INFORMATION ON CAPITAL ADEQUACY OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. AS AT 31 DECEMBER 2020

MARCH 2021

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, 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").

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. This document complements information included in:

- the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A for the financial year ended 31 December 2020,
- the Report on Activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2020 and refers to them wherever it is relevant.

Pursuant to 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 and amending Regulation (EU) No 648/2012, Bank publishes disclosures on capital adequacy on the basis of consolidated data as of 31 December 2020 the Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. for 2020.

When the disclosures required by the Regulation (EU) No 575/2013 of the European Parliament and of the Council are published in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A for the financial year ended 31 December 2020, this document refers to the number of explanatory note, which discloses required information.

The values presented in the disclosures are expressed in thousands of zlotys, except for situations in which a different unit of measurement was used, detailed in the data presented.

The terms used in the document shall mean the following:

Regulation No. 575/2013 / CRR - 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 with amendments;

Commission Implementing Regulation (EU) No. 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council;

[1] The Disclosure Policy of Bank Handlowy w Warszawie S.A. on capital adequacy 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.

Commission Delegated Regulation (EU) No. 183/2013 of 20 December 2013 supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments;

Regulation on risk management and remuneration policy - Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks (D.U. 2017, item 637);

Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile;

Commission Implementing Regulation (EU) No. 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council;

Commission Implementing Regulation (EU) No. 2015/1555 of 28 May 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440;

The law on macro-prudential oversight - The law of 5 August 2015 on macro-prudential oversight of the financial system and crisis management in the financial system (Official Journal from 2015, item 1513);

Commission Delegated Regulation (EU) 2017/2295 of 4 September 2017 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets;

Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 of 04/08/2017;

Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds (EBA/GL/2019/01) - 16/01/2019;

Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State;

Guidelines on disclosure of unsupported and restructured exposures - Guidelines on disclosures of unsupported and restructured exposures - EBA disclosure guidelines for unsupported and restructured exposures of December 17, 2018 (EBA/ GL/2018/10).

Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures

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, and Regulation (EU) No 648/2012,

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 regards certain adjustments in response to the COVID-19 pandemic

Commission Delegated Regulation (EU) No. 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) No 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items.

I. Risk management objectives and policies

The risk management process is consistent within the Group, including Bank Handlowy in Warsaw S.A. and its Subsidiaries (Dom Maklerski Banku Handlowego S.A., Handlowy Leasing Sp. z o.o.), and excludes special purpose vehicles, companies in the process of liquidation, as well as units not conducting current, statutory activity.

The aim of the risk management strategy of the Bank is to take a balanced risk with shared responsibility, without forsaking individual accountability. Taking a balanced risk means proper identification, measurement and risk aggregation, and the establishment of limits with full understanding of both the macroeconomic environment, the profile of the Group's activity, requirement to meet regulatory standards, as well as strategic and business objectives within available resources, capital and liquidity, maximizing return on capital employed.

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 Bank'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 Management Sector, Legal Division; Human Resources Division;
- Level 3 i.e.: Internal Audit that provides an independent assessment of risk management processes and internal control system.

The Management Boards of the Bank entities ensure that Group's risk management structure reflects Risk Profile and the functions of risk valuation, monitoring and control are separated from activity associated with risk-taking.

Risk management is implemented based on the strategies, policies and procedures relating to taking, monitoring and limiting the risk, standards for the identification, valuation, acceptance, control, monitoring and reporting of risk to which the Group is or may be exposed at.

Risk management strategies, policies and procedures are regularly reviewed to ensure compliance with applicable laws, regulations, supervisory institutions and regulatory recommendations, internal regulations, business and market practices and the adequacy of the scale, nature and complexity of the Group's operations.Strategies and processes of risk management, as well as the structure and organization of units managing the appropriate risks and solutions used by the Group on measurement and reporting of those risks, are presented in details in the note 3 „Risk management" to the Annual

Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2020.

Ensuring the adequacy of risk management arrangements of the Group and confirmation, that the risk management systems used are appropriate from the institution profile and strategy point of view, takes place within the annual capital planning process.

As per the current „Principles of prudent and stable risk management in the Capital Group of Bank Handlowy w Warszawie S.A." Risk and Capital Management Committee performs not less frequently than once a year, within the process of internal capital assessment and maintenance, an adequacy assessment of the solutions to the actual size and complexity of the Group, including its profile and strategy. The conclusions of such review are submitted to the Management Board for approval.

The Management Board has confirmed that the process of internal capital assessment and maintenance and risk management systems in the Group are appropriate to the nature, scale and complexity of its activities.

As part of the Group's annual capital planning process, a general risk profile of the Group (Risk Register) is determined, taking into account the business model, business strategy assumptions, the current and expected macroeconomic and business environment.

The Group's risk profile includes a list of risk types identified on the basis of inherent risk types, together with a description of implemented control mechanisms, enabling their assessment on a residual basis.

The process of the Group risk profile determination includes in particular:

- identification of risks in the Group's operations, based on the experience, expertise, analysis of the macroeconomic environment, regulatory and competitive position of the Group, taking into account the profile and internal procedures;
- for identified risks: determination of the risk owner, processes and controls mitigating these risks and defining of quantitative measures for these types of risks for which it is possible;
- determination of significant risks for the Group for the year by the Management Board.

The Group manages all types of risk that are identified in its activities, while some of them considering as significant.

For measurable risks, considered as significant, the Group estimates and allocates capital. The Group may decide to create capital buffers for significant, difficult to measure risks.

Within the risk profile assessment in 2020 the following risks were identified as significant:

- Credit risk - risk of potential losses arising from a client event of default or insolvency taking into account risk mitigation techniques applied to a product or individual credit;
- Counterparty Risk - the risk of potential losses arising from changes in market prices that occur, when the client is unable to meet its contractual obligations. This risk is part of credit risk generated on such activities as derivative transactions;

- Market Risk - risk of loss resulting from potential fluctuations in the market value of the exposure as a result of the changes in underlying market risk factors. The key factors are: interest rates, FX rates, securities' prices, commodities' prices and their volatilities;
- Interest rate risk in banking book - risk of potential negative impact of the changes in market risk factors on the Group's interest income;
- Liquidity Risk - risk of a Group inability to meet its obligations in due time and without incurring financial losses, which occurs due to cash flow mismatches (cash flow gap), limited asset marketability or systematic market changes;
- 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;
- Compliance risk - a risk of negative effects of a failure to observe the law, supervisory regulations, internal Group's normative acts and market standards, notably:
  a) imposition of legal or regulatory sanctions, including the imposition of financial penalties by competent authorities and regulators or of recommendations requiring the Bank to comply with them, which in turn may involve financial outlays and resources dedicated to those actions;
  b) financial or reputational losses (loss of credibility in the eyes of trade partners) to which the Bank is exposed as a result of non-compliance with the laws, supervisory regulations, regulatory recommendations, the Bank's internal normative acts and market standards within the Bank's operations;
  c) potential risk of the Bank incurring additional costs arising, for instance, from imposed penalties, sustained losses and cancelled contracts;

The risks identified within the Group's profile as significant are the basis for the risk appetite setting for the Group and for the individual business lines. As a result, implementing a specific strategy within the Group's business model, decisions are considered not only for the business purposes, defined in Group's Strategy but also the return on capital employed. Appropriate measures of overall risk level and sets of limits were introduced to ensure that the risk is within the tolerance level.

Additionally the Group manages inter alia the following risks:

- Technological risk - risk of disruption of entity's activity or financial loss due to technical solutions' implementation, utilization or development;
- Misappropriation risk - risk connected with willful act to the detriment of entity by its employees or third parties;
- Money Laundering risk - risk of losses due to involvement in money laundering activity conducted by customers, intermediaries or employees;
- Information Security risk - risk of disruption of Group's activity or financial losses due to insufficient security, privacy, integrity or availability of its data and information;

- Continuity of Business risk - (External and Internal Events - risk of inability of activity continuation by an entity or risk of losses occurring due to extraordinary event, such as earthquake, fires, floods, terrorism, lack of access to the headquarters or media;
- Tax and Accounting risk - risk of negative economic effects due to improper accountancy records, reporting, mistaken calculation of tax obligations or their delayed payments;
- Product risk - risk connected with the sale of product (service), which does not meet customers' requirements and needs, is not compliant with the law and regulations, generates additional risks (for an entity and its customers), does not have adequate support of the employees and processes;
- Legal risk - risk of losses occurring due to instability of legal regulations, changes of law and regulations, improper structure of legal relationships, quality of legal documentation, unfavourable conclusions of courts or other bodies in disputed cases, conducted with other entities;
- Models risk - potential loss, which Group may be exposed at, following decision based on data generated by models utilized by the Group, as a result of errors in models' development, implementation or utilization. Models risk includes risk of reputation loss as a result of errors in Group's financial statement or other officially published documents by Bank due to incorrect output data from a model;
- Staffing Risk - risk connected with recruitment, availability and professional qualification of employees, their fluctuation, ability to adapt to changes in work environment, work culture, absenteeism, tiredness, overtime, lack of utilization of annual leave for a long time, inadequate or not adjusted to the scale and complexity organizational structures, connections of personnel whose responsibilities is crucial from the perspective of the risk occurring in the Group and similar factors, which may lead to operational losses connected with human factor, it also includes the specificity and diversity of conditions related to the management of human resources in different areas of activity;
- Concentration Risk - risk arising from excessive concentration from exposures to clients, groups of connected clients, customers operating in the same economic sector, geographic region, carrying out the same economic activity or trading with similar commodities, entities belonging to Group capital's group (both cross-border and local), exposures denominated in the same currency or indexed to the same currency, used credit risk mitigation techniques as well as large indirect credit exposures such as a single issuer of the security, with the potential to generate losses large enough to imperil Group's financial condition or financial ability to maintain its core operations or lead to a significant change in the risk Group's profile;
- Conduct Risk - risk that the Bank's employees or intermediaries with the help of which the Bank sells financial products - intentionally or negligently - will harm the clients, the integrity of financial markets or the integrity of the Bank.

Risks identified as significant, including quantitative indicators, current trends, and the utilization of capital limits, are monitored as a part of the regular, quarterly information provided to the Risk and Capital Management Committee of the Bank's Management Board and to the Risk and Capital Committee of the Supervisory Board. In 2020, 6 meetings of the Committee at the Bank's Board of

Executives and 4 meetings of the Supervisory Board Committee took place, during which the above elements were analysed.

The Group's goal is to maintain current capital structure in order to address requirements of CRR/CRD on Common Equity Tier 1 regulatory capital. Group, as it is stated in the strategy, will continue to be adequately capitalized with diversified sources of income. Considering approved level of Overall Risk Appetite, the Group will maintain a target regulatory capital adequacy ratio at the level of minimum 14%. In 2020 total TCR amounted to22,5%.

The Bank's Management Board assures compliance of the Bank's activity with the laws and supervisory regulations, Bank's internal normative acts, as well as available market practices and standards, while taking into consideration the Bank's activity on the basis of the laws of another country and the Bank's ties with other entities that could impair effective management of the Bank. The Bank's Management Board – within the framework of assurance by the internal control system of compliance with laws, supervisory regulations, the Bank's internal normative acts and available market practices and standards – is responsible for:

- effective management of compliance risk at the Bank;
- developing the Compliance Policy in Bank Handlowy w Warszawie S.A ("Compliance Policy"), ensuring its observance and presenting the Audit Committee of the Supervisory Board with information on compliance, including reports on management of compliance risk;
- taking appropriate actions to eliminate irregularities, including corrective or disciplinary measures, in the case of identification of any irregularities in application of the Compliance Policy.
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As part of assurance by the internal control system of compliance with the laws and supervisory regulations, Bank's internal normative acts, available market practices and ethical standards, the Supervisory Board:

oversees discharge of the duties related to management of compliance risk by the Bank's Management Board;

- oversees the observance of the Bank's internal normative acts, including in the area of the internal control system;
- approves the Compliance Policy;
- approves the Rules and Regulations of Operation of the Compliance Unit;
- assesses, at least once a year, the degree of effectiveness of management of compliance risk by the Bank.

The organizational unit that supports the Bank's Management Board, the Supervisory Board and the Bank's organizational units is the Compliance Unit, whose main objective is to ensure operations of Bank comply with the generally applicable laws and supervisory regulations applicable to the Bank's activity or to the financial services provided by the Bank, the Bank's internal normative acts and with market practices and standards as well as practices and standards developed within Citigroup.

The Compliance Unit shall implement the “Compliance Policy at Bank Handlowy w Warszawie S.A.” (the Policy), containing the basic code of conduct ensuring compliance for the Bank’s employees and explaining key processes identifying compliance risk and enabling management of compliance risk at all levels of the Bank’s organization. The Compliance Policy shall be subject to approval by the Bank’s Management Board and Supervisory Board.
The Compliance Unit prepares the annual Bank’s Compliance Plan (*the Plan*). The Plan is the basis for ensuring compliance at the Bank and addresses the Bank’s supervision over compliance functions performed in subsidiaries of the Bank. The Bank’s Management Board shall express its opinion on and the Bank’s Supervisory Board shall approve the Plan.

The Compliance Unit prepares the “Report on implementation of compliance monitoring and compliance risk management functions at Bank Handlowy w Warszawie S.A.” (*the Report)* for the preceding year. The Compliance Unit Head shall submit the Report to the Bank’s Management Board, to the Audit Committee of the Supervisory Board on the recommendation to the Supervisory Board for the approval and to the Bank’s Supervisory Board for approval.

Information on the recruitment policy for the selection of members of the managing body and the actual state of their knowledge, skills and expertise

In relation to the policy and practices regarding the selection of members of managing bodies and the assessment of their qualifications relevant to the functions they perform and entrusted duties in the Bank operates the "Policy of Assessing of Management Board Members and Key Function Holders at Bank Handlowy w Warszawie S.A." and the "Policy of Assessing the Qualifications of the Members of the Supervisory Board at Bank Handlowy w Warszawie S.A." as well as the established procedure for the selection of members of the Management Board and Supervisory Board, which apply in accordance with the Guidelines of the European Banking Authority and the European Securities and Markets Authority of March 21, 2019 (EBA /GL/2017/12) on the assessment of suitability of members of the management body and key function holders.

