in note 2.1 Financial assets and liabilities – classification and measurement) and net income on revaluation.

Financial information:

PLN'000	2020	2019
Net income on financial instruments measured at fair value through profit and loss from:		
Debt instruments	178,492	35,456
Equity instruments	(8,380)	(13,500)
Derivative instruments, including:	(248,383)	(65,045)
Interest rate derivatives	(266,195)	(83,003)
Equity	14,949	17,605
Commodities	2,863	353
	(78,271)	**(43,089)**
Net income on FX operations		
Operations on FX derivative instruments	488,438	470,297
FX gains and losses (revaluation)	(98,762)	(47,683)
	389,676	**422,614**
Net income on trading financial instruments and revaluation	**311,405**	**379,525**

The net income on trading financial instruments and revaluation for 2020 contains movement in (net) adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN (90) thousand (in 2019: PLN 2,580 thousand).

Net income from debt instruments includes the net results on trading in government securities, corporate debt securities and money market instruments held-for-trading.

Income from derivative instruments includes net income due to transactions in interest rate swaps, options, futures and other derivatives.

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

9. Net gain/(loss) on hedge accounting

Accounting policy:

Detailed information on hedge accounting applied by the Bank, including the accounting policy, are presented in note 37.

Financial information:

PLN'000	2020	2019
Fair value hedge accounting		
Net gain on hedged transaction valuation	72,891	334
Net gain on hedging transaction valuation	(72,335)	(3,827)
Hedge accounting income	**556**	**(3,493)**

10. Net other operating income and expense

Financial information:

Other operating income and expenses comprise income and expenses that are not directly related to banking activities. They include the proceeds from and costs of selling or disposing of tangible fixed assets and assets held for disposal, income from processing data for related companies, compensation, penalties and fines.

PLN'000	2020	2019
Other operating income		
Income from provision of services for related parties outside the Group	6,424	6,626
Income from office rental	7,679	7,585
Other, including:	5,593	10,249
reimbursement of legal and enforcement costs	1,009	2,762
	19,696	**24,460**
Other operating expenses		
Amicable procedure and vindication expenses	(5,183)	(8,564)
Net provision for litigation	(1,333)	(390)
Other, including:	(49,512)	(19,828)
costs of provisions related to TSUE judgements (see note 40)*	(28,691)	-
	(56,028)	**(28,782)**
Net other operating income	**(36,332)**	**(4,322)**

* *The item does not include the value of PLN 17 820, which decreased the interest result of the Bank.*

11. General administrative expenses

Accounting policy:

General administrative expenses are recognized in the period they apply to.

Financial information:

In the building maintenance and rent cost position, there are lease payments for short-term leases and low-value assets, variable lease payments, non-lease components and maintenance costs related to real estate owned or leased by the Group.

PLN'000	2020	2019
Staff expenses		
Remuneration costs, including:	(398,178)	(382,631)
Provisions for retirement allowances	(30,085)	(29,001)
Bonuses and rewards	(70,264)	(73,319)
Social insurance costs	(62,403)	(64,598)
	(530,845)	**(520,548)**
Administrative expenses		
Telecommunication fees and hardware purchases	(203,896)	(195,449)
Costs of external services, including advisory, audit, consulting services	(47,777)	(50,159)
Building maintenance and rent costs	(51,946)	(53,366)
Advertising and marketing costs	(32,978)	(46,324)
Cash management service, KIR service and other transactional costs	(37,532)	(38,053)
Costs of external services related to the distribution of banking products	(43,600)	(44,779)
Postal services, office supplies and printmaking costs	(6,478)	(8,215)
Training and education costs	(1,010)	(1,451)
Banking and capital supervision costs	(5,183)	(5,902)
Costs paid to Bank Guarantee Fund	(103,534)	(102,292)
Other expenses	(50,559)	(61,731)
	(584,493)	**(607,721)**
Total general administrative expenses	**(1,115,338)**	**(1,128,269)**

Staff expenses include the following employee benefits for current and former members of the Management Board:

PLN'000	2020	2019
Short-term employee benefits	15,816	13,348
Long-term employee benefits	2,424	2,796
Capital assets	2,266	2,760
	20,506	**18,904**

12. Depreciation expense

Accounting policy:

Depreciation expenses is recognized on a straight-line basis according to depreciation rates described in note 23 for tangible fixed assets and note 24 for intangible assets.

Financial information:

PLN'000	2020	2019
Depreciation of property and equipment	(43,294)	(41,461)
Amortization of intangible assets	(63,359)	(45,038)
Depreciation expense, total	**(106,653)**	**(86,499)**

13. Provisions for expected credit losses on financial assets and provisions for off-balance-sheet commitments

Accounting policy:

Provisions for expected credit losses and provisions for contingent commitments are presented in this position. Impairment policy is described in detail in note 3 in Credit risk part.

Financial information:

PLN'000	2020	2019
Provision for expected credit losses on amounts due from banks		
Provision creation	(7,495)	(3,244)
Provision release	8,595	4,664
	1,100	**1,420**
Provision for expected credit losses on amounts due from customers		
Provision creation and reversals	**(202,369)**	**(216,110)**
Provision creation	(403,620)	(365,127)
Provision release	205,557	151,861
Other	(4,306)	(2,844)
Recoveries from debt sold	**(112)**	**4,293**
	(202,481)	**(211,817)**
Provision for expected credit losses on debt investment financial assets measured at fair value through other comprehensive income		
Provision creation	(3,255)	(166)
	(3,255)	**(166)**
Provision for expected credit losses on financial assets	**(204,636)**	**(210,563)**
Created provisions for granted financial and guarantee commitments	(69,068)	(68,808)
Release of provisions for granted financial and guarantee commitments	83,437	33,653
Provision for expected credit losses for granted off-balance sheet commitments	**14,369**	**(35,155)**
Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments	**(190,267)**	**(245,718)**

* *description of the key factors affecting the value of the provision for expected credit losses can be found in Note 40.*

14. Income tax expense

Accounting policy:

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated to other comprehensive income.

Financial information:

Recognized in the income statement

PLN'000	2020	2019
Current tax		
Current year CIT	(179,815)	(215,824)
Adjustments for prior years*	20,541	(392)
	(159,274)	**(216,216)**
Deferred tax		
Origination and reversal of temporary differences*	14,392	38,148
	14,392	**38,148**
Total income tax expense in income statement	**(144,882)**	**(178,068)**

* *Due to the harmonization of the approach to the settlement of premiums on currency options embedded in deposit agreements at the end of 2020, the Bank filed an application for overpayment in corporate income tax for the years 2014 to 2019. As a result, under the item Adjustments from previous years an overpayment in corporate income tax in the amount of PLN 21.7 million was recognized (respectively, the financial result also includes a decrease in deferred tax assets for the current period - impact on financial result immaterial). The item Adjustments from previous years also includes an additional income tax liability for 2019 resulting from the differences in the tax settlement between the closing of the financial year and the date of submitting the annual tax return.*

Reconciliation of effective tax rate

PLN'000	2020	2019
Profit before tax	317,277	658,192
Income tax at the domestic corporate tax rate of 19%	(60,283)	(125,056)
Impairment provision not constituting deductible expenses	2,317	(12,101)
Deductible income not recognized in the income statement	(3,476)	(3,536)
Deductible expenses not recognized in the income statement	(156)	(6)
Non-taxable income	2,446	2,311
Tax on some financial institutions	(23,480)	(18,567)
Bank Guarantee Fund	(19,671)	(19,436)
Impairment allowances on non-financial assets	(40,794)	-
Other permanent differences, including other non-deductible expenses	(1,785)	(1,677)
Total tax expenses	**(144,882)**	**(178,068)**
Effective tax rate	**45.66%**	**27.05%**

The level of the effective tax rate for 2020, amounting to 46%, was influenced by the write-off related to the identification of impairment of non-financial assets in the form of goodwill and regulatory burdens of the banking sector in the form of tax on certain financial institutions and obligatory contributions paid to the BGF. In accordance with the applicable tax regulations, these values are not tax deductible costs.

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2020 is related to financial assets measured at fair value through other comprehensive income and valuation of defined benefit plan and amounted to PLN 102,385 thousand (31 December 2019: PLN 24,150 thousand).

15. Earnings per share

As at 31 December 2019, earnings per share amounted to PLN 1.32 (31 December 2019: PLN 3.67).

The calculation of earnings per share as at 31 December 2020 was based on profit attributable to shareholders of PLN 172,395 thousand (31 December 2019: PLN 480,124 thousand) and the weighted-average number of ordinary shares outstanding during the year ending 31 December 2020 of 130,659,600 (31 December 2019: 130,659,600).

The Bank does not have any ordinary shares that may have a dilution impact or any other dilutive instruments.

16. Changes in other comprehensive income

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

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2020	**127,108**	**(24,151)**	**102,957**
Change in valuation of financial assets measured at fair value through other comprehensive income	617,135	(117,255)	499,880
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(203,402)	38,646	(164,756)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**540,841**	**(102,760)**	**438,081**
Net actuarial profits/(losses) on defined benefit program valuation	(1,974)	375	(1,599)
As at 31 December 2020	**538,867**	**(102,385)**	**436,482**

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2019	**94,399**	**(17,937)**	**76,462**
Change in valuation of financial assets measured at fair value through other comprehensive income	135,650	(25,773)	109,877
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(97,970)	18,614	(79,356)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**132,079**	**(25,096)**	**106,983**
Net actuarial profits/(losses) on defined benefit program valuation	(4,971)	945	(4,026)
As at 31 December 2019	**127,108**	**(24,151)**	**102,957**

17. Cash and balances with the Central Bank

PLN'000	31.12.2020	31.12.2019
Cash in hand	384,925	436,216
Current balances with Central Bank	4,103,407	3,300,490
Cash and balances with the Central Bank, total	**4,488,332**	**3,736,706**

On the current account in the National Bank of Poland (NBP), the Bank maintains an obligatory reserve which may be used only under the condition that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

The declared balance of obligatory reserve amounted as at 31 December 2020 to PLN 243,279 thousand (31 December 2019: PLN 1,422,651 thousand). The decrease in amount of declared balance of obligatory reserve is the result of the reduction of required reserve ratio from 3.5% to 0.5% by the Monetary Policy Council.

18. Amounts due from banks

Accounting policy:

Classification and measurement of Amounts due from banks are described in note 2.1 "Financial assets and liabilities - classification and measurement".

Financial information:

PLN'000	31.12.2020	31.12.2019
Current accounts	31,447	60,469
Deposits	-	379,788
Loans and advances	3	3,428
Receivables due to purchased securities with a repurchase agreement	306,237	625,592
Deposits pledged as collateral of derivative instruments and stock market transactions	234,268	99,001
Total gross amount	**571,955**	**1,168,278**
Impairment provision	(1,708)	(2,594)
Total net amount due from banks	**570,247**	**1,165,684**

Changes in gross amounts due from banks that contributed to movements in provision for expected credit losses amounts are as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2020	**(2,594)**	**-**	**-**	**(2,594)**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
(Creation)/Releases in the period though the income statement	1,100	-	-	1,100
Foreign exchange and other movements	(214)	-	-	(214)
Gross amounts due from banks as at 31 December 2020	**(1,708)**	**-**	**-**	**(1,708)**

* *As at 31 December 2020, the Group did not identify POCI assets (purchased or originated credit-impaired assets).*

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2019	**(3,910)**	**-**	**-**	**(3,910)**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
(Creation)/Releases in the period though the income statement	1,420	-	-	1,420
Foreign exchange and other movements	(104)	-	-	(104)
Gross amounts due from banks as at 31 December 2019	**(2,594)**	**-**	**-**	**(2,594)**

* *As at 31 December 2020, the Group did not identify POCI assets (purchased or originated credit-impaired assets).*

The closing balance of impairment recognized on loans and advances to customers consisted of:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2020	**1,168,276**	**3**	**-**	**1,168,278**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Receivables increase / repayment	(753,690)	15	-	(753,674)
Other movements	157,351	-	-	157,350
Gross amounts due from banks as at 31 December 2020	**571,937**	**18**	**-**	**571,955**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2019	**1,337,884**	**3**	**-**	**1,337,887**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Receivables increase / repayment	(228,894)	-	-	(228,894)
Other movements	59,505	-	-	59,505
Gross amounts due from banks as at 31 December 2019	**1,168,276**	**3**	**-**	**1,168,278**

19. Financial assets and liabilities held-for-trading

Accounting policy:

Classification and measurement of financial assets and liabilities held-for-trading are described in note 2.1.

Financial information:

Financial assets held-for-trading

Derivative instruments, excluding hedging instruments, and selected debt securities are classified as held-for-trading and presented in the consolidated financial statement as "Financial assets held-for-trading".

PLN'000	31.12.2020	31.12.2019
Debt securities held-for-trading		
Bonds and notes issued by:		
Central Banks	-	999,917
Banks and other financial entities*	601,421	7,125
Central governments	311,702	2,874,773
	913,123	**3,881,815**
Including:		
Listed on active market	913,123	2,881,898
Equity instruments held-for-trading	**66,521**	**39,916**
Including:		
Listed on active market	66,521	39,916
Derivative financial instruments	**3,370,896**	**1,524,780**
Financial assets held-for-trading, total	**4,350,540**	**5,446,511**

* *As at 31 December 2020, some of the securities (bonds) issued by banks in the amount of PLN 594,367 thousand are covered by Government guarantees (31 December 2019: PLN 1 thousand).*

Financial liabilities held-for-trading

PLN'000	31.12.2020	31.12.2019
Liabilities related to short sale of securities	43,208	248,406
Derivatives	3,613,214	1,629,492
Financial liabilities held-for-trading, total	**3,656,422**	**1,877,898**

As at 31 December 2020 and 31 December 2019, the Group did not hold any financial assets and liabilities designated at fair value through profit or loss at initial recognition.

Derivative financial instruments as at 31 December 2020

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**18,126,821**	**52,151,775**	**115,147,528**	**30,051,219**	**215,477,343**	**2,164,579**	**2,608,037**
FRA	9,214,000	17,590,000	735,000	-	27,539,000	30,793	20,930
Interest rate swaps (IRS)	8,832,062	31,331,415	114,412,528	30,010,543	184,586,548	2,133,446	2,586,829
Interest rate options	-	-	-	40,676	40,676	17	17
Futures*	**80,759**	**3,230,360**	-	-	3,311,119	**323**	261
Currency instruments	**43,168,048**	**19,956,334**	**12,215,322**	**7,012,891**	**82,352,595**	**916,349**	**715,215**
FX forward	20,256,274	5,218,441	1,062,096	-	26,536,811	134,546	229,418
FX swap	1,631,179	7,489,599	7,731,817	7,012,891	23,865,486	438,559	144,753
Currency-interest rate swaps (CIRS)**	19,208,381	3,890,253	3,283,697	-	26,382,331	315,390	313,382
Foreign exchange options	2,072,214	3,358,041	137,712	-	5,567,967	27,854	27,662
Securities transactions	**374,290**	**4,183**	**-**	**-**	**378,473**	**108**	**158**
Futures*	71,245	4,183	-	-	75,428	-	-
Securities purchased/sold pending delivery	303,045	-	-	-	303,045	108	158
Commodity transactions	**279,390**	**1,496,341**	**746,416**	**-**	**2,522,147**	**289,860**	**289,804**
Swaps	279,390	1,496,341	746,416	-	2,522,147	289,860	289,804
Total derivative instruments	**61,948,549**	**73,608,633**	**128,109,266**	**37,064,110**	**300,730,558**	**3,370,896**	**3,613,214**

* *Exchange-traded products*

** *Foreign exchange interest rate swaps with capital exchange*

Derivative financial instruments as at 31 December 2019

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Interest rate instruments	**43,827,433**	**37,840,304**	**127,617,389**	**27,456,990**	**236,742,116**	**872,786**	**1,112,966**
FRA	34,030,000	15,240,000	14,753,000	-	64,023,000	2,558	3,815
Interest rate swaps (IRS)	9,797,433	22,600,304	110,965,539	27,415,264	170,778,540	870,228	1,109,106
Interest rate options	-	-	1,898,850	41,726	1,940,576	-	45
Futures*							
Currency instruments	**30,557,396**	**15,455,840**	**24,432,442**	**8,175,751**	**78,621,429**	**614,831**	**478,994**
FX forward	3,428,837	2,745,957	1,889,596	-	8,064,390	97,075	37,062
FX swap	20,442,422	5,466,035	3,838,179	-	29,746,636	242,510	306,517
Currency-interest rate swaps (CIRS)	5,202,463	6,606,291	14,562,621	8,175,751	34,547,126	239,109	99,138
Foreign exchange options	1,483,674	637,557	4,142,046	-	6,263,277	36,137	36,277
Securities transactions	**164,724**	**14,097**	**-**	**-**	**178,821**	**293**	**618**
Futures*	38,581	14,097	-	-	52,678	-	-
Securities purchased/sold pending delivery	126,143	-	-	-	126,143	293	618
Commodity transactions	**55,783**	**237,429**	**141,962**	**-**	**435,174**	**36,870**	**36,914**
Swaps	55,783	237,429	141,962	-	435,174	36,870	36,914
Total derivative instruments	**74,605,336**	**53,547,670**	**152,191,793**	**35,632,741**	**315,977,540**	**1,524,780**	**1,629,492**

* *Exchange-traded products*

** *Foreign exchange interest rate swaps with capital exchange*

In 2020 the increase in derivative assets and liabilities is a result of increased transaction volumes, particularly on the IRS in PLN product, which generated the largest amount change in valuation.

The reduction of interest rate from 140 to 100 basis in PLN and USD in the first half of 2020 have significant impact on the change in the valuation of derivatives, simultaneously.

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

Accounting policy:

The policy for classification and measurement of debt investment financial assets measured at fair value through other comprehensive income is described in note 2.1 "Financial assets and liabilities – classification and measurement".

Financial information:

PLN'000	31.12.2020	31.12.2019
Bonds and notes issued by:		
Banks*, including:	2,450,738	-
Covered bonds in fair value hedge accounting	-	-
Central governments, including:	22,419,755	14,787,461
Covered bonds in fair value hedge accounting	11,347,069	1,833,308
Other financial sector entities	2,453,078	697,117
Debt securities measured at fair value through other comprehensive income, total	**27,323,571**	**15,484,578**
Including:		
Listed on active market instruments	27,323,571	15,484,578

* *As at 31 December 2020, the securities (bonds) issued by banks in the amount of PLN 2,450,738 thousand are covered by Government guarantees (31 December 2019: PLN 0 thousand).*

For debt investment financial assets measured at fair value through other comprehensive income, the cumulated value of impairment as at 31 December 2020 amounts to PLN 7,945 thousand (as at 31 December 2019 4,689 thousand).

The movement in debt investment financial assets measured at fair value through other comprehensive income is as follows:

PLN'000	2020	2019
As at 1 January	**15,484,578**	**14,241,363**
Increases (due to):		
Purchases	64,193,139	50,264,752
Revaluation	450,561	22,399
Foreign exchange differences	129,167	-
Depreciation of discount, premium and interest	567,321	79,807
Decreases (due to):		
Sale	(53,279,187)	(48,902,634)
Foreign exchange differences	-	(21,221)
Depreciation of premium	(222,008)	(199,888)
As at 31 December	**27,323,571**	**15,484,578**

21. Equity and other instruments measured at fair value through the income statement

Accounting policy:

Shares in entities other than dependent entities are classified as financial assets measured at fair value through the income statement. Their classification and measurement are described in note 2.1 "Financial assets and liabilities – classification and measurement".

Financial information:

PLN'000	31.12.2020	31.12.2019
Stocks and shares in other entities	55,093	21,314
Impairment	23,380	41,324
Equity and other instruments measured at fair value through income statement, total	**78,473**	**62,638**
Including:		
Listed on active market instruments	33,614	1,108
Unlisted on active market instruments	44,859	61,530

The movement in equity and other instruments measured at fair value through income statement is as follows:

PLN'000	2020	2019
As at 1 January	**62,638**	**48,768**
Sale	-	(600)
Revaluation	15,835	14,470
As at 31 December	**78,473**	**62,638**

22. Amounts due from customers

Accounting policy:

Classification and measurement of amounts due from customers are described in note 2.1 "Financial assets and liabilities – classification and measurement".

Financial information:

PLN'000	31.12.2020	31.12.2019
Amounts due from financial sector entities		
Loans, placements and advances	652,766	641,317
Debt financial assets unlisted	1,745,323	1,765,711
Receivables due to purchased securities with a repurchase agreement	-	30,217
Guarantee funds and deposits pledged as collateral	1,227,863	647,489
Other receivables	113,204	68,068
Total gross amount	**3,739,156**	**3,152,802**
Provision for expected credit losses	(3,410)	(2,216)
Total net amount	**3,735,746**	**3,150,586**
Amounts due from non-financial sector entities		
Loans and advances	17,026,308	19,176,989
Unlisted debt financial assets	218,945	305,928
Purchased receivables	1,726,989	1,751,320
Realized guarantees	25,877	24,941
Other receivables	18,694	10,442
Total gross amount	**19,016,813**	**21,269,620**
Provision for expected credit losses	(838,336)	(688,332)
Total net amount	**18,178,477**	**20,581,288**
Total net amounts due from customers	**21,914,223**	**23,731,874**

In accordance with Transition Resource Group for Impairment of Financial Instruments the value of receivables in Stage 3 shall be presented increased by accrued contractual interest in total amount of PLN 155,923 thousand (at the end of 2019 of PLN 311,351 thousand). The result of this presentation of receivables is also the growth of loan provisions by the same amount. This change has no influence on total net value of receivables in Stage 3. The impact of including interest is illustrated below and in the "Risk Management" note. The decrease in the value of accrued interest receivables is mainly due to partial write-off performed by the Bank in 2020 after valuation confirming that the Group does not expect recoveries in this regard.

PLN'000	31.12.2020	31.12.2019
Gross total value including contract interest in Stage 3	22,911,892	24,733,773
Impairment provision including contract interest in Stage 3	(997,669)	(1,001,899)
Net total value	**21,914,223**	**23,731,874**

In amounts due from customers presented on the line Unlisted debt financial assets are securitization assets covered by the Bank. Until now, the Bank has acted as investor and acquired the senior tranches in three transactions. The assets purchased by the Bank are not traded on the market. The Bank intends to maintain investments until the maturity date. The main risk of securitization transactions is credit risk. The Bank's maximum exposure to loss from involvement in these entities is equal to their carrying gross value, as at 31 December 2020 in the of amount PLN 1,745,322 thousand (31 December 2019: PLN 1,765,711 thousand).

The carrying value of assets relating in Bank participation in unconsolidated structured entities as at 31 December 2019 in the amount of PLN 1,744,505 thousand (31 December 2019: PLN 1,765,016 thousand).

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

PLN'000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses - amounts due from customers				
Provision for expected credit losses as at 1 January 2020	**(51,387)**	**(79,952)**	**(559,207)**	**(690,546)**
Transfer to Stage 1	(26,257)	25,734	523	-
Transfer to Stage 2	4,297	(6,355)	2,058	-
Transfer to Stage 3	853	15,637	(16,490)	-
(Creation)/Releases in the period though the income statement	(7,961)	(77,506)	(116,793)	(202,260)
Net changes due to modification derecognition	-	-	(109)	(109)
Decrease in provision due to provision	-	-	39,228	39,228
Decrease in provision in connection with the sale of receivables	-	-	10,886	10,886
Foreign exchange and other movements	(381)	(169)	1,605	1,055
Provision for expected credit losses as at 31 December 2020	**(80,836)**	**(122,611)**	**(638,299)**	**(841,746)**

* *As at 31 December 2020, the Group did not identify POCI assets (purchased or originated credit-impaired assets).*

Due to the pandemic situation and its influence on the economy, the estimations of the write-downs for expected credit losses were subject to special verification, which has been described in the note no. 48.

PLN'000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses - amounts due from customers				
Provision for expected credit losses as at 1 January 2019	**(56,110)**	**(74,776)**	**(535,674)**	**(666,560)**
Transfer to Stage 1	(14,461)	14,050	411	-
Transfer to Stage 2	7,241	(7,991)	750	-
Transfer to Stage 3	1,735	26,164	(27,899)	-
(Creation)/Releases in the period though the income statement	10,209	(37,459)	(186,780)	(214,030)
Net changes due to modification derecognition	-	-	(2,080)	(2,080)
Decrease in provision due to provision	-	-	66,901	66,901
Decrease in provision in connection with the sale of receivables	-	-	124,839	124,839
Foreign exchange and other movements	(2)	60	324	382
Provision for expected credit losses as at 31 December 2019	**(51,388)**	**(79,952)**	**(559,208)**	**(690,548)**

* *As at 31 December 2019, the Group did not identify POCI assets (purchased or originated credit-impaired assets).*

The closing balance of impairment recognized on loans and advances to customers consisted of:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from customers measured at amortized cost				
Gross amounts due from customers as at 1 January 2020	**21,225,120**	**2,355,543**	**841,760**	**24,422,423**
Transfer to Stage 1	1,248,562	(1,246,889)	(1,673)	-
Transfer to Stage 2	(651,233)	654,901	(3,668)	-
Transfer to Stage 3	(48,263)	(65,417)	113,680	-
Receivables increase / repayment	(1,746,066)	(453,149)	(85,802)	(2,285,017)
Receivables written-off	-	-	(39,250)	(39,250)
Other movements	590,981	64,807	2,025	657,813
Gross amounts due from customers as at 31 December 2020	**20,619,101**	**1,309,796**	**827,072**	**22,755,969**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from customers measured at amortized cost				
Gross amounts due from customers as at 1 January 2019	**20,246,975**	**1,642,110**	**726,489**	**22,615,574**
Transfer to Stage 1	391,316	(390,363)	(953)	-
Transfer to Stage 2	(1,370,217)	1,371,454	(1,237)	-
Transfer to Stage 3	(124,927)	(251,136)	376,063	-
Purchased/paid receivables	2,340,988	(60,927)	(45,606)	2,234,455
Receivables written-off	-	-	(66,813)	(66,813)
Disposed receivables	-	-	(153,886)	(153,886)
Other movements	(259,015)	44,405	7,703	(206,907)
Gross amounts due from customers as at 31 December 2019	**21,225,120**	**2,355,543**	**841,760**	**24,422,422**

The gross value of amounts due from customers does not include contractual interest accrued from the moment the exposure is classified in Stage 3.

For amounts due from customers which changed Stages during the period, transfers are presented as the change between the Stage as of 1 January 2020 or at the moment of initial recognition and as of 31 December 2020.

23. Tangible fixed assets

Accounting policy:

Tangible fixed assets are stated at historical cost minus accumulated depreciation or amortization and impairment losses. The historical cost of an item of property and equipment includes any directly attributable costs of purchasing and bringing the asset into use.

Subsequent expenditure relating to an item of property and equipment is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the Group and the cost of the asset can be measured reliably. Any other expenditure, e.g. repairs and maintenance, is recognized as an expense when incurred.

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2020.

Illustrative annual depreciation and amortization rates applied by the Group are presented in the table below:	
Buildings and structures	1.5%-4.5%
Motor vehicles	14.0%-34.0%
Computers	25.0%
Office equipment	20.0%
Other tangible fixed assets	7.0%-34.0%
Leasehold improvements - compliant with lease agreement period	

At each balance sheet date, the residual values of non-current assets and their useful lives are reviewed and the depreciation and amortization schedule is adjusted where appropriate.

Assets with original cost below PLN 3,500 are fully depreciated on a one-off basis when brought into use. The total cost of other tangible fixed assets depreciated on a one-off basis is not material to the financial statements.

Assets in the course of construction are stated at the total of costs directly attributable to construction, assembly or improvement in progress less impairment provision.

Tangible fixed assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an item of property and equipment is written down to its recoverable amount if the carrying amount exceeds the recoverable amount. The recoverable amount of an item of property and equipment is the higher of its fair value less costs of sale and value in use.

The carrying amounts are reviewed at each balance sheet date to determine whether there is any evidence of impairment. If so, the asset's recoverable amount is estimated.

Revaluation impairment allowances are recognized if the book value of an asset or cash-generating unit exceeds the recoverable amount. Revaluation impairment allowances are recognized in profit or loss.

In the case of a cash-generating unit, revaluation impairment allowances first reduce the goodwill allocated to such cash-generating units (group of units) and then proportionally reduce the carrying value of other assets in the unit (group of units).

The recoverable amount in the case of assets other than financial assets is higher fair value less selling costs and value in use. For value in use calculation, the estimation of future cash flows is discounted to their present value using the discount rate before taxation, which represents present market expectations regarding money value and specific risk regarding an asset. For assets that are not generating independent cash flows, the recoverable amount is estimated for the cash-generating unit, the asset owner.

The revaluation provision for impairment is reversed if the estimations for the recoverable amount have changed.

The revaluation write-off for impairment can be reversed only to the level by which the book value of the asset does not exceed the depreciation decreased book value that would be estimated if the impairment write-off was not recognized.

Tangible fixed assets from the date of initial application of IFRS 16 include the assets of the right of use of the assets. Details are presented in note 43.

Financial information:

Movements of tangible fixed assets in 2020

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2020	**715,121**	**2**	**26,409**	**222,543**	**15,632**	**979,707**
Increases:						
Purchases	22	-	334	7,514	21,061	28,931
Other increases	10,471	-	-	11	-	10,482
Decreases:						
Disposals	-	-	(2,903)	-	-	(2,903)
Classified to non-current assets held-for-sale	(2,974)	-	-	(9,713)	-	(12,687)
Liquidation	(13,363)	-	-	(313)	-	(13,676)
Other decreases	(10,657)	-	(48)	(14)	(2,138)	(12,857)
Transfers	14,110	-	-	5,132	(19,245)	(3)
As at 31 December 2020	**712,730**	**2**	**23,792**	**225,160**	**15,310**	**976,994**
Depreciation						
As at 1 January 2020	**281,324**	**2**	**5,688**	**192,940**	**-**	**479,954**
Increases:						
Amortization charge for the period	28,794	-	2,942	11,558	-	43,294
Other increases	-	-	-	11	-	11
Decreases:						
Disposals	-	-	(921)	-	-	(921)
Liquidation	(2,591)	-	-	(9,710)	-	(12,301)
Classified to non-current assets held-for-sale	(7,214)	-	-	(55)	-	(7,269)
Other decreases	(2,419)	-	(3)	(261)	-	(2,683)
As at 31 December 2020	**297,894**	**2**	**7,706**	**194,483**	**-**	**500,085**
Carrying amount						
As at 1 January 2020	433,797	-	20,721	29,603	15,632	499,753
As at 31 December 2020	**414,836**	**-**	**16,086**	**30,677**	**15,310**	**476,909**

Movements of tangible fixed assets in 2019

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 31 December 2019	**586 735**	**96**	**24,652**	**236,743**	**50,327**	**898,553**
Impact of adopting IFRS 16	**93 380**	**-**	**-**	**-**	**-**	**93,380**
As at 1 January 2019	**680,115**	**96**	**24,652**	**236,743**	**50,327**	**991,933**
Increases:						
Purchases	(4)	-	3,162	6,439	21,434	31,031
Other increases	9,198	-	-	79	-	9,277
Decreases:						
Disposals	-	-	(1,295)	-	-	(1,295)
Liquidation	(6,911)	-	-	(36,185)	-	(43,096)
Other decreases	-	(94)	(110)	(278)	(7,658)	(8,140)
Transfers	32,723	-	-	15,745	(48,471)	(3)
As at 31 December 2019	**715,121**	**2**	**26,409**	**222,543**	**15,632**	**979,707**
Depreciation						
As at 31 December 2019	**312 009**	**96**	**2,876**	**219,311**	**-**	**534,292**
Impact of adopting IFRS 16	**(52 584)**	**-**	**-**	**-**	**-**	**(52,584)**
As at 1 January 2019	**259,425**	**96**	**2,876**	**219,311**	**-**	**481,708**
Increases:						
Amortization change for the period	28,329	-	3,195	9,937	-	41,461
Other increases	-	-	-	72	-	72
Decreases:						
Disposals	-	-	(314)	-	-	(314)
Liquidation	(6,430)	-	-	(36,257)	-	(42,687)
Other decreases	-	(94)	(69)	(123)	-	(286)
As at 31 December 2019	**281,324**	**2**	**5,688**	**192,940**	**-**	**479,954**
Carrying amount						
As at 1 January 2019	**420,690**	**-**	**21,776**	**17,432**	**50,327**	**510,225**
As at 31 December 2019	**433,797**	**-**	**20,721**	**29,603**	**15,632**	**499,753**

As at 31 December 2020, the Group has no significant commitments to purchase of tangible fixed assets (31 December 2019 PLN 0 thousand).

24. Intangible assets

Accounting policy:

Intangible assets are stated at historical cost minus accumulated depreciation or amortization and impairment losses. The historical cost of an item of intangibles includes any directly attributable costs of purchasing and bringing the asset into use.

Subsequent expenditure relating to an item of intangibles is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the Group and the cost of the asset can be measured reliably. Any other expenditure, e.g. repairs and maintenance, is recognized as an expense when incurred.

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2020.

Illustrative annual depreciation and amortization rates applied by the Group are presented in the table below:	
Computer software and licenses (except the main operating systems, which are depreciated at the rate of 10% and 20%)	34.0%
Other intangible fixed assets	20.0%

At each balance sheet date, the residual values of non-current assets and their useful lives are reviewed and the depreciation and amortization schedule is adjusted where appropriate.

Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an item of property and equipment or intangible asset is written down to its recoverable amount if the carrying amount exceeds the recoverable amount. The recoverable amount of an item of intangible assets is the higher of its fair value less costs of sale and value in use.

Revaluation impairment allowances are recognized if the book value of an asset or of the cash-generating unit exceeds the recoverable amount. Revaluation impairment allowances are recognized in profit or loss.

In the case of a cash-generating unit, revaluation impairment allowances first reduce the goodwill allocated to such cash-generating units (group of units) and then proportionally reduce the carrying value of other assets in the unit (group of units).

The recoverable amount is higher fair value less selling costs and value in use. For value in use calculation, the estimation of future cash flows is discounted to their present value using the discount rate before taxation, which represents present market expectations regarding money value and specific risk regarding an asset. For assets that are not generating independent cash flows, the recoverable amount is estimated for the cash-generating unit, the asset owner.

The revaluation provision for impairment, excluding goodwill, is reversed if the estimations for the recoverable amount have changed.

The revaluation write-off for impairment for other assets can be reversed only to the level by which the book value of the asset do not exceed the depreciation decreased book value that would be estimated if the impairment write-off was not recognized.

Financial information:

Movements of intangible assets in 2020

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2020	**1,245,976**	**2,547**	**543,238**	**-**	**64,334**	**1,856,095**
Increases:	-	-	-	-	-	-
Purchases	-	446	2,324	-	87,666	90,436
Decreases:	-	-	-	-	-	-
Liquidation	-	-	(3,980)	-	-	(3,980)
Other decreases	-	(2)	-	-	(2,926)	(2,928)
Transfers	-	-	108,466	-	(108,466)	-
As at 31 December 2020	**1,245,976**	**2,991**	**650,048**	**-**	**40,608**	**1,939,623**
Depreciation						
As at 1 January 2020	**-**	**1,796**	**411,160**	**-**	**-**	**412,956**
Increases:						
Amortization charge for the period	-	161	63,198	-	-	63,359
Decreases:						
Liquidation	-	-	(3,980)	-	-	(3,980)
Other decreases	-	(2)	-	-	-	(2)
As at 31 December 2020	**-**	**1,955**	**470,378**	**-**	**-**	**472,333**
Impairment write-offs						
As at 1 January 2020	-	-	-	-	-	-
Increases	214,707	-	-	-	-	214,707
Decreases	-	-	-	-	-	-
As at 31 December 2020	**214,707**	**-**	**-**	**-**	**-**	**214,707**
Carrying amount						
As at 1 January 2019	1,245,976	751	132,078	-	64,334	1,443,139
As at 31 December 2020	**1,031,269**	**1,036**	**179,670**	**-**	**40,608**	**1,252,583**

Movements of intangible assets in 2019

PLN'000	Goodwill	Patents, licenses etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2019	**1,245,976**	**2,318**	**474,053**	**-**	**64,365**	**1,786,712**
Increases:						
Purchases	-	229	616	-	69,160	70,005
Decreases:						
Other decreases	-	-	-	-	(622)	(622)
Transfers	-	-	68,569	-	(68,569)	-
As at 31 December 2019	**1,245,976**	**2,547**	**543,238**	**-**	**64,334**	**1,856,095**
Depreciation						
As at 1 January 2019	**-**	**1,648**	**366,270**	**-**	**-**	**367,918**
Increases:	-	-	-	-	-	-
Amortization charge for the period	-	148	44,890	-	-	45,038
As at 31 December 2019	**-**	**1,796**	**411,160**	**-**	**-**	**412,956**
Carrying amount						
As at 1 January 2019	1,245,976	670	107,783	-	64,365	1,418,794
As at 31 December 2019	**1,245,976**	**751**	**132,078**	**-**	**64,334**	**1,443,139**

As at 31 December 2020, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise of ABN AMRO Bank (Poland) S.A. as at 1 March 2005. As a result of the performed impairment test, goodwill has been impaired in amount of PLN 214,707 thousand as at 31 December 2020, more details have been presented in the Note 25 (below).

25. Impairment test for goodwill

In the consolidated financial statements of the Group, goodwill represents the difference between the cost of the acquisition and the fair value of the Group's interest in identifiable assets, liabilities and contingent liabilities acquired at the business combination date. Goodwill is included in intangible assets. Goodwill is stated at cost minus any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment independently of objective evidence of impairment. The revaluation write-off for impairment for goodwill cannot be reversed.

For the purpose of carrying out impairment tests, goodwill has been allocated to two cash-generating units: the Institutional Bank and Consumer Bank. Assignment was made on the basis of discounted cash flows models on the basis of the strategy before the merge. After fusion, reallocation of goodwill was conducted on the basis of the assets' relative values transferred to another center comparing to the assets held in the center given.

The allocation of goodwill to cash-generating units is presented in the table below.

Book value of goodwill allocated to unit

PLN'000	31.12.2020	31.12.2019
Corporate Bank	851,206	851,944
Consumer Bank	180,063	394,032
	1,031,269	**1,245,976**

The basis of valuation of the recoverable amount for a unit is the value in use, assessed on the basis of the financial plan. The plan is based on rational assumptions about future facts that reflect management assessment of future economic conditions and expected results of the Group. The plan is periodically updated and approved by the Bank's Supervisory Board. The board accepted a 5-year period for the process of financial planning.

The discount rate is assessed on the basis of the capital assets pricing model (CAPM) using a beta coefficient for the banking sector, a risk premium and Treasury bond yield curves. In 2020, the discount rate amounted to 8.7% (8.8% at the end of 2019).

Extrapolation of cash flows which exceed the period covered by the financial plan has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2019.

As a result of the performed impairment test, the Bank's Management Board recognized impairment loss of PLN 214,707 thousand, in the part of goodwill allocated to Consumer Bank unit. The amount was presented in the "Net impairment allowances on non-financial assets" line in income statement.

The main factor of the impairment loss is the impact of COVID-19 pandemic resulting in unprecedented low interest rates, as well as significant deterioration of economic environment, affecting lower activity of customers.

26. Deferred income tax asset and liabilities

Accounting policy:

A deferred tax provision and asset are calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities in the statement of financial position and the tax base of assets and liabilities. In the statement of financial position, the Group discloses the deferred tax asset net of deferred tax provisions after compensation, when there is a legal title to set such a compensation and when the provision and asset refer to the same taxpayer.

Deferred tax assets are recognized only to the extent that it is probable that a tax benefit will be realized in the future.

Financial information:

PLN'000	31.12.2020	31.12.2019
Deferred income tax asset	1,283,356	710,452
Deferred income tax liability	(1,109,133)	(472,387)
Deferred income tax net asset	**174,223**	**238,065**

Positive and negative taxable and deductible temporary differences are presented below:

Deferred tax asset is attributable to the following:

PLN'000	31.12.2020	31.12.2019
Interest accrued and other expense	7,015	8,045
Revaluation impairment provision	109,736	80,537
Unrealized premium from securities	39,676	94,818
Negative valuation of derivative financial instruments	1,006,684	407,396
Negative valuation of securities held-for-trading	1,711	3,753
Income collected in advance	32,031	31,617
Commissions	2,249	3,092
Staff expenses and other costs due to pay	47,271	46,966
Leasing IFRS16	30,680	29,736
Other	6,303	4,492
Deferred tax asset	**1,283,356**	**710,452**

Deferred tax liability is attributable to the following:

PLN'000	31.12.2020	31.12.2019
Interest accrued (income)	46,274	53,054
Positive valuation of derivative financial instruments	887,686	329,533
Unrealized securities discount	3,271	1,052
Income to receive	4,703	4,882
Positive valuation of securities held-for-trading	368	180
Debt and equity securities measured at fair value through other comprehensive income	114,662	26,164
Investment relief	8,580	9,517
Valuations of shares	6,877	7,941
Leasing IFRS16	29,466	29,481
Other	7,246	10,583
Deferred tax liability	**1,109,133**	**472,387**

Net deferred income tax asset	**238,065**	**204,207**

Movement in temporary differences during the year 2020

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 1 January 2020	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2020
Interest accrued and other expense	8,046	(1,030)	-	7,015
Revaluation impairment provision	80,538	29,199	-	109,736
Unrealized premium from securities	94,818	(55,142)	-	39,676
Negative valuation of derivative financial instruments	407,395	599,288	-	1,006,684
Negative valuation of securities held-for-trading	3,752	(2,042)	-	1,711
Income collected in advance	31,617	414	-	32,031
Commissions	3,092	(843)	-	2,249
Staff expenses and other costs due to pay	46,966	330	(25)	47,271
Leasing IFRS16	29,736	944	-	30,680
Other	4,492	1,811	-	6,303
	710,452	**572,929**	**(25)**	**1,283,356**

The movement in temporary differences relating to the deferred tax provision:

PLN'000	As at 1 January 2020	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2020
Interest accrued (income)	53,054	(6,780)	-	46,274
Positive valuation of derivative financial instruments	329,533	558,153	-	887,686
Unrealized securities discount	1,052	2,219	-	3,271
Income to receive	4,882	(179)	-	4,703
Positive valuation of securities held-for-trading	180	188	-	368
Debt and equity securities measured at fair value through other comprehensive income	26,164	9,889	78,609	114,662
Investment relief	9,517	(937)	-	8,580
Valuations of shares	7,941	(1,064)	-	6,877
Leasing IFRS16	29,481	(15)	-	29,466
Other	10,583	(2,937)	(400)	7,246
	472,387	**558,537**	**78,209**	**1,109,133**
Change in net deferred income tax assets	**238,065**	**14,392**	**(78,234)**	**174,223**

Movement in temporary differences during the year 2019

The movement in temporary differences relating to deferred tax assets:

PLN'000	As at 1 January 2019	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2019
Interest accrued and other expense	10,755	(2,709)	-	8,046
Revaluation impairment provision	81,383	(845)	-	80,538
Unrealized premium from securities	81,285	13,533	-	94,818
Negative valuation of derivative financial instruments	286,037	121,358	-	407,395
Negative valuation of securities held-for-trading	280	3,472	-	3,752
Income collected in advance	30,700	917	-	31,617
Commissions	5,877	(2,785)	-	3,092
Staff expenses and other costs due to pay	45,883	1,079	4	46,966
Leasing IFRS16	-	29,736	-	29,736
Other	4,033	459	-	4,492
	546,233	**164,215**	**4**	**710,452**

The movement in temporary differences relating to the deferred tax provision:

PLN'000	As at 1 January 2019	Change in consolidation method	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2019
Interest accrued (income)	40,067	-	12,987	-	53,054
Positive valuation of derivative financial instruments	246,146	-	83,387	-	329,533
Unrealized securities discount	2,312	-	(1,260)	-	1,052
Income to receive	2,748	-	2,134	-	4,882
Positive valuation of securities held-for-trading	722	-	(542)	-	180
Debt and equity securities measured at fair value through other comprehensive income	26,464	-	(5,580)	5,280	26,164
Investment relief	10,453	-	(936)	-	9,517
Valuations of shares	6,661	(1,926)	3,206	-	7,941
Leasing IFRS16	-	-	29 481	-	29 481
Other	6,453	-	3,190	940	10,583
	342,026	**(1,926)**	**126,067**	**6,220**	**472,387**
Change in net deferred income tax assets	**204,207**	**1,926**	**38,148**	**(6,216)**	**238,065**

27. Other assets

PLN'000	31.12.2020	31.12.2019
Interbank settlements	3,404	2,997
Settlements related to securities trade	25	55
Settlements related to brokerage activity	102,482	18,607
Income to receive	64,595	53,850
Staff loans out of the Social Fund	13,696	16,306
Sundry debtors	66,202	68,218
Prepayments	7,156	6,546
Other assets, total	**257,560**	**166,579**
Including financial assets*	185,809	106,183

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

28. Non-current assets held-for-sale

Accounting policy :

Non-current assets held for sale are measured at the lower of book value or fair value less selling costs.

Financial information:

The item non-current assets held for sale includes the value of property held for sale in the amount of PLN 6,163 thousand as at 31 December 2020 (no items as at 31 December 2019).

29. Amounts due to banks

Accounting policy:

Classification and measurement of amounts due to banks are described in note 2.1 "Financial assets and liabilities – classification and measurement".

Financial information:

PLN'000	31.12.2020	31.12.2019
Current accounts	2,280,983	1,457,233
Term deposits	2,486,122	156,425
Liabilities due to sold securities under repurchase agreements	-	214,135
Other liabilities	351,756	297,702
margin deposits	351,593	297,669
Total amounts due to banks	**5,118,861**	**2,125,495**

30. Amounts due to customers

Accounting policy:

Classification and measurement of amounts due to customers are described in note 2.1 "Financial assets and liabilities – classification and measurement".

Financial information:

PLN'000	31.12.2020	31.12.2019
Deposits from financial sector entities		
Current accounts	1,640,351	797,540
Term deposits	2,931,313	3,759,106
	4,571,664	**4,556,646**
Deposits from non-financial sector entities		
Current accounts, including:	34,602,425	27,714,669
institutional customers	17,296,009	13,990,381
individual customers	13,971,308	10,335,509
public sector units	3,335,108	3,388,779
Term deposits, including:	3,997,929	7,248,176
institutional customers	2,454,806	4,055,101
individual customers	1,525,538	3,126,422
public sector units	17,585	66,653
	38,600,354	**34,962,845**
Other liabilities	**43,172,018**	**39,519,491**
Other liabilities		
Liabilities due to sold securities under repurchase agreements	-	-
Other liabilities, including:	221,888	268,311
liabilities due to deposits	143,905	159,986
margin deposits	34,742	43,929
Total other liabilities	**221,888**	**268,311**
Total amounts due to customers	**43,393,906**	**39,787,802**

31. Provisions

Accounting policy:

A provision is recognized in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and also if it is probable that the discharge of this obligation will result in an outflow of economic benefits, and the provision amount can be reliably estimated.

A restructuring provision is recorded when the following conditions have been met: (i) the Group has a detailed and formalized restructuring plan; (ii) the restructuring has already begun or has been publicly announced; (iii) the provision amount can be reliably estimated. The restructuring provision does not include future operating expenses.

Financial information:

PLN'000	31.12.2020	31.12.2019
Litigation	3,664	3,214
Granted financial and guarantee liabilities	47,354	61,703
Workforce restructuring	550	-
Restructuring of the branch network	-	282
Other	33,207	-
Provisions, total	**84,775**	**65,199**

The movement in provisions is as follows:

PLN'000	2020	2019
As at 1 January	**65,199**	**29,984**
Provisions for:		
Litigation	3,214	3,221
Granted financial and guarantee commitments	61,703	26,481
Restructuring of the branch network	282	282
Increases:		
Charges to provisions in the period:	104,856	72,373
Litigation	2,031	2,314
Granted financial and guarantee commitments	69,068	68,808
Workforce restructuring	550	1,251
Other	33,207	-
Other, including	20	67
Granted financial and guarantee commitments	20	67
Decreases:		
Release of provisions in the period	(84,135)	(35,577)
Litigation	(698)	(1,924)
Granted financial and guarantee commitments	(83,437)	(33,653)
Employment restructuring		
Restructuring of the branch network		
Provisions used in the period, including:	(1,165)	(1,648)
Litigation	(883)	(397)
Workforce restructuring	-	(1,251)
Restructuring of the branch network	(282)	-
As at 31 December	**84,775**	**65,199**
Including:		
Litigation	3,664	3,214
Granted financial and guarantee commitments	47,354	61,703
Workforce restructuring	550	-
Restructuring of the branch network	-	282
Other	33,207	-

* *Additional information concerning provisions for granted financial and guarantee commitments are presented in note 40.*

** *The „Other" item includes provisions related to TSUE judgements, which has been described in note 40.*

32. Other liabilities

Accounting policy:

The Bank records accruals and prepayments of expenses primarily in relation to the Bank's overhead expenses in reporting periods to which they relate. Accruals and prepayments are presented as 'Other liabilities' in the statement of financial position.

Within the range of liabilities to provision of providing services on time, the Bank uses a method of income on the time proportion in the time of providing services. According to the bank, this method reflects the procedure of providing services.

Within the area of methods, input data and assumptions adopted to estimate variable remuneration, the Bank uses approach most likely values in accordance the remuneration received for achievement of the objectives, whereas within the range of remuneration reimbursements in insurance mediation, statistical methods are used, and provision is presented as accrual. The Bank addresses all issues setting the level of income subject to identified variables (remuneration under specified objectives, expected reimbursements, all discounts).

For the remuneration for mediation in distribution of insurance products, in particular with the insurance connected with the Bank's credit product, the model of relative fair value is used. According to this model, using the fair value of the credit product and the sales services of the insurance product, the Bank separates remuneration being part of interest income and remuneration for provided services connected with the distribution and operation of these products.

Lease liabilities are measured in accordance with note 43.

Provisions due to employee benefits, including provision for retirement payments that are part of a defined benefit plan, are described in detail in note 47.

Financial information:

PLN'000	31.12.2020	31.12.2019
Staff benefits	32,816	34,452
Interbank settlements	131,164	189,986
Inter-branch settlements	1,675	914
Settlements related to securities trading	32	20
Settlements related to brokerage activity	240,235	71,765
Settlements with Tax Office and National Insurance (ZUS)	20,319	23,934
Liabilities due to leasing assets	138,381	143,270
Sundry creditors	140,718	225,194
Accruals:	281,922	275,146
Provision for employee payments	91,570	85,292
Provision for employee retirement	75,880	68,325
IT services and bank operations support	46,256	55,784
Consultancy services and business support	8,149	7,359
Other	60,067	58,386
Deferred income	17,654	21,862
Other liabilities, total	**1,004,916**	**986,543**
Including financial liabilities*	966,943	940,747

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

33. Financial assets and liabilities by contractual maturity

As at 31 December 2020

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	**18**	**571,955**	**571,955**	**-**	**176,459**	**235,278**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	19	913,123	4,020	-	91,534	2,623,958	166,187
Financial assets measured at fair value through other comprehensive income							
Debt financial assets measured at fair value through other comprehensive income	20	27,323,571	-	-	1,289,153	11,422,752	2,772,673
Amounts due from customers (gross)							
Amounts due from financial sector entities	22	3,739,156	1,254,628	-	141,645	2,145,000	-
Amounts due from non-financial sector entities	22	19,016,813	5,964,313	1,088,248	2,564,481	8,123,589	1,922,575
Amounts due to banks	**29**	**5,118,861**	**5,101,752**	**2,000**	**15,007**	**45**	**57**
Amounts due to customers							
Amounts due to financial sector entities	30	4,605,731	4,603,444	469	1,676	-	23
Amounts due to non-financial sector entities	30	38,788,175	37,912,790	639,138	1,289,776	33,615	53

As at 31 December 2019

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	**18**	**1,168,278**	**756,263**	**278**	**176,459**	**235,278**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	19	3,881,815	1,000,136	-	91,534	2,623,958	166,187
Financial assets measured at fair value through other comprehensive income							
Debt financial assets measured at fair value through other comprehensive income	20	15,484,578	-	-	1,289,153	11,422,752	2,772,673
Amounts due from customers (gross)							
Amounts due from financial sector entities	22	3,152,802	866,157	-	141,645	2,145,000	-
Amounts due from non-financial sector entities	22	21,269,620	7,344,510	1,314,465	2,564,481	8,123,589	1,922,575
Amounts due to banks	**29**	**2,125,495**	**2,108,386**	**2,000**	**15,007**	**45**	**57**
Amounts due to customers							
Amounts due to financial sector entities	30	4,597,741	4,595,732	310	1,676	-	23
Amounts due to non-financial sector entities	30	35,190,061	32,633,125	1,233,492	1,289,776	33,615	53

34. Capital and reserves

Capital and reserves are accounted in nominal values except for Reserve for revaluation of financial assets measured at fair value through other comprehensive income that which include deferred taxation effect.

