2021 Annual Report

This document is not the official version of the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended December 31, 2021. Official Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended December 31, 2021, it was prepared in accordance with the requirements of the ESEF.

SELECTED FINANCIAL DATA	PLN'000		EUR'000***	
	2021	2020	2021	2020
Interest and similar income	824,249	1,118,882	180,065	250,074
Fee and commission income	742,899	645,163	162,294	144,196
Profit before tax	950,936	317,277	207,741	70,913
Net profit	717,468	172,395	156,738	38,531
Total comprehensive income	(40,781)	506,312	(8,909)	113,163
Increase/decrease of net cash	2,046,917	722,779	447,169	161,544
Total assets	61,862,771	60,941,538	13,450,183	13,205,673
Amounts due to banks	3,383,353	5,118,861	735,607	1,109,227
Amounts due to customers	43,507,474	43,393,906	9,459,380	9,403,204
Shareholders' equity	7,383,395	7,580,967	1,605,295	1,642,751
Share capital	522,638	522,638	113,632	113,253
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	56.51	58.02	12.29	12.57
Total capital adequacy ratio (in %)*	20.1	22.6	20.1	22.6
Earnings per share (PLN/EUR)	5.49	1.32	1.20	0.30
Diluted net earnings per share (PLN/EUR)	5.49	1.32	1.20	0.30
Declared or paid dividends per share (PLN/EUR)**	1.20	-	0.26	-

**Additional information on TCR calculation in the supplementary note no. 3 in the section "Capital Adequacy" and "Information on capital adequacy of Bank Handlowy w Warszawie S.A. as at 31 December 2021" subject to publication on the Bank's website. Calculation of TCR as of 31.12.2021 was subject to a separate review or audit by an auditor.*

***The Ordinary General Meeting of Shareholders of the Bank Handlowy w Warszawie S.A. (hereinafter GM) adopted a resolution on distribution of the net profit for 2020 and allocation to dividend to the Shareholders the amount of PLN 156 791 520.*

****The following foreign exchange rates were applied to convert PLN into EUR: for the statement of financial position - NBP mid exchange rate as at 31 December 2021 - PLN 4.5994 (as at 31 December 2020: PLN 4.6148); for the income statement, statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in 2021 – PLN 4,5775 in 2020: PLN 4.4742).*

2021

Consolidated financial statements

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Consolidated income statement

PLN'000	For the period Note	2021	2020
Interest income	5	772,212	1,019,691
Similar income	5	52,037	99,191
Interest expense and similar charges	5	(36,188)	(117,205)
Net interest income	5	**788,061**	**1,001,677**
Fee and commission income	6	742,899	645,163
Fee and commission expense	6	(93,031)	(85,201)
Net fee and commission income	6	**649,868**	**559,962**
Dividend income	7	**10,959**	**11,794**
Net income on trading financial instruments and revaluation	8	**514,603**	**311,405**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	39	**414,599**	**203,402**
Net gain/(loss) on equity and other instruments measured at fair value through income statement		**53,214**	**15,836**
Net gain/(loss) on hedge accounting	9	**(6,421)**	**556**
Other operating income	10	**18,878**	19,696
Other operating expenses	10	(89,648)	(56,028)
Net other operating income and expense	10	**(70,770)**	**(36,332)**
General administrative expenses	11	**(1,090,742)**	**(1,115,338)**
Depreciation expense	12	**(111,833)**	**(106,653)**
Net impairment allowances on non-financial assets	25	**-**	**(214,707)**
Profit/loss on sale of other assets		**(658)**	**(480)**
Provision for expected credit losses on financial assets and provisions for contingent liabilities	13	**(38,784)**	**(190,267)**
Operating profit		**1,112,096**	**440,855**
Tax on some financial institutions		**(161,160)**	**(123,578)**
Profit before tax		**950,936**	**317,277**
Income tax expense	14	**(233,468)**	**(144,882)**
Net profit		**717,468**	**172,395**
Including:			
Net profit attributable to the Bank's shareholders		717,468	172,395
Weighted-average number of ordinary shares (in pcs)	15	130,659,600	130,659,600
Net earnings per share (PLN)	15	5.49	1.32
Diluted net earnings per share (PLN)	15	5.49	1.32

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

Consolidated statement of comprehensive income

For the period		2021	2020
PLN'000	Note		
Net profit		**717,468**	**172,395**
Other comprehensive income, that is or might be subsequently reclassified to income statement:		**(762,051)**	**335,516**
Remeasurement of financial assets measured at fair value through other comprehensive income (net)	16	(426,210)	499,880
Profit or loss reclassification to income statement after derecognition of financial assets measured at fair value through other comprehensive income (net)	16	(335,825)	(164,756)
Currency translation differences		(16)	392
Other comprehensive income, that cannot be subsequently reclassified to income statement		**3,802**	**(1,599)**
Net actuarial profits/(losses) on defined benefit program valuation	16	3,802	(1,599)
Other comprehensive income net of tax		**(758,249)**	**333,917**
Total comprehensive income		**(40,781)**	**506,312**

Including:			
Comprehensive income attributable to the Bank's shareholders		(40,781)	506,312

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

Consolidated statement of financial position

As at		31.12.2021	31.12.2020
PLN'000	Note		
ASSETS			
Cash and balances with the Central Bank	17	6,526,743	4,488,332
Amounts due from banks	18	967,677	570,247
Financial assets held-for-trading	19	9,956,212	4,350,540
Hedging derivatives		119,290	-
Debt financial assets measured at fair value through other comprehensive income, including:	20	20,590,284	27,323,571
Assets pledged as collateral		*748,763*	*144,953*
Equity and other instruments measured at fair value through income statement	21	97,316	78,473
Amounts due from customers	22	21,327,600	21,914,223
Tangible fixed assets	23	451,671	476,909
Intangible assets	24	1,243,160	1,252,583
Current income tax receivables		54,721	48,714
Deferred income tax asset	26	264,313	174,223
Other assets	27	257,621	257,560
Non-current assets held-for-sale	28	6,163	6,163
Total assets		**61,862,771**	**60,941,538**
LIABILITIES			
Amounts due to banks	29	3,383,353	5,118,861
Financial liabilities held-for-trading	19	6,588,482	3,656,422
Hedging derivatives		-	98,025
Amounts due to customers	30	43,507,474	43,393,906
Provisions	30	142,024	84,775
Current income tax liabilities		5,974	3,666
Other liabilities	32	852,069	1,004,916
Total liabilities		**54,442,615**	**53,360,571**
EQUITY			
Share capital	34	522,638	522,638
Supplementary capital	34	3,001,699	3,002,265
Revaluation reserve	34	(312,018)	450,017
Other reserves	34	2,814,030	2,793,561
Retained earnings		1,357,046	812,486
Total equity		**7,383,395**	**7,580,967**
Total liabilities and equity		**61,862,771**	**60,941,538**

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

Consolidated statement of changes in equity

PLN'000	Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Total equity
Restated balance as at 1 January 2021	**522,638**	**3,002,265**	**450,017**	**2,793,561**	**812,486**	**7,580,967**
Total comprehensive income, including:	-	-	(762,035)	3,786	717,468	(40,781)
Net profit	-	-	-	-	717,468	717,468
Currency translation differences from conversion of foreign operations	-	-	-	(16)	-	(16)
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	(762,035)	-	-	(762,035)
Net actuarial profits/(losses) on defined benefit program valuation	-	-	-	3,802	-	3,802
Dividends paid	-	-	-	-	(156,791)	(156,791)
Transfer to capital	-	(566)	-	16,683	(16,117)	-
As at 31 December 2021	**522,638**	**3,001,699**	**(312,018)**	**2,814,030**	**1,357,046**	**7,383,395**

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

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

Consolidated cash flow statement

PLN'000	For the period	2021	2020
I. Net profit			
II. Adjustments:			
Current and deferred income tax recognized in income statement	14	**717,468**	**172 395**
Depreciation expense	12	**697,395**	**(320 071)**
Net result for expected credit losses on receivables	13	233,468	144 882
Net impairment due to nonfinancial assets value loss		111 833	106 653
Net provisions (recoveries), including provisions for contingent liabilities		52 493	204 636
Net interest income	5	-	214 707
Dividend income	7	54,870	20,722
Profit/loss on sale of fixed assets		658	480
Net unrealized exchange differences		(3 941)	(1 487)
Equity and other investment measured at fair value though the income statement		(53 214)	(15 799)
Other adjustments		20 539	17 742
Change in amounts due from banks	18	(388 544)	566 457
Change in amounts due from customers	22	560 023	1 635 224
Change in debt securities measured at fair value through other comprehensive income	20	5 599 855	(11 600 225)
Change in financial assets held-for-trading	19	(5 625 043)	1 044 019
Change in assets due to hedging derivatives	19	(119 290)	-
Change in other assets	27	(321)	(85,236)
Change in non-current held-for-sale	28	-	(6 163)
Change in amounts due to banks	29	(1 736 335)	2 993 837
Change in amounts due to customers	30	114 958	3 587 299
Change in liabilities held-for-trading	19	2 932 060	1 785 553
Change in liabilities due to hedging derivatives	19	(98 025)	78 799
Change in other liabilities	32	(159 629)	1 300
Interest received		**1 015 038**	**1 358 691**
Interest paid		**(36 756)**	**(128 007)**
Income tax paid		**(145 335)**	**(246 010)**
III. Net cash flows from operating activities		**2 247 810**	**836 998**
B. Investing activities			
Inflows		**49 369**	**12 966**
Disposal of tangible fixed assets	23	4 359	1 502
Disposal of capital shares	21	34 372	-
Received dividends		10 638	11 464
Outflows		**(85 787)**	**(119 367)**
Purchase of tangible fixed assets	23	(25 573)	(28 931)
Purchase of intangible assets	24	(60 214)	(90 436)
Net cash flows from investing activities		**(36 418)**	**(106 401)**
C. Financing activities			
Inflows		**-**	**-**
Outflows		**(168 453)**	**(13 837)**
Paid dividends		(156 792)	-
Outflows from lease payments		(11 661)	(13 837)
Net cash flows from financing activities		**(168 453)**	**(13 837)**
D. Exchange rate differences resulting from cash and cash equivalent calculation		**3 978**	**6 019**
E. Net increase/(decrease) in cash and cash equivalent		**2 046 917**	**722 779**
F. Cash and cash equivalent at the beginning of reporting period		**4 519 640**	**3 796 861**
G. Cash and cash equivalent at the end of reporting period (see note 44)	40	**6 566 557**	**4 519 640**

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

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

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

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

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

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

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

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

The Bank is a universal commercial bank that offers a range of banking services for individuals and corporate clients on domestic and foreign markets. Additionally, the Group operates in brokerage operations through its subsidiary – Dom Maklerski Banku Handlowego S.A.

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

The Group consists of the Bank and the following subsidiaries:

Subsidiaries	Registered office	% of share capital/votes at the General Meeting	
		31.12.2021	31.12.2020
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o. *(apart from indirect shareholding via Handlowy-Inwestycje Sp. z o.o.)*	Warsaw	97.47	97.47
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

Compared to the end of 2020, the structure of the Bank's Capital Group has changed. The liquidation of PPH Spomasz Sp. z o.o. was completed and the company was removed from the National Court Register on July 26, 2021.

In the first quarter of 2020, the Bank signed with Dom Maklerski Banku Handlowego S.A. ("DMBH") a conditional agreement of sale of the enterprise of DMBH to the Bank, on condition that the Bank obtains the approval to extend the brokerage license. That agreement covers the transfer of the brokerage activities carried out by DMBH to the Bank by way of transfer to the Bank of all assets and liabilities of DMBH via sale of the enterprise, including the assets necessary to run the brokerage activities of DMBH and the other assets and liabilities making up its enterprise.

On December 7, 2021 the Bank received a decision of the Polish Financial Supervision Authority granting the Bank permission to conduct brokerage activities. The license will form the basis for a combination of the brokerage activities currently conducted by the Bank's subsidiary - Dom Maklerski Banku Handlowego S.A. and the service of acceptance and transfers of orders provided by the Bank, thus introducing a significant change in the scope of services provided to clients directly by the Bank.

Financial information on subsidiaries, 31.12.2021

Subsidiaries fully consolidated

Name of subordinate	Location	Activity	Capital relationship	Share in equity (%)*	Assets	Liabilities	Equity	Revenues	Profit/ Loss
HANDLOWY – LEASING Sp. z o.o.	Warszawa	Leasing	Subsidiary	97,47	21,129	732	20,397	-	(441)

DOM MAKLERSKI BANKU HANDLOWE(S.A.	Warszawa	Brokerage	Subsidiary	100	742,894	618,481	124,41:	84,725	26,857
HANDLOWY INVESTMENTS S.A.	Luksemburg	Investment activity	Subsidiary	100	4,582	71	4,511	313	(231)
HANDLOWY – INWESTYCJE Sp. z o.o. ´	Warszawa	Investment activity	Subsidiary	100	10,519	57	10,462	-	(166)

Date in thousands of PLN
**direct share*

Explanation of indirect relationships:
1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o.

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/ Loss
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	414	21,129	732	20,397	-	(441)

Date in thousands of PLN

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2022, which is the entity's balance sheet date.

Financial information on subsidiaries, 31.12.2020

Subsidiaries fully consolidated .

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Assets	Liabilities	Equity	Revenues	Profit/ Loss
HANDLOWY – LEASING Sp. z o.o.	Warszawa	Leasing	Subsidiary	97,47	21,585	748	20,837	63	(567)
DOM MAKLERSKI BANI HANDLOWEGO S.A.	Warszawa	Brokerage	Subsidiary	100	736,813	622,862	113,951	74,376	16,372
PPH SPOMASZ Sp. z o.o. w likwidacji	Warszawa	-	Subsidiary			Entity under liquidation			
HANDLOWY INVESTMENTS S.A.	Luksemburg	Investment activity	Subsidiary	100	5,313	85	5,228	480	(230)
HANDLOWY – INWESTYCJE Sp. z c 1/	Warszawa	Investment activity	Subsidiary	100	10,701	72	10,629	28	(151)

Date in thousands of PLN
**direct share*

Explanation of indirect relationships:
1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit/ Loss
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	414	21,585	748	20,837	63	(567)

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

2. Significant accounting policies

Declaration of conformity

The annual consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("IFRS EU") and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2021, item 217, 2105, 2106) respective operating regulations and regulations relating to issuers of securities admitted or sought to be admitted to trading on the official stock exchange quotation market.

The financial statements of the Group were prepared on the assumption that the Group will continue as a going concern for at least 12 months from balance sheet day. As at the date of signing this financial statements, the Management Board of the Bank does not state any facts or circumstances that would indicate a threat to the Bank's ability to continue as a going concern for at least 12 months from the balance sheet date as a result of an intentional or forced discontinuance or material limitation of the Bank's existing business.

The annual consolidated financial statements were approved by the Management Board of the Bank for publication on 23 March 2022. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

The annual standalone financial statements were approved by the Management Board of the Bank for publication on 23 March 2022. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

Basis of preparation

These annual financial statements of the Group were prepared as at 31 December 2021 and the comparable financial data are presented as at 31 December 2020.

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

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

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

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

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

Significant estimates applied in the year ending 31 December 2021 related to:

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

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

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

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

Standards and interpretations approved but not obligatory as at 31 December 2021 that may have an impact on financial statements of the Group

The standards and interpretations approved but not obligatory as at 31 December 2021 that may have an impact on financial statements of the Group include:

- Amendments to IFRS 3 updating reference to conceptual framework,
- Amendments to IAS 16 prohibiting from deduction from fixed assets production costs of any proceeds from selling items produced while the entity is preparing the assets for its intended use. Instead, an entity recognizes those proceeds, together with the costs of producing them, in profit and loss. Effective date - an annual period beginning on January 1, 2022 or after that date,
- Amendments to IAS 37 specifying that „costs of fulfilling" an onerous contract include „costs that relate directly to the contract". Those costs can be both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. Effective date - an annual period beginning on January 1, 2022 or after that date.
- Annual improvements (2018-2020) including changes that clarify the wording or correct minor consequences, oversights or conflicts between requirements in IFRS 1 first-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.
- IFRS 17 „Insurance" replacing IFRS 4 „Insurance contracts" and introducing comprehensive regulations for accounting of insurance contracts, in particular the measurement of relevant liabilities. Standard eliminates differences in accounting of insurance contracts depending on local jurisdictions, allowed by IFRS 4.

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

Other standard amendments awaiting endorsement by the European Union

- IAS 1 'Presentation of financial statements' amendment – in the area of classification of liabilities as current or non-current, clarifying criteria for classification a liability as long-term,
- Amendment to IAS 1 „Presentation of Financial Statements" and IFRS Practice Statement 2 "Making Materiality Judgements" with regard to the disclosure of accounting policies. According to new requirements, an entity discloses its material accounting policies, instead of previous requirement to disclose significant accounting policies, issued on 12 February 2021 was approved on 2 March 2022,
- Amendment to IAS 8 „Accounting policies, changes in accounting estimates and errors" introducing the definition of accounting estimates including changes in accounting estimates, instead of the previous definition of changes in accounting estimates, issued on 12 February 2021 was approved on 2 March 2022,
- Amendment to IAS 12 "Income taxes" narrowing the scope of deferred tax initial recognition exemption so that it does not apply to transactions in which both deductible and taxable temporary differences arise in equal amounts,

- Amendments to IFRS 17 “Insurance contracts” - initial application of IFRS 17 and IFRS 9 - comparative information on enabling simplification for entities implementing IFRS 9 and IFRS 17 (arising from the difficult clarification of the requirements to present comparative information from both standard together) in comparative disclosures by recognizing that IFRS 9 was applied to financial assets, issued on 9 December 2021.

will not impact the financial statement significantly.

Standards applicable from 1 January 2021

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 providing practical expedient not to recognize immediate gain or loss from modification of a financial instrument or right-of-use, applying to the extent it is only a result of the benchmark rates reform, and the new rate is economically equivalent to the previous one. The amendments introduce also additional practical expedients in the area of hedge accounting, as well as new obligatory disclosures related to transition management and risks,
- IFRS 16 ‘Leases’ amendment introducing practical expedient from accounting treatment of rent concessions related to COVID-19 as lease modifications. Effective for annual periods beginning on or after 1 June 2020. From 1 April 2021 the exemption has been extended by one year;
- IFRS 4 ‘Insurance contracts’ amendment issued on 25 June 2020 in relation to deferral of effective date of IFRS 17, regarding obligation to adopt IFRS 9.

Basis of consolidation

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

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

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

Accounting policies of subsidiaries have been standardized in the process of preparing the consolidated financial statements, where necessary, to ensure consistency in all material aspects with the accounting policies adopted by the Group.

Foreign currency

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

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

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

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

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

PLN		31 December 2021	31 December 2020
1	USD	4.0600	3.7584
1	CHF	4.4484	4.2641
1	EUR	4.5994	4.6148

2.1 Financial assets and liabilities – classification and measurement

Classification

The Bank classifies financial instruments into the following categories:

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

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

This category comprises:

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

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

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

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

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

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

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

Purchased or originated credit-impaired assets (POCI)

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

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

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

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank includes in this category selected debt instruments.

In the statement of cash flows, adjustment for change in debt securities measured at fair value through other comprehensive income are recognized in cash flows from operating activities.**Business model assessment**

In order to classify a financial asset the Group assesses its business models and takes into account the specificity of entire portfolio the asset belongs to. The considered information include:

- the purpose of a given business model and generating assets
- how the performance of the portfolio is evaluated and reported to the management
- the risks of a portfolio and how they are managed
- the frequency, volume and types of sales.

Receivables from customers are managed to receive the contractual amounts and sales generally relate to impaired assets.

In case of treasury functions in relation to financial instruments there are two models:

- the model which objective is to achieved by both collecting contractual cash-flows and selling financial assets as the sale may be realized in accordance with current business needs and the instrument may also be held until maturity;
- held for trading.

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

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

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

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

Recognition, derecognition and insignificant modifications

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

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

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

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

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

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

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

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

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

Valuation

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

After initial recognition, the Bank measures financial assets:

- at fair value without deducting transactional costs which it may incur in connection with the sale or disposal of assets. This measurement relates to financial assets held-for-trading, debt financial assets measured at fair value through other comprehensive income and equity and other instruments at fair value through the income statement),

- at amortized cost using the effective interest rate method – for amounts due from banks and from clients. Amounts measured at amortized cost include provisions for expected credit losses.

Financial liabilities:

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the case of receivables resulting from activities other than the core business, the Group has adopted the approach based on creating write-offs for expected credit losses in the full amount once a certain threshold of overdue payments is exceeded.