Members of the management bodies meeting the requirements referred to in art. 22aa of the Banking Law Act are competent to perform the functions and duties entrusted to them, i.e. to administer the business of a supervised institution, which results from:

- adequate knowledge (arising from their education, completed training, professional titles and otherwise acquired in the course of their career),
- adequate experience (acquired when performing certain functions or occupying certain positions),
- possessing the desired characteristics, including relevant skills,
- a warranty of due performance relating especially to:
- reputation,
- honesty and reliability and the ability to handle bank matters in a prudent and stable manner, including:
- independence of judgment or being characterized by the attribute of being independent and ability to devote sufficient time to perform duties;

The Supervisory Board, taking into account the initial assessment and recommendations of the Nomination and Remuneration Committee, identifies and selects qualified and experienced candidates for members of the Management Board. In the assessment of candidates, above mentioned qualifications and attributes are taken into account, considering:

- the character, magnitude and complexity of the Bank's operations and
- the responsibilities relevant to the role,
- diversity in the composition of the management body.

The aim of the Policy is to define the Bank's diversity management strategy to promote diversity in the selection of Board Members so as to ensure that a wide range of properties and competencies is reached in both external and internal recruitment, succession planning and to assure board members of different gender, age, educational and professional backgrounds are elected in order to acquire different perspectives and experiences and to enable independent judgment issuing and sound decision making in the performance of functions support implementation of the Bank's strategic objectives by ensuring high quality of performance of the function.

The Bank's Management Board is composed of five to nine members, including: the President of the Management Board of the Bank, Vice Presidents of the Management Board of the Bank, with the proviso that at least half of the Members of the Management Board should be Polish citizens.

Members of the Management Board of the Bank are appointed by the Supervisory Board on an individual term of three years, upon a motion of the President of the Management Board or motion of the Member of the Supervisory Board .

The Supervisory Board is composed of five to twelve members evaluated and appointed by the General Meeting taking into account the nature, scale and complexity of the Bank's activities, initial assessment and recommendations of the Nominations and Remuneration Committee. During the selection it is requested to take into account the principles of diversity. Each Member of the Supervisory Board is appointed for a term of three years. At least half of the Members of the Supervisory Board, including its Chairperson, should be Polish citizens.

Members of the Supervisory Board of the Bank are selected from a list of candidates presented by shareholders represented in a General Meeting.

Number of directorships held by members of the management body understood as members of the Management Board: 7.

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 in 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 end of year 2020 deposits constituted 83,9% 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 December 31, 2020 LCR was 182%. 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.

Detailed data on the volume of regulatory measures for 2020, as well as the applied internal measures in the area of the liquidity risk management, are included in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A for the financial year ended 31 December 2020 in explanatory note no. 3 "Risk Management" in the section "Liquidity risk".

As the result of the assessment of the level of liquidity risk and current and structural liquidity ratios (ILAAP), documented during the review of the Risk Management System (meeting of the Risk and Capital Management Committee on March 14, 2019) and the Assets and Liabilities Management Committee in the process of adopting the annual "Financing and Liquidity Plan" (plan for 2020 reviewed and approved in December 2018), the Bank did not recommend any changes to the existing liquidity risk limits, considering that they are appropriate to the profile and scale of the Bank's operations.

Tabela 1. Calculation of the LCR indicator (in MM PLN)

		Total unweighted value				Total weighted value			
Quarter ending on		**2020-03**	**2020-06**	**2020-09**	**2020-12**	**2020-03**	**2020-06**	**2020-09**	**2020-12**
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)					22,699	24,300	26,231	28,815
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	14,324	15,073	15,547	16,019	1,095	1,163	1,203	1,241
3	Stable deposits	8,461	8,877	9,210	9,484	423	444	460	474
4	Less stable deposits	5,863	6,196	6,337	6,535	672	719	742	766
5	Unsecured wholesale funding	26,665	28,196	29,510	30,867	12,565	12,827	12,974	13,607
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	13,852	15,290	17,074	18,615	3,463	3,823	4,269	4,654
7	Non-operational deposits (all counterparties)	12,814	12,905	12,435	12,251	9,102	9,004	8,706	8,953
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					11	9	10	7
10	Additional requirements	31,405	33,998	34,259	35,672	20,176	22,521	22,689	24,070
11	Outflows related to derivative exposures and other collateral requirements	19,198	21,516	21,673	23,048	19,198	21,516	21,673	23,048
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	12,207	12,481	12,586	12,624	979	1,005	1,016	1,023
14	Other contractual funding obligations	968	646	487	411	856	534	391	361
15	Other contingent funding obligations	3,641	3,322	3,018	2,971	364	332	302	297
16	**TOTAL CASH OUTFLOWS**					35,068	37,386	37,569	39,583
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	677	619	545	436	565	506	449	386
18	Inflows from fully performing exposures	1,465	1,680	1,688	1,590	888	1,129	1,122	1,033
19	Other cash inflows	17,883	19,982	19,963	21,208	17,883	19,982	19,963	21,208
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**	20,026	22,281	22,197	23,234	19,336	21,617	21,534	22,627
EU-20a	**Fully exempt inflows**	-	-	-	-	-	-	-	-
EU-20b	**Inflows Subject to 90% Cap**	-	-	-	-	-	-	-	-
EU-20c	**Inflows Subject to 75% Cap**	20,026	22,281	22,197	23,234	19,336	21,617	21,534	22,627
WARTOŚĆ SKORYGOWANA OGÓŁEM									
21	**LIQUIDITY BUFFER**					22,699	24,300	26,231	28,815
22	**TOTAL NET CASH OUTFLOWS**					15,732	15,769	16,035	16,956
23	**LIQUIDITY COVERAGE RATIO (%)**					144.29%	154.11%	163.59%	169.94%

II. Information Information related to the use of prudential norms

Information related to the use of prudential norms concern Capital Group of Bank Handlowy w Warszawie S.A. (“Group”).

Group is composed of Bank Handlowy w Warszawie S.A. (“Bank”) as the parent company, as well as the following subsidiary companies: Dom Maklerski Banku Handlowego S.A., Handlowy Leasing Sp. z o.o., Handlowy Investments S.A., PPH Spomasz Sp. z o.o. w likwidacji, Handlowy-Inwestycje Sp. z o.o.

The following entities are fully consolidated:

- Dom Maklerski Banku Handlowego S.A.,
- Handlowy Leasing Sp. z o.o.,
- Handlowy Investments S.A.,
- PPH Spomasz Sp. z o.o. w likwidacji,
- Handlowy Inwestycje Sp. z o.o.

The Group offers brokerage services on the capital market through Dom Maklerski Banku Handlowego S.A., a wholly-owned subsidiary of the Bank.

The Capital Group of Bank Handlowy w Warszawie S.A. provides leasing portfolio services until April 30th, 2013 through Handlowy Leasing Sp. z o.o. After this date, Handlowy Leasing Sp. z o.o.– due to reducing its activity solely to execution of lease agreements signed before April 30th, 2013 - did not sign new contracts, continuing existing contracts service providing maintaining the quality of services and cost-efficiency of its operations. Leasing product remained in the Bank's offer and is offered in a form of so-called "open architecture", i.e. co-operation with the European Leasing Fund S.A. and CorpoFlota Sp. z o.o. In 2017, the active Company's leasing portfolio was sold to the Bank.

Handlowy Investments S.A. seated in Luxembourg, belongs to special purpose investment entities, through which the Bank and the Capital Group conduct capital transactions. The entity is a wholly-owned subsidiary of the Bank and its activities are financed with refundable additional capital contributions net profits earned. Due to intention to reduce the investment activities, Handlowy - Investments S.A. and similar holdings will be gradually sold or liquidated. As at 31 December 2020 Handlowy Investments S.A. had the portfolio composed of the following shares: Pol-Mot Holding S.A.

PPH Spomasz Sp. z o.o. under liquidation, seated in Warsaw, fully owned by the Bank is one of the holdings deemed for sale Detailed information on how the Group’s equity investment portfolio is broken down based on purchase reasons are described in chapter VI point No 8 „Equity investments” of the Report on Activities of Bank Handlowy w Warszawie S.A. and of the Capital Group of Bank Handlowy w Warszawie S.A. in 2020.

Handlowy Inwestycje Sp. z o.o. is a special purpose investment entity, through which the Bank conducts capital transactions. Handlowy Inwestycje Sp. z o.o. has in its portfolio shares of Handlowy Leasing Sp. z o.o. Activities of the entity is financed by refundable capital contributions as well as retained earnings. Handlowy Inwestycje Sp. z o.o. belongs to the portfolio of strategic entities.

There are no proportionally consolidated entities within the Group.

There are no entities that are neither consolidated nor deducted. There are also no subsidiaries not included in the consolidation, for which there is a shortage of capital.

All the transactions within Group, including repayments of intercompany liabilities and transfers of funds, are concluded according to law, including Code of Commercial Law and statutory stipulations.

Within the Group, according to the best knowledge, there are no and it is expected that there will be no significant obstacles of legal or practical nature to fast fund transferring or repayment of liabilities between the parent and the subsidiaries.

The scope of Group's consolidation, defined in accordance with the prudential regulations (CRR) matches the scope of consolidation applied for financial reporting.

Table 2. EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
ASSETS							
Cash and balances with the Central Bank	4 488 332	4 488 332	4 488 332				
Amounts due from banks	570 247	570 247	291 380	278 867			
Financial assets held-for-trading	4 350 540	4 350 540		3 370 896		4 350 540	
Hedging derivatives							
Debt securities available-for-sale	27 323 571	27 323 571	27 323 571				
Equity investments valued at equity method	-						
Equity investments available-for-sale	78 473	78 473	78 473				
Amounts due from customers	21 914 223	21 914 223	19 765 276	404 442	1 744 505		
Tangible fixed assets	476 909	476 909	476 909				
Intangible assets	1 252 583	1 252 583	140 255				1 112 328
Current income tax receivables	48 714	48 714	48 714				
Deferred income tax asset	174 223	174 223	174 223				
Other assets	257 560	257 560	257 560				
Non-current assets held-for-sale	6 163	6 163	6 163				
Total assets	**60 941 538**	**60 941 538**	**53 050 856**	**4 054 205**	**1 744 505**	**4 350 540**	**1 112 328**
LIABILITIES							
Amounts due to banks	5 118 861	5 118 861		289 640			4 829 221
Financial liabilities held-for-trading	3 656 422	3 656 422		3 612 953		3 656 422	
Hedging derivatives	98 025	98 025		98 025			
Amounts due to customers	43 393 906	43 393 906		318 620			43 075 286
Provisions	84 775	84 775					84 775
Current income tax liabilities	3 666	3 666					3 666
Other liabilities	1 004 916	1 004 916					1 004 916
Total liabilities	**53 360 571**	**53 360 571**	**-**	**4 319 238**	**-**	**3 656 422**	**48 997 864**
EQUITY							
Total equity	**7 580 967**	**7 580 967**					
Total liabilities and equity	**60 941 538**	**60 941 538**					

Table 3. EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**60 941 538**	**52 910 601**	**4 054 205**	**1 744 505**	**4 350 540**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	53 360 571		4 319 238		3 656 422
Total net amount under the regulatory scope of consolidation	60 941 538	52 910 601	4 054 205	1 744 505	4 350 540
Off-balance-sheet amounts	16 455 029	3 380 690			
Differences due to derivative financial instruments	-875 613		-875 613		
Differences due to different netting rules	1 918 970		1 918 970		
Other differences					
Exposure amounts considered for regulatory purposes	**78 439 924**	**56 291 291**	**5 097 562**	**1 744 505**	**4 350 540**

Information on the consolidation method used for each entity within the scope of accounting and regulatory consolidation ranges is presented in Report on Activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2020, in chapter III. " The organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A ".

III. Information Information regarding own funds

Information about the components of equity are presented in details in supplementary note 35 „Capital and Reserves" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2020.

The structure of the Group's own funds (Table 4), reconciliation of the Group's own funds to the equity of the Group (Table 5), information on own funds in the interim period (Table 6) and detailed description of the capital instruments' main characteristics (Table 7) are presented in the below tables:

Table 4. The structure of the Group's own funds

ID	Item	Amount
1	**OWN FUNDS**	**6 204 936**
1.1	**TIER 1 CAPITAL**	**6 204 936**
1.1.1	**COMMON EQUITY TIER 1 CAPITAL**	**6 204 936**
1.1.1.1	**Capital instruments eligible as CET1 Capital**	**3 008 172**
1.1.1.1.1	Paid up capital instruments	522 638
1.1.1.1.3	Share premium	2 485 534
1.1.1.2	**Retained earnings**	**640** 090
1.1.1.2.1	Previous years retained earnings	640 090
1.1.1.2.2	Profit or loss eligible	-
1.1.1.2.2.1	Profit or loss attributable to owners of the parent	172 396
1.1.1.2.2.2	(-) Part of interim or year-end profit not eligible	-172 396
1.1.1.3	**Accumulated other comprehensive income**	**441** 345
1.1.1.4	**Other reserves**	**2** 778 764
1.1.1.5	**Funds for general banking risk**	**540** 200
1.1.1.9	**Adjustments to CET1 due to prudential filters**	**- 39 286**

1.1.1.9.5	(-) Value adjustments due to the requirements for prudent valuation	-39 286
1.1.1.10	**(-) Goodwill**	**-1 031 270**
1.1.1.10.1	(-) Goodwill accounted for as intangible asset	-1 031 270
1.1.1.11	**(-) Other intangible assets**	**- 81 059**
1.1.1.11.1	(-) Other intangible assets gross amount	-81 059
1.1.1.28	**CET1 capital elements or deductions - other**	**-52** 021
1.1.2	**ADDITIONAL TIER 1 CAPITAL**	-
1.2	**TIER 2 CAPITAL**	-

The amount of regulatory own funds as at December 31, 2020 compared to December 31, 2019 increased by PLN 1,082,762 thousand. PLN, i.e. 21.14 percentage points, mainly as a result of feeding the funds in full with the Bank's undistributed net profit for 2019, an increase in accumulated other comprehensive income and a decrease in deductions from Common Equity Tier 1 capital related to intangible assets resulting from a temporary shift between the amounts decreasing the funds own at the end of the financial year (goodwill), and the reduced result of the Bank not included in the calculation of funds and the change resulting from the Regulation of the European Parliament and of the Council (EU) 2020/2176 of November 12, 2020.

Intangible assets deducted from Common Equity Tier 1 capital in accordance with Art. 36 sec. 1 lit. b) The CRR regulations include a reduction for software assets classified as an intangible asset for accounting purposes, in accordance with Commission Delegated Regulation (EU) 2020/2176 of November 12, 2020 amending Delegated Regulation (EU) No 241/2014 in with regard to the deduction of software assets from Common Equity Tier 1 items in the amount of PLN 81.058 thousand; PLN. The remaining amount of intangible assets in the amount of PLN 140.255 thousand PLN not deducted from Common Equity Tier 1 capital is subject to the credit risk framework.