Share capital

Series/ issue	Type of shares	Type of preference	Type of limitation	Number of shares	Par value of series/issue [PLN'000]	Method of issue payment	Date of registration	Eligibility for dividends (from date)
A	bearer	none	-	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer	none	-	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer	none	-	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer	none	-	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer	none	-	17,648,500	70,594	paid in	24.05.02	01.01.97
B	bearer	none	-	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer	none	-	37,659,600	150,638	transfer of Citibank (Poland) assets to the Bank	28.02.01	01.01.00
				130,659,600	**522,638**			

The par value of 1 share amounts to PLN 4.00

As at 31 December 2020, the Parent entity's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares with a nominal value of PLN 4 each, which has not changed since 31 December 2019.

The Parent entity has not issued preferred shares.

Both in 2020 and 2019, there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2020 and 31 December 2019, held at least 5% of the total number of votes at the General Meeting or at least 5% of the Parent entity's share capital:

	Value of shares (PLN'000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

During 2020 and the period from the publication of the previous interim quarterly report for Q3 2020 until the day of the publication of this annual consolidated financial statement for 2020, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2020, supplementary capital was PLN 3 002 265 thousand (31 December 2019: PLN 3,003,290 thousand). Supplementary capital is designated for offsetting financial losses or for other purposes including payment of dividends to the shareholders. The General Shareholders' Meeting of the Bank decides on the utilization of supplementary capital, but a portion of its balance amounting to one third of the total share capital may be used exclusively for offsetting losses shown in the financial statements.

The supplementary capital includes the amount of PLN 2,485,534 thousand constituting the excess of the fair value of the issued shares over their nominal value in connection with the business combination of the Bank and Citibank (Poland) S.A., which took place on 28 February 2001.

Revaluation reserve

PLN'000	31.12.2020	31.12.2019
Revaluation of financial assets measured at fair value through other comprehensive income	450,016	114,893

The revaluation reserve is not distributed. As at the day of derecognition of all or part of the financial assets measured at fair value through other comprehensive income from the statement of financial position, retained earnings that were previously presented in the other comprehensive and accumulated income in "Revaluation reserve" are reclassified to the income statement.

Other reserves

PLN'000	31.12.2020	31.12.2019
Reserve capital	2,262,032	2,334,622
General risk reserve	540,200	540,200
Net actuarial losses on defined benefit program valuation	(13,536)	(11,937)
Foreign currency translation adjustment	4,865	4,473
Other reserves, total	**2,793,561**	**2,867,358**

The Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter GM) adopted a resolution regarding the net profit for 2019 and for the previous years on June 4, 2020. The GM has decided to leave the profit entirely undistributed. Simultaneously, the GM decided to cover the loss from previous years resulting from the changes in accounting principles in connection with the first implementation of IFRS 9 in amount of PLN 74,784 thousand from the Bank's reserve capital.

Reserve capital

Reserve capital is created from the annual distribution of profits or from other sources, independently of the supplementary capital.

Reserve capital is designated for offsetting financial position losses or for other purposes, including payment of dividends to shareholders. The General Shareholders' Meeting of the Bank makes decisions on utilization of reserve capital.

General risk reserve

The general risk reserve is recorded out of net profit against unidentified risk arising from banking activities. The General Shareholders' Meeting of the Bank makes decisions on utilization of the general risk reserve subject to applicable regulations.

Dividends

Dividends are recognized as liabilities on the date at which the General Meeting of the Bank has approved the appropriation of earnings.

Dividends paid for 2019

On June 4, 2020, the Annual General Meeting of Bank Handlowy w Warszawie S.A. adopted a resolution on the distribution of the net profit for 2019, including the decision to leave the entire net profit of the Bank for 2019 in the amount of PLN 478 802 436.53 undivided.

The resolution mentioned above is in line with the recommendation of the Polish Financial Supervision Authority expressed in its letter dated March 26, 2020, according to which the PFSA expects banks to retain all their net profits from previous years due to the state of pandemic declared in Poland and possible further negative economic consequences of this state, as well as their expected impact on the banking sector.

Declared dividends

On January 19, 2021, the Management Board of Bank Handlowy w Warszawie S.A. adopted a resolution confirming, within Management Board competencies, the acceptance of the recommendation of the Polish Financial Supervision Authority expressed in the letter of January 13, 2021. In the letter mentioned above the Polish Financial Supervision Authority recommends that the Bank refrain from dividend payout in the first half of 2021 (including the undivided profit from previous years) and not take in the first half of 2021, without prior consultation with the Authority, any actions beyond its core business and operational activity that can result in lowering the capital base, including buyback.

35. Repurchase and reverse repurchase agreements

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so-called sell-buy-back and buy-sell-back respectively, as well as repo and reverse repo transactions in securities. Securities sold under repurchase agreements continue to be shown as the Group's assets and the Group discloses liabilities resulting from the repurchase clause. In the case of securities purchased under agreements to resell, securities are presented in the statement of financial position as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method. In the case of sale of the securities previously purchased in the reverse repo transaction, the Group recognizes liabilities due to the short sale of securities. These liabilities are evaluated at fair value.

Repurchase agreements

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

As at 31 December 2020 the Bank had no assets sold under repo transactions in its portfolio.

In 2020, the total interest expense on repurchase agreements was PLN 1,530 thousand (in 2019: PLN 7,514 thousand).

Reverse repurchase agreements

Reverse repurchase agreements are entered into as a facility to provide funding to customers.

As at 31 December 2020, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	50,548	50,505	Up to 1 week	50,548
	254,163	238,368	Up to 3 mouth	255,846
	304,711	**288,873**		**306,394**

* *including interest*

As at 31 December 2019, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	214,129	211,731	Up to 1 week	214,140
	175,495	216,490	Up to 1 year	176,458
	233,712	238,356	Up to 3 years	235,278
Amounts due from other financial sector entities	30,217	30,198	Up to 1 week	30,219
	653,553	**696,775**		**656,095**

* *including interest*

As at 31 December 2020 and 31 December 2019, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2020, the total interest income on reverse repurchase agreements was PLN 8,695 thousand (in mouth 2019: PLN 9,908 thousand).

As at 31 December 2020, the liabilities due to short sale of securities purchased in reverse repo transactions amounted to PLN 248,406 thousand (as at 31 December 2019: PLN 351,323 thousand).

36. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and presented in the statement of financial position on a net basis when there is a legally enforceable right to offset and their settlement is intended to take place on a net basis or to realize the asset and settle the liability simultaneously.

In the statement of financial position the Group offsets financial assets and financial liabilities resulting from derivative contracts, settled by a central counterparty (CCP) - KDPW_CCP S.A.

In addition, the following disclosure presents financial assets and financial liabilities resulting from transactions under master agreements such as ISDA, the Master Agreement recommended by the Polish Banks' Union, and other master agreements, under which, in certain breaches of the contracts' provisions, the contract may be terminated and settled in the net amount of receivables and liabilities, where such offsetting has been recognized as legal effective. The table below presents the fair values of derivatives (from the trading portfolio and designated as hedging instruments) as well as executable collateral for timed transactions and derivative framework deals enabling lawful compensation in defined situations.

PLN'000	31.12.2020		31.12.2019	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	5,289,866	5,630,210	2,311,662	2,435,599
The effect of offsetting	(1,918,970)	(1,918,970)	(786,882)	(786,882)
Valuation of derivatives (net) presented in the statement of financial position	**3,370,896**	**3,711,240**	**1,524,780**	**1,648,717**
Value of collateral received/placed	(330,929)	(1,088,782)	(302,195)	(479,391)
Assets and liabilities subject to offsetting under the master agreement	**3,039,967**	**2,622,458**	**1,222,585**	**1,169,326**
Maximum amount of potential offset	(2,422,392)	(2,422,392)	(1,043,761)	(1,043,761)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**617,575**	**200,066**	**178,824**	**125,565**

37. Hedge accounting

The Group hedges against the risk of change in the fair value of fixed interest rate debt securities available for sale. The hedged risk results from changes in interest rates.

The Group used the option of IFRS 9 to continue the hedge accounting standard in accordance with IAS 39 instead of regulations pointed in IFRS 9.

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

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

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognized in the result on hedge accounting in the income statement. Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedges are presented in the interest result in the position interest income/expense on derivatives in hedge accounting.

As at 31 December 2020, the Group had an active hedging relationship that originated in 2020. Details are presented below.

As at 31 December 2020:

PLN'000	Notional value	Balance value		Listing in the statement of financial position	Change in fair value used to take hold of hedge ineffectiveness
		Assets	Liabilities		
Hedge accounting of fair value					
Interest rate risk					
IRS Transactions	10,364,174	-	98,025	Hedging derivatives	(72,336)

Details of the hedged items are presented in the table below.

PLN'000	Balance value		Cumulative amount of hedging fair value in balance value of heged item corrections	Listing in the statement of financial position	Change in fair value used to take hold of hedge ineffectivenessx
	Assets	Liabilities			
Hedge accounting of fair value					
Interest rate risk					
Treasury bonds	11,347,069	-	64,263	Debt investement securities measured at fair value through other comprehensive income	72,891

Cumulated amounts of adjustments related to fair value hedges included in the statement of financial position for all hedged items, with respect for which adjustments for gains and losses on fair value hedging have ceased, amounted to PLN 103 thousand as at 31 December 2020.

Information regarding hedge effectiveness is presented below.

	Hedge ineffectiveness recognized in income statement	Listing in the statement of financial position
Hedge accounting of fair value		
Interest rate risk	556	Hedge accounting result

As at 31 December 2019:

PLN'000	Notional value	Balance value		Listing in the statement of financial position	Change in fair value used to take hold of hedge ineffectiveness
		Assets	Liabilities		
Hedge accounting of fair value					
Interest rate risk					
IRS Transactions	1,688,000	-	19,226	Hedging derivatives	(3,828)

Details of the hedged items are presented in the table below.

PLN'000	Balance value		Cumulative amount of hedging fair value in balance value of heged item corrections	Listing in the statement of financial position	Change in fair value used to take hold of hedge ineffectiveness
	Assets	Liabilities			
Hedge accounting of fair value					
Interest rate risk					
Treasury bonds	1,833,308	-	-	Debt investment securities measured at fair value through other comprehensive income	334

Cumulated amounts of adjustments related to fair value hedges included in the statement of financial position for all hedged items, with respect for which adjustments for gains and losses on fair value hedging have ceased, amounted to PLN 23,949 thousand as at 31 December 2020.

Information regarding hedge effectiveness is presented below.

PLN'000	Hedge ineffectiveness recognized in income statement	Listing in the statement of financial position
Hedge accounting of fair value		
Interest rate risk	(3,494)	Hedge accounting result

IBOR reform

The interest rate benchmark reform (IBOR reform) aims at on opposing the manipulation of reference benchmarks and ensuring that benchmarks are reliable and representative. The requirements are set by Regulations (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.

As a result of the reform of the interest rate reference benchmark and its replacement with a risk-free alternative interest rate, the Group has launched a project to manage the transition for any of its potentially affected contracts.

The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relationships that will be affected by IBOR reform. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Bank manages through hedging relationships.

in PLN million	Nominal amount 2020-12-31	Average maturity (in years)
IRS		
WIBOR6M	100	2Y
WIBOR6M	2.339	3Y
WIBOR6M	4.161	4Y
WIBOR6M	3.764	5Y
Total	**10.364**	

38. Fair value information

Fair value of financial assets and liabilities

Fair value is a price that would be received for selling an asset or paid for transferring the liability in a transaction carried out in the conditions between market participants at the measurement date.

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

As at 31 December 2020

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/ liabilities	Total carrying value	Fair value*	Fair value disclosure**
Financial assets								
Amounts due from banks measured at amortized cost	18	-	570,247	-	-	570,247	n/a	570,247
Financial assets held-for-trading measured at fair value	19	4,350,540	-	-	-	4,350,540	4,350,540	n/a
Debt investment financial assets measured at fair value through other comprehensive income	20	-	-	27,323,571	-	27,323,571	27,323,571	n/a
Equity and other instruments measured at fair value through income statement	21	-	-	-	78,473	78,473	78,473	n/a
Amounts due from customers measured at amortized cost	22	-	21,914,223	-	-	21,914,223	n/a	21,749,968
		4,350,540	**22,484,470**	**27,323,571**	**78,473**	**54,237,054**	**31,752,584**	**22,320,215**
Financial liabilities								
Amounts due to banks	29	-	-	-	5,118,861	5,118,861	n/a	5,118,753
Financial liabilities held-for-trading	19	3,656,422	-	-	-	3,656,422	3,656,422	n/a
Amounts due to customers	30	-	-	-	43,393,906	43,393,906	n/a	43,393,886
		3,656,422	**-**	**-**	**48,512,767**	**52,169,189**	**3,656,422**	**48,512,639**

* *Fair value of assets and liabilities that are recognized and measured in the statement of financial position at fair value.*

** *Fair value of assets and liabilities that are not recognized and measured in the statement of financial position at fair value, but for which fair value is additionally disclosed in accordance with the requirements of IFRS 7.*

As at 31 December 2019

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/ liabilities	Total carrying value	Fair value*	Fair value disclosure**
Financial assets								
Amounts due from banks measured at amortized cost	18	-	1,165,684	-	-	1,165,684	n/a	1,165,682
Financial assets held-for-trading measured at fair value	19	5,446,511	-	-	-	5,446,511	5,446,511	n/a
Debt investment financial assets measured at fair value through other comprehensive income	20	-	-	15,484,578	-	15,484,578	15,484,578	n/a
Equity and other instruments measured at fair value through income statement	21	-	-	-	62,638	62,638	62,638	n/a
Amounts due from customers measured at amortized cost	22	-	23,731,874	-	-	23,731,874	n/a	23,661,886
		5,446,511	**24,897,558**	**15,484,578**	**62,638**	**45,891,285**	**20,993,727**	**24,827,568**
Financial liabilities								
Amounts due to banks	29	-	-	-	2,125,495	2,125,495	n/a	2,125,592
Financial liabilities held-for-trading	19	1,877,898	-	-	-	1,877,898	1,877,898	n/a
Amounts due to customers	30	-	-	-	39,787,802	39,787,802	n/a	39,781,867
		1,877,898	**-**	**-**	**41,913,297**	**43,791,195**	**1,877,898**	**41,907,459**

* *Fair value of assets and liabilities that are recognized and measured in the statement of financial position at fair value.*

** *Fair value of assets and liabilities that are not recognized and measured in the statement of financial position at fair value, but for which fair value is additionally disclosed in accordance with the requirements of IFRS 7.*

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

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

  The active market includes stock and brokerage quotes and quotes in systems as pricing services, such as Reuters and Bloomberg, which represent the actual market transactions concluded on market conditions. Level I mainly includes securities held-for-trading or available-for-sale.

- Level II: financial assets/liabilities valued on the basis of models based on input data from the active market and presented in Reuters and Bloomberg systems; depending on financial instruments, the following specific valuation techniques are used:
  - listed market prices for a given instrument or listed market prices for an alternative instrument;
  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments;
  - other techniques, such as yield curves based on alternative prices for a given financial instrument.
- Level III: financial assets/liabilities valued on the basis of valuation techniques using relevant parameters not market-based.

The tables below present carrying amounts of financial instruments presented in the consolidated statement of financial position measured at fair value, arranged according to the above categories:

As at 31 December 2020

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	18	385,600	3,964,940	-	4,350,540
derivatives		323	3,370,573	-	3,370,896
debt securities		318,756	594,367	-	913,123
equity instruments		66,521	-	-	66,521
Debt investment financial assets measured at fair value through other comprehensive income	20	24,872,833	2,450,738	-	27,323,571
Equity and other instruments measured at fair value through income statement	21	33,614	-	44,859	78,473
Financial liabilities		-	-	-	-
Financial liabilities held-for-trading	18	43,469	3,612,953	-	3,656,422
short sale of securities		43,208	-	-	43,208
derivatives		261	3,612,953	-	3,613,214
Hedging derivatives		-	98,025	-	98,025

As at 31 December 2019

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	18	2,921,813	2,524,698	-	5,446,511
derivatives		-	1,524,780	-	1,524,780
debt securities		2,881,897	999,918	-	3,881,815
equity instruments		39,916	-	-	39,916
Debt investment financial assets measured at fair value through other comprehensive income	19	15,484,578	-	-	15,484,578
Equity and other instruments measured at fair value through income statement	21	1,108	-	61,530	62,638
Financial liabilities					
Financial liabilities held-for-trading	19	248,406	1,629,492	-	1,877,898
short sale of securities		248,406	-	-	248,406
derivatives					

As at December 31, 2020, the amount of financial assets classified to level III includes the value of the share in Visa Inc. (privileged series C) in the amount of PLN 23,380 thousand and the value of other minority shareholding in the amount of PLN 21,479 thousand. As at December 31, 2019, the amount of financial assets classified to level III includes the value of the share in Visa Inc. (privileged series C) in the amount of PLN 41,324 thousand and the value of other minority interests in the amount of PLN 20,206 thousand.

In September 2020, VISA Inc. performed a partial conversion of series C privileged shares into series A privileged shares, which were classified to level I. The operation resulted in the recognition of PLN 8,208 thousand, which were included in the result on capital investments and other investments measured at fair value through the profit and loss.

The method of estimating the fair value of series C Visa Inc preference shares takes into account the value of Visa Inc. shares and corrections resulting from disputes (current or potential) to which Visa or the Bank would be a party. Minority shareholding in Biuro Informacji Kredytowej S.A. and Krajowa Izba Rozliczeniowa S.A. were measured at fair value based on the book value of net assets, based on the financial statements of the companies. Changes in the valuation are taken to the Income statement and presented in the Net gain/(loss) on equity and other instruments measured at fair value through income statement.

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

PLN'000	01.01.-31.12.2020 Equity and other investments measured at fair value through income statement
As at 1 January 2020	**61,530**
Conversion of shares - transfer to Level I	(22,168)
Revaluation	5,497
As at 31 December 2020	**44,859**

PLN'000	01.01.-31.12.2019 Equity and other investments measured at fair value through income statement
As at 1 January 2019	**47,741**
Sales	(600)
Revaluation	14,389
As at 31 December 2019	**61,530**

Revaluation is recognized in the Net gain/(loss) on equity and other instruments measured at fair value through income statement.

In 2020 the Group has made no transfers between levels of instruments fair value due to changes in method of estimating fair value (with exception of conversion described above).

In 2020 the Group has not made any changes in classification criteria of financial instruments (presented in the consolidated statement of financial position at fair value) to each category reflecting the fair value (level I, level II, level III).

In the same period the Group has not made any changes in financial assets classification that could result from asset's purpose or usage change.

Fair value measurement

In the case of short-term financial assets and liabilities, it is assumed that their carrying amount is practically equal to their fair value. In the case of other instruments, the following methods and assumptions have been adopted.

Amounts due from customers and banks

The carrying amount of loans is presented at amortized cost less impairment. The fair value of loans and advances is calculated as the discounted value of expected future principal payments and takes into account fluctuations in market interest rates as well as changes in margins during the financial period. Changes in margins on loans are based on concluded transactions. It is assumed that loans and advances will be paid on the contractual date. In the case of loans for which repayment dates are not fixed (e.g. overdrafts), the fair value is the repayment that would be required if the amount were due on the balance sheet date.

The methods of valuation mentioned above are classifies to the third level of the fair value financial hierarchy: assets valued on the basis of valuation techniques using relevant parameters not market-based.

Amounts due to banks and customers

In the case of on-demand deposits, as well as deposits without a pre-determined maturity date, the fair value is the amount that would be paid out if demanded on the balance date. The fair value of fixed maturity deposits is estimated on the basis of cash flows discounted with current interest rates taking into account current margins in a similar way as adopted for the valuation of loans.

For overnight placements, the fair value is equal to their carrying amount. For fixed interest rate placements, the fair value is assessed on the basis of discounted cash flows using current money market interest rates for receivables with similar credit risk, time to maturity, and currency.

As described above, the models used to determine the fair value of assets and liabilities to banks and customers, recognized in the consolidated statement of financial position at amortized cost, involve valuation techniques based on non-market parameters. Therefore, the Group classifies the valuation of financial instruments for the purpose of disclosure to the third level of the fair value hierarchy. For all other financial instruments not at fair value, the Group believes that the fair value generally approximates the carrying value.

39. Derecognition of financial assets

The net gain/(loss) on derecognition of financial assets in Group relates to the gain on debt investment financial assets measured at fair value through other comprehensive income and amounted to 203,402 thousand PLN in 2020 (in 2019: PLN 97,969 thousand).

PLN'000	01.01.-31.12.2020	01.01.-31.12.2019
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income		
Polish treasury bonds	202,168	97,594
Treasury bills	1,234	-
EBI securities	-	375
	203,402	**97,969**

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

40. Contingent liabilities and litigation proceedings

Information on pending proceedings

In 2020, there were no proceedings regarding the Bank's receivables or liabilities, the value of which would be significant, pending in court, before a public administration authority or an arbitration authority. In the Group's opinion no proceedings conducted in 2020 before in court, public administration authority or an arbitration authority, pose a threat to the Bank's financial liquidity, individually or in total.

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

  On 10 February 2020 the Bank received a statement of claim submitted by Rotsa Sales Direct sp. z o.o. for the payment of PLN 419,712.468.48 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 33,047,245.20 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014. On 11 May 2020 the Bank filed a response to the suit. The court referred the matter to mediation proceedings, so the case is pending before the court of first instance.

  In the Group's opinion, the amount of claims filed by the companies is not justified. The Bank's position is confirmed by legally binding resolutions of legal actions taken by the companies against the Bank, which are beneficial for the Bank.

- As at 31 December 2019, the Bank was, among others, a party to 19 court proceedings associated directly with derivative transactions that have not been legally terminated: in 12 proceedings the Bank acted as a defendant and in 7 as a plaintiff. The claims and allegations in the individual cases against the Bank have various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities toward the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank.

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

- The 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 prevent a reliable and rational assessment of the influence of the judgment on proceedings pending before national courts. In near future, the resolution of the Civil Law Division of the Supreme Court is expected to rule again on issues on which courts are still inconsistent. 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. It is likely that banks will decide to consider those measures in their disputes. The coming months should clarify the sector's approach to disputes over CHF loans.

  As at 31 December 2020, the Bank had receivables under CHF-indexed retail mortgage loans at the gross carrying amount of PLN 55 million, that is 0.25% of the entire portfolio of gross lending to customers.

  Despite the marginal share of CHF-indexed mortgage loans in the entire lending portfolio, in 2020, the Bank recognized a provision for those loans at PLN 13 million, which was posted in other operating expenses. 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.

  As of December 30, 2020, the Group is sued in 24 cases concerning a credit indexed to CHF for the total amount of PLN 4 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 entities

  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.

  It is possible, with the consent of both parties, that the proceedings will conclude with the so-called obligating decision, once the Bank makes commitments satisfactory to the regulator to change that practice. In a decision of that kind, the UOKiK does not find the practice unfair and does not impose fines. The proceedings may result in a decision finding the practice as infringing consumer interests, which may be appealed to a common court.

  In 2020, the Bank recognized a provision for potential fee reimbursements to customers in the amount of PLN 33.5 million, of which PLN 15.7 million for loans prepaid in previous years was recognized in other operating expenses, and PLN 17.8 million for loans prepaid in 2020 and expected future prepayments reduced Group's interest income.

  The determination of the provision (or liabilities) relating to the exposures pre-paid up to the balance sheet date took into account the above-mentioned practice of the Bank in this scope and the population of actually prepaid loans. Moreover, the Bank estimated the provision for potential commission returns in relation to the portfolio unpaid as at the balance sheet date, taking into account the portfolio structure, observed and expected complaints and expected prepayment curves.

  As of December 30, 2020, the Group is sued in 401 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 1.7 million (most of the cases are in the first instance).

In accordance with applicable regulations, the Bank recognizes impairment losses for receivables subject to legal proceedings.

In the case of legal proceedings involving the risk of cash outflow as a result of meeting the Bank's commitments, the appropriate provisions are created. The value of provisions for disputes as at December 31, 2020 is PLN 3,7 million (PLN 3,2 million as at December 31, 2019).

In 2020, there were no significant settlements on account of court cases which ended with a final judgment.

Commitments due to granted and received financial and guarantee liabilities

The amount of financial and guarantee commitments granted and received, by product category, is as follows:

PLN'000	31.12.2020	31.12.2019
Contingent liabilities and guarantees granted		
Letters of credit	162,523	182,326
Guarantees granted	2,250,542	2,273,926
Credit lines granted	14,035,449	12,935,767
Underwriting other issuers' securities issues	53,869	49,935
	16,502,383	**15,441,954**

PLN'000	31.12.2020	31.12.2019
Letters of credit		
Import letters of credit issued	162,523	174,555
Export letters of credit confirmed	-	7,771
	162,523	**182,326**

Guarantees issued include credit principal repayment guarantees, other repayment guarantees, advance repayment guarantees, performance guarantees, tender guarantees, and bill of exchange guarantees.

The provisions for expected credit losses for contingent liabilities and guarantees granted by the Group are established. As at 31 December 2020 the amount of provisions of granted contingent liabilities and guarantees was PLN 47,354 thousand (31 December 2019: 61,703 thousand).

Movement in provision for expected credit losses – contingent liabilities and guarantees granted presented as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses – contingent liabilities and guarantees granted				
Provision for expected credit losses as at 1 January 2020	**11,819**	**13,768**	**36,116**	**61,703**
Transfer to Stage 1	4,985	(4,985)	-	-
Transfer to Stage 2	(456)	456	-	-
Transfer to Stage 3	(16)	(642)	658	-
(Creation)/Releases in the period though the income statement	4,738	10,206	(29,313)	(14,369)
Foreign exchange and other movements	217	98	(295)	20
Provision for expected credit losses as at 31 December 2020	**21,287**	**18,901**	**7,166**	**47,354**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses – contingent liabilities and guarantees granted				
Provision for expected credit losses as at 1 January 2019	**14,083**	**10,318**	**2,080**	**26,481**
Transfer to Stage 1	2,645	(2,645)	-	-
Transfer to Stage 2	(900)	900	-	-
Transfer to Stage 3	(358)	(3,869)	4,227	-
(Creation)/Releases in the period though the income statement	(3,737)	9,048	29,844	35,155
Foreign exchange and other movements	86	16	(35)	67
Provision for expected credit losses as at 31 December 2019	**11,819**	**13,768**	**36,116**	**61,703**

As at 31 December 2019, the Group did not identify POCI assets (purchased or originated credit-impaired assets").

Movements in contingent liabilities granted that contribute to movements in provision for expected credit losses presented as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amount of contingent liabilities granted				
Gross amount of contingent liabilities granted as at 1 January 2020	**13,510,074**	**1,862,998**	**68,881**	**15,441,952**
Transfer to Stage 1	310,142	(310,117)	(25)	-
Transfer to Stage 2	(239,968)	240,175	(207)	-
Transfer to Stage 3	(71)	(792)	863	-
Increase/Decrease	392,781	72,463	(1,906)	463,338
Other movements	804,627	(178,123)	(29,412)	597,092
Gross amount of contingent liabilities granted as at 31 December 2020	**14,777,585**	**1,686,605**	**38,193**	**16,502,383**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amount of contingent liabilities granted				
Gross amount of contingent liabilities granted as at 1 January 2019	**15,259,354**	**1,505,583**	**32,389**	**16,797,326**
Transfer to Stage 1	56,114	(56,101)	(13)	-
Transfer to Stage 2	(485,353)	485,448	(95)	-
Transfer to Stage 3	(12)	(62,337)	62,349	-
Increase/Decrease	(1,365,079)	78,985	(25,167)	(1,311,261)
Other movements	45,049	(88,580)	(583)	(44,113)
Gross amount of contingent liabilities granted as at 31 December 2019	**13,510,074**	**1,862,998**	**68,881**	**15,441,952**

PLN'000	31.12.2020	31.12.2019
Financial and guarantees liabilities received		
Finance	-	-
Guarantees	17,725,578	20,106,687
	17,725,578	**20,106,687**

41. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2020	31.12.2019
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	-	214,135
	-	**214,135**

Details of the carrying amounts of assets pledged as collateral are as follows:

PLN'000	31.12.2020	31.12.2019
Assets pledged		
Debt securities held-for-trading	-	212,648
Debt investment financial assets measured at fair value through other comprehensive income	182,533	165,084
Settlements related to operations in derivative instruments and stock market trading	234,267	99,001
Amounts due from customers	-	-
Stock market trading guarantee funds and settlements	1,227,863	647,490
	1,644,663	**1,124,223**

Debt securities held-for-trading as at 31 December 2020 constitute collateral of the Group's obligations under securities sold with a repurchase agreement.

As at 31 December 2020, the debt securities measured at fair value through other comprehensive income presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund in the amount of PLN 182,533 thousand (31 December 2019: PLN 165,084 thousand).

Other assets disclosed above secure settlement of derivatives transactions and stock market transactions. The terms and conditions of the transactions executed to date are standard and typical for such dealings.

42. Custodian activities

The Bank offers both custodian services connected with securities accounts for foreign institutional investors and custodian services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2020, the Bank maintained over 15 thousand securities accounts (31 December 2019: over 14.5 thousand accounts).

43. Leases

Leases where the Group is the lessee

Accounting policy:

At the commencement date, the Group as a lessee measures the lease liability at the present value (discounted) of the lease payments that are not paid at that date. A right-of-use assets are measured at cost.

Right of use of assets due to perpetual usufruct of land are presented as tangible fixed assets in the statement of financial position, while lease liabilities are presented in other liabilities.

In the profit and loss account, the depreciation of the right to use assets is included in the depreciation tangible fixed and intangible assets, interest costs on lease liabilities - in interest costs, and the costs of short-term contracts, leasing low-value assets and leasing variables - in general administrative expenses.

In the statement of cash flows, interest flows are recognized in cash flows from operating activities, while the equity component is included in cash flows from financing activities.

Financial information:

The Group leases office space and has the right of perpetual usufruct of land:

PLN'000	2020			2019		
	Rights to perpetual usufruct	Real estate and other	Total	Rights to perpetual usufruct	Real estate and other	Total
ROU - Opening	**81,084**	**60,843**	**141,927**	**82,188**	**63,776**	**145,964**
ROU - Added	1,103	12,053	13,156	-	9,198	9,198
ROU - Amortization	(2,208)	(20,882)	(23,090)	(1,104)	(12,131)	(13,235)
Other changes	-	109	109	-	-	-
ROU - Closing	**79,979**	**52,123**	**132,102**	**81,084**	**60,843**	**141,926**
Liability Balance as at reporting date	**81,871**	**56,510**	**138,381**	**82,028**	**61,241**	**143,270**

PLN'000	2020			2019		
	Rights to perpetual usufruct	Real estate and other	Total	Rights to perpetual usufruct	Real estate and other	Total
Lease Cost	4,542	11,989	16,531	4,539	13,032	17,571
- Depreciation of right-of-use Assets	1,104	11,197	12,301	1,104	12,131	13,235
- Interest on Lease Liabilities	3,438	792	4,230	3,435	901	4,336
Reporting Exceptions Cost Short-term Leases	-	754	754	-	591	591
Reporting Exceptions Cost Low-value Leases	-	1,594	1,594	-	2,216	2,216
Reporting Exceptions Cost Low-value Leases	-	6,252	6,252	-	6,749	6,749
Result on lease modification	-	450	450	-	-	-
Total Lease Cost	**4,542**	**21,039**	**25,581**	**4,539**	**22,587**	**27,127**

PLN'000	2020			2019		
	Rights to perpetual usufruct	Real estate and other	Total	Rights to perpetual usufruct	Real estate and other	Total
Cash Flows - Total	3,595	11,894	15,489	3,595	3,001	6,596
Cash Flows - Interest	3,438	792	4,230	3,435	901	4,336
Cash Flows - Principle Repayment	157	11,102	11,259	160	2,100	2,260
Weighted-average Remaining Lease Term (in years)	73.9	5.8	61.4	73.7	7.0	61.4
Weighted-average Incremental Borrowing Rate	4.3%	2.9%	3.9%	4.3%	1.5%	3.8%
Total Lease Cost	**3,595**	**11,894**	**15,489**	**3,595**	**3,001**	**6,596**

Bank as lessor

Irrevocable lease payments

in PLN thousand	31.12.2020	31.12.2019
Under 1 year	392	-
1 - 5 years	2,473	5,437
	2,865	**5,437**
Total annual amounts for agreements for undefined term	**6,226**	**6,207**

44. Additional information to the statement of cash flows

Cash is cash in hand, nostro current account in Central Bank and receivables on current balances in banks.

PLN'000	31.12.2020	31.12.2019
Cash-related items:		
Cash in hand	384,925	436,216
Nostro current account in Central Bank	4,103,407	3,300,490
Current accounts in other banks (nostro, overdrafts on loro accounts)	31,308	60,155
	4,519,640	**3,796,861**

45. Transactions with key management personnel

PLN'000	31.12.2020		31.12.2019	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**111**	**24**	**127**	**65**
Deposits				
Current accounts	22,332	12,859	10,776	30,731
Term deposits	1,447	28,369	10,563	6,411
	23,779	**41,228**	**21,339**	**37,142**

As at 31 December 2020 and 31 December 2019, no loans or guarantees were granted to members of the Management Board or the Supervisory Board.

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

Within the scope of the work relationship, among contracts of employment between the Bank and Members of the Management Board, only in one case of one Management Board Member does the contract includes a provision on financial compensation in the case of its termination upon notice.

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

Staff expenses for current and former members of the Management Board are presented in note 11.

46. Related parties

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

In the normal course of business activities, Group entities enter into transactions with related parties, in particular with entities of Citigroup Inc.

Transactions with related parties resulting from the current Group's activities mainly include loans, deposits, guarantees and derivatives transactions.

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

Transactions with Citigroup Inc. entities

The receivables and liabilities toward Citigroup Inc. entities are as follows:

PLN'000	31.12.2020	31.12.2019
Receivables, including:	159,920	18,863
Placements	-	-
Liabilities, including:	3,369,500	1,427,631
Deposits*	902,610	384,825
Balance-sheet valuation of derivative transactions:	-	-
Assets held-for-trading	660,287	500,799
Liabilities held-for-trading	624,039	285,043
Contingent liabilities granted	341,675	429,279
Contingent liabilities received	56,639	62,529
Contingent transactions in derivative instruments (nominal value), including:	51,607,831	110,361,177
Interest rate instruments	5,509,016	5,951,216
Interest rate swaps (IRS)	2,177,559	4,980,928
Interest rate options	20,338	970,288
Futures contracts	3,311,119	-
Currency instruments	44,642,237	49,102,998
FX forward/spot	8,789,140	1,706,373
Currency - interest rate swaps (CIRS)	18,000,615	28,707,666
FX swap	14,972,436	15,457,340
Foreign exchange options	2,880,046	3,231,619
Securities transactions	195,504	17,581
Securities purchased pending delivery	55,369	10,872
Securities sold pending delivery	140,135	6,709
Commodity transactions	1,261,074	217,587
Swaps	1,261,074	217,587
Options	-	-

** including deposits from parent company in the amount of PLN 12 thousand (31 December 2019: PLN 9 thousand)*

PLN'000	2020	2019
Interest and commission income*	32,518	32,136
Interest and commission expense*	6,799	52,855
General administrative expenses	179,534	173,046
Other operating income	6,424	6,626

** including interest and commission income in amount of PLN 797 thousand (2019: PLN 1,139 thousand) and interest and commission expense in amount of PLN 0 thousand (2019 : PLN 2 thousand) refer to the parent company*

The Group incurs costs and receives income on derivative transactions with Citigroup Inc. entities to hedge the Bank's position in market risk. These derivative transactions are opposite (back-to-back) to derivative transactions with other Group clients or close the proprietary position of the Group. The net carrying amount of financial derivative transactions with related entities as at 31 December 2020 amounted to PLN 36,248 thousand (as at 31 December 2019: PLN 215,756 thousand).

The Bank runs a compression of derivative transaction portfolios periodically. It is one of the risk mitigation techniques recommended by "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulations, this in particular applies to the portfolios exceeding 500 derivative transactions.

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

The costs arising and accrued (including VAT, reflected in the Group's costs) under concluded agreements in 2020 and 2019 mainly related to the cost of services provided to the Group for the maintenance of the banking IT systems and advisory support and are included in general administrative expenses; income was mainly related to the provision of data processing services by the Group to such entities and is presented in other operating income.

In 2020, the capitalization of investments regarding functionality modification of Retail Banking IT systems took place. Total payments for Citigroup Inc. entities amounted to PLN 68,888 thousand (in 2019: PLN 55,708 thousand).

47. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, awards, bonuses, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits).

  Depending on their individual compensation category, employees may receive an award from the incentive fund, a bonus under the bonus scheme applicable in a given area or a discretionary annual bonus under the internal employee compensation regulations. Bonuses and awards are granted after completion of the period for which the employee's performance is evaluated. The costs of short-term benefits are expensed in the income statement in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense;
- Long-term employee benefits

  Under its compensation scheme, the Group guarantees its employees retirement and pension allowances, constituting defined benefit plans. Their amount depends on years worked in the Bank, falling directly before gaining rights to payment. For the future payments of retirement and pension allowances there is a reserve made, shown in "Liabilities" in "Other liabilities" and in "Activities costs and general and administrative expenses" of the profit and loss account in part resulting from costs of current employment and time. Part of the provision resulting from a change of actuarial assumptions (economics and demographic) taken to valuation is shown in other total income.
- Employee Pension Plan

  The Group conducts for its employees the Employee Pension Plan ("PPE", "Plan"), registered by the Supervisory Authority under number ZM RPPE 178/02/12/19. Collective agreement is based on records of payment of employee contributions to the investment fund by the employer. The Plan is conducted and managed by Esaliens TFI S.A. (previously Legg Mason TFI S.A.).

  The Group's pension plan is a defined contribution program in accordance with IAS 19. The Group pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses in the period they concern.

  The basic contribution paid by the employer is defined as a percentage of salary of the Plan member. The basic contribution rate amounts to 7%. The additional contribution - voluntary, is paid by the employee - the Plan participant. The basic contribution is the income of the Program participant, from whom he is obliged to pay personal income tax (articles 12 and 13 of the Act on the income tax from individuals of 26 July 1991, Official Journal from 2019, item 1387 with amendments).

  Payments from the Plan are paid after the participant's or entitled person's motion and under conditions specified in the program.

  The Plan participant may quit the Plan. The employer stops charging and paying basic and additional contributions for the Plan participant, and the funds that have accumulated on the Plan participant's registers are left there till the time of payment, transfer payment, transfer or refund.
- other long-term employee benefits - jubilee and other long service awards and deferred cash awards granted to the Management Board and people, whose professional operating has a significant impact on the Bank's risk profile. From 1 January 2015, employees with long-term work-experience (10, 20, 30 years, etc.) are entitled to rewards in kind.
- employee equity benefits - in the form of phantom shares of Bank Handlowy w Warszawie S.A. and also in the form of common stock under stock award programs based on shares of Citigroup common stock in the form of deferred stock (capital accumulation plan - CAP). In 2020, the award under programs based on Citigroup shares has been granted conditionally. In accordance with IFRS 2 "Share-based payment", all the programs functioning in the Group are deemed to be cash-settled programs. A provision is created for future payments is shown in the "consolidated statement of financial position" and "General administrative expenses" in the income statement. The costs of the program are determined on the basis of the Bank's shares price or Citigroup share price. According to IFRS, the fair value is measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value deferred shares at the reporting date times the part of the rights that were deemed acquired in that period. Detailed information concerning the employee equity benefits are presented further in this note.

Provisions/accruals for the above employee benefits are as follows:

PLN'000	31.12.2020	31.12.2019
Provision for remuneration	60,548	58,977
Previsions for unused leave	14,444	11,951
Provision for employee retirement and pension benefits	75,880	68,325
Provision for employee equity compensation	16,577	14,364
Provision for workforce restructuring	550	-
	167,999	**153,617**

The provision for retirement and pension benefits is created individually on the basis of an actuarial valuation performed periodically by an external independent actuary. The valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future.

The Group performed a reassessment of its estimates as at 31 December 2020, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. The discount rate was set at 2.00% and wage growth rate at 2.3%.

Change in provisions/accruals for employee retirement allowances and jubilee payments:

PLN'000	2020 Provision for retirement allowances	2019 Provision for retirement allowances
As at 1 January	**68,327**	**58,340**
Increases (due to):	9,273	11,544
Actuarial profit/loss on revaluation	1,975	4,972
Including those resulting from:	-	-
Change of economic assumptions	(458)	6,555
Experience adjustment	2,433	(1,583)
Remuneration cost	1,367	4,822
Interest cost	5,931	1,750
Decreases (due to):	(1,720)	(1,557)
Provisions utilization	(1,720)	(1,557)
As at 31 December	**75,880**	**68,327**

Analysis of sensitivity for significant actuarial assumptions

PLN'000	2020 Provision for retirement and pension allowances	2019 Provision for retirement and pension allowances
Central value	75,880	68,327
Decrease of growth salary to 1 p.p.	67,033	60,211
Increase of growth salary to 1 p.p.	86,216	77,840
Decrease of rotation by 10%	79,103	71,454
Increase of rotation by 10%	72,909	65,455
Decrease of discount rate by 0.5 p.p., including:	80,105	70,738
Falling to benefits paid within 1 year	6,214	4,517
Increase of discount rate by 0.5 p.p., including:	74,874	66,310
Falling to benefits paid within 1 year	6,210	4,513

More information about defined benefit programs in the Bank's financial report can be found in note 2.

In 2020, the Group's expenses in respect of premiums for the Employee Pension Plan amounted to PLN 24,491 thousand (in 2019: PLN 24,503 thousand).

Employment in the Group:

	2020	2019
FTEs		
Average employment during the year	3,026	3,161
Employment at the end of the year	2,994	3,071

Description and principles of employee stock benefit schemes

Under the employee stock benefit program, the phantom shares of Bank Handlowy w Warszawie S.A. and awards in the form of Citigroup stock (the so-called Capital Accumulation Program, or CAP) are offered to selected employees.

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. "Deferred shares" within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. "Deferred shares" give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. "Deferred shares" are converted into stocks after the end of a period that is determined in the Program Rules. As a general rule, the employee has a right to options revoked at the moment of employment termination in the Citigroup, provided the termination of said contract "Capital Accumulation Program – Prospectus" for granted options. Deferred shares granted in previous years will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

In 2020, the award under this Program has been conditionally granted.

The employee share program is subject to internal controls in the Compensation and Benefits Unit.As of 22 December 2017, the Bank implemented the employee remuneration Policy of Bank Handlowy w Warszawie S.A., replacing the prior policy for the remuneration of key persons in Bank Handlowy w Warszawie S.A.

According to the above-mentioned policy, the Management Board of the Bank and other managerial staff having a significant influence on the Bank's risk profile receive variable remuneration in relation to individual performance and the Bank's financial results.

A portion of the Variable Remuneration awarded conditionally in 2020 for persons covered by the Policy will be paid in tranches during in the next 3.5 or 6 years for the President of the Management Board.

Variable Remuneration – Phantom shares	
Transaction as per IFRS	Transactions share-based payments settled in cash in accordance with IFRS 2
Phantom Shares grant date	15 of January 2018 14 of January 2019 14 of January 2020
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	• Phantom Shares for the President of the Management Board Shares granted in 2018-2020 - at least 12, 24, 36, 48, 60, 72 months after grant date • Phantom Shares granted in 2018-2020 for other employees – at least 6, 18, 30, 42 months after grant date
Vesting date	• Phantom Shares for the President of the Management Board – in 2018-2019 - at least 12, 24, 36, 48, 60 months after grant date – in 2020 – at least 12, 24, 36, 48, 60 • Phantom Shares granted in 2018-2020 for other employees – in 2018-2029 - at least 6, 12, 24 and 36 months after grant date – in 2020 – at least 12, 24, 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Bank in • 2018: – For the President of the Management Board in relation to the award from 2018-2023 – For other employee in relation to the award from 2018-2021 • 2019: – For the President of the Management Board in relation to the award from 2019-2024 – For other employee in relation to the award from 2019-2022 • 2020: – For the President of the Management Board in relation to the award from 2020-2025 – For other employee in relation to the award from 2020-2023
Program settlement	At the settlement date the participants will get an amount of cash being the product held by a participant phantom shares and the arithmetic mean of the lowest and highest prices of shares of the Bank notified on WSE at the maturity date. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Member of the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

Another component of Variable Remuneration granted according to the Policy is the Deferred Cash Award.

Variable Remuneration – Deferred Cash Award	
Transaction as per IFRS	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	15 of January 2018 15 of January 2019 14 of January 2020
Granted amount	The amount was settled on the Deferred Cash Award grant date
Date of maturity	• Deferred Cash Award for the President of the Management Board in 2018-2020 - at least 18, 30, 42, 54, 66 • Deferred Cash Award granted in 2018-2020 for other employees – at least 18, 30, 42 months after grant date
Vesting date	• Deferred Cash Award for the President of the Management Board in 2018-2020 - at least 12, 24, 36, 48, 60 months after grant date – Deferred Cash Award granted in 2018-2020 for other employees – at least 12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Group • 2018: – For the President of the Management Board in relation to the award from 2018-2023 – For other employee in relation to the award from 2018-2021 • 2019: – For the President of the Management Board in relation to the award from 2019-2024 – For other employee in relation to the award from 2019-2022 • 2020: – For the President of the Management Board in relation to the award from 2020-2025 – For other employee in relation to the award from 2020-2023

Assumptions of valuation of the employee equity benefit schemes

The fair value of particular awards and the assumptions used in their measurement is shown below:

CAP Program	Grant date	Exercise price/stock price at grant date [USD]	Number of eligible employees	Number of options/shares
1	13.02.2020	78.91	1	387

Phantom Shares Program	Grant Date	Exercise price/stock price at grant date [PLN]	Number of eligible employees	Number of options/shares
1	15.01.2018	83.02	38	21,798
2	14.01.2019	69.10	39	40,819
3	14.01.2020	52.56	39	87,285

	CAP Program	Phantom Shares Program
Period to acquire the title (in years)	25% after each of the following years	40% after 0.5 of a year and 20% after 3 subsequent years, 40% after a year and 12% after 5 subsequent years or 60% after 0.5 of a year and 13.33% after 3 subsequent years, 60% after a year and 8% after 5 subsequent years
Expected average life cycle of the instrument	At the time of rights acquisition	From 2020: 40% on the grant date and 20% after 3 following years, 40% on the grant date and 12% after 5 following years or 60% on the grant date and 13.33 % after 3 following years, 60% on the grant date, and 8% after 5 following years
Probability of premature termination of employment (annual staff turnover for awarded employees)	0.00%	4.26%
Fair value of one instrument* (in USD)	59.26 (USD)	34.00 (PLN)

* *Varies depending on the date of exercise*

The number and weighted-average price of shares (CAP Program) are presented below:

	31.12.2020		31.12.2019	
	Number	Weighted-average share price [USD]	Number	Weighted-average share price [USD]
At the beginning of the period	201	37.05	651	42.05
Allocated in the period	387	78.91	-	-
Executed/redeemed /expired in the period	201	81.12	450	-
At the end of the period	387	78.91	201	37.05

The number and weighted-average price of Phantom Shares are presented below:

	31.12.2020		31.12.2019	
	Number	Weighted-average share price [PLN]	Number	Weighted-average share price [PLN]
At the beginning of the period	117,537	74.67	111,492	79.49
Allocated in the period	173,560	52.56	127,171	69.10
Executed in the period	139,017	38.40	119,313	54.62
Redeemed/expired in the period	2,178	-	1,813	-
At the end of the period	149,902	61.49	117,537	74.67

On 31 December 2020, the book value of liabilities from the phantom share and CAP programs amounted to PLN 16,272 thousand (31 December 2019: PLN 13,989 thousand). The costs recognized in this respect in 2020 amounted to PLN 8,064 thousand (in 2019: PLN 4,530 thousand including the costs of CAP programs).

48. The impact of COVID-19 on the Group's functioning

The announcement of the COVID-19 coronavirus pandemic state in Poland in March 2020 had a significant impact on the Group's operations. On the one hand, the environment in which the Group started to operate has changed under the influence of unprecedented actions taken by public institutions and regulators, on the other hand, there has been a change in the behavior and habits of customers, both institutional and retail.

Operating activities

The Group focused on ensuring the safety of its employees and operational efficiency. In the peak periods of the pandemic, approximately 80% of employees remained in the remote work mode, which, due to the scale, forced the adaptation of the Bank's ICT infrastructure and investment improving security.

In addition, the Bank focused on continuing a high quality of customer service despite the increased use of remote channels by customers in the initial phase of a pandemic in the new remote work environment.

Further information on the impact of COVID- 19 on the Group's operating activities have been described in the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2020.

Financial activities

In order to counteract the negative effects of a pandemic on March 17, April 8 and May 28, 2020, the Monetary Policy Council decided to reduce interest rates (including the reference rate by 140 basis points in total), which negatively affect the Group's net interest income.

Due to the continuing economic uncertainty, reflected in the depth of the recession, its duration and the amount of the expected recovery, which has a direct impact on the business of the Group's customers, the Group decided to create an additional provision for expected credit losses dedicated to the effects of the COVID-19 epidemic.

Further information on the impact of COVID- 19 on the Group's financial activities have been described in the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2020.

Business activities

In the face of unprecedented situation caused by COVID-19 pandemic, the Group focused on providing support to its clients in the areas of Institutional and Consumer Banking.

In order to support the liquidity of enterprises and preserve jobs, the Bank implemented solutions under the Anti-Crisis Shield Program of the Polish Development Fund.

The Bank also developed electronic access channels to its solutions and products. For Institutional Banking customers, a qualified electronic signature has been implemented for all documentation (including banking account agreements, other product agreements as well as inquiries and forms).

In turn, for Consumer Banking customers, the Bank – as the first bank in Poland – launched a completely remote and automated credit process based on a biometric solution for three main products: personal account, credit card and cash loan.

At the same time, the Bank conducted an extensive educational campaign on cybersecurity (devoted to, inter alia, social engineering methods used by hackers - including those related to the COVID-19 pandemic).

Further information on the impact of COVID- 19 on the Group's business activities have been described in the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2020.

The influence on credit risk

In 2020, due to COVID-19 outbreak, the Bank has undertaken a series of measures within credit risk management. Given significant dynamics of changes, high uncertainty regarding COVID-19-related incidents, especially in terms of the scale of slowdown, horizon or the effects of aid programmes, the Bank is analysing the market conditions and their influence upon credit portfolio quality on an ongoing basis as well as monitoring control guidelines in terms of the rules of including COVID-19's influence upon calculating provisions for expected credit losses, undertaking proper measures.

The Bank is monitoring credit portfolio, with particular emphasis on the assessment of the scale of influence and sensitivity of particular industries and clients on the situation related to the effects of the pandemic. As a result of this monitoring, the Bank has discounted the current economic uncertainty and its potential effects in terms of the assessment of borrowers' creditworthiness and the classification change. Additionally, the Bank has included the observed and forecasted deterioration of the macroeconomic environment.

In the case of institutional banking, the result on expected credit losses in the first half of 2020 amounted to PLN 82 million, while taking into account one-off events the result amounted PLN 168 million. In the first half of 2020, the costs of risk reflected the impact of the pandemic, the action taken by the Bank and the adopted the scenarios of macroeconomic forecasts; the biggest change was related to exposures in Stage 2. In the second half of 2020, the write-off were partially reserved, e. g. with one-off events and improving the scenarios of macroeconomic forecasts (as compared to the forecasts as of June 30, 2020) and their reflection in the horizon of estimating expected credit loss.

In the case of retail banking, the value of write-off resulting from the expected credit loss models was lower than in previous year, due to the scale of support tools, adjustment of lending policy and lower demand for credit products due to the pandemic. This effect was offset by the negative impact of the deteriorating the scenarios of macroeconomic forecasts, although were positively revised in the second half of 2020.

The impact on expected credit losses may not by fully reflected in the results of impermanent models, i.a. used support tools, therefore the Group made additional write-off for this purpose. These write-offs related to institutional retail banking.

Provision for expected credit losses with a breakdown to the segments of activities.

	I half of the year	II half of the year	2020	2019
Retail banking	(65,536)	(42,763)	(108,299)	(77,452)
Institutional banking	(137,963)	55,995	(81,968)	(168,266)
Total	**(203,499)**	**13,232**	**(190,267)**	**(245,718)**

Further analyses of the costs of provision for expected credit losses are presented in the note no.11 The portfolio's characteristics are shown in the Risk Management section, where the breakdown of the credit portfolio into stages is shown in accordance with IFRS 9-based accounting policy of the Bank and according to days of delay or rating.

The Group analyses the expected credit losses' sensitivity in terms of the methods and assumptions of the expected credit losses model, especially the sensitivity to the forecasts of macroeconomic situation. The expected credit losses for expositions with no impairment's changes shown in the table below were determined as the difference between the expected credit losses obtained for a specific macroeconomic scenario and the expected credit losses obtained with taking into account all the macroeconomic scenarios weighed by the probability of their realization.

The growing uncertainty and volatility of conditions resulted in an increase of sensitivity and the scale of influence of the applied macroeconomic scenario upon the estimation of the expected credit losses.

Change of expected credit losses for stage 1 and 2 assuming 100% scenario weight as at 31.12.2020	Optimistic scenario	Pessimistic scenario
Consumer Bank	(1,923)	2,030
Institutional Bank	(3,040)	5,025
Razem	**(4,963)**	**7,055**

The scenarios' details are presented in the Risk Management note.

