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# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP OF BANK HANDLOWY WARSZAWIE S.A. FOR THE THIRD QUARTER OF 2022

NOVEMBER 2022

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Interim condensed consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A.  
for the third quarter of 2022

TRANSLATION

SELECTED FINANCIAL DATA	PLN '000		EUR '000***	
	Third quarter	Third quarter	Third quarter	Third quarter
	accruals	accruals	accruals	accruals
	period from 01.01.22 to 30.09.22	period from 01.01.21 to 30.09.21	period from 01.01.22 to 30.09.22	period from 01.01.21 to 30.09.21
<b>Data related to the interim condensed consolidated financial statements</b>				
Interest income and similar	2,183,547	549,514	465,774	120,547
Fee and commission income	518,509	548,544	110,603	120,334
Profit before tax	1,375,682	750,038	293,448	164,536
Net profit	1,066,181	560,980	227,428	123,062
Comprehensive income	593,921	99,377	126,690	21,800
Net cash flows	2,789,151	10,800,757	594,955	2,369,366
Total assets*	72,237,709	61,862,771	14,833,814	13,450,183
Amounts due to banks*	3,694,321	3,383,353	758,619	735,607
Amounts due to customers*	50,346,574	43,507,474	10,338,530	9,459,380
Equity*	7,262,608	7,383,395	1,491,357	1,605,295
Ordinary shares*	522,638	522,638	107,322	113,632
Number of shares (in pcs)*	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)*	55.58	56.51	11.41	12.29
Total capital adequacy ratio (%)*	17.8	20.1	17.8	20.1
Earnings per share (PLN / EUR)	8.16	4.29	1.74	0.93
Diluted earnings per share (PLN / EUR)	8.16	4.29	1.74	0.93
<b>Data related to the interim condensed standalone financial statements</b>				
Interest income and similar	2,182,016	549,664	465,447	120,580
Fee and commission income	492,696	494,046	105,097	108,379
Profit before tax	1,399,352	746,226	298,497	163,700
Net profit	1,091,215	562,655	232,768	123,430
Comprehensive income	618,704	101,036	131,976	22,164
Net cash flows	2,789,165	10,800,805	594,958	2,369,377
Total assets*	72,329,125	61,681,601	14,852,586	13,410,793
Amounts due to banks*	3,694,321	3,383,236	758,619	735,582
Amounts due to customers*	50,500,863	43,495,543	10,370,213	9,456,786
Equity*	7,203,209	7,316,040	1,479,159	1,590,651
Ordinary shares*	522,638	522,638	107,322	113,632
Number of shares (in pcs)*	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN / EUR)*	55.13	55.99	11.32	12.17
Total capital adequacy ratio (%)*	17.4	19.8	17.4	19.8
Earnings per share (PLN/EUR)	8.35	4.31	1.78	0.94
Diluted earnings per share (PLN / EUR)	8.35	4.31	1.78	0.94
Paid dividends per share (PLN/EUR)**	5.47	1.20	1.17	0.26

\*Comparative data according as at 31 December 2021. Additional information on TCR calculation has been described in the note no. 7 and "Information on capital adequacy of Bank Handlowy w Warszawie S.A. as at 30 September 2022" subject to publication on the Bank's website.

\*\*The Ordinary General Meeting of Shareholders of the Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2021 and a resolution on distribution of undistributed net profit from previous years. Additional information concerning dividend payout was presented in note 18.

\*\*\*The following exchange rates were applied to convert PLN to EUR: for the statement of financial position - NBP average exchange rate as at 30 September 2022 - 4.8698 (as at 31 December 2021: PLN 4.5994; as at 30 September 2021 - PLN 4.6329); for the income statement, a statement of comprehensive income and cash flow statement - the arithmetic mean of NBP end-of-month exchange rates in the I, II and III quarter of 2022 - PLN 4.6880 (in the I, II and III quarter of 2021: PLN 4.5585).

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## Condensed consolidated income statement

	For the period	III quarter	III quarter	III quarter	III quarter
		period from 01.07.22 to 30.09.22	accruals period from 01.01.22 to 30.09.22	period from 01.07.21 to 30.09.21	accruals period from 01.01.21 to 30.09.21
PLN '000					
Interest income		885,356	2,084,351	165,771	514,846
Similar income		38,806	99,196	11,163	34,668
Interest expense and similar charges		(192,205)	(339,898)	(8,086)	(15,232)
Net interest income		731,957	1,843,649	168,848	534,282
Fee and commission income		165,946	518,509	178,894	548,544
Fee and commission expense		(29,859)	(79,730)	(20,992)	(67,489)
Net fee and commission income		136,087	438,779	157,902	481,055
Dividend income		1,480	10,931	1,703	10,800
Net gain/(loss) on trading financial instruments and revaluation		99,958	562,485	131,544	339,131
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income		(199,713)	(235,475)	-	459,106
Net gain/(loss) on equity investments and other at fair value through income statement		4,335	7,869	342	4,297
Net gain/(loss) on hedge accounting		66	(1,656)	1,343	1,364
Other operating income		3,932	15,766	4,477	14,038
Other operating expenses		(17,665)	(33,908)	(9,093)	(25,683)
Net other operating income and expense		(13,733)	(18,142)	(4,616)	(11,645)
General administrative expenses		(281,316)	(943,834)	(245,643)	(833,040)
Depreciation and amortization		(25,707)	(77,939)	(28,920)	(85,289)
Profit on sale of other assets		(84)	2,944	31	(402)
Provisions for expected credit losses on financial assets and provisions for contingent liabilities		(34,963)	(55,970)	(18,654)	(34,428)
Operating income		418,367	1,533,641	163,880	865,231
Tax on certain financial institutions		(53,495)	(157,959)	(40,300)	(115,193)
Profit before tax		364,872	1,375,682	123,580	750,038
Income tax expense		(81,024)	(309,501)	(30,194)	(189,058)
Net profit		283,848	1,066,181	93,386	560,980
Including:					
Net profit attributable to Bank's shareholders			1,066,181		560,980
Weighted average number of ordinary shares (in pcs)			130,659,600		130,659,600
Earnings per share (in PLN)			8.16		4.29
Diluted net earnings per share (in PLN)			8.16		4.29

Explanatory notes are an integral part of the interim condensed consolidated financial statements.

## Condensed consolidated statement of comprehensive income

	III quarter	III quarter	III quarter	III quarter
	period	accruals	period	accruals
For a period	from 01.07.22	from 01.01.22	from 01.07.21	from 01.01.21
PLN '000	to 30.09.22	to 30.09.22	to 30.09.21	to 30.09.21
<b>Net profit</b>	<b>283,848</b>	<b>1,066,181</b>	<b>93,386</b>	<b>560,980</b>
<b>Other comprehensive income, that is or might be subsequently reclassified to income statement:</b>				
Remeasurement of financial assets measured at fair value through other comprehensive income (net)	(38,199)	(663,246)	(8,545)	(89,743)
(Profit)/Loss reclassification to income statement after derecognition of financial assets measured at fair value through other comprehensive income (net)	161,768	190,735	-	(371,876)
Currency translation differences	173	251	112	16
<b>Other comprehensive income net of tax</b>	<b>123,742</b>	<b>(472,260)</b>	<b>(8,433)</b>	<b>(461,603)</b>
<b>Total comprehensive income</b>	<b>407,590</b>	<b>593,921</b>	<b>84,953</b>	<b>99,377</b>
Including:				
Comprehensive income attributable to Bank's shareholders	407,590	593,921	84,953	99,377

Explanatory notes are an integral part of the interim condensed consolidated financial statements.

## Condensed consolidated statement of financial position

	as at	30.09.2022	31.12.2021
<i>PLN '000</i>			
<b>ASSETS</b>			
Cash and balances with the Central Bank		9,059,103	6,526,743
Amounts due from banks		1,836,742	967,677
Financial assets held-for-trading		10,683,481	9,956,212
Hedging derivatives		-	119,290
Debt financial assets measured at fair value through other comprehensive income, including:		26,437,280	20,590,284
<i>Assets pledged as collateral</i>		700,974	748,763
Equity and other instruments measured at fair value through income statement		105,108	97,316
Amounts due from customers		21,758,760	21,327,600
Tangible fixed assets		445,666	451,671
Intangible assets		1,253,534	1,243,160
Current income tax receivables		-	54,721
Deferred tax asset		266,965	264,313
Other assets		391,070	257,621
Non-current assets held-for-sale		-	6,163
<b>Total assets</b>		<b>72,237,709</b>	<b>61,862,771</b>
<b>LIABILITIES</b>			
Amounts due to banks		3,694,321	3,383,353
Financial liabilities held-for-trading		9,376,954	6,588,482
Amounts due to customers		50,346,574	43,507,474
Provisions		122,967	142,024
Current income tax liabilities		11,230	5,974
Other liabilities		1,423,055	852,069
<b>Total liabilities</b>		<b>64,975,101</b>	<b>54,479,376</b>
<b>EQUITY</b>			
Ordinary shares		522,638	522,638
Share premium		3,001,259	3,001,699
Revaluation reserve		(784,529)	(312,018)
Other reserves		2,826,208	2,814,030
Retained earnings		1,697,032	1,357,046
<b>Total equity</b>		<b>7,262,608</b>	<b>7,383,395</b>
<b>Total liabilities and equity</b>		<b>72,237,709</b>	<b>61,862,771</b>

Explanatory notes are an integral part of the interim condensed consolidated financial statements.

## Condensed consolidated statement of changes in equity

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2022</b>	<b>522,638</b>	<b>3,001,699</b>	<b>(312,018)</b>	<b>2,814,030</b>	<b>1,357,046</b>	<b>7,383,395</b>
Total comprehensive income, including:	-	-	(472,511)	251	1,066,181	593,921
Net profit	-	-	-	-	1,066,181	1,066,181
Currency translation differences from the foreign operations' conversion	-	-	-	251	-	251
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	(472,511)	-	-	(472,511)
Dividends paid	-	-	-	-	(714,708)	(714,708)
Transfer to capital	-	(440)	-	11,927	(11,487)	-
<b>Balance as at 30 September 2022</b>	<b>522,638</b>	<b>3,001,259</b>	<b>(784,529)</b>	<b>2,826,208</b>	<b>1,697,032</b>	<b>7,262,608</b>

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2021</b>	<b>522,638</b>	<b>3,002,265</b>	<b>450,017</b>	<b>2,793,561</b>	<b>812,486</b>	<b>7,580,967</b>
Total comprehensive income, including:	-	-	(461,619)	16	560,980	99,377
Net profit	-	-	-	-	560,980	560,980
Currency translation differences from the foreign operations' conversion	-	-	-	16	-	16
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	(461,619)	-	-	(461,619)
Dividends paid	-	-	-	-	(156,791)	(156,791)
Transfer to capital	-	(566)	-	16,683	(16,117)	-
<b>Balance as at 30 September 2021</b>	<b>522,638</b>	<b>3,001,699</b>	<b>(11,602)</b>	<b>2,810,260</b>	<b>1,200,558</b>	<b>7,523,553</b>

PLN'000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2021</b>	<b>522,638</b>	<b>3,002,265</b>	<b>450,017</b>	<b>2,793,561</b>	<b>812,486</b>	<b>7,580,967</b>
Total comprehensive income, including:	-	-	(762,035)	3,786	717,468	(40,781)
Net profit	-	-	-	-	717,468	717,468
Currency translation differences from the foreign operations' conversion	-	-	-	(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)	-
<b>Balance as at 31 December 2021</b>	<b>522,638</b>	<b>3,001,699</b>	<b>(312,018)</b>	<b>2,814,030</b>	<b>1,357,046</b>	<b>7,383,395</b>

Explanatory notes are an integral part of the interim condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

PLN '000	For a period	III quarter accruals	III quarter accruals
		period from 01.01.22 to 30.09.22	period from 01.01.21 to 30.09.21
<b>Cash at the beginning of the reporting period</b>		<b>6,566,557</b>	<b>4,519,640</b>
Cash flows from operating activities		3,578,298	11,011,290
Cash flows from investing activities		(65,749)	(44,896)
Cash flows from financing activities		(723,398)	(165,637)
<b>Cash at the end of the reporting period</b>		<b>9,355,708</b>	<b>15,320,397</b>
<b>Increase/(decrease) in net cash</b>		<b>2,789,151</b>	<b>10,800,757</b>

Explanatory notes are an integral part of the interim condensed consolidated financial statements.



## Supplementary notes to the interim condensed consolidated financial statements

### 1 General information about the Bank and the Capital Group

Bank Handlowy w Warszawie S.A. ("parent company", "the Bank", "Citi Handlowy") Head Office is located in Poland at Senatorska 16, 00-923 Warszawa. The Bank was established on the basis of Deed of foundation of 13 April 1870 and was registered and entered into the Register of Companies by the District Court for the capital city of Warsaw, XII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000001538. Bank operates as a joint-stock company. During the reporting period the name of entity has not changed.

Parent undertaking was granted a statistical REGON No. 000013037 and tax identification No. (NIP) 526-030-02-91.

The Bank and its subsidiaries are expected to continue the business activity for an unspecified period of time.

Share equity of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common shares, with nominal value of PLN 4.00 per share. The Bank is a listed company on the Warsaw Stock Exchange.

The Group is a member of Citigroup Inc. The Bank is a subsidiary of Citibank Overseas Investments 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 bank that offers a wide range of banking services for individuals and corporate customers on the domestic and foreign markets. As a result of the concluded agreement, on August 1 this year the process of transferring the brokerage activity conducted by DMBH to the Bank was completed. The Brokerage Department of Bank Handlowy took over the full customer service of DMBH and from August 1 it is the only organizational unit in the Bank's Capital Group that conducts brokerage activity under a brokerage license issued by the Polish Financial Supervisory Authority.

This interim condensed consolidated financial statements present financial data of the Capital Group of Bank Handlowy w Warszawie S.A. ('the Group'), that is composed of Bank Handlowy w Warszawie S.A. ('the Bank') as the parent company and its subsidiaries entities.

The Group consists of the following subsidiaries:

Subsidiaries	Registered office	% of votes at the General Meeting of Shareholders	
		30.09.2022	31.12.2021
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A. („DMBH")	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o. (apart from indirect shareholding via Handlowy-Inwestycje Sp. z o.o. where the share in equity equals 2.53%).)	Warsaw	97.47	97.47
Handlowy Investments S.A.	Luxembourg	100.00	100.00
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	100.00

### 2 Declaration of conformity

The interim condensed consolidated financial statements of the Group have been prepared for the period from 1 January 2022 to 30 September 2022 and for the consolidated statement of financial position as at 30 September 2022. Comparative financial data are presented for the period from 1 January 2021 to 30 September 2021 and for the consolidated statement of financial position as at 31 December 2021.

The interim condensed consolidated financial statements are presented in PLN (currency of presentation), rounded to the nearest thousand. These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting* adopted by European Union and with other applicable regulations.

The financial statements does not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the financial year ended 31 December 2021.

In accordance with the Decree of the Ministry of Finance dated 29 March 2018 regarding current and periodic information provided by issuers of securities and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2018, No. 757, as amended) the Bank is obliged to publish its financial results for the 9-month period ended 30 September 2022 which is deemed to be the current interim financial reporting period.

### 3 Significant accounting policies

The interim condensed consolidated financial statements of the Group for the third quarter of 2022 has been prepared in accordance with accounting principles adopted and described in the annual consolidated financial statements of the Group

for the financial year ended 31 December 2021, except for the burden of income tax that was calculated according to the rules of IAS 34.

The preparation of interim condensed consolidated financial statements of the Group with accordance to International Financial Reporting Standards requires that the Management should make certain estimates and adopt related assumptions that affect the amounts reported in the financial statements. This financial statements are based on the same estimation rules which were used in the annual consolidated financial statements of the Group for the financial year ended 31 December 2021.

The estimations and respective assumptions are made based on historical data available and multiple other factors which under given conditions are considered proper and which form the basis for estimation regarding balance sheet values of assets and liabilities whose value cannot be determined clearly based on other sources. Real values may differ from estimation values.

The estimations and respective assumptions are subject recurring to reviews. Changes of estimations are recognized in the period in which the estimation was modified if the adjustment concerns only this period or in the period of the change and future periods if the adjustment concerns both this period and the future periods.

The key estimates were presented in the annual Consolidated Financial Statements of the Group for 2021. In connection with the entry into force of the Act on crowdfunding for business ventures and assistance to borrowers of July 7, 2022, the Bank estimated the negative impact of the suspension of PLN mortgage repayments (so-called "credit holidays") and recognized an adjustment to the gross carrying amount of the loans.