Information on intangible assets are presented in details in supplementary note no. 24 „ Intangible assets" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2020.

Table 5. Reconciliation of the Group's own funds for the Group's equity

Reconciliation of the Group's own funds for the Group's equity	Amount
Share capital	522 638
Supplementary capital	3 002 265
Revaluation reserve	450 017
Other reserves	2 793 561
Retained earnings	812 486
Total Equity	**7 580 967**
Goodwill & other intangible assets	-1 112 328
Adjustments to Equity Tier I in respect of prudential filters - value adjustments in respect of the requirements for the prudence	-39 286
Other adjustments in transition Common Equity Tier I	-52 021
Net profit for the Bank’s shareholders	-172 396
Total Deductions	-1 376 031
Total Own funds	**6 204 936**

Table 6. Own funds (thousands PLN)

	Own Funds	(A) Amount at disclosure date	(B) Regulation No. 575/2013 Article Reference
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES			
1	Capital instruments and the related share premium accounts	3 008 172	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Series A	260 000	EBA list 26 (3)
	of which: Series B	112 000	EBA list 26 (3)
	of which: Series C	150 638	EBA list 26 (3)
2	Retained earnings	640 090	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	3 220 110	26 (1)
3a	Funds for general banking risk	540 200	26 (1) (f)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**7 408 572**	
7	Additional value adjustments (negative amount)	-91 307	36 (1) (b), 37, 472 (4)
8	Intangible assets (net of related tax liability) (negative amount)	-1 112 329	26 (1), 27, 28, 29, EBA list 26 (3)
28	**Total regulatory adjustment to Common Equity Tier 1 (CET1)**	**-1 203 636**	
29	**Common Equity Tier 1 (CET1) capital**	**6 204 936**	
ADJUSTMENTS ADDITIONAL TIER 1 (AT1) CAPITAL: INSTRUMENTS			

36	Additional Tier 1 (AT1) capital before regulatory adjustments	-	
ADDITIONAL TIER 1 (AT1) CAPITAL: REGULATORY ADJUSTMENTS			
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	
44	Additional Tier 1 (AT1) capital	-	
45	Tier 1 capital (T1= CET1+AT1)	**6 204 936**	
ADJUSTMENTSTIER 2 (T2) CAPITAL: INSTRUMENTS AND PROVISIONS			
51	**Tier 2 (T2) capital before regulatory adjustments**	-	
TIER 2 (T2) CAPITAL: REGULATORY ADJUSTMENTS			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	
58	**Tier 2 (T2) capital**	-	
59	**Total capital (TC=T1+T2**	**6 204 936**	
60	**Total risk weighted assets**	**27 570 876**	
CAPITAL RATIOS AND BUFFERS			-
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	**22,5%**	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	**22,5%**	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	**22,5%**	92 (2) (c)
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2			-
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**0**	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)

73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**0**	36 (1) (i), 45, 48, 470, 472 (11)
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	**174** 222	36 (1) (c), 38, 48, 470, 472 (5)

Group did not make deductions from own funds for significant investment in the financial sector entities and assets for deferred income tax.

Table 7. The table below presents capital instruments main characteristics

Series/emission	A	B	B	B	B	B	C
1 Issuer	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.	Bank Handlowy w Warszawie S.A.
2 Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012	ISIN: PLBH00000012
3 Governing law(s) of the instrument	Polish law	Polish law	Polish law	Polish law	Polish law	Polish law	Polish law
Regulatory treatment							
4 Transitional CRR rules	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital
5 Post-transitional CRR rules	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital	Common equity Tier 1 capital
6 Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated	Solo / Consolidated
7 Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares
8 Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 260.000.000	PLN 4.480.000	PLN 6.230.000	PLN 8.960.000	PLN 70.594.000	PLN 21.736.000	PLN 150.638.000
9 Nominal amount of instrument	PLN 4	PLN 4	PLN 4	PLN 4	PLN 4	PLN 4	PLN 4
9a Issue price							
9b Redemption price	-	-	-	-	-	-	-
10 Accounting classification	Equity	Equity	Equity	Equity	Equity	Equity	Equity
11 Original date of issuance	27.03.97	27.10.98	25.06.99	16.11.99	24.05.02	16.06.03	28.02.01
12 Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13 Original maturity date	Without maturity	Without maturity	Without maturity	Without maturity	Without maturity	Without maturity	Without maturity

14 Issuer call subject to prior supervisory approval	No	No	No	No	No	No	No
15 Optional call date, contingent call dates and redemption amount	-	-	-	-	-	-	-
16 Subsequent call dates, if applicable	-	-	-	-	-	-	-
Coupons / dividends							
17 Fixed or floating dividend/coupon	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate	Floating rate
18 Coupon rate and any related index	-	-	-	-	-	-	-
19 Existence of a dividend stopper	No	No	No	No	No	No	No
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
21 Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
24 If convertible, conversion trigger(s)	-	-	-	-	-	-	-
25 If convertible, fully or partially	-	-	-	-	-	-	-
26 If convertible, conversion rate	-	-	-	-	-	-	-
27 If convertible, mandatory or optional conversion	-	-	-	-	-	-	-
28 If convertible, specify instrument type convertible into	-	-	-	-	-	-	-
29 If convertible, specify issuer of instrument it converts into	-	-	-	-	-	-	-
30 Write-down features	No	No	No	No	No	No	No
31 If write-down, write-down trigger(s)	-	-	-	-	-	-	-

32 If write-down, full or partial	-	-	-	-	-	-	-
33 If write-down, permanent or temporary	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
34 If temporary write-down, description of write-up mechanism	-	-	-	-	-	-	-
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	-	-	-	-	-	-	-
36 Non-compliant transitioned features	-	-	-	-	-	-	-
37 If yes, specify non-compliant features	-	-	-	-	-	-	-

IV. Capital Adequacy

Capital requirement in relation to Own Funds of Group is calculated according to the Regulation No. 575/2013.

The tables below present data on the Group's capital adequacy, the amount of risk-weighted assets and capital requirements with respect to own funds, broken down by risk types.

Table 8. Capital adequacy

Capital adequacy	31.12.2020
Common Equity Tier I	6 204 936
Tier I Capital	6 204 936
Own Funds	6 204 936
The total amount of risk exposure	27 570 876
Common Equity Tier 1 capital ratio	22,5%
Tier 1 capital ratio	22,5%
Total capital ratio	22,5%

Table 9. EU OV1 – Overview of RWAs

			RWAs		Minimum capital requirements
			31.12.2020	31.12.2019	31.12.2020
	1	**Credit risk (excluding CCR)**	**21 256 480**	**23 365 872**	**1 700 518**
Article 438 (c) (d)	2	Of which the standardised approach*	21 256 480	23 365 872	1 700 518
Article 107 Article 438 (c) (d)	**6**	**CCR**	**1 340 804**	**1 528 845**	**107 264**
Article 438 (c) (d)	7	Of which mark to market	1 191 188	1 197 463	95 295
Article 438 (c) (d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	2 578	2 457	206
Article 438 (c) (d)	12	Of which CVA	147 038	328 925	11 763
Article 438 (e)	**13**	**Settlement risk**	**0**	**-**	**0**
Article 449 (o) (i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**234 417**	**253 671**	**18 753**
	18	Of which standardised approach	234 417	253 671	18 753
Article 438 (e)	**19**	**Market risk**	**1 124 125**	**1 022 525**	**89 930**
	20	Of which the standardised approach	1 124 125	1 022 525	89 930
	21	Of which IMA	-	-	-
Article 438 (e)	**22**	**Large exposures**	**0**	**0**	**0**
Article 438 (f)	**23**	**Operational risk**	**3 615 050**	**3 567 388**	**289 204**
	24	Of which basic indicator approach	0	-	-
	25	Of which standardised approach	3 615 050	3 567 388	289 204
	26	Of which advanced measurement approach	0	-	-
Article 437 (2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	435 556	595 164	34 844
	29	**Total**	**27 570 876**	**29 738 301**	**2 205 669**

V. Information regarding capital requirements

1. Credit risk

The accounting definitions of past due and impaired exposures

The impairment (exposure value is higher than the projected cash flows) occurs if there is an objective evidence of impairment as a result of the following defined objective evidence of impairment, i.e.:

- significant financial difficulties of the client,
- 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,
- high probability of a client's insolvency or obtainment of information on the opening of insolvency proceedings,
- domestic or local economic conditions that may be related to the default of exposures,
- the delay in payment,
- significant deterioration in customer rating,
- request of the Bank to initiate enforcement proceedings against the client,
- reduction of the client credit rating by an accepted by the Bank External Credit,

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

The exposures of clients that the objective evidence of impairment was identified are treated as impaired exposures.

For the purpose of determining regulatory capital for credit risk, impaired exposures are classified to the class of exposures in default. All exposures assigned to the class of exposures in default are impaired exposures.

A description of the approaches and methods adopted for determining value adjustments and provisions

Detailed information on the management of exposures of impaired are presented in the Annual Financial Statements of the Bank Handlowy w Warszawie SA for the year ended 31 December 2020 in explanatory note no. 3 "Risk Management" in the section "Credit risk".

Write-offs for expected credit losses

The Group makes write-downs for expected credit losses according to internal rules and methodologies for calculation of write-downs prepared for all financial assets. They are made on an aggregate basis for each of the 3 stages:

- Step 1: credit exposures for which credit risk has not materially increased since the initial recognition

  - loss estimated over a horizon of 12 months (this is the part of credit losses expected for the entire exposure period resulting from the default within 12 months from the reporting date),

- Step 2: credit exposures for which there has been a significant increase in credit risk

  - credit losses are estimated for the entire duration of the exposure,

- Step 3: credit exposures for which there is objective evidence of impairment

  - credit losses estimated as for impaired assets.

Assignment of exposures to the Stage is based on the client's management approach (individual vs. group), taking into account a wide range of information obtained through standard risk management processes (including the Early Warning process) concerning both current and future events, including macroeconomic factors (taken into account in the macroeconomic scenarios prepared cyclically by the Chief Economist) and the number of days of arrears.

The Bank applies the general rule that the default of the creditor takes place in the event of one or both of the following events:

a) the debtor's delay in performing all material credit obligations towards the Bank is 90 days or more,

b) it is unlikely that the debtor will fully meet his credit obligations towards the Bank without the need for the institution to take measures such as the realisation of collateral.

Table 10. EU CRB-B – The total amount of exposures according to balance-sheet valuation (after accounting offsets) and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes

	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	26 698 035	25 389 536
Regional governments or local authorities	92 068	377 204
Public sector entities	11 913	13 652
Multilateral development banks	2 453 083	1 503 749
International organisations	-	-
Institutions	4 058 356	3 092 730
Corporates	19 985 236	20 672 109
Of which: SMEs	1 573 302	1 735 583
Retail	11 623 212	11 842 237
Of which: SMEs	55 610	50 402
Secured by mortgages on immovable property	3 094 552	3 069 560
Of which: SMEs	453 726	494 937
Exposures in default	220 426	252 930
Items associated with particularly high risk	77 194	69 153
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings	-	-
Equity exposures	1 280	1 171
Other exposures	1 204 607	1 051 636
Total standardised approach	**69 519 962**	**67 335 667**

* *Arithmetical average calculated on quarterly balances in 2020.*

Table 11. EU CRB-C – Geographical breakdown of exposures

	Net value										
	Poland	Luxembourg	United Kingdom	Ireland	Norway	India	Belgium	United States	Germany	Other countries	**Total**
Central governments or central banks	26 697 636	-	-	399	-	-	-	-	-	-	26 698 035
Regional governments or local authorities	92 068	-	-	-	-	-	-	-	-	-	92 068
Public sector entities	11 913	-	-	-	-	-	-	-	-	-	11 913
Multilateral development banks	-	2 453 078	5	-	-	-	-	-	-	-	2 453 083
International organisations	-	-	-	-	-	-	-	-	-	-	-
Institutions	3 194 906	1	744 126	62 659	3 926	-	944	17 204	2 863	31 727	4 058 356
Corporates	18 660 164	469 324	46 338	143 073	167 623	105 091	99 808	11 124	60 306	222 385	19 985 236
Retail	11 623 212	-	-	-	-	-	-	-	-	-	11 623 212
Secured by mortgages on immovable property	3 087 245	-	-	-	-	-	-	-	-	7 307	3 094 552
Exposures in default	220 426	-	-	-	-	-	-	-	-	-	220 426
Items associated with particularly high risk	21 479	-	-	-	-	-	-	55 715	-	-	77 194
Covered bonds	-	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	1 280	-	-	-	-	-	-	-	-	-	1 280
Other exposures	1 204 605	2	-	-	-	-	-	-	-	-	1 204 607
Total standardised approach	**64 814 934**	**2 922 405**	**790 469**	**206 131**	**171 549**	**105 091**	**100 752**	**84 043**	**63 169**	**261 419**	**69 519 962**

Table 12. EU CRB-D – Concentration of exposures by industry or counterparty types

	Public administration	Construction	Scientific and technical activities	Financial and insurance activities	Mining and quarrying	Wholesale and retail trade	Information and communication	Other services	Natural persons	Manufacturing	Transport and storage	Electricity and gas supply	**Total**
Central governments or central banks	22 594 628	-	-	4 103 407	-	-	-	-	-	-	-	-	26 698 035
Regional governments or local authorities	92 068	-	-	-	-	-	-	-	-	-	-	-	92 068
Public sector entities	-	-	198	-	-	-	-	11 415	-	-	300	-	11 913
Multilateral development banks	-	-	-	2 453 083	-	-	-	-	-	-	-	-	2 453 083
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	3 953 513	-	-	104 842	1	-	-	-	-	4 058 356
Corporates	80	392 550	1 799 670	1 281 656	424 186	5 423 233	889 584	292 600	-	7 395 401	235 834	1 850 442	19 985 236
Retail	-	-	-	-	-	3 928	-	111 041	11 507 812	431	-	-	11 623 212
Secured by mortgages on immovable property	-	6 115	38 157	23 414	-	327 369	52 282	43 883	1 858 216	736 475	8 641	-	3 094 552
Exposures in default	-	20 577	-	-	-	13 254	28 483	1 305	74 490	81 302	1 015	-	220 426
Items associated with particularly high risk	-	-	-	64 201	-	-	12 809	-	-	184	-	-	77 194
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	1 280	-	-	-	-	-	-	-	-	1 280
Other exposures	-	-	-	-	-	-	-	1 204 607	-	-	-	-	1 204 607
Total standardised approach	**22 686 776**	**419 242**	**1 838 025**	**11 880 554**	**424 186**	**5 767 784**	**1 088 000**	**1 664 852**	**13 440 518**	**8 213 793**	**245 790**	**1 850 442**	**69 519 962**