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

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

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

2.3 Accounting estimates and judgments

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

Fair value of derivatives

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

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

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

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

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

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

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

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

Provisions for expected credit losses

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

Impairment of goodwill

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

Employee benefits

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

Reserves

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

Interest rate benchmark reform

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

3. Risk management

RISK MANAGEMENT ORGANIZATION STRUCTURE AND PROCESS

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

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

- Level 1 i.e.: Organizational units responsible for business activities resulting in risk taking and for risk management in the Group's operational activity.as well as risk identification and reporting to second line of defense,

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

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

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

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

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

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

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

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

Additionally responsible for:

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

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

In the risk management area there are following Committees:

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

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

- managing credit risk of corporate clients i.e. of the Corporate Bank and the Commercial Bank;
- managing credit risk of the Consumer Bank;
- managing impaired receivables;
- managing market risk, including interest rate risk in banking book;

- managing liquidity risk;
- managing operational risk;
- managing the equity process and model risk;
- model validation;
- supporting risk management in the above areas including in control functions;
- the process of comprehensive and continuous assessment of credit risk (Fundamental Credit Risk Assessment).

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

Risk management in the Group is supported by a range of IT systems in the following areas:
- obligor and exposure credit risk assessment;
- credit, market and operational risk measurement, reporting and monitoring;
- valuation, monitoring and reporting of collateral;
- calculation and reporting of expected credit losses.

Significant Risks

The Group manages all significant risks arising from the implementation of its business strategy. In the process of significant risks identification in 2021, the Management Board considered the following type of risk as significant:
- Credit Risk,
- Credit Counterparty Risk,
- Market Risk in trading book,
- Interest rate risk in banking book,
- Liquidity risk,
- Operational risk,
- Compliance risk,
- Technology Risk & Information security risk (including CoB, and cyber Risk),
- Outsourcing risk,
- Misappropriation risk/Fraud Risk,
- Staffing (human capital risk),
- Operational errors/processing.

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

Credit risk, including also counterparty credit risk, results from credit exposure or other exposure related to concluding and clearing below listed transactions, and is defined as the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations.
Credit risk arises in many of the Group's business activities, hereinafter "products," including:
- Loans and advances;
- Guarantees and letters of credit;
- FX and derivatives transactions;
- Securities transactions;
- Financing and handling settlements, including trade (domestic and foreign);
- Transactions in which the Group acts as an intermediary on behalf of its clients or other third parties.

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

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

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

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

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

CREDIT RISK

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

In the current reporting period, the Group continued to perform activities related to credit risk management in light of the external environment situation development including, among others, and the impact of COVID-19 pandemic, energy and material resources price increase and supply chain disruptions. Both in Corporate and Retail Banking, in the current reporting period, the Group did not observe a significant impact of the above factors on the credit portfolio quality. At the end of the current reporting period, all non-statutory support solutions granted to clients were ended. At the same time, statutory support solutions were granted to clients, however to a lesser extend as compared to 2020.

Principles of the Credit Risk Management Policy

The Risk Management unit is responsible for establishing the principles of the Credit Policy for the Corporate Bank, the Credit Policy for the Commercial Bank and credit policies for the Consumer Bank as well as approving other policies, programs and procedures, monitoring credit risk management performance, providing ongoing assessment of the credit risk of the portfolio and approving individually significant credit risk limits. The rules for approving risk are matched with the strategy of the Group, generally accepted risk level, credit portfolio performance and internal control results.

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

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

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

Credit risk in this area is managed by means of:

- detailed credit policies which define the credit scoring rules;
- a system for allocation of credit authority and independent supervision of the quality of credit analyst performance;
- a system of monitoring the quality of IT tools supporting credit scoring;
- a system of risk measurement and control for credit portfolios including: a detailed management information system covering the quality of the credit portfolio and debt collection, identification of impaired exposures, monitoring of delinquencies, monitoring of benchmarks, etc., internal limits of credit portfolio parameters approved by the Management Board;
- debt collection policy rules approved by the Management Board as well as a fraud prevention policy and a credit and debit card transaction authorization policy;

- credit portfolio quality reports to the GCB Risk Commission, the Risk and Capital Management Committee and the Supervisory Board's Risk and Capital Committee;
- stress testing rules;
- monitoring of the performance of scoring models and measurement and identification of impaired exposures;
- checking the behavior of Group customers in the Credit Information Bureau (BIK);
- collateral valuation policy for mortgage-secured credits offered by GCB.

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

Credit risk assessment and rating

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

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

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

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

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

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

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

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

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

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

Credit risk monitoring

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

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

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

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

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

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

Risk mitigation

Credit risk mitigation within the set risk appetite is an ongoing and key element of the Group's risk management processes.

It is achieved as described below:

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

Policy of collateral acceptance

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

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

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

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

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

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

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

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

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

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

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

Concentration in credit risk

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

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

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

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

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

Obligor exposure concentration risk

The Group limits the concentration of its exposure to a single customer or a group of customers with common ownership and/or organization. As at 31 December 2021, the Group's exposure in bank portfolio transactions with groups of customers whose aggregate exposure exceeded 10% of the Group's equity (as defined below in this report) amounted to PLN 5,912,551 thousand, i.e., 108,59 % of equity (31 December 2020: 5,269,369 thousand, i.e., 85.62 %). In 2021 and 2020 the Group complied with the provisions on limits of concentration of exposure.

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

PLN'000	31.12.2021			31.12.2020		
	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure
CLIENT 1	-	2,365,300	2,365,300	84,921	-	84,921
GROUP 2	846,057	431,727	1,277,784	692,531	437,312	1,129,843
GROUP 3	1,200,992	-	1,200,992	1,199,885	-	1,199,885
CLIENT 4	613,079	172,817	785,896	610,056	187,832	797,888
CLIENT 5	219,620	542,890	762,510	371,162	379,200	750,362
GROUP 6	377,853	303,947	681,800	400,965	265,739	666,704
CLIENT 7	605,713	67,742	673,455	621,371	101,613	722,984
GROUP 8	61,925	482,793	544,718	106,328	343,132	449,460

PLN'000	31.12.2021			31.12.2020		
	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure	Balance sheet exposure*	Exposure due to granted financial commitments and guarantees	Total exposure
GROUP 9	40,851	494,582	535,433	-	536,201	536,201
GROUP 10	482,551	-	482,551	378,950	-	378,950
Total	**4,448,641**	**4,861,798**	**9,310,439**	**4,466,169**	**2,251,029**	**6,717,198**

**As at 31.12.2021; data from 31.12.2020 are comparative and do not illustrate concentration of exposures as at 31.12.2020.*
***Excluding investment in shares and other securities.*
****The Group is understood as a capital group consisting of entities in relation to which the Capital Group of Bank Handlowy w Warszawie S.A. has exposures.*

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

As at 31 December 2021, the Group did not have an exposure to one entity exceeding the statutory exposure concentration limits.

*Concentration of exposure in individual industries**

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

Sector of the economy according to NACE*	31.12.2021		31.12.2020	
	PLN'000	%	PLN'000	%
Financial service activities, excluding insurance and pension funds	6,165,687	21.8%	6,165,687	13.8%
Wholesale trade, except of motor vehicles	3,369,364	11.9%	3,369,364	16.7%
Production and supply of electricity, gas, steam, hot water and air for air conditioning systems	2,079,398	7.3%	2,079,398	7.2%
Financial services, insurance and pension funds supporting activities	1,500,085	5.3%	1,500,085	4.9%
Production of electrical equipment	1,283,203	4.5%	1,283,203	4.9%
Production of food products	1,148,800	4.1%	1,148,800	4.3%
Activities of head offices; consulting related to the management	1,057,451	3.7%	1,057,451	5.7%
Retail trade, except of motor vehicles	1,055,636	3.7%	1,055,636	4.2%
Manufacture of fabricated metal products, except machinery and equipment	997,557	3.5%	997,557	3.4%
Production and processing of coke and refined petroleum products	829,264	2.9%	829,264	3.3%
„10" industries total	**19,486,445**	**68.8%**	**19,486,445**	**68.4%**
Other industries	**8,827,401**	**31.2%**	**8,827,401**	**31.6%**
Total	**28,313,846**	**100.0%**	**28,313,846**	**100.0%**

**Balance-sheet and off-balance-sheet exposure gross to institutional customers (including Groups) as at 31.12.2021, based on NACE Revision 2 (The Statistical Classification of Economic Activities in the European Community), data from 31.12.2020 are comparative and do not illustrate concentration of exposures as at 31.12.2020.*

Gross amounts due from customers and Groups by type of business

PLN'000	31.12.2021	31.12.2020
Gross amounts due from economic entities and Groups		
Financial	4,416,830	4,250,727
Production	4,465,338	4,050,552
Services	3,281,543	4,024,272
Other	3,581,717	3,445,126
	15,745,428	**15,770,677**
Gross amounts due from individual customers	**7,440,093**	**7,713,170**

PLN'000	**31.12.2021**	**31.12.2020**
Total (see Note 18, 22)	**23,185,521**	**23,483,847**

The Group has changed the presentation of the value of receivables from accrued interest in Stage 3, which has no impact on the net carrying amount. Details are described in note 22.

Determination of Expected Credit Loss

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

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

Assignment of the exposure to the Stage takes place, depending on the approach to management over the client (individual vs. group approach), taking into account the wide range of information obtained as part of standard risk management processes (including the Early Warning process) regarding both current and future events, including macroeconomic factors and the number of days past due (where days past due calculation, for the purpose of exposure assignment to Stages, is done in line with EBA/GL/2016/07 guidance and the regulation of Ministry of Finance, Investment and Development of October 3rd 2019 on the significance level of overdue credit exposure).

The Group aggregates financial instruments in order to measure expected credit losses in terms of product in the area of retail banking and on a segmented basis for a homogeneous portfolio of micro-enterprises with a minimal share in total amounts due from the Group. In terms of product aggregation the following portfolios are defined: credit cards, cash loan within credit card, credit line, cash loan and mortgages.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In retail area of the Group, for the Stage 2 classification, is additionally used, except from the 30 days criterion of arrears and forborne categories, the quantitative criterion - analysis of the change in PD level since the exposure was created. In accordance with the standard, the Group does not use a fixed threshold above which an increase in risk would automatically be considered significant. It results from the fact that the same increase of PD in absolute terms would be more significant for exposures with lower initial risk than for those with the higher initial risk. So in Group there is used the designed model which target is to setting a threshold above which an increase in risk will be considered to be significant. In order to determine the relative growth, the Group uses a variable being the quotient of the probability of default on the current reporting date and the contingent probability calculated for the same period at the time of initial recognition. A threshold is defined as the cut-off point, where the probability of a default event occurring when the value of an explanatory variable increases is maximized.

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

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

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

- Significant financial difficulties of the client, which are described in detail in ICG / CCB / Micro Credit Procedures;
- Reduction of the client credit rating by an accepted by the Bank External Credit Assessment Institution (below risk level corresponding to internal 7- rating (i.e. to CCC- for Standard & Poors, Caa3 Moody's)
- Breach of contract conditions, e.g. delay in interest or principal payments;
- Occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession to financial conditions that the lender would not otherwise consider, granting permission for emergency restructuring of credit exposure, if it might result in decreasing financial requirements, reduction of financial liabilities by redeeming a significant part of the principal, interest or, where applicable, fees or deferring their repayment or payment (forborne exposure);
- high likelihood of bankruptcy of the client or obtaining information about the opening of bankruptcy proceedings, appearance by the debtor for declaration of bankruptcy or for similar protection or putting the debtor in bankruptcy or granting him similar protection if it would allow him to avoid or delay repayment of credit obligations;
- request of the Group to initiate enforcement proceedings against the client;
- severe domestic or local economic conditions that may be related to the default of exposures;
- delay in payment equal to 90 days or more (where days past due are calculated in line with EBA/GL/2016/07 guidance and the regulation of Ministry of Finance, Investment and Development of October 3rd 2019 on the significance level of overdue credit exposure)
- default contagion in line with EBA/GL/2016/07 guidance;

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

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

- occurrence of delays in repayment of principal and interest , the minimum amount to be paid, commission or exceeding the permitted limit. For the purpose of default identification it is assumed that the delay in repayment is equal to or exceeds 90 days at the moment of calculating the write-down (where days past due are calculated in line with EBA/GL/2016/07 guidance and the regulation of Ministry of Finance, Investment and Development of October 3rd 2019 on the significance level of overdue credit exposure;
- granting modifications to the terms of the agreement (restructuring), as a result of which the current value of cash flows falls below the book value before the modification;
- termination of the contract for reasons other than a delay in the repayment of mortgage products;
- default contagion in line with EBA/GL/2016/07 guidance;
- occurrence of qualitative circumstances:
  - death,
  - bankruptcy,
  - permanent disability or serious illness,
  - fraud,
  - obtaining information about initiating bankruptcy proceedings of the client or announcing bankruptcy by the client,
  - impairment or threat of collateral impairment,
  - the client's stay in custody or prison,
  - partial capital write-off,
  - agreement termination,
  - the Group's request to initiate enforcement proceedings against the client.

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

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

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

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

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

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

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

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

Macroeconomic scenarios in the area of institutional including below variables:

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

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

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

Macroeconomic scenarios for the variables used to estimate expected credit losses as at December 31, is presented below. When preparing the macroeconomic scenarios, the potential negative impact on economic activity, resulting from expected further development of the COVID pandemic, was taken into account.

Basic macroeconomic scenario	**4q21**	**1q22**	**2q22**	**3q22**	**4q22**	**1q23**	**2q23**	**3q23**	**4q23**	**1q24**	**2q24**	**3q24**	**4q24**
GDP growth YoY	6.8	5.7	4.7	3.3	3.2	3.6	3.6	3.6	3.6	3.7	3.8	3.9	3.9
Inflation YoY (average)	7.5	9.0	9.3	8.4	6.7	5.2	3.9	3.7	3.8	3.2	3.2	3.1	3.2
Registered unemployment rate	5.7	5.8	5.3	5.2	5.2	5.3	4.8	4.9	4.9	4.9	4.7	4.7	4.7
Unemployment rate	3.0	3.3	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
WIBOR 3M (eop)	2.80	4.43	4.43	4.43	4.43	4.13	3.86	3.39	2.87	2.69	2.69	2.68	2.67
WIG20 (eop)	2185	2232	2279	2326	2374	2416	2459	2502	2545	2545	2623	2662	2701

Pessimistic macroeconomic scenario	**4q21**	**1q22**	**2q22**	**3q22**	**4q22**	**1q23**	**2q23**	**3q23**	**4q23**	**1q24**	**2q24**	**3q24**	**4q24**
GDP growth YoY	6.8	5.1	3.6	1.7	1.1	1.7	2.0	2.2	2.5	2.9	3.3	3.6	3.9
Inflation YoY (average)	7.5	8.7	8.8	7.6	5.8	4.4	3.2	3.2	3.3	2.8	2.9	3.0	3.2
Registered unemployment rate	5.8	6.0	5.7	5.7	5.8	6.0	5.5	5.6	5.5	5.3	5.1	5.1	5.1
Unemployment rate	3.1	3.5	3.1	3.2	3.2	3.3	3.3	3.3	3.3	3.1	3.1	3.1	3.1
WIBOR 3M (eop)	2.25	2.21	2.15	1.60	1.15	1.20	1.20	1.20	1.20	1.35	1.60	1.98	2.20
WIG20 (eop)	2185	2167	2149	2131	2113	2141	2170	2198	2227	2263	2300	2336	2373

Optimistic macroeconomic scenario	**4q21**	**1q22**	**2q22**	**3q22**	**4q22**	**1q23**	**2q23**	**3q23**	**4q23**	**1q24**	**2q24**	**3q24**	**4q24**
GDP growth YoY	6.8	6.2	5.8	4.9	5.4	5.5	5.2	4.9	4.6	4.5	4.3	4.1	3.9

Inflation YoY (average)	7.5	9.3	9.8	9.2	7.6	6.0	4.5	4.2	4.3	3.6	3.5	3.2	3.2
Registered unemployment rate	5.6	5.6	4.9	4.7	4.6	4.6	4.1	4.2	4.3	4.5	4.3	4.3	4.3
Unemployment rate	2.9	3.1	2.4	2.3	2.2	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.3
WIBOR 3M (eop)	3.20	4.20	4.90	5.40	5.75	5.75	5.10	4.60	4.10	3.60	3.30	3.35	3.23
WIG20 (eop)	2185	2272	2360	2448	2535	2592	2649	2706	2763	2820	2877	2933	2990

Scenarios and macroeconomic variables are updated on a quarterly basis.

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

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

Change of expected credit losses for stage 1 and 2 assuming 100% scenario weight *as at 31.12.2021*	**Optimistic scenario**	**Pessimistic scenario**
Consumer Bank	(735)	902
Institutional Bank	(2,089)	2,719
	(2,824)	**3,621**

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

The Group analyses the sensitivity of expected credit losses in terms of methods and assumptions of the model of expected credit losses, in particular sensitivity to macroeconomic forecasts. The changes in expected credit losses for non-impaired exposures presented in the table below have been determined as the difference between the expected credit losses calculated for a specific macroeconomic scenario and the expected credit losses calculated taking into account all macroeconomic scenarios weighted by the probability of their realization.

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

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

PLN'000	Note	**31.12.2021**	**31.12.2020**
Gross receivables due from the Central Bank	17	6,168,909	4,103,407
Gross receivables due from banks	18	969,238	571,955
Gross receivables due from institutional customers**	22	14,776,190	15,198,722
Gross receivables due from individual customers**	22	7,440,093	7,713,170
Debt securities held-for-trading	19	3,781,373	913,123
Derivative instruments	19	6,095,549	3,370,896
Debt investment financial assets measured at fair value though other comprehensive income	20	20,590,284	27,323,571
Other financial assets	27	187,449	185,809
Contingent liabilities granted	40	18,319,947	16,502,383
		78,329,032	**75,883,036**

The Group has changed the presentation of the value of receivables from accrued interest in Stage 3, which has no impact on the net carrying amount. Details are described in note 22.

**As at December 31, 2021, the value of collateral diminishing the maximum exposure to credit risk for receivables from institutional clients amounted to PLN 3,097,737 thousand (31 December 2020: PLN 3,022,172 thousand) and for receivables from individual clients amounted to PLN 2,404,663 thousand (31 December 2020: PLN 2,241,268 thousand).*

The table below present the mortgage-backed receivables from individual customers in a given Loan-to-value (LtV) interval. The amount of exposure is measured by unpaid principal amount.

PLN'000	31.12.2021
Less than 50%	893,733
51 - 80%	1,466,363
81 - 100%	28,828
More than 100%	262
	2,389,185

The collateral amount is haircut in estimation of expected credit losses estimation to reflect the expected recovery through sale. Hypothetical impact of mortgage collateral onto expected credit losses for receivables from individual customers as at 31 December 2021 amounts to PLN 14.5 million.

The collateral amount (mainly mortgage) used to estimate expected credit losses for impaired receivables from corporate customers as at 31 December 2021 equaled PLN 120 471 thousand (before reflecting time-value-of-money). For particular exposures the collateral amount was decreased to account of accommodate the expectations in collection processes, capped by exposure amount, and weighted with a probability of a collateral collection scenario.

The tables below present the portfolio grouped whether they are impaired or not. The tables also present the details of impairment provision.

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

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

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

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

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

The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 31 December 2021:

PLN '000	31.12.2021			
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total
Impaired receivables (Stage 3)				
Gross amount	**466,732**	**433,681**		**900,413**
Provision for expected for credit losses	(352,636)	(354,424)		(707,060)
Net amount	**114,096**	**79,257**		**193,353**
Not impaired receivables (Stage 2)				
By risk rating				
Risk rating 1-4-	14,104		2	14,106
Risk rating +5-6-	623,400		-	623,400
Risk rating +7 and greater	280,450		-	280,450
By delinquency				
No delinquency		731,626		731,626
1-30 days		81,109		81,109
31-90 days		14,004		14,004
Gross amount	**917,954**	**826,739**	**2**	**1,744,695**
Provision for expected for credit losses	(46,465)	(71,682)	-	(118,147)
Net amount	**871,489**	**755,057**	**2**	**1,626,548**

PLN '000	31.12.2021			
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total
Not impaired receivables (Stage 1)				
By risk rating				
Risk rating 1-4-	10,402,461		731,895	11,134,356
Risk rating +5-6-	2,989,039		237,341	3,226,380
By delinquency				
No delinquency	4	6,103,029	-	6,103,033
1-30 days	-	76,022	-	76,022
31-90 days	-	622	-	622
Gross amount	**13,391,504**	**6,179,673**	**969,236**	**20,540,413**
Provision for expected for credit losses	(29,137)	(34,339)	(1,561)	(65,037)
Net amount	**13,362,367**	**6,145,334**	**967,675**	**20,475,376**
Total gross value	**14,776,190**	**7,440,093**	**969,238**	**23,185,521**
Provision for expected for credit losses	(428,238)	(460,445)	(1,561)	(890,244)
Total net value	**14,347,952**	**6,979,648**	**967,677**	**22,295,277**

The Group has changed the presentation of the value of receivables from accrued interest in Stage 3, which has no impact on the net carrying amount. Details are described in note 22.