The Bank grants and acts as an intermediary in granting aid tools for debtors as a part of statutory and non-statutory initiatives. The possibility of deferring repayments offered by the Bank is a part of non-statutory moratorium in the meaning of the guidelines of the European Banking Authority regarding statutory and non-statutory moratoriums for credit repayments, used by banks due to the crisis caused by COVID-19. This moratorium was finalized in May 2020 by banks being members of the Union of Polish Banks and notified to the EBA by the Polish Financial Supervision Authority. The moratorium comprises the aid instruments granted from 13 March to 30 June 2020, which was then extended to 31 March 2021.

In June 2020, based on the introduced regulations, the Bank made possible for the consumers to suspend the loan repayment for the period of up to 3 months, with no interest charged for using the principal during this period (statutory moratorium). This moratorium was also notified to the EBA by the PFSA.

The table below shows the gross carrying amount of receivables subject to the moratoriums as at 31 December 2021.

PLN'000	Gross carrying amount*				
	Residual term for moratoriums				
	Total	<= 3 months	> 3 months <= 6 months	> 6 months	expired
Institutional banking segment	271,032	-	-	-	271,032
Retail banking segment	728,021	42,091	4,009	-	681,921
Total	**999,054**	**42,091**	**4,009**	**-**	**952,953**

* *The table presents the gross carrying amount as at the balance sheet date and particular it does not include repaid loans and credits, there were subject to moratoria.*

Deferred payment of receivables is treated by the Bank as a payment schedule change that is an insignificant contract change and the effect of this change is included in the interest income, in the income statement. The income from the insignificant change included in the income statement in 2020 amounted to PLN (1,253) thousand. The occurrence of moratorium does not automatically cause reclassification of credit exposure to assets with a significant credit risk increase since the initial recognition.

The influence on liquidity risk

Within the processes of liquidity management and the situation caused by COVID-19 pandemic, the Bank has implemented intensified monitoring of the liquidity situation of the Bank and increased the frequency of the Assets and Liabilities Committee meetings that are held for the purpose of current monitoring of the Bank's liquidity and managing liquidity risk.

At the same time, the Bank has noted a significant increase of the clients' funds and improvement of key liquidity measures such as LCR ratio, presented in the "Risk Management" section.

Goodwill impairment test

The Group annually conducts obligatory impairment tests for goodwill impairment accordingly to the model developed on the basis of IAS 36 guidelines. Test performed as at 31 December 2020 resulted in PLN 214.7 million impairment of goodwill attributable to consumer banking. Details are presented in note 25.

49. Subsequent events

Starting from 1st January 2021, the EBA guidelines on the application of the definition of default under Article 178 of Regulation of the European Parliament and the Council (EU) No 575/2013 from 26th June 2013 become effective. The implementation of changes aims to unify the approach on the European market, thus ensuring comparability of the levels of non-performing loans presented by financial institutions. Major changes concern change in the method of calculating days past due, including the determination of the materiality threshold (relative and absolute) against past due amounts or detailed rules for the treatment of joint credit obligations and for the transfer of default status between exposures. The impact of the implementation of the EBA guidelines on the Group's credit risk costs was estimated to be insignificant.

After 31 December 2020 there were no other major events undisclosed in these financial statements, that could have a significant influence on the net result of the Group.

Signatures of Management Board Members

Date	Name	Position/function	Signature
23.03.2021	Sławomir S. Sikora	President of the Management Board	
23.03.2021	Natalia Bożek	Vice-President of the Management Board	
23.03.2021	Dennis Hussey	Vice-President of the Management Board	
23.03.2021	Maciej Kropidłowski	Vice-President of the Management Board	
23.03.2021	Barbara Sobala	Vice-President of the Management Board	
23.03.2021	James Foley	Member of the Management Board	
23.03.2021	Katarzyna Majewska	Member of the Management Board	

Report on activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2020

March 2021

In accordance with § 71 item 8 of the Ordinance of the Minister of Finance on current and periodical information provided by issuers of securities and the conditions for regarding information required by the law of non-member state as equivalent dated 29 March 2018 (Journal of Laws of 2018, item 757, as amended), report on activities of the Bank and the Group was prepared in the single report. The information in the report refer to the Group (including the Bank) or only to the Bank as specified in the individual chapters, tables or descriptions.

CONTENTS

I. Introduction

1. Description of activities of the Bank Handlowy w Warszawie S.A.

Bank Handlowy w Warszawie S.A. ('Bank','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 fostering its leading position among banks which provide services to international corporations and the largest local companies. Small and medium enterprises sector (SME) is another group of clients which is significant for the Group. Concentration on acquiring new clients coupled with efforts to strengthen relations with the existing clients from selected industries, as well as support for clients who seek their business opportunities abroad (the initiative Emerging Market Champions) are the key for building the Group's market position.

The Group ,s objective is to play the role of Strategic Partner to Polish enterprises, who actively supports the expansion of the Polish industry. This is tangibly reflected in the Bank's product offer with foreign exchange transactions and products associated with trade finance and secure trade transactions being its important and inextricable part. Furthermore, the Bank strives to maintain the status of one of the safest venue for keeping institutional clients' savings, which delivers many state-of-the art and useful solutions in operational accounts and day-to-day cash management.

The Bank's sound capital position and its landmark network of international connections, is also appreciated by consumer banking clients. The Bank uses its competitive edge in this regard to foster its leader position in net worth clients banking. Aim-driven, the Bank is constantly developing its offer for Citigold clients and a unique offer - Citigold Private Client, which was launched at the end of 2015 for the most affluent clients. In the retail segment, the Bank focuses on investment products and special rewards for clients who decide to use the Bank's online wealth management products. The Bank's geographic breadth thanks to its international connections, makes the offer for individual clients more attractive and a unique experience in global banking.

Other individual clients, notably emerging affluent clients for whom the Bank develops a special proposition - Citi Priority, also are very important for the Bank. Citi Handlowy refines its package solutions to foster deposit based relations with clients from that segment and to address at the same time their lending needs.

Moreover, Citi Handlowy is an undisputed industry leader in credit cards with access to products from Citi global product range, accepted worldwide and providing exceptional value to the client, such as, among other rewards, loyalty reward schemes. The Bank aims at further strengthening its market share in non-secured credit products by satisfying lending needs and increasing the number of clients relying on its competitive cash loan or instalment product offer as well as innovative and agile processes.

Dom Maklerski Banku Handlowego S.A. (DMBH) (the Brokerage House of Bank Handlowy) is one of the most active actors in Poland's capital market and one of the leaders in terms of share in turnover on the Warsaw Stock Exchange.

Leading position in Customer **FX**
Over 140 currencies available multicurrency account

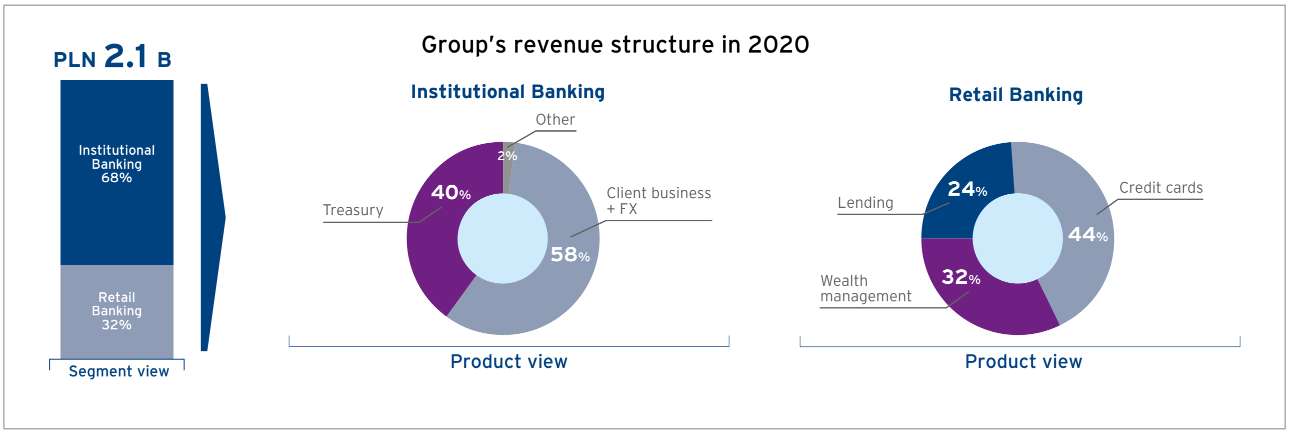
Primary Dealer
of Treasury Securities

Smart Ekosystem
lean branch structure

1 position
★★★★★★
seventh year in a row!
in the Euromoney banking Cash Management 2020 and again the Market Leader title for Citi Handlowy

Bank of first choice
77% of Institutional Clients
Dominant position in servicing global companies operating in Poland

22%
market share
#1 in Credit Cards: loans granted



2. History of the Bank Handlowy w Warszawie S.A.

Founded in 1870, Bank Handlowy w Warszawie S.A. is the oldest commercial bank in Poland today and one of the oldest continuously operating banks in Europe. After 150 years in the market, Bank Handlowy has developed a strong brand. Since 2001, the Bank has been a part of Citigroup, a global financial institution, and has since operated in Poland under the brand name of Citi Handlowy.

Today, under the brand name Citi Handlowy, Bank Handlowy w Warszawie SA offers a broad and modern range of products and services of corporate, investment and retail banking. Affiliation with Citi, the leading global financial institution, ensures that clients of Citi Handlowy have access to financial services in almost 100 countries. For more information, please visit **http://www.citibank.pl/poland/homepage/polish/historia.htm.**

Citigroup is a leading global provider of financial services. Its customer base totals approx. 200 million clients, including consumers, corporations, governments and their agencies, and various institutions in more than 160 countries. It offers a wide range of financial products and services including corporate and investment banking, consumer banking, credits, insurance, securities market services and asset management. For more information, please visit **www.citigroup.com** or **www.citi.com**.

We are part of Citi the World's Most Global Bank

Physical presence in **96** countries and territories

Supporting clients in **162** countries and jurisdictions

Brand with **200** years of presence

3. Major developments in 2020

The year 2020 was the time of implementation of the growth strategy in the key areas of the Group activities, which is confirmed by the following achievements and events:

- The business activity of the **Institutional Banking segment** was **immune to the effects of the COVID-19 pandemic**, revenues in this segment **grew by PLN 103.6 million (ie 8.0% YoY)**;
- The growth mentioned above was possible thanks to the high business activity of clients in the following areas:
  - The Group participated in **the largest transactions in the capital market in 2020**, such as: IPO of an e-commerce company worth PLN 10.5 billion;
  - The Group **increased its shares in the strategic clients group – global clients** (increase in the number of clients by 5% YoY, in particular in high technology industries and deposit volumes by 10% YoY);
  - The average level of balances accumulated on strategic current accounts of institutional clients in 2020 **increased by 26% to the level of PLN 20.5 billion compared to 2019**;
- **Continuation of automation and digitization** of processes in Institutional Banking:
  - Introduction of Citi Payment Insights - a new solution in the area of payment management, which enables the tracking of outgoing and incoming clients ,payments, and introduction of a new solution integrating the clients' financial and accounting system (ERP) with the Bank's system;
  - As a result, the Group processed approximately 32.3 million transactions electronically, which means an increase by 7% YoY;
  - Facilitating customer interaction with the Group by introducing eWnioski (eForms) - an electronic platform for document exchange. In 2020, the number of eForms increased by 14% YoY;
  - Automation of FX hedging transactions for clients.
- **Confirmation of the leader position** of Citi Handlowy in **Wealth Management**:
  - **Increase in the balance of investment products by 23% YoY;**
  - **Increase in the number of affluent clients by 7% YoY.**
- **The Group invested intensely in technology in the Consumer Banking segment:**
  - The Group is the only bank in Poland that offers 3 most important products: personal account, credit card and cash loan through remote biometric processes that do not require customer contact with the Bank;
  - For individual clients, the Group **introduced Citi Kantor - a currency exchange platform**, which is very popular and, as a result, the FX volumes in this segment of the Group increased by 43% YoY.
- The Bank continued the implementation of **partnership strategy** in order to acquire new individual clients. In 2020, a new cooperation with OBI store chain began, thanks to which OBI customers can apply for a Citi Handlowy credit card.

4. The Bank's response to the COVID-19 pandemic

Institutional Clients	Local society
• **Building a platform for submitting applications under the Polish Development Fund program via the Bank's online systems**: micro, small and medium-sized enterprises affected by the COVID-19 pandemic may submit applications for subsidies under the Financial Shield (99% of positive applications); • **Temporary loan repayment deferral**: up to 3 months; • **Promoting anti-crisis solutions of Bank Gospodarstwa Krajowego among the Bank's customers**: providing liquidity to entities being in a difficult situation due to COVID-19 by securing up to 80% of the loan amount under the Liquidity Guarantee Fund; • **Continuing the development of digital solutions for customers by implementing:** - online transaction authentication with the use of biometric data of corporate card holders and the CitiManager mobile application; - qualified electronic signature for all documentation; - new functionalities of the online banking system, such as: MobilePASS (access to the system by using dynamic passwords generated on a smartphone), CitiDirect BE Mobile (daily payments managing directly from a smartphone or tablet), CitiDirect BE Administrator (other users' rights managing), eForms (electronic documentation exchange platform).	• **#Cisi Bohaterowie („#Silent Heros")** – campaign supporting paramedics launched during the first days of the pandemic. Thanks to the active support of volunteers, the Kronenberg Foundation at Citi Handlowy provided meals to over 350 paramedics from Warsaw and Olsztyn (this translated into over 8,300 meals); • **Launching a fundraiser** for healthcare professionals. At the same time, in cooperation with Business Partners, campaigns supporting #CisiBohaterowie action were initiated, such as the transfer of interest on currency transactions among institutional clients; • In cooperation with the Emergency Services Support Foundation and Polish center of International Aid, the protective clothing for hospitals, 2 mobile respirators, 7 portable ultrasound devices and advanced videolaryngoscope for sate intubation of patients was purchased.
Individual Clients	**Employees**
• **Temporary loan repayment deferral**: up to 6 months; • **Secure banking**: - Implementation of completely remote application processes for 3 main banking products (personal account, credit card and cash loan) based on biometrics; - Increasing the limit for contactless payments from PLN 50 to PLN 100 without the need to enter a PIN code; - Dedicated educational campaigns on the safe use of online banking. • **Banking from home**: - Promoting of Citibank Online internet banking as the main tool for performing ongoing banking operations; - Adding a new Citi Mobile Token tool for online transaction authorization.	• Approximately 70% of the Bank's employees work remotely; • Rotation of employees who work in branches; • Additional one-off support benefit for employees particularly affected by the pandemic; • Award of a special bonus for each working day to all employees of branches whose work involved direct contacts with clients; • Regular communication in the form of teleconferences, newsletters and dedicated online meetings with the Bank's management; • Employees were surveyed on their well-being and needs in a pandemic situation - 88% of employees gave the Bank's Managers a very high and high rating for activities undertaken during COVID-19.

5. Strategy 2019-2021 - development prospects for the Bank Handlowy w Warszawie S.A.

5.1 General development objectives of the Group

In 2020, Citi Handlowy continued the implementation of the strategy for 2019-2021 (the „Strategy") set out in 2018, while taking actions appropriate to the situation resulting from the COVID-19 pandemic and the economic lockdown related to maintaining full operational capacity and providing services for customers to the full extent in compliance with safety standards.

Institutional Banking	Consumer Banking
Foreign exchange - coherent offer for companies seeking for a global financial partner **New economy companies** - providing full services in the field of complex banking solutions (for example cash management products **Transformational transactions** - for the largest corporate clients, also with involvement of private equity funds (e.g. LBO, IPO or M&A transactions) **Global companies –** maintaining a leading position	**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 **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 services and regular updates of our offer of structured products and investment **Customer Experience** - using modern contextual banking development tools **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
Shareholder value added		

In the next year of applying the Strategy, the following results were achieved on the way to achieving long-term objectives goals:

- expansion of the FX offer with new currencies, including the Mexican peso and the Singapore dollar;
- increase in the number of global clients - the number of clients increased by + 5% YoY especially in the high-tech industry;
- participation in the largest transactions on the capital market in 2020, such as a public offering (IPO) of an e-commerce company worth PLN 10.5 billion;
- implementation of the possibility to authenticate online transactions with the use of biometric data of the corporate card holder and the CitiManager mobile application;
- an increase in the balance of investment products by + 23% YoY and an increase in the number of affluent clients by + 7% YoY.
- implementation of partnership programs with BP and OBI;
- enabling remote opening of a personal account based on biometrics;
- high level of the Bank's capital security: high quality of assets and capital, capital adequacy ratio (TCR) at 22,5%, i.e. almost 12 pp above regulatory capital thresholds;
- continuation of automation processes at the Bank: as part of the „Paperless" project, paper consumption dropped by 58% YoY;

In 2021, the Bank will adjust its activities taking into account significant changes in the environment, especially those related to the changing needs and expectations of customers in the period of the pandemic and economic lockdown. The offer for individual clients will continue to be enriched with new products resulting from the expansion of partnership programs and ecosystems, which should translate into a more dynamic increment in credit volumes. In the institutional client segment, cooperation with companies which extend or intend to extend their business abroad will remain the main point of focus and in the field of support processes the Bank will still be committed to the digitization and simplification of processes and their automation which is especially important for effective remote work.

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.

Strong capital position, high liquidity and good quality of the credit portfolio ensure favorable conditions for the Group to undertake actions aimed at further growth in key areas. 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. At the same time, the high level of digitization of services and processes and extensive experience in acquisitions in remote channels strengthen the Group's position during the pandemic.

Development prospects

In 2021, the Bank will adjust its activities to the significant changes in the environment, in particular those related to changing needs and expectations of clients during the pandemic and the economic lockdown. The Bank will strive to strengthen its position in **Wealth Management** by expanding its offer of investment products and improving its advisory model. The Bank will also continue to focus on customers looking for convenient **currency exchange solutions** (Citi Kantor). The Bank also plans to reposition its **credit card offer**, especially in the context of new partnerships formed with companies with a large retail customer base.

In the institutional segment, the priority continues to be maintenance of **the Bank's position of first choice bank for global**

enterprises investing in Poland and provision of a modern **currency exchange** platform with a wide range of currencies, including exotic currencies (e.g. Mexican peso, Singapore dollar), and availability of currency dealers' expertise in **strategies to hedge companies' currency positions with the use of derivatives**. The Bank also notices increased interest on the part of companies in implementing business transformation strategies in response to changes in the economic environment and using Bank's know-how for this purpose. As a result, the Bank expects customers' considerable interest in **investment banking services**, especially in the area of mergers and acquisitions, and debt restructuring. At the same time, the Bank will continue to invest in digitization of processes, in particular in the development of tools allowing for greater autonomy and customer control over **transaction banking** processes.

5.2 Institutional banking

In the Institutional Banking segment, the Bank is a leading provider of services to international corporations and the largest local companies. The segment strategy envisages initiatives to increase revenues from client operations. The most important initiatives in that area include a change of attitude to cooperation with fast growing companies of the new economy. These are businesses which want to grow beyond any limits and search for more complex banking solutions. The Bank offers such clients multi-product solutions which can meet their expectations (for example in the area of capital markets, debt instruments or international cash management) and is ready to provide appropriate financing. The Bank is able to identify such companies at an early stage of development and offer them appropriate solutions, also on the basis of its global nature and know-how derived from many markets in the world. In addition, the Group discerns a significant potential to increase its revenues by participating in transformational transactions carried out by the largest corporate clients, also with involvement of private equity funds (e.g. LBO, IPO or M&A transactions). The Group also wants to maintain its leading position in the segment of global companies.

5.3 Brokerage activity

A key factor that contributes to DMBH's performance is the investment activity of institutional investors, which in turn depends on the equity market situation and new inflows of funds to the capital market. From the perspective of the national equity market, stable trends have been observed for a few years that include an increased share of remote stockbrokers in stock market turnovers, the consolidation of bank groups and structural changes in stock market turnovers. Following the market trends DMBH implements technology projects aiming at further automation and improvement of processes which ensure the cost effective service of local and international institutional clients which are interested in algorithmic trading and high-volume transactions. The company wants to remain a leading market player in terms of turnovers in regulated markets. In the face of fierce competition and observed changes in the structure of stock market turnovers, DMBH will not aspire at all costs to become the market leader in terms of turnovers. The Company's goal is to maintain the economic effectiveness of its operations.

In the face of changes in the market of brokerage services for institutional clients, the Group perceives as particularly important the development of the retail client segment, where it discerns various opportunities to continue activities to improve the effectiveness of cooperation between DMBH and the Bank. Interest rates reduction to all-time lows has brought the appeal of bank deposits significantly down. Assets (both equities and bonds) have been partially moved to capital markets and the share of this segment of investors in the WSE turnover has grown.

Another vital area is capital market operations, where the DMBH wants to actively participate in IPO and SPO transactions.

It is anticipated that in the short run the business strategy of Dom Maklerski Banku Handlowego S.A. will still be based on growth in the traditional areas of operations and on defending the sources of its competitive advantage. The Company wants to keep up its focus on the continual improvement of quality of its services and introduction of new services, meeting the expectations of its clients and using new business and technology solutions.

In 2021, DMBH and BHW are expected to merge (under a sales contract). The Group anticipates that the merger will have a positive impact on the continued development of current brokerage activities.

5.4 Consumer banking

In 2021, the Bank will continue its strategy with regard to client segmentation and business model. According to its plans, the Bank will expand its products and services so that it can provide the highest value possible in the target segments.

In response to the ongoing COVID19 pandemic, the Bank continues to digitize its processes, products and services, bearing in mind the growing importance of the security aspect in the face of the epidemiological threat, as well as the fact that customers have become comfortable with and accustomed to remote and innovative banking processes.

Since mid-2020, the Bank has made it possible for new customers to fully remotely open all basic retail products (personal bank account, credit card and cash loan) based on biometric identity verification, without the need to leave home or contact a courier. The Bank will continue investing in its electronic platforms, i.e. mobile application and online banking, as its main client service channel and an ever more important source of new clients. The Bank also continues the digitization of correspondence with clients.

The Bank will strive to strengthen its leading position in the area of banking for affluent client segment. Aim-driven, the Bank will continue to develop its offer for Citigold Private Client (CPC) and Citigold clients. The Bank is going to increase the portfolio of clients from those segments by proactive acquisition and reinforcement of relationships with existing clients. Clients from the CPC and Citigold segments will have at their disposal a network of nine modern, fully renovated financial service centers located in eight major Polish cities. They will meet their financial and investment needs with the help of dedicated, professional personal advisors. The Bank wants to enhance the product range for those clients, both in the direct client–RM relations and on electronic platforms. For those client groups, the Bank will also continue cooperation with other Citi companies throughout the world in order to provide top quality services in the area of global banking.

In addition, in 2021, the Bank will also seek to win aspiring wealthy and mass customers. With these customers in mind, in 2020, the Bank launched CitiKonto, i.e. a personal account offer for everyday banking, with a unique currency offer and access to Citi Kantor, which enables quick currency exchange in electronic or mobile banking. As a result, the Bank will seek to expand its customer portfolio, thus enlarging its share in the so-called mass customer market.

In the area of credit cards, the Bank plans to continue implementation of the strategic partnership program, thus seeking to strengthen the value created for customers and to boost new customer acquisition. As a leader on the credit card market, the Bank will continue to offer products from Citi global range, accepted worldwide and providing exceptional value to the client, such as CitiSpecials Program. At the same time, the Bank plans to renew its offer of benefits and privileges available to customers as part of its flagship credit cards, e.g. Citibank World Mastercard® or PremierMiles.

In 2021 the Bank will also aim at strengthening its market share in non-secured credit products by satisfying lending needs and increasing the number of clients relying on its competitive cash loan or instalment product offer. The mentioned strategic partnerships and development of the personal account offer will allow us to better implement this goal, owing to better possibilities to sell a cash loan in addition to the already owned banking products.

The Bank intends to continue its strategy in the area of retail branches, which will be concentrated in the largest cities throughout Poland. The Bank is not planning any significant changes as regards the size of its branch network.

The Bank will continue initiatives which are to automate banking operations with the aim to optimize costs and improve client experience thanks to shorter and simplified processes.

6. Awards and honors

In 2020, the Bank, DMBH and the Kronenberg Foundation at Citi Handlowy were awarded prestigious titles and rewards:

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

  In 2020, Citi Handlowy transaction banking earned the title of Market Leader in cash management for corporate clients for the seventh time in a row in a prestigious **Euromoney** ranking.

- **Triumph of private banking of Citi Handlowy in the survey Euromoney 2020**

  Euromoney, the prestigious British magazine, named Citi Handlowy the "Best Private Banking Services Overall Poland" in its annual survey investigating the quality of the private banking offer. Citi Handlowy triumphed as the winner of this year's ranking and took the 1st place in as many as nine surveyed categories of services: Mega HNM (>$250M), UHNW (>$30MM-$250MM), HNW ($5MM-$30MM), Super Affluent ($1MM-$5MM) as well as in the scope of Capital Markets and Advisory, Family Office Services and International Clients and Research, and Asset Allocation Advice. The Bank also ranked second in the Next Generation and Innovative or Emerging Technology Adoption categories.

- **5 Forbes stars for Citi Handlowy private banking**

  In the **Forbes magazine ranking**, Citi Handlowy once again earned 5 stars for private banking, in which the Bank emphasizes the global nature of its offer, dedicated to clients doing business globally.

- **Citi Handlowy earning two Golden Arrow awards**

  The Citi Handlowy "Stay home with Citi Specials" campaign and the Citi Simplicity card video campaign using Google Director's Mix won Golden Arrow awards. In this contest, organized for 14 years, awards go to campaigns that represent best practices in using marketing tools, and breakthrough solutions are promoted. The jury composed of the marketing sector's representatives chooses projects that will constitute a point of reference for the whole sector.

- **Citi Simplicity Credit Card is a five-time winner of the „Golden Banker" ranking**

  The jury of the "Golden Banker" ranking found the Citi Simplicity Credit Card the best on the market for the fifth consecutive year. The Citi Handlowy credit card ranked first in its category in this prestigious ranking. The ranking also distinguished the cash loan from Citi Handlowy, which came in second.

- **KDPW Prize for the Brokerage House of Bank Handlowy**

  Dom Maklerski Banku Handlowego S.A. (Brokerage House of Bank Handlowy S.A.) received **the KDPW Prize** in the category of "Top quality securities registers tailored to scale of operations."

- **WSE Prize for the Brokerage House of Bank Handlowy**

  Dom Maklerski Banku Handlowego S.A. **received the WSE award** in the category of the "Largest share of a local Exchange Member in session trading in shares on the Main Market in 2019."

- **Citi Handlowy among Super Ethical Companies**

  For three years, Citi Handlowy has been a member of the **Super Ethical Company Forum**. This prestigious group includes companies which are named the „Ethical Company" consecutively over the period of three years. As a Super Ethical Company, Citi Handlowy shares its experience, transfers its best practices, promotes an ethical approach to business and inspires changes. Since the first edition of the competition, Citi Handlowy has been recognized for the most complex and systemic involvement in building and fostering an organizational culture based on ethics and values.

- **Citi in Poland in Diversity&Inclusion Rating**

  Citi Handlowy (together with Citibank Europe plc) entered the second edition of the **Diversity & Inclusion Rating**. This is a new initiative of the Responsible Business Forum and Deloitte, aimed at measuring advancement level of a company in terms of building a diverse, inclusive and ethical organization. It is a tool created on the basis of Polish and international experience and methodologies, designed to measure the level of advancement of a company in the process of building an inclusive organization. The second edition of the rating included 6 companies which demonstrated the highest level of diversity management.

- **Citi Handlowy's CSR practices in the FOB report**

  This year's edition of the **report prepared by the Responsible Business Forum** features **18 CSR initiatives of Citi Poland**. The "Responsible Business in Poland. Good Practices" publication is the only elaboration of this kind which sums up the most important CSR initiatives in Poland. This year's edition of the Responsible Business Forum's report includes such practices of Citi Poland as the Professor Aleksander Gieysztor Award, Pride Network Poland or the #CitiVolunteers for Progress Competence-Development Volunteering Program and IT for SHE. The report covers one practice in the scope of corporate governance, three in the scope of human rights, four in the scope of work, one in the scope of environment and nine concerning local community involvement and development.

- **Citi Handlowy makes the WPROST list of TOP 50 employers**

  The Bank ranked 13th in the overall list and 2nd among banks on the WPROST magazine TOP 50 list of the best employers in Poland during the pandemic.

- **Citi Handlowy in Responsible Companies Ranking**

  Also, in the 2020 Responsible Business Ranking by "Dziennik Gazeta Prawna", Citi Handlowy ranked 5th in the financial sector. The ranking covers mature companies, active in the area of CSR.

- **Citi Poland wins the "Benefactor of the Year" competition**

  Citi Poland won the prestigious contest "Benefactor of the Year 2019" in „sports" category. The Jury recognized the activity of the company which promotes Paralympic sports and encourages the society to support Paralympians. The "Benefactor of the Year" award is considered one of the most prestigious recognitions granted for social involvement and corporate social responsibility activities. The competition has been organized for over 20 years by the Academy for the Development of Philanthropy in Poland.

- **Citi Handlowy in WIG-ESG Index**

  Citi Handlowy is part of the **WIG-ESG** index, which comprises companies considered socially responsible, i.e. those that follow the principles of socially responsible business, in particular in terms of environmental, social, economic and corporate governance issues. In 2019, the WIG-ESG Index replaced the previous RESPECT Index which also, throughout its existence, included Citi Handlowy.

II. Poland's economy in 2020

1. Main macroeconomic trends

Otoczenie zewnętrzne

2020 was marked by a global recession triggered by a pandemic shock, and the global GDP fell by 3.6% compared to a 2.7% growth in 2019. The beginning of the year saw relatively high activity, but the rapid spread of the SARS-CoV-2 virus led to restrictions on mobility and a freeze in the global economy. In consequence, optimism plummeted among both consumers and businesses and sentiment indices reached all-time lows. The growth outlook has also deteriorated as a result of the trade conflict between the United States and China and the official exit of the Great Britain from the European Union. Economic forecasts for the world were successively downgraded, which reflected a recession significantly deeper than the downturn during the financial crisis of 2008-2009. Many countries launched large fiscal stimulation programs to support business and to protect labor markets. Simultaneously, the rapid deterioration in economic outlook triggered a fast and resolute response of central banks. The U.S. central bank ("Fed") reduced interest rates near to zero (Fed Funds rate dropped from 1.75% as at the end of 2019 to 0-0.25%) and started a range of initiatives to support various segments of the financial market, for example asset purchase programs. In turn, the European Central Bank ("ECG") commenced a new asset purchase program ("PEPP" – Pandemic Emergency Purchase Program) and strengthened its existing initiatives. During the year, the Fed balance sheet increased by $ 3.2 trillion to nearly $ 7.4 trillion, and the ECB balance sheet rose by EUR 2.3 trillion to EUR 7.0 trillion. In 2021, global GDP should increase by 5.2% YoY, and by 3.9% in 2022, however, global GDP is not expected to recover until 2024. Lifting of restrictions and return to the pre-crisis activity may take a long time and will depend on the course of the pandemic worldwide and on the pace of vaccination programs. Citi's expectations are that herd immunity will be achieved in the third quarter or fourth quarter of 2021 in developed countries and between third quarter of 2021 and first half of 2022 in developing countries. Mobility will be increasing along with the lifting of restrictions, most likely faster than implementation of the vaccination program. The economic recovery will be supported by the continued monetary and fiscal easing, including a large fiscal package in the US. GDP acceleration will contribute to rising inflation. We expect a gradual tightening of the US monetary policy, including the start of curtailment of the asset purchase program in the fourth quarter of 2021 and the first rate hikes at the end of 2022.

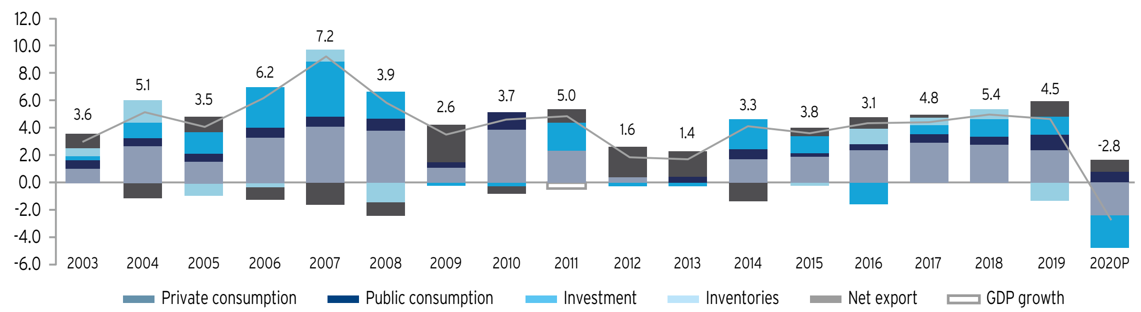
The global recession led to a deep decline in stock prices in the first quarter of 2020 but the indexes bounced back soon after the fiscal programs and activities of central banks were initiated. Interest rate cuts and bonds purchases by central banks supported the main debt markets. In 2020, yields on both German and US treasury bonds declined, reaching their record lows in the first quarter of 2020.

Gross Domestic Product („GDP")

In 2020, GDP fell by 2.8% compared to a 4.5% growth in 2019, which was the poorest result in approx. 30 years. This outcome was caused by a 3.0% decline in private consumption and an 8.4% decrease in capital expenditures. Even if the beginning of the year saw a quite good performance of the economy, the pandemic outbreak froze Poland's economy too. Consecutive restrictions on social mobility brought economic activity to a sudden halt. This was reflected in the historically weak GUS (Statistics Poland) data on economic activity for April and a 9% QoQ GDP decline in the second quarter of 2020. The third quarter brought a significant improvement in activity along with the lifting of epidemiological restrictions and a strong GDP growth of 7.9% QoQ resulting mainly from a rebound in private consumption accompanied by a rapid decline in household savings. Consumption was helped by the relatively good situation on the labor market, which was protected by government anti-crisis shield programs. As a result, the unemployment rate increased slightly and at the end of the year was at 6.2% compared to 5.2% at the end of 2019, and according to the LFS methodology, it increased to 3.2% from 2.9%, remaining among the lowest rates in the European Union. Pays at enterprises did not rise as much, falling inconsiderably to 4.7% as compared with 6.6% in 2019. In the second half of 2020, the industrial sector did well due to the absence of supply chain disruptions and the increased demand for durable goods at the expense of services during the pandemic. Industrial output declined by 1% YoY in 2020, after a 5.1% growth in 2019. The construction sector performed slightly poorer than the industry, with a 2.2% drop in construction output compared to a 4.8% growth in 2019. However, it was the services sector that took the hardest hit. In 2021, we expect the GDP to grow at close to 4%, and in 2022 at over 5%.

Economic growth may accelerate visibly in the second half of 2021 along with a gradual progress of the vaccination program, easing of restrictions and higher mobility, which will quickly boost private consumption while favorable trends in industry and exports will continue.

Contribution to GDP growth (%)



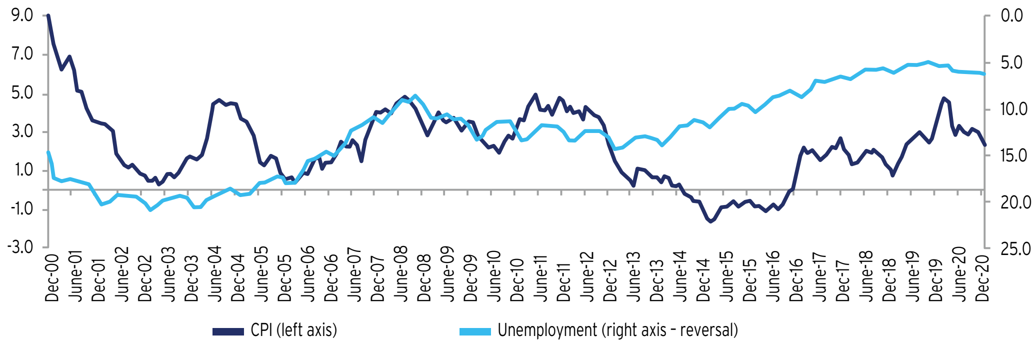
Source: Chief Statistical Office, Citi Handlowy forecasts

Inflation

Price levels of consumer goods and services in 2020 rose on average by 3.4% as compared with an increase by 2.3% in 2019. The higher inflation was mainly driven by the rise in administered prices, including those of electricity and waste collection fees. Over the course of 2020, inflation was gradually declining from 4.7% in February to 2.4% in December, mainly due to the declining inflation of food prices and transport due to lower fuel prices. The year-average net inflation went up to 3.9% from 2% in 2019. Consumer price dynamics proved higher than expected at the beginning of the pandemic as enterprises, especially in the services sector, were able to pass some of the costs of epidemiological restrictions on to consumers. In 2021, we expect the year-average inflation to fall to 2.7%, mainly due to base effects, but with the continued high growth of administered prices and the price pressure arising from realization of delayed demand, along with a gradual lifting of supply constraints.

In response to economic crisis, the Monetary Policy Council (“”) reduced the reference rate from 1.5% to 0.1% between March and May 2020. At the same time, the MPC reduced the reserve requirements from 3.5% to 0.5% and the National Bank of Poland (“NBP”) commenced an asset purchase program. As part of its structural open market operations, the central bank has purchased bonds amounting to about PLN 108 billion (approx. 4.8% of GDP) since mid-March. Moreover, at the end of the year, the NBP made currency interventions in order to curb zloty appreciation. It is likely that the MPC will keep the interest rates unchanged for a long time and will show a preference for a weak zloty, while the central bank will continue its bonds purchase program. We expect the first rate hikes in the second half of 2022.

CPI vs. unemployment

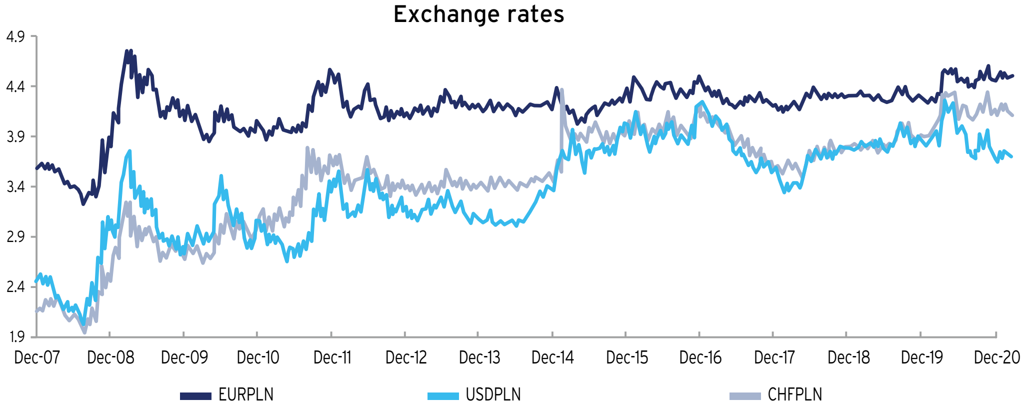


Source: NBP, GUS, Citi Handlowy.

2. Money and forex markets

In 2020, the Polish zloty declined by about 3.4% on average versus the euro and by about 1.6% to the U.S. dollar. The exceptional stability of the zloty in 2019 ended with the outbreak of the global crisis. The zloty weakened significantly at the end of the first quarter of 2020 along with a leap surge in risk aversion and the monetary policy easing by the Monetary Policy Council. The growth of risk aversion indicators adversely affect currencies of emerging countries, however zloty depreciation was relatively moderate and comparable to changes recorded for other Central Europe currencies. This zloty depreciation was also significantly lower than the decline during the financial crisis in 2008-2009. The factors that probably limited the scale of zloty depreciation include a relatively high rate of growth, high diversification of the economy, absence of significant structural imbalances, surplus in current trade turnovers and inflow of EU funds. Risk appetite in international markets started to improve gradually as consecutive fiscal stimulation packages and monetary easing were implemented by central banks in the United States, Europe and many countries affected by the crisis. However, the zloty remained relatively weak until the end of the year amid persistent uncertainty about further course of the pandemic, adopted restrictions and their impact on economic activity. At the end of the year, the gradual zloty appreciation was halted by central bank interventions. The EUR/PLN rate increased from 4.26 as at the end of December 2019 to around 4.54 as at the end of the year and the USD/PLN decreased from 3.80 to 3.75 in the same period.

Monetary market rates dropped in 2020 in the wake of declining NBP interest rates. The WIBOR 3M rate was 0.21% at end of June, as compared with 1.71% at the end of 2019. NBP interest rate cuts affected more the short end of the swap curve and the bond yield curve, which became steeper as a result. Despite deterioration of the fiscal outlook and a significant increase in borrowing needs, there has been a decline in long-term credit spreads, which may have been influenced by asset purchases by the central bank and the demand for bonds from domestic banks. In 2020, the yield of 2-year bonds declined by 138 bps, to 0.10% as at the end of 2020 from 1.49% as at the end of 2019. The yield of 10-year bonds declined by 88 bps, to 1.25% as at the end of 2020 from 2.13% as at the end of 2019.



Sources: Reuters, Citi Handlowy.

3. Capital market

Last year, investors experienced considerable swings in sentiments. The optimism at the beginning of the year (seen after the easing of trade tensions between the US and China) was restrained by the outbreak of the coronavirus pandemic. The dramatic growth of the number of infected persons forced the governments to declare a state of emergency and to initiate activities to reduce social mobility. The shutdown of economies brought the prospect of a recession, which translated into investors' withdrawal from risky assets and, as a result, a sharp sell-off, especially in the equity and corporate bond markets. This situation prompted central banks and governments to implement a number of stimulus plans and programs to ensure liquidity in the global economy. Those mass actions met with an enthusiastic reaction of capital markets. In effect, the next months of 2020 saw a significant recovery in equity markets. Very high optimism was visible in particular in the United States, where second quarter of 2020 turned out to be the best quarter since the fourth quarter of 1998. The positive sentiment continued into the second half of the year, supported by the accommodating monetary policy pursued by central banks. Information about the high effectiveness of vaccines and the prospect of accelerated immunization of the society were an additional impulse for the euphoric surges on stock markets in the fourth quarter of 2020.

Despite the high volatility throughout the year (a 38% decline in the first quarter of 2020, followed by a dynamic over 60% rebound in the following months), the main WIG index ended the year 1.4% below the 2019 level. The fall in stock prices was largely due to declining companies with the highest capitalization, the WIG20 index value lost 7.7% YoY (excluding dividends). The medium-sized companies index recorded a slight increase by 1.7% YoY. For another year in a row, significant increases (+ 33.6% YoY) were reported by companies with the lowest capitalization.

Among the sectoral sub-indices rates of return were polarized. Companies in cyclical industries, such as banks and the fuel sector, were under the greatest supply pressure, the quotations of their dedicated indices fell by 29.6% YoY and 23.6% YoY, respectively. On the other hand, spectacular increases were recorded by mining companies (+ 82.1% YoY, mainly due to KGHM's dynamic increases) and the construction sector (+ 60.7% YoY). Significant profits were also posted by sectors related to technology: WIG-Games increased 53.9% YoY, while the IT companies sub-index gained 36.3% YoY.

2020 saw a revival of IPOs, which was particularly visible in the second half of the year. In the last 12 months, seven companies debuted on the main trading floor (including two transfers from the New Connect market). In terms of the number of debuts, the past year was similar to the previous one, although it saw offers of definitely higher value (almost PLN 9.6 billion compared to PLN 35 million a year earlier). At the same time, a high number of market exits continued in 2020: 24 issuers left the main trading floor (compared to 23 entities in 2019). Consequently, at the end of 2020, 433 companies were traded on the WSE (compared to 449 at the end of December 2019), including 49 foreign ones. The total market value was PLN 1,068 billion (3% decline YoY), of which the capitalization of domestic companies accounted for 50.4% (PLN 538 billion in nominal terms).

Stock market indices, as at 31 December 2020

Index	2020 (1)	2019 (2)	Change (%) (1)/(2)	2018 (3)	Change (%) (2)/(3)
WIG	57,025.84	57,832.88	(1.4%)	57,690.50	0.2%
WIG-PL	58,270.52	59,064.17	(1.3%)	58,889.85	0.3%
WIG-div	1,102.18	1,051.08	4.9%	1,069.63	(1.7%)
WIG20	1,983.98	2,150.09	(7.7%)	2,276.63	(5.6%)
WIG20TR	3,633.75	3,914.45	(7.2%)	4,018.80	(2.6%)
WIG30	2,312.73	2,472.20	(6.5%)	2,581.52	(4.2%)
mWIG40	3,976.50	3,908.20	1.7%	3,909.37	0.0%
sWIG80	16,096.36	12,044.34	33.6%	10,571.10	13.9%
Sector sub-indices					
WIG-Banks	4,765.33	6,768.39	(29.6%)	7,453.65	(9.2%)
WIG- Construction	3,662.06	2,278.75	60.7%	1,915.00	19.0%
WIG-Chemicals	7,697.82	8,390.97	(8.3%)	9,350.86	(10.3%)
WIG-Energy	2,040.76	1,961.62	4.0%	2,410.68	(18.6%)
WIG-Games	28,873.53	18,765.23	53.9%	10,000.00	87.7%
WIG-Mining	5,625.47	3,089.84	82.1%	3,423.39	(9.7%)
WIG-IT	3,863.01	2,834.29	36.3%	1,991.93	42.3%
WIG-Medicines	4,682.94	5,197.43	(9.9%)	5,105.98	1.8%
WIG-Media	6,042.75	5,375.11	12.4%	4,513.06	19.1%
WIG-Automotive	3,981.19	3,521.67	13.0%	3,540.98	(0.5%)
WIG-Developers	2,385.90	2,460.44	(3.0%)	1,911.66	28.7%
WIG-Odzież	5,158.73	5,665.06	(8.9%)	6,021.68	(5.9%)
WIG-Oil & Gas	4,954.47	6,489.03	(23.6%)	7,998.16	(18.9%)
WIG-Food	3,641.75	3,126.05	16.5%	3,383.22	(7.6%)
WIG-Telecom	977.01	873.56	11.8%	619.93	40.9%

Source: WSE, Dom Maklerski Banku Handlowego S.A.

Value of trading in shares and bonds, volume of trading in derivatives on WSE, as at 31 December 2020

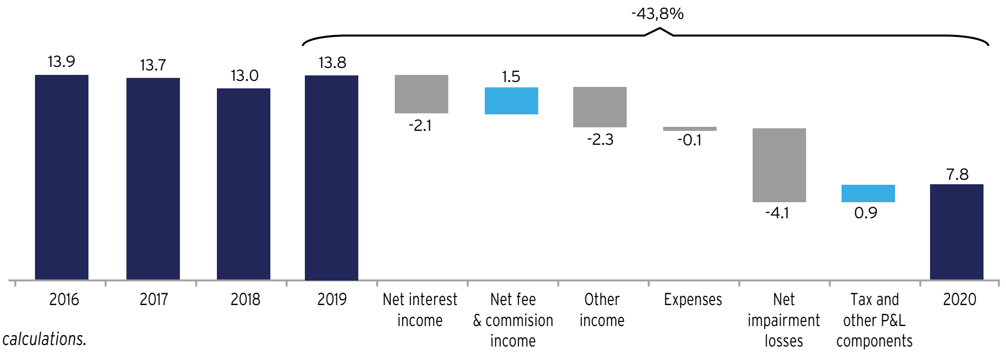
	2020 (1)	2019 (2)	Change (%) (1/2)	2018 (3)	Change (%) (2)/(3)
Shares (PLN million)*	622,249	390,533	59.3%	423,700	(7.8%)
Bonds (PLN million)	3,249	3,178	2.2%	2,662	19.4%
Futures ('000 contracts)	22,231	13,457	65.2%	15,741	(14.5%)
Options ('000 contracts)	749	504	48.6%	586	(14.0%)

Source: WSE, Dom Maklerski Banku Handlowego S.A,

** data including session and block transactions.*

4. Banking sector

Net profit of the banking sector (PLN billion)



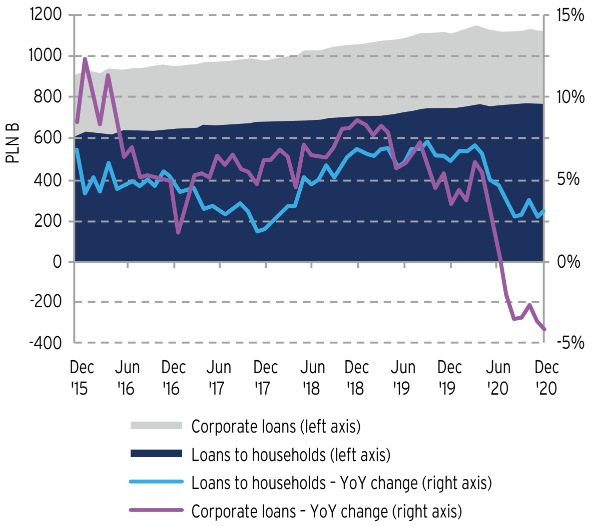
Source: KN, own calculations.

Financial results

According to the data published by the Polish Financial Supervision Authority ("KNF"), the banking sector achieved a net profit of PLN 7.8 billion in 2020, i.e. 43.8% (PLN 6.0 billion) less than the previous year. Despite the prompt adjustment measures taken by banks, the threefold reduction in interest rates translated into a 4.3% (PLN 2.1 billion) decline in net interest income. The loss caused by lower interest income was partially offset by the 8.6% YoY increase in fees and commissions income (PLN +1.5 billion). On the other hand, a significant decline was recorded in other income (-27.7% YoY, PLN 2.3 billion), which was partly caused by some banks recognizing some provisions for reimbursement of fees on prepaid consumer loans and provisions for legal risk related to foreign currency mortgage loans in other operating expenses. As a result, the total revenues generated by the banking sector in 2020 were at PLN 67.8 billion, 4.1% (PLN 2.9 million) less than for the entire 2019. In 2020, banks had to incur additional costs to meet sanitary requirements and to make IT investments related to migration to remote work. At the same time, however, a large number of optimization measures made it possible to keep total costs almost unchanged, despite higher depreciation and contributions to the Bank Guarantee Fund. The aforementioned legal risks, as well as deterioration of the banks' macroeconomic environment due to the COVID pandemic, forced banks to significantly raise provisions for credit losses. In consequence, the burden on the banking sector on that account increased by 33.9% YoY, i.e. PLN +4.1 billion. On the other hand, the significantly lower operating profit translated into income tax paid by banks being lower by 16.0% YoY (PLN -0.9 billion), however, it had no impact on the amount of banking tax (estimated increase by 2.6% YoY). The cost-income (C/I) ratio of the banking sector deteriorated by 2 pp to 52%.

Data on the quality of the loan portfolio at the end of December 2020 show a gradual deterioration in the financial condition of bank customers due to the pandemic. Although the total ratio of phase 3 loans to the total volume of gross loans for the non-financial sector recorded a moderate increase (+0.3 pp YoY) to 6.9%, the results for individual segments are less optimistic: the highest ratio growth was recorded for small and medium-sized enterprises (+0.8 pp YoY to 12.1%), consumer loans (+0.7 pp YoY to 11.0%) and Swiss franc mortgage loans (+0.9 pp YoY to 4.2%). On the other hand, in the area of loans granted to large enterprises and mortgage loans granted in domestic currency, there was almost no increase in the share of non-performing loans.

Loans to households and corporates

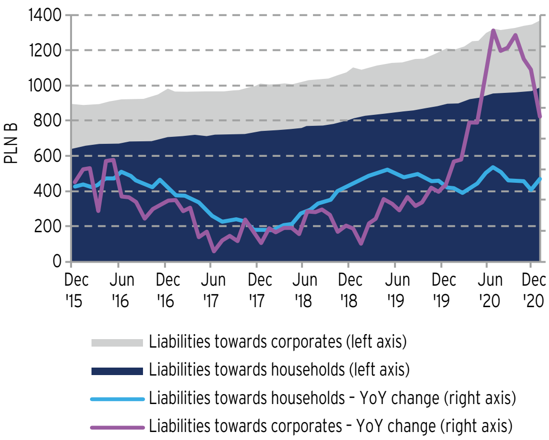


Sources: NBP, own calculations.

In 2020, the growth rate of loans to the non-financial sector decreased from 4.6% YoY (PLN 54 billion) as at December 2019 to 1.0% YoY (PLN 12 billion). The slower dynamics was mainly caused by the reluctance of non-financial enterprises to incur new liabilities in the context of high uncertainty related to the pandemic and reduction of economic activity, as well as deterioration of macroeconomic data. The growth rate of the volume of loans receivable for this group of banking sector clients decreased from + 3.5% YoY to -4.2% YoY. Current account loans granted at the end of December 2020 decreased 12.3% YoY (PLN -21.0 billion), while real estate and investment loans increased 3.5% YoY (PLN +2.2 billion), and 2.8% YoY (PLN +3.7 billion), respectively. However, growth in these areas was driven only by foreign currency loans, where zloty depreciation to the euro played a large role, while the portfolio of zloty loans recorded a slight decrease year on year. In terms of maturity, positive dynamics was recorded only for loans maturing after 5 years (4.1% YoY, PLN 7.3 billion), short-term loans (up to 1 year) declined by -21.7% YoY, PLN 19.2 billion, and loans granted for 1 to 5 years – by 6.1% YoY, PLN 6.1 billion. The total receivables of the banking sector from non-financial enterprises amounted to PLN 349 billion.