Table 13. EU CRB-E – Maturity of exposures for balance sheet receivables

	Net exposure value					
	On demand	< 1 year	>= 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments or central banks	-	4 451 306	21 255 953	990 126	-	26 697 385
Regional governments or local authorities	-	4 001	3 025	-	-	7 026
Public sector entities	-	397	2 250	-	-	2 647
Multilateral development banks	-	5	1 202 708	1 250 370	-	2 453 083
International organisations	-	-	-	-	-	-
Institutions	-	978 914	1 090 398	1 602 696	-	3 672 008
Corporates	4 942	6 001 292	4 126 792	543 241	-	10 676 267
Retail	141	1 709 229	2 281 476	1 333 967	-	5 324 813
Secured by mortgages on immovable property	-	366 032	262 178	2 131 078	-	2 759 288
Exposures in default	97 989	74 137	11 284	5 925	-	189 335
Items associated with particularly high risk	-	-	-	-	77 194	77 194
Covered bonds	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-
Equity exposures	-	-	-	-	1 280	1 280
Other exposures	-	-	-	-	1 204 607	1 204 607
Total standardised approach	**103 072**	**13 585 313**	**30 236 064**	**7 857 403**	**1 283 081**	**53 064 933**

Table 14. EU CR1-A – Credit quality of exposures by exposure class and instrument

	Gross carrying values of						
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Central governments or central banks	-	26 698 035	-	-	-	- 3 255	26 698 035
Regional governments or local authorities	-	92 197	129	-	-	7	92 068
Public sector entities	-	11 934	21	-	-	- 5	11 913
Multilateral development banks	-	2 453 083	-	-	-	-	2 453 083
International organisations	-	-	-	-	-	-	-
Institutions	-	4 060 494	2 138	-	-	862	4 058 356
Corporates	574 628	20 070 694	514 995	-	-	- 36 467	20 130 327
Of which: SMEs	17 408	1 580 794	13 179	-	-	2 052	1 585 023
Retail	453 997	11 758 810	514 260	-	-	- 50 276	11 698 547
Of which: SMEs	4 303	58 439	6 288	-	-	- 1 752	56 454
Secured by mortgages on immovable property	-	3 110 542	15 990	-	-	- 826	3 094 552
Of which: SMEs	-	458 520	4 794	-	-	- 192	453 726
Exposures in default	1 028 625	-	808 199	-	39 228	- 100 307	220 426
Items associated with particularly high risk	-	78 090	896	-	-	-	77 194
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-
Equity exposures	-	1 280	-	-	-	-	1 280
Other exposures	-	1 204 607	-	-	-	-	1 204 607
Total standardised approach	**1 028 625**	**69 539 766**	**1 048 429**	**-**	**39 228**	**- 190 267**	**69 519 962**
Of which: Loans	990 370	23 931 895	1 000 078	-	39 160	- 201 381	23 922 188
Of which: Debt securities	-	27 542 516	102	-	-	-	27 542 414
Of which: Off-balance-sheet exposures	38 255	16 464 128	47 354	-	-	14 369	16 455 029

Table 15. EU CR1-B – Credit quality of exposures by industry or counterparty types

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Public administration	-	22 686 905	129	-	-	- 3 248	22 686 776
Construction	70 136	403 281	54 175	-	2 901	23 749	419 242
Scientific and technical activities	-	1 848 798	10 773	-	-	- 4 442	1 838 025
Financial and insurance activities	-	11 885 273	4 719	-	-	- 489	11 880 554
Mining and quarrying	-	425 874	1 688	-	-	- 1 605	424 186
Wholesale and retail trade	67 855	5 790 993	91 064	-	3 308	- 13 211	5 767 784
Information and communication	90 146	1 062 094	64 240	-	-	- 41 023	1 088 000
Other services	53 772	1 668 280	57 200	-	896	- 1 637	1 664 852
Natural persons	449 694	13 503 726	512 902	-	23 168	- 105 905	13 440 518
Manufacturing	269 436	8 167 220	222 863	-	8 955	- 41 844	8 213 793
Transport and storage	27 586	245 121	26 917	-	-	72	245 790
Electricity and gas supply	-	1 852 201	1 759	-	-	- 684	1 850 442
Total	**1 028 625**	**69 539 766**	**1 048 429**	-	**39 228**	**-190 267**	**69 519 962**

Table 16. EU CR1-C – Credit quality of exposures by geography

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Poland	1 028 625	64 830 063	1 043 754	-	39 228	- 185 549	64 814 934
Luxembourg	-	2 923 304	899	-	-	1 299	2 922 405
United Kingdom	-	790 888	419	-	-	- 183	790 469
Ireland	-	206 255	124	-	-	24	206 131
Norway	-	173 038	1 489	-	-	- 1 311	171 549
India	-	105 177	86	-	-	10	105 091
Belgium	-	100 813	61	-	-	- 6	100 752
United States	-	84 104	61	-	-	- 77	84 043
Germany	-	63 578	409	-	-	- 387	63 169
Other countries	-	262 546	1 127	-	-	- 4 087	261 419
Total	**1 028 625**	**69 539 766**	**1 048 429**	**-**	**39 228**	**-190 267**	**69 519 962**

Table 17. EU CR2-A – Changes in the stock of general and specific credit risk adjustments*

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	**559 207**	-
Increases due to amounts set aside for estimated loan losses during the period	-	-
Creation/Realeses in the period though the income statement	130 702	-
Transfers between credit risk adjustments	-	-
Impact of exchange rate differences	-	-
Business combinations, including acquisitions and disposals of subsidiaries	-	-
Zmniejszenie stanu odpisów w związku sprzedażą wierzytelności	-10 886	-
Other adjustments	-40 724	-
Closing balance	**638 229**	-
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	112	-
Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-

* The value does not include contractual interest in the amount of PLN 155.923 thousand. PLN accrued since the exposure was qualified for stage 3

Table 18. EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

	Gross carrying value defaulted exposures
Opening balance	**1 160 405**
Loans and debt securities that have defaulted or impaired since the last reporting period	112 764
Returned to non-defaulted status	-6 406
Amounts written off	-52 214
Other changes	-224 179
Closing balance	**990 370**

Table 19. EU CR3 – CRM techniques – Overview

	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	20 281 542	219 554	219 554	-	-
Total debt securities	25 091 676	2 450 738	-	2 450 738	-
Total exposures	45 373 218	2 670 292	219 554	2 450 738	-
Of which defaulted	189 336	-	-	-	-

Table 20. EU CR4 – Standardised approach – Credit risk exposure and CRM effects

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	26 697 385	651	29 148 122	595	553 975	1,90%
Regional governments or local authorities	7 026	85 041	7 026	42 421	9 890	20,00%
Public sector entities	2 647	9 266	2 646	4 360	3 500	49,96%
Multilateral development banks	2 453 083	-	2 453 083	-	-	0,00%
International organisations	-	-	-	-	-	-
Institutions	3 672 008	386 348	1 001 772	141 534	114 382	10,00%
Corporates	10 676 267	9 308 968	10 676 213	3 050 587	13 699 944	99,80%
Retail	5 324 813	6 298 400	5 324 813	41 762	4 022 922	74,96%
Secured by mortgages on immovable property	2 759 288	335 265	2 759 288	85 024	1 686 517	59,29%
Exposures in default	189 335	31 090	189 336	14 407	233 893	114,80%
Items associated with particularly high risk	77 194	-	77 194	-	115 791	150,00%
Covered bonds	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-
Equity exposures	1 280	-	1 280	-	1 280	100,00%
Other exposures	1 204 607	-	1 204 607	-	816 958	67,82%
Total standardised approach	**53 064 933**	**16 455 029**	**52 845 380**	**3 380 690**	**21 259 052**	**37,81%**

Non-performing and forborne exposures

The Group presents below tables as part of disclosures on non-performing and forborne exsposures as well as collateral obtained by taking possession and execution processes, in line with Guidelines on disclosure of non-performing and forborne exposures:

- NPE 1 – Credit quality of forborne exposures,
- NPE 3 – Credit quality of performing and non-performing exposures by past due days,
- NPE 4 – Performing and non-performing exposures and related provision.

As of 31st Decmber of 2020, the Group presents gross NPL (gross non-performing loans and advances to the total gross amount of loans and advances) in amount of 4.6%.

According to Guidelines on disclosure of non-performing and forborne exposures gross non-performing loan ratio is calculated including the amount of contractual interest accrued since exposure became non-perfoming.

Group does not have collateral obtained by taking possession and execution processes.

Tabela 21. NPE 1 – Credit quality of forborne exposures (in PLN '000)

	Gross carrying amount/nominal amount of exposures with forbearance measures			Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne		On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		Of which defaulted	Of which impaired				
Loans and advances	304	177 340	177 340	- 29	- 136 393	15 247	15 247
Central banks	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-
Non-financial corporations	-	151 414	151 414	-	- 115 190	14 386	14 386
Households	304	25 927	25 927	- 29	- 21 203	861	861
Debt Securities	-	-	-	-	-	-	-
Off-balance-sheet exposures	-	30 103	30 103	-	- 1 592	-	-
Total	**304**	**207 444**	**207 444**	**- 29**	**- 137 985**	**15 247**	**15 247**

Table 22. NPE 3 – Credit quality of performing and non-performing exposures by past due days (in PLN '000)

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	**20 516 528**	**20 471 319**	**45 209**	**990 370**	**286 361**	**68 332**	**108 487**	**221 225**	**99 820**	**51 045**	**155 101**	**990 370**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	9 692	9 692	-	-	-	-	-	-	-	-	-	-
Credit institutions	551 892	551 892	-	-	-	-	-	-	-	-	-	-
Other financial corporations	1 993 834	1 993 833	0	-	-	-	-	-	-	-	-	-
Non-financial corporations	10 619 178	10 617 945	1 234	499 529	87 352	302	15 986	214 090	78 913	28 410	74 477	499 529
Of which SMEs	3 218 705	3 218 353	351	313 476	15 406	302	1 016	187 952	64 855	15 943	28 002	313 476
Households	7 341 932	7 297 957	43 975	490 841	199 009	68 030	92 501	7 135	20 907	22 636	80 623	490 841
Debt securities	**29 287 839**	**29 287 839**	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	22 419 755	22 419 755	-	-	-	-	-	-	-	-	-	-
Credit institutions	2 450 738	2 450 738	-	-	-	-	-	-	-	-	-	-
Other financial corporations	4 198 400	4 198 400	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	218 945	218 945	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	**16 464 189**			**38 255**								**38 255**
Central banks	-			-								-
General governments	95 473			-								-
Credit institutions	355 011			-								-
Other financial corporations	142 476			-								-
Non-financial corporations	9 515 271			37 174								37 174
Households	6 355 958			1 081								1 081
Total	**66 268 556**	**49 759 158**	**45 209**	**1 028 625**	**286 361**	**68 332**	**108 487**	**221 225**	**99 820**	**51 045**	**155 101**	**1 028 625**

Table 23. NPE 4 – Performing and non-performing exposures and related provision (in PLN ‘000)

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage	Of which stage 3			
Loans and advances	**20.516.528**	**19.206.709**	**1.309.819**	**990.370**	**-**	**990.370**	**- 204.205**	**- 81.588**	**- 122.616**	**- 801.034**	**-**	**- 801.034**	**-**	**4.087.782**	**47.326**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	9.692	9.692	-	-	-	-	- 15	- 15	-	-	-	-	-	209	-
Credit institutions	551.892	551.874	18	-	-	-	- 1.670	- 1.670	- 0	-	-	-	-	50.505	-
Other financial corporations	1.993.834	1.993.833	0	-	-	-	- 2.593	- 2.593	- 0	-	-	-	-	1.394	-
Non-financial corporations	10.619.178	10.112.701	506.478	499.529	-	499.529	- 70.751	- 41.965	- 28.786	- 383.617	-	- 383.617	-	1.797.415	42.451
Of which SMEs	3.218.705	3.054.034	164.671	313.476	-	313.476	- 22.361	- 12.965	- 9.396	- 226.527	-	- 226.527	-	1.001.154	30.864
Households	7.341.932	6.538.609	803.323	490.841	-	490.841	- 129.176	- 35.345	- 93.830	- 417.417	-	- 417.417	-	2.238.259	4.875
Debt securities	**29.287.839**	**29.287.839**	**-**	**-**	**-**	**-**	**- 919**	**- 919**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	22.419.755	22.419.755	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	2.450.738	2.450.738	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	4.198.400	4.198.400	-	-	-	-	- 817	- 817	-	-	-	-	-	-	-
Non-financial corporations	218.945	218.945	-	-	-	-	- 102	- 102	-	-	-	-	-	-	-
Off-balance-sheet exposures	**16.464.189**	**14.777.583**	**1.686.606**	**38.255**	**-**	**38.255**	**- 40.189**	**- 21.287**	**- 18.902**	**- 7.165**	**-**	**- 7.165**		**1.137.617**	**238**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
General governments	95.473	95.423	50	-	-	-	- 137	- 136	- 1	-	-	-		80	-
Credit institutions	355.011	355.011	-	-	-	-	- 202	- 202	-	-	-	-		-	-
Other financial corporations	142.476	142.321	156	-	-	-	- 199	- 199	-	-	-	-		28.416	-
Non-financial corporations	9.515.271	9.095.434	419.837	37.174	-	37.174	- 24.711	- 17.529	- 7.182	- 6.981	-	- 6.981		1.094.751	238
Households	6.355.958	5.089.394	1.266.563	1.081	-	1.081	- 14.940	- 3.221	- 11.719	- 184	-	- 184		14.370	-
Total	**66.268.556**	**63.272.131**	**2.996.425**	**1.028.625**	**-**	**1.028.625**	**- 245.312**	**- 103.794**	**- 141.518**	**- 808.199**	**-**	**- 808.199**	**-**	**5.225.399**	**47.564**

* The gross value of receivables as at 31 December 2020 does include contractual interest of 155 923 thousand PLN accrued from the time the exposure is classified in Stage 3

The impact of COVID-19 on the Group's functioning

Information on the impact of the COVID-19 pandemic on the Group's operations is discussed in detail in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended December 31, 2020, in note 48 " The impact of COVID-19 on the Group's functioning ".