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

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

PLN '000	31.12.2020			
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total
Impaired receivables (Stage 3)				
Gross amount	**539,510**	**443,479**	**-**	**982,989**
Provision for expected for credit losses	(423,694)	(370,522)	-	(794,216)
Net amount	115,816	72,957	-	188,773
				-
Not impaired receivables (Stage 2)	-	-	-	-
By risk rating	-	-	-	-
Risk rating 1-4-	76	-	3	79
Risk rating +5-6-	214,684	-	-	214,684
Risk rating +7 and greater	292,380	-	15	292,395
By delinquency				-
No delinquency	-	691,831	-	691,831
1-30 days	-	74,792	-	74,792
31-90 days	-	36,037	-	36,037
Gross amount	**507,140**	**802,660**	**18**	**1,309,818**
Provision for expected for credit losses	(29,150)	(93,466)	-	(122,616)
Net amount	**477,990**	**709,194**	**18**	**1,187,202**
Not impaired receivables (Stage 1)				
By risk rating				
Risk rating 1-4-	9,847,378	-	571,934	10,419,312
Risk rating +5-6-	4,304,694	-	-	4,304,694
By delinquency				
No delinquency	-	6,345,084	3	6,345,087
1-30 days	-	121,947	-	121,947
Gross amount	**14,152,072**	**6,467,031**	**571,937**	**21,191,040**

PLN '000	31.12.2020			
	Receivables from institutional customers	**Receivables from individual customers**	**Receivables from banks**	**Total**
Provision for expected for credit losses	(46,484)	(34,352)	(1,708)	(82,544)
Net amount	**14,105,588**	**6,432,679**	**570,229**	**21,108,496**
Total gross value	**15,198,722**	**7,713,170**	**571,955**	**23,483,847**
Provision for expected for credit losses	(499,328)	(498,340)	(1,708)	(999,376)
Total net value	**14,699,394**	**7,214,830**	**570,247**	**22,484,471**

The Group has changed the presentation of the value of receivables from accrued interest in Stage 3, which has no impact on the net carrying amount. Details are described in note 22.

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

Structure of derivatives in terms of credit risk:

PLN '000	31.12.2021			31.12.2020		
	Transactions with institutional customers	**Transactions with individual customers**	**Transactions with banks**	**Transactions with institutional customers**	**Transactions with individual customers**	**Transactions with banks**
Derivatives by risk rating						
Risk rating 1-4-	4,711,971	-	803,723	2,406,138	540	869,702
Risk rating+5-6-	531,059	-	47,706	32,166	-	60,846
Risk rating +7 and greater	1,090	-	-	1,504	-	-
Total	**5,244,120**	**-**	**851,429**	**2,439,808**	**540**	**930,548**

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

PLN '000	31.12.2021		31.12.2020	
	Debt securities held-for-trading*	**Debt securities measured at fair value though the income statement***	**Debt securities held-for-trading**	**Debt securities available-for-sale**
Issuer rating by Fitch agency				
A (including: from A- to AAA)	3,781,373	20,590,284	913,123	27,323,571
Total	**3,781,373**	**20,590,284**	**913,123**	**27,323,571**

Structure of the granted contingent liabilities from the credit risk point of view as at December 31, 2021:

PLN '000	31.12.2021		
	Liabilities due to institutional customers	**Liabilities due to individual customers**	**Liabilities due to banks**
Contingent liabilities granted (Stage3)	**1,649**	**4,168**	**-**
by risk rating			
Risk rating +7and greater	1,649	-	-
Contingent liabilities granted (Stage 2)	**335,218**	**1,188,240**	**148**
by risk rating			
Risk rating 1-4-	85,064	-	148
Risk rating+5-6-	110,281	-	-
Risk rating +7and greater	139,873	-	-
Contingent liabilities granted (Stage 1)	**9,724,315**	**4,380,684**	**2,685,525**
by risk rating	-	-	-
Risk rating 1-4-	7,755,778	-	2,681,936

Risk rating+5-6-	1,968,537	-	3,589
Total	**10,061,182**	**5,573,092**	**2,685,673**

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

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

“Forbearance” practices

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

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

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

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

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

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

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

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

Exposures with modified conditions according to forbearance rules (forborne exposures) are subject to regulatory and internal reporting.
Exposure values in the "forborne" status:

PLN '000	31.12.2021	31.12.2020
Receivables without recognized impairment	21,315,870	21,928,904
Receivables without recognized impairment (Stage 1), including	19,571,178	20,619,103
non-financial sector entities	16,127,730	16,879,947

PLN '000	31.12.2021	31.12.2020
Institutional customers	9,948,056	10,412,916
Individual customers	6,179,674	6,467,031
Receivables without recognized impairment (Stage 2), including:	1,744,692	1,309,801
non-financial sector entities	1,744,690	1,309,801
Institutional customers	917,951	507,141
Individual customers	826,739	802,660
Receivables with recognized impairment (Stage 3), including:	900,413	982,988
non-financial sector entities	900,413	982,988
Institutional customers, including:	466,719	539,509
„forborne"	90,625	156,151
Individual customers, including:	433,694	443,479
„forborne"	26,245	21,189
Total gross amount, including:	**22,216,283**	**22,911,892**
non-financial sector entities	18,772,833	19,172,736
Institutional customers, including:	11,332,726	11,459,566
„forborne"	90,625	156,151
Individual customers, including:	7,440,107	7,713,170
„forborne"	26,245	21,189
Provision for expected credit losses	**(888,683)**	**(997,669)**
On „forborne" receivables	(67,387)	(136,422)
Total net amounts due from customers, including:	**21,327,600**	**21,914,223**
„forborne" receivables	49,483	40,918

The Group has changed the presentation of the value of receivables from accrued interest in Stage 3, which has no impact on the net carrying amount. Details are described in note 22.

LIQUIDITY RISK

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

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

Liquidity risk management is based on:

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

taking into account the best market practice.

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

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

Liquidity management

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

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

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

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

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

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

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

In 2021 the Group has not implemented any changes significant in liquidity risk management processes, procedures, systems and policies.

Funding and Liquidity Plan

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

Liquidity risk management tools

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

The supervisory liquidity measures

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

	31.12.2021	31.12.2020	Change
M1 - Short-term liquidity gap (PLN)	18,593,580	17,720,491	873,089
M2 - Short-term liquidity ratio	1.30	1.37	(0.07)
M3 - Coverage of illiquid assets with regulatory capital	4.61	4.69	(0.08)
M4 - Coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	2.14	2.04	0.1
LCR*	168%	182%	(13)pp
NSFR	189%	164%	25pp

Internal liquidity risk management tools

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

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

Stress scenarios

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

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

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

Contingency Funding Plan

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

The Contingency Funding Plan defines:

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

The levels of the cumulative liquidity gap in stress conditions and the level of liquid assets as at 31 December 2021 and 31 December 2020.

The cumulative liquidity gap as at 31 December 2021 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	27,761,402	261,814	606,854	-	33,232,701
Liabilities	9,218,022	4,558,222	72,470	-	48,014,057
Balance-sheet gap in the period	18,543,380	(4,296,408)	534,384	-	(14,781,356)
Conditional derivative transactions – inflows	52,926,255	15,254,252	28,118,416	13,611,610	22,015,518
Conditional derivative transactions – outflows	53,000,288	15,212,828	28,076,293	13,560,191	21,874,443
Off-balance-sheet gap in the period	**(74,033)**	**41,424**	**42,123**	**51,419**	**141,075**
Potential utilization of credit lines granted	1,142,320	761,229	(1,334,857)	-	(568,693)
Cumulative gap	**17,327,027**	**12,310,814**	**14,222,178**	**14,273,597**	**202,009**

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

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

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

PLN'000	31.12.2021	31.12.2020	Change
Liquid assets, including:	24,594,957	32,546,813	(7,951,856)
nostro account in NBP and stable part of cash	223,300	4,310,119	(4,086,819)
debt securities held-for-trading	3,781,373	913,123	2,868,250
debt financial assets measured at fair value through other comprehensive income	20,590,284	27,323,571	(6,733,287)

PLN'000	31.12.2021	31.12.2020	Change
Cumulative liquidity gap up to 1 year	14,222,178	11,620,675	2,601,503
Coverage of the gap with liquid assets	Positive gap	Positive gap	-

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

As at 31 December 2021

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	29	3,383,353	3,190,239	121,000	72,005	25	84
Financial liabilities held-for-trading							
Short positions in financial assets	19	515,896	515,896	-	-	-	-
Amounts due to customers, including:	30	**43,507,472**	**42,708,996**	**546,177**	**231,732**	**20,488**	**79**
Deposits from financial sector entities	30	3,192,860	3,191,700	664	470	-	26
Deposits from non-financial sector entities	30	39,589,082	38,867,180	497,798	210,269	13,782	53
Other liabilities	30	725,530	650,116	47,715	20,993	6,706	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	19	7,307,117	520,057	165,833	804,835	4,217,868	1,598,524
Unused credit lines liabilities	40	13,218,765	11,243,914	30,000	817,104	1,041,281	86,466
Guarantee lines	40	2,285,773	2,285,773	-	-	-	-
		70,218,376	**60,464,875**	**863,010**	**1,925,676**	**5,279,662**	**1,685,153**
Derivatives settled on a gross basis							
Inflows		112,261,460	52,528,030	15,741,452	23,885,756	19,302,369	803,853
Outflows		112,144,199	52,585,822	15,774,064	23,737,431	19,234,285	812,597
		117,261	**(57,792)**	**(32,612)**	**148,325**	**68,084**	**(8,744)**

As at 31 December 2020

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

MARKET RISK

The processes and organization of market risk management

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

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

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

taking into account best market practice.

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

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

Market risk management

Scope of risk

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

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

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

Measurement of the pricing risk of the bank portfolios

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

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

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

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

It is assumed that:

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

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

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

Additionally, the Bank measures the interest rate risk using the income method (cashflow net interest revenue NIR / IRE). This measure, like the IRE calculated using the gap method, determines the potential pre-tax impact on net interest income for banking book items due to specific changes in interest rates over a specific reporting period - generally 12 months. NIR is the difference between accrued interest income earned on assets (e.g. loans to customers) and the cost of interest paid on liabilities (e.g. customer deposits). NIR / IRE is the delta between the base NIR and NIR in the interest rate shock scenario, i.e. +/- 100 basis points for all currencies together. Similar assumptions regarding the revaluation dates as described above for the gap method are made, with the difference that items not generating interest flows and the Bank's equity are excluded from the calculation

The table below presents the IRE measures for the Group as at 31 December 2021 and 31 December 2020, separately for measures based on the gap method and interest flows. The statement is presented separately for the main currencies, i.e., PLN, USD and EUR, which jointly account for over 90% of the Group’s balance-sheet, and for all currencies in total for the interest flow method.

IRE – gap method

PLN'000	31.12.2021		31.12.2020	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	47,345	55,338	42,136	232,315
USD	24,878	35,718	22,844	38,274
EUR	15,886	29,475	15,965	20,653

IRE – cashflow method

PLN '000	31.12.2021		31.12.2020	
	IRE 12M		IRE 12M	
	+100 bp	-100 bp	+100 bp	-100 bp
Total for All currencies	158,340	(186,760)	152,967	39,839

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

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

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

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

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

Hedge accounting program

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

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

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

PLN '000	31.12.2021			Total in the period 01.01.2021 – 31.12.2021		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(1,638)	(2,227)	590	(3,153)	(1,654)	(6,961)
USD	(229)	(229)	-	(225)	(116)	(267)
EUR	(206)	(206)	-	(241)	(206)	(276)

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

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

Measurement of the market risk of the trading portfolios

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

- Factor Sensitivity;
- Value at Risk (VaR); and

- Stress testing.

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

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

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

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

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

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

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

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

The values of significant exposures to the interest rate risk of the trading portfolios risk in terms of DV01 in 2021 are presented in the table below:

PLN'000	**31.12.2021**	**31.12.2020**	**In the period 1.01.2021 – 31.12.2021**		
			Average	**Maximum**	**Minimum**
PLN	509	(268)	4	1,012	(882)
EUR	156	95	92	226	(140)
USD	(34)	74	33	173	(97)

Average exposures to the interest rate risk in the local currency in 2021 was higher comparing to the level from the previous year and amounted to PLN 307 thousand. Average exposure to the interest rate risk in EUR was higher than in 2020 (DV01 amounted to PLN 103 thousand, compared to PLN 45 thousand in the previous year). Average exposure in USD was slightly lower than in 2020 (DV01 amounted to PLN 53 thousand, compared to PLN 54 thousand in 2020). The maximum exposure in PLN of the biggest exposures accepted by the Treasury Division was PLN 1012 thousand compared to PLN 913 thousand in 2020 and the position in EUR amounted to PLN 226 thousand compared to PLN 315 thousand in the previous year.

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

The table below presents the levels of risk measured by VaR (net of economic hedges of the portfolio of securities available-for-sale) broken down by FX risk and interest rate risk position in 2021:

PLN'000	**31.12.2021**	**31.12.2020**	**In the period 1.01.2021– 31.12.2021**		
			Average	**Maximum**	**Minimum**
Currency risk	908	493	505	4,704	62
Interest rate risk	14,366	5,641	5,308	17,137	1,545
Spread risk	3,504	2,745	3,358	4,779	1,588
Total risk	**15,549**	**6,170**	**6,553**	**17,076**	**3,383**

The main risk factor was the interest rate risk, followed by the spread risk, where the credit spread risk determines the

impact on the valuation of the instrument / portfolio resulting from changes in the market perception of the credit quality of certain instruments, such as "cross currency swap", "asset swap" or a portfolio of securities denominated in a foreign currency.
The overall average level of the market risk of the trading portfolios was 24% lower in 2021 than the average level in 2020, representing a decrease by over PLN 2,024 thousand, mainly as a result of a decline in exposure to changes in general interest rates. The maximum level of price risk dropped from 34,130 thousand PLN in 2020 to 17,076 thousand PLN in 2021..

Equity instruments risk

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

The Group's FX exposure

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

31.12.2021

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	3,164,671	6,858,015	35,733,605	32,086,237	(45,976)
USD	1,941,932	6,016,198	25,896,544	21,806,724	15,554
GBP	29,714	469,003	489,401	41,972	8,140
CHF	279,906	347,283	1,531,348	1,470,755	(6,784)
Other currencies	41,849	243,625	4,155,903	3,922,410	31,717
	5,458,072	**13,934,124**	**67,806,801**	**59,328,098**	**2,651**

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

31.12.2020

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

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

OPERATIONAL RISK

Strategic goals and assumptions of the operational risk management system

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

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

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

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

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

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

Operational risk definition

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

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

Definition of Operational Risk covers: technological risk, outsourcing risk, misappropriation/fraud risk, money laundering risk, information security risk, discontinuity risk, tax and accounting risk, product risk, legal risk, model risk, staffing risk, concentration risk, conduct risk and reputation risk associated with operational risk events and business practices or market conduct.

The operational risk was considered significant for 2021. Additionally, the Compliance Risk, which is included in the Operational Risk for the purposes of the ICAAP process, has also been considered material risk.

Rules of operational risk identification

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

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

Operational Risk Profile

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

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

Measurement and assessment

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

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

Risk tolerance framework, risk control and mitigation

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

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

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

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

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

Monitoring and reporting

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

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

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

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

Assumptions of internal control of operational risk

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

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

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

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

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

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

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

Climate risk

In the area of climate risk and climate policy, due to its business profile, the Group focuses its activities on reducing the negative impact on climate and resource consumption in its operations and on product structuring.

The initiatives and activities undertaken by the Group were presented in "Non- financial statements of Bank Hank Handlowy S.A. w Warszawie and the Capital Group of Bank Handlowy w Warszawie S.A. in 2021"

The Group is exposed to the risk of climate change mainly through the impact of climatic factors on the economic environment in which the Group operates. Climate risk not had a material direct impact on the various area of estimation made as at 31 December 2021, including the determination of expected credit loss recognized in this financial statement or on the Group's going concern basis over the 12 months from the date of approval of these financial statement.

EQUITY MANAGEMENT

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

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

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

Capital adequacy*

In 2021, the Group complied with the applicable prudential capital adequacy standards. The capital ratio is determined in accordance with the applicable legal regulation in this respect.

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

PLN'000	**31.12.2021**	**31.12.2020**
Common Equity Tier 1 Capital	**5,516,172**	**6,206,230**
Total capital requirements, including:	**2,193,326**	**2,205,669**
credit risk capital requirements	1,697,499	1,719,477
counterparty risk capital requirements	119,529	95,295
credit valuation correction capital requirements	7,268	11,763
excess concentration and large exposures risks capital requirements	-	-
total market risk capital requirements	85,572	89,930
operational risk capital requirements	283,458	289,204
Common Equity Tier 1 Capital ratio	**20.1%**	**22.6%**

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

***In connection with the above, the capital ratio presented in the table takes into account the position of the European Banking Authority (EBA) regarding the* *inclusion of audited financial data when calculating the capital requirement for operational risk. In 2020, the EBA published, as part of the single rulebook Q&A, the position (Q&A 2018_3969), according to which the capital requirement for operational risk should be adjusted as soon as the audited data for a given year is available, if it differs on the requirement calculated on the basis of audited data for previous years or on the basis of estimated data for a given year, if they differed from the audited data.*

In 2021, there were no concentration limit breaches on the banking book. In 2020 there was a single concentration limit breach that was immediately reduced and KNF was notified.

4. Segment reporting

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

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

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

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

Institutional Bank

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

Consumer Bank

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

Income statement of the Group by business segment

For the period	2021			2020		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Net interest income	389,554	398,507	788,061	549,720	451,957	1,001,677
Internal interest income, including:	(27,066)	27,066	-	(53,838)	53,838	-
Internal income	-	27,066	27,066	-	53,838	53,838
Internal expenses	(27,066)	-	(27,066)	(53,838)	-	(53,838)
Net fee and commission income	434,292	215,576	649,868	348,767	211,195	559,962
Dividend income	3,297	7,662	10,959	1,489	10,305	11,794
Net income on financial instruments and revaluation	482,413	32,190	514,603	279,668	31,737	311,405
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	414,599	-	414,599	203,402	-	203,402
Net gain/(loss) on equity and other instruments measured at fair value through income statement	6,459	46,755	53,214	7,554	8,282	15,836
Net gain/(loss) on hedge accounting	(6,421)	-	(6,421)	556	-	556
Net other operating income	8,033	(78,803)	(70,770)	5,902	(42,234)	(36,332)
General administrative expenses	(543,363)	(547,379)	(1,090,742)	(525,349)	(589,989)	(1,115,338)

For the period	2021			2020		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Depreciation and amortization	(22,485)	(89,348)	(111,833)	(21,583)	(85,070)	(106,653)
Net impairment allowances on non-financial assets	-	-	-	-	(214,707)	(214,707)
Profit on sale of other assets	(265)	(393)	(658)	(179)	(301)	(480)
Net impairment loss on financial assets and provisions for off-balance-sheet commitments	26,296	(65,080)	(38,784)	(81,968)	(108,299)	(190,267)
Operating income	**1,192,409**	**(80,313)**	**1,112,096**	**767,979**	**(327,124)**	**440,855**
Tax on some financial institutions	**(134,060)**	**(27,100)**	**(161,160)**	(97,193)	(26,385)	(123,578)
Profit before tax	**1,058,349**	**(107,413)**	**950,936**	**670,786**	**(353,509)**	**317,277**
Income tax expense	-	-	(233,468)	-	-	(144,882)
Net profit	-	-	**717,468**	-	-	**172,395**

As at	31.12.2021			31.12.2020		
PLN'000	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Total assets	**54,215,892**	**7,646,879**	**61,862,771**	**53,396,826**	**7,544,712**	**60,941,538**
Total liabilities and shareholder equity, including:	**42,130,400**	**19,732,371**	**61,862,771**	**42,506,741**	**18,434,797**	**60,941,538**
Liabilities	36,087,701	18,391,675	54,479,376	36,231,131	17,129,440	53,360,571

5. Net interest income

Accounting policy:

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

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

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

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

Financial information:

PLN'000 For the period	2021	2020
Interest income from:	**772,212**	**1,019,691**
Financial assets measured at amortized cost	**580,773**	**704,380**
Balances with Central Bank	4,292	2,869
Amounts due from banks	5,488	6,847
Amounts due from customers, in respect of:	570,993	694,664
financial sector entities	32,297	43,756
non-financial sector entities, including:	538,696	650,908
credit cards	153,299	153,017
Financial assets measured at fair value through comprehensive income	**191,439**	**315,311**
Debt investment financial assets measured at fair value through comprehensive income	191,439	315,311

PLN'000	For the period	2021	2020
Similar income from:		**52,037**	**99,191**
Debt securities held-for-trading		**15,770**	**35,288**
Liabilities with negative interest rate		**35,362**	**28,345**
Derivatives in hedge accounting		**905**	**35,558**
		824,249	**1,118,882**
Interest expense and similar charges for:		**(17,519)**	**(79,334)**
Financial liabilities measured at amortized cost		-	(8)
Balances with the Central Bank		(5,907)	(6,998)
Amounts due to banks		(7,584)	(68,098)
Amounts due to customers		(3,166)	(14,988)
Amounts due to financial sector entities		(4,418)	(53,110)
Amounts due to non-financial sector entities		**(17,519)**	**(79,334)**
Lease liabilities		(4 028)	(4 230)
Assets with negative interest rate		**(3 154)**	**(3 234)**
Derivatives in hedge accounting		**(15 515)**	**(34 637)**
		(36 188)	**(117 205)**
Net interest income		**788 061**	**1 001 677**

The impact on value of financial assets, whose cash flows resulting from the contract were modified however were not discontinued recognition, as at 31 December 2021 amounted to PLN 107 thousand and net modification gain in 2021 amounted to PLN 335 thousand, respectively as at 31 December 2020 54thousand and net modification gain in 2021 amounted to PLN (1,141) thousand.