In the retail client segment, the lockdown of the economy and higher social distance resulted, first of all, in a breakdown of demand for consumer loans. The volume of household consumer loans decreased by -2.1% YoY, i.e. PLN 4.1 billion. Deep declines were recorded in investment loans (-8.0% YoY, i.e. PLN -2.2 billion) and current loans to sole proprietors and individual farmers (-7.3% YoY, i.e. PLN -3.8 billion). And the growth of housing loans accelerated from +6.6% YoY as at the end of 2019 to +7.6% YoY as at the end of 2020, which was also an effect of depreciation of the Polish zloty to the Swiss franc. The whole household mortgage portfolio reached nearly PLN 477 billion as at 31 December 2020, of which PLN-denominated loans amounted to PLN 356 billion (75%). As regards maturities, the dynamics of growth in credit volumes for households was similar as in the sector of non-financial enterprises. A positive result was recorded only in the area of long-term loans over 5 years (+5.7% YoY, PLN +35.5 billion), while the dynamics of loans up to 1 year fell to 18.5% YoY, PLN -9.4 billion, and loans from 1 to 5 years to -4.4% YoY, PLN -3.8 billion. The household loan portfolio reached a total of almost PLN 771 billion.

Households and corporate deposits



Sources: NBP, own calculations.

In 2020, the banking sector recorded a significant inflow of deposits despite a significant reduction in offered interest rates, which in turn resulted from the decision of the Monetary Policy Council to cut interest rates (by 140 bps to 0.1% for the reference rate). The volume of deposits of the non-financial sector increased by a total of +14.7% YoY, i.e. PLN 198 billion. A significant part of the new funds was deposited by non-financial companies, which was materially connected with the state aid granted under consecutive anti-crisis shield programs. The volume of deposits of businesses rose by 19.0% YoY, i.e. PLN +60.4 billion, with a discernible shift of funds from term deposits (-20.9% YoY, i.e. PLN -17.5 billion) to current deposits (+33.3% YoY, i.e. PLN +77.8 billion). Deposits increased considerably also in the household segment (+10.7% YoY, i.e. PLN 95.7 billion). Also this segment saw an outflow of term deposits (-29.4% YoY, i.e. PLN -87.4 billion) to current deposits (+30.4% YoY, i.e. PLN +183.1 billion). Such a high increase in deposits with a simultaneous low 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 81%.

In 2021, a gradual recovery from the crisis and economic growth are expected. Its pace, however, will largely depend on the results of the vaccination program in Poland and the entire European Union, as well as on the consequences of the virus developing new variants. It is unlikely that the restrictions on economic activity and social life will be maintained for as long of a period as it was in 2020. Therefore, one can hope for a gradual recovery in the credit market, especially with regard to consumer loans. An upswing in corporate loans is likely to happen once companies are confident enough in the macroeconomic situation and their financial condition to undertake broader investments in more than just a few sectors that benefit from mobility restrictions. The gradual depletion of own resources in the sectors hit the hardest by the pandemic and the reduction of state aid raise concerns about the quality of the loan portfolio and the related tightening of lending policy. Despite the fact that interest rates are near zero, the banking sector should not fear an outflow of deposits in the light of clients' aversion to alternative, more risky investments.

5. Factors with an impact on the financial results of the Bank's Group in 2021

Trends in the Polish and global economy

The most serious risk factor in 2021 is continued development and potential intensification of the COVID-19 pandemic in the event of new virus mutations resistant to 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.

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 might see more significant decrease 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.

Impact of the coronavirus COVID-19 pandemic on the operations of the Capital Group

The announcement of the COVID-19 coronavirus pandemic state in Poland in March 2020 had a significant impact on the Group's operations. On the one hand, the environment in which the Group started to operate has changed under the influence of unprecedented actions taken by public institutions and regulators, on the other hand, there has been a change in the behavior and habits of customers, both institutional and retail.

Operating activity

The Group focused on ensuring the safety of its employees and operational efficiency. In the peak periods of the pandemic, approximately 80% of employees remained in the remote work mode, which, due to the scale, forced the adaptation of the Bank's ICT infrastructure and investment improving security. As of December 31, 2020, approximately 70% of employees remained in the remote work mode.

To support more than 1,300 employees potentially most vulnerable to the pandemic crisis, the Group provided one-off benefits and also paid one-off financial awards to employees who came to the branches during restricted mobility periods, in order to ensure the continuity of banking processes that could not be performed remotely (e.g. servicing retail clients).

The Group has focused on regular COVID communications with employees in the form of a constantly updated intranet website posting, among others, answers to frequently asked questions and a guide to current rules of conduct at the office. Employees have also been receiving e-mails / letters from the President of the Bank's Management Board and senior management. The bank has also been supporting communications from direct managers to their teams. Additionally, in the third quarter of 2020, the Bank conducted a survey among employees assessing the employer's measures undertaken in response to the epidemic. 88% of employees gave the Bank a high and very high rating for its actions undertaken during COVID-19.

At the same time, the Group has developed office work rules according to which employees can work from the office in a rotational system, as well as developed rules and implemented a solutions for safe stay in the office (hygiene measures, defining the maximum number of people in common areas, etc.). The Group introduced plan to return to the office, including employees division into two groups and introducing a weekly shift system. At the time of drawing up the Group's financial statements, no specific date of return to the offices of all employees had been agreed.

In addition, the Bank focused on continuing a high quality of customer service despite the increased use of remote channels by customers. In the case of retail customer service, the Bank recorded an increase in the number of CitiGold customer phone calls by 9% in March 2020 compared to the annual average in 2019. At the same time, the NPS result for CitiPhone Wealth Management amounted to 71% in 2020 and was higher by 3% comparing to 2019.

Financial activity

In order to counteract the negative effects of a pandemic on March 17, April 8 and May 28, 2020, the Monetary Policy Council decided to reduce interest rates (including the reference rate by 140 basis points in total), which negatively affect the Group's net interest income. In 2020, the net interest income decreased by PLN 152 million compared to 2019 (-13% YoY). This decrease was mainly related to Retail Banking (-29% YoY).

Due to the continuing economic uncertainty, reflected in the depth of the recession, its duration and the amount of the expected recovery, which has a direct impact on the business of the Group's customers, the Group decided to create an additional provision for expected credit losses dedicated to the effects of the COVID-19 epidemic in the amount of 137 PLN million in the first half of 2020 (PLN 114 million for Institutional Banking, PLN 23 million for Consumer Banking). Nevertheless, the main measures of credit risk (NPL - non-performing loans ratio, coverage ratio) have remained stable compared to the pre-pandemic periods.

The impact of the COVID-19 pandemic on the Group's credit risk is described in note 48 to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for 2020.

The Group's capital ratios remain well above the regulatory minimum. The capital adequacy ratio amounted to 22,5% at the end of the 2020 and is almost 12 percentage points above the regulator's expectations. The capital adequacy ratio increased by 5.3 percentage points compared to the end of 2019.

Business activity

In the face of unprecedented situation caused by COVID-19 pandemic, the Group focused on providing support to its clients in the areas of Institutional and Consumer Banking. The main activities of the Bank were aimed at supporting liquidity of its clients, focusing on promotion and development of tools for safe contacts with the Bank and investing in the secure use of those tools. In 2020, the Group continued to develop digital solutions for clients and educate customers in the field of cybersecurity.

In order to support the liquidity of enterprises and preserve jobs, the Bank implemented solutions under the Anti-Crisis Shield Program of the Polish Development Fund. The micro, small, medium and large enterprises can apply for a subsidy through the electronic banking systems - Citibank Online or CitiDirect BE. At the same time, the Bank implemented a de minimis guarantee and guarantees from the Liquidity Guarantee Fund of Bank Gospodarstwa Krajowego as additional support for enterprises. The Bank, in cooperation with other banks as a part of the Polish Bank Association, made available a solution consisting in the introduction of a temporary deferral of loan installments repayments up to 3 months for institutional clients or 6 months for retail clients.

The Bank also developed electronic access channels to its solutions and products. For Institutional Banking customers, a qualified electronic signature has been implemented for all documentation (including banking account agreements, other product agreements as well as inquiries and forms). In addition, new functionalities were implemented in the online banking system - CitiDirect BE, such as: MobilePASS (access to the system using dynamic passwords generated on a smartphone), CitiDirect BE Mobile (managing daily payments directly from a smartphone or tablet), CitiDirect BE Administrator (managing other users access), eForms (electronic documentation exchange platform), Citi Payment Insights (access to full information and control over outgoing and incoming payments at every stage, using a user-friendly panel from the level of electronic banking). In 2020, the Bank also implemented the option of authenticating online transactions with the use of biometric data of the corporate card holder and the CitiManager mobile application (identification with a fingerprint ID) or an image of a face (Face ID).

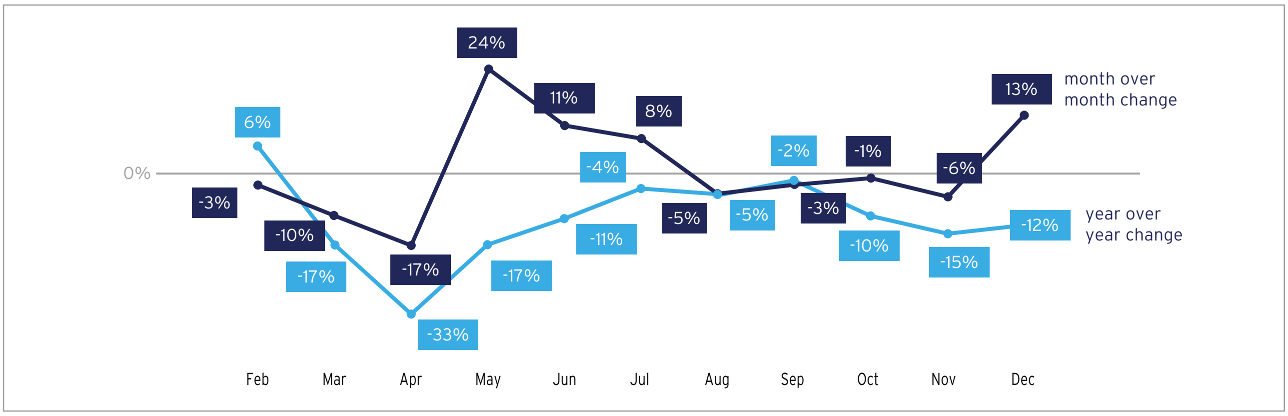
Thanks to the above solutions and amenities, at the end of 2020, the number of active users using the biometric function reached 23% of the total number of users actively using the mobile application, while the number of biometric logins reached 41% of the total number of logins in the mobile application. In 2020, the Bank processed 32.3 million transactions electronically, which is an increase by 7% compared to 30.1 million transactions in 2019. The number of e-Forms has also increased - by 14% YoY.

In turn, for Consumer Banking customers, the Bank – as the first bank in Poland – launched a completely remote and automated credit process based on a biometric solution for three main products: personal account, credit card and cash loan. Additionally, the security of using electronic banking was improved by adding a mobile authorization service, Citi Mobile Token, and a dedicated educational campaign was carried out to promote safe methods of communicating with the Bank via electronic banking. The bank also launched a new currency exchange module, Citi Kantor, which allows currency exchange at attractive rates, thus affording protection against zloty depreciation.

At the same time, the Bank conducted an extensive educational campaign on cybersecurity (devoted to, inter alia, social engineering methods used by hackers - including those related to the COVID-19 pandemic).

Due to the restrictions introduced to counteract the spread of the coronavirus, the behavior and activity of customers have changed. In the case of transaction parameters on retail credit cards, the structure of expenses and the volume of expenses has changed. In March 2020, after the introduction of the epidemic in Poland, the Bank recorded a decrease in card spending by 21% YoY. It was mainly due to the fact that the credit card has a large overrepresentation of travel expenses (e.g. hotel reservations, airline tickets purchase, etc.). On the other hand, the category related to grocery shopping recorded an increase. After the gradual recovery of the Polish economy in May 2020, the Bank recorded increase in domestic spending made with the card, in May +24% compared to April, while spending abroad continued to be under pressure. In turn, in the holiday months, volumes were similar to the corresponding periods of 2019.

Dynamics of domestic spending through credit cards in 2020:



On the other hand, the Bank records a rapid increase in the volume of mobile payments (through the Apple Pay and Google Pay applications) - about a threefold increase in 2020 compared to 2019.

Legal and regulatory risks

Legal risk related to the portfolio of loans indexed to CHF

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 prevent a reliable and rational assessment of the influence of the judgment on proceedings pending before national courts. In near future, the Supreme Court is expected to rule again on issues on which courts are still inconsistent. 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. It is likely that banks will decide to consider those measures in their disputes. The coming months should clarify the sector's approach to disputes over CHF loans.

As at 31 December 2020, the Bank had receivables under CHF-indexed retail mortgage loans at the gross carrying amount of PLN 55 million, that is 0.25% of the entire portfolio of gross lending to customers.

Despite the marginal share of CHF-indexed mortgage loans in the entire lending portfolio, in 2020, the Bank recognized a provision for those loans at PLN 13 million, which was posted in other operating expenses. Estimating the provision assumes, in the leading scenario, conversion of a Swiss franc loan into a zloty loan with interest equal to the relevant WIBOR reference rate increased by the appropriate 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.

As of December 30, 2020, the Group is sued in 24 cases concerning a credit indexed to CHF for the total amount of PLN 4 million (most of the cases are in the first instance).

Commission refunds on prepaid consumer loans

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 entities

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.

It is possible, with the consent of both parties, that the proceedings will conclude with the so-called obligating decision, once the Bank makes commitments satisfactory to the regulator to change that practice. In a decision of that kind, the UOKiK does not find the practice unfair and does not impose fines. The proceedings may result in a decision finding the practice as infringing consumer interests, which may be appealed to a common court.

In 2020, the Bank recognized a provision for potential fee reimbursements to customers in the amount of PLN 33.5 million, of which PLN 15.7 million for loans prepaid in previous years was recognized in other operating expenses, and PLN 17.8 million for loans prepaid in 2020 and expected future prepayments reduced Group's interest income.

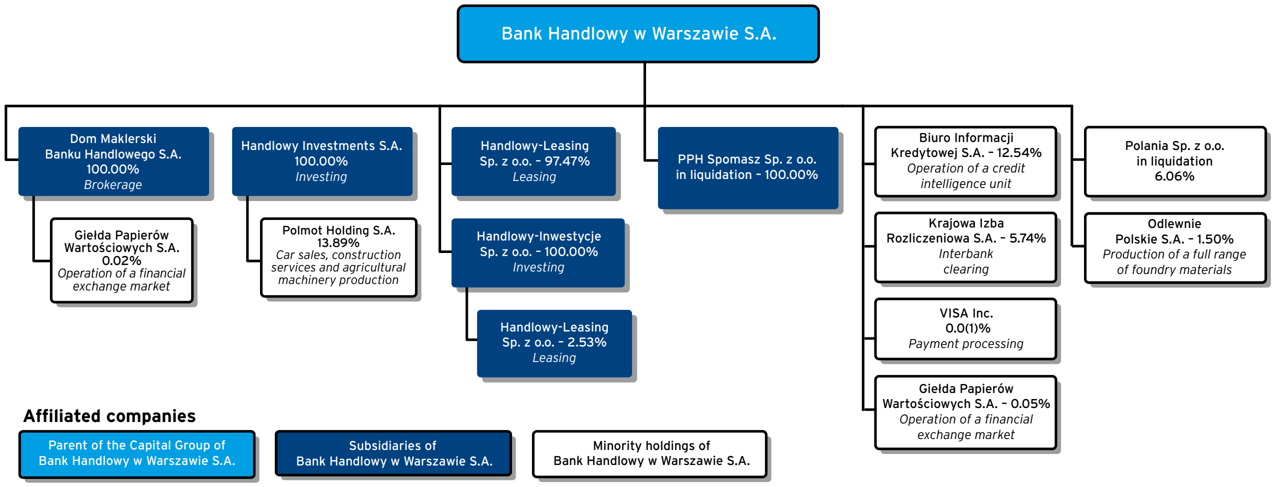
The determination of the provision (or liabilities) relating to the exposures pre-paid up to the balance sheet date took into account the above-mentioned practice of the Bank in this scope and the population of actually prepaid loans. Moreover, the Bank estimated the provision for potential commission returns in relation to the portfolio unpaid as at the balance sheet date, taking into account the portfolio structure, observed and expected complaints and expected prepayment curves.

As of December 30, 2020, the Group is sued in 401 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 1.7 million (most of the cases are in the first instance).

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

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

The organisational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as at 31 December 2020; the Bank's share interest in each specified.



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. (the "Group") consists of a parent company and subsidiaries.

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Bank Handlowy w Warszawie S.A.*	Banking	parent	-	-	7,515,205
Dom Maklerski Banku Handlowego S.A. (DMBH)***	Brokerage	subsidiary	100.00%	full consolidation	114,245
Handlowy - Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	21,404
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	4,757
PPH Spomasz Sp. z o.o. w likwidacji***	Ceased operations	subsidiary	100.00%	full consolidation	in liquidation
Handlowy-Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100.00%	full consolidation	10,654

* *Equity of Bank Handlowy w Warszawie S.A. as per the statement of the financial position of the Bank for 2020*

** *Including indirect participations*

*** *Pre-audit data*

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

1. Summary financial data of the Bank and the Group

This document presents financial data for both Bank and Group. As activities of the Bank account for the vast majority of operations of the Group (the assets, equity and revenues of the Bank account for 99.5%, 99.1% and 97.8% of the assets, equity and consolidated revenues of the Group, respectively), both results and financial situation are discussed on the basis of consolidated data, except where it is expressly indicated that the data of the Bank are discussed.

PLN million	Bank		Capital Group	
	2020	2019	2020	2019
Total assets	60,632.4	51,897.7	60,941.5	51,978.5
Equity	7,515.2	7,023.7	7,581.0	7,074.7
Amounts due from customers*	21,673.8	23,608.8	21,914.2	23,731.9
Deposits *	43,189.2	39,581.5	43,172.0	39,519.5
Net profit	158.1	478.8	172.4	480.1
Capital adequacy ratio	22.2%	17.0%	22.5%	17.2%

* *Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.*

2. Financial results of the Bank and the Group in 2020

2.1 Income statement

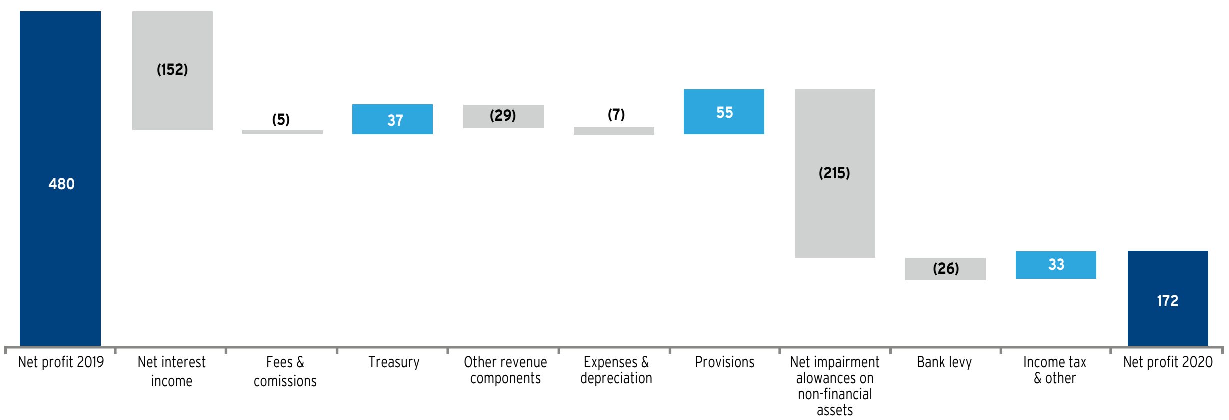
In 2020 the Group recorded net income amounting to PLN 172.4 million, which is lower by PLN 307.7 million (that is 64.1%) comparing to the 2019 profit. The factor impacting the drop of net income was COVID-19 pandemic and its effects, especially interest rates cuts in Poland to the record low level, which in turn had negative impact on net interest income of the Group (decline by PLN 152.1 million YoY) and impairment of the company goodwill in Consumer business amounting to PLN 214.7 million.

Selected income statement items

PLN'000	Bank		Capital Group			
					Change	
	2020	2019	2020	2019	PLN'000	%
Net interest income	1,001,065	1,151,729	1,001,677	1,153,727	(152,050)	(13.2%)
Net fee and commission income	518,697	544,047	559,962	564,876	(4,914)	(0.9%)
Dividend income	12,796	10,949	11,794	11.080	714	6.4%
Net income on trading financial instruments and revaluation	305,311	375,458	311,406	379,525	(68,119)	(17.9%)
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	203,402	97,969	203,402	97,969	105,433	107.6%
Net gain/(loss) on equity and other instruments measured at fair value through income statement	15,799	17,366	15,836	17,392	(1,556)	(8.9%)
Net gain on hedge accounting	556	(3,493)	556	(3,493)	4,049	(115.9%)
Net other operating income	(33,804)	(4,019)	(36,332)	(4,322)	(32,010)	740.6%
Razem przychody	**2 023 822**	**2 190 006**	**2 068 301**	**2 216 754**	**(148 453)**	**(6,7%)**
Overheads and general administrative expenses and depreciation, including	(1,195,808)	(1,189,843)	(1,221,991)	(1,214,768)	(7,223)	0.6%
Overheads and general administrative expenses	(1,089,926)	(1,104,050)	(1,115,338)	(1,128,269)	12,931	(1.1%)
Depreciation/amortization of tangible and intangible fixed assets	(105,882)	(85,793)	(106,653)	(86,499)	(20,154)	23.3%
Net impairment allowances on non-financial assets	(214,707)	-	(214,707)	-	(214,707)	-
Profit/loss on sale of other assets	(482)	(354)	(480)	(354)	(126)	35.6%
Net impairment on financial assets and provisions	(190,541)	(245,898)	(190,267)	(245,898)	55,451	(22.6%)
for off-balance sheet commitments	(123,578)	(97,722)	(123,578)	(97,722)	(25,856)	26.5%
Profit before tax	**298,706**	**656,189**	**317,278**	**658,192**	**(340,914)**	**(51.8%)**
Income tax expense	(140,621)	(177,387)	(144,882)	(178,068)	33,186	(18.6%)
Net profit	**158,085**	**478,802**	**172,396**	**480,124**	**(307,728)**	**(64.1%)**

The impact of individual items of the income statement on net profit is shown on the graph below:

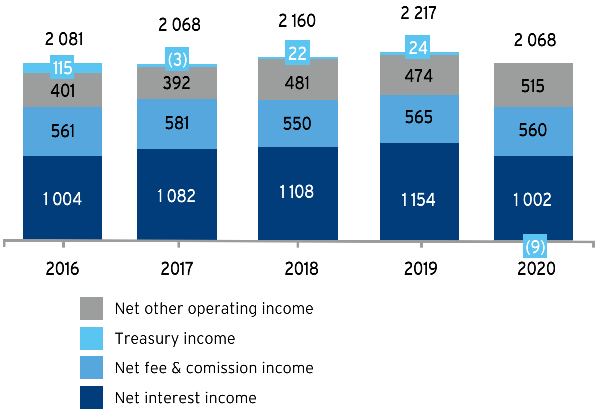
An impact of the Profit & Loss Statement components on net profit in 2020 (PLN million)



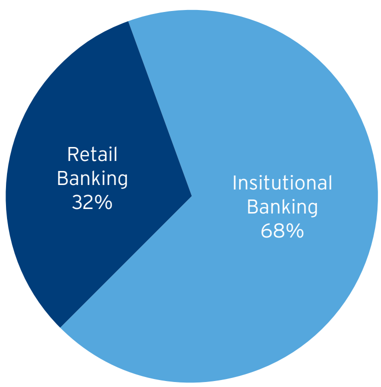
2.1.1 Revenue

In 2020, revenues from operating activities amounted to PLN 2,068.3 million as compared to PLN 2,216.8 million in 2018, i.e. decreased by PLN 148,5 million, i.e. 6.7%.

Group's revenue (PLN MM)



Breakdown of revenues by segments (%)

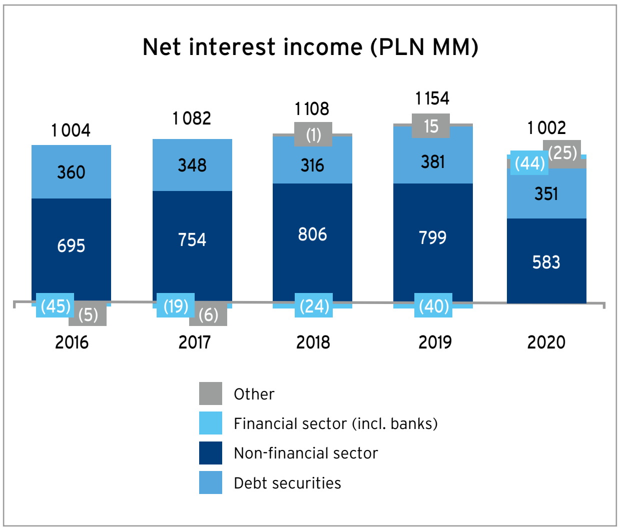


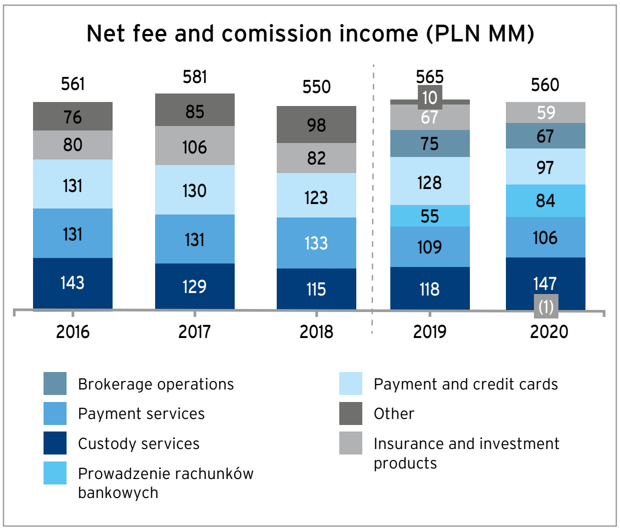
The operating result generated by the Group in 2020 was shaped in particular by:

- **Net interest income** constituted the most important revenue stream of the Group in 2020 (48.4% of total revenue). It amounted to PLN 1,001.7 million in comparison to PLN 1,153.7 million in 2019, which means a decline of PLN 152,1 million (which is 13.2%).

  Interest income amounted to PLN 1,118.9 million in 2020 and was lower by PLN 287.6 million (which is 20.4%) in comparison to 2019. Clients' interests being a main source of interest income reached level of PLN 694.7 million in 2020 and was lower by PLN 277.3 million (28.5%) in the year over year comparison. The largest nominal drop of the interest income was recorded in Consumer Banking segment due to interest rates cuts to the record low level.

  As a result of mentioned rates cuts, the Group adjusted its interest expense base paid on deposits, which dropped by PLN 135.5 million YoY. The main change was due to lower interest expenses for amounts due to customers, which decreased by PLN 99.3 million (i.e. 59.3%), mainly in the Institutional Banking segment.
- **Net fee and commission income** of PLN 560.0 million in comparison to PLN 564.9 million in 2019 – drop by PLN 4.9 million (i.e. 0.9%). Consumer Banking segment impacted the decline of net fee and commission income (drop by PLN 50.3 million YoY) due to lower activity of individual clients related to restrictions caused by COVID-19 pandemic, which in turn had a negative effect on income from payment and credit cards. On the other hand the Institutional Banking segment recorded positive dynamics amounting to PLN 45.4 million YoY, mainly in the capital markets field: brokerage and custody due to the prevailing high volatility and recovery in the public offerings market.
- **Other operating income (i.e. non-interest and non-commission income)** amounting to PLN 506.7 million in comparison to PLN 498.2 million in 2019, due to higher income on debt investment financial assets resulting from favorable market environment. Partially the above mentioned growth was offset by lower result on other operating income and expenses. Higher other operating expenses were impacted by one-off events: in third quarter of 2020 a provision of PLN 5.4 million was recognized for prepaid loans, and in fourth quarter of 2020 this provision was increased by another PLN 10.3 million. What is more, also in fourth quarter of 2020, the Bank recognized provision for legal risk related to CHF mortgage loans amounting to PLN 13 million.





2.1.2 Expenses

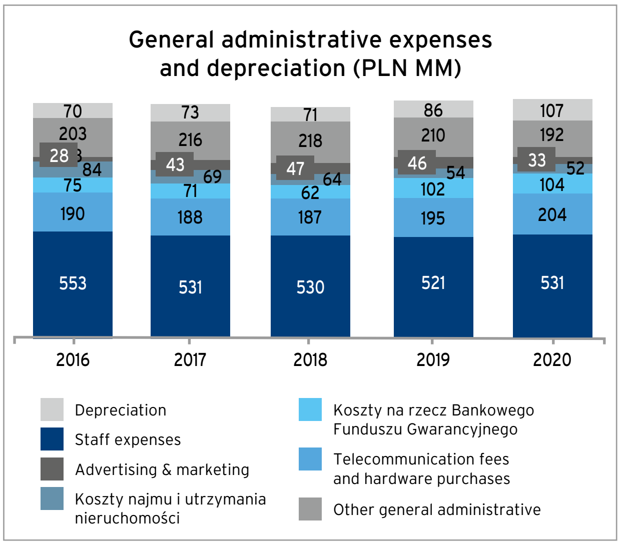
General expenses & depreciation

PLN'000	Bank		Capital Group			
					Change	
	2020	2019	2020	2019	PLN'000	%
Personnel costs	**(513,571)**	**(504,228)**	**(530,845)**	**(520,548)**	**(10,297)**	**2.0%**
General administrative expenses, including:	**(576,355)**	**(599,822)**	**(584,493)**	**(607,721)**	**23,228**	**(3.8%)**
Telecommunication fees and IT hardware	(198,361)	(190,164)	(203,896)	(195,449)	(8,447)	4.3%
Bank Guarantee Funds costs	(103,534)	(102,292)	(103,534)	(102,292)	(1,242)	1.2%
Building maintenance and rent	(51,776)	(53,198)	(51,946)	(53,366)	1,420	(2.7%)
Total overheads	**(1,089,926)**	**(1,104,050)**	**(1,115,338)**	**(1,128,269)**	**12,931**	**(1.1%)**
Depreciation	(105,882)	(85,793)	(106,653)	(86,499)	(20,154)	23.3%
Total general expenses & depreciation	**(1,195,808)**	**(1,189,843)**	**(1,221,991)**	**(1,214,768)**	**(7,223)**	**0.6%**

General administrative and depreciation expenses of PLN 1,222.0 million in 2020, which translates into a small increase of costs by PLN 7.2 million (i.e. 0.6% YoY) and it was result of higher depreciation costs (up by PLN 20.1 million YoY) and telecommunication fees and IT hardware (up by PLN 8.4 million) due to implementation of new and extending the functionality of current solutions of individual clients service. The solutions consist in increasing the Bank's sales capacity in remote channels and mainly include the use of biometric solutions for opening a bank account, granting cash loans and acquiring credit cards. At the same time, new solutions were implemented to ensure a constant and consistent dialogue with customers by tailoring the offer based on individual customer needs (contextual banking) in the area of investment products sales and conducting currency operations (Citi Kantor). Costs related to the improvement of the platforms in terms of regulatory requirements were also incurred. At the same time, personal costs increased by PLN 10.3 million YoY, mainly due to the payment of one-off benefits to the Group's employees potentially most affected by the COVID-19 pandemic.

Above costs increase was partially offset by lower advertising and marketing costs (drop by PLN 13.3 million YoY).

In 2020 average employment (excluding employees who are absent due to illness, parenthood or unpaid leaves) in the Group amounted to 3,026 FTEs, thus being by 4% lower than in 2019. (the number of FTEs at the end of the period decreased by 135 as compared with the same period of 2019). As of December 31, 2020 employment in the Group amounted to 2,994 FTEs, of which 1,640 in consumer banking, 621 in institutional banking and 733 in support units.



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

Net impairment and provisions

PLN'000	Bank		Capital Group			
	2020	2019	2020	2019	Change	
					PLN'000	%
Provision for expected credit losses on receivables, including	(201,381)	(210,397)	(201,381)	(210,397)	9,016	(4.3%)
Provision for expected credit losses on financial assets - Stage 1	(6,861)	11,629	(6,861)	11,629	(18,490)	(159.0%)
Provision for expected credit losses on financial assets - Stage 2	(77,506)	(37,459)	(77,506)	(37,459)	(40,047)	106.9%
Provision for expected credit losses on financial assets - Stage 3	(117,014)	(184,567)	(117,014)	(184,567)	67,553	(36.6%)
Provision for expected credit losses for granted off-balance sheet commitments	14,369	(35,155)	14,369	(35 ,155)	49,524	(140.9%)
Provision for expected credit losses on equity investments	(274)	(180)	-	-	-	-
Provision for expected credit losses on debt investment financial assets measured at fair value through other comprehensive income	(3,255)	(166)	(3,255)	(166)	(3,089)	1,860.8%
Provision for expected credit losses	**(190,541)**	**(245,898)**	**(190,267)**	**(245,718)**	**55,451**	**(22.6%)**

Net result of provisions for expected credit losses amounted PLN 190.3 million versus PLN 245.7 million in 2019 (better by PLN 55.5 million). Excluding one-off items in the Institutional Segment (additional provisions in the area of Commercial Banking in 2019 and additional provisions related to COVID-19 pandemic situation in 2020), it recorded a reversal of net provisions in the second half of 2020 thanks to improving macroeconomic projection and positive trends in the horizon of expected credit losses calculation. In the case of Consumer Banking, net result of provisions for expected credit losses resulting from expected credit losses model was lower comparing to previous years thanks to the scale of financial shield, adjustments in credit policy and lower demand for loans due to pandemic. Above impact was offset by worsening macroeconomic projection, but in the second half of 2020 they were positive revised. Additional, the Bank made an additional impairment provisions that part of expected credit losses were happened in the portfolio, but the true effect of these losses was deferred thanks to financial shield and is no statistic visible.

2.1.4 Ratio analysis

The Group's efficiency ratios

	2020	2019
Return on equity (ROE)*	2.4%	7.2%
Return on assets (ROA)**	0.3%	0.9%
Net interest margin (NIM)***	1.6%	2.3%
Margin on interest-bearing assets	1.8%	2.5%
Earnings per share in PLN	1.32	3.67
Cost/income****	59%	55%
Loans/Deposits	51%	60%
Loans/Total assets	36%	46%
Net interest income to total revenue	48%	52%
Net fee and commission income to total revenue	27%	25%

* *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;*

*** *Net interest income to average total assets calculated on a quarterly basis;*

**** *Overheads, general administrative expenses, depreciation and amortization to operating income.*

The Bank's efficiency ratios

	2020	2019
Return on equity (ROE)*	2.2%	7.4%
Return on assets (ROA)**	0.3%	0.9%
Net interest margin (NIM)***	1.6%	2.3%
Earnings per ordinary share in PLN	1.21	3.71
Cost/Income****	59%	54%

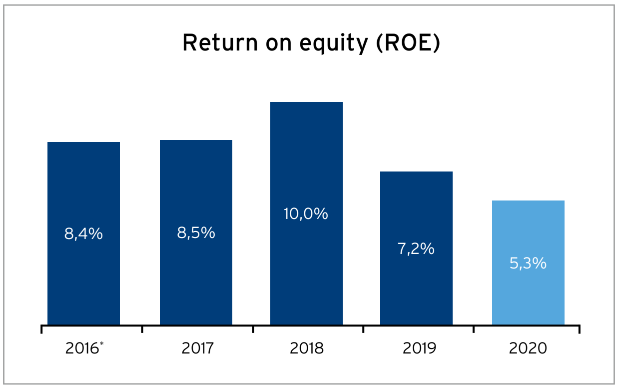
* *Net profit to average equity (including net profit for the current year) calculated on a quarterly basis*

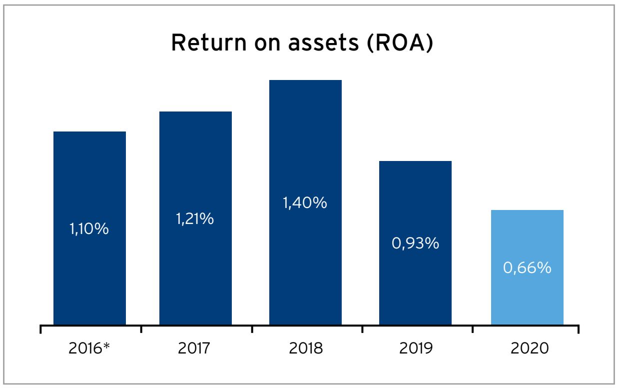
** *Net profit to average total assets calculated on a quarterly basis*

*** *Net interest income to average total assets calculated on a quarterly basis*

**** *Overheads, general administrative expenses, depreciation and amortization to operating income*

In 2020, the Group's returns on equity and assets remained at levels of respectively 2.4% and 0.3%. Excluding the extraordinary items ((result on net impairment allowances on non-financial assets in the amount of PLN 215 million) return on equity amounted to 5.3% and return on assets 0.7 as of 2020.





* *Net profit from 2016 was adjusted by VISA transaction in the amount of PLN 75 MM, in 2020 net profit was adjusted by net impairment allowances on non-financial assets in the amount of PLN 215 million*

In the area of cost effectiveness, the cost-to-income ratio amount to 59% as at the end of 2020. The decrease in efficiency compared to 2019 was the result of lower revenues due to a decline in net interest income (interest rates cut to a record low level).

For the same reason, the interest margin deteriorated and fell to the level of 1.6% on total assets and 1.8% on interest-bearing assets.

2.2 Consolidated statement of financial position

As of December 31, 2020, total assets of the Group amounted to PLN 60.9 billion, up by 17.2% compared to the end of 2019. In turn, the total amount of liabilities amounted to PLN 53.4 billion, which means an increase by PLN 8.5 billion (i.e. 18.8%) compared to the end of 2019.

The loan-to-deposit ratio dropped to 51% at the end of December 2020 (down by 9 percentage points compared to the end of December 2019).

Consolidated statement of financial position

PLN'000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	PLN'000	%
ASSETS						
Cash and balances with central bank	4,488,332	3,736,706	4,488,332	3,736,706	751,626	20.1%
Receivables from banks	570,188	1,165,625	570,247	1,165,684	(595,437)	(51.1%)
Financial assets held for trading	4,284,019	5,406,595	4,350,540	5,446,511	(1,095,971)	(20.1%)
Debt financial assets measured at fair value through other comprehensive income	27,323,571	15,484,578	27,323,571	15,484,578	11,838,993	76.5%
Equity investments valued at equity method	105,621	105,895	-	-	-	-
Equity and other instruments measured at fair value through income statement	78,153	62,355	78,473	62,638	15,835	25.3%
Receivables from customers	21,673,755	23,608,775	21,914,223	23,731,874	(1,817,651)	(7.7%)
Property and equipment	476,080	498,799	476,909	499,753	(22,844)	(4.6%)
Intangible assets	1,251,250	1,441,953	1,252,583	1,443,139	(190,556)	(13.2%)
Receivables due to current income tax	48,714	-	48,714	3,016	45,698	-
Asset due to deferred income tax	173,472	237,338	174,223	238,065	(63,842)	(26.8%)
Other assets	153,079	149,093	257,560	166,579	90,981	54.6%
Fixed assets held-for-sale	6,163	-	6,163	-	-	-
Total assets	**60,632,397**	**51,897,712**	**60,941,538**	**51,978,543**	**8,962,995**	**17.2%**
LIABILITIES						
Liabilities towards banks	5,118,749	2,125,383	5,118,861	2,125,495	2,993,366	140.8%
Financial liabilities held for trading	3,653,453	1,867,900	3,656,422	1,877,898	1,778,524	94.7%
Hedging derivatives	98,025	19,226	98,025	19,226	78,799	409.9%
Liabilities towards customers	43,411,106	39,849,772	43,393,906	39,787,802	3,606,104	9.1%
Provisions	84,775	65,199	84,775	65,199	19,576	30.0%
Current income tax liabilities	-	41,725	3,666	41,725	(38,059)	(91.2%)
Other liabilities	751,084	904,804	1,004,916	986,543	18,373	1.9%
Total liabilities	**53,117,192**	**44,874,009**	**53,360,571**	**44,903,888**	**8,456,683**	**18.8%**
EQUITY						
Issued capital	522,638	522,638	522,638	522,638	0	0.0%
Supplementary capital	2,944,585	2,944,585	3,002,265	3,003,290	(1,025)	(0.0%)
Revaluation reserve	450,017	114,893	450,017	114,893	335,124	291.7%
Other reserves	2,797,798	2,874,289	2,793,561	2,867,358	(73,797)	(2.6%)
Retained earnings	800,167	567,298	812,486	566,476	246,010	-
Total equity	**7,515,205**	**7,023,703**	**7,580,967**	**7,074,655**	**506,312**	**7.2%**
Total liabilities and equity	**60,632,397**	**51,897,712**	**60,941,538**	**51,978,543**	**8,962,995**	**17.2%**

2.2.1 Assets

The biggest nominal increase was observed in **debt investment financial assets**. They amounted to PLN 27.3 billion, up by PLN 11.8 billion (or 76.5%) compared to the end of 2019, due to higher volumes of Polish Treasury bonds. At the same time, debt investment financial assets had the biggest share in the Group's total assets at the end of 2020 and amounted to 45% (up by 15 percentage points compared to the end of 2019), due to a significant increase in deposit volumes, especially in the Institutional Banking segment, and their allocation on the active side of the Group's balance sheet.

Debt securities portfolio of the Bank

PLN'000	As at		Change	
	31.12.2020	31.12.2019	PLN'000	%
Treasury bonds, including:	22,731,457	17,662,234	5,069,223	28.7%
covered bonds in fair value hedge accounting	11,347,069	1,833,308	9,513,761	518.9%
Bank bonds	3,045,105	1	3,045,104	-
Bills issued by financial entities	2,460,132	704,241	1,755,891	249.3%
NBP bills	-	999,917	(999,917)	(100.0%)
Total	**28,236,694**	**19,366,393**	**8,870,301**	**45.8%**

The second largest share in the structure of the Group's assets at the end of 2020 had the **net amounts due from customers**. Their share in total assets was 36% at the end of December 2020. At the end of 2020, the value of net amounts due from customers amounted to PLN 21.9 billion and was lower by PLN 1.8 billion (i.e. 7.7%) compared to the end of 2019. The value of net loans in the Institutional Banking segment, representing the sum of amounts due from both financial sector and non-financial sector entities, amounted to PLN 14.7 billion, down by PLN 1.7 billion (or 10.1%) compared to the end of 2019. The decrease in loan volumes was related to lower demand for loans (mainly for overdrafts), especially of Commercial Bank customers, whose activities were significantly affected by the COVID-19 pandemic (a decrease in revenues from the sale of enterprises, on the other hand, their liquidity was supported by government aid programs). The volume of net loans made to individual customers dropped by PLN 165 million (or 2.2%) to PLN 7.2 billion compared to the end of December 2019. The drop in loan volumes was due to unsecured receivables (due to weaker customer demand for cash loans caused by the COVID-19 pandemic - customers' uncertainty as to their financial situation). On the other hand, mortgage loans increased by PLN 311 million (i.e. 16.4%) compared to the end of 2019.

Net amounts due from clients

PLN'000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	PLN'000	%
Receivables from financial sector entities	**3,496,218**	**3,027,920**	**3,735,746**	**3,150,586**	**585,160**	**18.6%**
Receivables from non-financial sector entities, including:	**18,177,537**	**20,580,855**	**18,178,477**	**20,581,288**	**(2,402,811)**	**(11.7%)**
Corporate clients*	10,963,662	13,201,441	10,963,662	13,201,441	(2,237,779)	(17.0%)
Individuals, including:	7,213,875	7,379,414	7,214,815	7,379,847	(165,032)	(2.2%)
Unhedged liabilities	5,014,063	5,490,113	5,015,003	5,490,546	(475,543)	(8.7%)
Mortgage loans	2,199,812	1,889,301	2,199,812	1,889,301	310,511	16.4%
Total net receivables from clients	**21,673,755**	**23,608,775**	**21,914,223**	**23,731,874**	**(1,817,651)**	**(7.7%)**

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

Loans to customers per portfolio with not recognized credit losses vs. portfolio with recognized credit losses

PLN'000	31.12.2020	31.12.2019	Change	
			PLN'000	%
Loans without recognized impairment (Stage 1), including:	**20,619,102**	**21,225,119**	**(606,017)**	**(2.9%)**
financial institutions	3,739,156	3,152,788	586,368	18.6%
non-financial sector entities	16,879,946	18,072,331	(1,192,385)	(6.6%)
institutional clients*	10,412,915	11,659,740	(1,246,825)	(10.7%)
individual customers	6,467,031	6,412,591	54,440	0.8%
Loans without recognized impairment (Stage 2), including:	**1,309,795**	**2,355,543**	**(1,045,748)**	**(44.4%)**
financial institutions	0	14	(14)	(100.0%)
non-financial sector entities	1,309,795	2,355,529	(1,045,734)	(44.4%)
institutional clients*	507,135	1,376,283	(869,148)	(63.2%)
individual customers	802,660	979,246	(176,586)	(18.0%)
Loans with recognized impairment (Stage 3), including:	**822,992**	**831,720**	**(8,728)**	**(1.0%)**
financial institutions	0	0	0	0.0%
non-financial sector entities	822,992	831,720	(8,728)	(1.0%)
institutional clients*	470,963	516,611	(45,648)	(8.8%)
individual customers	352,029	315,109	36,920	11.7%
Amounts due from matured transactions in derivative instruments (Stage 3)	**4,080**	**10,040**	**(5,960)**	**(59.4%)**
Total gross loans to customers, including:	**22,755,969**	**24,422,422**	**(1,666,453)**	**(6.8%)**
financial institutions	3,739,156	3,152,802	586,354	18.6%
non-financial sector entities	19,012,733	21,259,580	(2,246,847)	(10.6%)
institutional clients*	11,391,013	13,552,634	(2,161,621)	(15.9%)
individual customers	7,621,720	7,706,946	(85,226)	(1.1%)
Impairment, including:	**(841,746)**	**(690,548)**	**(151,198)**	**21.9%**
Amounts due from matured transactions in derivative instruments	(4,077)	(4,241)	164	(3.9%)
Total net amounts due from customers	**21,914,223**	**23,731,874**	**(1,817,651)**	**(7.7%)**
Impairment provisions coverage ratio	**77.1%**	**66.7%**		
institutional clients*	75.4%	60.4%		
individual customers	79.3%	77.1%		
Non-performing loans ratio (NPL)**	**3.6%**	**3.4%**		

* *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.*

** *The value of gross receivables as of 2019 and 2020 does not include contractual interest accrued from the moment of transferring the exposure to Stage 3*

Gross loans to customers of the Group

PLN'000	As of		Change	
	31.12.2020	31.12.2019	PLN'000	%
Loans in PLN	19,891,511	21,375,045	(1,483,534)	(6.9%)
Loans in foreign currency	2,864,458	3,047,377	(182,919)	(6,0%)
Total	**22,755,969**	**24,422,422**	**(1,666,453)**	**(6,8%)**

2.2.2 Liabilities

As of the end of 2020 **amounts due to customers** were the dominant source of financing of the Group's activity and they accounted for 71% of the Group's liabilities and equity. At the same time, a current accounts were the dominant item in amounts due to customers, with a share of 84% (an increase by 12 percentage points compared to the end of 2019). The biggest share of customer deposits growth was driven by the individual clients including current accounts (the number of high affluent customers growth by 7% YoY).

Liabilities towards customers

PLN'000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	PLN'000	%
Deposits of financial sector entities	**4,853,049**	**4,764,396**	**4,571,664**	**4,556,646**	**15,018**	**0.3%**
Deposits of non-financial sector entities, including	**38,336,169**	**34,817,065**	**38,600,354**	**34,962,845**	**3,637,509**	**10.4%**
Non-financial sector entities	19,521,594	17,855,098	19,555,711	17,859,634	1,696,077	9.5%
Non-commercial institutions	195,104	185,848	195,104	185,848	9,256	5.0%
Individuals	15,266,778	13,320,687	15,496,846	13,461,931	2,034,915	15.1%
Public sector entities	3,352,693	3,455,432	3,352,693	3,455,432	(102,739)	(3.0%)
Other liabilities	**221,888**	**268,311**	**221,888**	**268,311**	**(46,423)**	**(17.3%)**
Total liabilities towards customers	**43,411,106**	**39,849,772**	**43,393,906**	**39,787,802**	**3,606,104**	**9.1%**
Deposits of financial and non-financial sector entities, including:						
Liabilities in PLN	32,096,116	29,374,974	32,078,916	29,313,004	2,765,912	9.4%
Liabilities in foreign currency	11,093,102	10,206,487	11,093,102	10,206,487	886,615	8.7%
Total deposits of financial and non-financial sector entities	**43,189,218**	**39,581,461**	**43,172,018**	**39,519,491**	**3,652,527**	**9.2%**

2.2.3 Source and use of funds

PLN'000	Bank		Capital Group	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Source of funds				
Funds of banks	5,118,749	2,125,383	5,118,861	2,125,495
Funds of customers	43,411,106	39,849,772	43,393,906	39,787,802
Own funds with net income	7,515,205	7,023,703	7,580,967	7,074,655
Other funds	4,587,337	2,898,854	4,847,804	2,990,591
Total source of funds	**60,632,397**	**51,897,712**	**60,941,538**	**51,978,543**
Use of funds				
Receivables from banks	570,188	1,165,625	570,247	1,165,684
Receivables from customers	21,673,755	23,608,775	21,914,223	23,731,874
Securities, shares and other financial assets	31,791,364	21,059,423	31,752,584	20,993,727
Other uses of funds	6,597,090	6,063,889	6,704,484	6,087,258
Total use of funds	**60,632,397**	**51,897,712**	**60,941,538**	**51,978,543**

2.3 Equity and the capital adequacy ratio

As compared to 2019, shareholders' equity increased by PLN 506.3 million (i.e. 7.2%) mainly due to increase in the revaluation reserve (i.e. PLN 335.1 million) due to an increase in the valuation of treasury bonds held by the Bank.

Group's equity*

PLN'000	As at		Change	
	31.12.2020	31.12.2019	PLN'000	%
Share capital	522,638	522,638	-	-
Supplementary capital	3,002,265	3,003,291	(1,026)	(0.0%)
Revaluation reserve	450,017	114,893	335,124	291.7%
Other reserves	2,793,561	2,867,358	(73,797)	(2.6%)
Retained earnings	812,486	566,476	246,010	43.4%
Total equity	**7,580,967**	**7,074,655**	**506,312**	**7.2%**

* *Equity net of net profit/(loss)*

The capital is fully sufficient to ensure financial security of the institution and client deposits and to support the future growth of the Group.

The following table shows the financial data used for calculation of the capital adequacy ratio on the basis of the consolidated financial statements of the Bank and the Group.

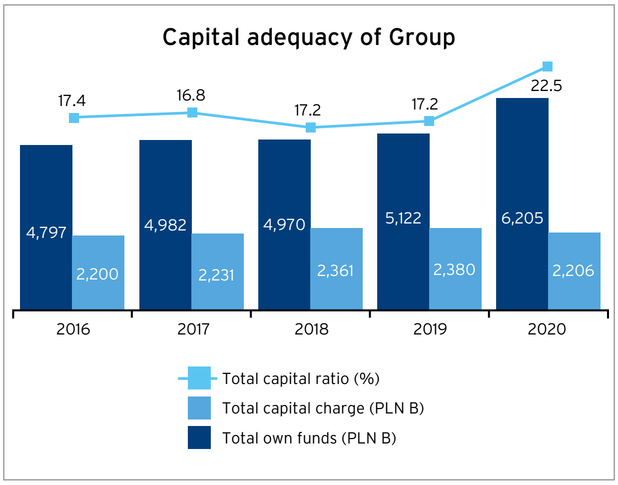
Capital adequacy ratio*

	PLN'000	31.12.2020	31.12.2019
I	**Common Equity Tier 1 Capital**	**6,204,936**	**5,122,175**
II	**Total capital requirements, including:**	**2,205,669**	**2,379,064**
	credit risk capital requirements	1,719,477	1,889,760
	counterparty risk capital requirements	95,295	95,797
	Credit valuation correction capital requirements	11,763	26,314
	excess concentration and large exposures risks capital requirements	-	-
	total market risk capital requirements	89,930	81,802
	operational risk capital requirements	289,204	285,391
	Common Equity Tier 1 Capital ratio	**22,5%**	**17.2%**

* *Capital Adequacy Ratio was calculated according to the rules stated in the Regulation no 575/2013 of the European Parliament and of the Council (EU) of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) no 648/2012.*

Both in 2020 and 2019, the Group met all the regulatory prudential standards relating to capital adequacy.