The Group presents detailed information on exposures subject to aid measures related to the COVID-19 crisis in Tables 24-26 in accordance with the requirements set out in Annex 3 to the EBA/GL/2020/07 Guidelines:

- Table no 24 – Information on loans and advances subject to legislative and non-legislative moratoria (template 1),
- Table no 25 – Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria (template 2),
- Table no 26 – Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis (template 3).

Table 24. Information on loans and advances subject to legislative and non-legislative moratoria

	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
		Performing			Non performing				Performing			Non performing			
			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
Loans and advances subject to moratorium	999 054	972 741	-	242 785	26 312	8 189	3 010	-61 351	-44 087	-	-37 233	-17 264	-5 894	-2 388	16 760
of which: Households	726 231	701 767	-	136 025	24 464	6 558	1 162	-52 856	-37 063	-	-30 899	-15 792	-4 608	-916	15 618
of which: Collateralised by residential immovable property	188 674	185 185	-	12 859	3 490	1 289	-	-2 124	-906	-	-669	-1 218	-490	-	1 528
of which: Non-financial corporations	272 822	270 974	-	106 761	1 848	1 631	1 848	-8 495	-7 023	-	-6 334	-1 472	-1 286	-1 472	1 142
of which: Small and Medium-sized Enterprises	125 085	125 085	-	2 328	-	-	-	-762	-762	-	-194	-	-	-	-
of which: Collateralised by commercial immovable property	242 528	242 528	-	104 723	-	-	-	-6 757	-6 757	-	-6 207	-	-	-	-

Table 25. Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

	Number of obligors	Gross carrying amount							
			Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was offered	11 237	1 006 297							
Loans and advances subject to moratorium (granted)	11 126	999 054	9 392	952 953	42 091	4 009	-	-	-
of which: Households		726 231	9 392	680 131	42 091	4 009	-	-	-
of which: Collateralised by residential immovable property		188 674	1 361	186 139	2 252	283	-	-	-
of which: Non-financial corporations		272 822	-	272 822	-	-	-	-	-
of which: Small and Medium-sized Enterprises		125 085	-	125 085	-	-	-	-	-
of which: Collateralised by commercial immovable property		242 528	-	242 528	-	-	-	-	-

Table 26. Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: forborne	Public guarantees received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	159 310	-	159 757	44
of which: Households	16 252			
of which: Collateralised by residential immovable property	-			
of which: Non-financial corporations	143 058	-	143 505	44
of which: Small and Medium-sized Enterprises	45 377			
of which: Collateralised by commercial immovable property	-			

2. Counterparty credit risk

Counterparty risk is incurred from derivative transactions and capital market transactions. For purposes of risk management the Group defines it as pre-settlement risk and settlement risk.

Pre-settlement exposure is defined by PSE measure (Pre-Settlement Exposure, „PSE"), reflecting future potential exposure of the counterparty. PSE reflects maximum expected exposure of the counterparty during the life of the transaction (or transaction portfolio) at the specified confidence level. The distribution of the market value (Mark-to-market) and PSE amount are dependent on market factors determining the values for particular transaction in the customer portfolio. In case there is no sufficient data, to simulate the value of the transactions' portfolio more simplified method are used, same as for the purpose of capital requirement calculation.

Pre-settlement risk exposure is managed and reduced through the initial or variation margin deposits as well as conducting transactions using clearing houses.

Moreover, the exposure arising from pre-settlement risk is continuously monitored and is also limited at the aggregate level broken down by product group.

Settlement risk arises when the Group exchanges cash payments to counterparty on a value date and is unable to verify that payments have been received in exchange. The exposure in this case equals the nominal transaction value.

A description of the methodology used to assign internal capital and credit limits for counterparty credit exposures

Internal capital related to counterparty risk related is calculated as 8% of the value of total risk weighted exposures in the trading portfolio, in which internal capital for the following exposure classes: institutions, corporates, regional governments and local authorities administrative bodies and non-commercial undertakings, was estimated according to advanced approach based on internal ratings. For exposures different than mentioned above internal capital requirements were estimated according to standardized approach specified in the Regulation No. 575/2013. The Group estimates also the level of exposures resulting from counterparty risk in stress scenario.

Furthermore pre-settlement & settlement risks are managed by the Group by setting appropriate limits (pre-settlement and settlement) as an integral part of credit approval process. Pre-settlement limits for counterparty specify, among others, tenors and product families and depend on the customer creditworthiness, his financial standing as well as on the level of customer's knowledge and experience in derivative transactions, forecasted currency position/ other position which requires hedging and related product needs and on the level of derivative transactions already concluded with other banks.

The level of settlement limit which may be approved is determined by the customer's risk rating. For a vast majority of transactions the Group adopted 'delivery versus payment' (DVP) principle which mitigate settlement risk through not paying the counterparty until Group confirms receipt of the payment or delivery of an instrument by a client. The internal settlement limits are availed in specific and justified cases.

A description of policies for securing collateral and establishing credit reserves as well as a description of policies with respect to specific wrong-way risk exposures

The Group's policies for securing collateral vary according to the counterparty business segment. Most common form of collateral accepted to mitigate credit risk of counterparty, with whom the derivate transactions ("transactions") are entered, is financial securing in the form of transfer of the rights to cash or security deposit according to Art. 102 of Banking Act (cash deposit). The amount of security depends on the difference of the current Mark to Market value of a transaction and a limit agreed. In principle, margining in the form of cash due to its nature does not expose the Group to the risk of unfavourable changes in collateral value. Generally the transactions are provided under frame agreements, which in case of breach by counterparty allow for an early termination of transaction by the other party and settlement the positive and negative values of transactions covered by given frame agreement in one net amount. The exposure resulting from counterparty risk together with other exposures is included in the periodical credit analysis of a customer.

The Group applies credit value adjustment to the market value of a derivative contract to take into account the credit risk of the counterparty. All Commercial and Corporate Banking Subsector customers are taken into account for derivatives assessment correction calculation

The Group differentiates the valuation of counterparty risk due to the availability of CDS quotations:

a) Credit Risk of Counterparties, for which there is active market of CDS. It is considered that CDS quotations reflect market valuation of credit risk.
b) Credit Risk of Counterparties, for which there isn't active market of CDS. Based on credit rating (external or internal, if external isn't available) and economic sector, in which client is operating, CDS index value, which reflects market valuation of risk, is attributed to the counterparty.

The Group applies standardized method for calculating counterparty credit risk requirement, as well as market-to-market method for calculating exposure amounts, and therefore the negative correlation risk is not taken into account (probability of counterparties' default is positively correlated with general market risk factors). The Group does not estimate α ratio for calculating exposure amounts, because it does not determine specific correlation risk.

The Group does not enter into agreements, which would require providing additional collateral in case of lowering its credit ratings.

Table 27. EU CCR1 – Analysis of CCR exposure by approach

	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market		617 468	1 331 006	-	-	1 948 474	1 138 440
Original exposure	-					-	-
Standardised approach		-			-	-	-
IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual cross-product netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						2 473	495
VaR for SFTs						0	0
Total							**1 138 935**

Table 28. EU CCR2 – CVA capital charge

	Exposure value	RWAs
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3× multiplier)		-
(ii) SVaR component (including the 3× multiplier)		-
All portfolios subject to the standardised method	644 867	147 041
Based on the original exposure method	-	-
Total subject to the CVA capital charge	644 867	147 041

Table 29. EU CCR8 – Exposures to CCPs

	EAD post CRM	RWAs
Exposures to QCCPs (total)		126 492
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	3 097 843	61 957
(i) OTC derivatives	3 097 843	61 957
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	277 533	61 957
Prefunded default fund contributions	89 813	2 578
Alternative calculation of own funds requirements for exposures		-
Exposures to non-QCCPs (total)		-
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Unfunded default fund contributions	-	-

Table 30. EU CCR5-A – Impact of netting and collateral held on exposure values

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	3 370 896	3 853 381	5 046 317	-	5 046 317
SFTs	50 548	-	50 548	48 076	2 473
Total	3 421 444	3 853 381	5 096 865	48 076	5 048 790

The Group measures exposures of derivative transactions using methods of market valuation in compliance with the Regulation No. 575/2013. According to the method mentioned above, the balance sheet equivalent of off-balance sheet transactions is calculated as the sum of the replacement cost and potential future credit exposure. The cost of a replacement shall be the market value of the transaction - if it is positive, or zero - when the aforementioned market value is negative or equal to zero. Potential future credit exposure is calculated as the product of the nominal amount of off-balance sheet transactions (or its equivalent delta values for options) and product risk weight assigned to the transaction.

The Group does not use credit derivative hedges.

For the purpose of calculating the balance sheet equivalent of derivative transactions within capital requirements calculation the Group recognizes contractual compensation (“close-out netting”) with respect to off-balance sheet derivative transactions provided by the Bank under relevant frame agreement, when fulfils all legal and formal terms as per the Regulation No. 575/2013, which must be met in order to consider the contractual compensation as risk mitigant.

In particular the Group has a process to monitor regulations in terms of compensation in order to ensure proper monitoring of changes in current regulations in regards to requirements set in the above mentioned resolution.

3. Information regarding credit risk mitigation techniques

Information regarding the policies for collateral management and main types of accepted collateral are presented in supplementary note 3„Risk Management" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2020.

The value of collateral is calculated on the basis of estimates provided by the property valuation experts, valuations provided by industry analysts, borrowers' accounting records, deposit certificates, information from external databases, etc. The Group defines and applies appropriate loan to value ratios for different collateral types in the process of estimating collateral amounts.

The Group reviews in detail the amount of taken collateral at least annually and by the renewal or change in conditions of the transaction.

Additionally the Group monitors if there are shortages in received collateral. Collateral valuation and monitoring is performed by the unit independent of sales units and its frequency depends on collateral type (monthly, quarterly or annually).

In order to diversify risk associated with collateral, the Group accepts various types and forms of collateral:

- In the Consumer the most common type of collateral is residential real estate,
- In the Corporate and Commercial Banking primarily the following types of collateral are accepted:
  - guarantees and warranties,
  - financial security,
  - collateral.

Detailed procedures defining types of collateral acceptable by the Bank, rules on collateral establishment and value determination as well as creation of specialized independent risk unit responsible for collaterals evaluation allowed to develop adequate standards for this process, including e.g.

- Collateral acceptance and appraisal criteria,
- Rules of collateral monitoring process (including inspections)
- Standardized documentation.

Commercial Bank credit procedures describe ratio of the value of the loan to collateral value for each type of security.

The Group periodically monitors if the actual structure of the collateral portfolio in Commercial Bank is compliant with the structure assumed and if the collateral amount is sufficient.

In Corporate Bank expected Loan-to-Value relations are determined each time in credit decision. These relations are also monitored on the on-going basis.

For Retail Banking Sector the basic collateral for mortgage loans is mortgage on Real Estate. Due to time gap between loans disbursement and setting legally effective mortgage the bridge collateral is used.

The valuation of collateral is performed each time based on real estate appraisal requested by the Group. Collateral appraisals are verified by an independent valuation team in accordance with the valuation guidelines of real estate being collateral for real estate loans for retail customers in Retail Banking Sector. The quality of the appraisal team's work is monitored.

In the field of the funded credit protection the Group considers cash collateral and real estates in case of credit risk mitigation of retail exposures in accordance with the principles set in the Regulation No. 575/2013.

Currently only guarantees issued by the Treasury and BGK are recognized by the Group as unfunded credit risk mitigation techniques for capital adequacy calculation.

The Group enters into reverse repo transactions secured entirely by highly liquid debt securities (mainly issued by the Treasury). These transactions are characterized by low market risk level and therefore low market risk concentration due to short maturities.

Table 31. EU CCR5-B – Composition of collateral for exposures to credit risk and counterparty credit risk

Exposure type / Exposure class	Security collateral	Unfunded credit protection-guarantees	Cash collateral	Value of collateral received	Value of posted collateral
Repo-style transactions* and derivatives on trading portfolio					
Exposures to institutions	48 076	98 163	289 640	435 879	589 381
Exposures to corporates	-	-	14 490	14 490	43 380
Total	48 076	98 163	304 130	450 369	632 761

*reverse-repo transactions

The total value of exposures secured by the guarantee is presented in in column: Unfunded credit protection - guarantees.

4. Information regarding application of standardised approach to calculate risk-weighted exposure amounts

The Regulation No. 575/2013 on banks' capital adequacy and Bank's internal policies describe the use of the Group's external ratings and identify external credit assessment institutions whose ratings can be used for the application of the standard method. Currently there are Moody's and Standard & Poors as well as Fitch. Ratings from this three mentioned agencies are used in calculation and reporting process of Capital Requirements for Credit Risk and Counterparty Risk according to standardize method. Currently Group does not use ratings issued by Export Credit Agencies.

Exposure classes for which Bank uses external ratings granted by approved external agency:

1) exposures or contingent exposures to central governments and central banks;
2) exposures or contingent exposures to local governments and local authorities;
3) exposures or contingent exposures to public sector entities;
4) exposures or contingent exposures to multilateral development banks;
5) exposures or contingent exposures to institutions;
6) exposures or contingent exposures to corporates;
7) items representing securitisation positions.

Group applies issuer and issue credit assessment according to rules set forth in The Regulation No. 575/2013 on banks' capital adequacy. Consequently for given exposure where a credit assessment exists for a specific issuing programme or facility to which the exposure belongs, this credit assessment is used to determine the risk weight, which is then assigned to that exposure. Otherwise, Group uses a credit assessment that exists for a specific issuing programme or facility to which the exposure does not belong or a general credit assessment that exists for this issuer, provided that it produces a higher risk weight than that which would be applied to exposures without a credit assessment.