6. Net fee and commission income

Accounting policy:

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

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

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

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

For other commissions, the Bank performs the principles of IFRS 15. In particular if the Group transfers control of service over time and, therefore, satisfies a performance obligation and the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs, then fees are recognized over time in proportion to the completion of the service in fee income, In other cases, the fees are recognized at a point in time when services have been completed and are presented in fee income. There are no situations of withholding services which would affect the manner of revenue recognition described above in connection with meeting the obligation to provide services. The majority of commission income is settled on a one-off basis, except situation where the commission is charged in advance for a period of service exceeding one month. Such situation arise in respect of guarantees or loans for which no repayment schedule is agreed.. In the area of commission income, the remuneration received is in principle non-refundable.

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

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

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

- income on account of services provided as an insurance agent, and

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

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

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

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

Financial information:

PLN'000	**For the period**	**2021**	**2020**
Fee and commission income			
Credit activities (other than income covered by the calculation of the effective interest rate process)		61,528	67,459
Servicing bank accounts		139,486	84,045
Insurance and investment products distribution		67,165	59,247
Payment and credit cards		122,669	123,842
Payment services		95,208	84,266
Custody services		121,523	104,034
Brokerage operations		71,167	56,622
Clients' cash on account management services		19,432	22,061
Financial liabilities granted		24,587	25,532
Other		20,134	18,055
		742,899	**645,163**
Fee and commission expense			
Payment and credit cards		(24,917)	(27,265)
Brokerage operations		(13,843)	(13,310)
Fees paid to the National Depository for Securities (KDPW)		(29,770)	(22,403)
Broker's fees		(4,529)	(3,794)
Other		(19,972)	(18,429)
		(93,031)	**(85,201)**
Fee and commission income		**649,868**	**559,962**

7. Dividend income

Accounting policy:

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

Financial information:

PLN'000	**For the period**	**2021**	**2020**
Equity and other instruments at fair value through the income statement		8,967	11,540
Securities held-for-trading		1,992	254
Total dividend income		**10,959**	**11,794**

8. Net income on trading financial instruments and revaluation

Accounting policy:

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

Financial information:

PLN'000	For the period	2021	2020
Net income on financial instruments measured at fair value through profit and loss from:			
Debt instruments		(2,192)	178,492
Equity instruments		(271)	(8,380)
Derivative instruments, including:		117,981	(248,383)
Interest rate derivatives		111,640	(266,195)
Equity		5,874	14,949
Commodities		467	2,863
		115,518	**(78,271)**
Net income on FX operations			
Operations on FX derivative instruments		605,343	488,438
FX gains and losses (revaluation)		(206,258)	(98,762)
		399,085	**389,676**
Net income on trading financial instruments and revaluation		**514,603**	**311,405**

The net income on trading financial instruments and revaluation for 2021 contains movement in (net) adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN 12,179 thousand (in 2020: PLN (90) thousand).

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

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

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

9. Net gain/(loss) on hedge accounting

Accounting policy:

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

Financial information:

PLN'000	For the period	2021	2020
Fair value hedge accounting			
Net gain on hedged transaction valuation		(385,967)	72,891
Net gain on hedging transaction valuation		379,546	(72,335)
Hedge accounting income		**(6,421)**	**556**

10. Net other operating income and expense

Financial information:

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

PLN'000	For the period	2021	2020
Other operating income			
Income from provision of services for related parties outside the Group		6,149	6,424
Income from office rental		7,382	7,679
Other		5,347	5,593

PLN'000	For the period	2021	2020
		18,878	**19,696**
Other operating expenses			
Amicable procedure and vindication expenses		(4,809)	(5,183)
Net provision for litigation and costs of provisions related to TSUE judgements*		(67 713)	(30 024)
Other		(17,126)	(20,821)
		(89 648)	**(56,028)**
Net other operating income and expense		**(70 770)**	**(36,332)**

**The item includes the costs of provisions (net) for litigation proceedings including those related to TSUE judgements and part of updating portfolio provisions related to TSUE judgements. The item excludes PLN 7,722 thousand (recognized in 2020) and PLN 17,820 thousand (recognized in 2020) also related to TSUE judgements and decreased the Group's interest income. Details on litigation proceedings including TSUE judgements are presented in note 40.*

11. General administrative expenses

Accounting policy:

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

Financial information:

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

PLN'000	For the period	2021	2020
Staff expenses			
Remuneration costs, including:		(404,710)	(398,178)
Provisions for retirement allowances		(28,270)	(30,085)
Bonuses and rewards		(79,769)	(70,264)
Social insurance costs		(63,386)	(62,403)
		(547,865)	**(530,845)**
Administrative expenses			
Telecommunication fees and hardware purchases		(205,290)	(203,896)
Costs of external services, including advisory, audit, consulting services		(48,951)	(47,777)
Building maintenance and rent costs		(50,085)	(51,946)
Advertising and marketing costs		(34,157)	(32,978)
Cash management service, KIR service and other transactional costs		(38,475)	(37,532)
Costs of external services related to the distribution of banking products		(42,390)	(43,600)
Postal services, office supplies and printmaking costs		(6,062)	(6,478)
Training and education costs		(934)	(1,010)
Banking and capital supervision costs		(6,724)	(5,183)
Costs paid to Bank Guarantee Fund		(77,195)	(103,534)
Other expenses		(32,614)	(50,559)
		(542,877)	**(584,493)**
Total general administrative expenses		**(1,090,742)**	**(1,115,338)**

Staff expenses include the following employee benefits for current and former members of the Management Board – the Group's parent company:

PLN'000	For the period	2021	2020
Short-term employee benefits		18,446	15,816
Long-term employee benefits		2,496	2,657
Capital assets		8,718	2,440
		29,661	**20,913**

12. Depreciation expense

Accounting policy:

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

Financial information:

PLN'000	For the period	2021	2020
Depreciation of property and equipment		(43,335)	(43,294)
Amortization of intangible assets		(68,498)	(63,359)
Depreciation expense, total		**(111,833)**	**(106,653)**

13. Provisions for expected credit losses on financial assets and provisions for contingent liabilities

Accounting policy:

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

Financial information:

PLN'000	For the period	2021	2020
Provision for expected credit losses on amounts due from banks			
Provision creation		(6,209)	(7,495)
Provision release		6,448	8,595
		239	**1,100**
Provision for expected credit losses on amounts due from customers			
Provision creation and reversals		**(57,870)**	**(202,369)**
Provision creation		(296,666)	(403,620)
Provision release		241,867	205,557
Other		(3,071)	(4,306)
Recoveries from debt sold		**3,082**	**(112)**
		(54,788)	**(202,481)**
Provision for expected credit losses on debt investment financial assets measured at fair value through other comprehensive income			
Provision creation		(2,685)	(3,255)
Provision release		4,740	-
		2,055	**(3,255)**
Provision for expected credit losses on financial assets		**(52,494)**	**(204,636)**
Created provisions for granted financial and guarantee commitments		(42,299)	(69,068)
Release of provisions for granted financial and guarantee commitments		56,009	83,437
Provision for expected credit losses for contingent liabilities		**13,710**	**14,369**
Provision for expected credit losses on financial assets and provisions for contingent liabilities		**(38,784)**	**(190,267)**

14. Income tax expense

Accounting policy:

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

Financial information:

Recognized in the income statement

PLN'000	For the period	2021	2020
Current tax			
Current year CIT		(148,786)	(179,815)
Adjustments for prior years		3,086	20,541
		(145,700)	**(159,274)**
Deferred tax			
Origination and reversal of temporary differences		(87,768)	14,392
		(87,768)	**14,392**
Total income tax expense in income statement		**(233,468)**	**(144,882)**

**The item Adjustments from previous years includes the value of the overpayment of corporate income tax in the amount of PLN 1.1 million and the reduction of the income tax liability for 2020 resulting from the differences in the tax settlement between the closing of the financial year and the date of submitting the annual tax return.*

Reconciliation of effective tax rate

PLN'000	For the period	2021	2020
Profit before tax		950,936	317,277
Income tax at the domestic corporate tax rate of 19%		(180,678)	(60,283)
Impairment provision not constituting deductible expenses		(9,034)	2,317
Deductible income not recognized in the income statement		(4,357)	(3,476)
Deductible expenses not recognized in the income statement		(331)	(156)
Non-taxable income		4,097	2,446
Tax on some financial institutions		(30,620)	(23,480)
Bank Guarantee Fund		(14,667)	(19,671)
Impairment allowances on non-financial assets		-	(40,794)
Other permanent differences, including other non-deductible expenses		2,122	(1,785)
Total tax expenses		**(233,468)**	**(144,882)**
Effective tax rate		**24.6%**	**45.7%**

The level of the effective tax rate for 2021, amounting to 24.6%, was influenced by the regulatory burdens of the banking sector in the form of tax on certain financial institutions and obligatory contributions paid to the BGF. In accordance with the applicable tax regulations, these values are not tax deductible costs.

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2021 is related to financial assets measured at fair value through other comprehensive income and valuation of defined benefit plan and amounted to PLN 75,471 thousand (31 December 2020: PLN (102,385) thousand).

15. Earnings per share

As at 31 December 2020, earnings per share amounted to PLN 5,49 (31 December 2020: PLN 1.32).

The calculation of earnings per share as at 31 December 2021 was based on profit attributable to shareholders of PLN 717,468thousand (31 December 2020: PLN 172,395 thousand) and the weighted-average number of ordinary shares outstanding during the year ending 31 December 2021 of 130,659,600 (31 December 2020: 130,659,600).

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

16. Changes in other comprehensive income

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

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2021	**538,867**	**(102,385)**	**436,482**
Remeasurement of financial assets measured at fair value through other comprehensive income (net)	(526,184)	99,974	(426,210)
Profit or loss reclassification to income statement after derecognition of financial assets measured at fair value through other comprehensive income (net)	(414,599)	78,774	(335,825)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**(401,916)**	**76,363**	**(325,553)**
Net actuarial profits/(losses) on defined benefit program valuation	4,694	(892)	3,802
As at 31 December 2021	**(397,222)**	**75,471**	**(321,751)**

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

17. Cash and balances with the Central Bank

PLN'000	31.12.2021	31.12.2020
Cash in hand	357,834	384,925
Current balances with Central Bank	6,168,909	4,103,407
Cash and balances with the Central Bank, total	**6,526,743**	**4,488,332**

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

The declared balance of obligatory reserve amounted as at 31 December 2021 to PLN 1,035,332 thousand (31 December 2020: PLN 243,279 thousand). The increase in amount of declared balance of obligatory reserve is the result of the raising of required reserve ratio from 0.5% to 2% by the Monetary Policy Council.

18. Amounts due from banks

Accounting policy:

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

Financial information:

PLN'000	31.12.2021	31.12.2020
Current accounts	40,153	31,447
Deposits	40,067	-
Loans and advances	2	3
Receivables due to purchased securities with a repurchase agreement	748,166	306,237
Deposits pledged as collateral of derivative instruments and stock market transactions	140,850	234,268

Total gross amount	**969,238**	**571,955**
Impairment provision	(1,561)	(1,708)
Total net amount due from banks	**967,677**	**570,247**

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

PLN'000	Stage 1	Stage 2	Stage 3	Total
Loss allowance - amounts due from banks				
Loss allowance as at 1 January 2021	**(1,708)**	**-**	**-**	**(1,708)**
Transfer between Stages	**-**	**-**	**-**	**-**
(Creation)/Releases in the period though the income statement	239	-	-	239
Foreign exchange and other movements	(92)	-	-	(92)
Loss allowance as at 31 December 2021	**(1,561)**	**-**	**-**	**(1,561)**

As at 31 December 2021, the Group did not identify POCI assets (purchased or originated credit-impaired assets).

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

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

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

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2021	**571,935**	**18**	**-**	**571,953**
Transfer between Stages	18	(18)	-	-
Receivables increase / repayment	373,671	2	-	373,673
Other movements	23,612	-	-	23,612
Gross amounts due from banks as at 31 December 2021	**969,236**	**2**	**-**	**969,238**

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

19. Financial assets and liabilities held-for-trading

Accounting policy:

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

Financial information:

Financial assets held-for-trading

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

PLN'000	**31.12.2021**	**31.12.2020**
Debt securities held-for-trading		
Bonds and notes issued by:		
Central Banks	3,498,300	-
Banks and other financial entities*	8,270	601,421
Central governments	274,803	311,702
	3,781,373	**913,123**
Including:		
Listed on active market	283,073	913,123
Equity instruments held-for-trading	**79,290**	**66,521**
Including:		
Listed on active market	79,290	66,521
Derivative financial instruments	**6,095,549**	**3,370,896**
Financial assets held-for-trading, total	**9,956,212**	**4,350,540**

**As at 31 December 2021, some of the securities (bonds) issued by banks in the amount of PLN 1 thousand are covered by Government guarantees (31 December 2020: PLN 594,367 thousand).*

Financial liabilities held-for-trading

PLN'000	**31.12.2021**	**31.12.2020**
Liabilities related to short sale of securities	515,896	43,208
Derivatives	6,072,586	3,613,214
Financial liabilities held-for-trading, total	**6,588,482**	**3,656,422**

As at 31 December 2021 and 31 December 2020, the Group did not hold any financial assets and liabilities designated at fair value through profit or loss at initial recognition.

Derivative financial instruments as at 31 December 2021

PLN'000	**Nominal amount with remaining life of**				**Total**	**Fair value**	
	less than 3 months	**between 3 months and 1 year**	**between 1 year and 5 years**	**more than 5 years**		**Assets**	**Liabilities**
Interest rate instruments	**31,272,413**	**43,006,679**	**152,438,278**	**34,459,349**	**261,176,719**	**3,729,904**	**3,763,843**
FRA	9,963,000	8,629,000	1,333,000	-	19,925,000	30,697	43,238
Interest rate swaps (IRS)	20,389,533	29,088,369	151,046,089	34,423,335	234,947,326	3,697,643	3,719,180
Interest rate options	**-**	**-**	59,189	36,014	**95,203**	**1,346**	**1,346**
Futures*	919,880	5,289,310	-	-	6,209,190	218	79
Currency instruments	**70,341,347**	**26,531,801**	**20,047,296**	**1,225,153**	**118,145,597**	**868,843**	**811,238**
FX forward	21,341,525	6,448,930	4,612,977	-	32,403,432	118,041	362,545
FX swap	42,337,213	8,406,863	1,461,492	-	52,205,568	518,298	264,833

PLN'000	Nominal amount with remaining life of				Total	Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years		Assets	Liabilities
Currency-interest rate swaps (CIRS)**	5,710,173	9,278,623	13,879,816	1,225,153	30,093,765	217,390	168,531
Foreign exchange options	952,436	2,397,385	93,011	-	3,442,832	15,114	15,329
Securities transactions	**844,352**	**10,181**	**-**	**-**	**854,533**	**1,071**	**1,855**
Futures*	73,329	10,181	-	-	83,510	-	-
Securities purchased/sold pending delivery	771,023	-	-	-	771,023	1,071	1,855
Commodity transactions	**837,364**	**2,283,609**	**859,388**	**-**	**3,980,361**	**1,495,731**	**1,495,650**
Swaps	837,364	2,283,609	859,388	-	3,980,361	1,495,731	1,495,650
Total derivative instruments	**103,295,476**	**71,832,270**	**173,344,962**	**35,684,502**	**384,157,210**	**6,095,549**	**6,072,586**

*Exchange-traded products
** Foreign exchange interest rate swaps with capital exchange*

Derivative financial instruments as at 31 December 2020

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

*Exchange-traded products
** Foreign exchange interest rate swaps with capital exchange*

In 2021 the increase in derivative assets and liabilities is a result of increased transaction volumes, particularly on the IRS in PLN product, which generated the largest amount change in valuation.

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

Accounting policy:

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

Financial information:

PLN'000	31.12.2021	31.12.2020
Bonds and notes issued by:		
Central Banks	3,498,300	-
Other banks*, including:	1,663,202	2,450,738
Covered bonds in fair value hedge accounting	848,928	-
Other financial sector entities	2,206,299	2,453,078
Central governments, including:	13,222,483	22,419,755
Covered bonds in fair value hedge accounting	-	11,347,069
Debt securities measured at fair value through other comprehensive income, total	**20,590,284**	**27,323,571**
Including:		
Listed on active market instruments	17,091,984	27,323,571

**As at 31 December 2021, the securities (bonds) issued by banks in the amount of PLN 1,663,202 thousand are covered by Government guarantees (31 December 2020: PLN 2,450,738 thousand).*

For debt investment financial assets measured at fair value through other comprehensive income, the cumulated value of impairment as at 31 December 2021 amounts to PLN 5,890 thousand (as at 31 December 2020 7,945 thousand).

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

PLN'000	2021	2020
As at 1 January	**27,323,571**	**15,484,578**
Increases (due to):		
Purchases	420,289,404	64,193,139
Revaluation	-	450,561
Foreign exchange differences	52,458	129,167
Depreciation of discount, premium and interest	27,778	567,321
Decreases (due to):		
Sale	(425,761,410)	(53,279,187)
Revaluation	(1,257,899)	-
Depreciation of premium	(83,618)	(222,008)
As at 31 December	**20,590,284**	**27,323,571**

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

Accounting policy:

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

Financial information:

PLN'000	31.12.2021	31.12.2020
Stocks and shares in other entities	71,036	55,093
Impairment	26,280	23,380
Equity and other instruments measured at fair value through income statement, total	**97,316**	**78,473**
Including:		
Listed on active market instruments	1,160	33,614
Unlisted on active market instruments	96,156	44,859

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

PLN'000	2021	2020
As at 1 January	**78,473**	**62,638**
Sale	(34,372)	-
Revaluation	53,215	15,835
As at 31 December	**97,316**	**78,473**

22. Amounts due from customers

Accounting policy:

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

Financial information:

PLN'000	31.12.2021	31.12.2020
Amounts due from financial sector entities		
Loans, placements and advances	576,097	652,766
Debt financial assets unlisted	1,672,126	1,745,323
Guarantee funds and deposits pledged as collateral	1,159,174	1,227,863
Other receivables	36,053	113,204
Total gross amount	**3,443,450**	**3,739,156**
Provision for expected credit losses	(3,346)	(3,410)
Total net amount	**3,440,104**	**3,735,746**
Amounts due from non-financial sector entities		
Loans and advances	16,753,708	17,178,576
Unlisted debt financial assets	184,247	218,945
Purchased receivables	1,784,738	1,729,906
Realized guarantees	31,811	26,615
Other receivables	18,329	18,694
Total gross amount	**18,772,833**	**19,172,736**
Provision for expected credit losses	(885,337)	(994,259)
Total net amount	**17,887,496**	**18,178,477**
Total net amounts due from customers	**21,327,600**	**21,914,223**

The Group has changed the presentation of the amounts due from customers, which has no effect on the net carrying amount of this item. In accordance with Transition Resource Group for Impairment of Financial Instruments the value of impaired receivables shall be presented increased by accrued contractual interest. The result of this presentation of receivables is also the growth of loan provisions by the same amount. The Group has changed the presentation approach throughout the financial statements, which resulted in an increase of the gross carrying amount and the provision for expected credit losses in total amount of PLN 140,052 thousand (at the end of 2020 of 155,923 thousand).

In amounts due from customers presented on the line Unlisted debt financial assets are securitization assets covered by the Bank. The Group acts as investor in transactions involving senior tranches. The assets purchased by the Bank are not traded on the market. The Bank intends to maintain investments until the maturity date. The main risk of securitization transactions is credit risk. The Bank's maximum exposure to loss from involvement in these entities is equal to their carrying gross value, as at 31 December 2021 in the of amount PLN 1,672,126 thousand (31 December 2020: PLN 1,745,322 thousand). The carrying value of assets relating in Bank participation in unconsolidated structured entities as at 31 December 2021 in the amount of PLN 1,671,406 thousand (31 December 2020: PLN 1,744,505 thousand).

