Information on capital adequacy of the Capital Group of Bank Handlowy w Warszawie S.A. as of 31 March 2023

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

Introduction

This document has been laid down to execute The Disclosure Policy of Bank Handlowy w Warszawie S.A. on capital adequacy[1], to meet the disclosure requirements of:
- 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 (EU) No 575/2013),
- Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876,
- as well as of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC ("CRD")
- and on the basis of other EU Commission regulations imposing regulatory and implementing technical standards in the area of information disclosure.

The objective of the document is presenting to the third parties, especially customers of the Capital Group of Bank Handlowy w Warszawie S.A. (hereinafter referred to as: Group) and financial market participants, the Group's risk management strategy and processes, information on the capital structure, exposure to risk and capital adequacy, which enable thorough assessment of the Group's financial stability.

The amounts are presented in PLN, rounded to the nearest thousand.

[1] "The Disclosure Policy of Bank Handlowy w Warszawie S.A. on capital adequacy and other information to be disclosed" laid down by the Management Board and approved by the Supervisory Board are available at the Bank's website www.citihandlowy.pl in the "Investor Relations" section.

I. Key metrics

Below we present the key measures and indicators concerning the level of own funds, capital requirements, financial leverage, coverage of net proceeds and stable financing on a consolidated basis are presented below in the table EU KM1.

Table EU KM1 - Key metrics template

		a	b	c	d	e
		31.03.2023	31.12.2022	30.09.2022	30.06.2022	31.03.2022
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1) capital	5,433,171	5,240,801	5,111,171	5,073,024	5,209,344
2	Tier 1 capital	5,433,171	5,240,801	5,111,171	5,073,024	5,209,344
3	Total capital	5,433,171	5,240,801	5,111,171	5,073,024	5,209,344
Risk-weighted exposure amounts						
4	Total risk exposure amount	30,291,621	29,710,682	28,693,282	28,624,347	29,202,694
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio (%)	17.94	17.64	17.81	17.72	17.84
6	Tier 1 ratio (%)	17.94	17.64	17.81	17.72	17.84
7	Total capital ratio (%)	17.94	17.64	17.81	17.72	17.84
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)						
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	-	-	-	-	-
EU 7b	of which: to be made up of CET1 capital (percentage points)	-	-	-	-	-
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	-	-	-	-	-
EU 7d	Total SREP own funds requirements (%)	8.00	8.00	8.00	8.00	8.00
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	2.50	2.50	2.50	2.50	2.50
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9	Institution specific countercyclical capital buffer (%)	0.04	0.04	0.03	0.02	0.02
EU 9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	0.25	0.25	0.25	0.25	0.25
11	Combined buffer requirement (%)	2.79	2.79	2.78	2.77	2.77
EU 11a	Overall capital requirements (%)	10.79	10.79	10.78	10.77	10.77
12	CET1 available after meeting the total SREP own funds requirements (%)	9.94	9.64	9.81	9.72	9.84
Leverage ratio						
13	Total exposure measure	73,372,875	71,791,807	72,494,606	71,105,017	73,733,190
14	Leverage ratio (%)	7.40	7.30	7.05	7.13	7.07
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-	-	-	
EU 14b	of which: to be made up of CET1 capital (percentage points)	-	-	-	-	
EU 14c	Total SREP leverage ratio requirements (%)	3.00	3.00	3.00	3.00	
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)						
EU 14d	Leverage ratio buffer requirement (%)	-	-	-	-	
EU 14e	Overall leverage ratio requirement (%)	3.00	3.00	3.00	3.00	3.00
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	33,252,990	31,565,655	30,813,442	31,020,985	30,942,880
EU 16a	Cash outflows - Total weighted value	57,926,756	60,728,979	58,148,368	58,709,579	57,226,538
EU 16b	Cash inflows - Total weighted value	37,449,240	41,430,227	40,332,470	41,951,756	41,880,258
16	Total net cash outflows (adjusted value)	20,477,516	19,341,066	18,034,184	17,230,683	15,949,008
17	Liquidity coverage ratio (%)	162.39	163.21	170.86	180.03	194.01
Net Stable Funding Ratio						
18	Total available stable funding	41,400,409	38,339,768	37,313,621	34,986,849	36,117,988
19	Total required stable funding	20,344,386	21,617,855	20,603,899	20,033,829	20,976,521
20	NSFR ratio (%)	203.50	177.35	181.10	174.64	172.18

Due to the fact that the transitional provisions regarding the temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income in accordance with Art. 468 of the CRR expired on December 31, 2022, the capital ratios reported as of March 31, 2023, including the leverage ratio and the total capital ratio, reflect all unrealized gains and losses measured at fair value through other comprehensive income.