In 2022 in the case of granting credit holidays the Group applies an approach that is consistent with the regulatory guidance in this regard. The impact of granting credit holidays was recognised as a change in the estimated value of expected payments that form the gross carrying value of the mortgage loans and a corresponding reduction of interest income.

Additionally, with respect to interim financial statements, the Group applies the principle of recognizing the financial result income tax charges based on the estimate of the annual effective income tax rate expected by the Group in the full financial year.

Standards and interpretations approved but not obligatory as at 30 September 2022 that may have an impact on financial statements of the Group:

- 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;
- 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;
- IFRS 17 "Insurance" replacing IFRS 4 „Insurance contracts" and introducing comprehensive regulations for accounting of insurance contracts, in particular the measurement of relevant liabilities, issued on 25 June 2020;
- 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;
- 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, issued on 7 May 2021.

The above mentioned changes are applicable from 1 January 2023 and will not impact the financial statements significantly.

Standards and interpretations awaiting European Union's approval:

- 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;
- IAS 16 "Leasing" amendment concerning lease liabilities in the case of sale and leaseback, issued on 22 September 2022;

will not have significant impact on the financial statements.

Standards and interpretations applicable from 1 January 2022:

- 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.

do not impact the financial statements significantly.

## Income tax in interim financial statements

Income tax in interim financial statements is accrued in accordance with IAS 34. Interim period tax expense is accrued using the tax rate that would be applicable to expected total annual result, that is, the estimated average annual effective income tax rate applied to the pre-tax result of the interim period. The calculation of the average annual effective income tax rate requires the use of a pre-tax income forecast for the entire fiscal year and permanent differences between the carrying amounts of assets and liabilities and their tax base.

## Foreign currency

The statement of financial position and contingent liabilities received and granted 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	30 September 2022	31 December 2021	30 September 2021
1 USD	4.9533	4.0600	3.9925
1 CHF	5.0714	4.4484	4.2725
1 EUR	4.8698	4.5994	4.6329

## 4 Macroeconomic conditions and the situation in money, foreign exchange and capital markets

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

The latest data indicate that economic growth moderately slowed down in the third quarter of 2022. Considerable monetary tightening by major central banks, including the National Bank of Poland, and the energy crisis in Europe are slowly beginning to cause weakening of the Polish economy. The economic activity data for the third quarter are still better than expected, however for the next few quarters the Group expects a gradual deterioration of the economic conditions and a slowdown in the labor market coupled with the fast growth of prices.

Industrial output was still on a high level, despite a slowdown in the third quarter of 2022 to +9.7% YoY, which is somehow in contrast to low values of business trend indices in the processing sector. The balance of trade is adversely affected by the fact that the growth of import prices outpaced the growth of export prices, as a result of high commodity prices, by a still solid demand and by deteriorating export prospects. The cumulated 12-month current account balance in the balance of payments widened to -3.8% of the GDP as at the end of August, as compared to about -3.5% GDP as at the end of the second quarter of 2022. The growth of construction output also slowed down to 3.5% YoY from 9.3% YoY in the prior quarter.

A gradual deterioration in the economy is also reflected in consumer activity. Indeed, third quarter of 2022 saw the accelerated growth of the average pay to 14.5% YoY, as compared to 13.7% YoY in the second quarter of 2022, however consumer incomes declined when adjusted for inflation. This deterioration in household incomes was reflected in retail sales, which saw the actual growth rate drop to 3.3% YoY from 9.3% YoY in the second quarter of 2022. This is especially visible in the durable goods segment, while the demand for staples is still high. The unemployment rate was 5.1% YoY at the end of September 2022 as compared to 5.2% at the end of the second quarter of 2022 and 5.8% at the end of 2021 and is near its record low levels.



Source: Chief Statistical Office, Citi Handlowy forecast

Prices of consumer goods and services in the third quarter of 2022 rose, on average, by 16.3% YoY as compared to 13.9% in the second quarter of 2022. All the main items in the inflation basket, except fuel, contributed to higher inflation. The inflation structure shows more and more second-round effects and the results of attempts of business to pass the higher energy and labor costs on to final product prices, as a result of which net inflation increased to 10% YoY in the third quarter of 2022, from 8.4% YoY in the second quarter of 2022 and 3.9% YoY in the same period in the previous year. The Group expects that inflation will continue to be high in the next months of 2022. The slow decline in inflation which should start after first quarter of 2023 will be a result of statistical base effects, introduction of caps for electricity prices for households and small and medium-sized companies and continuance, if any, of anti-inflation shield programs, as well as expected declines in oil prices, among other factors.

Between October 2021 and September 2022, the Monetary Policy Council ("MPC") continued to increase interest rates at each decision-making meeting. The reference rate rose to 6.75% in September from 6% as at the end of June 2022 and 1.75% as at the end of 2021. In October 2022, the MPC decided to keep the rates unchanged, signaling a break in the tightening cycle. Next decisions of the MPC will depend on data flowing from Poland's economy.

Third quarter of 2022 saw the next stage of PLN depreciation versus the main currencies. In the third quarter of 2022, PLN declined by 10.5% to USD, by 4.0% to EUR and by 8.1% to CHF. During that quarter, Poland's currency was adversely affected primarily by the appreciation of the U.S. dollar in the international markets in the wake of monetary policy tightening by the Federal Reserve and an increase in risk aversion. In addition, the structural shape of Poland's economy was gradually deteriorating, as reflected in a higher current account deficit and higher inflation. Poland's currency is still adversely affected by the military conflict between Russia and Ukraine, which leads to a higher premium for geopolitical risk.

The Polish treasury securities market was highly volatile in the third quarter of 2022. After the good start at the beginning of the third quarter, the Polish bond yield returned, towards the end of September, to the levels from the end of the first half of the year and these were the highest levels in about 20 years. Two-year bond yields declined by 5 bps at the end of September to 7.49% as compared to the end of June, five-year bond yields rose 9 bps to 7.41% in the same period and ten-year bond yields increased 23 bps to 7.16%.

## 2. Capital market situation

Third quarter of 2022 saw a sharp decline in global equity markets. The key factors behind the investors' sentiment were tight monetary policy continued by main central banks and a fear of stagflation or depression in the global economy. Risk aversion was also amplified by the geopolitical situation connected with Russia's invasion of Ukraine, but also tensions between the US and China. Adverse local factors that translated into pressure on domestic stocks included announced windfall tax, signals showing a slowdown in the economy and the outflow of funds from investment funds.

In the third quarter of 2022, all the main indices were going down. The primary WIG index declined 14.2% YoY. WIG20, the index of the largest companies listed on the Warsaw Stock Exchange, plummeted 18.8% YoY. mWIG40 (mid-caps) decreased 12.7% YoY. In turn, sWIG80 (small-cap stocks) dropped 8.0% YoY.

Of the sector sub-indexes, the following ones deserve special attention: WIG-Gry (games) and WIG-Leki (medicines) were the only ones with a positive rate of return (+5% QoQ and +4% QoQ, respectively). On the other hand, the deepest declines occurred for sub-indexes dedicated to the energy (-33.5% QoQ) and mining (-28.5% QoQ) sector.

In the last quarter, the IPO market was quite idle. Four stocks entered the main WSE floor and all those were transfers from the New Connect market, and all the offerings totaled PLN 37 million. In the same period, six stocks were delisted from the main floor. As of the end of September 2022, a total of 419 companies were listed on the WSE. The total



capitalization of the companies listed on the WSE was PLN 963 billion (with local companies accounting for 48% of that amount) and was down 46% YoY.

## Equity market indices as of 30 September 2022

Index	30.09.2022	30.06.2022	Change (%) QoQ	30.09.2021	Change (%) YoY
WIG	45,970.64	53,573.42	(14.2%)	70,340.86	(34.6%)
WIG-PL	46,992.65	54,965.35	(14.5%)	71,692.96	(34.5%)
WIG-div	972.12	1,072.12	(9.3%)	1,350.93	(28.0%)
WIG20	1,377.91	1,695.97	(18.8%)	2,310.29	(40.4%)
WIG20TR	2,664.72	3,188.01	(16.4%)	4,323.98	(38.4%)
WIG30	1,689.15	2,082.70	(18.9%)	2,800.54	(39.7%)
mWIG40	3,552.54	4,069.37	(12.7%)	5,255.82	(32.4%)
sWIG80	15,895.18	17,284.34	(8.0%)	21,107.68	(24.7%)
WIG-Banks	4,570.65	5,455.75	(16.2%)	7,657.84	(40.3%)
WIG-Construction	3,485.10	3,676.19	(5.2%)	4,295.18	(18.9%)
WIG-Chemicals	8,874.73	11,171.69	(20.6%)	8,955.44	(0.9%)
WIG- Energy	2,026.13	3,045.44	(33.5%)	2,702.00	(25.0%)
WIG-Games*	11,548.88	10,995.38	5.0%	-	-
WIG- Mining	3,097.61	4,330.91	(28.5%)	5,336.43	(42.0%)
WIG-IT	3,882.32	4,029.15	(3.6%)	4,656.34	(16.6%)
WIG-Medicines	2,854.10	2,745.32	4.0%	6,240.07	(54.3%)
WIG-Media	5,487.19	6,584.57	(16.7%)	8,524.46	(35.6%)
WIG-Motorisation	5,103.70	5,854.32	(12.8%)	6,686.28	(23.7%)
WIG- Developers	2,358.33	2,549.24	(7.5%)	3,165.54	(25.5%)
WIG-Clothing	4,495.73	5,214.10	(13.8%)	8,697.20	(48.3%)
WIG- Fuel	5,145.24	6,180.50	(16.8%)	6,902.42	(25.5%)
WIG -Food	1,989.94	2,125.36	(6.4%)	4,662.86	(57.3%)

Source: WSE, Brokerage Department of Bank Handlowy.

\*WIG-Games was introduced on March 21, 2022.

## Equity and bond trading value and derivatives trading volumes on WSE in the third quarter of 2022

	Q3 2022	Q2 2022	Change (%) QoQ. <sup>2)</sup>	Q3 2021	Change (%) YoY. <sup>2)</sup>
Shares (PLN million) <sup>1)</sup>	126,687	130,874	(3.2%)	124,893	1.4%
Bonds (PLN million)	2,726	4,012	(32.1%)	848	221.5%
Futures (in thousand contracts)	7,720	6,864	12.5%	5,228	47.7%
Options (in thousand contracts)	133	174	(23.5%)	99	34.3%

1) excluding calls

2) differences may result from rounding

Source: WSE, Brokerage Department of Bank Handlowy.

## 5 Banking sector

According to data published by the National Bank of Poland, at the end of September 2022, the volume of loans granted to non-financial companies increased by 16.8% YoY (PLN 60.1 billion) to nearly PLN 419 billion. The highest growth occurred in foreign currency loans (+26.5% YoY, PLN 27.5 billion) due to strong Polish zloty appreciation, nonetheless it was PLN loans that recorded the highest absolute growth (+12.8% YoY, PLN 32.6 billion). As regards the ageing structure, loans with up to 1 year to maturity (including overdrafts) contributed most to this growth (+41.9% YoY, PLN 33.0 billion). Loans between 1 and 5 years were also increasing at high pace (+20.7% YoY, PLN 19.4 billion), and the volume of long-term loans went higher by only 4.3% YoY, (PLN 7.9 billion) and the only contributor was foreign currency loans.

The structure by type shows the same trends as the maturity structure does. The highest volume growth dynamic was recorded for current loans (+26.7% YoY), while investment loans showed strong, but a much lower increase of +10.6% YoY and real property loans showed only a relatively small change of +3.6% YoY. In each of those categories, the growth

rate for PLN loans was significantly below the growth rate for foreign currency loans. Therefore, growth was fueled, to a large extent, by the depreciation of the Polish currency. It is also visible that businesses are worried about the future development of the economic situation, which translates into a low demand for long-term investment loans.

Total net receivables from households slightly exceeded PLN 809 billion as at the end of the third quarter of 2022, which means a year-over-year decrease by 0.4% YoY, i.e. PLN 3.6 billion. Nearly all product groups contribute to stagnation in the retail loan market. The two-digit growth of housing loans observed quite recently slowed down to only 2.0% YoY, (PLN 10.1 billion) and the other loan categories saw volume declines by 11.3% YoY (investment loans), 5.7% YoY (current loans for sole proprietor businesses and individual farmers), and 2.4% YoY (consumer loans).

The loan growth data for households by maturity date confirm the above trends. The strongest growth rate occurred for loans with time to maturity over 20 years (+4.0% YoY) and a positive trend was also visible for loans with time to maturity up to one year (+3.0% YoY). In the other groups, trends were either negative or near zero.

The loan quality data available for the banking sector as at the end of August 2022 does not show any significant deterioration in ongoing repayments of loans. The share of non-performing loans (stage 3) granted to clients from the non-financial sector was 5.3% as of the end of August 2022, which means an improvement by 0.7 percentage points year over year. The strongest improvement was achieved for the portfolio of loans for small and medium-sized companies (-2.0 p.p. YoY, to 9.6%), and for large companies (-1.5 p.p. YoY to 3.3%). In terms of quality, PLN mortgage loans to households are still the top performers of all loan types (1.8%, -0.1 p.p. YoY) and the mortgage loans in other currencies are the category with continued deterioration as some borrowers stop paying instalments on their loans that are in court litigation (5.0%, +0.7 p.p. YoY). For consumer loans, the timeliness of payments significantly improved, by -1.1 p.p. YoY, to 9.4%. However, an in-depth analysis of quality data shows that the lowest NPL level has probably already been achieved for the majority of loan categories and short-term changes indicated that it is likely that the portfolio quality trend has been slowly reversing. The high probability of that scenario is confirmed by the data showing the share of stage 2 loans, which bounced back in the first half of 2022.

The banking sector in Poland achieved an increase in volumes of deposits of non-financial companies by 12.3% YoY, PLN 49.3 billion, to over PLN 449 billion at the end of September 2022. There is a clearly visible recovery of time deposits (+175.5% YoY, PLN 92.3 billion), with the simultaneous decline in current deposits (-12.4% YoY, PLN 42.9 billion).

In the household segment, the deposits and other liabilities returned to the record-high level from December 2021, to PLN 1,060 billion, i.e. it increased 3.5% YoY (PLN 36.1 billion). Also in this case, the sharp increase in term deposits (+67.3% YoY, PLN 111.2 billion) was achieved at the expense of decline in current deposits (-8.7% YoY, PLN 75.1 billion).

In January-August 2022 the banks that operates in Poland generated a net profit of PLN 8.3 billion (-8.1% YoY, PLN 734 million). A significant increase in revenues of banks (+35.4% YoY, PLN 16.2 billion) was fueled by the dynamic growth of net interest income (+60.8% YoY, PLN 18.0 billion). The growth dynamics of the net interest income in the third quarter of this year was slowed down by the recognizing by banks the costs of "credit holiday program" in connection with the entry into force of the Act on crowdfunding for business ventures and assistance to borrowers in July 2022, which allows for the suspension of PLN mortgage repayments. The impact of the above Act on banks is difficult to estimate, but it can lead to negative financial results for most banks. Additionally, the banking sector noted the growth of operational costs (+31.2% YoY, PLN 7.3 billion), mainly resulting from regulatory or one-off events. The key deteriorators included a significant increase in both types of contribution to the Bank Guarantee Fund (PLN 3.7 billion for the whole 2022, i.e. +66% YoY) and the cost connected with the establishment of the commercial bank protection system (about PLN 3.5 billion). Simultaneously the banking sector saw the further growth of costs in connection with impairment charges (+11.3% YoY, PLN 724 million) arising from additional provisions created to cover potential losses connected with the portfolio of CHF mortgage loans. Banks also paid a higher bank levy (+22.2% YoY) and income tax (+17.6% YoY).

The future situation in the sector is difficult to forecast. On the one hand, next interest rate hikes may be beneficial to banks and the slowdown in the economy is lower than expected. However, on the other hand the results for 2022 will be shaped mainly by regulatory actions and this area still creates a high risk of further change, also in the fourth quarter of 2022.

## 6 The impact of the war in Ukraine

On February 24, 2022, an unprecedented event took place – the invasion of the independent state of Ukraine by Russian troops. The outbreak of war in a country neighboring Poland has a significant impact on the economic and operational environment in which the Bank operates. The description of the impact of the war on the economic situation in Poland is presented in Note 4 "Macroeconomic conditions and the situation in money, foreign exchange and capital markets".