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

PLN '000	Stage 1	Stage 2	Stage 3	Total
Loss allowance - amounts due from institutional customers				
Provision for expected credit losses as at 1 January 2021	**(46,485)**	**(29,151)**	**(423,694)**	**(499,330)**
Transfer to Stage 1	(5,659)	5,659	-	-

PLN '000	Stage 1	Stage 2	Stage 3	Total
Transfer to Stage 2	3,804	(3,804)	-	-
Transfer to Stage 3	82	683	(765)	-
(Creation)/Releases in the period though the income statement	20,155	(20,995)	10,259	9,419
Decrease in write-downs due to write-offs	-	-	60,292	60,292
Changes in accrued interest in Stage 3 other than written off and sale of receivables	1	6	(2,546)	(2,539)
Foreign exchange and other movements	(1,033)	1,137	3,816	3,920
Provision for expected credit losses as at 31 December 2021	**(29,135)**	**(46,465)**	**(352,638)**	**(428,238)**

PLN '000	Stage 1	Stage 2	Stage 3	Total
Loss allowance - amounts due from individual customers				
Provision for expected credit losses as at 1 January 2021	**(34,352)**	**(93,466)**	**(370,521)**	**(498,339)**
Transfer to Stage 1	(26,909)	20,912	5,997	-
Transfer to Stage 2	4,164	(10,822)	6,658	-
Transfer to Stage 3	2,462	28,145	(30,607)	-
(Creation)/Releases in the period though the income statement	19,662	(29,235)	(44,211)	(53,784)
Net changes due to update of estimating method (net)*	634	12,786	(26,925)	(13,505)
Decrease in provision due to provision	-	-	3,290	3,290
Decrease in provision in connection with the sale of receivables	-	-	113,789	113,789
Changes in accrued interest in Stage 3 other than written off and sale of receivables	-	(2)	(9,091)	(9,093)
Foreign exchange and other movements	-	-	(2,803)	(2,803)
Provision for expected credit losses as at 31 December	**(34,339)**	**(71,682)**	**(354,424)**	**(460,445)**

**concerns changes resulting from the implementation of the new definition of default*

As at 31 December 2021, the Group did not identify POCI assets (purchased or originated credit-impaired assets).

PLN'000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses - amounts due from customers				
Provision for expected credit losses as at 1 January 2020	**(51,396)**	**(79,956)**	**(870,552)**	**(1,001,904)**
Transfer to Stage 1	(26,257)	25,734	523	-
Transfer to Stage 2	4,297	(6,355)	2,058	-
Transfer to Stage 3	853	15,637	(16,490)	-
(Creation)/Releases in the period though the income statement	(7,961)	(77,506)	(116,793)	(202,260)
Net changes due to modification derecognition	-	-	(109)	(109)
Decrease in provision due to provision	-	-	223,140	223,140
Decrease in provision in connection with the sale of receivables	-	-	11,031	11,031
Changes in accrued interest in Stage 3 other than written off and sale of receivables	7	(1)	(28,629)	(28,623)
Foreign exchange and other movements	(381)	(170)	1,607	1,056
Provision for expected credit losses as at 31 December 2020	**(80,838)**	**(122,617)**	**(794,214)**	**(997,669)**

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

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

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from customers measured at amortized cost				
Gross amounts due from customers as at 1 January 2021	**20,619,103**	**1,309,800**	**982,989**	**22,911,892**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Transfer to Stage 1	474,055	(471,880)	(2,175)	-
Transfer to Stage 2	(914,767)	918,129	(3,362)	-
Transfer to Stage 3	(74,180)	(91,983)	166,163	-
Receivables increase / repayment	(587,550)	72,389	(54,484)	(569,645)
Receivables written-off	-	-	(62,320)	(62,320)
Disposed receivables	-	-	(159,556)	(159,556)
Other movements	54,516	8,238	33,158	95,912
Gross amounts due from customers as at 31 December 2021	**19,571,177**	**1,744,693**	**900,413**	**22,216,283**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from customers measured at amortized cost				
Gross amounts due from customers as at 1 January 2020	**21,225,128**	**2,355,547**	**1,153,099**	**24,733,774**
Transfer to Stage 1	1,250,575	(1,248,902)	(1,673)	-
Transfer to Stage 2	(653,247)	657,259	(4,012)	-
Transfer to Stage 3	(48,263)	(65,761)	114,024	-
Purchased/paid receivables	(1,309,251)	(400,861)	(82,223)	(1,792,335)
Receivables written-off	-	-	(213,415)	(213,415)
Other movements	154,161	12,518	17,189	183,868
Gross amounts due from customers as at 31 December 2020	**20,619,103**	**1,309,800**	**982,989**	**22,911,892**

For gross amounts due from customers and provisions for expected credit losses which changed Stages during the period, transfers are presented as the change between the Stage as of 1 January 2021 or at the moment of initial recognition and as of 31 December 2021.

23. Tangible fixed assets

Accounting policy:

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

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

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2021.

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

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

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

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

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

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

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

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

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

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

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

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

Financial information:

Movements of tangible fixed assets in 2021

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2021	**712,730**	**2**	**23,792**	**225,160**	**15,310**	**976,994**
Increases:						
Purchases	-	-	7,646	4,996	**12,931**	25,573
Other increases*	2,825	-	-	850	**-**	3,675
Decreases:						
Disposals	-	-	(8,814)	-	**-**	(8,814)
Liquidation	(2,991)	-	-	(17,650)	**-**	(20,641)
Other decreases*	(5,373)	(2)	-	(128)	**(2,189)**	(7,692)
Transfers	8,488	-	-	4,220	(12,708)	-
As at 31 December 2021	**715,679**	**-**	**22,624**	**217,448**	**13,344**	**969,095**
Depreciation						
As at 1 January 2021	**297,894**	**2**	**7,706**	**194,483**	**-**	**500,085**
Increases:						
Amortization charge for the period	28,961	-	2,381	11,993	-	43,335
Other increases	36	-	-	849	-	885
Decreases:						
Disposals	-	-	(3,796)	-	-	(3,796)
Liquidation	(2,984)	(2)	-	(17,640)	-	(20,626)
Other decreases	(2,338)	-	-	(121)	-	(2,459)
As at 31 December 2021	**321,569**	**-**	**6,291**	**189,564**	**-**	**517,424**
Carrying amount						
As at 1 January 2020	414,836	-	16,086	30,677	15,310	476,909

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
As at 31 December 2021	**394,110**	**-**	**16,333**	**27,884**	**13,344**	**451,671**

**Other increases/ decreases include for example restoration of a liquidated asset to inventory, donations, settlements of fixed assts under construction, new and terminated lease agreements.*

Movements of tangible fixed assets in 2020

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

**Other increases/ decreases include for example restoration of a liquidated asset to inventory, donations, settlements of fixed assts under construction, new and terminated lease agreements.*

24. Intangible assets

Accounting policy:

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

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

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2021.

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

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

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

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

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

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

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

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

Tangible fixed assets since the day of initial application of IFRS 16 include right-of-use assets. Details are presented in note 43.

Financial information:

Movements of intangible assets in 2021

PLN'000	Goodwill	Patents, licenses etc.	Software	Prepayments	Total
Gross amount					
As at 1 January 2021	**1,245,976**	**2,991**	**650,048**	**40,608**	**1,939,623**
Increases:					
Purchases	-	659	293	59,262	60,214
Decreases:					
Other decreases	-	(605)	(68)	(1,139)	(1,812)
Transfers	-	-	72,800	(72,800)	-
As at 31 December 2021	**1,245,976**	**3,045**	**723,073**	**25,931**	**1,998,025**
Depreciation					
As at 1 January 2021					
Increases:	**-**	**1,955**	**470,378**	**-**	**472,333**
Amortization charge for the period					
Decreases:	-	304	68,194	-	68,498
Other decreases	-	(605)	(68)	-	(673)
As at 31 December 2021	**-**	**1,654**	**538,504**	**-**	**540,158**
Impairment write-offs					
As at 1 January 2021	214,707	-	-	-	214,707
As at 31 December 2021	**214,707**	**-**	**-**	**-**	**214,707**
Carrying amount					

PLN'000	Goodwill	Patents, licenses etc.	Software	Prepayments	Total
As at 1 January 2021	1,031,269	1,036	179,670	40,608	1,252,583
As at 31 December 2021	**1,031,269**	**1,391**	**184,569**	**25,931**	**1,243,160**

Movements of intangible assets in 2020

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

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

25. Impairment test for goodwill

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

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

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

Book value of goodwill allocated to unit

PLN'000	31.12.2021	31.12.2020
Corporate Bank	851,206	851,206
Consumer Bank	180,063	180,063
	1,031,269	**1,031,269**

The basis of valuation of the recoverable amount for a unit is the value in use, assessed on the basis financial plan. The plan is based on rational assumptions about future facts that reflect management assessment of future economic conditions and expected results of the Bank. The plan is periodically updated and approved by the Bank's Supervisory Board. The board accepted a 3 year time period for the process of financial planning.

The valuation used different discount rates for each year of forecast (9.2-9.6%) estimated using a beta coefficient for the banking sector, a risk premium and Treasury bond yield curves.).

Extrapolation of cash flows, which exceed the period covered by the financial plan, has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2021.

As a result of the performed impairment test, no impairment of goodwill was recognized as at 31 December 2021. As a result of the performed impairment test as at 31 December 2020, the Bank's Management Board recognized impairment loss of PLN 214,707 thousand, in the part of goodwill allocated to Consumer Bank unit.

26. Deferred income tax asset and liabilities

Accounting policy:

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

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

Financial information:

PLN'000	31.12.2021	31.12.2020
Deferred income tax asset	1,747,610	1,283,356
Deferred income tax liability	(1,483,297)	(1,109,133)
Deferred income tax net asset	**264,313**	**174,223**

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

Deferred tax asset is attributable to the following:

PLN'000	31.12.2021	31.12.2020
Interest accrued and other expense	4,937	7,015
Revaluation impairment provision	103,352	109,736
Unrealized premium from securities	19,290	39,676
Negative valuation of derivative financial instruments	1,389,326	1,006,684
Negative valuation of securities held-for-trading	2,307	1,711
Income collected in advance	28,378	32,031
Commissions	2,784	2,249
Debt and equity securities measured at fair value through other comprehensive income	108,651	-
Staff expenses and other costs due to pay	53,381	47,271
Leasing IFRS16	30,204	30,680
Other	5,000	6,303
Deferred tax asset	**1,747,610**	**1,283,356**

Deferred tax liability is attributable to the following:

PLN'000	31.12.2021	31.12.2020
Interest accrued (income)	21,595	46,274
Positive valuation of derivative financial instruments	1,402,553	887,686
Unrealized securities discount	7,242	3,271
Income to receive	5,383	4,703
Positive valuation of securities held-for-trading	612	368
Debt and equity securities measured at fair value through other comprehensive income	(12,910)	114,662
Investment relief	7,814	8,580
Valuations of shares	16,228	6,877
Leasing IFRS16	28,975	29,466
Other	5,805	7,246
Deferred tax liability	**1,483,297**	**1,109,133**
Net deferred income tax asset	**264,313**	**174,223**

Movement in temporary differences during the year 2021

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 1 January 2021	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2021
Interest accrued and other expense	7,015	(2,078)	-	4,937
Revaluation impairment provision	109,736	(6,384)	-	103,352
Unrealized premium from securities	39,676	(20,386)	-	19,290
Negative valuation of derivative financial instruments	1,006,684	382,642	-	1,389,326
Negative valuation of securities held-for-trading	1,711	596	-	2,307
Income collected in advance	32,031	(3,653)	-	28,378
Commissions	2,249	535	-	2,784
Debt and equity securities measured at fair value through other comprehensive income	-	33,200	75,451	108,651
Staff expenses and other costs due to pay	47,271	6,137	(27)	53,381
Leasing IFRS16	30,680	(476)	-	30,204
Other	6,303	(1,303)	-	5,000
	1,283,356	**388,830**	**75,424**	**1,747,610**

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

PLN'000	As at 1 January 2021	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2021
Interest accrued (income)	46,274	(24,679)	-	21,595
Positive valuation of derivative financial instruments	887,686	514,867	-	1,402,553
Unrealized securities discount	3,271	3,971	-	7,242
Income to receive	4,703	680	-	5,383
Positive valuation of securities held-for-trading	368	244	-	612
Debt and equity securities measured at fair value through other comprehensive income	114,662	(25,139)	(102,433)	(12,910)
Investment relief	8,580	(766)	-	7,814
Valuations of shares	6,877	9,351	-	16,228
Leasing IFRS16	29,466	(491)	-	28,975
Other	7,246	(1,441)	-	5,805
	1,109,133	**476,597**	**(102,433)**	**1,483,297**
Change in net deferred income tax assets	**174,223**	**(87,767)**	**177,857**	**264,313**

Movement in temporary differences during the year 2020

The movement in temporary differences relating to deferred tax assets:

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

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

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

27. Other assets

PLN'000	31.12.2021	31.12.2020
Interbank settlements	11,079	3,404
Settlements related to securities trade	7	25
Settlements related to brokerage activity	48,263	102,482
Income to receive	62,446	64,595
Staff loans out of the Social Fund	11,691	13,696
Sundry debtors	116,409	66,202
Prepayments	7,726	7,156
Other assets, total	**257,621**	**257,560**
Including financial assets*	187,449	185,809

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

28. Non-current assets held-for-sale

Accounting policy :

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

Financial information:

The item non-current assets held for sale includes the value of property held for sale in the amount of PLN 6,163 thousand as at 31 December 2021 (31 December 2020: PLN 6,163 thousand). In 2022 transaction was finalized.

29. Amounts due to banks

Accounting policy:

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

Financial information:

PLN'000	**31.12.2021**	**31.12.2020**
Current accounts	1,752,440	2,280,983
Term deposits	620,985	2,486,122
Liabilities due to sold securities under repurchase agreements	503,424	-
Other liabilities	506,504	351,756
margin deposits	506,436	351,593
Total amounts due to banks	**3,383,353**	**5,118,861**

30. Amounts due to customers

Accounting policy:

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

Financial information:

PLN'000	**31.12.2021**	**31.12.2020**
Deposits from financial sector entities		
Current accounts	1,105,149	1,640,351
Term deposits	2,087,711	2,931,313
	3,192,860	**4,571,664**
Deposits from non-financial sector entities		
Current accounts, including:	36,651,442	34,602,425
institutional customers	19,241,326	17,296,009
individual customers	15,508,313	13,971,308
public sector units	1,901,803	3,335,108
Term deposits, including:	2,937,640	3,997,929
institutional customers	1,602,069	2,454,806
individual customers	1,308,703	1,525,538
public sector units	26,868	17,585
	39,589,082	**38,600,354**
Total deposits	**42,781,942**	**43,172,018**
Other liabilities		
Other liabilities, including:	725,532	221,888
liabilities due to deposits	103,299	143,905

PLN'000	31.12.2021	31.12.2020
margin deposits	578,728	34,742
Total other liabilities	**725,532**	**221,888**
Total amounts due to customers	**43,507,474**	**43,393,906**

31. Provisions

Accounting policy:

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

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

Financial information:

PLN'000	31.12.2021	31.12.2020
Litigation	19,789	3,664
Granted financial and guarantee liabilities	33,910	47,354
Workforce restructuring	275	550
Other	88,050	33,207
Provisions, total	**142,024**	**84,775**

The movement in provisions is as follows:

PLN'000	2021	2020
As at 1 January	**84,775**	**65,199**
Provisions for:		
Litigation	3,664	3,214
Granted financial and guarantee commitments	47,354	61,703
Workforce restructuring	550	-
Restructuring of the branch network	-	282
Other	33,207	-
Increases:		
Charges to provisions in the period:	128,805	104,856
Litigation	21,008	2,031
Granted financial and guarantee commitments	42,299	69,068
Workforce restructuring	-	550
Other	65,498	33,207
Other, including	266	20
Granted financial and guarantee commitments	266	20
Decreases:		
Release of provisions in the period	(66,836)	(84,135)
Litigation	(3,834)	(698)
Granted financial and guarantee commitments	(56,009)	(83,437)
Other	(6,993)	-
Provisions used in the period, including:	(4,986)	(1,165)
Litigation	(1,049)	(883)
Workforce restructuring	(275)	-
Restructuring of the branch network	-	(282)
Other	(3,662)	-
As at 31 December	**142,024**	**84,775**

PLN'000	**2021**	**2020**
Including:		
Litigation	19,789	3,664
Granted financial and guarantee commitments	33,910	47,354
Workforce restructuring	275	550
Other	88,050	33,207

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

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

32. Other liabilities

Accounting policy:

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

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

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

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

Lease liabilities are measured in accordance with note 43.

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

Financial information:

PLN'000	**31.12.2021**	**31.12.2020**
Staff benefits	28,477	32,816
Interbank settlements	58,348	131,164
Inter-branch settlements	3,409	1,675
Settlements related to securities trading	10	32
Settlements related to brokerage activity	80,935	240,235
Liabilities due to leasing assets	125,675	138,381
Sundry creditors	191,312	140,718
Accruals:	323,609	281,922
Provision for employee payments	109,220	91,570
Provision for employee retirement	75,401	75,880
IT services and bank operations support	54,946	46,256
Consultancy services and business support	9,092	8,149
Other	74,950	60,067
Deferred income	15,246	17,654
Settlements with Tax Office and National Insurance (ZUS)	25,048	20,319
Other liabilities, total	**852,069**	**1,004,916**
Including financial liabilities*	811,775	966,943

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

33. Financial assets and liabilities by contractual maturity

As at 31 December 2021

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Cash and balances with the Central Bank	17	**6,526,743**	**6,526,743**	**-**	**-**	**-**	**-**
Amounts due from banks (gross)	18	**969,238**	**929,238**	**40,000**	**-**	**-**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	19	3,781,373	3,498,300	-	1,174	274,386	7,513
Financial assets measured at fair value through other comprehensive income							
Debt financial assets measured at fair value through other comprehensive income	20	20,590,284	3,498,300	171,247	15,432	14,559,261	2,346,044
Amounts due from customers (gross)							
Amounts due from financial sector entities	22	3,443,450	1,029,432	175,979	568,039	1,670,000	-
Amounts due from non-financial sector entities	22	18,772,833	6,665,477	1,886,071	1,605,023	5,934,564	2,681,698
Amounts due to banks	29	**3,383,353**	**3,190,239**	**121,000**	**72,005**	**25**	**84**
Amounts due to customers							
Amounts due to financial sector entities	30	3,770,954	3,769,588	870	470	-	26
Amounts due to non-financial sector entities	30	39,736,520	38,939,410	545,307	231,262	20,488	53

As at 31 December 2020

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Cash and balances with the Central Bank		**4,488,332**	**4,488,332**	**-**	**-**	**-**	**-**
Amounts due from banks (gross)	18	**571,955**	**571,955**	**-**	**-**	**-**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	19	913,123	4,020	-	171,242	110,418	627,443
Financial assets measured at fair value through other comprehensive income							
Debt financial assets measured at fair value through other comprehensive income	20	27,323,571	-	-	173,677	23,306,702	3,843,192
Amounts due from customers (gross)							
Amounts due from financial sector entities	22	3,739,156	1,254,628	-	739,528	1,745,000	-
Amounts due from non-financial sector entities	22	19,016,813	5,964,313	1,088,248	2,443,728	7,179,873	2,340,651
Amounts due to banks	29	**5,118,861**	**5,101,752**	**2,000**	**15,000**	**34**	**75**
Amounts due to customers							
Amounts due to financial sector entities	30	4,605,731	4,603,444	469	1,795	-	23
Amounts due to non-financial sector entities	30	38,788,175	37,912,790	639,138	213,218	22,976	53

34. Capital and reserves

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

Share capital

Series/ issue	Type of shares	Type of preference	Type of limitation	Number of shares	Par value of series/issue [PLN'000]	Method of issue payment	Date of registration	Eligibility for dividends (from date)
A	bearer	none	-	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer	none	-	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer	none	-	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer	none	-	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer	none	-	17,648,500	70,594	paid in	24.05.02	01.01.97

Series/ issue	Type of shares	Type of preference	Type of limitation	Number of shares	Par value of series/issue [PLN'000]	Method of issue payment	Date of registration	Eligibility for dividends (from date)
B	bearer	none	-	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer	none	-	37,659,600	150,638	transfer of Citibank (Poland) assets to the Bank	28.02.01	01.01.00
				130,659,600	**522,638**			

The par value of 1 share amounts to PLN 4.00

As at 31 December 2021, the Parent entity's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares with a nominal value of PLN 4 each, which has not changed since 31 December 2020.

The Parent entity has not issued preferred shares.

Both in 2021 and 2020, there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2021 and 31 December 2020, held at least 5% of the total number of votes at the General Meeting or at least 5% of the Parent entity's share capital:

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

During 2021 and the period from the publication of the previous interim quarterly report for Q3 2021 until the day of the publication of this annual consolidated financial statement for 2021, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2021, supplementary capital was PLN 3 002 265 thousand (31 December 2020: PLN 3,003,290 thousand). Supplementary capital is designated for offsetting financial losses or for other purposes including payment of dividends to the shareholders. The General Shareholders' Meeting of the Bank decides on the utilization of supplementary capital, but a portion of its balance amounting to one third of the total share capital may be used exclusively for offsetting losses shown in the financial statements.

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

Revaluation reserve

PLN'000	31.12.2021	31.12.2020
Revaluation of financial assets measured at fair value through other comprehensive income	(312,018)	450,016

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

Other reserves

PLN'000	31.12.2021	31.12.2020
Reserve capital	2,278,716	2,262,032
General risk reserve	540,200	540,200
Net actuarial losses on defined benefit program valuation	(9,734)	(13,536)
Foreign currency translation adjustment	4,848	4,865
Other reserves, total	**2,814,030**	**2,793,561**

Information regarding the distribution of the net income for 2020 and retained earnings for 2019 is presented below in the

“Dividends paid (declared) section.