Total capital ratio of the Group taking into account the retrospective recognition in own funds of part of the profit in connection with the resolution of the Ordinary General Meeting of Shareholders of the Bank described in the note 18 "Paid (or declared) dividends" to Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the first quarter of 2023, in accordance with the EBA position expressed Q&A 2018_4085, is 19,2% on March 31, 2023 and 19,0% on December 31, 2022, while Leverage ratio respectively 7,9% and 7,8%.

II. Capital requirements

Total Capital 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 with amendments ("CRR").

Data on the Group's capital adequacy, value of the risk weighted assets and the regulatory capital requirements for above-mentioned risks in accordance with the requirements of Article 438 of CRR are presented in the table below, in line with the EU OV1 template presented in the Commission Implementing Regulation (EU) 2021/637.

Table EU OV1 – Overview of total risk exposure amounts

		Total risk exposure amounts (TREA)		Total own funds requirements
		a		c
		31.03.2023	31.12.2022	31.03.2023
1	**Credit risk (excluding CCR)**	**22,028,473**	**21,427,038**	**1,762,278**
2	Of which the standardised approach	22,028,473	21,427,038	1,762,278
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple riskweighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	**Counterparty credit risk - CCR**	**1,770,867**	**1,917,383**	**141,669**
7	Of which the standardised approach	1,701,498	1,822,510	136,120
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	29,238	44,416	2,339
EU 8b	Of which credit valuation adjustment - CVA	40,131	50,456	3,211
9	Of which other CCR	0	-	0
15	**Settlement risk**	**-**	**-**	**-**
16	**Securitisation exposures in the non-trading book (after the cap)**	**168,249**	**172,970**	**13,460**
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	168,249	172,970	13,460
EU 19a	Of which 1250% / deduction	-	-	-
20	**Position, foreign exchange and commodities risks (Market risk)**	**1,349,456**	**1,218,715**	**107,956**
21	Of which the standardised approach	1,349,456	1,218,715	107,956
22	Of which IMA	-	-	-
EU 22a	**Large exposures**	**-**	**-**	**-**
23	**Operational risk**	**4,974,577**	**4,974,577**	**397,966**
EU 23a	Of which basic indicator approach	-	-	-
EU 23b	Of which standardised approach	4,974,577	4,974,577	397,966
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	478,138	718,420	38,251
29	**Total**	**30,291,621**	**29,710,682**	**2,423,330**

In the first quarter of 2023 the Group fulfilled the capital adequacy requirements. Total capital ratio is calculated according to respective regulations.

III. Information related to the liquidity

Liquidity risk management

Liquidity risk is the risk that the Group may be unable to meet on time its financial obligations towards a client, lender or an investor as a result of the mismatches in cash flows due to the balance and off-balance sheet positions that the Group has at a given date.

The liquidity risk management policy of the Group primarily aims to ensure and maintain the ability to meet both: current and future financial obligations (also in the event of extremely stressed conditions), while minimizing the cost of obtaining liquidity. This is possible due to the proper identification of the liquidity risk, its constant monitoring as well as the establishment of limits with full understanding of: the macroeconomic environment, the Group's business profile, regulatory requirements as well as, strategic and business objectives within available liquidity resources.