In 2020, the capital adequacy level for the Group was always at a secure level, i.e. 11.7 p.p. above the supervisory limits.



2015-2017 - the capital adequacy ratio was calculated according to the rules set out in the Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 („CRR").

The level of the required Capital ratios encompasses:

- The basic requirement resulting from CRR provisions to maintain the total capital ratio of 8% and the Tier 1 ratio of 6%
- The combined buffer requirement of additional 2.76% on consolidated basis, which consists of:
  - The capital conservation buffer - 2.50%
  - The other systemically important institution's buffer - 0.25%
  - Countercyclical capital buffer - 0.01%
  - Systemic risk buffer - 0.00% (due to the regulation of the Minister of Finance of March 18 on the solution of the systemic risk buffer in order to limit the impact of the coronavirus on the domestic banking sector). At the end of 2019, this buffer was 2.50%

On an standalone basis, the combined buffer requirement is also 2.76%.

As at 31 December 2020as compared to 31 December 2019, the capital adequacy ratio of the Group increased to 22.5%. This value enables the Group to develop its lending activities.

The increase of the capital adequacy ratio in 2020 was caused by an decrease in the requirement for credit risk mainly due to the decrease in amounts due from customers, including the lower use of available limits.

3. Interest rates

The table below presents weighted average effective interest rates of receivables and payables by the respective business segments of the Group:

As at 31 December 2020

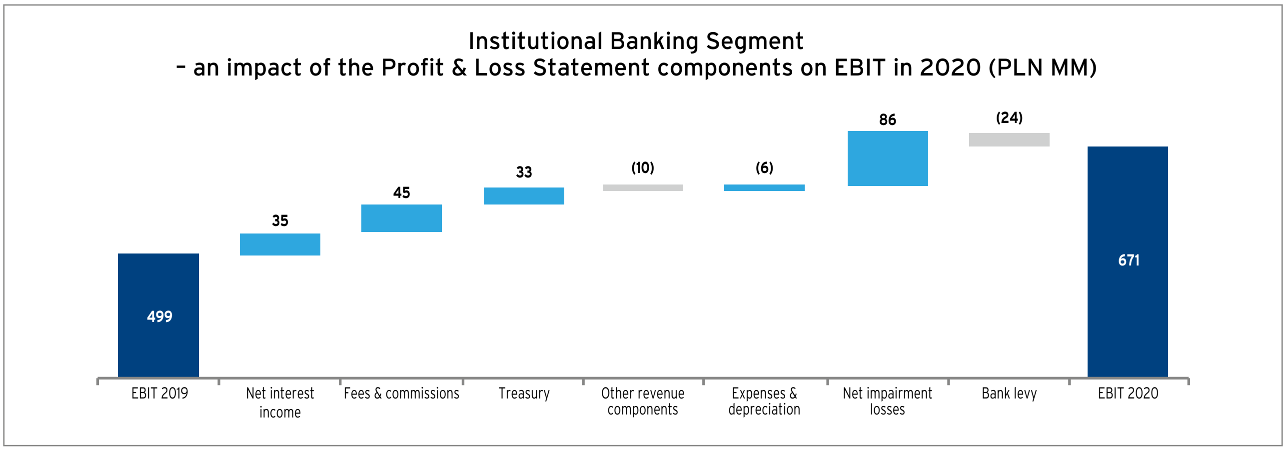
in %	Institutional Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
fixed term	1.50	0.92	1.99	6.92	4.68	-
Debt securities	1.39	0.47	2.59	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
fixed term	0.06	0.002	0.03	1.46	0.02	1.37

As at 31 December 2019

in %	Institutional Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
fixed term	3.06	0.90	3.53	7.41	4.00	-
Debt securities	1.91	0.17	2.68	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
fixed term	0.96	0.003	1.84	1.01	0.10	1.62

4. Institutional Banking Segment

4.1 Summary of segment's results



In 2020, the pre-tax profit of the Institutional Banking segment declined by PLN 171.8 million, i.e. 34.4%. The following factors affected the pre-tax profit of the Institutional Banking segment in 2020 as compared to the previous year:

- Net interest income of PLN 549.7 million versus PLN 515.0 million in 2019 – increase by PLN 34.7 million, was mainly due to decrease in interest costs on liabilities due to banks and customers in connection with the reduction of interest rates by the Monetary Policy Council;
- Net commission income of PLN 348.8 million, as compared to PLN 303.4 million in 2019, in particular as a result of an improvement in the net commission income on bank accounts maintaining, but also on activities related to capital markets (brokerage and custody area) and on granted loans;
- Result on debt investment financial assets measured at fair value through other comprehensive income in the amount of PLN 203.4 million, as compared to PLN 98.0 million in 2019 (i.e. increase by PLN 105.4 million), due to the favorable market environment on the debt securities market, which was partially offset by a lower result on financial instruments held for trading and revaluation by PLN 72.2 million to the level of PLN 279.7 million;
- General and administrative expenses and depreciation of PLN 546.9 million versus PLN 552.9 million in 2019 – a slight decrease by PLN 6.0 million;
- Decrease in net impairment charges by PLN 86.3 million compared to 2019, due to extraordinary items related to higher net impairment charges in the Institutional Banking segment in 2019. Excluding these one-off events of 2019, additional net impairment charges due to COVID-19 pandemic were created.

4.2 Institutional Bank

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

As at the end of 2020, the number of institutional clients (which include strategic clients, global clients and commercial bank clients) amounted to slightly over 5,500, which means decline by 3% compared to 2019, when the number of clients was slightly below 5.700. The decrease mentioned above applies mainly to commercial bank clients.

Through its commercial bank segment (small and medium-sized companies, large companies and the public sector) the Group cooperated with 2,900 clients as at the end of 2020 (which means a decline by 5% as compared to 3,100 clients as at the end of 2019).

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

The table below shows the assets and liabilities by segment in the management accounting approach.

Assets

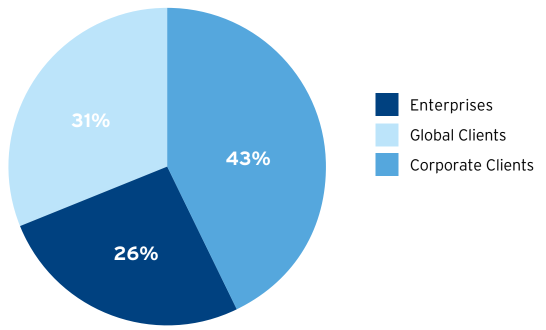
PLN million	31.12.2020	31.12.2019	Change	
			PLN million	%
Enterprises, including:	3,518	4,664	(1,145)	(25%)
SMEs	1,125	1,442	(317)	(22%)
Large enterprises	2,394	3,222	(828)	(26%)
Public Sector	10	25	(15)	(60%)
Global Clients	4,194	4,755	(561)	(12%)
Corporate Clients	5,678	6,162	(484)	(8%)
Other*	(14)	0	(13)	-
Total Institutional Bank	**13,387**	**15,606**	**(2,219)**	**(14%)**

Liabilities

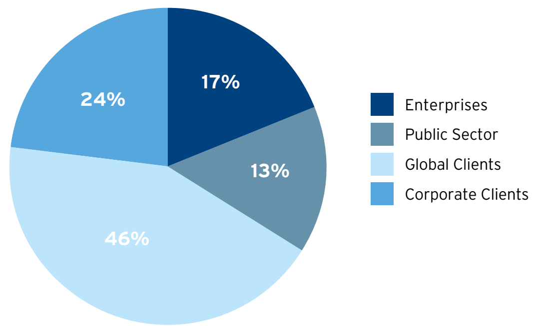
PLN million	31.12.2020	31.12.2019	Change	
			PLN million	%
Enterprises, including:	4,396	4,783	(387)	(8%)
SMEs	2,555	2,593	(38)	(1%)
Large enterprises	1,841	2,190	(350)	(16%)
Public Sector	3,434	3,658	(224)	(6%)
Global Clients	12,025	10,887	1,138	10%
Corporate Clients	6,293	5,888	405	7%
Other*	66	65	0	0%
Total Institutional Bank	**26,214**	**25,282**	**932**	**4%**

* *'Other' include, among others, clients subject to 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 31.12.2020



Structure of the Institutional Bank liabilities as of 31.12.2020



Key transactions and achievements in Institutional Banking in 2020:

- In 2020, within the framework of initiatives to expand its relationships with strategic clients, the Bank successfully carried out some key financing transactions, including the following:
  - the Bank, acting as a Lender and Mandated Lead Arranger, participated in a syndicated loan agreement with a client from the television and telecommunication sector, with the total commitment of the Bank amounting to PLN 350 million.
  - acting as a Lender and the Bank of the Lead Arranger and Book Runner – the Bank co-arranged the syndication process and signed a syndicated loan agreement with a client from the power sector, with the total commitment of the Bank amounting to PLN 350 million;
  - together with the other banks in the syndicate, the Bank extended the term of the loan agreement with a client from the television and telecommunication sector with the Bank's total exposure amounting to PLN 340 million;
  - Bank renewed an overdraft for PLN 300 million for a Polish company from the fuel and energy sector, one of the leaders among petrochemical companies in Central and Eastern Europe;
  - Bank signed a syndicated loan agreement with a client from the fuel and energy sector, with the total commitment of the Bank amounting to EUR 50 million;
  - Bank, as Lender and Mandated Lead Arranger, participated in a syndicated loan agreement with a client from the e-commerce sector, with the total commitment amounting to PLN 209 million;
  - The Bank extended bilateral financing of PLN 150 million for a pharmaceutical industry client;
  - The Bank increased funding for a leading hi-tech manufacturer by EUR 30 million;

  - The Bank increased working capital financing for the largest retail chain in Poland to PLN 200 million to support greater sales turnover and to strengthen the strategic relationship with the client;
  - Bank granted a guarantee for PLN 100 million to one of the largest construction groups in Poland for the purposes of new contracts and governmental tenders;
  - The Bank granted PLN 100 million financing to a brewing industry client. The transaction was particularly important from the point of view of the client relationship and client support during the pandemic;
  - The Bank granted EUR 20 million financing to one of the largest European retail chains entering the Polish market;
  - The Bank granted a loan of PLN 2.9 million with a de minimis guarantee (80%) of Bank Gospodarstwa Krajowego to a company supporting the fight against the pandemic.
- In addition, in 2020 the Bank, as part of consistent implementation of its strategy to support its clients, also signed and implemented:
  - 14 long-term loan agreements, with the Bank's exposure amounting to PLN 200 million;
  - 12 overdraft agreements, 7 short-term/payment/trade loan agreements and 5 revolving loan agreements for a total amount of PLN 352 million;
  - 7 guarantees, 6 commitments and 1 letter of credit for a total amount of PLN 108 million;
  - 3 supplier financing for a total amount of PLN 140 million.
- In the course of implementation of its acquisition strategy and thanks to support provided by its global network and also thanks to a set of its unique technology solutions, the Bank won in 2020:
  - 24 mandates for comprehensive banking services or to enhance existing relationships of the Bank with its clients.
- Client acquisition: in the Commercial Bank segment the Bank attracted 248 new clients in 2020, including 37 Large Companies, 204 Small and Medium-Sized Companies and 7 Public Sector entities. In the strategic and global client segments, the Bank established 38 new client relationships.

4.3 Treasury Activity

The year 2020 presented many challenges for the Bank and its customers. The pandemic situation required the Bank to develop effective solutions to permit smooth operation of companies and their finances.

The Bank's overriding goal was to support its clients' business while ensuring safety of both its customers and employees.

The solutions addressing those goals that the Bank proposed to clients include:

- Supporting global business activities of Polish entrepreneurs; with the new HUB FX solution, Bank clients can receive payments from their counterparties in such exotic currencies as, for example, Mexican Pesos and Singapore Dollars.
- Puls Rynku FX, mobile application which, in addition to currency alerts, quotations or forecasts, also distributes special reports prepared by analysts of Citi Handlowy that present, *inter alia*, the impact of COVID-19 on the situation in the markets in Poland and the world.
- Enabling electronic filing of banking documents using eWnioski (eForms).
- Organization of dedicated video conferences on topics related to the effects of the pandemic in the world of finance, EU aid programs, monetary and fiscal policy or economic prospects for Poland, with the participation of financial market experts.
- Access to the CitiFX Pusle electronic currency exchange platform, which enables remote and secure 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 confirmations.

  In 2020, the Bank remained among the leaders in terms of turnover in the spot market, as one of the leaders of Treasury BondSpot.

  The Bank was also active in the market of debt securities and syndicated loans, through its participation in the following transactions:
- Conducting three issues of bonds for the European Investment Bank for the PLN 500 million, PLN 1 billion and PLN 1,5 billion;
- The Bank was taking up BGK bonds issued for the Anti-COVID-19 Fund.

4.4 Transactional banking

In 2020, Citi Handlowy's transactional banking won for the seventh time in a row in the **Euromoney Cash Management 2020** ranking in the category of corporate clients' cash management, winning the title of „Market Leader".

The year 2020 in Transaction Banking was a time when the Bank, in response to the unique challenges posed by the pandemic, intensified its efforts to simplify and further digitize financial management processes of corporate clients based on self-service functions facilitating independent contact with the Bank.

Current account and Electronic banking

In 2020, the Bank simplified, among others, documentation processing by introducing a **qualified electronic signature**. This made it possible to sign contracts and other documents electronically, thus allowing customers to maintain easy access to banking services, without having to send paper documents or leave home and deal in person. The Bank regularly reminded clients how to efficiently and safely communicate with the Bank using its applications and remote work platforms. Such tools include for example **CitiDirect BE Mobile** application (corporate online mobile banking application) with added biometric login option (face and fingerprint recognition). At the end of 2020, the number of active users using the biometric function reached 23% of all active users of the mobile application, while the number of biometric logins reached 41% of the total number of logins in the mobile application.

As part of services digitization and following the paperless idea, in 2020, the Bank managed to convince more corporate clients to **give up paper statements**, achieving 99.6% digitization in that area at the end of 2020 (a 6.2 pp increase on 2019) . Currently, together with its clients, the Bank is taking further steps to achieve the 100% target in this area. At the same time, the number of applications submitted via the **eWnioski** platform is growing (by 14% on 2019).

As part of the Bank's efforts to provide a convenient access mode to services for the clients of institutional banking, in 2020 Citi Handlowy joined forces with Comarch, a leading provider of ERP systems, in order to make everyday management of payments easier for their clients by **integrating their systems – Comarch ERP Optima and Comarch ERP XL – with CitiConnect API**. The solution integrates the financial and accounting system (ERP) of a company with the Bank's system. Thus, financial operations can be executed directly in the company's system: checking company's account balances, initiating payments and checking their status, as well as downloading bank statements and making automatic reconciliation. Instant payment execution and real-time information on the account will boost the efficiency of the company's operation in terms of payment management.

In 2020, the Bank processed approximately **32.3 million transactions** via electronic channels, which represents **an increase by 7%** against 2019. In 2020, the average level of balances on current accounts of institutional clients increased by 26% from 2019, to PLN 20.5 billion.

Payment processing

In 2020, Citi Handlowy implemented **Citi Payment Insights** - a tool that allows to maintain full control over the company's payments around the world. It is available free of charge to all corporate clients of Citi Handlowy via CitiDirect BE and CitiConnect. At each payment stage, outgoing or incoming, Citi Payment Insights provides access to information on where the funds are currently located and fees charged by correspondent banks. The tool updates the payment status on an ongoing basis and presents it using a visual tracking tool, the so-called tracker. This makes monitoring of financial flows as simple as tracking a courier. It is a unique solution on the Polish market. In addition to the payment tracking itself, the tool allows customers to independently and immediately generate confirmations to send them at the beneficiary's request, view rejected and returned payments, check the detailed transaction history using the so-called audit trail as well as preview of incoming payments. Thus, it supports the Bank's customers in increasing the effectiveness of management of liabilities and receivables, as well as cost optimization, ensuring a clear and legible image of transactions ordered and made on the account. Additionally, customers can have constant access to the payment status, transferred directly to their financial and accounting system. Citi Payment Insights was received very positively after the first months of implementation and was assessed as a solution highly anticipated by corporate clients. In 2021, the Bank plans to launch new functionalities of Citi Payment Insights.

2020 was another period of dynamic growth in volumes of payments made in the **Split Payment Mechanism**: these transfers **increased by 75%** compared to 2019. A dynamic growth was also observed, for another year in a row, in the area of SEPA settlements in 2020. The Bank executed **21% more SEPA transactions** than in the previous year.

Corporate cards

In the area of corporate cards, the Bank **implemented a change in payment limit** for all types of contactless cards. The limit for this type of transactions, without PIN entry, was raised from PLN 50 to PLN 100. PINless payments are safer for sanitary reasons.

The Bank also implemented an option to **authenticate online transactions with the use of the biometric data** of a Corporate Card holder who uses the **CitiManager mobile app**. The solution applies to cards based on a line of credit and debit cards. This authentication method, i.e. biometric authentication in CitiManager, is to become the main authentication method for online transactions. Biometric authentication of transactions is a very simple and convenient solution for Card Holders. The card holder doesn't have to wait for additional messages from the Bank or enter single-use codes. They should simply use biometric identification on their phone – depending on the model of the device, this may be fingerprint (Fingerprint ID) or face recognition (Face ID).

Citi Handlowy focuses on **self-service**, consistently equipping customers with new tools enabling companies to independently manage their card programs and individual corporate credit cards. In 2020, the Bank made the **CitiManager platform**, i.e. a system for handling and managing corporate credit cards, available to another customer group, holders of Corporate Debit Cards. This trend will continue in 2021.

Trade Finance and Service

Significant financial transactions carried out by the Trade Finance Department include **loans granted to financial sector entities** providing lending and factoring services.

In 2020, Citi Handlowy's volume of opened letters of credit was 27% lower than the year before. This was mainly due to the slowdown in trade caused by the COVID-19 pandemic. The downward trend in the volume of letters of credit opened by Citi Handlowy is consistent with the declining trend in the entire banking sector. Despite the falling trend, in terms of the volume of letters of credit, Citi Handlowy is maintaining its market share at 15%. The downward trend is also visible in guarantees. The number of guarantees extended by Citi Handlowy declined by 25% compared to 2019. The same trend is also visible in the entire banking sector. Despite the downward trends, the value of bank guarantees in Citi Handlowy's portfolio at the end of 2020 increased by 2.5% compared to the end of 2019, and in terms of the volume of guarantees granted, Citi Handlowy is maintaining a 10% market share.

At that time, under the BGK aid program, the Bank offered **Liquidity Guarantees** from the PLG FGP Liquidity Guarantee Fund in the total amount of PLN 143.4 million. In order to improve financial liquidity this guarantee allows the borrower to obtain a loan on more favorable pricing and security conditions than the standard ones used at the bank.

In 2020, due to COVID-19 which limits face-to-face contact or documents dispatch to the bank, the option for customers to submit security deposit applications to secure bank guarantees was expanded to include online channels: via the Citi Trade Portal or as an attachment to customer's email, signed with an electronic qualified signature. Since the launch of that option, **100% of the deposit documentation has been submitted electronically**.

An important element of the Bank's 2020 strategy was development of its Supplier Financing Programs, with a particular focus on a solution based on **regional Supply Chain Finance using the Split Payment mechanism for PLN and foreign currencies in one**. As a result, Bank's global clients can centralize their payments process while fully complying with the requirements of Polish law, including those of the Split Payment Mechanism. The Supplier Financing Programs of the Bank turned out to be an attractive way to obtain fast financing and, in consequence, to achieve immediate improvement in liquidity of Polish companies, which is especially important during the pandemic.

4.5 Custody and depositary services

The Bank runs its custody operations under Polish law and in accordance with international standards of custody services offered to investors and intermediaries active in international securities markets. The Bank can meet the requirements of the largest and most demanding institutional clients.

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 part of its statutory activities, under a license issued by the Polish Securities and Exchange Commission (at present, the Polish Financial Supervisory Authority (KNF)), the Bank maintains securities accounts, settles securities transactions, processes dividend and interest payments, provides valuations of asset portfolios, delivers individual reports and arranges representation at general meetings of shareholders of listed companies. The Bank keeps collective accounts for authorized foreign entities. In addition, the Bank provides services consisting in maintenance of registers of foreign securities, under which it acts as intermediary in settlements of transactions executed by domestic clients in foreign markets.

The Bank also provides services as operator of accounts kept in the name of a client at the KDPW S.A. (Polish central depository and clearing institution), under which the Bank passes orders received from the client to KDPW and vice versa, as well as settlement confirmations and statements to accounts opened at KDPW to the client of the Bank. This service is dedicated to foreign financial institutions, in particular depository and settlement ones (financial entities classified as *ICSD – International Central Securities Depository*) and covers the management of securities accounts and collective accounts of such entities.

The Bank maintained its leading position in the market of securities transaction settlements carried out for remote members of the Warsaw Stock Exchange. In addition, the Bank was still the active participant of settlements of transactions concluded by foreign institutional clients on the Treasury BondSpot Poland debt securities electronic platform, managed by BondSpot S.A.

As at 31 December 2020, the Bank maintained over 15 thousand securities accounts.

Simultaneously, the Bank acted as depositary of two open-end pension funds: Aviva OFE Aviva Santander, Nationale - Nederlanden OFE, two voluntary pension funds: Nationale - Nederlanden DFE, Generali DFE, and the 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) and Skarbiec TFI S.A.

The Bank continued servicing 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.

At the same time, the Bank continued its activities to help refine legal regulations applicable to the securities market. A representative of the Bank was the Chairman of the Steering Committee of the Council of Depository Banks at the Polish Bank Association ("Council") for the fifth consecutive term of office. In the reporting period, the Council was involved in providing opinions on draft regulations affecting activities of domestic custodian banks and depositary activity. With the use of its own resources, experience and competences, employees of the Bank, in cooperation with the Polish Financial Supervision Authority, KDPW, KDPW_CCP and the Warsaw Stock Exchange, participated in consultations about the implementation of new solutions in the Polish capital market, and in projects carried out by market working parties.

4.6 Brokerage Activity

The Group runs brokerage activities in the capital market via Dom Maklerski Banku Handlowego S.A. ("DMBH"), a wholly-owned subsidiary of the Bank.

As at the end of 2020, DMBH was the market maker for 66 companies listed on the Warsaw Stock Exchange (of which 20 from the WIG20 index), i.e. 15% of the shares listed in its main equity market.

In 2020, DMBH was the intermediary in in-session transactions accounting for 4.6% 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 27.3 billion and declined by 5% as compared to last year, with increase in turnovers on the WSE by 55%. The structure of in-session turnovers continues to change – the share of turnovers on the client's account in total turnovers declined and the share of turnovers on DMBH's own account in total turnovers increased. In 2020, DMBH was 9th in the session trading on the WSE Main Market, and as a local Exchange Member it has a 5% share in the session trading.

The number of investment accounts maintained by DMBH was 14.9 thousand as at the end of 2020 and increased by 7.8% compared to 2019. The increase in the number of accounts resulted from the great interest of individual investors in the DMBH offer and the investment advisory service.

The year 2020 brought a revival on the Polish capital market. In 2020, DMBH carried out the following transactions:

- CCC S.A. – DMBH acted as demand co-booker in accelerated sale of new common shares of CCC S.A.; the transaction value was PLN 507 million (April 2020). This was the first transaction of this type in Central and Eastern Europe after the outbreak of the COVID-19 pandemic,
- Lubawa S.A. – DMBH acted as an intermediary in an RFP for 66% of Lubawa S.A. shares (May 2020),
- Allegro.eu SA – DMBH acted as a co-bookkeeper in the largest IPO on the WSE in history. The offer acquired a total of over PLN 10.5 billion for the company and shareholders (September 2020),
- Talanx S.A. – DMBH acts as an intermediary in an RFP announced in December to end the listing of Talanx S.A. on the Warsaw Stock Exchange.

In 2020, despite the spread of the coronavirus pandemic, DMBH pursued a stable and even periodically increased activity, continuously responding to the needs of its clients.

The liquidity and capital situation of DMBH remains very good. However, its management cannot rule out that a declining trend in the economy arising from the pandemic may adversely affect the investing activity of both individual and institutional clients, which can have an impact on the financial results of the company. DMBH believes that such situation should not deteriorate its capital ratios and should not reduce DMBH's ability to meet its liabilities, and the level of own funds, after having considered the effects of the above events, should enable DMBH to continue its business strategy and ensure that the risks deemed important for DMBH's activities are covered.

DMBH has in place and is implementing appropriate plans and infrastructural and organizational solutions to ensure continuity of business and performance of critical functions. The epidemiological situation is monitored and its impact on various dimensions of DMBH's activities is assessed on an ongoing basis and DMBH cooperates with regulators to maintain the stability of the financial sector.

Summary financial data as at 31 December 2020*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial result for 2020
		%	PLN'000	PLN'000	PLN'000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	736,813	114,245	16,666

* *pre-audit data*

4.7 Leasing

The leasing products are still offered by the Bank's Group as part of the so-called „open architecture", which is a partnership cooperation with entities not being part of the Bank's Group.

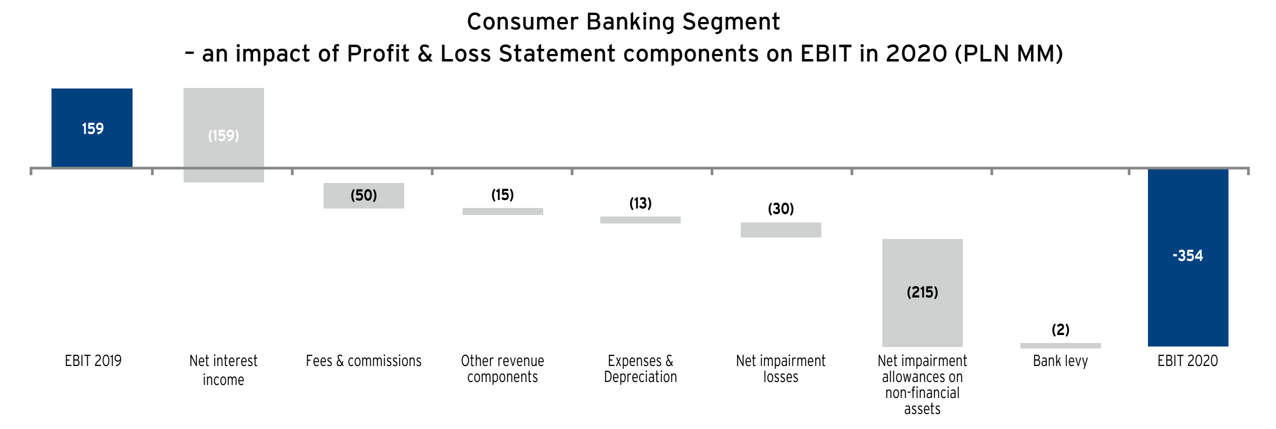
Summary financial data as at 31 December 2020*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2020
		%	PLN'000	PLN'000	PLN'000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	21,585	21,404	(513)

* *pre-audit data*

5. Consumer Banking Segment

5.1 Summary of the segment's results



The following factors affected the pre-tax profit of the Consumer Bank segment in 2020:

- Lower **interest income** as a result of lowering the reference rate by the Monetary Policy Council and due to decline in customer demand for credit products in the event of economic uncertainty, as well as the tightening of documentation requirements in the process of accepting new loans by the Bank, which translated into a decrease in the balance of credit products (-2.2% YoY). In 2020, the Bank created a provision for potential commission returns for customers (relating to prepaid loans in 2020 and expected future prepayments) in the amount of PLN 17.8 million;
- a decrease in **interest expenses** as a result of a significant reduction in interest rates for the polish zloty and other currencies despite a significant increase in the balance of deposits (+15.1% YoY).
- a decline in **net fee and commission income**, mainly due to lower transaction activity of the clients using credit cards and debit cards as a result of pandemic;
- a decrease in **operating expenses**, as a result of maintaining cost discipline, except for increased investment in technology;
- in **other operating expenses** and income, despite the marginal share of CHF-indexed loans, a provision in the amount of PLN 13 million was created for legal risk related to this loans;

In addition, the Bank created a provision for potential returns of customer commissions in the amount of PLN 15.7 million (related to pre-paid loans in the previous years).

The Bank has undertaken a number of initiatives to mitigate the impact of changing environmental conditions and intends to continue the strategy of consumer banking development through remote channels in the process of acquiring new clients (thanks to technology based on biometrics) and the development of the offer: CitiKantor, digital account and CitiSpecials, enabling the acquisition of new clients and an increase in the transactionality of the existing ones.

5.2 Selected business data

	2020	2019	Change	
			PLN'000	%
Number of individual customers	645.0	674.9	(29.9)	(4.4%)
Number of current accounts	452.3	457.7	(5.4)	(1.2%)
Number of savings accounts	122.5	139.6	(17.1)	(12.2%)
Number of credit cards	606.7	651.8	(45.1)	6.9%
Number of debit cards	233,4	238.2	(4.8)	(2.0)

5.3 Key business achievements

Bank accounts

Current accounts

The total balance on the accounts **increased by over 52%** as compared to 2019 and **exceeded PLN 10.5 billion**.

The number of personal accounts was **452,000** as at the end of 2020, i.e. drop slightly as compared to 2019. Of that number, 252,000 were PLN accounts and 200,000 accounts in foreign currencies.

Savings accounts

The number of savings accounts was **122,000** as at the end of 2020, with a simultaneous their total balance of **PLN 3.3 billion**, as compared to 140,000 savings accounts with over PLN 3.8 billion in the same period in 2019.

Changes in offering

In 2020, the Bank introduced numerous significant innovations in its offer. In the first quarter of 2020, the area of mobile payments was expanded to include **Apple Pay**. In May 2020, the Bank implemented **Citibank Global Wallet**, in which the system recognizes the currency of a card transaction and charges the relevant currency account, provided that the client has sufficient funds. With this solution, clients of the Bank, when paying by debit cards abroad, can avoid currency conversion costs.

As a continuation of its digitization strategy, the Bank made also possible for its clients to **remotely open personal accounts with the use of biometrics**, and specifically a photo of the face, commonly called a "selfie". The process to open an account consists of three simple steps: (1) fill in an application on a computer or smartphone, (2) confirm identity by taking a picture of the face and ID document and (3) accept the documents using a code received in a text message. What is important here is that in order to open an account, no application needs to be installed, no courier visit, video verification or telephone call is required and **the whole process takes up to 15 minutes**.

The Bank focused on acquisition of new clients in the Citi Priority, Citigold and Citigold Private Client segments. At the same time, in September 2020, **the Bank expanded the range of its products by a new version of CitiKonto**, which is addressed to those who value remote service and favorable exchange rates.

In February 2020, **Euromoney, the prestigious British magazine, named Citi Handlowy the "Best Private Banking Services Overall Poland"** in its annual survey investigating the quality of the private banking offer. Citi Handlowy dominated this year's ranking and took the first place in as many as nine out of sixteen surveyed categories. In the annual Euromoney ranking, banks from the top world finance select the best, in their opinion, competitors. The rankings signed with the Euromoney brand enjoy international recognition and are considered to be a reliable barometer of the condition of the industry and a reliable certificate of quality obtained from clients.

In the same month, **Forbes** magazine, in its private banking ranking, granted Citi Handlowy **the maximum number of stars, i.e. 5** for the fifth time in a row, thus emphasizing the solid proposal of the Bank for the wealthiest people in Poland.

In addition to providing easy and convenient access to banking services from anywhere, in times of the COVID19 crisis the Bank also delivered solutions supporting its clients in this difficult time. Jointly with Bank Gospodarstwa Krajowego the Bank **increased the amounts of de *minimis* guarantees for Micro businesses affected by the pandemic**, by offering loans with collateral up to 80% of their value. In turn, in cooperation with the Polish Development Fund, the Bank launched a subsidy distribution process under the PFR Financial Shield. Customers can apply for a subsidy using Citibank Online electronic banking.

After the repeated interest rate cuts implemented by the National Bank of Poland in 2020, the interest rates on funds in savings and term deposit accounts were trimmed down. In June 2020, the Bank also announced the planned changes in its Table of Fees and Commissions. The main changes include new rules of calculation of fees for Priority accounts, higher fees for CitiPhone and a new fee for newly-opened FX accounts in EUR.

Credit Cards

As at the end of 2020, the number of credit cards was **607,000**. The total debt on credit cards amounted to **PLN 2.5 billion** as at the end of 2020 and decreased by 10.1% from the end of 2019. The Bank maintained its stable position in the credit card market in terms of the value of loans on credit cards, with the market share of 22% as at the end of 2020.

In 2020, despite the difficult situation on the credit card market, the acquisition of credit cards remained stable and amounted to approximately 26,000 cards. This was achieved thanks to intensive acquisition activities of the Bank which made its credit card proposal more attractive. As a result, in 2020 for the fifth time in a row the Bank was honored with the **Golden Banker award for the best credit card: Citi Simplicity**.

In 2020, a new BP card was introduced to the credit card offer. The Bank also established a **partnership with OBI**, thus introducing a new distribution channel for credit cards.

In 2020, the quality of card acquisition and a high share of cards acquired on the basis of the client's documented income data were maintained, which translated into a higher activation level and a higher transactional activity of the newly acquired clients.

The Bank consistently diversifies its acquisition channels while continuously optimizing its sales processes.

Cash loans and installment products on credit card accounts	The balance of unsecured loans (cash loans and loans on credit card) amounted to **PLN 2.5 billion** as at the end of 2020, i.e. decreased by 7.2% as compared to the end of 2019. The lowered balance is an outcome of lower sales in unsecured loans, which amounted to **PLN 883 million** in 2020, i.e. declined by 25.6% compared to 2019. The amount of sales was influenced by the introduction of the epidemic in March 2020, which translated, among other things, into a decrease in demand for loans. The extensive online and remote processes allowed for the availability of the credit process to be kept unchanged compared to the periods before the pandemic. The possibility of taking advantage of loans without leaving home and concluding an agreement in an electronic version is available to both existing and new customers of the Bank applying for a loan (using, among others, biometric identity verification for a new customer).
Mortgage products	As at the end of 2020, the mortgage loan portfolio amounted to **PLN 2.2 billion**, i.e. it **increased by 16%** from the end of 2019. In 2020, sales of mortgage products amounted to **PLN 546 million**, i.e. **increased by 20,4%** compared to the sales results recorded in 2019.
Investment and insurance products	As at the end of 2020, 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 **22,1% higher** as compared to the same period in 2019. This was mainly due to the increase in funds under financial instruments available to the Bank's clients through Dom Maklerski Banku Handlowego S.A. In the structured product segment, the Bank completed **5 subscriptions for PLN denominated structured bonds in 2020**. As regards open-ended investment funds, in 2020 the Bank enhanced the offer by adding four new investment strategies in a variety of currencies, including units of „hedge" type mitigating the currency risk and distribution units paying dividends. In the area of brokerage activities and cooperation with Dom Maklerski Banku Handlowego S.A., in 2020, the Bank recorded a spike in assets held on brokerage accounts, by over 70% compared to 2019. The reason for the increase was retail customers' interest in exposures to foreign equity markets as well as IPOs on the domestic market, including Allegro's IPO. **Retail customers' turnover and commission income increased by nearly 50%**. The Bank still offered insurance in a multi-channel distribution model - both at branches and in remote channels. In the case of Citigold branches, the products were offered under the model where clients are served by insurance specialists who provide their clients with expert support in the area of financial planning using insurance products.

6. Development of distribution channels

6.1 Branch network

Citigold and Citigold Private Client outlets

At the end of 2020, the branch network consisted of 19 offices, of which 9 Hub Gold branches located in eight largest Polish cities. These branches offer modern service space to customers and guarantee the highest standards of prestige and privacy, which allows top service levels and builds positive Bank-client relationships. Service in branches is based on operating and sales solutions that use advanced technologies and individualized approach to clients, with the direct support by the dedicated Relationship Manager. The location of the branches in the centers of the largest Polish cities guarantees accessibility and convenience for their clients.

Available to customers are also nine Smart branches located in six Polish cities. Those offices offer a smart banking model based on a consistent and dynamic system tailored to customers' current behavior patterns. They are equipped with modern technologies enabling convenient service using mobile and Internet solutions.

Day-to-day activities of the Citi Handlowy retail branch network in 2020 focused on ensuring continued operation of branches while ensuring safety for employees and customers. Despite the COVID-19 pandemic, Citi Handlowy's retail outlets continued to serve their customers. Throughout 2020, pandemic events forced a short-term closure of only one branch, in other cases merely cutting office hours at other branches. At the same time, the Bank pursued an effective communication policy towards customers, providing up-to-date information about all, including administrative, changes affecting branch network operations. The information campaign was carried out directly at offices and via remote communication channels. The pandemic has boosted the use of remote sales and service channels, intensifying telephone contacts with customers. Branch employees were additionally involved in an educational campaign for customers, "Bank safely from home", which helped build a sense of security among customers and uphold their trust in the Bank.

As the pandemic developed, the Bank introduced new operating procedures requiring changes in customer service. Process modifications were meant to ensure safety during face-to-face customer service and sale of banking products. The measures undertaken were based on the policies developed on the basis of global Citigroup standards, while taking into account local government recommendations.

Number of branches (at the end of period)

	31.12.2020	31.12.2019	Change
Number of branches:	**19**	**21**	**(2)**
- HUB Gold	9	9	-
- Investment Center	0	1	(1)
- Smart Branches	9	10	(1)
- Corporation Branches	1	1	-

6.2 Internet and telephone banking

Online banking

The online platform for retail and macro clients is built in a responsive technology, i.e. it can adapt itself to the device used by a client. Modern design was inspired by clients expectations and extended functionality makes other channels of communication 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. The clients can construct and update their investment profile coherent with the MiFID II regulation.

In 2020, the Bank also launched a transaction module for investment funds and provided a new Citi Kantor currency exchange module in which currency can be exchanged in a very simple way and at attractive rates within a group of major currencies: the zloty to US dollar, euro, British pound and Swiss franc. Additionally, Citi Kantor enables users to receive text or email messages when the desired FX rate is available (Market Alerts) or to sell currencies at a pre-defined exchange rate (Order Watch). Citi Kantor also makes it possible to execute advanced orders such as Stop, Limit, If Done, OCO (Order-Cancels-Order). The client can use these solutions conveniently both in the online version – within the Citibank Online electronic banking, and mobile version – within the Citi Mobile app.

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 379,000 as at the end of 2020. The share of active Citibank Online users in the entire client portfolio of the Bank was 60.5% as at the end of 2020.

At the same time, as at the end of 2020, digital users accounted for 82.3% of all transactionally active clients, which means an increase by 0.5 p.p. as compared to the end of 2019.

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 of changes on the account or card, and login activation with the use of a fingerprint or face image, which makes access to the application even easier. 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.

As at the end of the 2020, 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 233,000, i.e. increased by 6.9% as compared to the end of 2019.

As at the end of 2020 the share of active users of mobile banking in the retail client portfolio of Citi Handlowy was 37.2%, i.e. increased by 4.1 p.p. as compared to the same period in 2019.

Social media

In 2020, Citi Handlowy continued its activities in social media. Due to the situation caused by the COVID-19 pandemic and mobility restrictions, social media became an even more important channel of communication with customers. Through social media platforms, the Bank not only handled a larger number of customer inquiries, but also engaged in active communication about the Bank's operation in the new reality. The communications concerned new products and special offers prepared for Bank customers; Citi Handlowy also educated them in how to use its digital solutions and maintained customer relationships. Social media also served as one of the new client acquisition channels.

In 2020, the posts published by the Bank on social media reached 4.5 million users. 232 materials (video + graphics) were posted, and received nearly 64 million views. Users left 2,080 comments under Bank's publications.

7. Changes in IT technologies

In 2020, 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 support promotion of electronic distribution channels based on the most advanced technologies, including online and mobile solutions. Projects to implement products that support the COVID-19 anti-crisis shield were also continued.

IT processes of the Bank are executed in accordance with international standards, which was confirmed, in the first quarter of 2020, by the positive outcome of recertification/supervision audits of compliance with ISO 20000 (Information technology – service management), ISO 27001 (information security management) and ISO22301 (business continuity management).

The most crucial modifications and improvements implemented in 2020 included:

- **in institutional banking:**
  - **implementation of solutions that increase the level of digitization for communication between the Bank and its clients** – new solutions will be implemented to increase the digitization of communication between clients and the Bank. As a result of new changes, more and more clients can use digital channels to submit and download documents to/from the Bank. The Bank expects that those changes will increase the level of digitization of communication and reduce the volume of non-digital documents exchanged with its clients;

- **implementation of a system supporting treasury processes at the Bank** – the new solution will ensure increased level of process automation in the management of the Bank's treasury activities and digitalization of services for corporate clients;
- **implementation of the governmental PFR Anti-Crisis Shield**, which is to help companies maintain their financial liquidity during COVID-19 pandemic The funds in the Anti-Crisis Shield program are administered by the Polish Development Fund (PFR). Companies may receive a subvention which can be redeemed up to 75%. The role of the 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 systems which support activities of the Financial Markets and Corporate Banking Sector in the area of derivative instruments** – implementation of the new platform was completed to use more advanced product solutions offered in Citi group of companies and to execute the strategy of consolidation of product solutions. As a result of that implementation the Bank expects a higher effectiveness and automation of processing of derivative instruments;
- **implementation of various new solutions in the CitiDirect electronic banking system**, including new services for the purpose of monitoring of status of domestic and international payments, a GPI service and an enhanced application of biometrics. As a result of that implementation, the Bank expects an increase in the level of digitization of its services and a higher satisfaction of clients with electronic banking services;

- **in consumer banking:**
  - **the launch of a new service, "Citi Kantor", in Citibank Online and in the mobile application**, allowing customers to conveniently exchange currencies and set up conditional orders. The service is based on continuously updated exchange rates;
  - **the launch of an option of fully remote bank account opening** using new authentication technologies. The application process involves online data entry, upload of document photos and a selfie. The entire application process takes just a few minutes;
  - **the launch of "Citi Global Wallet"**, which automatically assigns debit card payment to the appropriate bank account of the customer, depending on payment currency. Previously, customers had to assign their card to the appropriate currency account prior to the transaction;
  - **launch of ApplePay as a new mobile payment system for credit and debit Mastercard cards issued by Citi Handlowy**.
  - **implementation of a new credit card for clients in cooperation with BP: Citibank-BP Motocard**.
- **in the scope of adaptation of systems of the Bank to ensure their compliance with regulatory requirements:**
  - implementation of regulatory changes to adapt IT systems of the Bank to the requirements of AML regulations (anti-money laundering and combating of terrorist financing);
  - adaptation of IT systems of the Bank to an enhanced and more automatic process of transaction monitoring within the framework of anti-money laundering activities;
  - 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;
- **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 adding new solutions in data leakage prevention (Data Leakage prevention systems) which significantly reduced the risks related to data leakage;
  - reinforcement of ICT infrastructure of the Bank (remote access, WANs, telephony, virtualization and video conference) to enable effective remote work to the extent required during the pandemic;
  - migration of the office telephone system to Cisco voice solutions, including the application of the "softphone first" rule and increase of mobility, optimization of the voice recording (implementation of the Nice Engage system), contact center services and the Autodialer system;

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 proactively 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 robotization for current business process in order 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;
- **in consumer banking:**
  - **expansion of the offer of bank accounts offered to customers**;
  - **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 functionality and products) in order to increase the client satisfaction level, revenues and security;
- **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;

8. Equity investments

The investments of the Bank are divided between the portfolio of strategic companies and the portfolio of companies held for sale. In 2020, the Bank continued the investment policy it had decided to adopt earlier. Its objectives for the strategic companies portfolio were: to maximize profits in the long run, to increase market shares, to develop cooperation with the Bank and to expand the product range of the Bank; and for the portfolio of companies held for sale: to optimize the financial result of capital transactions and to minimize the risk in the areas arising from those transactions.

8.1 Strategic portfolio

Strategic portfolio includes entities which conduct their activities in the financial sector and through which the Bank enlarges its product offer, raises prestige and fosters its competitive position on the Polish financial services market.

Strategic portfolio also includes infrastructural companies which operate for the financial sector. The Bank holds non-controlling interest in such companies but they are of strategic importance for the Bank given their operations and collaboration with the Bank.

For its strategic investments in the so-called infrastructural companies, the Bank is going to retain its share and to participate proactively in decision making to determine strategic directions of their development to the extent of the options the Bank may pursue with the voting rights it holds. As its overriding goal when exercising corporate oversight over those companies, the Bank has chosen to support their growth insofar as the continuation of their current operations utilized by financial market participants, including the Bank, is not put in jeopardy. Simultaneously, in order to ensure that the Bank's proposal is innovative and comprehensive and that it meets diverse product needs and expectations of clients, the Bank may consider an expansion of its strategic companies portfolio by those which will complement its own proposal and make it more attractive, while ensuring that all offered services are safe. To this end, the Bank may opt for an acquisition, create a new company or use a special purpose investment vehicle it already has in its portfolio.

8.2 Divestment portfolio

Companies held for sale are entities in which the Bank's involvement is not of strategic nature. They include both companies held by the Bank directly and indirectly as well as special purpose investment vehicles. Some of the companies held for sale are restructuring commitments taken over by the Bank as a result of debt-to-equity conversion.

Strategic assumptions of the Bank regarding companies held for sale provide for gradual reduction of the Group's exposure in these companies. It is assumed that the individual entities shall be sold at the most favorable moment, determined on the basis of market conditions. The held-for-sale portfolio covers investments without a pre-determined rate of return. The Bank does not plan any new investments that would be held for sale in the future. The portfolio of companies which are held for sale may be enlarged by adding new companies taken over in the course of debt-to-equity conversions or as a result of takeover/enforcement of a pledge established on shares during the lending process or other processes aimed at securing or enforcing receivables of the Bank, and by investments which the Bank may take over in the course of its operations. Investment resulting from restructuring activities will be sold in accordance with the restructuring plan created individually for each company.

Special purpose investment vehicles companies

As at 31 December 2020, the Group included two investment special purpose vehicles. Their activities were financed with reverse capital contributions of the shareholder and with their profits.

As the Bank continues its strategy which assumes that its activities carried out via special purpose vehicles should be trimmed down, it is expected that its special purpose vehicles will be gradually sold or liquidated.

According to information available as the date of preparation of the (preliminary and unaudited) financial statements, the key financials of those companies as at 31 December 2020 were as follows:

Entity	Headquarter	Authorized capital/votes in GM held by the Bank	Balance sheet	Equity	Net financial profit/loss for 2020
	%	PLN'000	PLN'000	PLN'000	PLN'000
Handlowy-Inwestycje Sp. z o.o.	Warszawa	100.00	10,701	10,654	(125)
Handlowy Investments S.A.*	Luksemburg	100.00	4,853	4,757	(470)

* *Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2021 (pre-audit data), which is the entity's balance sheet date.*

VI. Significant risks related to the activities of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Significant risks and threats related to the Group's operating environment

1.1 Regulatory and legal risks

In 2020, 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.
New WIBID and WIBOR Reference Rate documentation of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)	• On 6 December 2019, GPW Benchmark S.A. decided to amend the Code of Conduct for WIBID and WIBOR Fixing Participants. The amended Code of Conduct will become effective as of 04 February 2020. This draft documentation is to ensure compliance with the requirements of 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.
EBA Guidelines on outsourcing:	• Date: 31 December 2020. 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.
Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014.	• Date: 01 January 2018 • This regulation implements, among other things, a common framework which is to ensure accuracy and integrity of indices used in the EU as benchmarks in financial instruments and financial contracts, as well as the protection of consumers and investors. • The regulation also applies to entities which provide benchmarks or input data for a benchmark and to supervised entities which use benchmarks in financial contracts and financial instruments.
Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MIFID II"), Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 ("MIFIR") and other EU regulations and the related amendment to the Act of 29 July 2005 on trading in financial instruments and certain other laws and secondary regulations	• Date: 3 January 2018 (EU regulations) and 21 October 2018 (local regulations) • The primary objective of MIFID II and MIFIR is to strengthen the protection of clients which use investment services and to increase the transparency of functioning of financial markets, and • To ensure an increase in the competitiveness and efficiency of financial markets in Poland and the European Union.
Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories and executive regulations to the above regulation issued by the European Commission ("EMIR").	• The implementation of EMIR has been progressing in stages since 2012. In 2019, subsequent stages of implementation in connection with EMIR were carried out, in particular those related to the widening of the group of entities obliged to use initial margins for derivative transactions. • EMIR imposes on undertakings which are financial and non-financial counterparties, as defined in the Regulation, numerous obligations connected with the conclusion of derivative transactions, and in particular transactions concluded on the OTC market (e.g. obligations to report derivative transactions, to have derivative transactions settled by a central counterparty (CCP), to confirm transactions, to reconcile, and to secure exposures arising from transactions).
The Regulation (EU) 2015/2356 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse, and amending Regulation (EU) No 648/2012	• Date: 11 April 2020 • The Regulation imposes the obligation to report detailed information concerning securities financing transactions as well as information concerning all changes in such transactions or termination thereof, to a transaction repository. Securities financing transactions are understood as: - repurchase transaction (Repo), - securities loans or loans for goods granted and securities loans or loans for goods taken, - buy-sell back transaction or sell-buy back transaction, - margin lending transaction
Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC	• Date: 21 July 2019 • The most important amendments concerned the change of the definition and rules of public offerings
The Act of 16 October 2019 amending the Act on Public Offering and Terms of Introduction of Financial Instruments to an Organized Trading System and on Public Companies and some other acts	• Date: 30 November 2019 (3 September 2020 in respect of shareholders identification) • The most important changes included: - the change of the definition and rules of public offerings (adaptation to the EU regulations) - the introduction of a public offering as a rule, - of new obligations for entities keeping securities accounts regarding shareholders identification, disclosures to the shareholders and facilitating the execution of shareholders' rights (effective 3 September 2020).
The Act of 4 October 2018 on employee capital plans	• Date: 01 January 2019 • introduction of the long-term saving program for employees that would operate in the form of investment funds and voluntary retirement funds for which the Bank could act as depositary • 1 July 2019 - 1st stage of the introduction of Employee Capital Plans - entities hiring at least 250 persons

The Act of 9 August 2019 Amending the Goods and Services Tax Act and Certain Other Acts	• Date: 01 November 2019 • The Act imposes on the entrepreneurs who pay invoices containing at least one item enumerated in Appendix 15 to the Tax on Goods and Services Act and the value of invoice exceeds PLN 15 000, the obligation to apply a split payment mechanism. Furthermore, funds gathered on the account are to cover liabilities under VAT, PIT, CIT taxes, excise duties, customs duties, and amounts contributed to the social security scheme maintained by ZUS (the Social Insurance Institution).
The Act of 19 July 2019 on the amendment of certain acts to reduce payment backlogs	• Date: 01 January 2020 • The fundamental aim of the act is to further limit late payments due to counterparties, taking into special consideration micro, small and mid-size entrepreneurs. The so-called large entrepreneurs will not be allowed to agree with smaller entrepreneurs payment dates going beyond 60 days.
The Act of 12 April 2019 Amending the Goods and Services Tax Act and Certain Other Acts	• Date: 01 September 2019 • The Act requires that entrepreneurs screen an entity's account a given taxpayer is to credit with payment, against the list of VAT payers (the so-called white list). Any payment onto any account which is not listed entails tax consequences. In accordance with the provisions of the Act, negative consequences to the entrepreneur who has credited an account that is not displayed on the white list are enforceable beginning from 1 January 2020.
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.
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 Directive was implemented in Poland by way of the Consumer Credit Act of 12 May 2011. The publication of the ruling setting out conditions of settling an earlier repayment of a consumer loan, as envisaged in the said Directive, necessitated a review at the Bank of its existing practice regarding consumer loans.
The Act of 16 October 2019 amending the Act on Public Offering and Terms of Introduction of Financial Instruments to an Organized Trading System and on Public Companies and some other acts	• Date: 3 September 2020 in respect of shareholders identification • The most important changes included: – of new obligations for entities keeping securities accounts regarding shareholders identification, – disclosures to the shareholders and facilitating the execution of shareholders' rights (effective 3 September 2020).
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.	• Announcement date: 14 March 2020, 20 March 2020, 31 March 2020, and successively - the last amendment for 2020 was announced on December 30, 2020. • Those regulations have implemented various restrictions and prohibitions. As at the end of 2020, prohibitions and obligations were in force in the following areas: – Restrictions on certain ways of movement and an obligation to undergo quarantine and diagnostic tests for SARS-CoV-2; – 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, 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 ensure personal protective equipment connected with combating the pandemic; – Ban on shows and other gatherings – Obligation to make available real property, premises and land in accordance with the counter-pandemic plans; – Obligation to relocate as prescribed and obligation to use preventive measures. For the Bank, the most important measures include: duty to cover nose and mouth, including in work establishments and public buildings used for the purposes of provision of banking services – imposed on persons who directly serve clients during such activities.
The Act of 02 March 2020 on Specific Solutions related to the Prevention, Counteraction and Combating of the COVID-19, Other Infectious Diseases and Related Emergencies (Journal of Laws item 374 as amended, "Special Act") Secondary regulations issued under the Special	• Announcement date: 07 March 2020 • The Special Act has introduced new obligations and rights of employers and employees and has been amended many times (see below in sections describing the consecutive versions of the Anti-Crisis Shield); • Remote work: an employer has a right to order an employee to work remotely for a specified time in order to counteract COVID-19; • Additional care benefit in connection with school and pre-school lockdown: an additional care benefit has been introduced for eligible persons released from the obligation to work due to the need to take a personal care of a child – in the event that the nursery, children's club, pre-school or school attended by the child is closed due to COVID-19. This benefit does not reduce the maximum benefit period specified in the Act on social insurance monetary benefits in the event of illness and motherhood. At present (as at 15 July 2002), the benefit period is extended to 26 July 2020. • Amendments to many legal acts and regulations, including the Act on the State Sanitary Inspection: the Chief Sanitary Inspector or a state regional sanitary inspection acting upon authorization granted by the Chief Sanitary Inspector has powers, for example to issue decisions imposing various duties on employers or recommendations and guidelines how to proceed when performing tasks.