### The operating activity of the Bank

The Management Board of the Bank monitors the outbreak of the war in Ukraine and its direct impact on operating activities of the Bank, including for lending activities and operations related to operational risk (mainly threats in cyberspace).

In case of lending, the Bank is not active in Ukraine, Russia or Belarus, and the Bank's credit exposure to companies significantly involved in these countries is less than 0.5% of the Bank's exposure to credit risk.

### Supporting the Bank's customers and corporate social responsibility

The Bank undertook a number of initiatives to support institutional and individual clients, such as:

- Cancel the fees for individual and corporate transfers to Ukraine

- Launch of special www site with important information for clients from Ukraine
- Fast track to open a personal account in Poland for Ukrainian citizens
- Cash disbursement ability for corporate clients to support their staff (mainly refugees)
- Opening of banking accounts for 8 international NGOs within few days

In addition, the Bank Foundation Leopold Kronenberg undertook and coordinated activities in the field of aid for refugees. Approx. 800 Citi volunteers in Poland are involved in helping refugees in over 60 projects concerned, among others:

- Support the evacuation of children suffering from cancer from Ukraine to Poland
- Help in finding a safe shelter in Poland for orphaned children and children from foster families
- Organization of several dozen material collections
- Support for organizations working at the border

## 7 Financial analysis of the results of the Capital Group of the Bank

### 1. Consolidated statement of financial position

As at the end of the third quarter of 2022 **total assets** stood at PLN 72.2 billion, up by PLN 10.4 billion (or 16.8%) compared to the end of 2021.

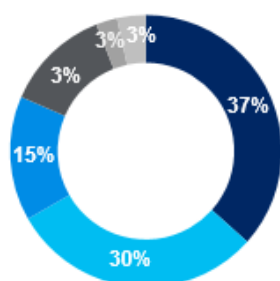
In terms of assets, the biggest nominal changes in the balance sheet took place in **debt investment financial assets** where the balance increased by PLN 5.8 billion (i.e. 28.4%) compared to the end of 2021, as a result of the continuation of the purchase of short-term cash bills. Debt investment financial assets has the largest share in the structure of the Group's assets as at the end of September 2022, they accounted for 37% of total assets

In turn, the second largest share in the structure of the Group's assets as at the end of September 2022 was occupied by **net amounts due from customers**, they accounted for 30% of total assets. The value of net amounts due from customers as at the end of September 2022 amounted to PLN 21.8 billion, up by PLN 431 million (i.e. 2.0%) compared to the end of 2021, thanks to higher loan volumes in the Institutional Banking segment.

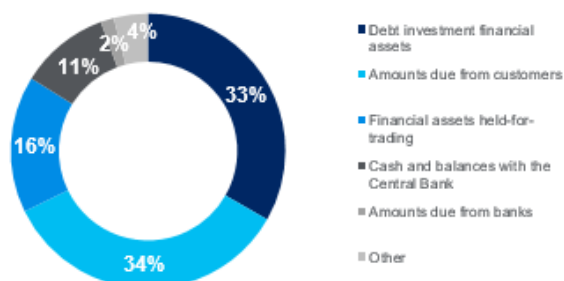
**The value of net loans in the Institutional Banking segment**, representing the sum of amounts due from both financial sector and non-financial sector entities – corporate clients, amounted to PLN 15.5 billion, up by PLN 1.2 billion (i.e. 8.1%) compared to the end of 2021. The increase in loan volumes was due to commercial bank and global bank clients. A detailed breakdown of assets by individual segments in the management view is provided in Note 9.

**The volume of net loans made to individual customers** decreased by PLN 726.4 million (i.e. 10.4%) compared to the end of 2021 and amounted to less than PLN 6.3 billion. The above decrease relates both to unsecured receivables (decrease by PLN 504.9 million), mainly due to the lower cash loan balance, as well as a decrease in mortgage volumes (a decrease by PLN 221.5 million), which was driven, inter alia, by the lower sales of these loans and partial overpayments of mortgage loans.

Group's asset structure as at 30.09.2022



Group's asset structure as at 31.12.2021



## Amounts due from customers

PLN '000	30.09.2022	31.12.2021	Change	
			PLN '000	%
<b>Amounts due from financial sector entities, including:</b>	<b>3,115,072</b>	<b>3,440,104</b>	<b>(325,032)</b>	<b>(9.4%)</b>
Loans	2,944,759	3,440,104	(495,345)	(14.4%)
Receivables related to reverse repo transactions	170,313	-	170,313	-
<b>Amounts due from non-financial sector entities, including:</b>	<b>18,643,688</b>	<b>17,887,496</b>	<b>756,192</b>	<b>4.2%</b>
Institutional clients* including:	12,390,451	10,907,847	1,482,604	13.6%
public sector units	1,705	3,207	(1,502)	(46.8%)
Individual clients, including:	6,253,237	6,979,649	(726,412)	(10.4%)
unsecured receivables	4,083,814	4,588,736	(504,922)	(11.0%)
credit cards	2,450,177	2,724,349	(274,172)	(10.1%)
cash loans to private individuals	1,588,975	1,817,502	(228,527)	(12.6%)
mortgage loans	2,169,423	2,390,913	(221,490)	(9.3%)
<b>Total receivables from customers</b>	<b>21,758,760</b>	<b>21,327,600</b>	<b>431,160</b>	<b>2.0%</b>

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

## Amounts due from customers as per credit risk classification

PLN '000	30.09.2022	31.12.2021	Change	
			PLN '000	%
<b>Receivables not impaired (Stage 1), including</b>	<b>19,908,469</b>	<b>19,571,178</b>	<b>337,291</b>	<b>1.7%</b>
financial institutions	3,117,166	3,443,448	(326,282)	(9.5%)
non-financial sector entities	16,791,303	16,127,730	663,573	4.1%
institutional clients*	11,508,616	9,948,056	1,560,560	15.7%
individual customers	5,282,687	6,179,674	(896,987)	(14.5%)
<b>Receivables not impaired (Stage 2), including</b>	<b>1,846,951</b>	<b>1,744,692</b>	<b>102,259</b>	<b>5.9%</b>
financial institutions	536	2	534	-
non-financial sector entities	1,846,415	1,744,690	101,725	5.8%
institutional clients*	877,118	917,951	(40,833)	(4.4%)
individual customers	969,297	826,739	142,558	17.2%
<b>Receivables impaired (Stage 3), including:</b>	<b>811,233</b>	<b>900,413</b>	<b>(89,180)</b>	<b>(9.9%)</b>
non-financial sector entities	811,233	900,413	(89,180)	(9.9%)
institutional clients*	409,839	466,719	(56,880)	(12.2%)
individual customers	401,394	433,694	(32,300)	(7.4%)
<b>Purchased or originated credit-impaired loans:</b>	<b>15,010</b>	<b>-</b>	<b>15,010</b>	<b>-</b>
non-financial sector entities	15,010	-	15,010	-
institutional clients*	7,431	-	7,431	-
individual customers	7,579	-	7,579	-
<b>Total gross loans to customers, including:</b>	<b>22,581,663</b>	<b>22,216,283</b>	<b>365,380</b>	<b>1.6%</b>
financial institutions	3,117,702	3,443,450	(325,748)	(9.5%)
non-financial sector entities	19,463,961	18,772,833	691,128	3.7%
institutional clients*	12,803,004	11,332,726	1,470,278	13.0%
individual customers	6,660,957	7,440,107	(779,150)	(10.5%)
<b>Provisions for expected credit losses</b>	<b>(822,903)</b>	<b>(888,683)</b>	<b>65,780</b>	<b>(7.4%)</b>
<b>Total net amounts due from customers</b>	<b>21,758,760</b>	<b>21,327,600</b>	<b>431,160</b>	<b>2.0%</b>
<b>Provisions coverage ratio</b>	<b>77.9%</b>	<b>78.8%</b>		
institutional clients*	79.9%	76.1%		
individual customers	75.7%	81.7%		
<b>Non-performing loans ratio (NPL)**</b>	<b>3.7%</b>	<b>4.1%</b>		

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

\*\*The ratio of non-performing loans is defined as the ratio of Receivables impaired to total gross loans to customers.



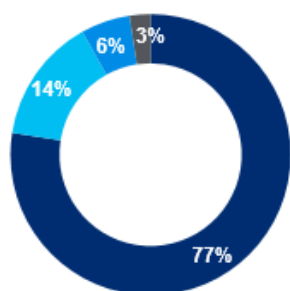
As of the end of the third quarter of 2022 **total liabilities** amounted to PLN 65.0 billion, up by PLN 10.5 billion (i.e. 19.3%) compared to the end of 2021.

In the third quarter of 2022 **amounts due to customers** were the dominant source of financing of the Group's activity (they accounted for 70% of the Group's liabilities and equity) and as at September 30, 2022 they reached PLN 50.3 billion, which means an increase of PLN 6.8 billion (i.e. 15.7%) compared to the end of 2021. At the same time, funds in current accounts were the dominant item in amounts due to customers, they accounted for 72% (decrease by 15 pp compared to the end of 2021) as a result of the continuation of deposit balance growth trend among individual clients due to its attractiveness thanks to higher interest rates.

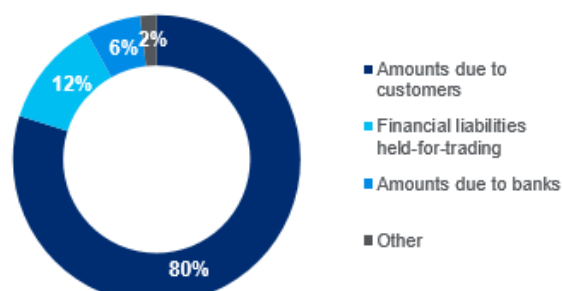
**The deposit volumes in the Institutional Banking segment** as of the end of the third quarter of 2022 amounted to PLN 29.8 billion, up by PLN 3.8 billion (i.e. 14.8%) compared to the end of 2021. The growth mentioned above concerned mainly term deposits. A detailed breakdown of liabilities by segments in the management view is provided in Note 9.

**The deposit volumes in the Consumer Banking segment** amounted to PLN 18.2 billion and increased by PLN 1.4 billion (i.e. 8.3%) compared to the end of December 2021 as a result of a higher balance of term deposits for the strategic group of clients - Citigold and Citi Private Client

Group's liabilities structure as at 30.09.2022



Group's liabilities structure as at 31.12.2021



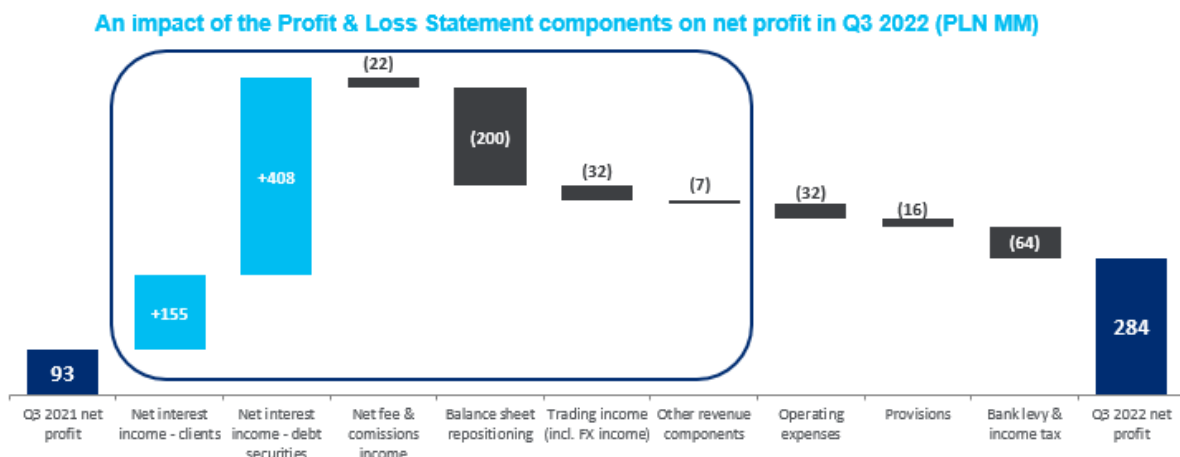
**Loan-to-deposit ratio** decreased to 43% as at the end of September 2022 compared to 49% as at December 31, 2021 and 46% as at September 30, 2021.

### Amounts due to customers

PLN '000	30.09.2022	31.12.2021	Change	
			PLN '000	%
<b>Current accounts, including:</b>	<b>36,014,999</b>	<b>37,756,591</b>	<b>(1,741,592)</b>	<b>(4.6%)</b>
financial sector entities	1,395,998	1,105,149	290,849	26.3%
non-financial sector entities, including:	34,619,001	36,651,442	(2,032,441)	(5.5%)
institutional clients*, including:	21,679,477	21,143,129	536,348	2.5%
public sector units	2,906,592	1,901,803	1,004,789	52.8%
individual clients	12,939,524	15,508,313	(2,568,789)	(16.6%)
<b>Term deposits, including:</b>	<b>12,008,939</b>	<b>5,025,351</b>	<b>6,983,588</b>	<b>139.0%</b>
financial sector entities	1,996,813	2,087,711	(90,898)	(4.4%)
non-financial sector entities, including:	10,012,126	2,937,640	7,074,486	240.8%
institutional clients*, including:	4,739,237	1,628,937	3,110,300	190.9%
public sector units	127,226	26,868	100,358	373.5%
individual customers	5,272,889	1,308,703	3,964,186	302.9%
<b>Total customers deposits</b>	<b>48,023,938</b>	<b>42,781,942</b>	<b>5,241,996</b>	<b>12.3%</b>
<b>Other amounts due to customers</b>	<b>2,322,636</b>	<b>725,532</b>	<b>1,597,104</b>	<b>220.1%</b>
<b>Total amounts due to customers</b>	<b>50,346,574</b>	<b>43,507,474</b>	<b>6,839,100</b>	<b>15.7%</b>

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

## 2. Consolidated income statement



In the third quarter 2022 the Group delivered a **consolidated net profit** of PLN 283.8 million, which means an increase by PLN 190.5 million (i.e. 204,0%) compared to the third quarter of 2021 mainly due to higher interest income, which are the consequence of the series of interest rate increases by the Monetary Policy Council, higher FX revenues and the activity of the clients from the institutional banking segment (increase in loan volumes by 4% YoY). At the same time, this result is lower by PLN 216.5 million (i.e. 43.3%) compared to the second quarter of 2022, which is mainly a consequence of negative result on treasury activities (which is the sum of the result on trading financial instruments and revaluation, as well as the result on debt investment financial assets measured at fair value through other comprehensive income) recorded in the third quarter of this year as a result of repositioning the balance sheet in accordance with the strategy.

### Net interest income

- **Net interest income** amounted to PLN 732.0 million and was significantly higher by PLN 563.1 million (i.e. 333.5%) compared to the third quarter of 2021 and higher by PLN 65 million (i.e. 9.8%) compared to the second quarter of 2021 due to the ongoing monetary policy tightening cycle in Poland by the National Bank of Poland (NBP), initiated in October 2021 and, as a result of a monthly increase in interest rates from 0.1% to the level of 6.75% at the end of the third quarter 2022.
- **Interest income** in the third quarter of 2022 was higher by PLN 747.2 million (i.e. 422.3%) compared to the corresponding period of 2021 and amounted to PLN 924.2 million.

Interest income from amounts due from customers amounted to PLN 372.2 million in the third quarter of 2022 and were reduced by a total of PLN 66,3 million due to regulatory events:

- 1) On July 29, 2022, the Act of July 7, 2022 on crowdfunding for business ventures and aid to borrowers (Journal of Laws 2022, item 1488) entered into force, which, inter alia, has created the possibility of suspending mortgage repayments (so-called "credit holidays"). Suspended installments of two months for both the third and fourth quarter of 2022 and one month in each of the quarters of 2023, respectively extend the loan period, and no interest is charged during the loan repayment suspension period (applicable to contracts concluded before 1 July 2022). The introduced regulations had a negative impact in the amount of PLN 63.3 million on the Group's gross financial result in the third quarter of 2022 - the total recognized adjustment to the gross carrying amount amounted to PLN 63.3 million and decreased the value of interest income.
- 2) On September, 2022, the Act of August 5, 2022 on the amendment to the Mortgage Loan Act and the supervision over mortgage brokers and agents (Journal of Laws 2022, item 1719) entered into force. The effect of this amendment is to oblige banks to reimburse mortgage borrowers for the fees incurred while they are waiting for the mortgage collateral to be established. The obligation to reimburse the increased margin charged by bank's until the mortgage is registered applies to contracts concluded from 17 September 2022 and before 17 September 2022 if the mortgage has not been entered by that date. In the third quarter of 2022, the Bank recognized an adjustment of PLN 3 million on this account, which decreased the interest income.