The liquidity risk strategy, including the acceptable risk level, assumed balance sheet structure and financing plan is approved by the Bank's Management Board and then accepted by the Bank's Supervisory Board. The management of the Group's balance sheet structure is managed by the Asset and Liability Management Committee (ALCO). The organization of the liquidity risk management process that exists in the Group, is aimed to ensure the separation of functions between entities that conduct transactions (affecting the liquidity risk), monitor and control the risk. The management of intraday, current and short-term liquidity is a task of the Financial Markets and Corporate Banking Sector, while the management of medium and long-term liquidity lies on ALCO responsibilities. Reporting functions are performed by the Risk Strategy and Capital Department, while the monitoring and control of the level of liquidity risk is performed by the Market Risk Department. Activities of companies from the Group of the Bank in the area of liquidity risk management are supervised by the Bank by way of delegating its employees to supervisory bodies (supervisory boards) of such affiliates. Supervision over liquidity of companies from the Group of the Bank is exercised by ALCO.

The source data and models used to generate liquidity reports come from independent management systems or other independent record systems. The reports and stress tests are generated on a daily bases by the Risk Strategy and Capital Department - a unit independent from the Financial Markets and Corporate Banking Sector – and sent to the Group's units responsible for the liquidity risk management and to the Market Risk Department, who is responsible for the substantive content of those reports, including recognition of all elements that affect the liquidity risk. On monthly bases, the Market Risk Department prepares the analysis of the Group's liquidity position and liquidity risk level for the Assets and Liabilities Management Committee and the Risk and Capital Management Committee. Daily reports are sent to those who are directly involved in the intraday, current and short-term liquidity management processes. Monthly and quarterly reports are prepared on the basis of daily data and are submitted to the members of the Bank's Committees that deal with medium- and long-term liquidity risk and structural liquidity risk (the Assets and Liabilities Management Committee and the Risk and Capital Management Committee). Such organization ensures:

- current and forward looking information,
- gives a picture of the liquidity risk for the total balance and off-balance sheet and for the relevant for the Bank currencies (PLN, USD, EUR),
- the diversity of prepared reports allows to assess the level of intraday, current and structural liquidity risk,
- obtaining stress test results with a sufficient frequency (daily for the S2 and monthly for the remaining ones),
- comprehensiveness of the approach in the preparation of the liquidity reports covering both balance and off-balance sheet items.

As a part of the liquidity risk management, the Group pursues the following goals:

- providing Group's entities (at any time) with an access to the liquid funds in order to meet all their financial obligations in a timely manner, also in extreme but probable crisis situations,
- maintaining an adequate level of high-quality liquid assets in the event of a sudden deterioration of the Group's liquidity position,

- defining the scale of the liquidity risk undertaken by the Group by establishing, at an appropriate and safe level, internal measures and limits aimed at limiting excessive concentration in the scope of the adopted balance sheet structure or sources of financing,
- constant monitoring of the Group's liquidity situation with respect to the occurrence of an emergency situation in order to launch the Contingency Funding Plan,
- ensuring compliance of the processes operating at the Bank with the Polish and European regulatory requirements regarding liquidity risk management.

As part of liquidity risk management, the Group also applies a number of control mechanisms ensuring compliance with the liquidity risk management principles. They include in particular:

- separation of the function of measuring, monitoring and controlling risks from operating activities, including separation of functions in areas of potential conflicts of interest and areas of increased risk level,
- reviews of processes, performed by persons performing management functions or managerial functions or delegated by these persons,
- control activities integrated into the operations of the Bank's organizational units and adapted to the profile, scale and specificity of the operations of the Bank's organizational units,
- checking that the exposure limits are met and tracking cases when they are breached,
- monitoring the reports with excesses,
- monitoring of risk indicators,
- self-evaluation process,
- monitoring and testing of contingency funding plans and continuity of business plans.

The main source of funding the Group’s activity, including liquid assets portfolio, is deposit base, where at the end of March 2023 deposits constituted 74% of total liabilities. The Group maintains buffer of unencumbered high quality assets at high level, investing in sovereign bonds and liquid bonds issued by highly rated corporations. Every year the Group performs analysis if held bond portfolio is possible to liquid at the market condition, in order to set amount of bonds possible to liquidate within timeframe compliant with local regulatory liquidity measure calculation as well as LCR calculation.

The Group constantly monitors funding concentration. To realize that target, the structure of funds is well diversified in each segment of deposits – retail, small enterprises, corporations and public finance sector. The concentration is monitored in break down for client categories and currencies and it is compared to an early warning triggers approved by ALCO. In addition to that there is an early warning trigger for net funding on wholesale market applied.