Shield 1.0: the Act of 31 March 2020 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	• Announcement date: 31 March 2020 • Amendments to various legal acts and regulations, including changes in court procedures; changes in time-barring rules provided by administrative law provisions (including a change in deadlines for proceedings initiated by the Polish Financial Supervision Authority (KNF)); a possibility to change statutory time limits by a regulation, and a reduction of maximum non-interest costs of consumer credit; • Amendments to the Code of Commercial Companies: a default possibility to participate in meetings of the management board and supervisory board of a limited liability company or joint-stock company via remote communication channels and to pass resolutions of the management board and supervisory board in writing or via remote communication channels. Similarly, a possibility was introduced for shareholders to participate in general meetings also via electronic communication measures unless the Articles of Association or By-laws of the company provide otherwise; • Changes in conditions or dates of repayment of loans: in the event that the state of epidemic threat or state of epidemic is declared, a bank may change contractual conditions or repayments dates for a loan granted under the Banking Law to a microbusiness or small or medium-sized company if: (1) the loan was granted before 8 march 2020 and (2) such change is reasonable in the light of the financial and economic situation of the business as assessed by the bank not sooner than on 30 September 2019. In any case, a modification of financing terms should be agreed between the bank and the borrower, provided that the change will not deteriorate the situation of the borrower; • Employer support: a possibility to apply for assistance to protect jobs, to reduce salaries and wages of employees covered by downtime, to obtain co-financing of salaries and wages and to reduce working hours, and introduction of flexible rules of initial and control examinations and temporary suspension of periodic examinations.
Shield 2.0: the Act of 16 April 2020 on special support instruments in connection with the spreading of SARS-CoV-2 virus	• Announcement date: 17 April 2020 • Amendments to various legal acts and regulations, including in particular changes in deadlines of submission of a request to declare a debtor's bankruptcy; time barring rules applicable to trials and court proceedings; changes in effects of failure to appear in court; changes in the rules of service; • It was clarified that the supervisory board of a limited liability company or joint-stock company may pass resolutions in writing or via remote communication channels also in matters for which secret ballot is obligatory under the Articles of Association or By-laws provided that none of the members of the supervisory board raises any objection (Articles 222 § 41 and 388 § 31 of the Code of Commercial Companies); • Admission of electronic subscription to shares; • Initial work health and safety training may be carried out via electronic communication means and the deadlines for periodic work health and safety training have been extended.
Shield 3.0: the Act of 14 May 2020 on amendments to certain Acts of Parliament with respect to protective activities in connection with the spreading of SARS-CoV-2 virus	• Announcement date: 15 May 2020 • Changes in the Civil Code relating to the agreement on transfer of ownership to secure claims (anti-usury regulations) and changes in the Code of Civil Procedure concerning real property auctions; changes in the Penal Code to penalize usury acts; • Changes in the Code of Commercial Companies, in particular a provision that shares certificates delivered by a company will expire by the operation of law on 1 March 2021. On the same date, the entries in the share register, and for a non-public company whose general meeting has passed a resolution to register its shares in the securities depository – entries made to register its shares on securities accounts, will become legally effective. A date by which the first call must be issued for shareholders has also been changed to 30 September 2020. The application, as appropriate, of provisions concerning registered shares to the exercise and transfer of rights from bearer shares for which documents have been submitted to the company has been extended to 1 March 2021; • So called "court unfreezing" – time barring has been reinstated for court cases except deadlines for the Polish Financial Supervision Authority to initiate activities, including supervisory activities, deadlines for processing matters and deadlines for issuance of decisions or procedures to finalize proceedings in a case or to file an objection unless the Polish Financial Supervisory Authority issues a decision that ends the case; • The amount exempt from deductions from an employee's pay has been increased if the employee's pay was reduced or a family member of the employee lost the source of income. The deduction-free amounts will be increased by 25% for every family member without income supported by the employee.
Shield 4.0: the Act of 19 June 2020 on subsidization of interest on bank loans granted to entities affected by COVID-19 and simplified arrangement approval proceedings due to COVID-19	• Date: 23 June 2020 • Upon a consumer's request, a bank must defer the agreement if the borrower lost job or another main source of income after 13 March 2020 (so called loan vacation). Such deferral may cover a consumer credit agreement, a mortgage agreement and a credit agreement within the meaning of Article 69 of the Banking Law – if the borrower is a consumer and the agreement was signed before 13 March 2020 and the loan term ends after 6 months after that date. During deferral (which may not be longer than 3 months), the borrower does not have to make payments under the agreement, except for the related insurance charges. Interest does not accrue and no fees are collected, except those specified in the confirmation of deferral; • Among other things, the Act provides for the introduction of a new solution – simplified restructuring procedure (chapter 6 of the Act); • It sets out the rules of interest subventions for bank loans granted under agreements signed by 31 December 2020 to businesses in a difficult financial situation resulting from adverse economic outcomes of COVID-19 – credit agreement with subvention may be signed by 31 December 2020; • The rules of remote work have been clarified, the employer may unilaterally order its employees to use outstanding holiday, severance pay, indemnity and other monetary benefits in connection with termination of an employment contract have been reduced, the employer's obligations connected with the establishment or functioning of the Company Social Benefit Fund, primary contributions and payment of holiday benefits may be suspended, subventions may also be obtained for salaries and wages of employees not covered by a downtime, and the rules of applying for assistance for employers have been clarified.

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 June 2020 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.

In 2021, the financial and organizational situation of the Group will be affected, among other things, by:

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 Recommendation S as amended provides, among other things, for an obligation to add to product ranges of banks fixed-rate loans with an option to convert a variable-rate loan to a 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. The draft also includes a possibility to consecutively inform client groups of the possibility to convert the loan if the bank foresees that it will not be able to process all the expected applications.
ESMA guidelines on the MiFID II compliance function.	• Date: 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 • 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 • 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	• Date: 2021 (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).
EBA Guidelines on Loan Origination and Monitoring	• Date: 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.
EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013	• Date: 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

Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication	• Date: 14 September 2019 • This regulation sets out the requirements that must be met by providers of payment services in order to implement security measures which enable them, among other things, to use a strong customer authentication procedure and associated security measures and also to determine common and secure open standards of communication between account servicing payment service providers, payment initiation service providers, account information service providers, payers, payees and other payment service providers in relation to the provision and use of payment services.
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
Draft Act amending certain acts in connection with the transfer of funds from open-end pension funds to individual pension accounts	• Date: According to the draft, the act is to enter into force on 1 June 2020 while the significant provisions of the draft are to be implemented in November 2020 and in 2021. The work on the Act were not finalized. By a resolution of 13 March 2020, the Senate rejected the bill in its entirety and the Sejm (lower house) has not worked on the bill since it was rejected by the Senate. As the planned effective date (1 June 2020) passed it can be expected that the effective date will be changed and the bill will be proceeded by the Sejm.. • The draft 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 draft 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.
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 taking effect as of 13 September 2020 to discipline the clearing of transactions in specified financial instruments 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.	• 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.
Draft Act 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 is to enter into force in 2021 and partially in 2023
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
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 31 July 2019 on amending certain acts to reduce regulatory burdens	• The amendment of the Civil Code takes effect as of 1 June 2020 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.
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) 2019/2088 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
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.
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.
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.

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.
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).	• 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.

2. Significant risks and threats related to the Group and its activity

2.1 Risk management principles

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

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

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

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

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

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

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

The Group carries out the management of all significant risk families arising from the execution of its business strategy. As part of the process initiated in 2019 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;

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 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.

VII. The Bank's community initiatives

The full-scope information on the implementation by the Bank of the corporate social responsibility principles, including all statutory non-financial disclosures, is presented in the Non-Financial Statements of Bank Handlowy w Warszawie S.A. and Bank Handlowy w Warszawie S.A. Group of Companies for the financial year ended 31 December 2020. The statements were prepared on the basis of the requirements set out in the Accounting Act of 29 September 1994 (i.e. J.L. of 2019 item 351 as amended), which imposes the reporting obligation.

1. Corporate Social Responsibility (CSR)

The Bank is socially responsible for and sensitive to the needs of both its business and social partners. All Bank's actions are undertaken following the needs of its customers, but also the community in which Bank operates.

Bank's activities with regard to Corporate Social Responsibility (CSR) cover work place and market environment and local community as well as environmental protection. The strategic objective is to become a company setting Corporate Social Responsibility (CSR) standards, both outside and inside the organization. The Bank carries on investments supporting local communities implemented for public good in such fields as financial education, promotion of entrepreneurship, local development and protection of cultural heritage. The Bank's mission in this scope has been implemented through the Kronenberg Foundation at Citi Handlowy established in 1996. Public recognition for the social commitment of the Bank is confirmed by various independent rankings. In 2020 Citi Handlowy appeared in the second edition of Diversity & Inclusion Rating. This is a new initiative of the Responsible Business Forum and Deloitte, aimed at measuring advancement level of a company in terms of building a diverse, inclusive and ethical organization. The first edition of the rating included 5 companies which demonstrated the highest level of diversity management. Since 2018, the Bank has been included in the Super Ethical Companies list as part of the competition organised by Puls Biznesu in cooperation with PwC. The Super Ethical Company title is granted to entities which have won the title of „Ethical Company" at least three times in a row. In order to receive this award, a company has to meet the highest standards in the area of corporate governance, reputation and leadership, fraud risk management, irregularity reporting system, report verification methods, etc.

1.1 Client relationships – market practice

The establishment of client relations based on trust and a shared vision of growth is the Bank's mission and the biggest ambition. A strategic goal is to attain such level of client satisfaction, which will naturally translate into unwavering loyalty to the Bank. Therefore a range of activities is taken, on the basis of surveys and feedback from clients, which are to enhance and elevate the quality of our customer service standards and product offer on an ongoing basis. Following changing clients' expectations, one of such activities is the adaptation of brick- and-mortar customer services to new technologies. At present, over 98% of bank transactions (transfers and standing orders) are concluded individually via Citibank Online. The network of modern Smart Banking Ecosystem allows the client to conclude individually financial transactions, pay in/withdraw cash from fx ATMs, obtain a credit card and on an interactive screen learn about special rebates for holders of Citi Handlowy cards.

Client satisfaction surveys

The Bank conducts regular customer satisfaction surveys among both institutional and retail clients. NPS (Net Promoter Score) is the key measure of quality. NPS measures clients' propensity to recommend the Bank and thus their satisfaction regarding provided services. Surveys cover the Bank's key client segments as well as the most important channels of communication (i.e. Citibank Online, Citiphone, branches). Scores and comments are analyzed by a team which analyzes clients' experience and results of such analyses and proposed enhancements are discussed at a monthly meeting with the Bank's management. With a disciplined approach, despite the prevailing pandemic, the Bank maintained very good ratings in 2020 in each of the key NPS indicators. In particular, the electronic banking channel, Citibank Online, which in April, the month of the deepest lockdown, recorded a significant NPS increase of 43, received very good rating.

The Bank's sound position in providing customized solutions for clients was confirmed by many awards and recognitions won in 2019. One of them is the award granted in the 11th edition of the ranking prepared by Bankier.pl and Puls Biznesu for the Citi Simplicity credit card, which won the Golden Banker award for the fifth time in a row in the product category: "best credit card". The ranking also distinguished the Cash Loan from Citi Handlowy, which came in second. Other awards were granted, among others, by the British financial magazine Euromoney, which named Citi Handlowy the "Best Private Banking Services Overall Poland" in its annual survey investigating the quality of the private banking offer. Citi Handlowy also triumphs as the winner of this year's ranking and takes the first place in as many as 9 surveyed categories of services. Citi Handlowy was also listed among TOP 50 employers by WPROST, coming second among banks in Poland during the pandemic.

The Bank promotes the idea of high level of customer satisfaction not only through NPS tests. In 2020 Bank continued systematizing approach to searching, recording and changing the customer experience in relations with the Bank. Selected units not only analyze the clients' complaints, but also search for the information on customer experience in the NPS forms, comments posted in the social media or among the employees of the Bank who are also its clients. Every employee at the Bank is involved in building a new organizational culture predominantly for the client's interest and in delivering more and more revamped solutions. The growth of customer satisfaction level is among the Bank's key goals for 2021.

Communication with clients

For more than seven years the Bank has consistently pursued its transparent client communication strategy, systematically aligning its offer with the clients' needs. As part of such projects as „Treating Customers Fairly" requirements were defined regarding communication, which were necessary for conducting product campaigns. Given the above, despite of dynamically changing market conditions, clients are assured that they will be informed of the Bank's products in a fair and transparent manner. At the same time, the Bank ensures that its agreements are explicit and its information concerning costs, risks and potential advantages is transparent. All employees who are responsible for a product offer are also trained in transparent communication standards and are obligated to abide by them. In addition, the policy and standards of top quality customer service, advertising and responsible marketing at the Bank are governed by internal regulations, including the Code of Ethics for Advertising and the Ethical Business Practices of Bank Handlowy w Warszawie S.A.

Client complaints and enquiries

Information on the possible forms of submitting claims, complaints and grievance is easily accessible on the Bank's website. It is possible to submit comments by:

- Sending a message after logging in to the electronic banking system – Citibank Online **https://www.citibankonline.pl/**
- Sending a letter to the Bank's address or orally at the Bank's Branch

- Sending an email to the address: **listybh@citi.com** or – in case of escalation - to Customer Advocate: **rzecznik.klienta@citi.com**
- Contact with CitiPhone: 22 362 2484

The Bank informs of a possibility to resolve amicably disputes in relations with clients and this information is made public on the Internet. An important quality-related element, monitored in the complaint handling process is the time taken to respond. The standard time for consideration of the complaints filed by Citigold and Citigold Private Clients is one working day, whereas for clients from other segments is 4 working days.

The Bank logs each dissatisfaction and each lack of consistency identified by customers as complaints. Analyses of complaints and clients' comments, manners of handling them and drawing conclusions for the needs of the Bank's operations, are presented at the Client Experience Board meetings held on a monthly basis. Based on the prepared analyses, corrective action plans are specified to reduce errors on the part of the Bank in the future.

In 2020, the Bank made another step towards digitalization of its processes in line with customer expectations. Bank continued the development of the social media (Messenger) as its communication channel. During the year, customers asked almost 6,500 inquiries using this channel. In addition to standard queries how its products and services work, the Bank developed the chat bot function – automated and customized information about rebates in the Citi Specials program. The chat bot can answer the customers' queries about Citi Specials in a few seconds without involvement of the Banks' human staff. In addition, the chat bot has been enriched with a tab on the actions taken by the Bank in connection with the pandemic. There, customers will receive information on how to safely use banking services while staying at home.

As a means of contacting the Bank, the Chat is also available on the official website of Citi Handlowy. A specialised group of consultants reply online to queries posted by the Bank's customers.

Client Advocate

Establishment of the Customer Advocate is to both strengthen the cooperation between the Bank and the customers and increase customer satisfaction as far as the products and services offered by the Bank are concerned. The Bank invites its clients to dialogue, through contact with the Customer Advocate. This way, the Bank invites its customers to share their opinions, comments and suggestions about functioning of the Bank. Customers are able to share their opinions, comments and suggestions about functioning of the Bank, and are provided with another opportunity to have their unsuccessful complaint examined again. Customers can contact the Customer Advocate by sending an enquiry to the Customer Advocate. In 2020, the Customer Advocate received 226 issues for consideration.

Client education

A different type of activity, which is not obligatory but perfectly fits into the overall effort to provide security and accessibility of banking products, is financial education of existing and potential clients and entrepreneurship development programs.

Through the Kronenberg Foundation at Citi Handlowy the Bank pursues programs designed with the aim to build Poles' financial awareness leading to preclude financial exclusion. The activities of the Foundation focus on the activity in the area of financial education, within which a particular emphasis is put on building digital competences, which, in view of the ongoing digital transformation of financial services, seems essential for safe banking. The support for entrepreneurship by preparing young people to launch their own businesses and enhancing the potential of existing companies – this is the Foundation's contribution to the development of the Polish economy. The Foundation pays particular attention to startups, whose business model is based on international operations.

Gaining assurance that clients understand the mechanism of a product and that they know how to use it in the most suitable way, is also of importance to the Bank. For this purpose the Bank created on its sites Most Frequently Asked Questions section. Also educational materials are prepared for clients, from which they can learn how to manage their credit and credit history, observe current credit repayment dates and why it is important.

Taking into account the situation related to the pandemic in 2020, the Bank made available on its website information for customers on how to safely use products and services without leaving home.

Client data protection

The Bank applies the highest information security standards. Regular audits are conducted in this regard, validated by the Bank's certificates such as certificates of compliance with ISO 27001 and ISO22301 for processes, products and services provided by the Bank to its clients.

The Bank undertakes to protect private and confidential information about its clients and to properly use that information. Those rules are described in the „Rules for Personal Data Protection at Bank Handlowy w Warszawie S.A." The Bank gathers, keeps and processes clients' personal data in manners prescribed by national laws so that products and services offered to clients could be more efficient in meeting clients' financial needs and in supporting them in attaining their financial goals. With this in mind, the Bank makes every effort to implement and maintain appropriate systems and technology, and to properly train employees who have access to such information. The suppliers whose services are used by the Bank also have an obligation to protect confidentiality of information, including personal data and confidential information they receive from the Bank. The Bank also observes its own stringent internal standards and regulations concerning the confidential nature and security of information and personal data (standards concerning information systems management, information security standards, general provisions on security). Concerned about the issue of security the Bank applies the best standards and uses such information only for justified reasons related to the performance of business duties, makes it available only to authorized persons and organizations, and keeps it in a proper and secure manner.

1.2 Caring for people

A strategic goal of the Bank is to attract, develop and retain the best talents who share the values of the Bank:

Shared goal	One team which pursues a shared goal: the best service for clients and stakeholders.
Responsible business	Striving to act in a transparent, prudent and responsible manner.
Innovation	Continuous improvements of solutions offered to our clients by providing them with complete information on products and services and delivering world-class products.
Talent development	A talented team of highly qualified professionals, offering excellent service, showing initiative and are capable of meeting even the most difficult challenges.

For is employees, the Bank has safe and friendly workplace, where employees can use their energy and feel appreciated for their personal achievements, satisfied and able to pursue their individual development paths. Employee development is supported by such activities as: training, involvement in challenging projects as well as an assessment process when employees gain information on their strong points and areas which need to be developed. The Bank has a HR policy which includes documented, measurable and systematically monitored objectives.

At the Bank, diversity is treated as an indicator of the organizational culture. It is about ensuring that the organization employs people with different length of working experience and of different ages, and that the people being in the minority due to their origin, sexual orientation or views can feel good at the Bank and have the same opportunities to grow their careers. The Bank takes ongoing efforts to ensure diversity regarding its staff through respective regulations and internal procedures, respective corporate customs, by building employee awareness, promoting equal treatment at work place so to ensure a work environment where every employee may use all his or her abilities, in an effort to ensure sustainable development, namely to enhance the Bank's effectiveness and competitiveness.

In 2018, the Bank adopted a HR strategy for the next 3 years, which assumes further activities, especially in the area of work-life balance, recognition of employee achievements and harmonious cooperation between teams.

People Strategy is an HR strategy adopted for years 2019-2021, dedicated to employees and alterations in the Bank's organizational culture. The backbone of the strategy is feedback received from employees as part of the VOE survey, during focus group surveys and during mutual conversations. People Strategy is made up of six project groups:

- Work Life Balance
- Beyond Borders
- Digital Native
- Global Gratitude
- People Board
- Being The Best For The Client Academy

The personnel selection and development process is one of the Bank's priorities. Employees have access to work proposals on the Career Mobility site, which enables them to apply for positions they are interested in within the Bank and other Citi companies.

Additionally, the Bank provides its employees with a rich package of perks to meet their personal and social needs.

Employee may opt for an employee pension scheme, life insurance products, sports package, private medical care, help in difficult life situations under the Employee Assistance Program, a social fund and banking products on preferential terms. Employees may also work flexible hours in order to enable them to fulfil their personal and professional obligations more efficiently.

An important element of preventive healthcare is physical activity, therefore every employee of Citi Handlowy may purchase a sporting card for themselves and an accompanying person. During the COVID-19 pandemic when all sports facilities were closed, employees could use online training allowing them to do physical exercise at home. Employees experiencing problems in their private and professional life and needing support in a difficult life situation can obtain free psychological, legal and financial assistance under the Employee Assistance Program. The EAP is also available to immediate family members of Citi Handlowy employees. Assistance is provided both through the hotline and in live meetings.Striving to ensure a safe workplace, the Bank makes efforts to optimize the working environment for all employees, with particular emphasis on compliance with occupational health and safety rules.

Employee satisfaction survey

The Bank enables its staff to express their opinions freely by annual employee satisfaction survey, called Voice of Employee. The objective is to find out more about the satisfaction and commitment of employees. Participation in the survey is voluntary. Questions asked in the survey concern, i.a., communication, professional development opportunities, meritocracy, relations with the supervisor and co-workers, participation in a decisions, balance between professional and personal life, diversity, and values and ethical principles followed by the Bank.

In the first step of the process to examine employee feeling employees fill in questionnaires. The next steps include an analysis of results, group interviews to provide more insight on the basis of those results and enable preparation of improvement plans after the survey, implementation and communication of outcomes to employees.

Following the best practices of CitiGroup and market trends in the field of employee satisfaction survey, as well as referring to the current situation in 2020, the Bank supplemented the survey with 10 questions relating to working conditions during the COVID-19 pandemic. As many as 2,400 thousand took part in the survey. employees, thus 91% of all employees voluntarily expressed their opinion.

Dialogue and freedom of association

Two unions are active at the Bank: NSZZ „Solidarność" - Mazowsze Region Intercompany Union Organization No 871 at Bank Handlowy w Warszawie S.A and the Independent Self-Governing Trade Union of Employees of Bank Handlowy w Warszawie S.A.

Code of Conduct for Employees of Bank Handlowy w Warszawie S.A.

The Code of Conduct is a general review of the most important internal regulations applicable at the Bank. All employees of the Bank are obliged to adhere to applicable laws, internal regulations and standards adopted by the Bank. The Bank strives to create for its employees optimal opportunities to develop their potential, to ensure them development and to support diversity while respecting dignity regardless of gender, race, religious beliefs or sexual orientation. The Code includes formal solutions for reporting of breaches. The Bank has an Ethics Helpline which may be used by employees to report issues relating to selection of the best course of action in specific situations or their reasonable suspicions or information relating to a possible infringement of laws or ethical standards and internal regulations applicable at the Bank. Reports can be submitted to the Ethics Helpline by telephone or to a mailbox. Reports can also be submitted anonymously.

Every year, employees of the Bank take part in mandatory online training relating to the Code of Conduct. Every newcomer receives the Code of Conduct and must sign a statement that they have read it and will adhere to it in their everyday work.

The Bank works continuously on the formation of an organizational culture where employee relationships are based on mutual respect, professionalism and respect for others. Any forms of discrimination are forbidden at Citi Handlowy. The Bank's policy forbids any acts of vengeance in respect of persons who report cases of negative phenomena in their work environment.
The Bank takes preventive actions to counteract discrimination and unequal treatment, consisting of a range of educational activities and activities aimed at bringing about proper organizational climate favorable to the fair play principle at work place. Since 2018, the Bank has conducted cyclical obligatory training for all its employees called „"Undesirable Situations in a Work Place" to counteract such phenomena.

Support for employees during the COVID pandemic

Numerous activities undertaken by Citi Handlowy in relation to its employees during the COVID-19 pandemic, including:

- a one-off, special benefit was paid to employees most exposed to financial problems related to the COVID-19 pandemic. Over 1,300 employees were covered by the benefit,
- award of a special bonus for each working day to all employees of branches whose work involved direct contact with clients;
- appointment of a COVID-19 Coordinator in each unit to support managers and employees who are suspected of being infected or have been infected with COVID;
- online workshop for managers on managing teams in a remote work situation during the pandemic,
- online workshop for employees on how to cope with difficult emotions during the pandemic and combine remote work with childcare;
- surveys were conducted among employees about their well-being and needs in the event of a pandemic,
- telemedicine consultations with a psychologist and psychiatrist under the medical package;
- remote work was provided for over 70% of the Bank's employees,
- free meals and parking available for office-based employees;
- introduction of communication for employees who are foreigners with regard to current restrictions introduced in Poland;
- cafeteria options expanded to include new electronic coupons and vouchers which employees may use in online stores;
- employees were provided with personal protective equipment and disinfectants from the first days of the pandemic,
- offers of sports activities supplemented with online classes by the supplier of the sports card;
- introduction of the Employee Assistance Program for employees in a difficult life situation (launched on 2 November 2020);
- with regard to social activity financed from the Company Social Benefit Fund: an increase in the planned expenditure on non-refundable financial assistance; the base amount of the holiday leave subsidy for employees in force in 2020 increased by PLN 1,000; increase agreed in relation to the amounts of the annual social benefit paid in November;
- under the activities of the Work-Life Balance group: publication of the weekly newsletter on "How to look after yourself and your loved ones during the COVID-19 pandemic" which covered many subjects, including how to cope with stress and anxiety, working from home when you have a child, methods for effective use of holiday leave and rest from work, and ergonomics while working from home. The newsletters also offered ideas for spending free time based on a weekly selection of current links to planned cultural and educational online events;

Corruption prevention

Citi Handlowy has adopted a zero tolerance policy toward corruption with respect to all aspects of business activities. That policy is binding on all of employees and business partners acting on behalf of the bank. The bank takes care of its image, reputation as well as trust of clients and business partners through the observance of ethical standards and conducting activities which are designed to prevent corruption effectively.

The anti-corruption program at Citi Handlowy constitutes part of the bank's anti-corruption policy, which is composed of:

- the procedure "Anti-corruption program at the Bank Handlowy w Warszawie S.A." (including the formalized process for approval and registration of gifts and invitations to events),
- "Code of Conduct for Employees of Bank Handlowy w Warszawie S.A.",
- training programs,
- information campaigns,
- first- and second-level internal control mechanisms,
- assessment of compliance risk with respect to anti-corruption activities.

Preventing cases of corruption and their notification is the duty of each bank employee. Employees should avoid any activities that may violate the principle of zero tolerance for corruption.

All employees of Citi Handlowy take part in the training on prevention of corruption practices. They also have appropriate guidelines allowing the reduction of the corruption risk in relationships with business partners.

Employees must avoid any activities that may violate the principle of zero tolerance for corruption and expose the bank to charges of non-compliance with standards and regulations in force.

In 2020, no case of corruption in the bank's activity was recorded.

Employee Volunteering Program

In 2020, the Foundation implemented a very successful Employee Volunteering Program. The Citi Global Community Day, which took on a unique form this year (of a 6-month campaign), gathered in Poland over 1,700 volunteers. It is the best result among all Central and Eastern European and African countries. The Foundation managed to engage Citi employees in virtual volunteering (such as online private lessons for kids and programming lessons for students) as well as in activities organized in new formats, such as joint fundraising, collections of specific items and arranging packages for those in need, as well as planting plants. Volunteers, for example, sewed 1,000 face masks for seniors and veterans, delivered nearly 1,000 packages for seniors in nursing homes, prepared for use and donated more than 100 computers. The Foundation supported the implementation of these initiatives through micro-grants and also in terms of the logistics – it helped volunteers implement the projects during a strict sanitary regime.

Citi volunteers were also involved in skill-based volunteering as part of programs run by the Foundation. 70 volunteers were involved in long-term mentoring carried out under programs: IT for SHE (supporting young women, IT students on the labor market), Women in Tech Summit 2020 (the largest event of this type in Central Europe, this year over 8,300 participants, held entirely online) and projects carried out by the Citi Foundation and social partners.

1.3 Reduced environmental footprint

The climate crisis is a major challenge facing our society and economy in the 21st century. The financial sector has an important role to play in tackling this crisis by supporting the transition to a sustainable, low-carbon economy.

The Bank impacts the climate not only as an institution offering financial services, but also as a company with many employees and many offices, including owned property. As early as 2007 Citi Handlowy introduced a comprehensive Environmental Management Plan. In the subsequent years, it introduced an Environmental Management System according to ISO 14001 and Energy Management System according to ISO 50001 for the main locations of the Bank. The system is subject to annual regulatory audits by an independent certification bureau. In 2020, the Bank was also subject to another regulatory audit in terms of compliance with ISO 14001: 2015 and transition to the requirements of ISO 50001:2018.

Direct impact on the natural environment

The Bank has identified the main areas of its environmental impact. The first area is direct impact arising from the company's operations – emissions existing at the company's premises and controlled by the company. The second area is indirect impact, emissions involving generation of electricity and heat or steam consumed by the company but not under its control. The third area of impact includes many other emissions resulting from the company's activities (e.g. employee commutes). Although the direct impact has the smallest share in the total carbon footprint, the Bank cares about ongoing monitoring and improving performance in this regard.

The Bank ensures proper use and consumption of energy in order to reduce greenhouse gas emissions and mitigate climate change. As part of its policies, the Bank has identified the following objectives: reducing greenhouse gas emissions, ensuring the most efficient management of utilities, in particular energy, minimize consumption of energy and non-renewable energy sources, supporting the purchase of energy-saving products and services as well as improving energy performance, ensuring correct waste segregation and controlling noise emissions.

Moreover, despite the pandemic, in 2020 the Bank made many green investments. First of all, a 70 kW photovoltaic panel was installed on the roof of one of the Bank's buildings in Warsaw (ul.Goleszowska 6). Furthermore, the bank reduced electricity consumption and CO2 emissions by, for example, modernizing BMS, LED light fixtures, chilled water system, HVAC system and replacement of air conditioners. In 2020, a new bike parking zone as well as changing and shower rooms were opened for cyclists commuting to work in Warsaw (ul. Traugutta). Soundwalls were also installed on the roof of the building in Warsaw to protect the adjacent buildings from noise pollution.

Citi Handlowy also strives to decrease consumption of other materials, like water or paper. One of its buildings is equipped with a rainwater collection system. In most facilities, electric water dispensers are connected to the city water supply system to eliminate plastic bottles. At Citi Handlowy's properties, there is a system of economical use of office paper for printing. The Bank digitizes processes related to document circulation. The Bank also takes care of the environment by arranging greenery around its buildings, while paying attention to viability of planted trees and putting out nesting boxes for birds and bats.

As part of the fight against the climate crisis, the Bank took part in an auction of Carbon Dioxide Credits. As part of the Forest Carbon Farms project implemented by State Forests, the Bank purchased 1,500 carbon credits, supporting the educational project "Black Storks Online". The live broadcast from black stork nests is a project implemented by the Regional Directorate of State Forests in Łódź and scientists from Lodz University – one can watch the nest of these rare birds and the migration of their young ones. With Bank's support, the latest generation camera was purchased, enabling, among others, zooming or frame freezing, to permit convenient and non-invasive observation of bird nests. Additionally, thanks to the Bank's support, additional GPS locators will be purchased to monitor the flight of birds to wintering locations.

Personnel education

The Bank runs environmental education and information campaigns for its employees and service providers. These include volunteering actions, training courses and intranet messages which disseminate information on the Environmental and Energy Management System. Every year, the Bank takes part in the Earth Hour and Earth Week events. Citi Handlowy encourages ecological and active lifestyle by introducing amenities for employees commuting to work by bicycle. It has designated bike parking zones and installed self-service bike repair stations in Warsaw, Łódź and Olsztyn. In 2020, a new changing room and showers for cyclists were opened, with more such places scheduled to open. The Bank builds insect hotels to encourage biodiversity and maintain ecological balance. These homes are installed on the trees at ul. Senatorska and ul. Goleszowska in Warsaw as well as on the rooftops of the buildings in Olsztyn and Warsaw. In summer, the hotels offer home and shelter to insects, which have also a place to hibernate in fall. In addition, like every year, the Bank took part in the My City Free of Electrowaste action. For delivered electrowaste, the Bank received vouchers, which it donated to schools in Warsaw for purchase of educational materials and aids for pupils. Through Intranet communication, the Bank promotes habits supporting reduction of natural resources consumption among its employees and providers. In 2020, in its Intranet, the Bank published communications on, i.a., the Earth Day, Environment Day, Bee Day and the 5th anniversary of the SDG Day.

Indirect impact

The overwhelming share of the purchased electricity and heat in emissions results from the specific nature of Citi Handlowy's operations, convergent with typically office-based activities, which exploit equipment consuming high amounts of electric power and thermal energy to ensure comfortable conditions in big floor spaces. Citi Handlowy undertook to conduct its operations in accordance with the principles of sustainable development, and its strategic measures include efforts to switch to consumption and purchases of energy from renewable sources.

1.4 Local community involvement and development

The Kronenberg Foundation at Citi Handlowy has been acting for entrepreneurship and financial education, cultural legacy and employee volunteering for years, at the same being committed to the development of local communities. It was established in 1996 on the occasion of the 125th anniversary of Bank Handlowy w Warszawie S.A.

The Program of the Foundation for 2020 was revised to address the challenges posed by the COVID-19 pandemic. The Foundation decided not to implement activities that required the teams and volunteers to work offline, and also shifted the focus of the programs by highlighting the aspects that could quickly and directly help the beneficiaries in finding their place in the pandemic-stricken world.

During the situation of prolonged epidemic threat, the Foundation saw its role as a strong social partner for:

- paramedics and healthcare staff, who are the first line of defense in the unequal fight against COVID-19;
- teachers and students who had to face the challenge of "remote education".
- entrepreneurs, and particularly those who have participated in the Foundation's acceleration programs or programs co-financed by the Foundation in the recent years;
- social partners in the volunteering program or through a micro-grant program;

Support for medical services was implemented through the #CisiBohaterowie (#SilentHeros) campaign launched in cooperation with Citi volunteers in the first days of the pandemic. As part of it, over 8,300 hot meals were delivered to 350 paramedics from Warsaw and Olsztyn. Additionally, in order to increase the collection efficiency, a quick payment gate was launched, which increased the involvement of private participants in the initiative and supported the implementation of such campaigns cooperation with business partners (percentage of currency transactions is allocated to # SilentHeros). As a result, as part of the #SilentHeros campaign, in cooperation with the Emergency Services Support Foundation and the Polish Center for International Aid, the following were purchased: protective clothing for hospitals, 2 mobile respirators, 7 portable ultrasound devices and a modern videolaryngoscope.

In response to the challenges related to the pandemic, the Citi Handlowy Foundation created and implemented the CyberMocn@ Szkoła project, intended for teachers. The pandemic clearly showed the lack of support for educators in providing them with the appropriate tools that they could use in the daily performance of their duties. Additionally, the necessity to use computer equipment by children and adolescents to conduct online lessons, and thus - their even more frequent presence in the virtual world - revealed many threats and dangers for which children are not prepared. In response to the areas in need of support, diagnosed by the Foundation, a program aimed at teachers was prepared, which was supposed to support educators in their daily work. Almost 600 teachers were trained as part of virtual classes.

In 2020, the Foundation also continued activities in the field of national heritage protection. 2020 was the round - 150th anniversary of the establishment of Bank Handlowy w Warszawie S.A. The Foundation coordinated activities related to the celebration of this anniversary, most of which were moved to 2021. However, one of the projects implemented in the anniversary year 2020 was the green monument - #Las na Zawsze (#Forest Forever). In order to emphasize this jubilee and leave behind something permanent on the occasion of the 150th anniversary of the Bank, together with volunteers and clients, almost 2 hectares of forest were planted - near Warsaw and Olsztyn. For this purpose, seedlings of deciduous trees and shrubs were used - indigenous species that support the biodiversity of Polish forests.

The publication of the jubilee report - 150 years of Bank Handlowy's impact on the development of Poland is an example of activity that was transferred to 2021.

In 2020, the prof. Aleksander Gieysztor Award was granted (before the outbreak of the pandemic in Poland). It went to prof. Jerzy Limon, founder of the Shakespeare Theater in Gdańsk. Another, XXII. edition of the Award was postponed to 2021 by the decision of the Chapter due to the epidemiological situation.

As part of the 2020 grant program, in addition to the 150th anniversary of the Bank, a grant was awarded to the Polin Museum of the History of Polish Jews for the implementation of the project „Pragmatists and visionaries - Polish Jews and their heritage".

Activities in the field of entrepreneurship and economic education included cooperation with social partners in 2020. The Foundation has substantively supported the implementation of projects financed by the Citi Foundation:

- **Week for Saving** – program which combines financial education and the development of entrepreneurial attitudes, aimed at promoting saving and rational finance management among Poles and encouraging young people who enter the labor market to take their chances in business. The project is implemented together with the THINK! Foundation. The goal of the program is to work out systemic changes in the area of personal finance management and entrepreneurship education. The project consists of surveys „Poles' attitudes toward finance", Entrepreneurship Development Program and competitions at universities and high schools as part of the game „First Million". In 2020 the program participants established a total of 25 new companies. 950 entrepreneurs are present on **www.rozwijamy.edu.pl**, a platform where over 900 webinars were held.
- **Business in Women's Hands** – it is the program implemented together with the Foundation for Female Entrepreneurship addressed to 60 women who want to start their own company. Thanks to lectures, training and individual work with female mentors, each of the female participants has a chance to commence a business. The goal of the program is to establish a female company cluster operating in the territory of the Warsaw agglomeration. In 2020, the 7th edition of the program was implemented.
- **Hello Entrepreneurship** – a program to support social entrepreneurship among migrants, male and female, in Poland, implemented in cooperation with the Ashoka Polska Foundation. The mission of the project is to use migrants' talents and their hard work to develop jointly Poland's prosperity and social and economic success. Upon presentment of their initiative as part of the program, the participants receive a comprehensive support according to their needs to make their ideas deliverable. Some examples of such support include: assistance in designing a business model, promotional support, facilitating contacts with investors and other companies. Above 80 originators proposed their ideas in the second edition of the project kicked off in the autumn of 2020. The purpose of the program is to establish 10 social enterprises by May 2021.
- **Shesnnovation Academy** – a pilot project to encourage women to launch start-ups in STEM fields. The program is conducted in cooperation with the "Prospects" ("Perspektywy") Educational Foundation. According to the 2018 report prepared by Startup Poland, only 26% of Polish start-ups have a woman among their founders. The project is addressed to female students, PhD students and graduates of technical and science faculties as well as to any other women who want to establish their own tech start-up. It comprises a range of supporting tools which allow the participants to build necessary competencies, both business and soft competencies, so their dreams to start own business can come true. The program also provides individual mentoring support by experienced female managers, female owners of technological companies, who are successful on the market, and by female representatives of the world of science. The project culminated with the establishment of 10 tech start-ups, which showcased their work during the Shesnnovation Academy Gala organized online in May 2020.
- **Microentrepreneur of the Year** – competition organized for the last time in 2020 by the Association Inicjatywa Firm Rodzinnych (Family Business Initiative) with support of Koalicja na Rzecz Mikroprzedsiębiorczości (Coalition for Microentrepreneurship). The aim of the competition consists in supporting entrepreneurship, encouraging people to set up their own companies and promoting the best of them as examples of effective economic actions. The title of the Microentrepreneur of the Year 2019 went to the company SVEP+ – manufacturer of pneumatic light masts used when saving people's lives – mainly in the vehicles of emergency medical services or during medical emergencies. The winners in other categories were the following: Nano Sanguis in the category PROGRESS, Little Chef in the category SENIOR, MusicON – YOUNG BUSINESS, and Laava Tech in the category START.

VIII. Investor information

1. Ownership structure and stock prices on the Warsaw Stock Exchange

1.1 Shareholders

The only shareholder of the Bank holding at least 5% of shares and votes at General Meetings of Shareholders is Citibank Overseas Investment Corporation (COIC) – a company which holds foreign investment in Citi group of companies. COIC is also the strategic majority shareholder of the Bank. Over 2019, the number of shares held by COIC and its interest in the share capital and votes at General Meetings of Shareholders (GMS) did not change and was 97,994,700 shares and votes, i.e. 75% of share capital and votes.

The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in the organizational structure of Citigroup:

The other shares (32,664,900, i.e. 25% of share capital) are the so called *free float*, which means that they are freely traded on the Warsaw Stock Exchange.

Investors holding the Bank's shares include open-end pension funds (OFE), which - according to available annual reports on their asset structure - held, as at 31 December 2020, 18.42% of the Bank's shares, i.e.1.44 p.p. more than as at 31 December 2019.

OFE investments in the Bank's shares were as follows:

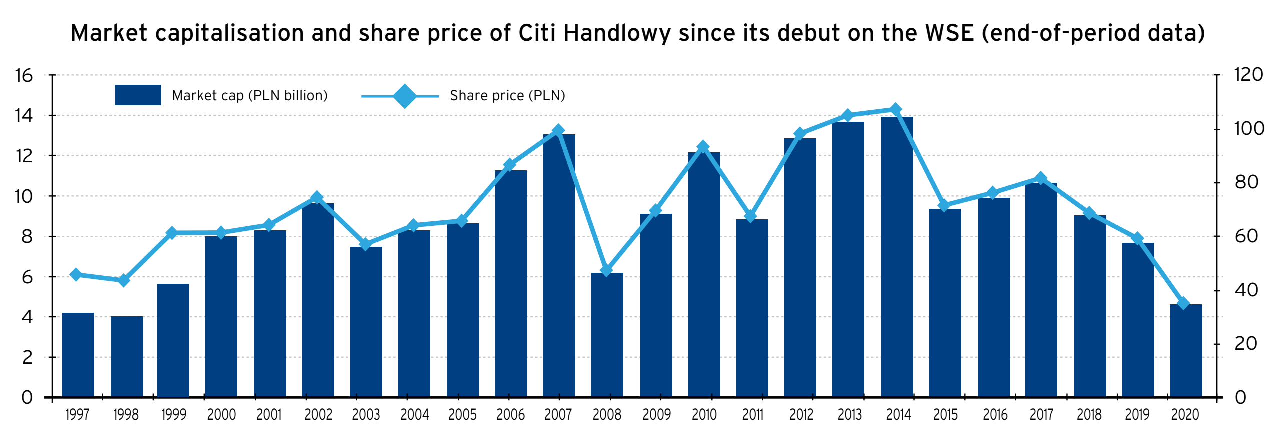
Shareholder	31.12.2020		31.12.2019	
	Number of shares and votes in GSM	% of total number of shares and votes in GSM	Number of shares and votes in GSM	% of total number of shares and votes in GSM
Nationale Nederlanden OFE	5,939,447	4.55%	5,789,721	4.43%
Aviva OFE Aviva BZ WBK	5,327,467	4.08%	4,121,313	3.15%
OFE PZU	2,663,900	2.04%	2,718,749	2.08%
AXA OFE	1,985,679	1.52%	1,790,663	1.37%
Aegon OFE	1,800,033	1.38%	1,650,949	1.26%
PKO BP Bankowy OFE	1,753,222	1.34%	1,726,489	1.32%
Allianz Polska OFE	1,710,627	1.31%	1,648,384	1.26%
MetLife OFE	1,652,558	1.26%	1,634,507	1.25%
Generali OFE	889,615	0.68%	765,871	0.59%
OFE Pocztylion	343,602	0.26%	339,849	0.26%
Total	**24,066,149**	**18.42%**	**22,186,495**	**16.98%**

Source: Annual information about the structure of assets of Open Pension Funds; Bank share closing price at the end of the period.

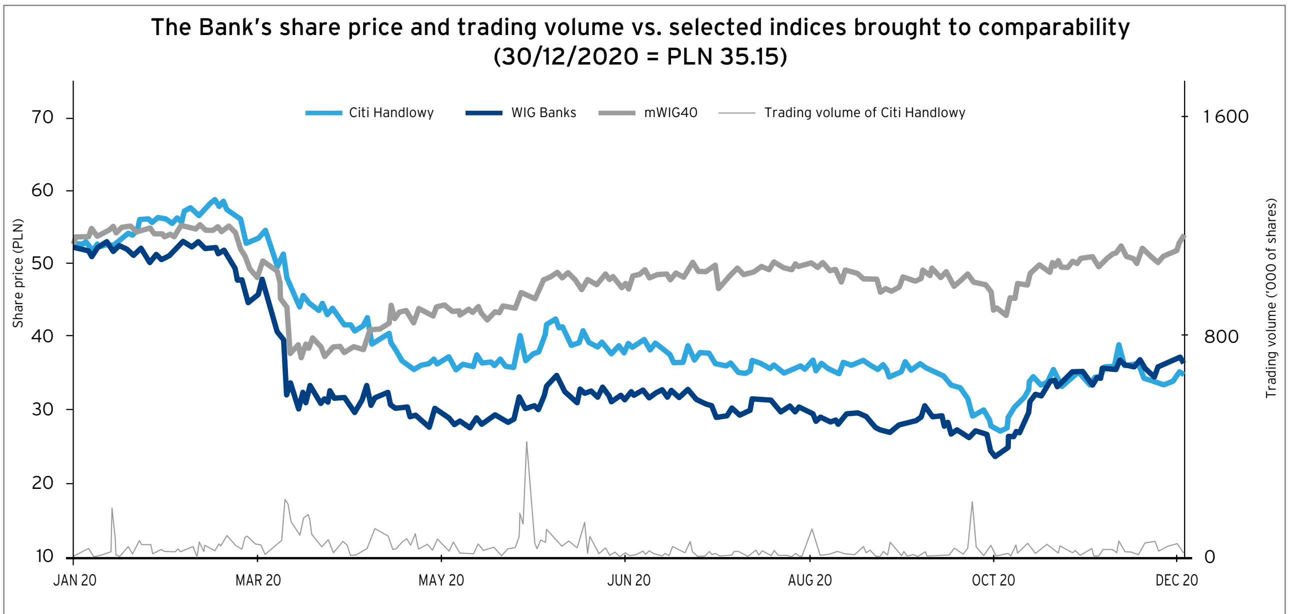
1.2 Performance of the Bank's shares on the WSE

In 2020, the Bank's shares were part of the following indices: WIG, mWIG40, WIG Banks and WIGdiv. In addition, the Bank has been included in the new WIG-ESG Index (socially responsible companies listed on the WSE Main Market). WIG-ESG Index The WIG-ESG index began listing in September 2019 and replaced the RESPECT Index that has existed for the past 10 years. The Bank was a participant of the RESPECT Index through its entire existence (from 2009 to 2019).

At the last session in 2020 (i.e. on 30 December 2020), the price of the Bank's shares was PLN 35.15, i.e. 40% below the level of 30 December 2019 (PLN 51.80). In the same period, the WIG Index decreased by 1.4 and WIG-Banks Index declined by 31%.



As at the end of 2020, the capitalization of the Bank was PLN 4.6 billion (as compared to PLN 6.8 billion at the end of 2019). The stock market ratios were: price/earnings (P/E): 29.6 (versus 13.9 in 2019); price/book value (P/BV): 0.6 (versus 1.0 in 2019).



At the beginning of 2020, the price of the Bank's shares showed an upward trend. On 17 February, they reached the 2020 high, i.e. PLN 58.70. In next months of 2020, the prices of Bank's shares declined to PLN 35.90 (in May), then to PLN 35.40 (in August) and dropped to its 2020 low, i.e. PLN 27.60 in October 2020. At the end of the year the Bank's share price rose to PLN 39.00 (in December). Finally, the Bank closed the year, on 30 December 2020, at the level of PLN 35.15.

The average price of the Bank's shares in 2020 was PLN 40.47, with the average daily turnover above 37,200 shares.

2. Dividend payment history

On June 4, 2020, the Ordinary General Meeting of the Bank decided to leave the entire profit generated in 2019 undivided.

The decision mentioned above is in line with the recommendation of the Polish Financial Supervision Authority („PFSA"), expressed in a letter of March 26, 2020, according to which the PFSA expects banks to retain all profit generated in previous years, in connection with the state of pandemic announced in Poland and possible further negative economic consequences of this state as well as their expected impact on the banking sector.

In accordance with the recommendations of the Polish Financial Supervision Authority expressed in the letter of January 13, 2021 on the dividend policy in the first half of 2021, the Polish Financial Supervision Authority recommends the Bank to suspend the payment of dividends in the first half of 2021 (including the undistributed profit from previous years) and not to take by the Bank, without prior consultation with the supervisory authority, any other actions remaining outside the scope of current business and operating activities, which may result in a reduction in the capital base, including buyouts of treasury shares. The Management Board of the Bank adopted a resolution confirming, within Management Board competences, the acceptance of the recommendation of the Polish Financial Supervision Authority.

The table below shows a history of dividends since 1997, i.e., since the floatation of the Bank on the WSE.

Financial year	Dividend (PLN)	EPS (PLN)	Dividend per share (PLN)	Dividend pay-out ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%
2014	971,422,828	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	-	-***

* *Dividend-payout ratio for 2004 - 100% plus prior year profits*

** *On 18 June 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008*

*** *On June 4, 2020, the Ordinary General Meeting of the Bank decided to leave the entire net profit generated in 2019 undistributed*

3. Rating

As at the end of 2020, the Bank had a full rating from the international rating agency: Fitch Ratings ("Fitch").

On 29 September 2020, after the annual rating review, Fitch maintained all the ratings of the Bank at the following levels:

Long-term entity ranking Long-term rating outlook	A- negative
Short-term entity ranking	F1
Viability rating*	a-
Support rating	1
National long-term rating	AA+ (pol)
National short-term rating	F1+ (pol)

* *The viability rating represents Fitch's view as to the intrinsic creditworthiness of an issuer excluding any impact of external factors.*

For the full announcement published by Fitch please visit:
https://www.fitchratings.com/research/banks/fitch-affirms-bank-handlowy-at-aoutlook-negative-29-09-2020

4. Investor relations

Investor relations, which provide existing and prospective investors, capital market analysts and rating agencies with necessary information, are an integral component of the information policy of the Bank, which is to meet the information needs of all persons and institutions searching for information on the Company. The information policy tools used in investor relations are:

- regular contacts with investors and analyst during conference calls and meetings, also at the Bank's seat, with participation of members of the Bank's Management Board;
- support by the Press Office during quarterly press conferences for the media, held after publication of periodic reports;
- the website of the Bank where information on the Bank and its activities and all periodic and current reports are published; the website is also a convenient venue for contacting the Investor Relations Unit (BRI), which is a source of comprehensive information on the Bank and the Group.
- presence of the media at General Meetings of Shareholders of the Bank.

In 2020, the Bank organized meetings regarding the publication of financial results after each quarter with capital market analysts and representatives of investors.

IX. Statements of Bank Handlowy w Warszawie S.A. concerning application of corporate governance standards in 2020

1. Corporate governance standards applied by Bank Handlowy w Warszawie S.A.

Since 2003, Bank Handlowy w Warszawie S.A. ("Bank" or "Company") has been adhering to the corporate governance standards adopted by the Warsaw Stock Exchange, initially as the "Best practices of public companies 2002"and subsequently replaced by: "Best practices of public companies 2005" and ",,Best Practice of GPW Listed Companies 2008", and from 1 January 2016 by „Best Practice of GPW Listed Companies 2016" ("BPLC"). This document is available on the website of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) (**http://www.gpw.pl**) in the section dedicated to corporate governance of listed companies.

The primary goal of the decision to adopt the corporate governance principles of the Warsaw Stock Exchange as the standard of the Bank was and is the intention to build transparent relations between all the bodies and entities involved in the functioning of the Company and to ensure that the management of the Company and its undertaking is carried out in a proper and prudent manner, with loyalty to all shareholders. The willingness to ensure transparency of the Bank's activities, in particular with respect to relations and processes between statutory bodies of the Company, also resulted in the adoption of best practices covered by the BPLC document for application at the Bank.

On 25 February 2016, the Management Board of the Bank declared an intent to comply with the corporate governance principles included in the "Best Practice of GPW Listed Companies 2016". On 11 March 2016, the Supervisory Board of the Bank accepted the Bank's policy towards the application of the corporate governance principles included in the "Best Practice of GPW Listed Companies 2016". However, either Boards made their declaration with the following reservations:

a) Recommendation IV.R.1 is not applicable. Best Practice of GPW Listed Companies (BPLC)(companies should strive to hold an ordinary general meeting as soon as possible after the publication of an annual report") is not applicable to the ordinary general meeting of the Bank to be held in 2016;
b) Recommendation IV.R.2 is applicable, Best Practice of GPW Listed Companies (BPLC) (e-general meeting) provided that the Management Board decides so before each such general meeting is held;
c) Principle VI.Z.2 is not applicable. Best Practice of GPW Listed Companies (BPLC)(the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years) is not applicable.