The margin on loans (annualized in quarterly terms) increased from 1.21% in the third quarter of 2021 to the level of 7.84% in the third quarter of 2022 (excluding the effect of the regulatory events mentioned above).

The largest nominal increase by PLN 377.1 million as compared to the third quarter of 2021 was recorded by interest income on debt investment financial assets which amounted to PLN 407.9 million, which was primarily influenced by the higher NBP reference rate.

- **Interest expenses** of the Group in the third quarter of 2022 increased by PLN 184.1 million comparing to the corresponding period of 2021 and amounted to PLN 192.2 million – this increase concerned primarily amounts due to clients (an increase by PLN 147.2 million) due to higher interest rates and an increase in the volume of term deposits from individual clients.

PLN '000	01.01 – 30.09.2022	01.01 – 30.09.2021	Change	
			PLN '000	%
<b>Interest income</b>	<b>885,356</b>	<b>165,771</b>	<b>719,585</b>	<b>434.1%</b>
<b>Financial assets measured at amortized cost</b>	<b>477,407</b>	<b>134,915</b>	<b>342,492</b>	<b>253.9%</b>
Balances with the Central Bank	46,204	61	46,143	-
Amounts due from banks	59,139	682	58,457	-
Amounts due from customers, in respect of:	372,064	134,172	237,892	177.3%
financial sector	49,637	6,401	43,236	675.5%
non-financial sector, including:	322,427	127,771	194,656	152.3%
credit cards	105,688	34,539	71,149	206.0%
<b>Financial assets measured at fair value through comprehensive income</b>	<b>407,949</b>	<b>30,856</b>	<b>377,093</b>	<b>-</b>
Debt investment financial assets measured at fair value through comprehensive income	407,949	30,856	377,093	-
<b>Similar income</b>	<b>38,806</b>	<b>11,163</b>	<b>27,643</b>	<b>247.6%</b>
Debt securities held-for-trading	32,695	1,927	30,768	-
Liabilities with negative interest rate	4,926	9,236	(4,310)	(46.7%)
Derivative instruments in hedge accounting	1,185	-	1,185	-
	<b>924,162</b>	<b>176,934</b>	<b>747,228</b>	<b>422.3%</b>
<b>Interest expense and similar charges for</b>				
<b>Financial liabilities measured at amortized cost</b>	<b>(190,835)</b>	<b>(2,279)</b>	<b>(188,556)</b>	<b>-</b>
Transactions with the Central Bank	(1)	-	(1)	-
Amounts due to banks	(41,752)	(414)	(41,338)	-
Amounts due to customers	(148,098)	(855)	(147,243)	-
Amounts due to financial sector entities	(48,554)	(125)	(48,429)	-
Amounts due to non-financial sector entities	(99,544)	(730)	(98,814)	-
Amounts due to leasing	(984)	(1,010)	26	(2.6%)
<b>Assets with negative interest rate</b>	<b>(1,370)</b>	<b>(959)</b>	<b>(411)</b>	<b>42.9%</b>
<b>Derivatives in hedge accounting</b>	<b>-</b>	<b>(4,848)</b>	<b>4,848</b>	<b>(100.0%)</b>
	<b>(192,205)</b>	<b>(8,086)</b>	<b>(184,119)</b>	<b>-</b>
<b>Net interest income</b>	<b>731,957</b>	<b>168,848</b>	<b>563,109</b>	<b>333.5%</b>

## Net fee and commission income

- Net fee and commission income** in the amount of PLN 136.1 million compared to PLN 157.9 million in the corresponding period of 2021 - a decrease by PLN 21.8 million, i.e. 13.8% year over year. The highest nominal decrease by PLN 7.3 million (i.e. 43.3%) was attributable to revenues from insurance and investment products distribution due to lower sales of this products. Also the bank also recorded a decrease in revenues from custody activity by PLN 4.4 million (i.e. 14.0%). These events were primarily influenced by the weakening of investors' sentiment on the equity capital market by both individual and institutional investors.

On the other hand, the Bank observed an increase in revenues from the payment services - an increase of PLN 2.2 million (i.e. 9.1%) due to the increased activity of institutional clients in the area of transactional banking.

**Fee and commission expenses** in the third quarter of 2022 amounted to PLN 29.9 million, up by PLN 8.9 million year over year (i.e. 42.2%). This increase mainly concerned the area of payment and credit cards related to one-off settlements with the Bank's partners.

PLN '000	01.01 – 30.09.2022	01.01 – 30.09.2021	Change	
			PLN '000	%
<b>Fee and commission income</b>				
Credit activities (other than income covered by the calculation of the effective interest rate process)	13,549	14,189	(640)	(4.5%)
Servicing bank accounts	29,585	34,135	(4,550)	(13.3%)
Insurance and investment products distribution	9,505	16,765	(7,260)	(43.3%)
Payment and credit cards	34,638	34,627	11	-
Payment services	25,976	23,820	2,156	9.1%
Custody services	26,874	31,244	(4,370)	(14.0%)
Brokerage operations	12,632	10,819	1,813	16.8%

PLN '000	01.01 – 30.09.2022	01.01 – 30.09.2021	Change	
			PLN '000	%
Clients' cash on account management services	4,663	4,544	119	2.6%
Financial liabilities granted	6,840	5,908	932	15.8%
Other	1,684	2,843	(1,159)	(40.8%)
	<b>165,946</b>	<b>178,894</b>	<b>(12,948)</b>	<b>(7.2%)</b>
<b>Fee and commission expense</b>				
Payment and credit cards	(11,619)	(4,593)	(7,026)	153.0%
Brokerage activity	(4,221)	(3,015)	(1,206)	40.0%
Fees paid to the National Depository for Securities (KDPW)	(7,036)	(7,379)	343	(4.6%)
Brokerage fees	(998)	(1,044)	46	(4.4%)
Other	(5,985)	(4,961)	(1,024)	20.6%
	<b>(29,859)</b>	<b>(20,992)</b>	<b>(8,867)</b>	<b>42.2%</b>
<b>Net fee and commission income</b>	<b>136,087</b>	<b>157,902</b>	<b>(21,815)</b>	<b>(13.8%)</b>

- **Other operating income** (i.e. non-interest and non-commission income) recorded a negative value of PLN -107.6 million as compared to the positive value of PLN +130.3 million in the third quarter of 2021. The biggest impact on the above difference was the repositioning of the balance sheet in the area of treasury activity and the higher operational expenses incurred due to the creation of a provision for some court proceedings regarding contract transactions and derivatives from the institutional banking segment. These negative events have been partially offset by higher client FX revenues, thanks to the higher volumes of currency exchange.

### General administrative expenses and depreciation expenses

- **General administrative and depreciation expenses** of PLN 307.0 million compared to PLN 274.6 million in the third quarter of 2021 – up by PLN 32.5 million (i.e. 11.8%) due to increase in employee costs (remuneration costs increased by PLN 8.4 million, i.e. 8.5% year over year) and an increase in telecommunication fees and hardware purchase costs (increase by PLN 10.6 million, i.e. 19.7% year over year). The cost of the contribution to the Borrowers' Support Fund for the second quarter of 2022 amounted to PLN 208.3 thousand.

In the reporting period the headcount in the Group dropped by 33 FTEs.

PLN '000	01.01 – 30.09.2022	01.01 – 30.09.2021	Change	
			PLN '000	%
<b>Staff expenses</b>	<b>(136,489)</b>	<b>(125,155)</b>	<b>(11,334)</b>	<b>9.1%</b>
Remuneration costs	(106,757)	(98,396)	(8,361)	8.5%
Bonuses and rewards	(13,838)	(13,284)	(554)	4.2%
Social security costs	(15,894)	(13,475)	(2,419)	18.0%
<b>Administrative expenses</b>	<b>(144,827)</b>	<b>(120,488)</b>	<b>(24,339)</b>	<b>20.2%</b>
Telecommunication fees and hardware purchase costs	(64,381)	(53,801)	(10,580)	19.7%
Costs of external services, including advisory, audit, consulting services	(13,173)	(11,914)	(1,259)	10.6%
Real estates maintenance and rent costs	(14,268)	(12,062)	(2,206)	18.3%
Advertising and marketing costs	(8,849)	(9,598)	749	(7.8%)
Costs of cash management services, costs of clearing services and other transaction costs	(9,576)	(10,130)	554	(5.5%)
Costs of external services related to distribution of banking products	(11,456)	(10,772)	(684)	6.3%
Postal services, office supplies and printmaking costs	(1,634)	(1,306)	(328)	25.1%
Training and education costs	(456)	(253)	(203)	80.2%
Banking and capital supervision costs	(377)	(175)	(202)	115.4%
Bank Guarantee Funds costs	(6,116)	(3,084)	(3,032)	98.3%
Other expenses	(14,541)	(7,393)	(7,148)	96.7%
<b>Depreciation</b>	<b>(25,707)</b>	<b>(28,920)</b>	<b>3,213</b>	<b>(11.1%)</b>
<b>General administrative expenses and depreciation expenses, total</b>	<b>(307,023)</b>	<b>(274,563)</b>	<b>(32,460)</b>	<b>11.8%</b>



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

- **Provision for expected credit losses** on financial assets and provisions for off-balance sheet commitments amounted to PLN 35.0 million (negative impact) compared to PLN 18.7 million in the third quarter of 2021. The biggest nominal change in the amount of provisions concerned the Institutional Banking segment (deterioration by PLN 17.8 million) due to the deterioration of the macroeconomic situation outlook. The above increase in provisions in Institutional Banking has been partially offset by their decrease in the Consumer Banking segment (improvement of the provisions for expected credit losses by PLN 1.4 million).

PLN '000	01.01 – 30.09.2022	01.01 – 30.09.2021	Change PLN '000	%
<b>Provision for expected credit losses on amounts due from banks</b>				
Provision creation	(2,542)	(1,019)	(1,523)	149.5%
Provision release	2,052	1,218	834	68.5%
	<b>(490)</b>	<b>199</b>	<b>(689)</b>	<b>(346.2%)</b>
<b>Provision for expected credit losses on amounts due from customers</b>				
<b>Provision creation and reversals</b>	<b>(28,037)</b>	<b>(13,576)</b>	<b>(14,461)</b>	<b>106.5%</b>
Provision creation	(82,492)	(67,726)	(14,766)	21.8%
Provision release	56,798	54,924	1,874	3.4%
Other	(2,343)	(774)	(1,569)	202.7%
<b>Recoveries from debt sold</b>	<b>3</b>	<b>17</b>	<b>(14)</b>	<b>(82.4%)</b>
	<b>(28,034)</b>	<b>(13,559)</b>	<b>(14,475)</b>	<b>106.8%</b>
<b>Provision for expected credit losses on debt investment financial assets measured at fair value through other comprehensive income</b>				
Provision creation	(56)	(774)	718	(92.8%)
Provision release	737	1	736	-
	<b>681</b>	<b>(773)</b>	<b>1,454</b>	<b>(188.1%)</b>
<b>Provision for expected credit losses on financial assets</b>	<b>(27,843)</b>	<b>(14,133)</b>	<b>(13,710)</b>	<b>97.0%</b>
Created provisions	(20,423)	(14,351)	(6,072)	42.3%
Release of provisions	13,303	9,830	3,473	35.3%
<b>Provision for expected credit losses for contingent liabilities</b>	<b>(7,120)</b>	<b>(4,521)</b>	<b>(2,599)</b>	<b>57.5%</b>
<b>Provision for expected credit losses on financial assets and provisions for contingent liabilities</b>	<b>(34,963)</b>	<b>(18,654)</b>	<b>(16,309)</b>	<b>87.4%</b>

## 3. Financial Ratio

In the third quarter of 2022, the key efficiency ratios were as follows:

Total financial ratios	Q3 2022	Q3 2021
ROE*	18.8%	6.9%
ROA**	1.8%	0.8%
Cost/Income	40%	60%
Loans/Deposits	45%	46%
Loans/Total assets	30%	34%
Net interest income/Revenue	n/a	37%
Net fee and commission income/Revenue	n/a	35%

\*Sum of net profit for the last four quarters to the average equity for the last four quarters (excluding 100% of net profit for the current year).

\*\*Sum of net profit for the last four quarters to the average assets for the last four quarters.

Cost is the sum of the following items from the condensed consolidated income statement: General administrative expenses and Depreciation and amortization.

Income is the sum of the following items from the condensed consolidated income statement: Net interest income, Net fee and commission income, Dividend income, Net gain/(loss) on trading financial instruments and revaluation, Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income, Net gain/(loss) on equity investments and other at fair value through income statement, Net gain/(loss) on hedge accounting, Net other operating income and expense.

Loans are items of Amounts due from customers from the condensed consolidated statement of financial position.

Deposits are items of Amounts due to customers from the condensed consolidated statement of financial position.

## Group employment\*

<i>In full time job equivalents (FTE)</i>	01.01 – 30.09.2022	01.01 – 30.09.2021	Change FTEs	%
Average employment in the third quarter	2,920	2,935	(15)	(0.5%)
Employment at the end of quarter	2,893	2,926	(33)	(1.1%)

\*does not include employees on parental and unpaid leave

## Capital adequacy

Total Capital Ratio was calculated according to the rules stated in the Regulation no 575/2013 of the European Parliament and of the Council (EU) of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) no 648/2012 with amendments ("CRR").

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

<i>PLN'000</i>	30.09.2022	31.12.2021
<b>Common Equity Tier 1 Capital</b>	<b>5,111,171</b>	<b>5,516,172</b>
<b>Total capital requirements, including:</b>	<b>2,295,463</b>	<b>2,193,326</b>
credit risk capital requirements	1,768,130	1,697,499
counterparty risk capital requirements	125,957	119,529
credit valuation correction capital requirements	12,615	7,268
excess concentration and large exposures risks capital requirements	2,151	-
total market risk capital requirements	103,152	85,572
operational risk capital requirements	283,458	283,458
other capital requirements	-	-
<b>Common Equity Tier 1 Capital ratio</b>	<b>17.8%</b>	<b>20.1%</b>

In the third quarter of 2022 the Group fulfilled the capital adequacy requirements. Total capital ratio is calculated according to respective regulations.

## 8 Segment reporting

Operating segment is a separable component of the Group engaged in business activity, generating income and incurring expenses (including those on intragroup transactions between segments), whose operating results are regularly reviewed by the Management Board of dominant unit 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 operating segments – Institutional Banking and Consumer Banking. The valuation of segment's assets and liabilities as well as calculation of its results is based on Group's accounting policies, including intragroup transactions between segments.

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

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

### Institutional Banking

Within the Institutional Banking segment, the Group offers products and provides services to commercial entities, municipalities and public sector. The offer in the Institutional Banking segment includes among others:

- Banking services covering credit and deposit activities,
- Cash management,
- Trade finance,

- Brokerage services,
- Leasing,
- Custody services,
- Treasury products on financial and commodity markets,
- Investment banking services on the local and international capital markets, including advisory services as well as obtaining and underwriting financing through public and non-public offerings.

The activities also comprise proprietary transactions in the equity, debt and derivative instruments' markets.

A shared characteristic of the institutional banking clients is that they need advanced financing products and advice relating to financial services. In this area, the Group ensures a coordinated offer of investment banking, treasury and cash management products and prepares loan proposals that cover differentiated forms of financing. The innovativeness and competitiveness of offered modern financing structures is achieved by combining the knowledge and experience of the Group and thanks to cooperation within the global structure of Citigroup.

## Consumer Banking

Within the Consumer Banking segment, the Group provides products and financial services to individual clients, micro enterprises and individual entrepreneurs that are within the framework of Citibusiness offer. The whole range of banking products in Consumer Banking segment includes:

- Bank accounts and providing extensive credit and deposit products,
- Cash loans,
- Mortgage loans,
- Credit cards,
- Asset management services,
- Acting as an agent in investment and insurance products sale.