Table 32. The exposure values before and after credit risk mitigation associated with each credit quality step as set for the standardised approach as well as items deducted from own funds

Credit quality step	Exposure values before credit risk mitigation in PLN '000	Exposure values after credit risk mitigation in PLN '000
1	5 801 291	5 801 291
2	30 741 134	30 741 134
3	2 352 623	2 352 623
4	49 996	49 996
5	747	-
6	-	-
no rating*	37 402 160	37 049 522
**Of which: Securitisation*	1 744 505	1 744 505
Total	76 347 951	75 995 313

Table 33. EU CR5 – Standardised approach – credit risk

Exposure classes	Risk weight										Total	Of which unrated
	0%	2%	20%	35%	50%	75%	100%	150%	250%	Inne kwestie		
Central governments or central banks	28 382 402	-	592 093	-	-	-	-	-	174 222	-	29 148 717	174 222
Regional governments or local authorities	-	-	49 448	-	-	-	-	-	-	-	49 448	7 030
Public sector entities	-	-	10	-	6 996	-	-	-	-	-	7 006	7 006
Multilateral development banks	2 453 083	-	-	-	-	-	-	-	-	-	2 453 083	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	93 931	643 316	200 045	-	114 544	-	1 657	-	-	89 813	1 143 306	408 817
Corporates	-	-	-	-	2 500	-	13 724 298	-	-	-	13 726 798	12 313 428
Retail	-	-	-	-	-	5 366 575	-	-	-	-	5 366 575	5 366 575
Secured by mortgages on immovable property	-	-	-	1 805 093	-	-	986 242	52 977	-	-	2 844 312	2 844 312
Exposures in default	-	-	-	-	-	-	143 444	60 299	-	-	203 743	203 743
Items associated with particularly high risk	-	-	-	-	-	-	-	77 194	-	-	77 194	21 479
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	1 280	-	-	-	1 280	1 280
Other exposures	384 925	-	3 404	-	-	-	816 277	-	-	-	1 204 606	1 204 607
Total standardised approach	**31 314 341**	**643 316**	**845 000**	**1 805 093**	**124 040**	**5 366 575**	**15 673 198**	**190 470**	**174 222**	**89 813**	**56 226 068**	**22 552 499**

Table 34. EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk*

Exposure classes	Risk weight								Total	Of which unrated
	0%	2%	20%	50%	75%	100%	150%	Inne kwestie		
Central governments or central banks	171 710	-	-	-	-	-	-	-	171 710	-
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-
Institutions	-	3 097 843	96 187	1 118 724	-	1 264	-	-	4 314 018	376 218
Corporates	-	-	-	-	-	549 627	-	-	549 627	315 237
Retail	-	-	-	-	27	-	-	-	27	27
Exposures in default	-	-	-	-	-	-	28	-	28	28
Other exposures	-	-	-	-	-	-	-	-	-	-
Total standardised approach	**171 710**	**3 097 843**	**96 187**	**1 118 724**	**27**	**550 891**	**28**		**5 035 410**	**691 510**

** The table takes into account values relating only to derivatives classified in the trading book and to reverse repo transactions.*

The Group complies with the standard way to assign credit ratings shown in the resolution on the rating takes into account the principles set out in The Regulation No. 575/2013.

5. Information regarding exposure to securitisation positions

Securitization activities are one of the areas of business, which recently gained in importance. Group decided to invest in securities based on economic calculation, measuring return on investment against the potential risks. Securitization is now a standard and widely used product in global markets. Its importance also increases on the Polish market. The Group intends to be an active participant in this market segment.

At the end of 2020 year the total item constituting securitization exposures amounted PLN 1 744.5 MM Securities purchased by the Group are not traded on the market. The Group intends to maintain investments until the maturity date. The expected maturity date of the securities is November 2023 and July 2024. The Group classifies securitization's assets as receivables from customers in accordance with IFRS 9 and value them at amortized cost.

The Group has no positions in the resecuritization.

The Group has procedures for defining the processes of approval and monitoring of securitization exposures, which include, in particular:

- Analysis of the originator including the processes of credit and debt collection, qualitative and quantitative analysis, the condition of maintaining a material net economic interest, reputation, data related to the quality of previous securitization,

- Risk analysis of the exposure underlying the securitization position i.e. the quality, concentration, delays in repayment and the level of losses, the level of recovery rates

- The terms and structure of the transaction reducing identified risks and defining the division into tranches, level of support and security, payment streams, events of default and default indicators

- Monitoring including, among others, verification of the quality of the exposures underlying the securitization position, timeliness of payments and service, compliance with the transactions conditions, the financial situation of the institutions participating in the transaction, etc.

Existing Group's commitment in securitized assets is not exposed to market risk due to the accounting treatment applied.

The Group does not use any additional collateral (other than arising from the transaction's structure) and unfunded protection of securitization positions

The main risk of securitisation transactions is credit risk. Other important risks of the transaction are *inter alia* the risk of early repayment and the risk of partial prepayment (limited by discounting).

Given the above risks, the Group's credit procedures ensure conducting quality monitoring of securitization portfolio on a quarterly basis.

For the assessment of the securitized portfolio, the Group applies internal rating methodology that is based largely on Fitch's methodology.

Risk weighted exposure for securitization portfolio is determined in accordance with the Regulation (EU) 2017/2401 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms, effective from January 1, 2019. Risk weights are calculated according to the standard method (SEC-SA) with an additional correction for STS securitization.

In relation to possessed securitization positions, the Bank acts as an investor.

Table 35. The total amount of exposure and capital requirement for securitization exposures held

Exposure class	The total amount of exposure in 000'PLN	Capital requirement in 000'PLN
Items representing securitisation positions	1 744 505	18 753

6. Market risk

`The amount of capital requirements for individual types of market risk are presented below for:

- fx risk,
- general and specific equity risk,
- specific risk for debt securities,
- general interest rate risk.

Table 36. EU MR1: Market risk under standardised approach

	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	1 095 550	87 644
Equity risk (general and specific)	28 575	2 286
Foreign exchange risk	0	0
Commodity risk	0	0
Options		
Simplified approach	0	0
Delta-plus method	0	0
Scenario approach	0	0
Securitisation (specific risk)	0	0
Total	**1 124 125**	**89 930**

The information regarding the exposure to interest rate risk on positions not included in the trading book are disclosed in explanatory note 3 “Risk Management” to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2020.

The interest rate risk is measured on a daily basis.

The Group does not use internal model method for calculating capital requirements for trading book exposures.

7. Information regarding the exposures in equities not included in the trading book

Bank's equity investments are broken down into strategic portfolio and divestment portfolio. Strategic portfolio includes entities in the financial sector that help in expansion of products offered by the Bank, increase prestige and reinforce Bank's position in the competing financial services Polish market. Strategic portfolio includes infrastructure providers conducting business for financial sector, which are not controlled by the Bank, but provide strategic value for the Bank due to conducted operations. Divestment portfolio contains entities directly and indirectly owned by the Bank that have no Bank's strategic commitment. Some companies held for sale are restructured commitments, which originate from debt-to-equity swap transactions.

Detailed information on how the Group's equity investment portfolio is broken down based on purchase reasons are described in chapter VI point No 8 „Equity investments" of the Report on Activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2020.

A description of accounting techniques applied as well as capital commitments valuation methodologies is in explanatory note 2 „Significant accounting policies" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2020.

Information on balance sheet value and the fair value of capital expositions not included in the trading book is in explanatory note 38 „Fair value information" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2020.

The value of equity exposures, broken down into listed equity exposures and portfolios of securities not admitted to trading in the regulated equity market is provided in explanatory note 21 „ Equity and other instruments measured at fair value through the income statement" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2020.

8. Operational risk

Operational risk is understood as risk of loss resulting from inadequate or deficient internal processes, human factors, systems and technology or external events (including the following risk categories: technology, fraud, money laundering and terrorist financing, continuity of business, tax and accounting, product, model, human resources, concentration, conduct, reputational associated with business and market practices, as well as legal, compliance and operational risks inherent in other risk categories and/or managed in separate processes (e.g. credit risk, market risk, counterparty risk, liquidity risk).

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

For calculation of capital requirement for operational risk Group applies standardised methodology (STA), defined in Regulation No. 575/2013.
The Group doesn't apply advanced methodologies for calculation of capital requirement for operational risk.

Information regarding operational risk, as specified in the paragraph 17.3 of Recommendation M on the management of operational risk in banks

With regard to losses impacting financial results, for Retail Banking and Leasing all Events are reported and for the other areas of Group losses exceeding equivalent of USD 1 thousand are reported.

Total Group's gross losses accounted to operational risk cost in Group (absolute value, including gains, excluding recoveries) recorded in the year 2020, split by operational risk event types and categories (in accordance with appendix 1 to Recommendation M) are presented in the table 37.

Table 37. Total operational risk gross losses by types of events

Events' types and categories	Amount
Execution, Delivery & Process Management - Related Events	2469
Transaction Capture, Execution & Maintenance	2114
Monitoring and Reporting	320
Third Party Management - External/Internal	32
Customer / Client Account Management	3
External Theft and Fraud	1216
Credit Card Fraud; Internet losses - non-liability shifted	553
Electronic Banking and Internet Fraud; Distribution of Rogue Software	260
Fraudulent Application - Non Card related	192
Debit/ATM Card Fraud; Stolen Card	163
Other External Theft and Fraud	48
Clients, Products & Business Practices - Related Events	295
Product Design	145
Suitability, Disclosure & Fiduciary	130
Business Practices or Market Conduct	20
Employment Practices and Workplace Environment - Related Events	172
Employee Relations	148
Diversity & Discrimination	23
Systems & Technology	118
Inadequate Systems Requirements, Development and Testing	71
Other Systems & Technology	36
Disruption Of Services and Processing Capabilities	11
Total	**4 270**

Gross value of operational losses accounted in the year 2020 (by booking date) amounted to PLN 4270 thousand. 64% (PLN 2740M) out of this amount was related to events, which occurred in prior years. Relation of gross losses to Group revenues as of 2020 amounts to 0,21%. The total amount of losses consists of almost 350 registered events (including homogenous events with financial effects not exceeding USD 10 thousand aggregated on a monthly basis). In terms of severity, in the year 2020 Group did not registered any new events >USD 100M, but there was registered >USD 100M increase amount of event reported in previous years (in result of court dispute finish). In the bucket >USD 20M and <USD 100M Group registered 5 events. The remaining events didn't exceed USD 20M.

The significant events affecting the total amount of 2020 losses include:

- PLN 1,7MM – increase of past event's (related to FX Options crisis in 2008) value due to unfavorable settlement of legal disputes.
- PLN 0,7MM - cumulated amount of losses resulting from credit and debit cards frauds (including skimming and internet frauds). Group incessantly works on preventing measures enhancements in that area. At the same time Group registered in 2020 recoveries in amount of PLN 0,1MM, what constitutes 17% of total gross loss amount in this area.
-

Operational risk events exceeding set tolerance thresholds are analyzed by independent control units in view of root causes and corrective actions. Corrective actions are monitored by management to avoid repetitive losses. The Group undertakes series of actions aiming at operational risk mitigation. The following actions were undertaken in 2020: verification of adequacy of applied controls, enhancements to control processes in areas of identified weaknesses, enhancements of fraud detection systems, revision of limits mitigating risk exposure, strengthening of independent verifications, enhancements to maker/checker controls, and staff training. Members of the Management Board approval is required for all losses exceeding established threshold, in view of analyses of causes of the losses and adequacy of corrective actions.

Risk appetite set for the year 2020 were not exceeded.

The information regarding the operational risk is disclosed in explanatory note 3 "Risk Management" to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2020.

VI. Internal Capital Adequacy Assessment

The Group identifies and manages all types of risks in its activity while some of them considering as significant. For all measurable risks that are considered as significant in the Group's activity, the Group estimates and allocates capital. For this purpose the Group implemented process of estimation and allocation of the internal capital covering significant risk in which assessment of capital adequacy is performed (process ICAAP). The Group annually sets Overall Risk Appetite approved by the Management Board and Supervisory Board. Adopted Overall Risk Appetite clearly and consistently communicate the types and levels of risk the Bank is willing to take, within the context of the Bank's articulated business strategies.

The result of the ICAAP is to determine the capital plan which is consistent with approved by the Board and the Supervisory Board financial plan and risk appetite. It specifies the Group's capital needs and goals. Internal Capital is estimated for significant types of risk. The Group allocates internal capital to the particular business units. Risk and Capital Management Committee is responsible for the annual capital planning and ongoing monitoring of capital usage according to established limits.

Overall Risk Appetite is defined as the aggregated level of expected and unexpected losses, that Group is willing to assume to achieve its strategic objectives while maintaining target regulatory capital adequacy ratio Management Board on the basis of risk appetite decides on the level of aggregated limits on particular business units and sub-limits on measurable risks treated as significant.

Below we present the specific, measurable risks identified as significant in the Group in 2020:

- credit risk,
- counterparty credit risk,
- market risk in the trading book,
- interest rate risk in the banking book,
- liquidity risk,
- operational risk,
- compliance risk.

The Group assesses the internal capital for a base case and a downside scenario, which is a basis for the stress tests' analysis.

Scenarios are defined on the basis of the set of assumptions common to all risks analyzed. In addition, the Group analyzes a one in ten year's scenario (1/10), which forms a basis for additional risk / return measure.

The internal capital requirements for credit and counterparty risk were estimated according to advanced approach based on internal ratings for the following exposure classes: exposures to institutions, corporates, regional governments and local authorities and public sector entities. For exposures different than mentioned above internal capital requirements were calculated according to standardized approach specified in the Regulation No. 575/2013.

Capital requirement for operational risk has been calculated using standardized methodology approach specified in the Regulation No. 575/2013. Calculated capital requirement, according with the accepted methodology, is increased by add-on, if stress tests show necessity to increase internal capital for operational risk.

Internal capital for market risk in trading book is based on an integrated measure, which takes into account both the value at risk (VaR), and the size of losses in stress scenarios, estimating unexpected loss on the trading portfolio with the probability of 99.9% in 1Y time horizon. In the case of banking book (accrual) portfolios quantification of internal capital, is based on a combination of potential maximum decrease in net interest income of the bank in the perspective of one year in conjunction with the maximum negative impact of changes in interest rates on the economic value of the bank's capital, determined in stress scenarios with the probability of 99.9% in 1Y time horizon.

In the case of liquidity risk, the amount of internal capital allocation is based on current and projected elements of supervisory measures, taking into account the stress scenarios within the next 12 months.

The Group does not use diversification effect while aggregating estimated internal capital for significant risks.

The Group adopted proper methods for capital allocation to the business units.

The organisational units engaged in the process of assessment of internal capital are required to ensure adequate level of internal control in the capital calculation process for significant risks. Audit Department conducts independent review of the process of capital assessment and maintenance.

The Banks’s capital adequacy assessment process in the form of "Capital Group of Bank Handlowy w Warszawie S.A. Capital Management" document is approved by the Management Board.

Risk and Capital Management Committee is responsible for ongoing capital adequacy assessment. The Committee supervises the compliance with Overall Risk Appetite established by the Supervisory Board and monitors capital adequacy taking into account the quantitative ratios and capital limits utilization.