In 2020, the Bank did not apply the following BPLC principles and recommendations:

a) Principle VI.Z.2 relating to determination of the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability, which should be no less than two years;
b) Recommendation IV.R.1 which requires that an ordinary general meeting should be held by the Bank in 2019 as soon as possible after the publication of the an annual report.

Ad (a) Principle VI.Z.2. of the BPLC. The incentive programs of the Bank, including the deferred monetary remuneration programs and the programs based on a financial instrument, i.e. phantom shares, are in compliance with the best practice for the financial sector and the requirements set out in the Regulation 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 and in the Banking Law, which implement CRD III and CRD IV. Those regulations include requirements that are slightly different from those set out in the "Best Practice of GPW Listed Companies 2016". The incentive programs of the Bank, which are based on the above regulations, reflect the specific nature of the banking sector and are to protect the interests of clients and shareholders of the Bank and to ensure its stable growth. The details of the incentive programs are available in the annual report of the Bank and in the information on the scope of capital adequacy of Bank Handlowy w Warszawie S.A. Group of Companies. Depending on the shape of regulations and laws applicable in the banking sector with respect to a broadly define remuneration policy, the Bank will consider a modification of the incentive schemes which are based on a financial instrument.

Ad (b) Recommendation IV.R.1. of the BPLC. Because of the adopted schedule of corporate events in 2020 this recommendation was not applied during the Annual General Meeting that was held in 2020.

2. Information on the application of Corporate Governance Principles for Supervised Institutions

The Polish Financial Supervision Authority in a resolution of 22 July 2014 issued a document entitled Principles of Corporate Governance for Supervised Institutions ("Principles"), which came in force on 1 January 2015. The Principles are available on the official website of the Polish Financial Supervision Authority:

https://www.knf.gov.pl/knf/pl/komponenty/img/knf_140904_Zasady_ladu_korporacyjnego_22072014_38575.pdf

The principles are a set of rules governing internal and external relations of institutions supervised by the KNF, including their relationships with shareholders and customers, their organization, the operation of internal oversight as well as of key internal systems and functions, and of corporate bodies and their cooperation.

The purpose of the Principles is to enhance corporate governance in financial institutions and transparency of their operations, which is designed to promote public confidence in the Polish financial market.

Bank Handlowy w Warszawie S.A. performs a regular assessment of the application of the Principles of Corporate Governance for Supervised Institutions.

On 29 January 2020, the Management Board of Bank Handlowy w Warszawie S.A. approved the "2019 Report – Assessment of the Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." prepared by the Compliance Department. The Management Board of the Bank submitted to the Audit Committee of the Supervisory Board and, next, to the Supervisory Board of the Bank a Report of the Compliance Department which includes an independent assessment of application at the Bank of the "Principles of Corporate Governance for Supervised Institutions" for 2019, in order to enable the Audit Committee of the Supervisory Board and the Supervisory Board to make their own assessments of application at the Bank of the "Principles of Corporate Governance for Supervised Institutions" for 2019.

On 24 March 2020 the Audit Committee, pursuant to the provision of Article 3.1 (b) of the Regulations of the Audit Committee, after becoming familiar with the "2019 Report – Assessment of Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." prepared by the Compliance Department, recommended that the Supervisory Board ought to assess that in 2019 the Bank applied rules stemming from the Principles of Corporate Governance for Financial Institutions, with the exception of those principles that the Bank decided not to apply.

On 25 March 2020, the Supervisory Board of Bank Handlowy w Warszawie S.A. became familiar with the "2019 Report – Assessment of Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." prepared by the Compliance Department and containing an independent assessment of the application of the Principles of Corporate Governance for Supervised Institutions.

On the basis of the above Report of the Compliance Department containing an independent assessment of the application of the "Principles of Corporate Governance for Supervised Institutions" and taking into consideration a positive recommendation issued by the Audit Committee of the Supervisory Board, the Supervisory Board assessed independently that in 2019 the Bank applied the rules resulting from the Principles of Corporate Governance for Supervised Institutions, except for the excluded principles.

The result of the independent assessment of the application of the Principles was passed on to other corporate bodies of the Bank.

The Annual General Meeting of Bank Handlowy w Warszawie S.A.by Resolution No. 13/2020 of 4 June 2020, approved the Report of the Supervisory Board of Bank Handlowy w Warszawie SA on the operations of the Supervisory Board in the period from the date of the Annual General Meeting of the Bank in 2019 to the date of the Annual General Meeting of the Bank in 2020, containing: the report and an assessment specified in the Principles of Corporate Governance for Supervised Institutions, adopted by the Bank for application and based on the assessment contained in the report of the Supervisory Board.

Pursuant to the requirements of the Principles of Corporate Governance for Supervised Institutions and the information policy adopted by the Bank, after the Supervisory Board of Bank Handlowy S.A. performed an independent assessment of the application of the Principles of Corporate Governance for Supervised Institutions, the Bank makes available on its website the information on the application of the Principles, and on the non-application of specific Principles.

With regard to three Principles, the decision not to apply them was upheld in 2019:

1) Article 11.2 (transactions with related parties) – this principle shall not be used with respect to contracts tied to day-to-day operations, in particular to contracts tied to liquidity, due to the nature of transactions and the number of contracts being concluded.
2) Article 8.4 (electronic General Meeting) – currently available IT solutions do not guarantee a secure and efficient electronic form of holding a General Meeting. However, the Management Board does see the importance of such form of shareholders' participation in the Bank's General Meeting, and therefore a separate decision on that matter shall be made before each General Meeting.
3) Article 16.1 (meetings of the Management Board of the Bank held in the Polish language) – meetings of the Management Board attended by foreigners, and especially foreigners who are members of the Management Board and do not speak Polish, are held in the English language. Simultaneously, any motions submitted to the Management Board, any materials and minutes of meetings are prepared and kept in Polish and in English.

3. Description of main features of internal control and risk management systems implemented in the Bank with respect to the process of preparation of financial statements and consolidated financial statements

Financial statements of the Bank are prepared by the Financial Reporting, Control and Tax Department, which is a separate organizational unit in the structure of the Finance Management Sector and reports directly to the Chief Financial Officer of the Bank, who is also a Vice President of the Bank's Management Board. The process of preparation of financial statements is covered by an internal control system, which is to ensure: effective and efficient activities of the Bank, reliability of financial reporting, compliance with the principles of risk management at the Bank and compliance of the Bank's activities with laws, internal regulations and market standards. The internal control system includes identification and control of risks connected with the process of preparation of financial statements, examination of compliance of those activities of the Bank with laws and internal regulations, horizontal and vertical monitoring and internal audit.

Internal control is exercised by each and every employee and, in addition, by their direct manager and persons cooperating with him/her as well as by managers of organizational units of the Bank. Risk management is carried out via internal mechanism for risk identification, assessment, mitigation, control, monitoring and reporting performed and supervised by units of the first level of risk management (first line of defense) and specialized organizational units of the second line of defense. Within the internal control functions, there is a separate financial control function, which is performed by a dedicated unit of the Finance Management Sector. Financial control in the Finance Management Sector covers the areas of accounting policy and financial reporting. Quarterly Self-Assessment is a process used to verify and assess the effectiveness of control processes and to proactively and effectively manage any significant risk categories which are inherent in the process of preparation of financial statements. The Quarterly Self-Assessment process is one of the key tools used to monitor the level of exposure to operational risk and changes in the financial reporting environment, identify emerging risks, verify the effectiveness of controls and implement remedial plans.

As part of the process of identification, prevention, control, monitoring and reporting of operational risk exposures, the Bank has implemented effective mechanisms that mitigate risks affecting the security of technology systems. The IT systems used in the process of preparation of financial reporting are covered by the continuity of business plan of the Bank in case they are lost.

Vertical monitoring is enforced by dedicated units from the second level of the control system. Horizontal monitoring is carried out in the course of the self-assessment process by units responsible for the control being verified.

Internal audit activities at the Bank are carried out by the Internal Audit Department. The Internal Audit Department is responsible for independent and objective assessments of adequacy and effectiveness of the internal control system and the effectiveness of management of risks connected with activities of the Bank. The Internal Audit Department carries out internal checks, assesses activities initiated by organizational units of the Bank and carries out audits in subsidiaries of the Bank in connection with supervision exercised by the Bank over risks connected with operations of its subsidiaries with respect to their compliance with internal regulations, applicable laws and regulatory requirements and the effectiveness and reasonableness of controls. The Internal Audit Department is a separate organizational unit in the structure of the Bank, reporting directly to the President of the Bank's Management Board.

The operation of the internal control system and the Internal Audit Department is overseen by the Supervisory Board of the Bank. The Supervisory Board carries out its function with help of the Audit Committee, which - as part of its supervisory tasks - verifies, jointly with the Management Board and the statutory auditor, the accuracy of prepared financial statements and the correctness of functioning of processes connected with their preparation, and submits recommendations concerning approval of annual and interim financial statements by the Supervisory Board of the Bank.

The Head of the Internal Audit Department informs the Management Board of the Bank and the Audit Committee of the Supervisory Board of the Bank of results of completed audits and periodically, and at least once in a year, provides the Supervisory Board with a summary report on identified irregularities and conclusions arising from the completed internal audits, and corrective actions initiated to remedy those irregularities. The Head of the Internal Audit Department is authorized to participate in meetings of the Management Board and Supervisory Board at which issues relating to the functioning of the internal control systems at the Bank are to be discussed.

4. Significant shareholdings

A shareholder which holds a significant lot of the Bank's shares is Citibank Overseas Investment Corporation (COIC) (subsidiary of Citibank N.A.), which owns 97,994,700, shares, i.e. 75% of the Bank's share capital. The number of votes held by COIC from those shares is 97,994,700, i.e. 75% of total votes at the General Meeting of Shareholders of the Bank.

5. Holders of all securities with special control rights together with a description of those rights

The Bank has not issued any securities that would give its shareholders any special control rights.

6. Restrictions on the exercise of voting rights

No restrictions on the exercise of voting rights have been provided for at the Bank.

7. Restrictions on the transfer of ownership of the securities

No restrictions on the transfer of ownership of the securities issued by the Bank have been introduced at the Bank.

8. Rules governing the appointment and dismissal of Members of the Management Board and their powers

The Management Board of the Bank consists of five to nine members. The Management Board consists of: President of the Company's Management Board, Vice Presidents of the Company's Management Board and Members of the Management Board. At least half of all members of the Management Board should be Polish citizens. Each member of the Management Board is appointed by the Supervisory Board upon a request of the President of the Management Board or a member of the Supervisory Board for an individual 3-year term of office. Two members of the Management Board, including the President and the member in charge of risk management at the Bank, require consent of the Polish Financial Supervision Authority to be appointed.

The mandate of a member of the Management Board expires:

1) on the day on which the General Meeting is held to approve the report of the Management Board on the activities of the Bank and the financial statements for the last full financial year in which the member performed his or her function;
2) upon death of the Management Board member;
3) on the day the Management Board member is recalled;
4) on the day a resignation in writing is submitted to the Chairman of the Supervisory Board.

By way of resolution, the Management Board makes decisions in the Company's affairs, except for matters that - under the law or articles of association - are within the powers of other bodies of the Company, and in particular it:

1) determines the strategy of the Company;
2) establishes and dissolves committees of the Company and determines their competences;
3) adopts its rules and submits them to the Supervisory Board for approval;
4) adopts the rules of management of special funds created from net profit and submits them to the Supervisory Board for approval;
5) determines dividend payouts, on dates fixed by the General Meeting;
6) appoints general proxies (prokurenci) and general attorneys and general attorneys having a substitution right;
7) makes decisions in matters set out in the rules of the Management Board;
8) makes decisions in matters submitted by the President, a Vice President or a Member of the Management Board;
9) passes a resolution to adopt the annual financial plan of the Company, adopts investment plans and accepts reports on their performance;
10) accepts reports on activities of the Company and its financial statements;
11) prepares recommendations concerning appropriation of profits and losses;
12) approves the human resources management policy and the legal principles for the Company's activities;
13) approves the principles of management of the Company's capital;
14) approves the employment structure;
15) determines and presents to the Supervisory Board for approval the general organizational structure of the Bank reflecting the size and profile of incurred risks and appoints and removes Heads of Sectors and Heads of Divisions, and determines their competence;
16) determines the inspection plan for the Company and accepts reports on completed checks;
17) makes decisions in other matters which according to the Articles of Association are to be submitted to the Supervisory Board or General Meeting;
18) makes decisions to incur liabilities or dispose of assets if their total value with respect to a single entity exceeds 5% of the Company's equity or grants powers of attorney to designated persons to make such decision, however in case of matters within the powers of Committees established at the Company, such decisions must be first consulted with the competent Committee;

Persons authorized to submit matters to the Management Board include:

1) President of the Management Board;
2) other members of the Management Board;
3) heads of other organizational units - in matters within the scope of operations of those units, upon consent of the member of the Management Board in charge or the President of the Management Board.

Provided that decisions concerning matters relating to the basic organizational structure of the Bank and appointments or dismissals of Sector Heads or Division Head and to determine their competences are initiated or must be agreed with the President of the Management Board.

The Management Board determines, in a resolution, the internal division of powers between members of the Bank's Management Board and submits it to the Supervisory Board for approval.

Within the framework of the internal division of powers in the Management Board of the Bank:

1) there is a separate function of the member of the Management Board responsible for supervision over the management of risks significant to activities of the Bank;
2) the Internal Audit Department reports directly to the President of the Management Board
3) the President of the Management Board may not be appointed as member of the Management Board responsible for supervision over the management of risks significant to activities of the Bank;
4) the president of the Management Board must not be entrusted with supervision over those areas of the Bank's activities which create a significant risk to activities of the Bank;
5) the member of the Management Board who is responsible for supervision over the management of risks significant to activities of the Bank must not be entrusted with supervision over those areas of activities of the Bank that generate the risks the management of which is supervised by that member;
6) a designated member or members of the Management Board are entrusted with supervision over the area of management of non-compliance and the area of financial accounting and reporting.

9. Amendments to the Articles of Association

The Articles of Association of the Bank may only be amended by the General Meeting of Shareholders. An amendment to the Articles of Association must be recorded in the register of entrepreneurs of the National Court Register. Pursuant to Article 34(2) of the Act of 29 August 1997 - Banking Law, an amendment to the Articles of Association of the Bank requires approval by the Polish Financial Supervision Authority (*KNF*).

10. General Meeting procedure, description of its fundamental powers as well as shareholder rights and methods of exercising them

10.1 General Meeting procedure

The General Meeting at the Bank operates in accordance with the General Meeting Regulations, the Articles of Association and provisions of law. The General Meeting of the Bank (General Meeting) has stable Regulations, specifying detailed rules for conducting meetings and adopting resolutions.

According to the practice adopted by the Company, the General Meeting is held at the registered office of the Company in Warsaw. The Annual General Meeting is convened by the Management Board. It should be held within six months of the end of each financial year. The Supervisory Board has the right to convene the Annual General Meeting if the Management Board fails to do so within the time limit specified in the Articles of Association, and the Extraordinary General Meeting, whenever deemed necessary. The Management Board convenes the Extraordinary General Meeting at its own initiative and at the request of a shareholder or shareholders representing at least one-twentieth of the share capital. A request to convent the Extraordinary General Meeting must be submitted to the Management Board in writing or electronically. If the Extraordinary General Meeting is not convened within two weeks after a request is made to the Management Board, the registry court may, by way of a ruling, authorize the shareholders or shareholders who submitted the request to convene the Extraordinary General Meeting. The shareholder or shareholders so authorized by the registry court must invoke the registry court's ruling referred to in the preceding sentence in the notice convening the Extraordinary General Meeting. The registry court appoints the chairman of that Extraordinary General Meeting. The Extraordinary General Meeting may also be convened by shareholders representing at least half of the Bank's share capital or at least half of the total number of votes at the Bank. The chairman of the Meeting is appointed by shareholders. The General Meeting is convened by an announcement placed on the Bank's website and in the manner prescribed for making current disclosures by public companies,

provided that the announcement should be made at least twenty-six days before the date of the General Meeting. The shareholders entitled to request that a specific matter be placed on the agenda of the General Meeting, in order to exercise that right to complete the agenda, should submit a written or electronic motion to the Bank's Management Board, together with reasons and a draft resolution on the proposed agenda item, by no later than twenty-one days before the set date of the General Meeting. The Management Board places the item requested on the agenda of the next General Meeting immediately but no later than eighteen days before the set date of the General Meeting. The General Meeting may only be cancelled if it becomes unnecessary or in the event of an extraordinary hindrance to its holding. Cancellation and rescheduling of the General Meeting is made in the same manner as its convocation, provided that the twenty-six day advance notice does not apply. Cancellation and rescheduling of the General Meeting should be made in a manner which is least prejudicial to the Bank and shareholders. The General Meeting may adopt a resolution on refraining from considering a matter placed on the agenda or on changing the order of agenda items. However, taking an item off the agenda or refraining from consideration of an item placed on the agenda at the request of shareholders is subject to a prior consent of all the present shareholders who submitted the request, with 80% of General Meeting votes in favor. Requests on above matters should state detailed reasons.

A full text of the documentation to be presented during the General Meeting together with draft resolutions (if no resolution is envisaged on a matter - remarks of the Management Board) is published on the Bank's website as of the date of convening the General Meeting, together with other information regarding the General Meeting. Materials for the General Meeting are also made available at the Bank's office at the time when the Bank announces the notice convening the General Meeting. Notwithstanding the foregoing, the Bank performs all the information obligations arising from generally applicable regulations regarding convocation of General Meetings.

The General Meeting is opened by the Supervisory Board Chairman and, in his absence, successively, by the Deputy Chairman or one member of the Supervisory Board. According to the practice of holding General Meetings, as adopted by the Company, immediately after opening of the General Meeting, election of its Chairman is ordered. Prior to election of the Chairman, the General Meeting does not make any decisions.

The Bank's Management Board, each time through the person opening the General Meeting, provides the Chairman of the General Meeting with instructions on how to serve in that capacity in a manner that ensures compliance with generally applicable laws, corporate governance, the Articles of Association and other internal Bank regulations. The General Meeting should be attended by members of the Management Board and the Supervisory Board as well as the Bank's statutory auditor if financial matters are the subject of the General Meeting.

Voting at the General Meeting shall be open. Secret voting shall be ordered on elections or on motions to recall or hold accountable members of Company authorities or its liquidators, and on personal matters. In addition, secret voting shall be ordered at the request of at least one of the shareholders present or represented at the General Meeting.

The General Meeting shall be valid regardless of the number of shares represented, save as provided for by law. Resolutions of the General Meeting are adopted by an absolute majority of votes present unless provisions of law or the Articles of Association provide otherwise.

Voting in practice is done with the help of a computer system for casting and counting votes, which ensures that the number of votes cast corresponds to the number of shares held, as well as prevents - in the case of secret voting - tracing the votes cast to individual shareholders.

The Chairman of the General Meeting should phrase resolutions in such a way that any authorized person who disagrees with the merits of the decision being made in the resolution could challenge it. The Chairman of the General Meeting is responsible for ensuring that resolutions are worded in a clear and transparent manner. The Management Board of the Company also allows the Chairman to obtain the assistance of the Company's legal services.

Resolutions of the General Meeting are recorded by a notary public. The minutes must state that the General Meeting has been validly convened and is able to adopt resolutions, listing the resolutions adopted, stating the number of votes cast in favor as well as any dissensions. A list of attendance with signatures of the participants of the General Meeting should be attached to the minutes. The Management Board should enclose evidence of convening the General Meeting with the book of minutes.

A copy of the minutes is placed by the Management Board in the book of minutes.

General Meetings may be attended by representatives of the media.

10.2 Fundamental powers of the General Meeting

The Annual General Meeting should be convened for the purpose of:

1) consideration and approval of the Management Board report on Company operations and its financial statements for the previous accounting year, as well as the consolidated financial statements of the Company's Group;
2) adoption of a resolution on profit distribution or coverage of losses,
3) acknowledgment of the fulfillment of duties by members of Company authorities.

In addition to matters provided for in mandatory provisions of law, the General Meeting has the authority over the following matters in particular:

1) sale or lease of the enterprise or its organized portion, and establishment of limited property rights thereon;
2) amendments to the Articles of Association;
3) increasing and reducing the share capital of the Company;
4) determination of the date of pre-emptive rights to new shares;
5) determination of the dividend day for the previous accounting year and dividend payment dates;
6) creation and release of special funds set up from profit;
7) appointment and recall of Supervisory Board members;
8) determination of the remuneration of Supervisory Board members;
9) merger or winding up of the Company;
10) appointment and recall of liquidators;
11) cancellation of Company shares;
12) use of supplementary and reserve capital, including the reserve capital (fund) established in order to accumulate undistributed profit (not intended for dividends in a given accounting year) and the banking risk fund.

The General Meeting decides on profit distribution, specifying the amounts of accruals for:

1) supplementary capital accrued annually from profit at the minimum of 8% of the profit for the accounting year until that capital reaches at least one third of the share capital. The General Meeting may adopt a resolution requiring further accruals;
2) reserve capital;
3) general risk fund;
4) dividend;
5) special funds;
6) other purposes.

In the event of winding up of the Company, the General Meeting appoints one or more liquidators at the request of the Supervisory Board and determines the method of winding up.

10.3 Shareholders' rights and their exercise methods

Company's shares are bearer shares and are transferable. Shareholders have the right to share in the profit reported in the financial statements audited by a statutory auditor if that profit has been allocated by the General Meeting to payments to shareholders. Profit is distributed in proportion to the number of shares held.

Only those who are the Bank's shareholders sixteen days before the date of the General Meeting (Date of Registration for participation in the General Meeting) are entitled to participate in the General Meeting of the Bank as a public company. A shareholder participating in the General Meeting has the right to vote, put forward motions and raise objections, as well as provide a brief explanation of his/her position.

Draft resolutions proposed for adoption by the General Meeting and other relevant materials should be presented to shareholders together with the reasons and opinion of the Supervisory Board prior to the General Meeting, allowing sufficient time for their review and assessment.

A shareholder may participate in the General Meeting and exercise their voting rights in person or through a proxy.

Each shareholder has the right to run for Chairman of the General Meeting as well as propose a candidate for Chairman of the General Meeting for the record.

Whenever any item of the agenda is being considered each shareholder has the right to speak and respond.

The Management Board is required to provide the shareholder, at the latter's request, with information about the company if it is necessary to assess a matter on the agenda. The Management Board should refuse to provide such information if:

1) this may be detrimental to the Company, its affiliated company or its subsidiary company, in particular as a result of disclosure of technical, commercial or organizational company secrets.
2) this could expose a Management Board member to criminal, civil or administrative liability.

In justified cases, the Management Board may provide the information in writing by not later than 2 (two) weeks of the date of adjournment of the General Meeting.

Company authorities do not limit information but at the same time they adhere to the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and on Public Companies, the Act on Trading in Financial Instruments, Regulation of the European Parliament and Council (EU) No 596/2014 of 16 April 2014 on Market Abuse, the

Regulation on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state, as well as provisions of the Code of Commercial Companies.

The General Meeting shall be valid regardless of the number of shares represented, save as provided for by law. Resolutions of the General Meeting are adopted by an absolute majority of votes present unless provisions of law or the Articles of Association of the Bank provide otherwise.

A shareholder has the right to object to the wording of a resolution of the General Meeting and, when objecting, may present his/her arguments and justify the objection.

Each shareholder has the right to propose amendments and additions to draft resolutions placed on the agenda of the General Meeting, until discussion on the agenda item ends with a draft resolution on that proposal. Such proposals together with a brief justification should be submitted in writing.

A shareholder at the General Meeting may submit motions on procedural matters. Motions on procedural matters are considered to be motions regarding the method of proceeding or voting.

Shareholders have the right to propose their candidates to the Supervisory Board of the Bank in writing to the attention of the Chairman of the General Meeting or verbally for the record, in both cases the proposals must be accompanied by a brief justification. When proposing candidates for members of the Supervisory Board, shareholders submit documents necessary to assess whether the candidates meet the requirements of Article 22aa of the Banking Law, following in this regard the guidelines set out in the „Qualification assessment policy for members of the Supervisory Board at Bank Handlowy w Warszawie S.A." If candidates are proposed in the course of the General Meeting, the Chairman orders a procedural break to allow shareholders to review the candidate profile and submitted documents as required by the above Policy.

Shareholders have the right to view the book of minutes, as well as to request copies of resolutions certified by the Management Board.

The shareholder who voted against a resolution of the General Meeting, and after its adoption, requested that his/her dissension be recorded, the shareholder who was unreasonably not allowed to participate in the General Meeting, and the shareholders who were not present at the General Meeting, provided only that the General Meeting was convened defectively or if a resolution was adopted on a matter not included in the agenda, will have the right to bring a lawsuit seeking to repeal the resolution of the General Meeting.

Shareholders have the right to bring a lawsuit against the Company to have an unlawful resolution of the General Meeting declared invalid.

Shares may be cancelled with the shareholder's consent by way of their purchase by the Company (voluntary redemption). Shares cancellation requires a resolution of the General Meeting. The resolution should specify, in particular, the legal basis for the cancellation, the amount of compensation payable to the shareholder of the cancelled share or the justification for shares cancellation without compensation and the method of decreasing the share capital.

The Bank ensures adequate protection of minority rights within the limits allowed by the Bank's capital nature and the resulting primacy of the majority over the minority. In particular, to ensure equal treatment of shareholders, the Bank applies, inter alia, the following practices:

- General Meetings of the Bank are always held at the registered office of the Bank, which is located in Warsaw;
- media representatives are allowed to be present at General Meetings;
- according to the practice adopted at the Bank, all relevant materials for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to shareholders at least 14 days before the date of the General Meeting at the Bank's registered office and on its website;
- the General Meeting of the Bank has stable Regulations, specifying detailed rules of procedure and adoption of resolutions;
- the General Meeting is attended by members of the Supervisory Board and the Management Board, who, within their respective authority, provide explanations and information about the Bank to participants of the Meeting;
- participants of the General Meeting who object to a resolution are allowed to justify their objection. In addition, each participant of the Meeting has the option to submit his/her written statement for the record.

11. Composition of and changes to the Management Board and the Supervisory Board of the Bank in 2020, rules of procedure of the Bank's managing and supervisory bodies

11.1 Management Board

The Management Board of the Bank consists of five to nine members. The Management Board consists of: President of the Management Board, Vice Presidents of the Management Board and Members of the Management Board. At least half of all members of the Management Board should be Polish citizens. Each member of the Management Board is appointed by the Supervisory Board for an individual term of three years.

As at 31 December 2020, the Management Board consisted of:

Member of The Management Board	Scope of responsibility
Sławomir S. Sikora President of the Management Board	The President of the Management Board is responsible for: • manages the work of the Management Board, including appointing from among the members of the Management Board a person to replace the President of the Management Board, during his absence, and determines the procedure of substitution for members of the Management Board who are absent; • calls and chairs meetings of the Management Board; • presents the position of the Management Board to other bodies of the Bank, central and local government and the general public; • submits motions to the Supervisory Board concerning appointments and dismissals of Vice Presidents and other Members of the Management Board and determination of their remuneration; • issues internal regulations applicable to activities of the Bank and may authorize other Members of the Management Board or other employees to issue such regulations; • decides how internal audit results are to be used and notifies such decision to the audited entity; • exercises other authorizations resulting from appropriate rules adopted by the Supervisory Board; • supervises the formulation and implementation of the strategy of the Bank; • is the officer to which the internal audit department is subordinated; • supervises the risk of non-compliance of the Bank with respect to the law, internal regulations and market standards; • supervises human resources policy; • is responsible for activities to control how the Bank is perceived; • ensures a consistent organizational structure of the Bank; • supervises activities to ensure appropriate corporate governance; • supervises legal services; • supervises the area of security at the Bank with respect to protection of persons and property; and ensures the implementation of risk management principles in supervised divisions and units outside the organizational structure of a division with respect to operational risk connected with their activities.
Natalia Bożek Vice President of the Management Board	Supervises the areas of accounting and financial reporting, including financial control; Responsible for: • management accounting; • bookkeeping; • preparation of accounting policies; • coordination of activities connected with implementation at the Bank of requirements resulting from laws and regulations, as well as resolutions and recommendations of the financial supervision authority, with respect to capital adequacy; and ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.
Maciej Kropidłowski Vice President of the Management Board	Responsible for: • financial market operations, including money market transactions as well as FX market, securities and derivative transactions; • activities related to securitization; • activities related to organizing financing for investment plans, mergers and acquisitions in the scope of: - syndicated loans; - bridge financing; - debt securities; - project finance; - off-balance sheet financing; • custody activities; • ongoing cooperation with and supervision over corporate bank and commercial bank, including supervision over services provided to clients from the financial institution sector; and ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.
Dennis Hussey Vice President of the Management Board	Responsible for consumer banking, including the quality standard of banking services in supervised organizational units and he ensures that principles of their business-related operational risk management are implemented in such supervised organizational units.

Barbara Sobala Vice President of the Management Board	Supervises management of risks significant to activities of the bank, she is responsible for risk management system including: • credit policy of the Bank; • quality of the Bank's credit portfolio; • credit risk; • market risk; • operational risk; • coordination of activities connected with implementation at the Bank of requirements resulting from risk management regulations, including recommendations issued by supervisory authorities. • supervision of risk management at second level, by employees in specially appointed positions or organisational units; • provides the Bank's Management Board and Supervisory Board with comprehensive information on risk. Responsible for adjustments of the organizational structure of the Bank to the amount and profile of risks to which the Bank is exposed. She accepts anonymous reports of infringements of law or procedures and ethical standards applicable at the Bank, and is also responsible for the ongoing functioning of the anonymous infringement reporting procedures, including for reporting to the Supervisory Board, at least semi-annually, any substantial ethical issues arising at the Bank.
James Foley Member of The Management Board	Responsible for global transaction services, including for: • finance management products; • trade finance products; • cash products; • liquidity management products; • supervision of EU programmes Also responsible for supervision within the internal functional relationship over services for the public sector. He ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.
Katarzyna Majewska Member of The Management Board	Responsible for the following activities of the Bank: operations and technology, real estate management, administration. She ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.

The tenure of Mr. Dennis Hussey started on April 1, 2020.

On October, 18, 2019 Mr. David Mouillé resigned as Vice President of the Management Board effective January 31, 2020.

The Management Board operates on the basis of generally applicable laws, the Articles of Association and the Management Board Regulations. The Management Board Regulations define the scope and mode of operations of the Management Board as well as the procedure for adopting resolutions.

During 2020, the following committees consisting of Management Board Members were active:

1) Risk and Capital Management Committee,
2) Assets & Liabilities Committee (ALCO) of the Bank,
3) Business Risk, Control System and Compliance Committee for Bank Handlowy w Warszawie S.A.;
4) Bonus Committee,
5) New Products Committee,

President of the Management Board convenes and chairs meetings of the Management Board. President of the Management Board may set fixed dates for holding meetings.

Work organization at the Management Board is ensured by the Corporate Services Office.

Management Board members have an obligation to attend Management Board meetings. An anticipated absence of a Management Board member at a meeting should be reported to the Corporate Services Office and must be excused.

In addition to members, meetings of the Management Board are attended by: Director of the Corporate Services Office or his designee, Director of the Compliance Unit, Head of the Legal Division, Director of the Audit Department.

Resolutions of the Committee are valid provided that at least one half of the permanent members of the Committee are present. Resolutions of the Management are adopted by an absolute majority of votes.

The Management Board adopts resolutions in an open vote. Chairman of the meeting may order voting by ballot at his own initiative or at the request of a Board member. Member of the Management Board who disagrees with the wording of the adopted resolution may present a different position to be recorded in the minutes. A resolution of the Management Board is effective as of the date of its adoption unless it provides for a different effective date.

In justified cases, a resolution of the Management Board may be adopted through circulation (in writing) based on a decision of the President of the Management Board or the member substituting for the Management Board President. Draft resolutions to be adopted through circulation are submitted for approval to all members of the Management Board and become legally binding after being signed by an absolute majority of Management Board members, including the President of the Management Board or the member substituting for the Management Board President. The effective date of a resolution is the date it is signed by the Management Board member who signs the resolution already signed by at least half of all members of the Management Board. If even one of the Management Board members raises an objection to adoption of a resolution through circulation, the draft resolution should be presented at the next Management Board meeting. A resolution may be adopted through circulation provided that all members of the Management Board have been given a notice of its adoption. Resolutions adopted through circulation shall be added to the minutes of the next meeting of the Management Board.

With the consent of the President of the Management Board, members of the Management Board who are absent may participate in the meeting and vote through means of direct remote communication in a manner which enables simultaneous real-time communication and mutual identification among all Management Board members participating in the meeting or voting (e.g. videoconference, teleconference).

Minutes are drafted of each Management Board meeting. Drafting of the minutes is the responsibility of the Corporate Services Office. The minutes should include:

1) agenda;
2) names of persons taking part in the meeting;
3) information on excused absences or reasons for absences of Management Board members at the meeting;
4) wording of the resolutions adopted;
5) the number of votes cast in favor of individual resolutions and dissensions;
6) the organizational entity or unit, or the name of the person assigned with responsibility for implementing the resolution, and
7) deadline for implementation of the resolution.

The minutes are signed by all members of the Management Board present at the meeting, immediately upon receipt.

The Management Board provides the Supervisory Board with the following financial information:

1) immediately upon compilation but no later than 120 (one hundred and twenty) days after the end of each accounting year, individual and consolidated annual financial statements prepared in accordance with International Accounting Standards and International Financial Reporting Standards, audited by the Company's auditor;
2) immediately upon compilation but in any case no later than before the end of each year, a draft annual plan for the next accounting year;
3) other periodic information and reports, in accordance with a resolution of the Supervisory Board;
4) immediately, other available financial data related to Company operations and its financial condition, as well as the operations and financial condition of Company subsidiaries, which a member of the Supervisory Board may reasonably request.

11.2 Supervisory Board

The Supervisory Board consists of five to twelve members, each appointed by the General Meeting for a three-year joint term. By Resolution No. 6 of 5 December 2006, the Extraordinary General Meeting of the Bank, on the basis of Article 14.2 of the Articles of Association, established the number of Supervisory Board members to be at least 8. In addition, at least half of the Supervisory Board members, including its Chairman, must be Polish citizens. The Supervisory Board consists of independent members.

As at the date of signing this report on operations, the Company's Supervisory Board consisted of:

Member of Supervisory Board	Professional experience
Andrzej Olechowski Chairman of the Supervisory Board	Dr. Andrzej Olechowski is a member of the Board of Directors of Euronet Worldwide Inc., of the Supervisory Board of Play Communications S.A. a member of the Board of Trustee the European Council on Foreign Relations, a chairman of the Council of the Foundation „Zacny Uczynek" and a member of the Council of the Stefan Batory Foundation. In the past, he served as Minister of Finance (1992) and Minister of Foreign Affairs of the Republic of Poland (1993-1995), and ran as a candidate for President of the Republic of Poland (2000 and 2010). He is a member of a number of non-governmental organizations, including chairman of the Polish group, The Trilateral Commission. He is an author of publications on international economic and political relations. In 1991-1996 and 1998-2000, he already served as member of the Supervisory Board of Bank Handlowy w Warszawie S.A as its chairman. He was re-appointed to the Supervisory Board on 25 June 2003. Since 23 July 2012, he has served as the Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Frank Mannion Deputy Chairman of the Supervisory Board	Mr. Frank Mannion currently serves as the Citi Chief Financial Officer for Europe, Middle East and Africa (EMEA). Within his function, which he assumed in January 2011, he is responsible for a group of over 1,000 employees throughout the Region. Mr. Frank Mannion began his professional career in Ireland, and then moved to London, where he worked for PricewaterhouseCoopers. He started working at Citi in 1989 in a planning and analysis team in the UK. During his career, he has held many financial positions, including Technology Finance Manager and the Head of Product Control at CMB EMEA. In 2008, he became Citi Regional Franchise Controller for Europe, Middle East and Africa (EMEA), where he was responsible for a group of over 800 employees in various areas. Previously, he managed the areas of Product Control, Controllers and Regulatory Reporting as CMB EMEA Regional Controller. Frank Mannion graduated from the National University of Ireland in Galway, earning a degree in commerce. He has also earned the title of Chartered Accountant. Since 28 June 2010, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Kristine Braden Member of the Supervisory Board	Ms. Kristine Braden serves as Citi's Europe Cluster Head leading the firm's businesses across 22 markets and non-presence countries. She has also been named the CEO of Citigroup Global Markets Europe AG. Ms. Kristine Braden is based in Frankfurt, Germany. Ms. Kristine Braden has enjoyed a 22-year career with Citi working across the US, EMEA, Asia and Latin America. From 2018 to 2020, she was Chief of Staff to CEO Mike Corbat and chaired the North America Business Council and the State Leadership Councils, located in New York. From 2015 to 2018, she was the Citi Country Officer and Corporate & Investment Banking Head for Switzerland, Monaco and Liechtenstein based in Zurich. Before moving to Switzerland, Ms. Kristine Braden was Head of the Global Subsidiaries Group for Europe, posted in London. She also has 14 years of experience in Asia in banking, capital markets and transaction services based in Hong Kong and Manila. Ms. Kristine Braden started her career as a Global Emerging Market Management Associate with postings in the Dominican Republic, Hong Kong, the Philippines and Egypt. Ms. Kristine Braden is a keen advocate of advancing women's diversity. She was named as one of the top 100 women in EMEA finance by Financial News, among the top 100 bankers in Switzerland by Bilanz Magazine and among the top 100 Women in Swiss business by Women in Business Magazine. Ms. Kristine Braden also served as the President of Advance Women, a non-profit organization promoting gender equality in Switzerland. She currently serves as the Families Matter Affinity Co-Lead at Citi. Ms. Kristine Braden has also served as President of the Association of Foreign Banks in Switzerland and member of the Board of the Swiss Bankers Association, the first female in both positions. She was also a member of the Swiss-American Chamber of Commerce and served on the Chapter Board Doing Business in Switzerland. In her personal capacity, Ms. Kristine Braden served as a Trustee of Opportunity International UK, a global microfinance charity from 2013 to 2017. Ms. Kristine Braden holds a B.A. Political Science from the University of California, Berkeley, CA. She also completed Accounting and Corporate Finance summer school in masters-level program at Johns Hopkins University, School of Advanced International Studies in Washington, D.C. Since 2 December 2020, she has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Igor Chalupec Member of the Supervisory Board	Mr. Igor Chalupec: manager, financier, founder of ICENTIS Capital which specializes in capital market transactions; in 2013-2018, President of the Management Board of RUCH S.A., one of the largest press distributors in Poland. In 2004 - 2007, he served as President of the Management Board of PKN ORLEN S.A., the largest company in the refining and petrochemical sector in Central Europe. In 2003-2004, he held the position of deputy finance minister and deputy chairman of the Polish Financial Supervision Authority; he was also a member of the European Financial Committee in Brussels. In 1995 - 2003, he served as Vice President of the Management Board of Bank Pekao SA (UniCredit Group). Founder and CEO of Centralny Dom Maklerski Pekao SA (in 1991-1995), the largest brokerage company in Poland; long-time member of the Warsaw Stock Exchange (from 1995 to 2003). Mr. Igor Chalupec serves on the Supervisory Board of Budimex S.A. (Ferrovial Agroman Group), since 2007, he is also a member of the Polish Business Council, Program Board of the Economic Forum (Polish Economic Forum in Krynica), Executive Club Program Council, member of the Council of the Institute of Public Affairs Foundation, member of the Main Board of the Polish Institute of Directors, member of the Lesław A. Paga Award Committee, Vice President of the Polish Bridge Association, member of the Women's Workshop Foundation Council. Founder and Chairman of the Council of the Evangelical Educational Society Foundation. Co-author of Rosja, ropa, polityka, czyli o największej inwestycji PKN ORLEN, a book on the purchase of a Lithuanian refinery in Mazeikiai. Mr. Igor Chalupec is a winner of numerous awards and distinctions, including: Manager Award (2012), Lesław A. Paga Award (2007), VECTOR (2006) and HERMER awards (1996). Since 18 June 2009, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.

Jenny Grey Member of Supervisory Board	In January 2021, Ms. Jenny Gray assumed the position of Accountability, Culture and Talent Transformation Head. Since February 2016 she has been the Citi HR Head for the EMEA Region. Previously, from October 2012, Ms. Gray served as Head of Public Relations for the EMEA Region and was responsible for protecting and strengthening Citi's reputation in the EMEA Region. Her responsibilities included media relations, internal and external communications, brand and community development. Ms. Jenny Gray has 24 years of experience in communications. She joined Citi in October 2012, after four years of service in the British government administration, most recently, at the UK Prime Minister's headquarters as Executive Director for Government Communication. She was Head of Profession and managed 5,000 communication employees of the entire government sector. In previous years, she worked in the public sector where she served as Director of Communications and Social Marketing, including in the National Health Service and on the Audit Committee. She was also Corporate and International Director at Cancer Research UK, the largest charity foundation in the United Kingdom, where she set up the first unit responsible for public policy and support. Ms. Jenny Gray began her professional career in advertising and then became a public relations consultant specializing in reputation and crisis management. She has advised many international clients, including corporations such as McDonald's, Toyota, BP and Allied Domecq. She earned a Master's Degree in Social Psychology from the London School of Economics and degrees with honors in English and English literature from the Durham University. Since 21 June 2016, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Marek Kapuściński Member of Supervisory Board	Mr. Marek Kapuściński graduated from the Faculty of Foreign Trade at the Main School of Planning and Statistics in Warsaw (currently, the Warsaw School of Economics) and completed postgraduate studies at SEHNAP / Stern School of Business at New York University. He had been associated with the Procter & Gamble company for 25 years till September 2016. He is co-creator of company's success on the Polish and Central European market, including numerous standards of the way the Polish market has functioned since the time of transformation. They encompass standards for the cosmetics industry, business ethics, social responsibility, or self-regulation in the field of advertising. Since July 2011, he has performed the function of General Director and Vice President (i.e. CEO) for 9 Central Europe markets which are of key importance for P&G, and since January 2007 for Poland and the Baltic States. He is the first Pole and a person from Central Europe at the managerial level in this global corporation, as well as an active member of the company's regional management and its Global Business Leadership Council, which unites all 250 top executive managers. An experienced CEO and leader, an expert in strategy, innovation and management, an active creator of standards constantly adapting to the new challenges of brand management, a shopper of marketing, sales and communication in the age of digitization and omni-channel. The first Pole and Central European to be promoted at P&G to the positions of Brand Manager, Marketing Manager and Marketing Director; also for 5 years, responsible for developing a number of brands in the Region of Central and Eastern Europe, Middle East and Africa. Co-author of the strategy and leading market position of numerous well-known brands in the P&G portfolio. In recognition of his contribution to building brands and Polish advertising standards and practices, he was awarded the title of "20 Year Marketer" by Media Marketing Polska. Lecturer and speaker, juror, participant of discussion panels. Currently, he sits on Supervisory Boards of companies and public benefit organizations, and advises their managements. Privately, he invests in start-ups and donates for the development of young Polish culture and art. Since 29 September 2016, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Gonzalo Luchetti Member of Supervisory Board	Mr. Gonzalo Luchetti is currently a Head of Citi Consumer Banking in USA. Previously, since 2018 he was a Head of Citi Consumer Banking in Asia and EMEA. In his role, Mr. Gonzalo Luchetti supervises all consumer banking operations, including deposits, Wealth Management, bancassurance, small business, credit cards, individual client loans and mortgage loans. In 2015, he acted as the Consumer Banking Head in Asia and helped lead a significant transformation of the business by calibrating its distribution network, expanding the scale of activity of selected entities and digitization of the business model. Before coming to Asia, he had worked in New York as the Global Head of Wealth Management and Insurance. He was in charge of global distribution of Citigold and Citigold Private Client products, investment and insurance products as well as of the Global International Personal Bank. In his role he was responsible for global relations with asset management companies and insurance companies. Moreover, in 2009 he was in charge of International Personal Banking in the USA. Mr. Gonzalo Luchetti joined Citi in 2006 as the Citi Head for Private Banking Strategy in Latin America, where he managed activities related to growth strategy, search for sources of gains, client segmentation and boosting sales productivity. Then, in 2007 he simultaneously became CFO of that business. Before joining Citi, he worked at JP Morgan Chase in Business Optimization for the International Financial Services division. Beforehand, he worked for Bain & Company as a management consultant in the San Francisco and London offices. Mr. Gonzalo Luchetti holds an MBA from Standford University's Graduate School of Business and a BA in Computer Sciences from the Technological Institute of Buenos Aires. He holds FINRA US Securities Registration Series 7, 63, 24 and 65 licenses. Since 24 September 2019, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Anna Rulkiewicz Member of Supervisory Board	Since 2007, Ms. Anna Rulkiewicz has been the President of the Management Board of the LUX MED Group, which she joined in 2002 as a Member of the Management Board and Sales and Marketing Director. Since the end of 2011 she has also performed duties of the Managing Director of LMG Försäkrings AB, whose branch operates in Poland under the business name LUX MED Ubezpieczenia (Insurance). Since 2011, Ms. Anna Rulkiewicz has been the President of Private Medicine Employers (Pracodawcy Medycyny Prywatnej) and since 2016 she has been the Vice President of Employers of Poland (Pracodawcy RP). Ms. Anna Rulkiewicz gained professional experience by, among others, managing the Sales and Marketing Department at Credit Suisse Life & Pensions Towarzystwo Ubezpieczeń na Życie S.A. and at Powszechne Towarzystwo Emerytalne (General Pension Company)/Winterthur in the years 2001-2002, where she supervised the departments of internal and external sales, group insurance, marketing and communication. In the years 1998-2001, Ms. Rulkiewicz worked for Zurich Towarzystwo Ubezpieczeń na Życie S.A. and Zurich Powszechne Towarzystwo Emerytalne S.A. In her capacity as the Group Insurance and Training Director, she was responsible for, i.a. the group insurance segment, including development of services, recruitment system and training management. After becoming the Corporate Client Segment Head and being appointed a member of the Management Board of Zurich Towarzystwo Ubezpieczeń na Życie S.A., she was responsible for the Small Business and Corporate Client Segment. Between 1995-1998, she worked for Commercial Union Towarzystwo Ubezpieczeń na Życie S.A., where she was responsible, among others, for developing sales of group and individual insurance under bancassurance. Ms. Anna Rulkiewicz is a graduate of Nicolaus Copernicus University in Toruń (Uniwersytet Mikołaja Kopernika w Toruniu), where in 1994 she was awarded a Master's degree. Ms. Rulkiewicz is also a graduate of the University of Hamburg. In 1998, she completed postgraduate studies at the Polish and French Institute of Insurance (Polsko-Francuski Instytut Ubezpieczeń) and a range of training courses in, among other fields, management, sales, communication, and marketing organized under the certified insurance industry program LIMRA "Marketing Strategies for Executive Advancement" (LIMRA Executive Development Group). In 2018, she also completed the Stanford Executive Program at the Stanford University's Graduate School of Business. Between 2013-2017, Ms. Rulkiewicz was also a member of the Supervisory Board of Bank Handlowy w Warszawie S.A., and was again appointed to the Supervisory Board on June 5, 2019.

Barbara Smalska Member of Supervisory Board	In the years 2015-2017, Ms. Barbara Smalska held the function of the Vice President of the Management Board of Alior Bank S.A., responsible for strategy, mergers (specifically for legal and operational integration with separated operations of Bank BPH S.A. and for merger-related synergies), remote channels (online sales and online and mobile banking development), and for other development and IT projects. Since 2008 she has worked for PZU Group: as the Director of the Product Management Office (2008-2010) and the Managing Director for Mass Market (2010-2012), she was in charge of various aspects of PZU Group's individual client and SME segment management, notably she has been responsible for product management, marketing and sales, and for analytical CRM. In the years 2013-2014, as a member of PZU SA and PZU Życie SA Management Board, she was responsible for PZU Group's individual client and SME segment as a whole. As the Chairperson, and then as an independent member of Link4 TU S.A.'s Supervisory Board (2014-2016), she was in charge of the supervision of the process of incorporating Link4 to PZU Group. Ms. Barbara Smalska also joined PTE PZU SA's Supervisory Board (2013-2014). Ms. Barbara Smalska began her professional career in 2002 at the Boston Consulting Group's Warsaw Office. As Associate, Senior Associate, and Consultant in the years 2002-2006, she was involved in many projects conducted for financial and telecommunications sectors in Poland and in Central and Eastern Europe in, among other fields, business strategy, operational model, sales network organization and activation, costs reorganization and optimization. In the years 2006-2008, as the Project Leader and next as the Principal, she managed strategic projects for the largest Polish banks, insurance companies and telecom companies, mainly in business strategy and distribution strategy in the retail client segment. Ms. Barbara Smalska is a graduate of the University of Warsaw (Uniwersytet Warszawski), where in 1997 she was awarded a Master's degree in physics and in 2001 a PhD's degree in high energy experimental physics. Since 05 June 2019, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Stanisław Sołtysiński Member of the Supervisory Board	Mr. Stanisław Sołtysiński: professor of legal sciences, engaged in academic activities as a professor of legal sciences associated with the Adam Mickiewicz University in Poznań (where he also served as the Dean of the Faculty of Law and Administration). He lectured as a visiting professor at the Pennsylvania Law School in Philadelphia, as well as at the College of Europe in Bruges, the Max Planck Institute in Munich and the International Law Academy in The Hague. He is a member of many academic associations and organizations. He is a correspondent member of the Polish Academy of Arts and Sciences and a member of the UNIDROIT Board of Directors. He co-authored the Commercial Companies Code. Professor Sołtysiński is also involved in legal practice as a partner in "Sołtysiński, Kawecki i Szlęzak" Doradcy Prawni, a law firm. Professor Sołtysiński has been a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 26 March 1997, and its Chairman between 30 June 2000 and 20 June 2012. Since 21 June 2012, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Zdenek Turek Member of the Supervisory Board	In February 2021, Mr. Zdenek Turek was appointed the Global Head of Citi Risk Management. Previously, Mr. Turek was the Head of the Citi EMEA Risk Management. Mr. Zdenek Turek also overseed all Citi's businesses in Europe. He was also the Cluster Head for Europe and CEO of Citibank Europe, plc. Prior to that, Mr. Zdenek Turek was the CEO for Eastern and Central Europe and Citi Country Officer in Russia based in Moscow. Citi's business in the region covered 8 countries of CEE. From 2005 to 2008, Mr. Zdenek Turek was Citi Country Office for South Africa and managed the Region of Africa (as Division Head for Africa), covering 16 countries in the region where Citi has its business. Between 2002-2005, Mr. Turek was Citi Country Officer for Hungary and also oversaw the Region of Central Europe covering five countries (Hungary, the Czech Republic, Romania, Slovakia and Bulgaria). Mr. Zdenek Turek joined Citi in 1991 in Prague, where he held a number of Banking and Corporate Finance management roles before being promoted to Citi Country Officer in Romania in 1998. Prior to joining Citi, Mr. Zdenek Turek worked at the Foreign Exchange Department of the Central Bank of Czechoslovakia, focusing mainly on Export/Import and Services sectors (1986-1990). He then joined A.I.C., and Austrian-owned management consulting company, as Deputy Head of Representative Office in Prague, where he was responsible for corporate advisory in restructuring and financial recovery of industrial enterprises. Mr. Zdenek Turek graduated with an MA in Finance and Banking from University of Economics, Prague, in 1986. He further studied at Wharton School of the University of Pennsylvania, where he completed an Advanced Management Development Program in 1997. In 2010, he graduated from the Executive MBA program at INSEAD Business School. Between 2012-2016, Mr. Zdenek Turek was already a member of the Supervisory Board of Bank Handlowy w Warszawie S.A., and was again appointed to the Board on September 24, 2019.
Stephen R. Volk Member of the Supervisory Board	Mr. Stephen R. Volk was the Vice Chairman of Citigroup Inc. He was a member of the Citigroup Executive Committee – currently retired. Mr. Volk has been associated with Citigroup since September 2004. Until then, he served as Chairman of Credit Suisse First Boston, where he worked closely with the President of the Management Board on strategic management and key customer issues. He joined Credit Suisse First Boston in August 2001, moving from Shearman & Sterling, a New York law firm, where he was a Senior Partner since 1991. While at Shearman & Sterling, Mr. Volk was a legal counsel to numerous corporations, including Citicorp. Among the many areas in which Mr. Volk's firm advised Citicorp, there was also restructuring of the Citicorp's Latin American debt portfolio. Significant transactions in which Mr Volk played a key role include mergers of Glaxo and SmithKlein, Viacom-Paramount, Viacom-CBS and Vivendi-Universal-NBC. He joined Shearman & Sterling in 1960, after graduating from Dartmouth College and Harvard Law School, becoming a partner in 1968. Mr. Volk is a Director at Continental Grain Company, and also a former Director at Consolidated Edison, Inc. and Trizec Hahn Properties. He is also a member of the Council on Foreign Relations, the Harvard Law School Dean's Advisory Board and a member of the American Bar Foundation. Since 20 November 2009, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.

In 20120 Mr. Shirish Apte resigned from the Supervisory Board of Bank Handlowy w Warszawie S.A.

In the reporting year, Ms. Kristine Braden was appointed to the Supervisory Board of Bank Handlowy w Warszawie – as of 2 December 2020.