## Consolidated income statement of the Group by business segment

For the period	01.01 – 30.09.2022			01.01 – 30.09.2021		
PLN '000	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
Net interest income	1,285,737	557,912	1,843,649	247,361	286,921	534,282
Internal interest income, including:	(93,654)	93,654	-	(20,326)	20,326	-
Internal income	-	93,654	93,654	-	20,326	20,326
Internal expenses	(93,654)	-	(93,654)	(20,326)	-	(20,326)
Net fee and commission income	302,076	136,703	438,779	317,799	163,256	481,055
Dividend income	3,194	7,737	10,931	3,211	7,589	10,800
Net gain/(loss) on trading financial instruments and revaluation	526,942	35,543	562,485	316,207	22,924	339,131
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	(235,475)	-	(235,475)	459,106	-	459,106
Net gain/(loss) on equity investments and other measured at fair value through income statement	4,388	3,481	7,869	4,297	-	4,297
Net gain/(loss) on hedge accounting	(1,656)	-	(1,656)	1,364	-	1,364
Net other operating income	(600)	(17,542)	(18,142)	7,094	(18,739)	(11,645)
General administrative expenses	(488,293)	(455,541)	(943,834)	(419,391)	(413,649)	(833,040)
Depreciation and amortization	(17,931)	(60,008)	(77,939)	(16,877)	(68,412)	(85,289)
Profit on sale of other assets	3,172	(228)	2,944	(112)	(290)	(402)
Provisions for expected credit losses on financial assets and provisions for off-balance sheet commitments	(34,309)	(21,661)	(55,970)	28,423	(62,851)	(34,428)
<b>Operating income</b>	<b>1,347,245</b>	<b>186,396</b>	<b>1,533,641</b>	<b>948,482</b>	<b>(83,251)</b>	<b>865,231</b>
Tax on certain financial institutions	(134,801)	(23,158)	(157,959)	(95,030)	(20,163)	(115,193)

For the period	01.01 – 30.09.2022			01.01 – 30.09.2021		
	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
PLN '000						
Profit before tax	1,212,444	163,238	1,375,682	853,452	(103,414)	750,038
Income tax expense			(309,501)			(189,058)
Net profit			1,066,181			560,980

State as at	30.09.2022			31.12.2021		
	Institutional Banking	Consumer Banking	Total	Institutional Banking	Consumer Banking	Total
PLN '000						
Total assets	65,044,100	7,193,609	72,237,709	54,215,892	7,646,879	61,862,771
Total liabilities and equity, including:	51,228,769	21,008,940	72,237,709	42,130,400	19,732,371	61,862,771
Liabilities	45,328,991	19,646,110	64,975,101	36,087,701	18,391,675	54,479,376

## 9 Activities of the Group

### 1 Institutional Banking

#### 1.1. Summary of segment results

PLN '000	Q3 2022	Q3 2021	Change	
			PLN '000	%
Net interest income	562,155	74,488	487,667	654.7%
Net fee and commission income	94,256	99,255	(4,999)	(5.0%)
Net income on dividends	1,480	1,703	(223)	(13.1%)
Net gain/(loss) on trading financial instruments and revaluation	88,834	123,392	(34,558)	(28.0%)
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	(199,713)	-	(199,713)	-
Net gain/(loss) on equity investments and other measured at fair value through income statement	5,317	342	4,975	-
Net gain/(loss) on hedge accounting	66	1,343	(1,277)	(95.1%)
Net other operating income	(7,765)	1,956	(9,721)	(497.0%)
<b>Total income</b>	<b>544,630</b>	<b>302,479</b>	<b>242,151</b>	<b>80.1%</b>
General administrative expenses and depreciation	(140,685)	(124,430)	(16,255)	13.1%
Profit on sale of other assets	(43)	54	(97)	(179.6%)
Provisions for expected credit losses on financial assets and provisions for off-balance sheet commitments	(15,459)	2,299	(17,758)	(772.4%)
Tax on certain financial institutions	(45,017)	(33,654)	(11,363)	33.8%
<b>Profit before tax</b>	<b>343,426</b>	<b>146,748</b>	<b>196,678</b>	<b>134.0%</b>
<b>Cost/Income</b>	<b>26%</b>	<b>41%</b>		

The key highlights that impacted the gross profit of the Institutional Banking Segment in the third quarter of 2022 compared to the corresponding period of the previous year were as follows:

- increase in **net interest income** resulting from interest rate increases started from October 2021 and investing in short-term cash bills;
- decrease in **net fee and commission income** due to lower income from insurance and investment products distribution (due to lower sales of this products) and lower revenues from custody activity;
- decrease in **other operating income** (i.e. non-interest and non-commission income) which recorded a negative value of PLN -111.8 million as compared to the positive value of PLN +128.7 million in the third quarter of 2021. The biggest impact on the above difference was the repositioning of the balance sheet in the area of treasury activity and the higher operational expenses incurred due to the creation of a provision for some disputed court proceedings regarding contract transactions and derivatives from the institutional banking segment. These negative events have been partially offset by higher client FX revenues, thanks to the higher volumes of currency exchange;
- increase in **operating costs** as a result of higher staff expenses and higher telecommunication fees and hardware purchase costs.



## 1.2. Institutional Bank and the Capital Markets

### Institutional Bank

As at the end of the third quarter of 2022, the number of institutional clients (which include strategic clients, global clients and commercial bank clients) amounted to less than 5,400 i.e. the same level as at the end of the third quarter of 2021. The Bank recorded a decrease in commercial bank clients (-3% YoY). On the other hand, the number of strategic and global clients grew by 4% YoY.

In terms of client's acquisition in the Commercial Bank segment the Bank attracted 55 new clients in the third quarter of 2022, including 1 Large Company, 23 Small and Medium-Sized Companies, 20 International Clients of Commercial Banking Segment, 7 Digital and 4 Public Sector Entities. In the strategic and global client segments, the Bank established 6 new client relationships.

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

#### Assets

PLN million	30.09.2022	31.12.2021	30.09.2021	Change*		Change*	
				(1)/(2)		(1)/(3)	
				PLN million	%	PLN million	%
Enterprises, including:	5,007	3,968	3,912	1,039	26%	1,094	28%
SMEs	2,064	1,636	1,533	428	26%	531	35%
MMEs	2,942	2,332	2,379	611	26%	563	24%
Public Sector	155	55	56	100	183%	99	177%
Global Clients	4,805	3,999	3,586	806	20%	1,219	34%
Corporate Clients	3,854	5,187	5,004	(1,333)	(26%)	(1,151)	(23%)
Other	48	0	(19)	48	-	67	-
<b>Total Institutional Banking</b>	<b>13,869</b>	<b>13,209</b>	<b>12,540</b>	<b>660</b>	<b>5%</b>	<b>1,329</b>	<b>11%</b>

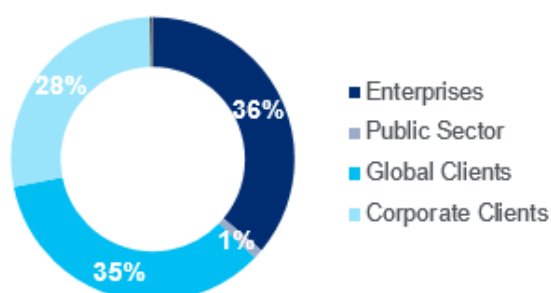
\* differences may arise from rounding

#### Liabilities

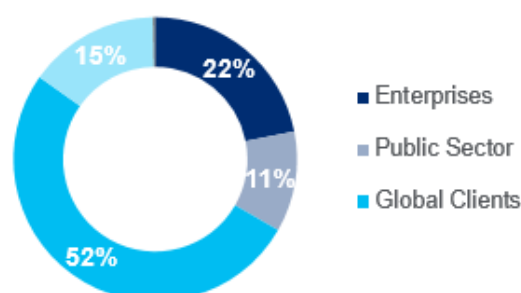
PLN million	30.09.2022	31.12.2021	30.09.2021	Change*		Change*	
				(1)/(2)		(1)/(3)	
				PLN million	%	PLN million	%
Enterprises, including:	6,095	5,077	5,411	1,017	20%	684	13%
SMEs	4,019	3,135	3,404	884	28%	614	18%
MMEs	2,076	1,943	2,006	133	7%	70	3%
Public Sector	3,193	2,083	2,888	1,110	53%	306	11%
Global Clients	14,349	12,806	13,273	1,543	12%	1,075	8%
Corporate Clients	4,175	4,721	5,659	(546)	(12%)	(1,484)	(26%)
Other	61	58	95	3	6%	(34)	(36%)
<b>Total Institutional Banking</b>	<b>27,872</b>	<b>24,744</b>	<b>27,325</b>	<b>3,128</b>	<b>13%</b>	<b>547</b>	<b>2%</b>

\* differences may arise from rounding



### Structure of the Institutional Bank assets as of 30.09.2022



### Structure of the Institutional Bank liabilities as of 30.09.2022



### Key transactions and achievements in Institutional Banking in the third quarter of 2022:

<p><b>Credit activity</b></p> 	<p><b><u>Granting new financing or increasing/extending existing ones in the amount of PLN 1.6 billion</u></b></p> <ul style="list-style-type: none"> <li>• PLN 718 million for Commercial Bank clients;</li> <li>• PLN 473 million for Global clients including for a client from the automotive industry, largest and fastest growing container terminal in Poland, for a leading telecommunication services provider in Poland and for one of top global providers of intralogistics services for supply chain</li> <li>• PLN 450 million for Corporate Clients including a leading company in the energy industry.</li> </ul>
<p><b>Transactional Banking</b></p> 	<p><b><u>Increasing shares in banking services and transaction banking</u></b></p> <ul style="list-style-type: none"> <li>• Winning 8 mandates for comprehensive banking services or extending the Bank's cooperation with its clients;</li> <li>• Signing credit commitments, letters of credit and bank guarantees for a total amount of PLN 156 million.</li> </ul>

### Activity and business achievements of the Treasury Division

Increased foreign exchange volatility, interest rate revisions, inflationary pressure and rising geopolitical tensions dictated the directions of the Bank's activities in the third quarter of 2022.

To support the companies working with the Bank, the Treasury Division engaged in particular in:





- ensuring constant access to the market data, economic forecasts and analyses. The most relevant information was delivered to clients via a mobile app or in webinars hosting lead experts and economists;
- proactively sharing experiences of how corporate clients can approach the questions of the interest rate volatility;
- enabling the settlement of trade contracts in over 140 currencies, addressing changes in supply chains dictated by the geopolitical developments;
- providing support in building a hedging policy for the Bank's clients' foreign currency exposures.

In the third quarter of 2022, the Bank was active in debt markets, where it ran three bond issues for the European Investment Bank for a total amount of PLN 2.5 billion. Also the Bank was taking up BGK bonds issued for the Anti-COVID-19 Fund.

In the third quarter of 2022, the Bank remains among the top banks in terms of spot trading, being one of the leaders in the Treasury BondSpot.

### Transactional banking

As part of its strategy, the Bank continues to develop tools that enable its clients to respond immediately and make real-time digital settlements.

<p><b>Electronic Banking</b></p> 	<p>As regards electronic banking, the Bank continued its efforts aimed at offering its clients new functionalities and promoting the already implemented solutions:</p> <ul style="list-style-type: none"> <li>• <b>API functionality</b> – the CitiConnect API, implemented in 2020, was subject to commercialization. The solution allows clients to order transfers directly in the ERP system of the supplier, without the need to use bank interfaces. In the third quarter of 2022 over 1.5 million API communications initiated by clients from Poland have been serviced in the CitiConnect API infrastructure (increase by 20% QoQ). They pertained both to initiating payments and information about accounts and transactions.</li> <li>• <b>CitiDirect BE</b> – the Bank carried out commercialization of the digital solutions among clients who use this solution. Digital solutions contributed significantly to facilitating the payment management process. The Bank promoted not only the biometric solution, which makes it easier to log in to the system, but also mechanisms which facilitate the management of CitiDirect BE users' entitlements by authorized system administrators. The Bank also continued work to provide customers with a new version of the system. In the following months, pilot disclosure of the system is planned. In August 2022, the Bank launched CitiDirect BE® Chat, a new interactive channel to contact HelpDesk. It supports consultations with HelpDesk personnel and sharing the screen, which makes the communication process much easier and the time to resolve technical issues much shorter. By the end of the third quarter of 2022, the Bank served more than 620 interactions via this new communication channel.</li> </ul> <p>In the third quarter of 2022, the <b>Bank processed over 8 million transactions electronically</b>, which means maintaining the level from the same period of the previous year.</p>
<p><b>Payments and receivables</b></p> 	<p>Third quarter of 2022 was <b>a period of continued dynamic growth in the volume of Express Elixir transfers</b>. In that period, the Bank recorded a significant <b>44% increase</b> in the volume of such transactions compared to the same period in the prior year. The increase in this volume is a result of the continuously growing interest in solutions that make settlements both more available and faster. This also applies to the instant transfers executed using the Split Payment Mechanism – the volumes of these settlements <b>increased by 30% YoY</b>.</p> <p>Clients already use Citi Payment Outlier Detection, a tool that offers a smart verification of outgoing payments using advanced analytics, algorithms and machine learning.</p> <p>In the third quarter of 2022, <b>the growth trend was maintained also in the foreign payment segment, where the volume of transactions processed by the Bank rose 7% YoY</b>. Bank's customers present in international markets could support their financial management using the Citi Payment Insights tool, which enables tracking of the payment status or generation of confirmations at the beneficiary's request.</p>
<p><b>Corporate cards</b></p> 	<p>Third quarter of 2022 also saw an increase in the number of new card programs. The Bank consistently conducted activities to sell cards mainly used for B2B transactions. As compared to the third quarter of 2021, the Bank's cashless transaction amount with deferred payment date and for business debit cards increased <b>67% and 31%</b>, respectively.</p> <p>Both value and volume of cashless transactions on corporate cards increased <b>53% YoY</b>. In the same period and also year over year, the Bank recorded a <b>7% increase</b> in activated credit cards and a <b>16% increase</b> in the number of activated business debit cards.</p>
<p><b>Trade finance products</b></p> 	<p>In the third quarter of 2022, the value of guarantees issued by the Bank <b>rose 138% YoY</b> as compared to the same period in 2021. This resulted from elevated needs of the Bank's clients to secure commercial transactions.</p> <p>Because of the macroeconomic situation, and in particular in the wake of rising operating costs and changes in supply chain, the Bank observed a higher demand for liquidity support instruments in the trade finance transactions. <b>Average assets on trade finance products rose 18% YoY</b>.</p>

## Custody services

The Bank provides custody services for domestic and foreign institutional investors and services of a custodian bank for domestic pension and investment funds. For many years, Citi Handlowy has been a leader in the Polish market of depository banks.

As part of its statutory activities, under a license issued by the Polish Securities and Exchange Commission (at present, the Polish Financial Supervisory Authority (KNF)), the Bank maintains securities accounts, settles securities transactions, processes dividend and interest payments, provides valuations of asset portfolios, delivers individual reports and arranges representation at general meetings of shareholders of listed companies. The Bank keeps collective accounts for authorized foreign entities. In addition, the Bank provides services consisting in maintenance of registers of foreign securities, under which it acts as intermediary in settlements of transactions executed by domestic clients in foreign markets.

As at 30 September 2022, the Bank maintained 16,000 securities accounts and collective accounts.

In the reporting period the Bank was the custodian for open-end pension funds: Aviva OFE Aviva Santander, Nationale - Nederlanden OFE (Open Pension Funds); voluntary pension funds: Nationale - Nederlanden DFE, Generali DFE, and the employee pension fund PFE Orange Polska.

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

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

## Brokerage activities

The Group runs brokerage activities in the capital market via a separate organizational unit which is a brokerage house – the Brokerage Department of Bank Handlowy.

As at the end of the third quarter of 2022, the Bank was the market maker for 67 companies listed on the Warsaw Stock Exchange (of which 20 from the WIG20 index), i.e. 16.0% of the shares listed in its main equity market.

After third quarter of 2022, the Bank was the intermediary in in-session transactions accounting for 4.1% of equity turnover in the secondary market. The value of the in-session transactions concluded via Bank in the equity market on the WSE was PLN 18.5 billion. After third quarter of 2022, the Bank was ranked 8th in terms of session turnovers on the WSE main market and 3rd as a local WSE member.

The number of investment accounts maintained by the Brokerage Department of Bank Handlowy was 11.8 thousand as at the end of the third quarter of 2022, and decreased by 16.6% as compared to the same period in 2021. The number of accounts decreased in the reporting period following the termination of agreements for brokerage services after DMBH ceased to provide brokerage services as of July 31, 2022 and clients failed to consent to the further provision of brokerage services, starting from August 1, 2022, by a new entity, Brokerage Department of Bank Handlowy, established within the Bank's structures.

However, compared to the end of the third quarter 2022, the number of investment accounts and registers increased by 3.5% compared to the second quarter of 2022.

In the third quarter of 2022, the geopolitical risks (war in Ukraine) resulted in investors' weakened sentiment in the equity market for shares and to the suspension of planned transactions.