Reserve capital

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

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

General risk reserve

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

Dividends

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

Dividends paid (or declared)

On the June 17, 2021 the Ordinary General Meeting of Shareholders of the Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2020 and undistributed net profit for 2019. Both resolutions provided that the appropriate part of the profit for 2020 and 2019 will be allocated to the dividend payment, provided that by September 10, 2021 (inclusive), the Polish Financial Supervision Authority allows one of the specified methods of distribution of the profit.

On July 20, 2021 the Bank received an individual recommendation of the Polish Financial Supervision Authority relating to the Bank's dividend policy in the second half of 2021. In accordance with the PFSA Recommendation, the Bank in terms of the basic criteria of the dividend policy, met the requirements qualifying for the payment of up to 100% of the dividend from the Bank's profit generated in the period from 1 January 2020 to 31 December 2020. Additionally, the Polish Financial Supervision Authority recommended the Bank not taking, prior to consultation with PFSA, any actions beyond the scope of current business and operational activities that may result in lowering the capital base including possible dividend payments from undistributed profit from previous years (i.e. from 2019 and earlier) and buyouts of own shares.

In connection with the above, with reference to Resolution of the Ordinary General Meeting of the Bank of June 17, 2021 on the distribution of net profit for 2020 the Management Board adopted a resolution, according to which, the Bank's net profit for 2020 in the amount of PLN 158,085,123.29 was distributed as follows:

- dividend for shareholders: PLN 156,791,520.00
- allocation to the reserve capital: PLN 1,293,603.29.

The dividend date was set for September 15, 2021 and the dividend payment date was set for September 22, 2021 and on that day the dividend was paid. The amount of shares covered by dividends was 130,659,600.

Until September 10, 2021 the Bank didn’t receive the consent of the Polish Financial Supervision Authority for the payment of dividend from undivided net profit for 2019. Therefore, on September 13, 2021, the Management Board of the Bank adopted a resolution confirming the non-fulfillment of the condition for payment of profit for 2019, as set out in resolution of the Ordinary General Meeting of the Bank of June 17, 2021, on the distribution of undivided net profit for 2019. Thus, the profit for 2019 remained undistributed.

35. Repurchase and reverse repurchase agreements

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so-called sell-buy-back and buy-sell-back respectively, as well as repo and reverse repo transactions in securities. Securities sold under repurchase agreements continue to be shown as the Group’s assets. If the acquirer has the right to sell or pledge the assets, such assets are presented in a separate in the statement of financial positions line distinguished in 2021. At the same time liabilities arising from the repurchase promise are recognized. In the case of securities purchased under agreements to resell, securities are presented in the statement of financial position as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method. In the case of sale of the securities previously purchased in the reverse repo transaction, the Group recognizes liabilities due to the short sale of securities. These liabilities are evaluated at fair value.

Repurchase agreements

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

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities measured at fair value through other comprehensive income	500,380	503,424	up to a week	503,521

**including interest*

In repo transactions, all gains and losses on the assets held are on the Group's side.

As at 31 December 2021, assets sold under repo transactions could not be traded by the Group further. As at 31 December 2020 the Bank had no assets sold under repo transactions in its portfolio. In 2021, the total interest expense on repurchase agreements was PLN 3,439 thousand (in 2020: PLN 1,530 thousand).

Reverse repurchase agreements

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

As at 31 December 2021, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	525,911	519,896	Up to 1 week	525,982
	221,090	231,631	Up to 1 mouth	222,420
	747,001	**751,527**		**748,402**

**including interest*

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

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

As at 31 December 2021 and 31 December 2020, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2021, the total interest income on reverse repurchase agreements was PLN 1,872 thousand (in 2020: PLN 2,882 thousand). As at 31 December 2021, the liabilities due to short sale of securities purchased in reverse repo transactions amounted to PLN 514,346 thousand (as at 31 December 2020: PLN 40 239 thousand).

36. Offsetting of financial assets and financial liabilities

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

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

The disclosure below additionally presents financial assets and financial liabilities resulting from forward and derivative transactions under master agreements, which constitute market standards developed under the International Swaps and Derivatives Association (ISDA), the Polish Bank Association and other master agreements, , under which, in certain breaches of the contracts' provisions, the contract may be legally terminated and settled in the net amount of receivables and liabilities.

The table below presents the fair values of derivatives (from the trading portfolio and designated as hedging instruments) as well as executable collateral for framework deals enabling lawful compensation in defined situations.

PLN'000	31.12.2021		31.12.2020	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	8,215,242	8,072,989	5,289,866	5,630,210
The effect of offsetting	(2,000,403)	(2,000,403)	(1,918,970)	(1,918,970)
Valuation of derivatives (net) presented in the statement of financial position	6,214,839	6,072,586	3,370,896	3,711,240
Value of collateral received/placed	(1,038,334)	(819,129)	(330,929)	(1,088,782)
Assets and liabilities subject to offsetting under the master agreement	**5,176,505**	**5,253,457**	**3,039,967**	**2,622,458**
Maximum amount of potential offset	(4,709,871)	(4,709,871)	(2,422,392)	(2,422,392)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**466,634**	**543,586**	**617,575**	**200,066**

37. Hedge accounting

The Group hedges against the risk of change in the fair value of fixed interest rate debt securities measured at fair value through other comprehensive income. The hedged risk results from changes in interest rates. In respect of hedge accounting the Group applies IAS 39.

IRS, denominated in the same currency as the hedged items, is the hedging instrument swapping the fixed interest rate for a variable interest rate.

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

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

As at 31 December 2021, the Group had an active hedging relationship that originated in 2021. Details are presented below.

As at 31 December 2021:

PLN'000	Notional value	Balance value		Listing in the statement of financial position	Change in fair value used to take hold of hedge ineffectiveness
		Assets	Liabilities		
Hedge accounting of fair value					
Interest rate risk					
IRS Transactions	989,000	119,290	-	Hedging derivatives	379,547

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

PLN'000	Balance value		Cumulative amount of hedging fair value in balance value of heged item corrections	Listing in the statement of financial position	Change in fair value used to take hold of hedge ineffectivenessx
	Assets	Liabilities			
Hedge accounting of fair value					
Interest rate risk					
Treasury bonds	848,928	-	(127,313)	Debt investement securities measured at fair value through other comprehensive income	(385,968)

Cumulated amounts of adjustments related to fair value hedges included in the statement of financial position for all hedged items, with respect for which adjustments for gains and losses on fair value hedging have ceased, amounted to PLN (127 272) thousand as at 31 December 2021.

Information regarding hedge effectiveness is presented below.

	Hedge ineffectiveness recognized in income statement	Listing in the statement of financial position
Hedge accounting of fair value		
Interest rate risk	(6,421)	Hedge accounting result

As at 31 December 2020:

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

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

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

Cumulated amounts of adjustments related to fair value hedges included in the statement of financial position for all hedged items, with respect for which adjustments for gains and losses on fair value hedging have ceased, amounted to PLN 103thousand as at 31 December 2021.

Information regarding hedge effectiveness is presented below.

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

IBOR reform

The interest rate benchmark reform (IBOR reform) aims at on opposing the manipulation of reference benchmarks and ensuring that benchmarks are reliable and representative. The requirements are set by Regulations (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.

To accommodate changes driven by LIBOR reform ("BMR") Bank has launched a project aimed at monitoring and execution of the transition from LIBOR rates to RFRs. Established working group consisted of product owners and respective business representatives. Due the exposure profile of the Bank the following benchmarks were included in the scope of the project: LIBOR CHF, LIBOR USD, LIBOR EUR, LIBOR GBP and LIBOR JPY. Bank has identified all agreements which consisted the before mentioned benchmark rates. Follow-up activates were taken accordingly to the particular benchmarks and the type of counterparty. The procedure for particular benchmark are outlined below:

Retail Banking (Mortgages)

- LIBOR CHF – in light of legislation published by EUROPEAN Commission SARON was selected as a replacement rate for LIBOR CHF. Bank had only exposures on 3M CHF LIBORS and is replacing it with SARON 3M rate with adjustment set out in the EU legislation. Replacement of the benchmark rate follows the BAU process and is done accordingly to the rate refreshment date for each particular mortgage. Transition phase will be carried out in 1Q2022.

Corporate Banking

- LIBOR USD –Bank has decided to stop offering products based on USD LIBOR. Contracts which terminate before June 2023 will remain on USD LIBOR, others will be migrated to RFR rate before June 2023. The gross carrying amount of receivables for contracts that will not be migrated base on this rate was PKN 215.4 million. The nominal value of derivatives is PLN 3,980.6 million.
- LIBOR EUR – vast majority of contracts held by the bank were already based on EURIBOR rate and therefore Bank has decided to sign bilateral agreements for the remaining LIBOR EUR contracts.
- LIBOR GBP, LIBOR JPY, LIBOR CHF – due to marginal number of contracts Bank has decided to sign bilateral amendments.

Along the activities outlined above Bank has conducted intensive information campaign to prepare Clients and Relationship Managers to smoothly navigate through upcoming changes.

Additionally, Bank is actively pursuing implementing Fallback clauses in each agreement.

38. Fair value information

Fair value of financial assets and liabilities

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

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

As at 31 December 2021

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/liabilities	Total carrying value	Fair value*	Fair value disclosure**
Financial assets								
Amounts due from banks measured at amortized cost	18	-	967,677	-	-	967,677	n/a	967,660
Financial assets held-for-trading measured at fair value	19	9,956,212	-	-	-	9,956,212	9,956,212	n/a
Debt investment financial assets measured at fair value through other comprehensive income	20	-	-	20,590,284	-	20,590,284	20,590,284	n/a
Equity and other instruments measured at fair value through income statement	21	-	-	-	97,316	97,316	97,316	n/a
Amounts due from customers measured at amortized cost	22	-	21,327,600	-	-	21,327,600	n/a	21,198,601
		9,956,212	**22,295,277**	**20,590,284**	**97,316**	**52,939,089**	**30,643,812**	**22,166,261**
Financial liabilities								
Amounts due to banks	29	-	-	-	3,383,353	3,383,353	n/a	3,383,964
Financial liabilities held-for-trading	19	6,588,482	-	-	-	6,588,482	6,588,482	n/a
Amounts due to customers	30	-	-	-	43,507,474	43,507,474	n/a	43,507,600
		6,588,482	**-**	**-**	**46,890,827**	**53,479,309**	**6,588,482**	**46,891,564**

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

***Fair value of assets and liabilities that are not recognized and measured in the statement of financial position at fair value, but for which fair value is additionally disclosed in accordance with the requirements of IFRS 13.*

As at 31 December 2020

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

Fair value of assets and liabilities that are recognized and measured in the statement of financial position at fair value. Fair value of assets and liabilities that are not recognized and measured in the statement of financial position at fair value, but for which fair value is additionally disclosed in accordance with the requirements of IFRS 13.*

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

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

  The active market includes stock and brokerage quotes and quotes in systems as pricing services, such as Reuters and Bloomberg, which represent the actual market transactions concluded on market conditions. Level I mainly includes securities held-for-trading or available-for-sale.
- Level II: financial assets/liabilities valued on the basis of models based on input data from the active market and presented in Reuters and Bloomberg systems; depending on financial instruments, the following specific valuation techniques are used:
  - listed market prices for a given instrument or listed market prices for an alternative instrument;
  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments;
  - other techniques, such as yield curves based on alternative prices for a given financial instrument.
- Level III: financial assets/liabilities valued on the basis of valuation techniques using relevant parameters not market-based.

The tables below present carrying amounts of financial instruments presented in the consolidated statement of financial position measured at fair value, arranged according to the above categories:

As at 31 December 2021

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	19	362,580	9,593,632	-	9,956,212
derivatives		218	6,095,331	-	6,095,549

PLN'000	Note	Level I	Level II	Level III	Total
debt securities		283,072	3,498,301	-	3,781,373
equity instruments		79,290	-	-	79,290
Hedging derivatives	37	-	119,290	-	119,290
Debt investment financial assets measured at fair value through other comprehensive income	20	15,428,782	5,161,502	-	20,590,284
Equity and other instruments measured at fair value through income statement	21	1,160	-	96,156	97,316
Financial liabilities		-	-	-	-
Financial liabilities held-for-trading	18	515,975	6,072,507	-	6,588,482
short sale of securities		515,896	-	-	515,896
derivatives		79	6,072,507	-	6,072,586

As at 31 December 2020

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	19	385,600	3,964,940	-	4,350,540
derivatives		323	3,370,573	-	3,370,896
debt securities		318,756	594,367	-	913,123
equity instruments		66,521	-	-	66,521
Debt investment financial assets measured at fair value through other comprehensive income	19	24,872,833	2,450,738	-	27,323,571
Equity and other instruments measured at fair value through income statement	21	33,614	-	44,859	78,473
Financial liabilities					
Financial liabilities held-for-trading	19	43,469	3,612,953	-	3,656,422
short sale of securities		43,208	-	-	43,208
derivatives		261	3,612,953	-	3,613,214
Hedging derivatives	37	-	98,025	-	98,025

As at December 31, 2020, the amount of financial assets classified to level III includes the value of the share in Visa Inc. (privileged series C) in the amount of PLN 25,082 thousand and the value of other minority shareholding in the amount of PLN 71,074 thousand. As at December 31, 2020, the amount of financial assets classified to level III includes the value of the share in Visa Inc. (privileged series C) in the amount of PLN 23,380 thousand and the value of other minority interests in the amount of PLN 21,479 thousand.

In the fourth quarter, the Bank carried out a transaction to sell a part of share package in Visa Inc. (series A). The value at sale price amounted PLN 34,372 thousand.

The method of estimating the fair value of series C Visa Inc preference shares takes into account the value of Visa Inc. shares and corrections resulting from disputes (current or potential) to which Visa or the Bank would be a party. Minority shareholding in structured companies are measured at fair value taking into account, inter alia, the expected discounted dividends using an assumed cost of capital and the history of profit distribution in the particular companies. Changes in the valuation are taken to the Income statement and presented in the Net gain/(loss) on equity and other instruments measured at fair value through income statement.

Changes in financial assets and liabilities measured at a fair value that was defined by using relevant parameters that are not market-based are presented below:

PLN'000	01.01.-31.12.2021	01.01.-31.12.2020
	Equity and other investments measured at fair value through income statement	
As at 1 January 2021	**44,859**	**61,530**
Conversion of shares - transfer to Level I	-	(22,168)
Revaluation	51,297	5,497
As at 31 December 2021	**96,156**	**44,859**

Revaluation is recognized in the Net gain/(loss) on equity and other instruments measured at fair value through income statement.

In 2021 the Group has made no transfers between levels of instruments fair value due to changes in method of estimating fair value. In 2021 the Group has not made any changes in classification criteria of financial instruments (presented in the consolidated statement of financial position at fair value) to each category reflecting the fair value (level I, level II, level III).

In the same period the Group has not made any changes in financial assets classification that could result from asset's purpose or usage change.

Fair value measurement

In the case of short-term financial assets and liabilities, it is assumed that their carrying amount is practically equal to their fair value. In the case of other instruments, the following methods and assumptions have been adopted.

Amounts due from customers and banks

The carrying amount of loans is presented at amortized cost less impairment. The fair value of loans and advances is calculated as the discounted value of expected future principal payments and takes into account fluctuations in market interest rates as well as changes in margins during the financial period. Changes in margins on loans are based on concluded transactions. It is assumed that loans and advances will be paid on the contractual date. In the case of loans for which repayment dates are not fixed (e.g. overdrafts), the fair value is the repayment that would be required if the amount were due on the balance sheet date.

The methods of valuation mentioned above are classifies to the third level of the fair value financial hierarchy: assets valued on the basis of valuation techniques using relevant parameters not market-based.

Amounts due to banks and customers

In the case of on-demand deposits, as well as deposits without a pre-determined maturity date, the fair value is the amount that would be paid out if demanded on the balance date. The fair value of fixed maturity deposits is estimated on the basis of cash flows discounted with current interest rates taking into account current margins in a similar way as adopted for the valuation of loans.

For overnight placements, the fair value is equal to their carrying amount. For fixed interest rate placements, the fair value is assessed on the basis of discounted cash flows using current money market interest rates for receivables with similar credit risk, time to maturity, and currency.

As described above, the models used to determine the fair value of assets and liabilities to banks and customers, recognized in the consolidated statement of financial position at amortized cost, involve valuation techniques based on non-market parameters. Therefore, the Group classifies the valuation of financial instruments for the purpose of disclosure to the third level of the fair value hierarchy. For all other financial instruments not at fair value, the Group believes that the fair value generally approximates the carrying value

39. Derecognition of financial assets

The net gain/(loss) on derecognition of financial assets in Group relates to the gain on debt investment financial assets measured at fair value through other comprehensive income and amounted to 203,402 thousand PLN in 2021 (in 2020: PLN 97,969 thousand).

PLN '000	**01.01.-31.12.2021**	**01.01.-31.12.2020**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income		
Polish treasury bonds	381 086	202 168
Treasury bills	-	1 234
NBP bills	409	-
EBI securities	10 812	-
Others	22 292	-
	414 599	**203 402**

Due to specific activity of the Group, changes in debt investment financial assets measured at fair value through other comprehensive income are presented in operating activities in the statement of cash-flows.

40. Contingent liabilities and litigation proceedings

Information on pending proceedings

No proceedings regarding receivables or liabilities of the Group conducted in 2021 in court, public administration authorities or an arbitration authority is of significant value. In Group's opinion no proceedings conducted before in court, public administration authority or an arbitration authority, pose a threat to the Group's financial liquidity, individually or in total.

In accordance with applicable regulations, the Group recognizes impairment losses for receivables subject to legal proceedings.

In the case of legal proceedings involving the risk of cash outflow as a result of meeting the Bank's commitments, the appropriate provisions are created. The value of provisions for disputes as at 31 December 2021 is PLN 19.8 million, of witch the provisions for option cases is PLN 1.7 million and provisions for individual cases relating to the judgments of the CJEU is PLN 17.5 million (PLN 3.7 million as at December 31, 2020). The increase is mainly due to more litigation proceedings relating to mortgage loans indexed to CHF.

This value do not include portfolio provisions created in connection with the judgments of the CJEU.

In 2021 the Group did not make any significant settlement due to court ended with the final judgment.

- On 27 May 2019 the Bank received a statement of claim submitted by Rigall Arteria Management spółka z ograniczoną odpowiedzialnością sp. k. for the payment of PLN 386,139,180.89 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 50,017,463.89 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014.The Court has referred the matter to mediation proceedings, which have not resulted in a mutual agreement, so the case is pending before the court of first instance.

  On 10 February 2020 the Bank received a statement of claim submitted by Rotsa Sales Direct sp. z o.o. for the payment of PLN 419,712.468.48 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 33,047,245.20 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014. On 11 May 2020 the Bank filed a response to the suit. The court referred the matter to mediation proceedings, so the case is pending before the court of first instance.

  In the Bank's opinion, the amount of claims filed by the companies is not justified. The Bank's position is confirmed by legally binding resolutions of legal actions taken by the companies against the Bank, which are beneficial for the Bank.

- As at December 31, 2021, the Bank was among others a party to 19 court proceedings associated with derivative transactions. Among these, 15 proceedings have not been terminated with a legally binding conclusion, four proceedings have been terminated with a legally binding conclusion and they are currently subject to cassation proceeding in the Supreme Court. In 12 proceedings the Bank acted as a defendant and in 7 as a plaintiff. The claims and allegations in the individual cases against the Bank are based on various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities towards the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank.

- The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against the Visa and Europay payment system operators and banks - issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressees of the President of UOKiK's decision in the case. The proceedings have concerned alleged practices limiting competition on the payment cards market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was the subject of legal analyses in appeal proceedings. On April 22, 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set in the amount of PLN 1,775,720. On October 6, 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes of amounts of the fines that were imposed upon banks. As a result, the fine in the amount of 10,228,470 PLN that was originally imposed upon the Bank has been reinstated. As the Bank submitted extraordinary appeal on the 25 October 2017 the Supreme Court has overturned the Appeal Court's verdict and the case has been returned to the Appeal Court for a second review. The appeals proceedings has begun again. In the first quarter of 2018, the

Bank received the reimbursed. By the judgment of November 23, 2020, the Appeal Court set aside the judgment of November 21, 2013 and remitted the case to the court of first instance for reconsideration.

- The Bank is carefully following the changes of the legal environment arising out of the courts' case law regarding mortgage loans indexed to foreign currencies, including the judgment of the Court of Justice of the European Union (CJEU), case no. C 260/18, of 3 October 2019. The Bank has identified a number of doubts as regards interpretation of the above-mentioned judgment. Despite the still unresolved issues (e.g. the possibility for banks to demand remuneration for use of capital), as at the day of these financial statements, most courts have ruled against banks on indexed loan cases. The expected resolution of the Civil Law Division of the Supreme Court to rule again on issues on which courts are still inconsistent has been postponed to an indefinite date. The Supreme Court formulated the question of the CJEU as to whether the current composition of the Civil Law Division of the Supreme Court is competent to pass a resolution, taking into account doubts as to the correctness of appointment of some of its judges. It should be noted, however, that apart from the doubts in court cases, the recent measures of the Polish Financial Supervision Authority seeking to set out the direction and scope of possible settlements between Banks and Swiss franc borrowers should be borne in mind. Some banks have started the process of offering their clients CHF loan dispute settlements.