The Group is one of the biggest market participants on Polish derivative market, however net flows on that instruments in 30 days are irrelevant for LCR. Simultaneously the Group’s methodology of evaluating potential outflows of margin deposits from the Group to other entities or potential decrease of margin deposits kept by Bank’s customers bases on maximal outflows within last 24 months and it secures Bank from underestimation of outflows within 30 days.

In accordance with the Regulation No. 575/2013 the Group monitors and maintains an adequate level of Liquidity Coverage Ratio (LCR). As of March 31, 2023 LCR was 175% and was 17 percentage points higher than as of December 31, 2022. The change in the ratio is primarily influenced by changes in the level of liquid assets and the level of deposits from enterprises.

The Group recognizes that the depth of the FX swap market allows the assumption that the existing mismatch (the excess of FX liabilities over assets) can be easily eliminated by means of current FX swaps. Additionally, the Group does not identify other significant components of the net outflow coverage ratio than those included in the net coverage coverage disclosure formula.

Table EU LIQ1 – Quantitative information of LCR

Scope of consolidation: consolidated		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on	31.03.2023	31.12.2022	30.09.2022	30.06.2022	31.03.2023	31.12.2022	30.09.2022	30.06.2022
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					33,252,990	31,565,655	30,813,442	31,020,985
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	19,439,002	19,198,919	18,885,815	18,469,220	1,617,793	1,573,661	1,521,513	1,470,864
3	Stable deposits	10,165,259	10,285,212	10,384,012	10,358,191	508,263	514,261	519,201	517,910
4	Less stable deposits	9,273,743	8,913,707	8,501,803	8,111,028	1,109,530	1,059,400	1,002,312	952,955
5	Unsecured wholesale funding	31,447,084	29,963,860	28,829,213	28,538,183	13,278,181	12,655,989	11,688,201	11,224,219
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	18,996,919	18,533,841	18,958,215	19,876,067	4,749,230	4,633,460	4,739,554	4,969,017
7	Non-operational deposits (all counterparties)	12,450,166	11,430,019	9,870,998	8,662,116	8,528,951	8,022,529	6,948,648	6,255,202
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	51,764,486	55,392,946	53,955,673	55,343,984	41,557,925	45,215,970	43,707,692	44,928,488
11	Outflows related to derivative exposures and other collateral requirements	40,632,982	44,297,695	42,785,988	43,992,516	40,632,982	44,297,695	42,785,988	43,992,516
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	11,131,504	11,095,251	11,169,685	11,351,468	924,944	918,275	921,704	935,972
14	Other contractual funding obligations	1,145,408	952,327	885,423	731,376	1,145,408	952,327	885,423	731,376
15	Other contingent funding obligations	3,274,494	3,310,328	3,455,390	3,546,325	327,449	331,033	345,539	354,633
16	TOTAL CASH OUTFLOWS					57,926,756	60,728,979	58,148,368	58,709,579
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	904,971	421,982	453,805	165,693	-	-	-	22
18	Inflows from fully performing exposures	2,687,030	2,542,763	2,339,912	1,888,281	2,436,437	2,250,032	2,028,258	1,572,185
19	Other cash inflows	35,012,803	39,180,195	38,304,212	40,379,549	35,012,803	39,180,195	38,304,212	40,379,549
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	38,604,805	42,144,941	41,097,929	42,433,524	37,449,240	41,430,227	40,332,470	41,951,756
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75% cap	38,604,805	42,144,941	41,097,929	42,433,524	37,449,240	41,430,227	40,332,470	41,951,756
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					33,252,990	31,565,655	30,813,442	31,020,985
22	TOTAL NET CASH OUTFLOWS					20,477,516	19,341,066	18,034,184	17,230,683
23	LIQUIDITY COVERAGE RATIO					162.39	163.21	170.86	180.03

Signatures of required persons

Urszula Lewińska	Natalia Bożek
Director of Financial Reporting, Control and Tax Department	Vice-President of Management Board - CFO
10.05.2023	10.05.2023
(signed in Polish version)	(signed in Polish version)