## Integration of brokerage activities

On 29 July 2022, Dom Maklerski Banku Handlowego S.A. ("DMBH" – brokerage house of the Bank) signed an enterprise transfer agreement. On 1 August 2022, the enterprise of DMBH was transferred to the Bank and the brokerage activities are now run in the Brokerage Department of Bank Handlowy (which is an organizational unit of the Bank). For the purpose of integration, the Management Board of DMBH decided, on 11 May 2022, to discontinue its brokerage activities effective 1 August 2022.

In connection with the license authorizing the Bank to run brokerage activities (mentioned in Article 69(4)(1) of the Act), the financial instruments and cash assets of clients and documents connected with such activities were transferred to the Brokerage Department of the Bank under the KNF's decision of 14 July 2022. As a result, the brokerage activities have been concentrated at the Brokerage Department of Bank Handlowy since 1 August 2022.

DMBH neither runs nor intends to run any brokerage activities.

On 19 September 2022, DMBH filed with the KNF relevant requests to revoke the brokerage license granted to DMBH. The procedure is still pending.

The transaction of acquiring an organized part of the enterprise from DMBH did not affect the consolidated financial statements of the Group. The settlement of the enterprise acquisition transaction in the Bank's stand-alone financial statements was recognized using the book value method, where the difference between the sale price paid and the book value of the acquired net assets, amounting to PLN 16.83 million, was recognized in the Bank's stand-alone equity.

## Selected financial data as at 30 September 2022

Company's Name	Headquarter	% of authorized capital held by the Bank	Total assets	Total equity	Net financial result for the period of Q3 2022
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	119,283	116,599	2,646

## Leasing activities

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

## Selected financial data as at 30 September 2022

Company's Name	Headquarters	% of authorized capital held by the Bank	Total assets	Total equity	Net financial result for the period of Q3 2022
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	20,889	20,209	(187)

## 2. Consumer Banking

### 2.1. Summary of the segmental results

PLN '000	Q3 2022	Q3 2021	Change	
			PLN '000	%
Net interest income	169,802	94,360	75,442	80.0%
Net fee and commission income	41,831	58,647	(16,816)	(28.7%)
Net gain/(loss) on trading financial instruments and revaluation	11,124	8,152	2,972	36.5%
Net gain/(loss) on equity and other instruments measured at fair value through income statement	(982)	-	(982)	-
Net other operating income	(5,968)	(6,572)	604	(9.2%)
<b>Total income</b>	<b>215,807</b>	<b>154,587</b>	<b>61,220</b>	<b>39.6%</b>
General administrative expenses and depreciation	(166,338)	(150,133)	(16,205)	10.8%
Profit on sale of other assets	(41)	(23)	(18)	78.3%
Provisions for expected credit losses on financial assets and provisions for off-balance sheet commitments	(19,504)	(20,953)	1,449	(6.9%)
Tax on certain financial institutions	(8,478)	(6,646)	(1,832)	27.6%
<b>Profit before tax</b>	<b>21,446</b>	<b>(23,168)</b>	<b>44,614</b>	<b>(192.6%)</b>
<b>Cost/Income</b>	<b>77%</b>	<b>97%</b>		

The following factors influenced the profit before tax in the Consumer Banking Segment in the third quarter of 2022:

- **Increase in net interest income** driven by an increase in interest rates, which has an impact on higher interest income. The positive variance in this line covered the decline in the net interest income a result of the decline in the loan portfolio (-11% year over year). There was also an increase in interest costs as a consequence of significant increases in interest rates for the zloty with a simultaneous increase in the balance of deposits (5% year over year);  
In addition, the net interest income in the third quarter of 2022 was lowered by the impact of the adjustment made for "credit holidays" on mortgage products in the total amount of PLN 63.3 million. (reduction of the value of interest income).
- **Net fee and commission income decline** driven among others by lower fees on loan products as a result of higher interest income;
- **Increase of net result on trading financial instruments and revaluation** as a result of higher revenue from FX operations;
- **Result on equity and other instruments measured at fair value through income statement** – change of shares' valuation



- **Increase in operating expenses** as a result of higher Banking Guarantee Fund fee, higher remuneration expenses and IT expenses .



## 2.2. Selected business data





PLN '000	Q3 2022	Q2 2022	Q3 2021	Change QoQ	Change YoY
Number of individual customers	584.8	582.9	616.2	1.9	(31.4)
Number of current accounts	484.1	472.9	456.2	11.2	27.9
Number of saving accounts	117.1	117.1	118.6	0.0	(1.5)
Number of credit cards	500.1	504.5	555.2	(4.4)	(55.1)
Number of debit cards	248.3	242.5	234.8	5.8	13.5

## Net amounts due from individual clients – management view

PLN '000	30.09.2022	31.12.2021	30.09.2021	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	PLN '000	%	PLN '000	%
Unsecured receivables, including:	4,083,814	4,588,736	4,683,873	(504,922)	(11.0%)	(600,059)	(12.8%)
Credit cards	2,240,279	2,395,764	2,417,373	(155,485)	(6.5%)	(177,094)	(7.3%)
Cash loans	1,798,873	2,146,087	2,225,676	(347,214)	(16.2%)	(426,803)	(19.2%)
Other unsecured receivables	44,662	46,885	40,824	(2,223)	(4.7%)	3,838	9.4%
Mortgage loans	2,169,423	2,390,913	2,381,841	(221,490)	(9.3%)	(212,418)	(8.9%)
<b>Net client receivables</b>	<b>6,253,237</b>	<b>6,979,649</b>	<b>7,065,714</b>	<b>(726,412)</b>	<b>(10.4%)</b>	<b>(812,477)</b>	<b>(11.5%)</b>

## 2.3. Key Business Highlights

<b>Bank accounts</b> 	<b>Current accounts</b> <p>The total balance on the current accounts was PLN <b>10.3 billion</b>, i.e. decreased by 9% as compared to the end of the third quarter of 2021. The decrease in the balance is a consequence of the interest rates increases and transfer of funds accumulated on current accounts to the savings products.</p> <p>The number of personal accounts at the end of September 2022 was <b>484,000 (increase by 6% YoY)</b>, including 264,000 accounts kept in PLN, and 220,000 accounts kept in foreign currencies. The Bank continued to promote the Citikonto online account launched in 2020, implementing subsequent special offers that enjoyed great popularity among customers.</p>
	<b>Savings accounts</b> <p>The number of savings accounts at the end of the third quarter of 2022 amounted to <b>117,000</b>, the total balance of funds accumulated on those accounts amounted to PLN <b>2.3 billion</b> compared to 119,000 savings accounts with a total balance of PLN 3.4 billion in the same period of the previous year.</p>
	<b>Changes in the offer</b> <p>In response to another increase in market rates, the Bank increased, effective 25 August 2022, interest on time deposit rates for the following currencies: PLN, USD and GBP. For instance, customers having a Citigold Private Banking account are offered a 5% p.a. rate on 6-month deposits. In turn on 15 September 2022 the Bank simplified its offering for Accounts by cancelling monthly fees for maintenance of Foreign Currency Subaccounts to payment accounts in AUD, CAD, RUB, ZAR, SEK, NOK, DKK, CZK, HRK, and HUF (a package of 10 currencies) and by removing the requirement to meet at least one of the three additional conditions of waiver of the monthly maintenance fees for Citigold Personal Accounts and Citigold Private Client Accounts.</p>
	<b>Credit cards</b> <p>At the end of the third quarter of 2022, the number of credit cards was 500,1 thousand.</p> <p>The total debt on the credit cards amounted to PLN <b>2.3 billion</b> as at the end of the third quarter of 2022, which means that the Bank maintained the position of one of the leaders</p>

	<p>in the credit card market, in terms of the credits granted on the credit cards, with a market share of 18.8% according to data as at the end of September 2022.</p> <p>A high level of activation and transactions was maintained for newly-acquired clients. In the third quarter of 2022, the acquisition structure of credit cards was dominated by the Citi Simplicity card, with a 87% share in acquisition.</p> <p>In the third quarter of Q3 2022, the Bank increased the acquisition of cards issued in cooperation with OBI in the scope of purchases under the "Komfort" Instalment Payment Plan on a credit card by 21% vs. third quarter of 2021. The partner's clients can apply online, in an entirely self-service mode, for a credit card with an option of instalments on the card.</p>
<p><b>Cash loans and cash loans associated with credit card accounts</b></p> 	<p>The balance of unsecured loans (cash loans and loans on credit card) amounted to <b>PLN 1.9 billion</b> as at the end of the third quarter of 2022 and was lower by 6% as compared second quarter of 2022 and lower by 20% as compared to the same period in previous year. The decrease in the balance is a consequence of lower sales of the above-mentioned loans during the pandemic and in whole 2022. In the third quarter of 2022 the sales amounted to <b>PLN 134 million</b>, i.e. decrease by 9% comparing to the second quarter of 2022 and lower by 36% as compared to the corresponding period of 2021.</p> <p>The decrease in sales and loan balance is a consequence of the increase in interest rates (as a result of which, among others, the number of customers deciding to pay off loans in order to avoid higher interest costs, the creditworthiness of customers also fell) as well as the geopolitical situation.</p>
<p><b>Mortgage products</b></p> 	<p>The mortgage loans offer was constantly dedicated to selected client segments, i.e. Citigold Private Client, CitiGold and Citi Priority - all the newly originated mortgage and home equity loans were granted in those client segments.</p> <p>The mortgage products sold in the third quarter of 2022 reached <b>PLN 92 million</b>, i.e. decreased by 19% comparing to the third quarter of 2021 when it stood at PLN 122 million. As at the end of that period, the mortgage portfolio amounted to <b>PLN 2.2 billion</b> as compared to PLN 2.3 billion in the corresponding period of 2021, i.e. decreased by 7% YoY.</p>
<p><b>Insurance and investment products</b></p> 	<p>As at the end of the third quarter of 2022, the funds under management as part of investment products (including insurance products, without dual currency investments) acquired by retail clients via the Bank were <b>5% higher</b> than as at the second quarter of 2022. This increase resulted from a increase in the value of assets within investment funds.</p> <p>However, compared to the corresponding period of the previous year, i.e. the end of the third quarter of 2021, the total value of funds managed in investment products was lower by 21%, which was mainly due to the maturity date of structured bonds, a decrease in the value of assets under investment funds and available products as part of brokerage services on the Polish market.</p>

## 2.4 Development of distribution channels

### Online Banking and Mobile Banking

The online platform for retail clients is built in a responsive technology, i.e. it can adapt itself to the device used by a client. Modern design was inspired by clients' expectations and extended functionality makes other channels of communication unnecessary. One of the improvements is for credit card holders, which can manage their card limit, convert transactions into installments or buy insurance products by themselves. The clients can construct and update their investment profile coherent with the MiFID II regulation. Electronic banking also includes a transaction module for investment funds and a Citi Kantor currency exchange module, which allows, among others, to place a conditional order and set a currency alert.

**The number of active users of Citibank Online**, i.e. those who logged in to the online or mobile banking service via a browser or the Citi Mobile application at least once in every 90-day period, was **364,400** as at the end of the third quarter of 2022. The share of active Citibank Online users in the entire client portfolio of the Bank was **64.5%** as at the end of the third quarter of 2022, i.e. **increase by 2.1 p.p.** compared to the same period of 2021.

At the same time, **digital users** accounted for **84.1% of all transactionally active clients** at the end of the third quarter of 2022, which means maintaining the level from the third quarter of 2021.

Responsive technology gives the client access to all functionalities in Citibank Online on any device they may use. In addition, clients have access to the mobile application which features such functions as free Push notifications, which keep the client updated of changes on the account or card, and login activation with the use of a fingerprint or face image, which makes access to the application even easier. The clients have had access to, among other functionalities, simplified and intuitive navigation, a new layout and a mobile authorization service - Citi Mobile Token. The application also offers a currency exchange module, Citi Kantor, and a multi-currency service, Citibank Global Wallet, which permits automatic currency account alignment with the transaction currency without manually reassigning the card. The application was enriched with a new module which presents offers of products and services tailored to customer needs and a section that permits recommending of products to friends directly from the application.

The fourth quarter of 2021 saw the launch of the mobile app BLIK payment method, which allows payments at online, traditional and service outlets and ATM withdrawals, as well as instant BLIK Phone Transfers between the clients of different banks. Consequently, each month of the third quarter of 2022 saw regular increase of BLIK payments. The number of BLIK payments by the Bank's clients increased by 17% and the number of BLIK Phone Transfers increased by 5,6% per month on average.

As at the end of the third quarter of 2022, the **number of active users of mobile banking**, i.e. those who used mobile banking at least once in every 90-day period via the application or Citibank Online in responsive technology, amounted to **287,600, which means maintaining the level from the third quarter of 2021.**

The share of active users of mobile banking in the retail client portfolio of Citi Handlowy was **50.8%, i.e. increased by 2.5 p.p.** as compared to the same period in 2021.

At the same time, at the end of the third quarter of 2022, **mobile users accounted for 67.2% of all transactional active customers**, which means an **increase by 1.2 pp.** as compared to the third quarter of 2021.

## Social Media

The third quarter of 2022 was a continuation of the Bank's active operations in the Social Media channels. The Bank is present on Facebook, Twitter, LinkedIn, Instagram, YouTube and TikTok. Communications in Social Media are based on areas that build awareness of new products, activate client portfolios, and inform clients about the Bank's CSR activities. The Social Media are also a channel for acquiring new customers.

In the third quarter of 2022, the Bank's communications on Facebook and Instagram reached over **3.5 million unique users** (from paid activities), representing **an increase by almost 0.3 million QoQ and an increase by over 0.3 million YoY**. The unique reach on Facebook alone in the third quarter of 2022 was about 2.1 million users. Facebook and Instagram users had an average of 3.9 contacts with the Bank's marketing material, compared to 3.8 in the second quarter of 2022 and 3.4 in the third quarter of 2021. In the third quarter of 2022, 42 posts were published on Facebook.

In the third quarter of 2022, **Bank responded to 1,300 customer inquiries** regarding Bank products and services via the Messenger, compared to 1,200 in the second quarter of 2021 and 2,100 in the third quarter of 2021.

## Indirect and Direct Customer Acquisition

### Citigold and Smart outlets

In the third quarter of 2022, the number of branches in the bank retail branch network did not change. At the end of the period, the Bank's network comprised of 18 branches, that is 9 Hub Gold branches, 8 Smart branches and 1 corporate branch.

In August 2022, a complex project was started to replace devices in the ATM network. As part of this initiative, the ATMs of the most-recent generation will be installed to upgrade and optimize the network at the same time. The new machines meet all the current and expected IT security standards and, simultaneously, provide the Bank with a platform for implementation of new functionalities. On the basis of the upgraded ATMs, the Bank intends to develop various marketing and selling options to enhance customer experience, to increase sales potential and to increase network management efficiency.

Simultaneously, the Bank carried out modernization works at Smart and Gold branches and their interiors got a new look to present them as a modern and friendly customer services environment.

## Changes to the network of outlets

### Number of branches and other Points of Sale /touch points

	30.09.2022 (1)	31.12.2021 (2)	30.09.2021 (3)	Change (1)/(2)	Change (1)/(3)
<b>Number of branches*:</b>	<b>18</b>	<b>18</b>	<b>19</b>	-	(1)
Hub Gold	9	9	9	-	-
Smart branch	8	8	9	-	(1)
Corporate branch	1	1	1	-	-

\*Branches classified according to a type of provided services into: Hub Gold (branches with separate Citigold customer service zones) and modern Smart branches.

## 10 Rating

As of end of the third quarter of 2022, the Bank had full ratings awarded by Fitch Ratings ("Fitch").

On 14 September 2022, after the annual rating review, Fitch downgraded the viability rating ("VR") of the Bank from a- to BBB+ and kept this rating on the rating watch negative. Simultaneously, Fitch affirmed the other ratings of the Bank as follows:

Long-term entity ranking	A-
Long-term rating outlook	stable
Short-term entity ranking	F1
Viability rating*	bbb+ Rating Watch Negative
Support rating	a-
National long-term rating	AA+ (pol) stable
National short-term rating	F1+ (pol)

\* Viability rating is the view of the intrinsic creditworthiness of an institution, independent of external factors.

The Bank's Ratings (IDRs) are driven by its intrinsic strength (as reflected in Viability rating ("VR") and potential parental support.