The Supervisory Board operates on the basis of generally applicable laws, the Articles of Association and the Supervisory Board Regulations.

The powers of the Supervisory Board, in addition to the rights and obligations provided for by law, include resolutions on the following matters:

1) appointing and recalling the President of the Management Board in secret voting,
2) appointing and removing, in secret voting, Vice Presidents and other members of the Management Board of the Bank."
3) setting the terms of contracts governing employment relationships or other legal relationships between Management Board members and the Bank,
4) authorization for opening or closing branch offices abroad,
5) adoption of the Supervisory Board Regulations and approval of the following documents drafted by the Management Board:
   a. regulations of the Management Board of the Bank,
   b. rules for managing special funds set up with net profits,
6) prior authorization for transactions disposing of the Bank's fixed assets worth more than 1/10 of the Bank's share capital,
7) selection of an audit firm to audit or review financial statements,
8) authorization for recruitment and dismissal (after prior hearing) of the person heading the Audit Department and the person heading the compliance unit, at the request of the Bank's Management Board,
9) authorization for the Bank to enter into a material contract with a shareholder holding at least 5% of the total votes at the Bank or a related party of the Bank,

10) supervision over implementation of the Bank's management system and assessment of the adequacy and effectiveness of that system, including supervision over adoption of the risk management system and annual assessment of the adequacy and effectiveness of that system, and supervision over adoption of the internal control system and annual assessment of the adequacy and effectiveness of that system, including assessment of the adequacy and effectiveness of the control function, compliance unit and the Audit Department, and assessment of the effectiveness of compliance risk management at the Bank,
11) approval of the Bank's strategy as well as the rules of prudent and stable management of the Bank,
12) approval of the basic organizational structure of the Bank, aligned with the size and profile of the risk involved, and determined by the Bank's Management Board,
13) approval of the acceptable general risk level of the Bank,
14) approval of the Bank's compliance policy,
15) approval of the Bank's internal procedures for internal capital assessment, capital management and capital planning,
16) approval of the Bank's information policy,
17) approval of the internal control procedure,
18) approval of the remuneration policy,
19) approval of the risk management strategy and determination of the rules for reporting to the Supervisory Board on the types and volumes of risk in Bank's operations,
20) approval of the regulations for the compliance unit and the Audit Department,
21) approval of the criteria developed by the Management Board for assessing adequacy and effectiveness of internal control,
22) approval of the rules for classifying irregularities detected by internal control,
23) approval of the compliance unit's annual action plan,
24) approval of the principles of cooperation between the compliance unit and the Audit Department with corresponding units at the parent entity and subsidiaries,
25) approval of the rules for the annual reporting by the compliance unit on the fulfillment of its tasks to the Bank's Management Board and the Supervisory Board,
26) approval of the rules of cooperation between the Audit Department and the statutory auditor,
27) approval of the Audit Department's business strategy,
28) approval of the audit rules prepared by the Head of the Audit Department, which ensure objective performance of responsibilities by the Audit Department, and the rules for transferring employees from other organizational units to the Audit Department, improving qualifications, identifying the number of internal auditors with professional certification and periodic performance assessment of internal auditors,
29) approval of the remuneration of the Head of the Audit Department,
30) approval of the strategic (long-term) and operational (annual) audit plans and their revisions,
31) approval of the remuneration of the Head of the Compliance Department, the authority which may be assigned, by a resolution, to the Audit Committee,
32) authorization for every cooperation in audits between the Audit Department with the corresponding unit at the parent entity, the authority which may be assigned, by a resolution, to the Audit Committee,
33) approval of the rules for reporting by the Audit Department to the Management Board and the Supervisory Board.

Based on the Banking Law Act, the Supervisory Board approves the internal division of responsibilities within the Management Board as well as the remuneration policy in effect at the Company.

The Supervisory Board also has the authority to suspend, for important reasons, individual or all members of the Management Board, as well as second Supervisory Board members to serve, temporarily for not more than three months, in the capacity of those Management Board members who have been recalled, submitted resignation or for other reasons are unable to serve.

Members of the Supervisory Board carry out their responsibilities in person. The Supervisory Board carries out its activities collegially, with each member of the Supervisory Board being entitled to receive information necessary to perform his/her responsibilities from the Management Board. The meetings of the Supervisory Board are held on a quarterly basis, as a minimum. The meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board or, in his/her absence, by Vice Chairman of the Supervisory Board, on his own initiative or at a request of another Supervisory Board member or at a request of the Management Board of the Company. The Chairman of the Supervisory Board may set fixed dates for holding meetings of the Supervisory Board. A notice convening a meeting, including its agenda and materials for the meeting, will be sent by the Supervisory Board Secretary to Supervisory Board members at least 7 (seven) days before the date of the meeting.

The Supervisory Board meets on the day of the General Meeting which approves the Management Board's report on Company operations and the financial statements for the last full accounting year of service of the Management Board member, during which mandates of Management Board members expire, in order to elect new members of the Management Board.

The Supervisory Board adopts an annual resolution on the report on Supervisory Board operations, in which the Supervisory Board assesses the situation of the Company, the work of the Supervisory Board, the internal control system and the management of significant risks at the Bank, as well as the results of assessment of the Company's financial statements, including Management Board's proposals as to profit distribution. The Supervisory Board submits that document to the General Meeting for approval.

Members of the Supervisory Board may participate in the adoption of resolutions by casting their votes in writing through another member of the Supervisory Board. The Supervisory Board may adopt resolutions in writing or by means of direct remote communication.

Meetings of the Supervisory Board are chaired by its Chairman, and in his absence, the Vice Chairmen of the Supervisory Board, and in the absence of both, the Supervisory Board member elected by the other members.

Resolutions of the Supervisory Board are valid provided that at least one half of the members of the Supervisory Board are present at the meeting. Resolutions of the Supervisory Board are adopted by an absolute majority of votes. Without the consent of the majority of independent Supervisory Board members, no resolutions may be adopted on the following matters:

1) authorization for the Company to enter into any significant agreement with a shareholder holding at least 5% of the total number of votes in the Company or an entity related to the Company;
2) selection of an auditor company to audit or review the Company's financial statements.

Each member of the Supervisory Board has an obligation to immediately advise the remaining members of any existing conflict of interests and to refrain from taking part in a discussion and voting on a resolution on the matter involving such conflict.

The Supervisory Board adopts resolutions in an open vote, with the exception of appointment and recall, by a secret ballot, of the President of the Management Board, and appointment and recall, by a secret ballot, of Vice Presidents and other members of the

Company Management Board. Chairman of the meeting may order voting by ballot on other matters, at his own initiative or at the request of a Supervisory Board member.

A resolution of the Supervisory Board is effective as of the date of its adoption unless it provides for a different effective date.

Minutes of Supervisory Board meetings will be drawn up, containing the agenda, names of the Supervisory Board members present, the number of absent members at the meeting together with the reason for their absence, the number of votes cast on particular resolutions, dissensions, full wording of adopted resolutions. A list of Supervisory Board members present at the meeting and other persons participating in the meeting forms an attachment to the minutes. The minutes are signed by all members of the Supervisory Board present at a given meeting. Minutes of Supervisory Board meetings for the duration of its term are collected in a separate folder kept by the Company.

Supervisory Board meetings, except for those directly related to the Management Board, are attended by members of the Management Board. At the request of Supervisory Board Chairman or at the request of the Management Board of the Company, meetings may be attended by Company employees or persons from outside the Company relevant to the issue considered. During the Supervisory Board's consideration of issues related to the operation of internal control at the Company, the person heading the Audit Department may also take part in Supervisory Board meetings. In particularly justified circumstances, the Chairman of the Supervisory Board may order a meeting without the participation of persons who are not members of the Supervisory Board, even if the above provisions allow otherwise.

Supervisory Board Committees

Supervisory Board Permanent Committees are:

1) Audit Committee;
2) Nomination and Remuneration Committee;
3) Risk and Capital Committee.

The Supervisory Board has the right to adopt a resolution on the appointment of committees other than those specified above and composed exclusively of members of the Supervisory Board. The relevant resolution of the Supervisory Board sets forth the scope of responsibilities of such a committee.

In line with the aforementioned procedure, in 2003 the Supervisory Board appointed the **Strategy and Management Committee** responsible for ongoing analyses of all issues related to the activities performed by the Bank's governing bodies as well as the streamlining of their functioning. The Committee is composed of: Zdenek Turek acting as Chair, Stanisław Sołtysiński acting as Vice-Chair, and Kristine Braden, Igor Chalupec, Jenny Grey, Marek Kapuściński, Frank Mannion, Gonzalo Luchetti, Andrzej Olechowski, Anna Rulkiewicz, Barbara Smalska and Stephen Volk acting as Committee members.

Audit Committee

The Audit Committee is composed of the following members:

1) Barbara Smalska - Chairman of the Committee;
2) Frank Mannion – Vice Chairman of the Committee;
3) Kristine Braden – Member of the Committee;
4) Igor Chalupec – Member of the Committee;
5) Marek Kapuściński – Member of the Committee;
6) Anna Rulkiewicz – Member of the Committee;

The Audit Committee is a permanent committee of the Supervisory Board that met four times in 2020.

The authority and responsibilities of the Audit Committee include among others monitoring of financial reporting process, monitoring of the effectiveness of: internal control, internal audit and risk management systems, monitoring of audit activities and controlling and monitoring of the independence of the statutory auditor and the entity authorized to audit financial statements.

Members of the Committee exercise their powers on the basis of Article 390 of the Code of Commercial Companies and Act of statutory auditors, audit firms and public supervision dated 11 May 2017. The Committee submits annual reports on its activities to the Supervisory Board. A report for each successive calendar year is submitted by the end of the first quarter of the following year. The reports are made available to shareholders through publication on the Bank's website. At the next following meeting of the Supervisory Board, the Committee reports to the Supervisory Board on each of the Committee meetings and the Committee's recommendations discussed at its meetings.

The Audit Committee is composed of three or more Supervisory Board members appointed by the Supervisory Board. The majority of members of the Audit Committee, including its Chairman, are independent within the meaning of Article 129(3) of the Act of May 11, 2017 on auditors, audit firms and public supervision. The Chairman of the Audit Committee also meets independence criteria set out in § 14(4) of the Charter. Members of the Audit Committee have knowledge and skills related to the financial sector. This condition is considered met if at least one member of the Audit Committee has knowledge and skills related to that sector or particular members have knowledge and skills related to that sector in determined scopes. At least one member of the Audit Committee has knowledge and skills related to accounting or audit of financial statements.

Members of the Audit Committee who meet the statutory independence criteria are: Barbara Smalska, Igor Chalupec, Marek Kapuściński and Anna Rulkiewicz.

The following members of the Audit Committee have knowledge and skills related to accounting or audit of financial statements:

1) Barbara Smalska – has practical professional experience gained over many years at managerial positions in the PZU Group, including: Vice President of the Management Board of Alior Bank S.A., Chairperson, and previously an independent member of the Supervisory Board of Link4 TU S.A., a Member of the Supervisory Board of PTE PZU S.A., a Member of the Management Board of PZU S.A. and PZU Życie S.A. and recently a Principal at The Boston Consulting Group's Warsaw offices,
2) Frank Mannion - graduated from the National University of Ireland in Galway, earning a degree in commerce. He also has the title of Chartered Accountant;
3) Kristine Braden - has many years of practical work experience in managerial positions in the Citi Group, she graduated the school of accounting and corporate finance at the graduate level at Johns Hopkins University, School of Advanced International Studies, Washington..
4) Anna Rulkiewicz - completed the Stanford Executive Program at the Stanford University's Graduate School of Business.

The following members of the Audit Committee have the knowledge and skills in the field of banking and finance in which the Company operates:

1) Barbara Smalska – due to her practical professional experience gained over many years at managerial positions in the PZU Group, including: Vice President of the Management Board of Alior Bank S.A., Chairperson, and previously an independent member of the Supervisory Board of Link4 TU S.A., a Member of the Supervisory Board of PTE PZU S.A., a Member of the Management Board of PZU S.A. and PZU Życie S.A. and recently a Principal at The Boston Consulting Group's Warsaw offices,
2) Frank Mannion - due to his education, the title of Chartered Accountant and professional experience which includes many years of service at managerial positions in Citi;

3) Kristine Braden - due to education and many years of practical professional experience gained in managerial positions in the Citigroup;
4) Igor Chalupec - due to his education and professional experience, including service in the capacity of Vice President of the Management Board of Bank Pekao S.A.
5) Anna Rulkiewicz – due to her educational training and practical professional experience gained over many years at managerial positions at the Lux Med Group, where she began as a Member of the Management Board, Sales and Marketing Director, and in 2007 she was appointed as the President of the LUX MED Group, and at her position as the Managing Director of LMG Försäkrings AB, whose branch operates in Poland under the name LUX MED Ubezpieczenia (insurance), and President of the Management Board of the Association of Private Medicine Employers (Związek Pracodawców Medycyny Prywatnej).

Meetings of the Audit Committee are convened by the Committee Chairman at his own initiative, at the request of a Committee member or Supervisory Board Chairman. If for any reason the Committee Chairman is unable to convene a meeting, it will be convened by the Deputy Chairman. Meetings are also convened at the request of a Committee member or the Supervisory Board Chairman.

A notice convening a meeting, setting out the agenda and materials for the meeting, are sent to members of the Audit Committee by the Committee Secretary who is the Secretary of the Supervisory Board. Meetings of the Audit Committee are held at least four times a year, on the dates set by the Chairman in consultation with the Deputy Chairman of the Committee.

The Audit Committee meets:

1) with the Head of the Audit Department without participation of the Company's management;
2) with the certified auditor of the Company without participation of the Company's management;

The Audit Committee may also meet:

1) by its own.
2) at its discretion, with individual members of the Company's management.

The agenda of the Audit Committee's meeting includes fixed items as well as matters considered on request. The list of fixed items considered at Committee meetings is determined by a resolution of the Committee. The Supervisory Board and individual members of the Committee and other members of the Supervisory Board, Management Board of the Company and Members of the Management Board of the Company have the right to put forward matters at Committee meetings.

The Secretary of the Audit Committee, on the basis of materials received, prepares a draft agenda of the meeting together with a list of invitees, and forwards it to the Committee Chairman and Deputy Chairman for approval. The draft agenda accepted by the Committee Chairman and Deputy Chairman is then forwarded, along with the materials, to Committee members.

All members of the Audit Committee are obliged to participate in the meeting of the Committee. The Committee member who is unable to attend a meeting should notify the Committee Secretary seven days before the fixed date of the meeting. The Committee may seek the advice of advisers and invite Company employees or other persons to its meetings to discuss or examine matters raised by the Committee. Persons invited by the Committee Chairman and, in particular, the persons who refer individual items on the agenda take part in the Committee meeting or its relevant part When issues related to the internal control system are the subject of the meeting, the Head of the Compliance Unit and the Head of the Audit Department shall participate.

The Chairman of the Audit Committee chairs Committee meetings. If the Chairman of the Committee is not present, the meeting is chaired by the Deputy Chairman of the Committee. The Committee Chairman may, in consultation with the Deputy Chairman, decide to remove an item from the agenda, in particular in order to rectify a motion or to obtain an opinion.

Resolutions of the Audit Committee are adopted by the absolute majority of votes of the members of the Committee present at the meeting.

The Chairman of the Audit Committee may, in consultation with the Deputy Chairman, decide to consider a matter in writing.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is composed of:

1) Andrzej Olechowski – Chairman of the Committee;
2) Jenny Grey – Vice Chaiperson of the Committee;
3) Zdenek Turek - Member of the Committee;
4) Stanisław Sołtysiński - Member of the Committee.

The Nomination and Remuneration Committee is a permanent committee of the Supervisory Board.

The Nomination and Remuneration Committee is the Supervisory Board's advisory body, and its members exercise their authority on the basis of Article 390 of the Code of Commercial Companies, Articles 9cb and 9cd of the Act of 29 August 1997 – Banking Law and Regulation of the Minister of Finance of 7 May 2018 on the specific scope of tasks of the nomination committee at significant banks. The Committee submits annual reports on its activities to the Supervisory Board. A report for each successive calendar year is submitted by the end of the first quarter of the following year. The reports are made available to shareholders through publication on the Bank's website. At the next following meeting of the Supervisory Board, the Committee reports to the Supervisory Board on each of the Committee meetings and the Committee's recommendations discussed at its meetings.

The Nomination and Remuneration Committee has, among others, the authority to:

1) review and monitor the remuneration policies adopted at the Bank and support the Bank authorities in supervising, shaping and implementing those policies, their validity, consistency with the practice and processes in place at the Bank and their impact on the Bank's risk profile,
2) assess the mechanisms and systems in place at the Bank in order to ensure that the remuneration policy adopted at the Bank takes into account all types of risk, and liquidity and capital levels, complies with the principles of, and supports sound and effective risk management, and is consistent with the Bank's strategy, objectives, corporate culture and values as well as long-term interests of the Bank, including assessment of the need to adjust remunerations for ex-post risk,
3) analyze possible scenarios to examine how the remuneration policies adopted at the Bank and the remuneration practice respond to external and internal events, and perform back-testing of the criteria used to determine remuneration levels and to adjust remunerations for ex-ante risk on the basis of actual risk-based results,
4) recommend candidates for the Management Board, taking into account the necessary knowledge, competence and experience of the Management Board as a whole, that are necessary to manage the Bank, and ensuring diversity on the Management Board,
5) identify the scope of duties for a candidate to the Management Board, as well as the requirements in terms of knowledge and competence, and the expected time commitment necessary to serve in that capacity,
6) identify the target representation of the gender underrepresented on the Management Board and develop a policy of diversity on the Management Board with the aim of achieving that target,

7) make periodic evaluation, at least once a year, of the structure, size, composition and effectiveness of the Management Board and recommend changes in that regard to the Supervisory Board,
8) make periodic evaluation, at least once a year, of the knowledge, competence and experience of the Management Board as a whole and of individual Management Board members, and inform the Management Board of the evaluation results,
9) review periodically the Management Board's policy on selection and appointment of Bank managers and present recommendations in that regard to the Management Board,
10) assess, based on market conditions, the remunerations received by members of the Management Board,
11) assess the remuneration paid to members of the Bank's Management Board as compared to their duties and performance;
12) submit recommendations for remuneration of Management Board members to the Supervisory Board, each time prior to its determination or revision,
13) review and monitor variable remuneration components of the persons whose professional activities have a significant impact on the Bank's risk profile, including in particular those responsible for risk management, management of the compliance unit, management of the internal audit unit, and key persons, as identified in the Employee Remuneration Policy of Bank Handlowy w Warszawie S.A.,
14) conduct preliminary assessments of qualifications of candidates for members of the Supervisory Board and prepare recommendations whether or not to appoint them,
15) conduct preliminary assessments of qualifications of members of the Supervisory Board and prepare recommendations if a re-assessment is required.

The Committee adopts the Management Board diversity policy, taking into account a wide range of characteristics and competences required from persons serving as members of the Management Board.

The Committee consists of at least three members of the Supervisory Board. The number of independent members must be at least the same as the number of dependent members, with the Chairman being an independent member. An independent member is a Committee member who meets the independence criteria specified in the Principles of Corporate Governance for Supervised Institutions adopted by the Polish Financial Supervision Authority. All Members of the Committee, including its Chairman and Deputy Chairman, are elected by the Supervisory Board in an open voting.

Meetings of the Nomination and Remuneration Committee are convened by the Committee Chairman at his own initiative or, if the Committee Chairman is unable to do so for any reason, by the Deputy Chairman. Meetings are also convened at the request of a Committee member or the Supervisory Board Chairman. Committee meetings are held at least twice a year, on the dates set by the Committee Chairman. The agenda of the Nomination and Remuneration Committee's meeting includes fixed items as well as matters considered on request.

The Secretary of the Nomination and Remuneration Committee, on the basis of materials received, prepares a draft agenda of the meeting together with a list of invitees, and forwards it to the Committee Chairman for approval.

Meetings of the Nomination and Remuneration Committee must be attended by all its members. The Committee member who is unable to attend a meeting should notify the Committee Secretary seven days before the fixed date of the meeting. The Committee may make use of external experts. In case of cooperation with an external expert, the Committee shall review the appointment of such experts. A meeting of the Committee or an appropriate part of a meeting is attended by persons invited by the Chairman of the Committee and especially persons who are to present particular matters.

Resolutions of the Nomination and Remuneration Committee are adopted by the absolute majority of votes of the members of the Committee present at the meeting. In case of an equal number of votes, the casting vote belongs to the Chairman.

The Chairman of the Nomination and Remuneration Committee may decide that a given matter will be resolved in circulation mode.

A member of the Nomination and Remuneration Committee who votes against may request that his dissension be recorded in the minutes.

Minutes are taken of meetings of the Nomination and Remuneration Committee. The minutes are signed by the Chairman and the Secretary. The minutes of the meeting of the Committee is approved by the members of the Committee at the next meeting of the Committee.

Risk and Capital Committee

The Risk and Capital Committee is composed of:

1) Frank Mannion – Chairman of the Committee;
2) Igor Chalupec – Vice Chairman of the Committee;
3) Marek Kapuściński – Member of the Committee;
4) Gonzalo Luchetti – Member of the Committee;
5) Andrzej Olechowski – Member of the Committee;
6) Barbara Smalska - Member of the Committee;
7) Zdenek Turek - Member of the Committee;
8) Stephen R. Volk – Member of the Committee.

Members of the Committee have the powers as set out in the Regulations under Article 390 of the Code of Commercial Companies and Article 9cb of the Banking Law Act of 29 August 1997. The Committee submits annual reports on its activities to the Supervisory Board. A report for each successive calendar year is submitted by the end of the first quarter of the following year. The reports are made available to shareholders through publication on the Bank's website and at the Bank's office. At the next following meeting of the Supervisory Board, the Committee reports to the Supervisory Board on each of the Committee meetings and the Committee's recommendations discussed at its meetings. The Committee's Regulations are made available on the Bank's website and at the Bank's office.

The Committee has the authority to ongoing monitoring of the risk management system and to supervise the process of estimating internal capital and capital management.

The Risk and Capital Committee consists of at least four Supervisory Board members, one of whom acts as the Committee's Chairperson. In order for the Committee's resolutions to be valid, at least three of its members must attend the meeting.

Committee meetings are convened by the Committee Chairman at his own initiative or at the request of a Committee member. If for any reason the Committee Chairman is unable to convene a meeting, it will be convened by the Deputy Chairman. Meetings are also convened at the request of the Supervisory Board Chairman.

Committee meetings are held at least every six months, on the dates set by the Chairman in consultation with the Deputy Chairman of the Committee.

A notice convening a meeting, setting out the agenda and materials for the meeting, are sent to members of the Committee by the Committee Secretary who is the Secretary of the Supervisory Board. Notice should include the agenda and materials on the topics to be discussed at the meeting. The agenda of the Committee's meeting includes fixed items as well as matters considered on request. The Supervisory Board and individual members of the Committee and other members of the Supervisory Board have the right to put forward matters at Committee meetings.

All members of the Committee are obliged to participate in the meeting of the Committee.

The Committee may seek the advice of advisers and invite Bank employees or other persons to its meetings to discuss or examine matters raised by the Committee.

Persons invited by the Committee Chairman or Deputy Chairman take part in the Committee meeting or its relevant part.

The Committee Chairman chairs Committee meetings. If the Chairman of the Committee is not present, the meeting is chaired by the Deputy Chairman of the Committee.

Resolutions of the Committee are adopted by the absolute majority of votes of the members of the Committee present at the meeting. The Committee Chairman may, in consultation with the Deputy Chairman, decide to consider a matter in writing.

The minutes of a meeting of the Committee shall be prepared.

12. Good practices in Dom Maklerski Banku Handlowego S.A - company belonging to the Bank's capital group

Dom Maklerski Banku Handlowego S.A. (DMBH) is not a public company and is not required to adhere to the Best Practice for GPW Listed Companies or to make statements in that respect, however, due to the significant role of that entity in the Group, the following circumstances should be pointed out.

DMBH is a member of the Chamber of Brokerage Houses - as a member of the Chamber, it is required to comply with the Code of Good Practice for Brokerage Houses, developed by the Chamber of Brokerage Houses. The Code does not regulate corporate governance, it is mainly concerned with protection of professional secrecy, client relationships, conduct of brokerage house employees, including in relations with other brokerage houses. DMBH is regulated by the Act on Trading in Financial Instruments and therefore, in addition to the Code of Commercial Companies, it adheres to corporate governance rules for supervised institutions. The Financial Supervision Authority is informed by DMBH about changes in the composition of the Management Board, with the reservation that the appointment of the President of the Management Board and the Member of the Management Board responsible for supervising the risk management system is subject to the approval of the Financial Supervision Authority. In addition, DMBH has reporting obligations to the KNF (including on changes on the Management Board, on the wording of specific resolutions of the General Meeting). The Act on Trading also regulates the issue of purchase of shares in a brokerage house. It provides that the head office of a brokerage house must be in the territory of Poland. As of 1 January 2015, DMBH is subject to the Principles of Corporate Governance for Supervised Institutions ("CG") adopted by the KNF resolution of 22 July 2014. The Principles of Corporate Governance are a set of rules governing internal and external relations of institutions supervised by the KNF, including their relationships with shareholders and customers, their organization, the operation of internal oversight as well as of key internal systems and functions, and of corporate bodies and their cooperation. The purpose of the Principles of Corporate Governance is to enhance corporate governance in financial institutions and transparency of their operations, which is designed to promote public confidence in the Polish financial market. On 23 December 2014, the Management Board of DMBH declared the desire of DMBH to abide by the CG Rules, and the Supervisory Board accepted adherence to those CG Rules which fall under the authority of the Supervisory Board. On 21 May 2020, the Supervisory Board approved the 2019 CG compliance report.

Three CG Rules are not applied by DMBH:

a) § 11.2 (related party transactions) - this rule will not be applied to contracts related to daily operating activities;

b) § 22.1 and 22.2 (independence of members of the supervisory authority) - these rules are not applied due to the current composition of the Supervisory Board.

13. Diversity Policy

In its operations, Bank Handlowy w Warszawie S.A. applies solutions based on diversity which is the hallmark of Citi's corporate culture and its philosophy.

The strategy of Bank Handlowy w Warszawie S.A. for diversity integration consists in promoting a culture which attracts the best of the best, in which people are promoted for their competencies and skills, in which other people are appreciated and mutual respect is expected, and in which development opportunities are available to everyone -regardless of differences.

Our diversity initiatives apply to three levels:

- To individuals - the Bank creates space for employees and encourages to take responsibility for their own careers and personal development to achieve their full potential regardless of gender, religion, race, ethnicity, nationality or sexual orientation.
- To teams - the Bank strives to ensure an atmosphere of respect in which diverse teams utilize a wide range of perspectives, skills, experiences and approaches.
- To the organization - embracing everything that employees have to offer, the diversity strategy positions the Bank as an employer of choice.

Utilizing various perspectives and enabling employees to develop their skills, we focus on growth and innovation for our clients and employees, following the principle that each individual contributes to the value of whatever we develop together.

In its employment policy, the Bank strongly supports diversity, and being committed to talent development it takes on career and development of female employees who manage vital organizational units in Citi Handlowy. As a result of internal and external recruitment, the Bank employs a total of 48.54% women compared to 51.46% men. The ratio change in relation to 2019 made us focus in particular on maintaining measures to support women in their development. Most of the recruitment processes for higher level specialist and managerial positions were monitored in 2020 to ensure diversity among the candidates considered. Women were also absolutely required on panels for all recruitment processes for high level managerial positions. The Bank will continue these recruitment principles in all its recruitment processes in 2021.

In 2019, women represented over 49% of the managerial staff and, simultaneously, 63% of the population of the entire Bank. In 2020, this positive trend was maintained, women still accounted for over 49% of management staff, while at the same time, constituting 62.65% of the entire Bank work force.

The average length of service at the Bank grows continuously. In 2019, it exceeded 10 years, while the average length of service of women was close to 11 years. In 2020, the length of service for women exceeded 11 years, for men 9 years, and the average length of service was over 10.5 years.

The Bank's business variety and specific needs determine directions and requirements concerning professional knowledge necessary to preserve best quality services for, be it, an internal or external client.

The Bank ensures support for employee initiatives and commitment to others and to our organization. An example of such support are organizations which bring together the Bank's employees involved in different types of activities. In 2020, CitiWomen, CitiPride and CitiParents were very active at the Bank. The Bank also has CitiClub and CitiDisability.

In 2020, the Bank's Management Board decided to introduce additional 2 weeks of paternity leave. From January 2021, Bank Handlowy employees will be entitled to four weeks of paternity leave, subject to the laws and legal requirements in force in Poland. We believe that this new minimum standard of paternity leave will bring greater benefits than the current labor market standards and will allow our employees to find time to adapt to their role and build a bond with the new family member. From January 2021, all eligible biological and adoptive fathers are entitled to paternity leave.

When building its remuneration policy, the Bank hinges it on the best market practices taking into consideration corporate governance requirements, market trends and the organization's standing and potential.

When defining remuneration the Bank refers to experience and competence required for a given job position, performance, present remuneration, and position juxtaposed with a new group of employees on the market. Based on such information a new level of remuneration is defined.

Levels of remuneration are reviewed on a regular basis annually, taking into account the employee's annual assessment, his or her skills and scope of responsibilities juxtaposed with data obtained from market research concerning the level of remuneration in the industry.

Remuneration of women employed by the Bank is comparable to the base remuneration of men. In December 2020 it constituted 97% of the remuneration of men (taking into account employees actively performing work, excluding child care leave, unpaid leave and long-term sick leaves, and excluding Members of the Management Board).

Concerned about the life situation of its employees, Citi Handlowy provides a wide range of additional benefits, which make up one of the richest offer on the market.

The Bank strives to be a company which draws the best talent, hires and promotes employees based on performance and makes growth opportunities widely available. The aim is to create a workplace where responsible finance is practised, where employees treat each other with due respect and dignity, and may count on support to preserve a balance between work and private life. The Bank adheres to the principles of equality in recruitment and respects the provisions of law on fair employment practices and anti-discrimination.

The Bank takes preventive actions to counteract discrimination, consisting of a range of educational activities aimed at raising awareness as regards discrimination, unequal treatment, mobbing and actions which can bring about proper organizational climate favorable to the fair play principle at work place (primary prevention).

A dialogue with employees is an important part of the Group's activity. Every employee has access to an internal intranet network, where he or she can find the latest information concerning all the Bank's areas of operation. The most crucial information concerning the Bank and changes which take place in the organization is sent directly to the employees' inboxes in an internal Newsletter.

Senior management organizes special meetings with employees called Town Halls. At such meetings the most crucial information is provided concerning particular business areas, the Bank's financial results as well as information on new products or organizational changes. Every employee can ask directly the hosting Member of the Management Board and invited guests questions. During the pandemic, when most of our employees worked remotely from outside the office, the Bank's Management Board took special care to continue the practice of staff meetings. Staff meetings were held during that time using electronic tools and remote forms of communication, maintaining their interactive format, the ability to ask questions and receive answers during the meeting from the Management Board Member chairing the meeting.

The employees can also use the internal social platform „Citi Collaborate". Its wide accessibility allows for exchanging information and building close cooperation between employees and management.

2020 Bank continued building organizational culture focused on the employees. The goal of the people-oriented strategy is to strengthen employee engagement and improve their working conditions by taking actions and implementing projects facilitating their work and communication.

Of particular significance in 2020 was the work of the People Board group which operates within one of the six People Strategy project groups.

In 2020, the People Board – a group of 9 employee representatives chosen in internal elections by employees themselves – focused on communicating with employees by regularly collecting their feedback and forwarding it to the Management Board. People Board communications also focused on communicating messages from the Bank's Management Board. People Board's mission is to be a communication bridge between employees and the Management Board. Such initiatives help to regularly influence the culture of the organization and to shape it based on a joint vision. Employees feel that the Bank is a place where they can find fulfillment and their needs are heard. Despite the pandemic period, in 2020 members of the People Board remained in close contact with the Bank's employees in all locations in Poland.

The first People Board members ended their term in December 2020. We are currently in the process of democratic elections, after which the new People Board will begin its operations on 1 March 2021.

Another important People Strategy initiative supporting the culture of diversity at the Bank is Beyond the Borders. Members of that group focused their efforts on supporting expats working at the Bank in the difficult time of the pandemic. This group aims at building an environment in which the Bank's employees can feel proud of working in a global organization, in an international environment that is open to diversity. In 2020, all Bank employees were provided an opportunity to learn English for free on a dedicated remote platform. In addition, the group focused heavily on keeping in touch with expats working at the Bank, for whom the pandemic was a difficult period not only because they had to work in a foreign country, often far from family and friends, but also due to the language barrier and inability to keep up with changing pandemic restrictions in Poland. The Beyond the Borders Group made sure to communicate regularly with expats at the Bank, to inform them of all legal changes and new restrictions.

In this difficult year, the above efforts made it possible to make Bank employees feel that Citi Handlowy is an organization that cares about diversity and supports its employees in all circumstances.

X. Other information about the authorities of Bank Handlowy w Warszawie S.A. and corporate governance rules

1. Information regarding the remuneration policy

The Bank Handlowy Group has in place "Remuneration Policy for Members of the Management Board and Members of the Supervisory Board of Bank Handlowy w Warszawie S.A.", "Employee Remuneration Policy of Bank Handlowy w Warszawie S.A." (adopted on 22 December 2017, as amended) and the "Employee Remuneration Policy of Brokerage House of Bank Handlowy S.A." (adopted on 3 January 2018, as amended), hereinafter referred to as the "Remuneration Policy", and also the "Remuneration policy for persons whose professional activity significantly influences the risk profile of Bank Handlowy w Warszawie S.A." (adopted on 22 December 2017, as amended) and the "Remuneration Policy for Persons whose professional activity significantly influences the risk profile of the Brokerage House of Bank Handlowy S.A. (adopted on 3 January 2018, as amended), hereinafter referred to as the "Authorized Persons Remuneration Policy", which replaced previous policies in this area.

Remuneration policy for Members of the Management Board and Members of the Supervisory Board of Bank Handlowy w Warszawie S.A. defines the rules of remunerating Members of the Management Board and Supervisory Board of the Bank, supporting implementation of the Bank's strategy, effective risk management, long-term interests and stability of the Bank. The Remuneration Policy lays down the rules adopted at the Bank and DMBH for remunerating other employees, including Key Personnel, and is intended, among other things, to combine remuneration practices, structures and decisions with the interests of shareholders and to effectively manage risk by encouraging prudent decision-making.

The Group's philosophy of remunerating assumes differentiation of the remuneration of individual employees based on financial or non-financial criteria, such as risk-taking approach and compliance with regulations, in order to reflect their input and to complement effective risk control mechanisms by containing the incentive to take unreasonable risks to the Group and its operations, and by rewarding thoughtful balance between risks and returns.

According to that philosophy, the variable remuneration of people covered by the "Authorized Persons Remuneration Policy" depends on both short-term and long-term assessment of individual performance and financial results of the Bank or DMBH or the relevant organizational unit, respectively, while the persons serving in control roles are not evaluated for the performance of their supervised units. Work performance assessment in the Bank or DMBHis made on the basis of data for three financial years, which encompasses economic cycles and risks involved in the business activity pursued by the Group.

Eligibility for individual payments of deferred variable remuneration must be each time approved by the Supervisory Board - in relation to the Management Board and by the Management Board - in relation to other employees.

At least 50% of variable remuneration should be awarded in the form of non-monetary instruments the value of which depends strictly on the financial performance of the Bank or DMBH, respectively. This condition is met by the phantom shares adopted by the Group, whose value will fluctuate depending on the market value of the Bank's shares or the value of DMBH. In the case of DMBH, according to the Authorized Persons Remuneration Policy, the value of phantom shares depends on the value of DMBH's common shares and they are granted if the value of the annual award for a given year exceeds 50% of the employee's permanent remuneration in that year.. The remaining portion of the variable remuneration is a monetary bonus, with interest accruing on the deferred portion of the bonus for the period between granting and payment of that remuneration component.

Eligibility for each portion of a deferred bonus will depend on performance of the Bank or DMBH, respectively, in the calendar year immediately preceding the date of becoming eligible for that portion and other conditions indicated in Authorized Persons Remuneration Policy.

An Authorized Persons Remuneration Policy is described in more detail in the Report on capital adequacy, risk and remuneration policy of the Bank Handlowy w Warszawie S.A. Group as of 31 December 2020.

In 2020 The Supervisory Board of the Bank positively assessed functioning of the Remuneration Policy applied in the Group.

2. Salaries and awards, including bonuses from profit, paid to persons managing and supervising the Bank

The table below presents the amount of fixed remuneration components (in PLN thousand) paid to the members of the Bank's Management Board in 2020.

		Base salary	Other benefits
Sławomir S. Sikora		2,391	321
Maciej Kropidłowski		1,733	256
Dennis Hussey	- since 1.April 2020	1,083	1,602
Barbara Sobala		900	110
James Foley		1,200	237
Katarzyna Majewska		862	105
Natalia Bożek		867	86
Former members of the Management Board			
David Mouille	- to 31 January 2020	120	954
Czesław Piasek	- to 31 March 2018	0	12
Witold Zieliński	- to 19 February 2018	0	7
		9,157	**3,689**

The table below presents the amount of variable remuneration components in the form of cash awards (in PLN thousand) paid in 2020 to the members of the Bank's Management Board.

		Cash awards for years:			
		2019	2018	2017	2016
Sławomir S. Sikora		470	141	204	339
Maciej Kropidłowski		468	295	252	152
Barbara Sobala		173	39	40	40
James Foley		327	0	0	0
Katarzyna Majewska		138	39	40	39
Natalia Bożek		82	18	0	0
Former members of the Management Board					
David Mouille	- to 31 January 2020	526	137	143	136
Czesław Piasek	- to 31 March 2018	0	13	50	50
Witold Zieliński	- to 19 February 2018	0	0	52	55
		2,184	**682**	**780**	**810**

The table below presents the amount of the variable remuneration components in the form of capital awards (in PLN thousand) paid in 2020 to the members of the Bank's Management Board.

		Capital rewards for the years:			
		2019	2018	2017	2016
Sławomir S. Sikora		0	369	140	201
Maciej Kropidłowski		332	167	127	90
Barbara Sobala		123	22	20	24
James Foley		232	0	0	0
Katarzyna Majewska		98	22	20	23
Natalia Bożek		59	10	0	0
Former members of the Management Board					
David Mouille	- to 31 January 2020	374	77	72	81
Czesław Piasek	- to 31 March 2018	0	7	25	29
Witold Zieliński	- to 19 February 2018	0	0	26	32
		1,219	**675**	**432**	**481**

The table below presents the amount of fixed remuneration components (in PLN thousand) paid to the members of the Bank's Management Board in 2019.

		Base salary	Other benefits
Sławomir S. Sikora		2,391	363
Maciej Kropidłowski		1,733	279
David Mouillé		1,444	554
Barbara Sobala		867	106
James Foley	- since 1 February 2019	1,018	341
Katarzyna Majewska		852	104
Natalia Bożek		867	89
Former members of the Management Board			
Czesław Piasek	- to 31 March 2018	0	25
Witold Zieliński	- to 19 February 2018	0	151
Iwona Dudzińska	- to 31 July 2015	0	4
		9,172	**2,017**

The table below presents the amount of variable remuneration components in the form of cash awards (in PLN thousand) paid in 2019 to the members of the Bank's Management Board.

		Cash awards for years:			
		2018	2017	2016	2015
Sławomir S. Sikora		445	198	331	347
Maciej Kropidłowski		560	244	148	265
David Mouillé		586	139	133	53
Barbara Sobala		166	39	39	35
Katarzyna Majewska		168	39	38	0
Natalia Bożek		152	0	0	0
Former members of the Management Board					
Czesław Piasek	- to 31 March 2018	55	49	48	47
Witold Zieliński	- to 19 February 2018	27	50	53	57
Brendan Carney	- to 22 June 2015	0	0	0	71
Iwona Dudzińska	- to 31 July 2015	0	0	0	30
		2,159	**758**	**791**	**906**

The table below presents the amount of variable remuneration components in the form of capital awards (in PLN thousand) paid in 2019 to the members of the Bank's Management Board.

		Capital rewards for the years:			
		2018	2017	2016	2015
Sławomir S. Sikora		0	566	267	306
Maciej Kropidłowski		464	173	119	233
David Mouillé		486	98	107	46
Barbara Sobala		138	27	31	31
Katarzyna Majewska		139	28	31	0
Natalia Bożek		65	0	0	0
Former members of the Management Board					
Czesław Piasek	- to 31 March 2018	46	35	39	42
Witold Zieliński	- to 19 February 2018	0	36	43	50
Brendan Carney	- to 22 June 2015	0	0	0	64
Iwona Dudzińska	- to 31 July 2015	0	0	0	27
		1,338	**962**	**637**	**799**

The table below presents the amount of total remuneration (in PLN thousand) paid to members of the Bank's Supervisory Board in 2020.

	Remuneration for the function performed	Remuneration for participation in Supervisory Board committees	Reimbursement of social security contributions
Andrzej Olechowski	192	210	0
Igor Chalupec	96	180	9
Stanisław Sołtysiński	96	120	0
Shirish Apte	96	120	0
Marek Kapuściński	96	180	3
Anna Rulkiewicz	96	120	8
Barbara Smalska	96	210	0
	768	**1,140**	**20**

The table below presents the amount of the total remuneration (in PLN thousand) paid to members of the Bank's Supervisory Board in 2019.

		Remuneration for the function performed	Remuneration for participation in Supervisory Board committees	Reimbursement of social security contributions
Andrzej Olechowski		192	210	0
Igor Chalupec		12	23	0
Stanisław Sołtysiński		96	120	0
Shirish Apte		96	120	0
Marek Kapuściński		96	180	7
Anna Rulkiewicz	- since 5 June 2019	47	22	0
Barbara Smalska	- since 5 June 2019	47	39	0
Former members of the Supervisory Board				
Marek Belka	- to 4 June 2019	36	56	0
Grzegorz Bielicki	- to 4 June 2019	49	107	0
		671	**877**	**8**

3. Total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2020 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
Management Board				
Sławomir S. Sikora	-	-	13,204	496
James Foley	-	-	6,416	241
Dennis Hussey	-	-	626	24
Katarzyna Majewska	-	-	29	1
Supervisory Board				
Andrzej Olechowski	2,200	8,800	-	-
Frank Mannion	-	-	33,106	1,244
Stephen R. Volk	-	-	80,091	3,010
Marek Kapuściński	-	-	140	5
Kristine Braden	-	-	2,917	110
Jenny Grey	-	-	1,279	48

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2019 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
Management Board				
Sławomir S. Sikora	-	-	13,204	459
James Foley	-	-	5,747	200
Katarzyna Majewska	-	-	29	1
Supervisory Board				
Andrzej Olechowski	2,200	8,800	-	-
Shirish Apte	-	-	18,172	632
Frank Mannion	-	-	33,106	1,152
Stephen R. Volk	-	-	101,301	3,525
Zdenek Turek	-	-	36,030	1,254

As at 31 December 2020 and 31 December 2019, no member of the Management Board and the Supervisory Board was a shareholder of a subsidiary of the Bank.

4. Agreements between the Bank and members of the Management Board that provide for compensation in case of their resignation or dismissal without reason or as a result of the Bank's takeover

In terms of employment relationship, there is only one employment agreement, among employment agreements between the Bank and a Management Board Members, which provides for cash compensation following its termination.

Each of the Management Board Members signed a separate non-competition agreement with the Bank. A relevant paragraph in each of these agreements specifies that the Management Board Member must refrain from conducting business activities competitive to the Bank in the period of 12 months (6 months in case of one of the Management Board Members) following termination of the employment agreement with the Bank and that the Bank will pay relevant compensation to the Management Board Member.

5. Management policy

The management policy of the Bank did not change in 2020. The policy is described in the Note to the Annual Consolidated Financial Statements of the Capital Group of the Bank.

XI. Information on pending court proceedings

In 2020 there was no single proceeding regarding receivables and liabilities of the Bank or its subsidiary, pending in court, public administration authority or an arbitration authority, the value of which would be significant. A detailed description of pending court proceedings is provided in Note 39 to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended December 31, 2020.

XII. Agreements concluded with the registered audit company

On 7 December 2018 the Supervisory Board of the Bank appointed the auditor: KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa [KPMG Audyt limited liability partnership] with its registered office in Warsaw, operating at the following address: ul. Inflancka 4A, 00-189 Warszawa entered into the list of entities authorized to audit financial statements under No. 3546, to conduct an audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for years 2019 - 2021. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa was selected in compliance with the applicable laws and auditing standards.

The Bank used the services of KPMG Audit Spółka z ograniczoną odpowiedzialnością sp. k. with respect to auditing and reviewing stand-alone and consolidated financial statements also for 2017 and 2018.

In order to meet the requirements contained in Article 130 section 1 of the Act on statutory auditors, audit firms and public supervision (Journal of Laws of 2017, item 1089, hereinafter referred to as the „Act"), the Bank, as a public interest entity, has implemented for application on the basis of resolutions of the Supervisory Board of the Bank:

- Policy for selecting an audit firm to audit financial statements of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. and
- Policy for the service by the audit firm, by entities affiliated to that audit firm and by a member of the audit firm's network of permitted non-audit services of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A.

The auditor's net fees under the agreements (paid or payable) for the years 2020 and 2019 are presented in the table below:

PLN'000	For the year	
	2020	2019
Bank (the parent company) audit fees (1)	480	480
Bank (the parent company) review fees (2)	199	199
Subsidiary companies audit fees (3)	236	246
Other assurance fees (4)	336	300
	1,251	**1,225**

(1) The audit fees include fees paid or payable for the audit of the annual stand-alone financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank.

(2) The review fees include fees paid or payable for the review of the semi-annual stand-alone financial statements of the Bank and the semi-annual consolidated financial statements of the Capital Group of the Bank.

(3) The audit fees include fees paid or payable for the audit of the financial statements of the Bank's subsidiaries.

(4) The fees for other assurance services include all other fees paid to the auditor. These fees include assurance services related to the audit and review of the financial statements not mentioned in points (1), (2) and (3) above.

XIII. Subsequent events

On January 1, 2021, came into force EBA's guidelines on the application of the definition of default specified 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 amendments is aimed at standardizing the approach on the European market, thus ensuring the comparability of the levels of non-working loans presented by financial institutions. The main amendments 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 estimated impact of the implementation of the EBA guidelines on the Group's credit risk costs was not significant.

After 31 December 2020 there were no other major events undisclosed in these report on activities, that could have a significant influence on the net result of the Group.

XIV. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank's Management Board, composed of: Mr. Sławomir S. Sikora, President of the Management Board; Ms. Natalia Bożek, Vice-Presidend of the Management Board; Mr. Maciej Kropidłowski, Vice-President of the Management Board, Mr. Dennis Hussey, Vice-President of the Management Board; Ms. Barbara Sobala, Vice-President of the Management Board; Mr. James Foley, Member of the Management Board; Ms. Katarzyna Majewska, Member of the Management Board, the annual financial data and the comparative data presented in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2020 were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of the assets and the financial position as well as the financial profit or loss of the Bank. The Annual Report on the Activities of Bank Handlowy w Warszawie S.A and the Capital Group of Bank Handlowy w Warszawie S.A. for 2020 contained in the annual financial statements is a true representation of the development, achievements and situation (together with a description of the main risks) of the Bank in 2020.

Other information required by the Regulation of the Minister of Finance of 29 March 2018 on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof (Journal of Laws No. from 2018 item 757, as amended), in particular transactions with related companies and guarantees and sureties granted are included in the Annual Consolidated Financial Statements of the Capital Group of the Bank.

Signatures of Management Board Members

23.03.2021	Sławomir S. Sikora	President of the Management Board	
Date	Name	Position/function	Signature

23.03.2021	Natalia Bożek	Vice-President of the Management Board	
Date	Name	Position/function	Signature

23.03.2021	Dennis Hussey	Vice-President of the Management Board	
Date	Name	Position/function	Signature

23.03.2021	Maciej Kropidłowski	Vice-President of the Management Board	
Date	Name	Position/function	Signature

23.03.2021	Barbara Sobala	Vice-President of the Management Board	
Date	Name	Position/function	Signature

23.03.2021	James Foley	Member of the Management Board	
Date	Name	Position/function	Signature

23.03.2021	Katarzyna Majewska	Member of the Management Board	
Date	Name	Position/function	Signature

Assessment of the Supervisory Board with justification concerning the Management's Report on activities and Financial statements for 2020

The Supervisory Board of Bank Handlowy w Warszawie SA (further referred to as "Supervisory Board") on the basis of Article 382 §3 of the commercial code with § 70 sec. 1 pt. 14
as well as § 71 sec. 1 pt. 12 of the "Ordinance of the Minister
of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by non-Member states as equivalent", positively assessed the documents:

1. the Annual financial statements of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2020
2. the Annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2020
3. the Management's Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the year 2020 including Report on activities of Bank Handlowy w Warszawie S.A.

as consistent with the books and documents as well as with the factual status.

The opinion of the Supervisory Board has been based on the content of the aforementioned reports presented by the Management Board of Bank Handlowy w Warszawie SA, reports
of the independent auditor from the audit of standalone and consolidated financial statements as well as the recommendation of the Audit Committee.

Audit of the financial statements have been conducted by KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, with its seat in Warsaw, which has been elected by the Supervisory Board to conduct the audit of standalone financial statements of Bank Handlowy w Warszawie SA and consolidated financial statements of the Group of Bank Handlowy w Warszawie SA for the year ended 31 December 2020.

According to the statutory auditor's opinion both standalone,
and consolidated financial statements and give true and fair view of the financial results and operations of the Bank and the Bank Group as of 31 December 2020, financial results of activities and cash flows for the year ended on that date and have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union and the accounting policies. Moreover standalone and consolidated financial statements are compliant, in all material aspects, as to the form and content with the applicable laws and the Statute of Bank Handlowy w Warszawie SA.

Additionally in the opinion of the independent auditor, the Management Board's Report on activities of the Group of Bank Handlowy w Warszawie S.A. for 2020 prepared together with the Report on activities of Bank Handlowy w Warszawie SA have been prepared, in all material aspects, in accordance with applicable laws and is consistent with information included in the consolidated financial statements.

On behalf of the Supervisory Board

Andrzej Olechowski, PhD

Chairman of the Supervisory Board of Bank Handlowy
w Warszawie SA

Warsaw, 24 March 2021

The Supervisory Board's Resolution, in connection with § 70.1.8 and § 71.1.8 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent

The Supervisory Board, in connection with § 70.1.8 and § 71.1.8 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent, hereby resolves as follows:

a) The provisions regarding the appointment, composition and operation of the Audit Committee of the Bank's Supervisory Board have been complied with, including those regarding the fulfillment of independence criteria and the requirements as to knowledge and skills in the field of finance, accounting or audit of financial statements by its members;

b) The Audit Committee of the Bank's Supervisory Board has fulfilled the audit committee tasks as provided for in the applicable regulations.

On behalf of the Supervisory Board

Andrzej Olechowski, PhD

Chairman of the Supervisory Board of Bank Handlowy
w Warszawie SA

Warsaw, 24 March 2021

Information of the Management Board of Bank Handlowy w Warszawie SA on the selection of the audit firm to audit annual financial statements of the Bank and the Capital Group of the Bank

The Management Board of Bank Handlowy w Warszawie SA, in connection with § 70.1.7 and § 71.1.7 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations
of a Non-Member State as Equivalent, The Supervisory Board of Bank Handlowy w Warszawie S.A. (hereinafter referred to as the Supervisory Board), based on the Resolution of the Supervisory Board dated 24 March 2001 on the selection of the audit firm to audit annual financial statements of the Bank and the Capital Group of the Bank, hereby resolves as follows:

a) The selection of KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as an audit firm to audit annual financial statements of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. for 2020, was duly carried out in compliance with the regulations, including those governing the audit firm selection and selection procedure;

b) KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa and the members of the audit team have satisfied the conditions to issue an impartial and independent report from audit of annual financial statements in accordance with the applicable regulations, auditing standards and principles of professional ethics;

c) The regulations on rotation of audit firm and key auditor as well as mandatory breaks in audit engagements have been complied with;

d) Bank Handlowy w Warszawie S.A. has the audit firm selection policy and the policy regarding the provision of additional non-audit services for Bank Handlowy w Warszawie S.A. by the audit firm, its affiliate or member of the audit firm's network, including any services that are conditionally exempted from the ban on provision by the audit firm;

Signatures of Management Board Members

24.03.2021	Sławomir S. Sikora	President of the Management Board	
Date	Name	Position/function	Signature

24.03.2021	Natalia Bożek	Vice-President of the Management Board	
Date	Name	Position/function	Signature

24.03.2021	Maciej Kropidłowski	Vice-President of the Management Board	
Date	Name	Position/function	Signature

24.03.2021	Barbara Sobala	Vice-President of the Management Board	
Date	Name	Position/function	Signature

24.03.2021	Dennis Hussey	Vice-President of the Management Board	
Date	Name	Position/function	Signature

24.03.2021	Katarzyna Majewska	Member of the Management Board	
Date	Name	Position/function	Signature

24.03.2021	James Foley	Member of the Management Board	
Date	Name	Position/function	Signature