Risk and Capital Committee of the Supervisory Board receives periodically report on assessment and utilizations of internal and regulatory capital.

If determined within the Overall Risk Appetite level of capital adequacy ratio falls below approved threshold or the Group does not have enough capital to cover internal capital allocation for significant risks, the contingency capital plan will be activated.

VII. Capital Buffers

The Group was obliged to maintain conservation capital buffer of 2.5 p.p. of total risk exposure amount in 2020.

On 4 October 2016, Polish Financial Supervision Authority identified the Group as Other Systemically Important Institution (O-SII) and imposed an additional capital buffer – O-SII capital buffer – of 0,25% of total risk exposure amount.

In 2020, the buffer level of other systemically important institutions of 0.25% of the total risk exposure amount was maintained by the Polish Financial Supervision Authority.

On March 19, 2020, the Regulation of the Minister of Finance, repealing the regulation on the systemic risk buffer, entered into force. As at December 31, 2020, the systemic risk buffer was 0%.

The countercyclical buffer rate for credit exposures in the territory of the Republic of Poland, which was applicable at the end of 2020, pursuant to Article 83 of the Act, is 0%. The indicator in this amount is valid until its level is changed by the Minister of Finance by way of a regulation.

Table 38. The amount of the institution-specific countercyclical capital buffer

	As of 31.12.2020
Total risk exposure amount (in PLN'000)	27 570 876
Institution-specific countercyclical capital buffer rate (%)	0,01140
Institution-specific countercyclical capital buffer requirement (in PLN'000)	3 143

Table 39. Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (in PLN'000)

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
Country	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book exposure for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirements weights (%)	Countercyclical capital buffer rate (%)
Poland	23 130 033	-	7 754	-	1 199 323	-	1 620 473	621	14 392	1 635 486	95,66747	0,000
Luxembourg	305 954	-	292	-	0	-	24 476	23	0	24 499	1,43311	0,250
Norway	154 526	-	0	-	0	-	12 362	0	0	12 362	0,72312	1,000
India	105 091	-	0	-	0	-	8 407	0	0	8 407	0,49178	0,000
United States	59 661	-	0	-	0	-	7 001	0	0	7 001	0,40955	0,000
United Kingdom	31 210	-	0	-	0	-	2 497	0	0	2 497	0,14605	0,000
Switzerland	29 082	-	0	-	0	-	2 327	0	0	2 327	0,13609	0,000
Ireland	28 623	-	0	-	545 182	-	2 290	0	4 361	6 651	0,38907	0,000
Hungary	25 822	-	0	-	0	-	2 066	0	0	2 066	0,12084	0,000
Czech Republic	25 259	-	0	-	0	-	2 021	0	0	2 021	0,11820	0,500
Belgium	19 962	-	0	-	0	-	1 597	0	0	1 597	0,09342	0,000
Netherlands	19 348	-	0	-	0	-	1 548	0	0	1 548	0,09054	0,000
Germany	15 610	-	0	-	0	-	1 149	0	0	1 149	0,06720	0,000
Latvia	7 498	-	0	-	0	-	600	0	0	600	0,03509	0,000
Lithuania	7 496	-	0	-	0	-	600	0	0	600	0,03508	0,000
Sweden	7 315	-	0	-	0	-	585	0	0	585	0,03423	0,000
France	1 546	-	0	-	0	-	124	0	0	124	0,00723	0,000
Romania	117	-	0	-	0	-	9	0	0	9	0,00055	0,000
Austria	22	-	0	-	0	-	2	0	0	2	0,00010	0,000
British Virgin Islands	6	-	0	-	0	-	0	0	0	0	0,00003	-
Hong Kong	5	-	0	-	0	-	0	0	0	0	0,00002	1,000
Cyprus	1	-	0	-	0	-	0	0	0	0	0,00000	0,000
South Korea	1	-	0	-	0	-	0	0	0	0	0,00000	0,000
United Arab Emirates	1	-	0	-	0	-	0	0	0	0	0,00000	-
Bermuda	0	-	0	-	0	-	0	0	0	0	0,00000	-
Estonia	0	-	0	-	0	-	0	0	0	0	0,00000	0,000
Finland	0	-	0	-	0	-	0	0	0	0	0,00000	0,000
Spain	0	-	260	-	0	-	0	21	0	21	0,00121	0,000
Malta	0	-	0	-	0	-	0	0	0	0	0,00000	0,000
Russian Federation	0	-	0	-	0	-	0	0	0	0	0,00000	0,000
Slovakia	0	-	0	-	0	-	0	0	0	0	0,00000	1,000
Taiwan	0	-	0	-	0	-	0	0	0	0	0,00000	-
Italy	0	-	0	-	0	-	0	0	0	0	0,00000	0,000
Total	**23 974 189**	-	**8 306**	-	**1 744 505**	-	**1 690 134**	**665**	**18 753**	**1 709 552**	**100**	

VIII. Information regarding the remuneration policy

At Bank Handlowy w Warszawie S.A. (Bank) and at Dom Maklerski Banku Handlowego S.A. (DMBH) – subsidiary of the Bank – the following policies are binding (respectively): the "Remuneration policy for Members of the Management Board and Members of the Supervisory Board of Bank Handlowy w Warszawie S.A." adopted by way of resolution of the General Meeting of Shareholders on June 4, 2020, the "Remuneration policy for employees of Bank Handlowy w Warszawie S.A." (dated 22 December 2017 with subsequent amendments) and "Remuneration policy for employees of Dom Maklerski Banku Handlowego S.A." (dated 3 January 2018 with subsequent amendments), hereinafter referred to as the Remuneration Policy. The above Remuneration Policies have replaced the Remuneration policies for the key Persons, including persons that have material impact on the risk profile, existing in the Bank and DMBH.

The Remuneration policy for Members of the Management Board and Members of the Supervisory Board of Bank Handlowy w Warszawie S.A sets out the principles for remunerating Members of the Management Board and Members of the Supervisory Board of the Bank, contributing to implementation of the strategy of the Bank, effective risk management, it's long-term interest and stability. This policy implements provisions regarding shaping of the rules of remuneration set forth in the amendment to the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and on public companies dated October 16, 2019.

The Remuneration Policy sets out the principles for remunerating other employees of Bank and DMBH, including in particular Key Persons and is aimed at aligning compensation practices, structures and decisions with shareholder interest and effective risk management by encouraging prudent decision-making .

This Policy implements requirements of the provisions of law, Rules of Corporate Governance for Supervised Institutions adopted by the Polish Financial Supervision Authority and the Code of Best Practice for WSE Listed Companies 2016, recommendations of the Polish Financial Supervision Authority covering banking sector and takes into account Guidelines of the European Banking Authority on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013, Guidelines of the European Banking Authority on remuneration policies and practices related to the sale and provision of retail banking products and services, Guidelines of European Securities and Markets Authority on remuneration policies and practices (MiFID).

Principles for remuneration of employees that have a material impact on the risk profile in the Bank and DMBH are described in details in the "Remuneration policy for persons whose professional activities have a material impact on the risk profile of Bank Handlowy w Warszawie S.A." which was adopted by the Management Board and approved by the Supervisory Board of the Bank on 22 December 2017,with subsequent amendments, and the "Remuneration policy for persons whose professional activities have a material impact on the risk profile of Dom Maklerski w Warszawie S.A." which was adopted by the Management Board and approved by the Supervisory Board of DMBH on 3 January 2018, with subsequent amendments (hereinafter referred to as "Remuneration Policy for Identified Staff"). Above mentioned policies have replaced "Variable remuneration components policy for managerial staff at Bank Handlowy w Warszawie S.A." binding from 26 September 2012 and "Variable remuneration components policy for managerial staff at Dom Maklerski Banku Handlowego S.A." binding from 3 March 2012.

In the work on preparation and implementation of both polices mentioned above were involved:

- the members of the Bank's Nomination and Remuneration Committee,
- the Bank's and DMBH's Management Board,
- the head of the Banks's Legal Department and DMBH Legal Team,
- the head of the Banks's Human Resources Department,
- the Bank's and DMBH manager of the Compensation & Benefits Department,
- and, for the initial version, as an external Bank's and DMBH consultant, the law firm "Clifford Chance Janicka, Krużewski, Namiotkiewicz i wspólnicy spółka komandytowa".

Variable remuneration for Bank's Management Board Members is granted by the Supervisory Board and for other employees covered by the "Remuneration Policy for Identified Staff" by the Management Board. It should be noted that the Nomination and Remuneration Committee of the Supervisory Board was established in the Bank. It provides recommendations and opinions on the levels and conditions of variable remuneration of employees covered by the Remuneration Policy for Identified Staff and acknowledges information on the current List of employees whose professional activities have a material impact on the Bank's risk profile

Additionally, each time, in case of the change of the Remuneration Policy for Identified Staff , the Nomination and Remuneration Committee gives its opinion on the changes, including the amounts and components of remuneration, taking into account a cautious and stable risk, capital and liquidity management, and paying special attention to long-term interests of the Bank, the interest of the Bank's shareholders and investors.

In 2020 there were five meetings of the Nomination and Remuneration Committee.

As at December 31, 2020 the Nomination and Remuneration Committee was composed of:

1. Andrzej Olechowski – Chairman of the Committee,
2. Jenny Grey – Vice Chairman of the Committee,
3. Zdenek Turek – Member of the Committee,
4. Stanisław Sołtysiński – Member of the Committee.

In DMBH decisions related to remuneration and grant of variable remuneration for the Management Board Members are made by the Supervisory Board and for other employees covered by the Remuneration Policy for Identified Staff by the Management Board. Implementation of this policy is subject to at least annual review performed by the function responsible for internal control and risk management. Written report covering the assessment of implementation of Remuneration Policy for Identified Staff is presented to DMBH Supervisory Board.

Each time, in case of the change of the Remuneration Policy for Identified Staff, DMBH Supervisory Board approves the changes, including the amounts and components of remuneration of the Management Board, taking into account a cautious and stable risk, capital and liquidity management, and paying special attention to long-term interests of DMBH, the interest of the DMBH shareholders and investors. In 2020, apart from the assessment of the functioning of the Remuneration Policy, DMBH Supervisory

Board adopted resolutions related to the remuneration of Identified Staff on a circulation basis five times.

In 2020 the Bank and DMBH analyzed the roles and the responsibilities of their employees in relation to the key manageable risks in the Bank and DMBH as well as quantitative and qualitative criteria described in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile and on this basis set the list of employees, who have a material impact on the risk profile of the Bank or DMBH accordingly and therefore should be the subject to the provisions of the Remuneration Policy for Identified Staff. Once a year, by 31 December, the current List of Identified Staff is submitted for the information of the Management Board and the Supervisory Board. The list of the employees under the Remuneration Policy for Identified Staff includes:

- President, Vice-Presidents and the Members of the Management Board of the Bank and DMBH,
- the members of the Risk and Capital Management Committee,
- the members of the Asset-Liability Committee,
- the heads of business lines,
- management staff responsible for control functions in the Bank, i.e. the head of internal audit, the head of compliance division and the heads of risk management, human resources and legal departments,
- other supervisors, whose actions significantly impact assets and liabilities of the Group and which directly influence entering into or changing the contracts and their conditions by the Group,
- other employees who met at least one criterion described in Commission Delegated Regulation.

The philosophy of awarding the persons under the Remuneration Policy for Identified Staff, adopted by the Group, implies the compensation differentiation of particular employees based on the financial and non-financial criteria, such as attitude to take risk and assurance of compliance to reflect their current and future contribution and to supplement mechanisms of efficient risk control by limiting the motivation for taking unreasonable risk impacting the Group and its activities and by rewarding the proper balance between risk and rate of return. According to this philosophy, the payment of variable remuneration to staff under the Remuneration Policy for Identified Staff depends on both the short-term and long-term evaluation of the individual performance and the financial results of the Bank or DMBH or specific organizational unit, whereby the persons responsible for control functions are not assessed for the financial results within business areas they control. The assessment of the Bank's results or results of DMBH is based on the data from three financial years, which takes into account the business cycle of the Bank or DMBH and risk of its economic activities. In case of staff employed less for than 3 years when evaluating the Bank's results and results of DMBH the data includes the span of time from the establishing working relationship. The variable remuneration for 2020, granted January 11, 2021, was divided into non-deferred and deferred portions. The deferred portion is subject to deferral over 3 or 5 years and will be paid out respectively in years 2022-2024 or in years 2022-2027, subject to conditions provided for in the Remuneration Policy for Identified Staff. Information on adopted solutions binding in 2020 was given in Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2020 in the explanatory note 46 "Employee benefits".

Each time, vesting of particular tranches of deferred variable remuneration requires approval of the Supervisory Board in relation to remuneration of the Management Board Members and the Management Board in the relation to remuneration of other employees.

The portion being deferred depends on the amount of the variable remuneration awarded, as follows:

- less than PLN 100 thousand – no deferral,
- between PLN 100 thousand and equivalent of EUR 500 thousand (in DMBH up to the equivalent of EUR 1 million) – deferral over 3 or 5 years of 40% of the variable remuneration with 6 or 12 months retention period for each tranche of the award,
- above the equivalent of EUR 500 thousand (in DMBH above the equivalent of EUR 1 million) – deferral over 3 or 5 years of 60% of the variable remuneration with 6 or 12 months retention period for each tranche of the award.

The variable remuneration for adopted Remuneration Policy's and Remuneration Policy for Identified Staff's purposes is understood as – in case of the members of the Management Board – discretionary bonus granted by the individual decision of the Supervisory Board, and in case of other Identified Staff – the annual bonus.

At least 50% of the variable remuneration should be awarded in the form of non-cash instruments value of which depends on the financial results of the Bank or DMBH accordingly. This condition is fulfilled by the phantom shares, value of which in case of Bank Handlowy fluctuates depending on the market value of the Bank's shares and in case of DMBH is linked to the value of the DMBH's shares calculated on basis of DMBH book value. The remaining part of the variable remuneration is a cash award, whereby the interests for the period from grant to payment will be accrued to the given tranche of the deferred variable remuneration. In DMBH, in compliance with the Regulation of the Minister of Economic Development and Finance of 25 April 2017 on the internal capital, the risk management system, a supervisory examination programme and supervisory review and assessment, as well as the remuneration policy in brokerage house, in case a share of variable remuneration in fixed remuneration is lower than 50%, only deferred cash variable remuneration is applied.