In the rationale, the rating agency explained that the decision to downgrade the Bank's VR was a result of the score cut-down for the operating environment of the Polish banking sector from bbb+ to bbb in the wake of the implementation of "credit holidays" and concerns about further government interventions in the banking sector and the possibility that the banks will have to incur additional costs of such interventions while macroeconomic outlooks show a downgrade tendency. Therefore, Fitch believes that the risk affecting both quality of assets and capitalization of the Bank has increased, even if the financial ratios are now solid and profitability has improved. Despite that VR downgrade to BBB+, it is still the highest score among all the Polish banks, which reflects the low risk appetite, diversified business model, high capitalization and high liquidity of the Bank. All these factors make the Bank more resilient to the risks existing in the Polish operating environment. The balance sheet of the Bank mainly includes low-risk assets and the quality of its loan portfolio is solid, thanks to the Bank's strategy to focus on top quality corporate and retail borrowers. However, the Bank cannot be isolated from the discussed threats occurring in the operating environment.

And the decision to keep the VR on the rating watch negative is connected with Citigroup's strategy to exit retail banking activities, and, precisely, the lack of information on the details of that process (scope, timeframe), and it reflects the uncertainty how this divestment will affect the risk and financial situation of the Bank. The Bank's VR can be removed from the rating watch negative if, after the divestment is complete, Fitch concludes that the risk profile and financial profile of the Bank still justifies a BBB+ score or if the transaction is cancelled.

For the full announcement published by Fitch please visit: **Fitch Downgrades Bank Handlowy's VR to 'bbb+'/RWN; Affirms IDR at 'A-' (fitchratings.com)**

## 11 Financial instruments disclosure

### Fair value of financial assets and liabilities

The table below presents the fair value of financial assets and liabilities valued at amortized cost in consolidated statement of financial position.

PLN '000	30.09.2022		31.12.2021	
	Balance sheet value	Fair value	Balance sheet value	Fair value
<b>Financial assets</b>				
Amounts due from banks	1,836,742	1,836,691	967,677	967,660
Amounts due from customers	21,758,760	21,765,909	21,327,600	21,198,601
Amounts due from institutional customers	15,505,523	15,550,325	14,347,952	14,293,764
Amounts due from individual customers	6,253,237	6,215,584	6,979,648	6,904,837
<b>Financial liabilities</b>				
Amounts due to banks	3,694,321	3,694,718	3,383,353	3,383,964
Amounts due to customers	50,346,574	50,333,767	43,507,474	43,507,600

### Valuation methods and assumptions used for the purposes of fair value

Fair value of assets and financial liabilities are calculated as follows:

- The fair value of financial instruments not quoted in active markets is determined using valuation techniques which 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 Bank'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 of measurement of particular types of derivative instruments:
  - FX forwards – discounted cash flows model;
  - options – option market-based valuation model;
  - interest rate transactions – discounted cash flow model;
  - futures – current quotations.
- For valuation of securities' transactions current quotations are used. In case of lack of quotations, adequate models based on discount and forward curves, including decrease of credit spread, if needed, are used for valuation.
- The fair value of other assets and financial liabilities (excluding described above) are estimated in accordance to commonly accepted models of valuation based on discounted cash flow analysis, taking into account fluctuations in market interest rates and changes in margins during the financial period.

### Fair value included in consolidated statement of financial position

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 pricing services type systems, such as Reuters and Bloomberg, which represent the actual market transactions concluded on the market conditions. Level I mainly include securities held-for-trading or at fair value through OCI;
- Level II: financial assets/liabilities valued on the basis of models based on input data from the active market 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 non-market parameters.

The tables below present values of financial instruments in the consolidated statement of financial position in accordance with a fair value classified by above levels.



### As at 30 September 2022

PLN '000	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held-for-trading	1,124,064	9,559,417	-	10,683,481
derivatives	22,573	9,558,745	-	9,581,318
debt securities	1,083,173	672	-	1,083,845
equity instruments	18,318	-	-	18,318
Debt investment financial assets measured at fair value through other comprehensive income	16,898,955	9,538,325	-	26,437,280
Equity investments and other measured at fair value through income statement	17,150	-	87,958	105,108
<b>Financial liabilities</b>				
Financial liabilities held-for-trading	482,865	8,894,089	-	9,376,954
short sale of securities	420,116	-	-	420,116
derivatives	62,749	8,894,089	-	8,956,838

### As at 31 December 2021

PLN'000	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held-for-trading	362,580	9,593,632	-	9,956,212
derivatives	218	6,095,331	-	6,095,549
debt securities	283,072	3,498,301	-	3,781,373
equity instruments	79,290	-	-	79,290
Hedging derivatives	-	119,290	-	119,290
Debt investment financial assets measured at fair value through other comprehensive income	15,428,782	5,161,502	-	20,590,284
Equity investments and other measured at fair value through income statement	1,160	-	96,156	97,316
<b>Financial liabilities</b>				
Financial liabilities held-for-trading	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 September 30, 2022, the structure of Visa Inc shares held by the Bank changed compared to December 31, 2021. As an outcome of the transaction the Bank acquired 182 privileged Visa Inc series A shares worth PLN 17,884 thousand; simultaneously the conversion ratio of C series to A series change as well, which resulted in a reduction in the valuation of series C shares by PLN 10,467 thousand. The result on operation amounted to PLN 7,417 thousand and was in the Net gain/(loss) on equity investments and other at fair value through income statement.

As at September 30, 2022, the amount of financial assets classified to level III includes the value of the share in Visa Inc. in the amount of PLN 13,499 thousand (privileged series C) and also the value of other minority shareholding in the amount of PLN 74,459 thousand. As at December 31, 2021, the amount of financial assets classified to level III includes the value of the share in Visa Inc. in the amount of PLN 25,082 thousand (privileged series C) and the value of other minority interests in the amount of PLN 71,074 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 not-market based are presented below:

PLN '000	Equity and other investments measured at fair value through income statement	
	01.01.-30.09.2022	01.01.-31.12.2021
<b>As at 1 January</b>	<b>96,156</b>	<b>44,859</b>
Conversion of shares - transfer to Level I	(10,466)	-
Revaluation	2,268	51,297
<b>As at the end of period</b>	<b>87,958</b>	<b>96,156</b>

In the nine-month period of 2022 the Group has made no transfers between levels of instruments fair value due to changes in method of estimating fair value.

In the nine-month period of 2022 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.

## 12 Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments

Changes in the provision for expected credit losses on financial assets are presented in the table below:

PLN '000	Stage 1	Stage 2	Stage 3	Total
<b>Provision for expected credit losses - amounts due from banks</b>				
Provision for expected credit losses as at 1 January 2022	(1,561)	-	-	(1,561)
Transfer to Stage 1	(111)	111	-	-
Transfer to Stage 2	255	(255)	-	-
Transfer to Stage 3	-	-	-	-
(Creation)/Releases in the period through the income statement	732	(1,912)	-	(1,180)
Foreign exchange and other movements	(38)	6	-	(32)
<b>Provision for expected credit losses as at 30 September 2022</b>	<b>(723)</b>	<b>(2,050)</b>	<b>-</b>	<b>(2,773)</b>

PLN '000	Stage 1	Stage 2	Stage 3	Purchased or originated credit-impaired assets	Total
Provision for expected credit losses - amounts due from customers					
Provision for expected credit losses as at 1 January 2022	(63,474)	(118,147)	(707,063)	-	(888,684)
Transfer to Stage 1	(40,049)	36,820	3,229	-	-
Transfer to Stage 2	8,371	(11,969)	3,598	-	-
Transfer to Stage 3	1,552	20,991	(22,543)	-	-
Transfer to purchased or originated credit-impaired assets	-	-	13,209	(13,209)	-
(Creation)/Releases in the period though the income statement	17,496	(29,695)	(49,913)	683	(61,429)
Net changes due to update of estimating method*	2,509	(1,967)	(790)	-	(248)
Decrease in provisions due to write-offs	-	-	6,245	-	6,245
Decrease in provisions in connection with the sale of receivables	-	-	113,355	-	113,355
Changes in accrued interest in Stage 3 other than written off and sale of receivables	(2)	(4)	(4,390)	(927)	(5,323)
Decreasing in write-downs due to derecognition as a result of material change	-	-	-	11,750	11,750
Foreign exchange and other movements	(1,127)	(920)	3,477	-	1,430
Provision for expected credit losses as at 30 September 2022	(74,724)	(104,891)	(641,586)	(1,703)	(822,904)

\*concerns changes resulting from the implementation of the R Recommendation

In the period from 1 January to 30 September 2022, the Group did not create write-offs for impairment of tangible fixed assets, intangible assets and reversals of write-offs of that title.

PLN '000	Stage 1	Stage 2	Stage 3	Total
<b>Provision for expected credit losses - amounts due from banks</b>				
Provision for expected credit losses as at 1 January 2021	(1,708)	-	-	(1,708)
Transfer between Stages	-	-	-	-
(Creation)/Releases in the period through the income statement	239	-	-	239
Foreign exchange and other movements	(92)	-	-	(92)
<b>Provision for expected credit losses as at 31 December 2021</b>	<b>(1,561)</b>	<b>-</b>	<b>-</b>	<b>(1,561)</b>

PLN '000	Stage 1	Stage 2	Stage 3	Total
<b>Provision for expected credit losses - amounts due from customers</b>				
<b>Provision for expected credit losses as at 1 January 2021</b>	<b>(80,837)</b>	<b>(122,617)</b>	<b>(794,215)</b>	<b>(997,669)</b>
Transfer to Stage 1	(32,568)	26,571	5,997	-
Transfer to Stage 2	7,968	(14,626)	6,658	-
Transfer to Stage 3	2,544	28,828	(31,372)	-
(Creation)/Releases in the period through the income statement	39,817	(50,230)	(33,952)	(44,365)
Net changes due to update of estimating method*	634	12,786	(26,925)	(13,505)
Decrease in provisions due to write-offs	-	-	63,582	63,582
Decrease in provisions 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	1	4	(11,637)	(11,632)
Foreign exchange and other movements	(1,033)	1,137	1,013	1,117
<b>Provision for expected credit losses as at 31 December 2021</b>	<b>(63,474)</b>	<b>(118,147)</b>	<b>(707,062)</b>	<b>(888,683)</b>

\*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).

The value of provisions for expected credit losses for off-balance sheet commitments amounted to PLN 41,837 thousand as at 30 September 2022 (31 December 2021: PLN 33,910 thousand, 30 September 2021: PLN 37,547 thousand).

### 13 Deferred tax asset and provision

PLN '000	30.09.2022	31.12.2021
Deferred tax asset	2,632,614	1,747,610
Deferred tax provision	(2,365,649)	(1,483,297)
<b>Net asset due to deferred income tax of a parent company</b>	<b>266,965</b>	<b>264,313</b>

Deferred tax asset and provision are presented in the consolidated statement of financial position after compensation at the level of the legal entity within the Group.

### 14 Acquisitions and disposals of tangible fixed assets

In the period from 1 January to 30 September 2022 the value of purchased by the Group components of "tangible fixed assets" equaled PLN 35,473 thousand (in 2021: PLN 25,573 thousand) and the value of disposals of "tangible fixed assets" amounted to PLN 7,260 thousand (in 2021: PLN 8,814 thousand).

As at 30 September 2022 the Group has no significant commitments to purchase of tangible fixed assets.

### 15 Default or breach of credit agreement in respect of which there were no corrective action until the end of the reporting period

Between 1 January and 30 September 2022 in the Group has been no occurrence of default or breach due to received credit agreement.

### 16 Seasonality or periodicity of business activity

The business activity of the Group is not significantly influenced by seasonal or cyclical factors.

### 17 Issue, redemption and repayment of debt and equity securities

In the nine-month period of 2022 no issue, pay back or repurchase of debt or equity securities had place.

### 18 Paid (or declared) dividends

On June 23, 2022, the Annual General Meeting of the Bank adopted a resolution on distribution of net profit for 2021. Pursuant to the resolution the net profit for 2021 in the amount of PLN 715 972 070.88 was distributed as follows:

- Dividend: PLN 714,708,012.00, i.e. PLN 5.47/per share,
- Reserve capital: PLN 1,264,058.88.

Dividend day was set for July 1, 2022, and the dividend payment date for July 11, 2022 on that day the dividend was paid. The number of shares covered by dividend was 130 659 600.

The dividend accounted for 99.82% of the net profit for 2021, and the payment of funds in this amount was in line with the individual recommendation of the Polish Financial Supervision Authority regarding fulfilling by the Bank of requirements for payment of 100% dividend from net profit generated in 2021.

## 19 Changes in granted financial and guarantee commitments and other off-balance-sheet commitments

The detailed specification of granted financial and guarantee commitments as at 30 September 2022 and changes in comparison with the end of 2021 are as follows:

PLN '000	State as at		Change	
	30.09.2022	31.12.2021	PLN '000	%
<b>Contingent liabilities granted</b>				
<b>Financial</b>	<b>14,682,648</b>	<b>16,034,174</b>	<b>(1,351,526)</b>	<b>(8.4%)</b>
Import letters of credit issued	320,783	450,109	(129,326)	(28.7%)
Credit lines granted	13,486,174	13,218,765	267,409	2.0%
Other	875,691	2,365,300	(1,489,609)	(63.0%)
<b>Guarantees</b>	<b>2,429,833</b>	<b>2,285,773</b>	<b>144,060</b>	<b>6.3%</b>
Guarantees granted	2,413,572	2,246,001	167,571	7.5%
Other	16,261	39,772	(23,511)	(59.1%)
	<b>17,112,481</b>	<b>18,319,947</b>	<b>(1,207,466)</b>	<b>(6.6%)</b>
<b>Contingent liabilities received</b>				
Financial	290,000	-	290,000	-
Guarantees (guarantees received)	28,878,252	18,439,821	10,438,431	56.6%
	<b>29,168,252</b>	<b>18,439,821</b>	<b>10,728,431</b>	<b>58.2%</b>
<b>Contingent transactions due to FX, securities and derivatives (granted/received liabilities)</b>				
Current*	4,666,973	7,061,822	(2,394,849)	(33.9%)
Forward**	324,601,344	378,084,389	(53,483,045)	(14.1%)
	<b>329,268,317</b>	<b>385,146,211</b>	<b>(55,877,894)</b>	<b>(14.5%)</b>

\*Foreign exchange and securities transactions with current value date.

\*\*Derivatives: FX, interest rate transactions and options.

## 20 Changes in Group's structure

In the third quarter of 2022 the structure of the Bank's Capital Group has not changed compared to the end of 2021.

In third quarter of 2022 the transaction of acquiring an organized part of the enterprise from DMBH by the Bank which is described in Note 9.

## 21 Fulfilment of 2022 forecast results

The Bank, as the dominant entity, did not disclose its forecast results for the year 2022.

## 22 Information about shareholders

As at the day of publishing the Interim Statement for the third quarter of 2022 the list of shareholders who held directly or indirectly through subsidiaries at least 5% of the total number of votes at the General Meeting or at least 5% of the Bank's share capital is as follows:

	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	97,994,700	75
Other Shareholders	130,659	32,664,900	25	32,664,900	25

	522,638	130,659,600	100	130,659,600	100
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In the period between publishing the annual consolidated financial report for the year 2021 and publishing this report for the third quarter of 2022 the structure of major shareholdings has not undergone any changes.

## 23 Ownership of issuer's shares by members of the Management Board and Supervisory Board

According to the best knowledge of the Bank – the dominant entity, at the end of the third quarter of 2022, as well as at the date of submission of the previous periodic report for the first half of 2022, members of the Management Board and Supervisory Board did not own Bank's shares.

Managing and supervising officers have not declared any options for Bank's shares.

## 24 Information on pending court proceedings

No proceedings regarding receivables or liabilities of the Bank conducted in the third quarter of 2022 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 Group's commitments, the appropriate provisions are created. The value of provisions for disputes as at 30 September 2022 is PLN 34.5 million, of which the provisions for option cases on derivative instruments is PLN 12.8 million and provisions for individual cases relating to the judgments of the CJEU is PLN 20.5 million, including PLN 18.3 million for cases related to CHF-indexed loans and PLN 2.2 million for cases related to the return of a part of the commission for granting consumer loan. As at December 31, 2021: PLN 19.8 million, of which the provisions for option cases on derivative instruments is PLN 1.7 million and provisions for individual cases relating to the judgments of the CJEU is PLN 17.5 million, including PLN 14.3 million for cases related to CHF-indexed loans and PLN 3.2 million for cases related to the return of a part of the commission for granting consumer loan.

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

No significant settlements occurred in the third quarter of 2022 due to court cases concluded with a 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. 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 well as by the ruling of the Court of Justice of the European Union in the proceedings with reference number C-64/21 issued on 13 October 2022 in connection with preliminary questions from the Supreme Court.