  As at 31 December 2021, the Bank had receivables under CHF-indexed retail mortgage loans at the gross carrying amount of PLN 52 million. Despite the marginal share of CHF-indexed mortgage loans in the entire lending portfolio, in 2020, the Bank recognized a portfolio provision for those loans at PLN 13 million that remains at the same level in 2021. Estimating the provision assumes the expected level of customer complaints based on the trend observed by the Bank, which is different for active customers and customers repaid before the balance sheet date, as well as the probability of settlement or litigation and the estimate of the loss of the Bank if the dispute were to be concluded in the Court.

- On September 11, 2019, CJEU passed a ruling in the case C 383/18, indicating the following interpretation of Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers (Directive): "the right of the consumer to a reduction in the total cost of the credit in the event of early repayment of the credit includes all the costs imposed on the consumer." Hence, according to the provisions of the Directive, the above-mentioned right of the consumer includes costs both related and not related to the duration of the contract.

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

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

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

  After the decision was issued, the President of the UOKiK asked the Bank to provide explanations regarding the manner in which the Bank reimburses a proportional part of the commission in the case where customer takes out another loan with the Bank in such a way that it replaces the original agreement ("Increase agreement") The Bank assessed such a situation as an increase of existing credit obligation, which does not result in the obligation to the settle the previous debt, however in view of the doubts expressed by the President of UOKiK about the previously presented approach, the Bank, despite the different factual and legal assessment of the Increased agreement, for the purpose of refunding the commission, adopted the date of the Increasing agreement as the date of early repayment of the previous obligation. Considering its relationship with clients and emphasizing its will to cooperate with the UOKiK the Bank decided to align its practice with the position of the UOKiK President and decided to proactively settle the proportionate part of the commission in relation to clients who entered into the Increased agreement after 11 September 2019.

  As at December 31, 2021, the Group updated the legal risk assessment resulting from the judgment of the CJEU regarding the reimbursement of consumer loan commissions paid ahead of schedule and updated the possible amount of cash outflow as reimbursement of consumer loan commissions. In addition, with regard to the balance sheet exposures, as at December 31, 2021, the Group updated the estimation of possible prepayments of consumer loans in the future.

  The calculation of the estimates required the Group to adopt expert assumptions regarding, first of all, the scale of complaints and the amounts returned for prepaid loans before the CJEU judgment and the expected scale of prepayments and returns in the future for balance sheet exposures. The Bank has created a provision for claims on commissions collected before 11 September 2019 i.e. before CJEU judgment based on historical complaints on this account. Based on past observation it has been determined that the claims ratio is decreasing over time, which has been taken into account in the forecast of the provision amount.

In 2021, based on the above adjustment of the Bank's practice for the Increased agreements and the assumptions made , the Bank updated the provision for commissions refund by PLN 58.3 million.

As of December, 2021, the Bank was sued in 813 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 3.5 million.

Commitments due to granted and received financial and guarantee liabilities

The amount of financial and guarantee commitments granted and received, by product category, is as follows:

PLN '000	State as at	
	31.12.2021	31.12.2020
Contingent liabilities and guarantees granted		
Letters of credit	450,109	162,523
Guarantees granted	2,246,001	2,250,542
Credit lines granted	13,218,765	14,035,449
Other financial liabilities	2,365,300	-
Underwriting other issuers' securities issues	39,772	53,869
	18,319,947	**16,502,383**

PLN '000	31.12.2021	31.12.2020
Letters of credit		
Import letters of credit issued	450,109	162,523
	450,109	**162,523**

Guarantees issued include credit principal repayment guarantees, other repayment guarantees, advance repayment guarantees, performance guarantees, tender guarantees, and bill of exchange guarantees.

The provisions for expected credit losses for contingent liabilities and guarantees granted by the Group are established. As at 31 December 2021 the amount of provisions of granted contingent liabilities and guarantees was PLN 33,910 thousand (31 December 2020: 47,354 thousand).

Movement in provision for expected credit losses – contingent liabilities and guarantees granted presented as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses – contingent liabilities and guarantees granted				
Provision for expected credit losses as at 1 January 2021	**21,287**	**18,901**	**7,166**	**47,354**
Transfer to Stage 1	4,197	(3,446)	(751)	-
Transfer to Stage 2	(541)	1,034	(493)	-
Transfer to Stage 3	(33)	(1,095)	1,128	-
(Creation)/Releases in the period though the income statement	(9,910)	317	(4,117)	(13,710)
Foreign exchange and other movements	(366)	631	1	266
Provision for expected credit losses as at 31 December 2021	**14,634**	**16,342**	**2,934**	**33,910**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses – contingent liabilities and guarantees granted				
Provision for expected credit losses as at 1 January 2020	**11,819**	**13,768**	**36,116**	**61,703**
Transfer to Stage 1	4,985	(4,985)	-	-
Transfer to Stage 2	(456)	456	-	-
Transfer to Stage 3	(16)	(642)	658	-

PLN'000	Stage 1	Stage 2	Stage 3	Total
(Creation)/Releases in the period though the income statement	4,738	10,206	(29,313)	(14,369)
Foreign exchange and other movements	217	98	(295)	20
Provision for expected credit losses as at 31 December 2020	**21,287**	**18,901**	**7,166**	**47,354**

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

Movements in contingent liabilities granted that contribute to movements in provision for expected credit losses presented as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amount of contingent liabilities granted				
Gross amount of contingent liabilities granted as at 1 January 2021	**14,777,585**	**1,686,605**	**38,193**	**16,502,383**
Transfer to Stage 1	116,253	(116,238)	(15)	-
Transfer to Stage 2	(278,017)	281,097	(3,080)	-
Transfer to Stage 3	(11)	(715)	726	-
Increase/Decrease	2,106,417	(332,889)	(30,020)	1,743,508
Other movements	68,297	5,746	13	74,056
Gross amount of contingent liabilities granted as at 31 December 2021	**16,790,524**	**1,523,606**	**5,817**	**18,319,947**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amount of contingent liabilities granted				
Gross amount of contingent liabilities granted as at 1 January 2020	**13,510,076**	**1,862,999**	**68,880**	**15,441,954**
Transfer to Stage 1	310,142	(310,117)	(25)	-
Transfer to Stage 2	(239,968)	240,175	(207)	-
Transfer to Stage 3	(71)	(792)	863	-
Increase/Decrease	1,087,651	(113,286)	(31,375)	942,989
Other movements	109,756	7,625	58	117,440
Gross amount of contingent liabilities granted as at 31 December 2020	**14,777,585**	**1,686,605**	**38,193**	**16,502,383**

PLN'000	31.12.2021	31.12.2020
Financial and guarantees liabilities received		
Guarantees	18,439,821	17,725,578
	18,439,821	**17,725,578**

41. Assets pledged as collateral

Details of the carrying amounts of assets pledged as collateral are as follows:

PLN'000	31.12.2021	31.12.2020
Assets pledged		
Debt investment financial assets measured at fair value through other comprehensive income, including:	907,728	327,486
Assets pledged as collateral	*748,763*	*144,953*
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market trading	140,850	234,267
Amounts due from customers		
Stock market trading guarantee funds and settlements	1,159,174	1,227,863

PLN'000	31.12.2021	31.12.2020
	2,207,752	**1,789,616**

As at 31 December 2021, the debt securities measured at fair value through other comprehensive income presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund in the amount of PLN 158,965 thousand (31 December 2020: PLN 182,533 thousand), collateral for repo transactions in the amount of PLN 500,380 thousand (31 December 2020: PLN 0 thousand), debt securities that serve as collateral for the settlement of derivative instruments in the Euroclear clearing house in the amount of PLN 248,383 thousand (31 December 2020: PLN 144,953 thousand).
In the statement of financial positions, the Bank presents separately non-cash assets pledged as collateral for liabilities, where the acquirer has the right to sell or pledged the collateral.

Other assets disclosed above secure settlement of derivatives transactions and stock market transactions. The terms and conditions of the transactions executed to date are standard and typical for such dealings.

Restricted assets, apart from the instruments presented in this note, also include the value of the obligatory reserve that the Group is required to maintain in its current account with the NBP. More information on the required reserve is provided in Note 14 Cash and balances with the Central Bank.

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2021	31.12.2020
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	503,424	-
	503,424	**-**

42. Custodian activities

The Bank offers both custodian services connected with securities accounts for foreign institutional investors and custodian services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2021, the Bank maintained over 15 thousand securities accounts (31 December 2020: over 15 thousand accounts).

43. Leases

Leases where the Group is the lessee

Accounting policy:

At the commencement date, the Group as a lessee measures the lease liability at the present value (discounted) of the lease payments that are not paid at that date. A right-of-use assets are measured at cost.

Right of use of assets due to perpetual usufruct of land are presented as tangible fixed assets in the statement of financial position, while lease liabilities are presented in other liabilities.

In the profit and loss account, the depreciation of the right to use assets is included in the depreciation tangible fixed and intangible assets, interest costs on lease liabilities - in interest costs, and the costs of short-term contracts, leasing low-value assets and leasing variables - in general administrative expenses.

In the statement of cash flows, interest flows are recognized in cash flows from operating activities, while the equity component is included in cash flows from financing activities.

Financial information:

The Group leases office space and has the right of perpetual usufruct of land:

	2021			2020		
PLN'000	Rights to perpetual usufruct	Real estate and other	Total	Rights to perpetual usufruct	Real estate and other	Total
ROU - Opening	79,979	52,123	132,102	**81,084**	**60,843**	**141,927**
ROU - Added	2,209	18,188	20,397	1,103	12,053	13,156

	2021			2020		
PLN'000	**Rights to perpetual usufruct**	**Real estate and other**	**Total**	**Rights to perpetual usufruct**	**Real estate and other**	**Total**
ROU - Amortization	(3,313)	(29,983)	(33,296)	(2,208)	(20,882)	(23,090)
Other changes	-	72	72	-	109	109
ROU - Closing	**78,875**	**40,400**	**119,275**	**79,979**	**52,123**	**132,102**
Liability Balance as at reporting date	**81,698**	**43,977**	**125,675**	**81,871**	**56,510**	**138,381**

	2021			2020		
PLN'000	**Rights to perpetual usufruct**	**Real estate and other**	**Total**	**Rights to perpetual usufruct**	**Real estate and other**	**Total**
Lease Cost	4,526	12,045	16,571	4,542	11,989	16,531
- Depreciation of right-of-use Assets	*1,104*	*11,438*	*12,542*	*1,104*	*11,197*	*12,301*
- Interest on Lease Liabilities	*3,421*	*607*	*4,028*	*3,438*	*792*	*4,230*
Reporting Exceptions Cost Short-term Leases	-	526	526	-	754	754
Reporting Exceptions Cost Low-value Leases	-	1,501	1,501	-	1,594	1,594
Reporting Exceptions Cost Low-value Leases	-	5,328	5,328	-	6,252	6,252
Result on lease modification	-	584	584	-	450	450
Total Lease Cost	**4,526**	**19,984**	**24,510**	**4,542**	**21,039**	**25,581**

	2021			2020		
PLN'000	**Rights to perpetual usufruct**	**Real estate and other**	**Total**	**Rights to perpetual usufruct**	**Real estate and other**	**Total**
Cash Flows - Total	3,595	12,099	15,694	3,595	11,894	15,489
Cash Flows - Interest	*3,421*	*607*	*4,028*	*3,438*	*792*	*4,230*
Cash Flows - Principle Repayment	*173*	*11,493*	*11,666*	*157*	*11,102*	*11,259*
Weighted-average Remaining Lease Term (in years)	71.7	5.90	61.7	73.9	5.8	61.4
Weighted-average Incremental Borrowing Rate	4,3%	1,5%	3,8%	4.3%	2.9%	3.9%
Total Lease Cost	**3,595**	**12,099**	**15,694**	**3,595**	**11,894**	**15,489**

Bank as lessor

Irrevocable lease payments

in PLN thousand	**31.12.2021**	**31.12.2020**
Under 1 year	4	392
1 – 5 years	1,622	2,473
	1,626	**2,865**
Total annual amounts for agreements for undefined term	**6,252**	**6,226**

44. Additional information to the statement of cash flows

Cash is cash in hand, nostro current account in Central Bank and receivables on current balances in banks.

PLN'000	**Note**	**31.12.2021**	**31.12.2020**
Cash related items:			
Cash in hand	17	357,834	384,925
Nostro current account in Central Bank	17	6,168,909	4,103,407
Current accounts in other banks (nostro, overdrafts on loro accounts)	18	39,814	31,308

PLN'000	Note	31.12.2021	31.12.2020
		6,566,557	**4,519,640**

45. Transactions with key management personnel

PLN'000	31.12.2021		31.12.2020	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**99**	**3**	**111**	**24**
Deposits				
Current accounts	6,235	29,629	22,332	12,859
Term deposits	-	21,044	1,447	28,369
	6,235	**50,673**	**23,779**	**41,228**

As at 31 December 2021 and 31 December 2020, no loans or guarantees were granted to members of the Management Board or the Supervisory Board

All transactions of the Group with members of the Management Board and the Supervisory Board are at arm's length.

Staff expenses for current and former members of the Management Board are presented in note 11.

In 2021 there were changes in the composition of the Bank's Management Board ond the Bank's Supervisory Board, as listed below.

Changes in the composition of the Bank's Management Board

On 25 March the Supervisory Board of the Bank appointed Ms. Natalia Bożek as Vice President of Management Board for a consecutive 3-year term.

On 26 May 2021 the Supervisory Board of the Bank decided to appoint Ms. Elżbieta Światopełk-Czetwertyńska with the position of Vice President of Management Board for a three-year term of office. At the same time the Supervisory Board decided to entrust Ms. Elżbieta Światopełk-Czetwertyńska the temporary managing of the work of the Management Board of Bank Handlowy w Warszawie S.A. in the period of 18 June 2021 until the day of her appointment as the President of Management Board.

On October 8, 2021, the Financial Supervision Authority unanimously approved the appointment of Ms. Elżbieta Światopełk-Czetwertyńska as the President of the Management Board of Bank Handlowy w Warszawie S.A..

On November 30, 2021 Bank received information that Mr. James Foley will not seek to be elected for the role of Member of the Management Board for the next term and he was a Member of the Management Board until February 28, 2022.

On December 3, 2021 the Supervisory Board of the Bank decided to appoint Ms. Katarzyna Majewska as Member of the Management Board of the Bank for a consecutive 3-year term. . The term of office began on January, 11 2022.

Changes in the composition of the Bank's Supervisory Board

On June 17, 2021 the General Shareholders Meeting appointed with the effect from 18 June 2021 Ms. Kristine Braden, Ms. Jenny Grey, Mr. Marek Kapuściński, Mr. Gonzalo Luchetti, Mr. Frank Mannion, Ms. Anna Rulkiewicz, Mr. Sławomir S. Sikora, Ms. Barbara Smalska to the Supervisory Board of the Bank for a new joint 3-year term.

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

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

46. Related parties

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

In the normal course of business activities, Group entities enter into transactions with related parties, in particular with entities of Citigroup Inc.

Transactions with related parties resulting from the current Group's activities mainly include loans, deposits, guarantees and derivatives transactions.

Apart from the transactions described in this section, in the presented period neither the Bank nor the Bank's subsidiaries conducted any transactions with related entities, which would be individually or jointly significant. No transaction with related entities was concluded on terms other than market terms.

Transactions with Citigroup Inc. entities

The receivables and liabilities toward Citigroup Inc. entities are as follows:

PLN'000	**31.12.2021**	**31.12.2020**
Receivables, including:	276,533	159,920
Placements	-	-
Liabilities, including:	1,881,669	3,369,500
Deposits*	788,983	902,610
Balance-sheet valuation of derivative transactions:		
Assets held-for-trading	1,237,897	660,287
Liabilities held-for-trading	1,213,295	624,039
Contingent liabilities granted	299,511	341,675
Contingent liabilities received	174,208	56,639
Contingent transactions in derivative instruments (nominal value), including:	72,965,539	51,607,831
Interest rate instruments	7,496,622	5,509,016
Interest rate swaps (IRS)	1,239,830	2,177,559
Interest rate options	47,602	20,338
Futures contracts	6,209,190	3,311,119
Currency instruments	63,220,592	44,642,237
FX forward/spot	4,423,917	8,789,140
Currency – interest rate swaps (CIRS)	24,415,723	18,000,615
FX swap	32,683,483	14,972,436
Foreign exchange options	1,697,469	2,880,046
Securities transactions	258,144	195,504
Securities purchased pending delivery	93,938	55,369
Securities sold pending delivery	164,206	140,135
Commodity transactions	1,990,181	1,261,074
Swaps	1,990,191	1,261,074

**including deposits from parent company in the amount of PLN 12 thousand (31 December 2020: PLN 12 thousand)*

PLN'000	**2021**	**2020**
Interest and commission income*		
Interest and commission expense*	40,747	32,518
General administrative expenses	4,525	6,799
Other operating income	179,640	179,534

**including interest and commission income in amount of PLN 887 thousand (2020: PLN 797 thousand) and interest and commission expense in amount of PLN 0 thousand (2020 : PLN 0 thousand) refer to the parent company*

The Group incurs costs and receives income on derivative transactions with Citigroup Inc. entities to hedge the Bank's position in market risk. These derivative transactions are opposite (back-to-back) to derivative transactions with other Group clients or close the proprietary position of the Group. The net carrying amount of financial derivative transactions with related entities as at 31 December 2021 amounted to PLN 24,602 thousand (as at 31 December 2020: PLN 36,248 thousand).

The Bank runs a compression of derivative transaction portfolios periodically. It is one of the risk mitigation techniques recommended by "Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories" and the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulations, this in particular applies to the portfolios exceeding 500 derivative transactions.

Furthermore, the Group incurs costs and receives income from agreements concluded between Citigroup Inc. entities and the Group for the mutual provision of services.

The costs arising and accrued (including VAT, reflected in the Group's costs) under concluded agreements in 2021 and 2020 mainly related to the cost of services provided to the Group for the maintenance of the banking IT systems and advisory support and are included in general administrative expenses; income was mainly related to the provision of data processing services by the Group to such entities and is presented in other operating income.

In 2021, the capitalization of investments regarding functionality modification of Retail Banking IT systems took place. Total payments for Citigroup Inc. entities amounted to PLN 30,862 thousand (in 2020: PLN 68,888 thousand).

Information on transactions with key management personnel is presented in note 45.

47. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, awards, bonuses, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits).

  Depending on their individual compensation category, employees may receive an award from the incentive fund, a discretionary annual bonus under the internal employee compensation regulations. Until 30 June, 2021, employees could also receive a bonus under the bonus scheme applicable in a given area. Bonuses and awards were granted after completion of the period for which the employee's performance were evaluated. From 1 July 2021 there are no longer any bonus plans in the Bank. The costs of short-term benefits are expensed in the income statement in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense. Additionally, in 2021, by decision of the Head of the Retail Sector dated on 6 July 2021, a six-month retention programme was introduced for employees in selected positions responsible for servicing customers in the CPC and Citigold segments.

- Long-term employee benefits

  Under its compensation scheme, the Group guarantees its employees retirement and pension allowances, constituting defined benefit plans. Their amount depends on years worked in the Bank, falling directly before gaining rights to payment. For the future payments of retirement and pension allowances there is a reserve made, shown in "Liabilities" in "Other liabilities" and in "Activities costs and general and administrative expenses" of the profit and loss account in part resulting from costs of current employment and time. Part of the provision resulting from a change of actuarial assumptions (economics and demographic) taken to valuation is shown in other total income.

- Employee Pension Plan

  The Group conducts for its employees the Employee Pension Plan ("PPE", "Plan"), registered by the Supervisory Authority under number ZM RPPE 178/02/12/19. Collective agreement is based on records of payment of employee contributions to the investment fund by the employer. The Plan is conducted and managed by Esaliens TFI S.A. (previously Legg Mason TFI S.A.).

  The Group's pension plan is a defined contribution program in accordance with IAS 19. The Group pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses in the period they concern.

  The basic contribution paid by the employer is defined as a percentage of salary of the Plan member. The basic contribution rate amounts to 7%. The additional contribution – voluntary, is paid by the employee – the Plan participant. The basic contribution is the income of the Program participant, from whom he is obliged to pay personal income tax (articles 12 and 13 of the Act on the income tax from individuals of 26 July 1991, Official Journal from 2019, item 1387 with amendments).

  Payments from the Plan are paid after the participant's or entitled person's motion and under conditions specified in the program.

  The Plan participant may quit the Plan. The employer stops charging and paying basic and additional contributions for the Plan participant, and the funds that have accumulated on the Plan participant's registers are left there till the time of payment, transfer payment, transfer or refund. In connection with the operation of the PPE in the Bank, the Bank has not implemented the Employee Capital Plan (PPK)

- other long-term employee benefits – jubilee and other long service awards and deferred cash awards granted to the Management Board and people, whose professional operating has a significant impact on the Bank's risk profile. From 1 January 2015, employees with long-term work-experience (10, 20, 30 years, etc.) are entitled to rewards in kind.