During the deferral period, employees who are rewarded in Bank's phantom shares are entitled to dividend equivalent payments in respect of any dividends that are declared and paid to ordinary holders of BHW stock, in accordance with the Remuneration Policy for Identified Staff. Employees, who have variable remuneration deferred in DMBH phantom shares, are not entitled to dividend equivalent.

Starting from the day of adoption of the relevant resolution by the General Shareholders Meeting, both at the Bank and DMBH - respectively on June 21, 2016 at the Bank and June 27, 2017 at DMBH – the maximum ratio of variable remuneration to fixed remuneration of the Identified Staff was approved at 1:2.

Regardless of changes of the deferred variable remuneration's value associated with the fluctuation of the Bank's share price, changes of DMBH book value or accrued interest, the amount of deferred portion of the award to be paid out may be decreased or completely reduced based on decision of Supervisory Board or accordingly of the Management Board in of the following situations:

- standards concerning the guarantee of safe and prudent Bank management in BHW and the competencies and reputation standards in DMBH have not been met the which is verified by determination if:
  - Identified Staff engaged in gross misconduct in connection with his/her employment duties, in particular participated in or was responsible for conduct which resulted in significant losses to the Bank or DMBH; or
  - Identified Staff knowingly engaged in providing materially inaccurate information to the financial statements of the Bank or BDMH; or
  - The Bank or DMBH suffers a material failure of risk management; or
  - The Identified Staff materially violate any risk limits established or revised by senior management and/or risk management.
- In a situation set forth in Art. 142 sec. 1 of the Banking Law in case of Bank's employees and in situation set in w Art. 110zz sec. 1 of the Act on Trading in Financial Instruments dated 29 July 2005 in case of DMBH employees, or
- In case Identified Staff received the Variable Remuneration based on materially inaccurate financial statements, or
- In case the Bank or DMBH has suffered a material downturn in its financial performance; or
- In case of balance sheet loss, threat of insolvency of loss of liquidity by the Bank or DMBH.

The acquisition of the right to each tranche of deferred variable remuneration will depend on the Bank's results or DMBH results accordingly in the calendar year directly preceding the date of awarding of the right to given tranche ("Year Concerning the Results").

If the Bank or DMBH accordingly suffers a loss calculated as a loss before tax for the Year Concerning the Results, then the Long-term Bonus in the Phantom Shares, to which the right may be earned during the calendar year following the end of the Year Concerning the Results, will be reduced (but not below zero) by a percentage defined as (i) the absolute value of the loss before tax suffered by the Bank or DMBH accordingly in the given Year Concerning the Results, divided by (ii) the absolute value of the highest profit before tax made by the Bank or DMBH accordingly in the period covering three calendar years before the proper Year Concerning the Results, Irrespective of the above, if the Bank or DMBH accordingly suffers any loss calculated as the loss before tax for the Year Concerning the Results, the minimum percentage reduction of 20% will be applied.

The amount of profit (or loss) before tax for each adequate Year Concerning the Results will be the total value of profit (loss) before income tax for the current operations of the Bank or DMBH accordingly. The results for the calendar year will be defined on a basis of the local IFRS statements, which will be covering the audited results for the first three quarters (in accordance with the report to WSE and adequate public authorities), and the last quarter of the year will consist of the actual results for the first two months of this quarter and the estimates for the last month. The estimates will be defined by the Financial Department of the Bank or DMBH accordingly and they will be final and binding regardless of the actual final results.

If the absolute value of the loss before tax suffered by the Bank or DMBH accordingly for the Year Concerning the Results equals or exceeds the total value of the highest profit before tax in the Group's calendar year in the Measurement Period, then the Authorized Persons will not earn the rights to the given tranche.

Based on the above information and based on own judgment as well as after review by the Nomination and Remuneration Committee when applicable, the Supervisory Board in relation to the members of the Management Board or the Management Board in relation to other Identified Staff takes final relevant decisions on the acquiring of right to a given tranche of Deferred Variable Remuneration.

Table 40. Remuneration of employees covered by the Variable Remuneration Policy in 2020

Category/Sector	Number of Employees [2]	Total fixed remunaration [3]	Total variable remunaration[4]	Cash Award			Phantom shares of Bank Handlowy w Warszawie S.A.			
				Non deferred cash award	Deferred cash award		Short-term phantom shares award		Long-term phantom shares award	
				Paid[5]	Paid	Accrued, unvested	Paid	Accrued, unvested	Paid	Accrued, unvested
Management Board	7	12 827	12 101	2 228	2 053	2 772	1 588	1 779	1 098	582
Consumer Bank Segment	6	3 013	642	287	41	-122	102	201	23	110
Corporate Bank Segment[6]	66	32 653	19 141	5 794	1 254	3 456	1 904	4 063	694	1 978
Total Bank	**79**	**48 494**	**31 885**	**8 309**	**3 349**	**6 105**	**3 594**	**6 043**	**1 814**	**2 670**
Brokerage house	10	3 654	536	367	95	68	-	-	9	-3
Total Group	**89**	**52 147**	**32 421**	**8 676**	**3 444**	**6 173**	**3 594**	**6 043**	**1 824**	**2 667**

[1] Within the Group, there were separate Remuneration Policies of Identified Staff which have replaced the Variable Remuneration Policies binding in previous years, both in the Bank and DMBH. The above table presents remuneration under those Policies.

[2] Including employees covered by the Remuneration Policy for Identified Staff as of 31 December 2020, during whole 2020 there were 85 employees covered by Remuneration Policy for Identified Staff in the Bank and 10 employees in the Brokerage House.

[3] Represents fixed remuneration and covers gross amounts of base salary, benefits, insurance, payment in lieu of leave, benefits provided for in employment contracts of foreign employees.

[4] In addition in 2020 the Bank paid out deferred cash award with interest and long-term phantom shares award with dividends to the employees who were not covered in 2020 by the Remuneration Policy for Identified Staff. The full cost of the payouts of those awards in 2020 is included in the financial statement.

[5] Paid out in 2021.

[6] Covers employees not being Members of the Management Board of the Bank and who are not employed in the Consumer Bank Segment.

The table above does not include the compensation and benefits of individuals who were not covered by the Remuneration Policy for Identified Staff.

Information related to payments in 2020 associated with hiring of employees covered by the Remuneration Policy for Identified Staff:

- No. of employees: 1 employee,
- Payment amount: PLN 679,9 thousand[2].

Information related to 2020 severance payments for employees covered by the Remuneration Policy for Identified Staff:

- No. of employees: 1 employee,
- Payment amount: PLN 902,8 thousand1,
- Highest such payment to a single person: PLN 902,8 thousand.
- Number of individuals being remunerated in 2020 at least EUR 1 million:

No. of employees: none.

- Within the scope of the Remuneration Policy for Identified Staff, in the column "Non - deferred cash award" of the table above there is presented the non - deferred part, paid out in 2021, being a cost of 2020. The deferred part – consisting of deferred cash award and phantom share award – will be paid tranches in years 2022-2024 or 2022-2027 and is given in the values of the cost of 2020 in accordance with the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended December 31, 2020.

There were no reductions of remuneration awarded under the Remuneration Policy for Identified Staff within the correction connected with the results.

IX. Unencumbered assets

For the purposes of these disclosures assets are encumbered, when they are pledged or used as collateral or as enhancement of transaction's credit quality and their transferability is restricted.

As at 31 December 2020 the Group had encumbered assets due to negative valuation of derivative transactions and securities and received credit collateral.

[2]Those payments are not performance-related. Therefore, in the table on the previous page, it is disclosed under total fixed remuneration.

Table 41. Encumbered and unencumbered assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Assets of the reporting institution***	1 604 016	-	61 256 492	-
030	Equity instruments	-	-	144 995	-
040	Debt securities	144 953	144 953	30 055 090	30 055 090
050	of which: covered bonds	-	-	-	-
060	of which: asset-backed securities	-	-	-	-
070	of which: issued by general governments	144 953	144 953	22 586 505	22 586 505
080	of which: issued by financial corporations	-	-	7 249 742	7 249 742
090	of which: issued by non-financial corporations	-	-	218 843	218 843
120	Other assets	1 459 063	-	31 056 407	-
121	of which: Loans and advances	1 459 063	-	23 208 782	-

*In the above table, the balance sheet total is higher than the balance sheet total in the Group's consolidated financial statements. The difference results from the netting of assets and liabilities due to derivatives cleared by a central counterparty that meet the netting criteria in accordance with IAS 32. Detailed explanations of the netting rules and amounts offset are included in the consolidated financial statements.

Table 42. Collateral received by the reporting institution

		Fair value of encumbered collateral received or own debt securities issued	Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	-	**1 295 162**
140	Loans on demand	-	283 593
150	Equity instruments	-	2 969
160	Debt securities	-	288 873
170	of which: covered bonds	-	-
180	of which: asset-backed securities	-	-
190	of which: issued by general governments	-	288.873
200	of which: issued by financial corporations	-	-
210	of which: issued by non-financial corporations	-	-
220	Loans and advances other than loans on demand	-	78.392
230	Other collateral received	-	641.335
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	-	-
241	**Own covered bonds and asset-backed securities issued and not yet pledged**	-	-
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**1 604 016**	-

Table 43. Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**881 509**	**1 329 562**
011	of which: derivatives	804 578	1 252.632
012	of which: repurchase agreements	-	-
013	of which: collateralised deposits other than repurchase agreements	76 930	76 930
014	**Other sources of encumbrance**	**160 814**	**274 454**
015	**TOTAL SOURCES OF ENCUMBRANCE**	**1 042 323**	**1 604 016**

X. Leverage ratio

Information on the leverage ratio at 31 December 2020: summary reconciliation of accounting assets and leverage ratio exposures, the calculation of the leverage ratio and the split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) are presented in the following tables:

Table 44. Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts in 000'PLN
1	Total assets as per published financial statements	60 941 538
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation No. 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	1 043 357
5	Adjustments for securities financing transactions "SFTs"	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	4 042 868
6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation No. 575/2013)	-
6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation No. 575/2013)	-
7	Other adjustments	-
8	**Total leverage ratio exposure**	**66 027 763**

Table 45. Leverage ratio common disclosure

		CRR leverage ratio exposures in 000'PLN
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	56 888 030
2	(Asset amounts deducted in determining Tier 1 capital)	-1 151 614
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**55 736 416**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	2 614 802
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2 732 680
5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-301 165
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective Notional amount of written credit derivatives	-
10	(Adjusted effective Notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**5 046 317**
Securities financing transaction exposures		
12	Gross SFT assets (with No. recognition of netting), after adjusting for sales accounting transactions	50 548
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation No. 575/2013	-
15	Agent transaction exposures	-

15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	50 **548**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross Notional amount	16 502 383
18	(Adjustments for conversion to credit equivalent amounts)	-12 459 515
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	4 **042 868**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation No. 575/2013 (on and off balance sheet))	-
19b	(Exposures exempted in accordance with Article 429 (14) of Regulation No. 575/2013 (on and off balance sheet))	-
Capital and total exposures		
20	**Tier 1 capital**	6 204 936
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, 19a and 19b)**	64 876 149
Leverage ratio		
22	**Leverage ratio**	9.6**%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
23	Choice on transitional arrangements for the definition of the capital measure	
24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation No. 575/2013	-

Table 46. Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures in 000'PLN
1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	56 888 030
2	Trading book exposures	979 644
3	Banking book exposures, of which:	55 908 386
4	Covered bonds	-
5	Exposures treated as sovereigns	29 148 122
6	Exposures to regional governments, MDB, international organisations and PSE No.T treated as sovereigns	2 462 757
7	Institutions	1 213 920
8	Secured by mortgages of immovable properties	2 759 288
9	Retail exposures	5 324 813
10	Corporate	10 670 236
11	Exposures in default	189 336
12	Other exposures (e.g. equity, securitisations, and other Non-credit obligation assets)	4 139 914

The Group does not use exemptions specified in Articles 499. 2 and 3 of the CRR when calculating leverage ratio. The Group does not exempt amounts from total exposure on the basis of Article 429.11 of the CRR.

The main factor impacting the leverage ratio was increase in Nostro account balance and one-day placement in Narodowy Bank Polski, as well as increase in credit exposures and decrease in value of available for sale securities.

The level of leverage ratio is monitored periodically. Information about the current ratio is reported to the Asset and Liability Management Committee on a monthly basis and to the Risk and Capital Management Committee of the Bank’s Management Board and to the Risk and Capital Committee of the Supervisory Board on a quarterly basis.

The Group manages the risk of excessive leverage, among others, by establishing the risk appetite levels and tolerance thresholds for leverage ratio. Risk appetite, tolerance thresholds for leverage ratio and the escalation process in case of breach of thresholds set up in process ICAAP are approved by the Management Board in the form of "Internal Capital Adequacy Assessment Process (Capital Group of Bank Handlowy w Warszawie S.A.)" document.

XI. Declaration of the Management Board of Bank

The Management Board of Bank Handlowy w Warszawie S.A hereby:

- declares that, to the best of its knowledge, the information disclosed in the document "Information on capital adequacy of the Capital Group of Bank Handlowy w Warszawie S.A. as at December 31, 2020 ” in accordance with part eight of Regulation No. 575/2013, are adequate to the actual state; the adequacy of risk management arrangements at the Bank ensures that the applied risk management systems are appropriate from the point of view of the risk profile and strategy of the Bank and the entire Group.
- approves this document "Information on capital adequacy of the Capital Group of Bank Handlowy w Warszawie S.A. as at December 31, 2020 ", which includes information on risk, discusses the overall risk profile of the Bank and the Group related to the business strategy, and includes key indicators and figures that provide external stakeholders with a comprehensive view of the Group's risk management, including the interaction between the Bank's risk profile and the risk appetite, defined by the Management Board and approved by the Supervisory Board.

Signatures of Management Board Members

23.03.2021	Sławomir S. Sikora	President of the Management Board
....	....	....
Date	Name	Position/function
23.03.2021	Natalia Bożek	Vice-President of the Management Board
....	....	....
Date	Name	Position/function
23.03.2021	Dennis Hussey	Vice-President of the Management Board
....	....	....
Date	Name	Position/function
23.03.2021	Maciej Kropidłowski	Vice-President of the Management Board
....	....	....
Date	Name	Position/function
23.03.2021	Barbara Sobala	Vice-President of the Management Board
....	....	....
Date	Name	Position/function
23.03.2021	James Foley	Member of the Management Board
....	....	....
Date	Name	Position/function
23.03.2021	Katarzyna Majewska	Member of the Management Board
....	....	....
Date	Name	Position/function