As at September 30, 2022, the Bank was among others a party to 19 court proceedings associated with derivative transactions. Among these, 12 proceedings have not been terminated with a legally binding conclusion, and 7 have been terminated with a legally binding conclusion, whereby these proceedings are pending in the Supreme Court cassation proceeding, and in the case of one the deadline for lodging a cassation appeal has not expired. In 12 proceedings the Bank acted as a defendant and in 6 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. In February 2022, the Regional Court in Łódź dismissed the claims of 1,700 CHF-denominated loan customers (filing a lawsuit against one of the Polish banks), who wanted their loan agreements declared invalid. The Regional Court held that the first provision of the bank loan contract providing for conversion of the disbursed amount of the loan from PLN into CHF was not abusive. However, it also found that the provision according to which the bank converts CHF loan installments into PLN according to its own table is abusive. At the same time, according to the court, CHF borrowers involved in this case can repay their loans in CHF after all.

It should be noted, however, that apart from the doubts in court cases, the measures of the Polish Financial Supervision Authority set out the direction of possible settlements between banks and the Swiss franc borrowers.

As at September 30, 2022, the Bank had receivables under CHF-indexed retail mortgage loans at the gross carrying amount of PLN 51 million. The Bank maintains a portfolio provision for this in the amount of PLN 12.3 million. Estimation of the provision assumed the expected level of customer complaints based on the trend observed by the Bank, which is different for active loans and for loans repaid before the balance sheet date, as well as the probability of a settlement or court solution and the Bank's loss estimate in the event of a dispute in court. This value, as well as provisions for individual disputes, are included in the Bank's consolidated statement of financial position under item: Provisions.

As at September 30, 2022, the Bank was sued in 64 cases relating to a CHF-indexed loan for a total amount of approximately PLN 22.0 million. Five cases were legally lost and the Bank decided to file two cassation appeals. Most of the cases are in the first instance.

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

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 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.

The Group constantly monitors and estimates provisions for legal risk resulting from the ruling of the CJEU regarding the reimbursement of commissions for prepaid consumer loans and updates the possible amount of cash outflow as reimbursement of consumer loan commissions.

As of September 30, 2022, the Bank was sued in 903 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 3.9 million.

## **25 Information about significant transactions with related entities on non-market terms**

In the third quarter of 2022, the Bank and its subsidiaries entered into transactions with related entities. All transactions with related entities were dealt on market terms.

## **26 Information about significant guarantee agreements**

In the third quarter of 2022 Bank and its subsidiaries did not grant guarantee – jointly to one entity or a subsidiary of that entity, which total value would be significant.

## **27 Significant events after the balance sheet date not included in the financial statements**

On November 7, 2022, the Bank's Management Board adopted a resolution on the adoption of changes to the remuneration policies in force at the Bank. The proposed changes consist in replacing the instrument of phantom shares used in the Bank so far as a variable remuneration element of "Eligible Persons" (persons whose professional activity has a significant impact on the Bank's risk profile) with the existing shares in the Bank's share capital. The proposed changes assume, inter alia, issuing to eligible persons own shares previously acquired by the Bank. The Management Board expects that for the purposes of issuing treasury shares it will buy a total of no more than 850 thousand shares, representing in total no more than 0.65 percent. total number of votes at the General Meeting. Details regarding the proposed changes are described in the current report No. 29/2022 of November 7, 2022.

The introduction of the above changes requires the appropriate approvals of the Bank's Supervisory Board, the Bank's General Meeting and the Polish Financial Supervision Authority.

## **28 Factors and events which could affect future financial performance of the Bank's Capital Group**

The most significant risk driver in 2022 is still the war between Russia and Ukraine. The escalation of the conflict has led to record-high commodity prices and also forced the largest EU economies, including Poland, to find new sources of imports. The lack of appropriate infrastructure to replace previous energy sources with supplies from other countries in such a short time, coupled with high commodity prices, may lead to higher inflationary pressure and deterioration or, in the worst-case scenario, even to a deep breakdown of economic trends.

The slowdown in Poland's economy can be deeper than forecast by the Group if the recession in the eurozone turns out to be more significant or the slowdown in China and the U.S. is deeper. In such a case, a higher risk premium expected by foreign investors may lead to a significant increase in debt servicing costs and, in consequence, to a bigger fiscal deficit in 2023. A deterioration in the state budget is one of the risk factors and can also materialize as a result of slowdown in the economy and costs of protective measures during the energy shock. In this scenario, tax increases in certain sectors are possible.

Still-high inflation generates a risk of the wage-price spiral. Further interest rate hikes could lead to expansion of assistance programs that support borrowers at the expense of the banking sector. On the other hand, if the MPC opts for no further hikes and inflation is higher for a longer time, Poland's currency can continue to decline versus the euro. And this in turn can lead to an increase in the foreign-currency debt of both private and public sector and reinforce imported inflation.

A potential threat to the global economy is also the possibility that interest rate hikes by the U.S. central bank will be higher than it is currently expected. In this case, the appreciation of the U.S. dollar might accelerate the outflow of capital from emerging markets, including Poland.

## Interim condensed standalone financial statements of the Bank for the third quarter of 2022

### Condensed income statement

PLN '000	For the period	III quarter	III quarter	III quarter	III quarter
		period from 01.07.22 to 30.09.22	accruals period from 01.01.22 to 30.09.22	period from 01.07.21 to 30.09.21	accruals period from 01.01.21 to 30.09.21
Interest income		884,320	2,082,820	165,878	514,996
Similar income		38,806	99,196	11,163	34,668
Interest expense and similar charges		(192,773)	(340,217)	(7,938)	(14,960)
<b>Net interest income</b>		<b>730,353</b>	<b>1,841,799</b>	<b>169,103</b>	<b>534,704</b>
Fee and commission income		162,522	492,696	168,137	494,046
Fee and commission expense		(28,051)	(71,464)	(17,977)	(57,603)
<b>Net fee and commission income</b>		<b>134,471</b>	<b>421,232</b>	<b>150,160</b>	<b>436,443</b>
Dividend income		785	36,816	-	32,896
Net gain/(loss) on trading financial instruments and revaluation		99,943	559,232	131,364	335,455
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income		(199,713)	(235,475)	-	459,106
Net gain/(loss) on equity investments and other measured at fair value through income statement		4,351	7,912	385	4,326
Net gain/(loss) on hedge accounting		66	(1,656)	1,343	1,364
Other operating income		4,195	17,309	5,067	15,721
Other operating expenses		(17,278)	(33,186)	(9,065)	(25,334)
<b>Net other operating income</b>		<b>(13,083)</b>	<b>(15,877)</b>	<b>(3,998)</b>	<b>(9,613)</b>
General administrative expenses		(277,696)	(925,949)	(239,360)	(813,589)
Depreciation and amortization		(25,648)	(77,480)	(28,699)	(84,668)
Profit on sale of other assets		(119)	2,847	(19)	(452)
Provisions for expected credit losses on financial assets and provisions for contingent liabilities		(34,949)	(56,090)	(18,674)	(34,553)
Tax on certain financial institutions		(53,495)	(157,959)	(40,300)	(115,193)
<b>Profit before tax</b>		<b>365,266</b>	<b>1,399,352</b>	<b>121,305</b>	<b>746,226</b>
Income tax expense		(80,431)	(308,137)	(29,840)	(183,571)
<b>Net profit</b>		<b>284,835</b>	<b>1,091,215</b>	<b>91,465</b>	<b>562,655</b>
Weighted average number of ordinary shares (in pcs)			130,659,600		130,659,600
Earnings per share (in PLN)			8.35		4.31
Diluted net earnings per share (in PLN)			8.35		4.31

## Condensed statement of comprehensive income

PLN '000	For a period	III quarter	III quarter accruals	III quarter	III quarter accruals
		period from 01.07.22 to 30.09.22	period from 01.01.22 to 30.09.22	period from 01.07.21 to 30.09.21	period from 01.01.21 to 30.09.21
<b>Net profit</b>		284,835	1,091,215	91,465	562,655
<b>Other comprehensive income, that is or might be subsequently reclassified to income statement:</b>		123,569	(472,511)	(8,545)	(461,619)
Remeasurement of financial assets measured at fair value through other comprehensive income (net)		(38,199)	(663,246)	(8,545)	(89,743)
(Profit)/Loss reclassification to income statement after derecognition of financial assets measured at fair value through other comprehensive income (net)		161,768	190,735	-	(371,876)
<b>Total comprehensive income</b>		<b>408,404</b>	<b>618,704</b>	<b>82,920</b>	<b>101,036</b>



## Condensed statement of financial position

	as at	30.09.2022	31.12.2021
<i>PLN '000</i>			
<b>ASSETS</b>			
Cash and balances with the Central Bank		9,059,103	6,526,743
Amounts due from banks		1,836,742	967,663
Financial assets held-for-trading, including:		10,683,481	9,876,922
Hedging derivatives		-	119,290
Debt investment financial assets measured at fair value through other comprehensive income, including:		26,437,280	20,590,284
<i>Assets pledged as collateral</i>		700,974	748,763
Shares in subsidiaries		91,822	91,942
Equity investments and other measured at fair value through income statement		105,108	97,026
Amounts due from customers		21,758,760	21,187,157
Tangible fixed assets		445,666	450,599
Intangible assets		1,253,534	1,241,499
Current income tax receivables		-	54,721
Deferred tax asset		266,933	263,605
Other assets		390,696	207,987
Non-current assets held-for-sale		-	6,163
<b>Total assets</b>		<b>72,329,125</b>	<b>61,681,601</b>
<b>LIABILITIES</b>			
Amounts due to banks		3,694,321	3,383,236
Financial liabilities held-for-trading		9,376,954	6,586,932
Amounts due to customers		50,500,863	43,495,543
Provisions		122,336	141,714
Current income tax liabilities		9,357	-
Other liabilities		1,422,085	758,136
<b>Total liabilities</b>		<b>65,125,916</b>	<b>54,365,561</b>
<b>EQUITY</b>			
Ordinary shares		522,638	522,638
Share premium		2,944,585	2,944,585
Revaluation reserve		(784,529)	(312,018)
Other reserves		2,804,045	2,802,781
Retained earnings		1,716,470	1,358,054
<b>Total equity</b>		<b>7,203,209</b>	<b>7,316,040</b>
<b>Total liabilities and equity</b>		<b>72,329,125</b>	<b>61,681,601</b>

## Condensed statement of changes in equity

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2022</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(312,018)</b>	<b>2,802,781</b>	<b>1,358,054</b>	<b>7,316,040</b>
Total comprehensive income, including:	-	-	(472,511)	-	1,091,215	618,704
Net profit	-	-	-	-	1,091,215	1,091,215
Net changes in value of financial assets measured at fair value through other comprehensive income	-	-	(472,511)	-	-	(472,511)
Dividends paid	-	-	-	-	(714,708)	(714,708)
Effect of intragroup transformations	-	-	-	-	(16,827)	(16,827)
Transfer to capital	-	-	-	1,264	(1,264)	-
<b>Balance as at 30 September 2022</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(784,529)</b>	<b>2,804,045</b>	<b>1,716,470</b>	<b>7,203,209</b>

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2021</b>						
Total comprehensive income, including:	-	-	(461,619)	-	562,655	101,036
Net profit	-	-	-	-	562,655	562,655
Net changes in value of financial assets measured at fair value through other comprehensive income	-	-	(461,619)	-	-	(461,619)
Dividends paid	-	-	-	-	(156,791)	(156,791)
Transfer to capital	-	-	-	1,294	(1,294)	-
<b>Balance as at 30 September 2021</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(11,602)</b>	<b>2,799,092</b>	<b>1,204,737</b>	<b>7,459,450</b>

PLN '000	Ordinary shares	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total equity
<b>Balance as at 1 January 2021</b>	<b>522,638</b>	<b>2,944,585</b>	<b>450,017</b>	<b>2,797,798</b>	<b>800,167</b>	<b>7,515,205</b>
Total comprehensive income, including:	-	-	(762,035)	3,689	715,972	(42,374)
Net profit	-	-	-	-	715,972	715,972
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	(762,035)	-	-	(762,035)
Net actuarial profits/(losses) on specific services program valuation	-	-	-	3,689	-	3,689
Dividends paid	-	-	-	-	(156,791)	(156,791)
Transfer to capital	-	-	-	1,294	(1,294)	-
<b>Balance as at December 2021</b>	<b>522,638</b>	<b>2,944,585</b>	<b>(312,018)</b>	<b>2,802,781</b>	<b>1,358,054</b>	<b>7,316,040</b>

## Condensed summary statement of cash flows

PLN '000	For a period	III quarter accruals	III quarter accruals
		period from 01.01.22 to 30.09.22	period from 01.01.21 to 30.09.21
<b>Cash at the beginning of the reporting period</b>		<b>6,566,543</b>	<b>4,519,581</b>
Cash flows from operating activities		3,555,045	10,975,096
Cash flows from investing activities		(42,482)	(8,654)
Cash flows from financing activities		(723,398)	(165,637)
<b>Cash at the end of the reporting period</b>		<b>9,355,708</b>	<b>15,320,386</b>
<b>Increase/(decrease) in net cash</b>		<b>2,789,165</b>	<b>10,800,805</b>

## Condensed additional information

### 1. Declaration of conformity

These interim condensed standalone financial statements have been prepared in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting*, adopted by European Union and with other applicable regulations.

These interim condensed standalone financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the standalone financial statements of the Bank for the financial year ended 31 December 2021 and interim condensed consolidated financial statements of the Group for the third quarter of 2022.

In accordance with Decree of the Ministry of Finance dated 29 March 2018 regarding current and periodic information provided by issuers of securities and the requirements for recognition of information required by the law of a non-Member State as equivalent (Official Journal from 2018, item 757, as amended) the Bank is obliged to publish its financial results for the 9-month period ended 30 September 2022 which is deemed to be the current interim financial reporting period.

### 2. Significant accounting policies

Interim condensed standalone financial statements of the Bank for the third quarter of 2022 have been prepared in accordance with the Decree by virtue of which the issuer, being a parent entity, is not obliged to provide interim separate financial statements, on condition that it includes in the interim consolidated financial statements consisting of balance sheet, profit and loss account, statement of changes in equity, cash flow statement and condensed supplementary notes, comprising of information and data significant for the assessment of the issuer's financial standing and its profit or loss, but not presented in the interim consolidated financial statement. In addition, it's required to prepare the interim condensed financial statements in accordance with accounting principles adopted in the preparation process of the annual financial statements including changes described in condensed consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie SA for the third quarter of 2022.

Principles adopted in the preparation process of these interim condensed standalone financial statements are consistent with the principles, described in the annual standalone financial statements of the Bank for the financial year ended 31 December 2021 taking into account the changes described in the interim condensed consolidated financial statements of the Group for the third quarter of 2022.

Other information and explanations presented in interim condensed consolidated financial statements for the third quarter of 2022 contain also all information and explanatory data essential for these interim condensed standalone financial statements.

The summary of Bank's financial results for the third quarter of 2022 is presented below.

### Bank's financial results

In the third quarter of 2022, the Bank generated a profit before tax of PLN 365.3 million, compared to PLN 121.3 million in the corresponding period of 2021 (i.e. increase by PLN 244.0 million YoY).

Net profit earned in the period from July to September 2022 amounted to PLN 284.8 million compared to PLN 91.5 million of net profit in the corresponding period of 2021.

The net profit of the Bank in the third quarter of 2022 was driven mainly by higher interest income, which are a consequence of a series of interest rate increases by the Monetary Policy Council, higher FX income and the activity of clients from the Institutional Banking segment (increase in loan volumes by 4% YoY). At the same time, this result is lower by PLN 242.9 million (i.e. 46.0%) as compared to the second quarter of 2022, which is mainly a consequence of negative result on treasury activities (which is the sum of the result on treasury activities (which is the sum of the result on trading financial instruments and revaluation, as well as the result on debt investment financial assets measured at fair value through other comprehensive income) recorded in the third quarter of this year as a result of repositioning the balance sheet in accordance with the strategy.

The interim condensed consolidated financial statements for the third quarter of 2022 will be available on the website of Bank Handlowy w Warszawie SA. [www.citihandlowy.pl](http://www.citihandlowy.pl).

Urszula Lewińska  
Director of Financial Reporting,  
Control and Tax Department

10.11.2022

*(signed in Polish version)*

Natalia Bożek  
Vice-President of  
Management Board

10.11.2022

*(signed in Polish version)*





[www.citihandlowy.pl](http://www.citihandlowy.pl)  
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