- employee equity benefits – in the form of phantom shares of Bank Handlowy w Warszawie S.A. (including under the Transaction Reward) and also in the form of common stock under stock award programs based on shares of Citigroup common stock in the form of deferred stock (capital accumulation plan – CAP). In 2021, the award under programs based on Citigroup shares has not been granted. In accordance with IFRS 2 "Share-based payment", all the programs functioning in the Group are deemed to be cash-settled programs. A provision is created for future payments is shown in the "consolidated statement of financial position" and "General administrative expenses" in the income statement. The costs of the program are determined on the basis of the Bank's shares price or Citigroup share price. According to IFRS, the fair value is measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value deferred shares at the reporting date times the part of the rights that were deemed acquired in that period. Detailed information concerning the employee equity benefits are presented further in this note.

Provisions/accruals for the above employee benefits are as follows:

PLN'000	**31.12.2021**	**31.12.2020**
Provision for remuneration	68,498	60,548
Previsions for unused leave	14,311	14,444
Provision for employee retirement and pension benefits	75,401	75,880
Provision for employee equity compensation	26,412	16,577
Provision for workforce restructuring	275	550
	184,897	**167,999**

The provision for retirement and pension benefits is created individually on the basis of an actuarial valuation performed periodically by an external independent actuary. The valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The Group performed a reassessment of its estimates as at 31 December 2021, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. The discount rate was set at 2.00% and wage growth rate at 2.3%.

Change in provisions/accruals for employee retirement allowances and jubilee payments:

PLN'000	**2021**	**2020**
	Provision for retirement allowances	**Provision for retirement allowances**
As at 1 January	**75,880**	**68,327**
Increases (due to):	831	9,273
Actuarial profit/loss on revaluation	(4,693)	1,975
Including those resulting from:		
Change of economic assumptions	(2,312)	(458)
Change of demographic assumptions	(5,350)	-
Experience adjustment	2,969	2,433
Remuneration cost	948	1,367
Interest cost	4,576	5,931
Decreases (due to):	(1,310)	(1,720)
Provisions utilization	(1,310)	(1,720)
As at 31 December	**75,401**	**75,880**

Analysis of sensitivity for significant actuarial assumptions

PLN'000	**2021**	**2020**
	Provision for retirement and pension allowances	**Provision for retirement and pension allowances**
Central value	75,401	75,880
Decrease of growth salary to 1 p.p.	67,546	67,033

Increase of growth salary to 1 p.p.	84,451	86,216
Decrease of rotation by 10%	78,709	79,103
Increase of rotation by 10%	72,360	72,909
Decrease of discount rate by 0.5 p.p., including:	59,539	80,105
Falling to benefits paid within 1 year	2,175	6,214
Increase of discount rate by 0.5 p.p., including:	73,768	74,874
Falling to benefits paid within 1 year	2,171	6,210

More information about defined benefit programs in the Bank's financial report can be found in note 2.

In 2021, the Group's expenses in respect of premiums for the Employee Pension Plan amounted to PLN 24,712 thousand (in 2020: PLN 24,491 thousand).

Employment in the Group:

FTEs	2021	2020
Average employment during the year	2,940	3,026
Employment at the end of the year	2,903	2,994

Description and principles of employee stock benefit schemes

Under the employee stock benefit program, the phantom shares of Bank Handlowy w Warszawie S.A. and awards in the form of Citigroup stock (the so-called Capital Accumulation Program, or CAP) are offered to selected employees.

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. "Deferred shares" within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. "Deferred shares" give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. "Deferred shares" are converted into stocks after the end of a period that is determined in the Program Rules. As a general rule, the employee has a right to options revoked at the moment of employment termination in the Citigroup, provided the termination of said contract "Capital Accumulation Program – Prospectus" for granted options. Deferred shares granted in previous years will be transferred partially in 25% every year for the next four years, starting from the first anniversary of the option to acquire.

In 2021, the award under this Program was not granted.

The employee share program is subject to internal controls in the Compensation and Benefits Unit. As of 22 December 2017, the Bank implemented the employee remuneration Policy of Bank Handlowy w Warszawie S.A., replacing the prior policy for the remuneration of key persons in Bank Handlowy w Warszawie S.A. Last amendment to above-mentioned policy was approved on December, 3 2021 by Supervisory Board – annual awards for 2021 are granted in 2022 based on adjusted provisions.

According to the above-mentioned policy, the Management Board of the Bank and other managerial staff having a significant influence on the Bank's risk profile receive variable remuneration in relation to individual performance and the Bank's financial results.

A portion of the Variable Remuneration awarded conditionally in 2021 for persons covered by the Policy will be paid in tranches during in the next 3.5 or 6 years for the President of the Management Board. As a result of changes to Policy adopted in 2021, Variable Remuneration conditionally granted in 2022 (for 2021) to persons covered by the Policy, will be paid in tranches for next 4,5 or 6 years for the Members of Management Board.

Variable Remuneration – Phantom shares	
Transaction as per IFRS	Transactions share-based payments settled in cash in accordance with IFRS 2
Phantom Shares grant date	15 of January 2018 14 of January 2019 14 of January 2020 11 of January 2021
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	• Phantom Shares for the President of the Management Board Shares granted in 2018-2021 - at least 12, 24, 36, 48, 60, 72 months after grant date • Phantom Shares granted in 2018-2021 for other employees – at least 6, 18, 30, 42 months after grant date

Variable Remuneration – Phantom shares	

Vesting date	• Phantom Shares for the President of the Management Board
	  o in 2018-2019 - at least 12, 24, 36, 48, 60 months after grant date
	  o in 2020 –2021 – for short-term phantom shares at grant date, for long-term phantom shares at least 12, 24, 36, 48, 60 months after grant
	• Phantom Shares granted in 2018-2020 for other employees
	  o in 2018-2029 - at least 6, 12, 24 and 36 months after grant date
	  o in 2020-2021 – for short-term phantom shares at grant date, for long-term phantom shares at least 12, 24, 36 months after grant date

Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Bank in
	• 2018:
	  o For the President of the Management Board in relation to the award from 2018-2023
	  o For other employee in relation to the award from 2018-2021
	• 2019:
	  o For the President of the Management Board in relation to the award from 2019-2024
	  o For other employee in relation to the award from 2019-2022
	• 2020:
	  o For the President of the Management Board in relation to the award from 2020-2025
	  o For other employee in relation to the award from 2020-2023
	• 2021:
	  o For the President of the Management Board in relation to the award from 2021-2026
	  o For other employee in relation to the award from 2021-2024

Program settlement	At the settlement date the participants will get an amount of cash being the product held by a participant phantom shares and the arithmetic mean of the lowest and highest prices of shares of the Bank notified on WSE at the maturity date. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Member of the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above mentioned Bank Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

Another component of Variable Remuneration granted under the Policy is the Deferred Cash Award.

Variable Remuneration – Deferred Cash Award	
Transaction as per IFRS	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	15 of January 2018 15 of January 2019 14 of January 2020 11 of January 2021
Granted amount	The amount was settled on the Deferred Cash Award grant date
Date of maturity	• Deferred Cash Award for the President of the Management Board in 2018-2021 - at least 18, 30, 42, 54, 66 months after grant date • Deferred Cash Award granted in 2018-2021 for other employees – at least 18, 30, 42 months after grant date
Vesting date	• Deferred Cash Award for the President of the Management Board in 2018-2021 - at least 12, 24, 36, 48, 60 months after grant date • Deferred Cash Award granted in 2018-2021 for other employees – at least 12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Group • 2018:

Variable Remuneration – Deferred Cash Award	
	○ For the President of the Management Board in relation to the award from 2018-2023 ○ For other employee in relation to the award from 2018-2021 • 2019: ○ For the President of the Management Board in relation to the award from 2019-2024 ○ For other employee in relation to the award from 2019-2022 • 2020: ○ For the President of the Management Board in relation to the award from 2020-2025 ○ For other employee in relation to the award from 2020-2023 • 2021: ○ For the President of the Management Board in relation to the award from 2021-2026 ○ For other employee in relation to the award from 2021-2024

Due to information shared by Citigroup on April, 15 2021 concerning amendment to strategy towards Consumer Bank ("GCB"), the Management Board of the Bank adopted the policy enabling to grant the award in order to recognize the effort of employees, whose support in strategy implementation towards the part of the Bank Handlowy w Warszawie S.A. (consumer banking segment) is crucial – Transaction Award Policy.

On December, 3 2021 the Supervisory of the Bank Handlowy w Warszawie S.A. made a decision to amend the Transaction Award Policy by e.g. introducing new variable remuneration structure.

Variable Remuneration – Phantom shares granted in 2021 under Transaction Award	
Transaction as per IFRS	Transactions share-based payments settled in cash in accordance with IFRS 2
Phantom Shares grant date	July, 1 2021 based on resolution from July, 14, 2021 and December, 3 2021
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	• For awards granted to Vice-President of Management Board – depending on the type of the award not sooner than 6 months after the completion of Transaction and not sooner than 18, 30, 42, 54, 66 months after grant date • For awards granted to other employees, who have material impact on risk profile of the Bank – depending on the type of the award, immediately after satisfying criteria (including these related to Transaction) or 6 months after completion of Transaction and not sooner than 6, 18, 30, 42, 54 months after grant
Vesting date	• For awards granted to the Vice-President of the Management Board – depending on the type of the award, not sooner than 6 months after completion of the Transaction and at least 12, 24, 36, 48, 60 months after grant • For awards granted to other employees, who have material impact on risk profile of the Bank – depending on the award, immediately after satisfying criteria (including these related to Transaction) or not sooner than 6 months after completion of Transaction and not sooner than 6, 12, 24, 36, 48 months after grant
Terms and conditions for acquiring rights to the award	The completion of Transaction until defined date and fulfillment of the criteria related to Bank's financial results, individual employees performance and employment in the Group: ○ For the Vice-President of the Management Board in relation to the award from 2021-2026 ○ For other employee in relation to the award from 2021-2025
Program settlement	At the settlement date the participants will get an amount of cash being the product held by a participant phantom shares and the arithmetic mean of the lowest and highest prices of shares of the Bank notified on WSE at the maturity date. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Vice-President of the Management Board and by a decision of the Management Board in relation to other employees covered by the Transaction Award Policy. According to a decision of the above mentioned Bank Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

Another component of Variable Remuneration granted according to the Transaction Award Policy is the Deferred Cash Award.

Variable Remuneration – Deferred Cash Award	
Transaction as per IFRS	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	July, 1 2021 based on resolution from July, 14, 2021 and December, 3 2021
Granted amount	The amount was settled on the Deferred Cash Award grant date
Date of maturity	• For awards granted to Vice-President of Management Board – depending on the type of the award, not sooner than 6 months after the completion of Transaction and not sooner than 18, 30, 42, 54, 66 months after grant date • For awards granted to other employees, who have material impact on risk profile of the Bank – depending on the type of the award, immediately after criteria fulfillment (including these related to Transaction) or not sooner than 6 months after completion of Transaction and not sooner than 18, 30, 42, 54 months after grant date For awards granted to other employees – not sooner than 6 months after completion date
Vesting date	• For awards granted to the Vice-President of the Management Board – depending on the type of the award, not sooner than 6 months after completion of the Transaction and at least 12, 24, 36, 48, 60 months after grant date • For awards granted to other employees, who have material impact on risk profile of the Bank – depending on the award, immediately after satisfying the criteria (including these related to Transaction) or not sooner than 6 months after completion of Transaction and not sooner than 12, 24, 36, 48 months after grant date • For awards granted to other employees – not sooner than 6 months after completion date
Terms and conditions for acquiring rights to the award	The completion of Transaction until defined date and fulfillment of the criteria related to Bank's financial results, individual employees performance and employment in the Group: ○ For the Vice-President of the Management Board in relation to the award from 2021-2026 ○ For other employee in relation to the award from 2021-2025
Program settlement	At the settlement date the participants will get an amount of Deferred Cash Award. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Vice-President of the Management Board and by a decision of the Management Board in relation to other employees covered by the Transaction Award Policy. According to a decision of the above mentioned Bank Management the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank's results, individual performance and employment status and will relate to the vesting period of each tranche.

Assumptions of valuation of the employee equity benefit schemes

The fair value of particular awards and the assumptions used in their measurement is shown below:

CAP Program	Grant date	Exercise price/stock price at grant date [USD]	Number of eligible employees	Number of options/shares
1	13.02.2020	78.91	1	290

Phantom Shares Program	Grant Date	Exercise price/stock price at grant date [PLN]	Number of eligible employees	Number of options/shares
1	15.01.2018	83.02	1	6,845
2	14.01.2019	69.10	39	23,306
3	14.01.2020	52.56	39	56,700
4	11.01.2021	35.14	47	173,965

	CAP Program	Phantom Shares Program
Period to acquire the title (in years)	25% after each of the following years	40% after 0.5 of a year and 20% after 3 subsequent years, 40% after a year and 12% after 5 subsequent years or 60% after 0.5 of a year and 13.33% after 3 subsequent years, 60% after a year and 8% after 5 subsequent years
Expected average life cycle of the instrument	At the time of rights acquisition	From 2020: 40% on the grant date and 20% after 3 following years, 40% on the grant date and 12% after 5 following years or 60% on the grant date and 13.33 % after 3 following years, 60% on the grant date, and 8% after 5 following years

Probability of premature termination of employment (annual staff turnover for awarded employees)	0,00%	11.76%
Fair value of one instrument* (in USD)	60.64 (USD)	57.50 (PLN)

**Varies depending on the date of exercise*

The number and weighted-average price of shares (CAP Program) are presented below:

	31.12.2021		31.12.2020	
	Number	Weighted-average share price [USD]	Number	Weighted-average share price [USD]
At the beginning of the period	387	78.91	201	37.05
Allocated in the period	-	-	387	78.91
Executed/redeemed /expired in the period	97	63.69	201	81.12
At the end of the period	290	78.91	387	78. 91

The number and weighted-average price of Phantom Shares are presented below:

	31.12.2021		31.12.2020	
	Number	Weighted-average share price [PLN]	Number	Weighted-average share price [PLN]
At the beginning of the period	149,902	61.49	117,537	74.67
Allocated in the period	339,658	35.14	173,560	52.56
Executed in the period	228,744	44.69	139,017	38.40
Redeemed/expired in the period	-	-	2,178	-
At the end of the period	260,816	43.22	149,902	61.49

On 31 December 2021, the book value of liabilities from the phantom share and CAP programs amounted to PLN 26,052 thousand (31 December 2020: PLN 16,272 thousand). The costs recognized in this respect in 2021 amounted to PLN 20,211 thousand (in 2020: PLN 8,064 thousand including the costs of CAP programs).

48. Subsequent events

The war in Ukraine

After the reporting date, i.e. December 31, 2021, an unprecedented event took place, which is the armed conflict as a result of the aggression of Russian troops against Ukraine.

The Bank does not operate in Ukraine, Russia or Belarus, and the Bank's credit exposure to companies significantly involved in these countries is around 0.5% of maximum exposure of the Group to credit risk. However, due to the scale of the conflict in Ukraine and its proximity to the Polish borders, the Management Board of the Bank monitors the impact of this event on the Bank's operating activities on an ongoing basis (including, in particular, risk in cyberspace).

The outbreak of the conflict in Ukraine may significantly change the macroeconomic environment in which the Bank operates. Currently, some of the consequences are difficult to estimate and the final result depends on duration and scale of the conflict and the fiscal response of European governments. Therefore, as at the date of this annual report, the potential impact of this conflict on the Bank's operating activities and its financial results in future periods cannot be assessed.

Recommendation R

On 1 January 2022 Recommendation R by Polish Financial Supevisory Authority came into force that covers classification, measurement of financial assets as well as calculation of expected credit losses and credit risk management. The Recommendation clarifies certain aspects resulting from International Financial Reporting Standard (IFRS) 9 Financial instruments (in accordance with Commission Regulation (EU) 2016/2067 of 22 November 2016).

In area of expected credit losses the Recommendation provided details regarding collective and individual approach to allowance calculation as well as risk parameter, including significant increase in credit risk assessment, homogeneity of portfolios, or limiting the allowance. The impact of Recommendation R on expected credit losses was not significant.

In area of classification and measurement Recommendation R introduces a detailed catalogue of events that should be considered as significant modification of financial assets.

After 31 December 2021 there were no other major events undisclosed in these financial statements, that could have a significant influence on the net result of the Group

Signatures of Management Board Members

23.03.2022	Elżbieta Światopełk-Czetwertyńska	President of the Management Board
....	....	....
Date	Name	Position/function
23.03.2022	Natalia Bożek	Vice-President of the Management Board
....	....	....
Date	Name	Position/function
23.03.2022	Dennis Hussey	Vice-President of the Management Board
....	....	....
Date	Name	Position/function
23.03.2022	Maciej Kropidłowski	Vice-President of the Management Board
....	....	....
Date	Name	Position/function
23.03.2022	Barbara Sobala	Vice-President of the Management Board
....	....	....
Date	Name	Position/function
23.03.2022	Katarzyna Majewska	Member of the Management Board
....	....	....
Date	Name	Position/function

Assessment of the Supervisory Board
with justification
concerning the Management's Report on activities and Financial statements
for 2021

The Supervisory Board of Bank Handlowy w Warszawie SA (further referred to as "Supervisory Board") on the basis of Article 382 §3 of the commercial code with § 70 sec. 1 pt. 14 as well as § 71 sec. 1 pt. 12 of the "Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by non-Member states as equivalent", positively assessed the documents:

1. the Annual financial statements of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2021
2. the Annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2021
3. the Management's Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the year 2021 including Report on activities of Bank Handlowy w Warszawie S.A.

as consistent with the books and documents as well as with the factual status.

The opinion of the Supervisory Board has been based on the content of the aforementioned reports presented by the Management Board of Bank Handlowy w Warszawie SA, reports of the independent auditor from the audit of standalone and consolidated financial statements as well as the recommendation of the Audit Committee.

Audit of the financial statements have been conducted by KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, with its seat in Warsaw, which has been elected by the Supervisory Board to conduct the audit of standalone financial statements of Bank Handlowy w Warszawie SA and consolidated financial statements of the Group of Bank Handlowy w Warszawie SA for the year ended 31 December 2021.

According to the statutory auditor's opinion both standalone, and consolidated financial statements and give true and fair view of the financial results and operations of the Bank and the Bank Group as of 31 December 2021, financial results of activities and cash flows for the year ended on that date and have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union and the accounting policies. Moreover standalone and consolidated financial statements are compliant, in all material aspects, as to the form and content with the applicable laws and the Statute of Bank Handlowy w Warszawie SA.

Additionally in the opinion of the independent auditor, the Management Board's Report on activities of the Group of Bank Handlowy w Warszawie S.A. for 2021 prepared together with the Report on activities of Bank Handlowy w Warszawie SA have been prepared, in all material aspects, in accordance with applicable laws and is consistent with information included in the consolidated financial statements.

On behalf of the Supervisory Board

Sławomir S. Sikora
Chairman of the Supervisory Board of Bank Handlowy w Warszawie SA

Warsaw, 24 March 2022

The Supervisory Board's Resolution, in connection with § 70.1.8 and § 71.1.8 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent

The Supervisory Board, in connection with § 70.1.8 and § 71.1.8 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent, hereby resolves as follows:

a) The provisions regarding the appointment, composition and operation of the Audit Committee of the Bank's Supervisory Board have been complied with, including those regarding the fulfillment of independence criteria and the requirements as to knowledge and skills in the field of finance, accounting or audit of financial statements by its members;

b) The Audit Committee of the Bank's Supervisory Board has fulfilled the audit committee tasks as provided for in the applicable regulations.

On behalf of the Supervisory Board

Sławomir S. Sikora
Chairman of the Supervisory Board of Bank Handlowy w Warszawie SA

Warsaw, 24 March 2022

Information of the Management Board of Bank Handlowy w Warszawie SA on the selection of the audit firm to audit annual financial statements of the Bank and the Capital Group of the Bank

The Management Board of Bank Handlowy w Warszawie SA, in connection with § 70.1.7 and § 71.1.7 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent, The Supervisory Board of Bank Handlowy w Warszawie S.A. (hereinafter referred to as the Supervisory Board), based on the Resolution of the Supervisory Board dated 24 March 2001 on the selection of the audit firm to audit annual financial statements of the Bank and the Capital Group of the Bank, hereby resolves as follows:

a) The selection of KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as an audit firm to audit annual financial statements of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. for 2021, was duly carried out in compliance with the regulations, including those governing the audit firm selection and selection procedure;

b) KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa and the members of the audit team have satisfied the conditions to issue an impartial and independent report from audit of annual financial statements in accordance with the applicable regulations, auditing standards and principles of professional ethics;

c) The regulations on rotation of audit firm and key auditor as well as mandatory breaks in audit engagements have been complied with;

d) Bank Handlowy w Warszawie S.A. has the audit firm selection policy and the policy regarding the provision of additional non-audit services for Bank Handlowy w Warszawie S.A. by the audit firm, its affiliate or member of the audit firm's network, including any services that are conditionally exempted from the ban on provision by the audit firm;