

Description of the Internal Control System

Bank Handlowy w Warszawie S.A. (further „the Bank”) possess internal control system, adequately adjusted to the Bank’s organisational structure, risk profile and the scale of operations, covering all the Bank’s organisational units.

Internal Control System’s Objectives.

Internal control system objective is to support Bank’s Management decision making process, further supporting achievement of following general objectives:

- effectiveness of the Bank’s activities;
- credibility of financial reporting;
- observance of risk management principles in the Bank;
- compliance of the Bank’s activities with laws, internal regulations and market standards.

Role of the Management Board, Supervisory Board and Audit Committee

The Bank’s Management Board is responsible for design, implementation and ensuring functioning of adequate and effective internal control system within the Bank and its subsidiaries.

The Bank’s Management Board carries out activities which aim to ensure that the internal control system operates continuously and effectively, contributing to achievement of its objectives, in particular by ensuring prudent and stable operation of the Bank by appropriate control of risk types surrounding banking operations, providing reliable financial and non-financial information both within and outside the Bank, ensuring organizational structure adjusted to volume and profile of taken risk and enabling effective execution of tasks, implementing necessary corrections and enhancements to management system in case of change of risk profile within Bank activities, economic environment factors, identification of weaknesses in internal control system functioning and ensuring compliance of the Bank with applicable laws, internal regulations and regulatory requirements.

The Supervisory Board oversees implementation of adequate and effective internal control system and risk management system, and assesses its adequacy and effectiveness, with consideration of adequacy and effectiveness of control function, Compliance Department and Audit Department, as well as effectiveness of compliance risk management. In this respect, the Supervisory Board performs its functions through the Audit Committee and the Risk and Capital Committee, respectively. The Audit Committee supervises the activities of the Compliance Department and Internal Audit Department. The detailed scope of operation of the Committees, their competences and mode of work are defined in relevant Regulations of the committees.

Supervisory Board approves criteria for the assessment of adequacy and effectiveness of internal control system, rules for categorizing weaknesses identified by internal control system, performs annual assessment of adequacy and effectiveness of control system, including annual assessment of adequacy and effectiveness of control function, Compliance Department and Internal Audit Department.

Applied three lines of defense organizational scheme within the Bank’s organizational structure.

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

- Level 1 - Organizational units responsible for business activities resulting in risk taking and for risk management in the Bank's operational activity, as well as for risk identification and reporting to 2nd line of defence,
- Level 2 risk management by employees at specially designated positions or in Organizational units, independently from the risk management at the first Level, and compliance; organizational unit or employees responsible for establishing standards for the risk management in the scope of risk identification, measurement or estimation, mitigation, control, monitoring and reporting as well as control functions responsible for development of rules and standards for the management of particular categories or areas of risk and for overseeing the control mechanisms applied by other organizational units to mitigate the risk,
- Level 3 i.e.: Internal Audit that provide an independent assessment of risk management processes and internal control system.

Control function, including the most frequently applied control mechanisms and their independent monitoring.

Control function is composed of:

- Control mechanisms within processes existing in the Bank, executed by positions, groups of people or organizational units, responsible for observance to control mechanisms, including continuous activities
- Independent monitoring of abidance of control mechanisms, especially independent testing, executed by dedicated people or specialized organizational units consisting of examining, analysing and assessing internal processes, recommending action plans to the Bank's organizational units' current activities,
- Reporting within the control function.

Control mechanisms utilized by the Bank cover: principles, limits and procedures, segregation of duties, acceptance and authorizations system, access control, physical control, financial or economic transactions' recording in accounting, reporting or operational system, data inventory and reconciliation, exceptions, excesses, deviations, exceptions documenting and analysis, key process indicators, risk measurement, monitoring and control segregation from operational activities, training, self-control, independent control mechanisms executed by designated first line organizational units, independent control mechanisms executed by second line of defense organizational units, verification of data quality, authenticity, correctness, completeness and integrity, automated control mechanisms, semi-automated control mechanisms, clients' and transactions' monitoring, physical collateral monitoring, checklist, transactions' confirmations independent monitoring, call-backs, claims and complaints monitoring, monitoring and escalation of issues and corrective actions, contingency and continuity of business plans regular verification and testing, IT/IS environment control mechanisms and management information system.

Compliance and Audit Departments' location within the organization, scope of responsibilities and independence.

Compliance Department and Audit Department constitute separate organizational units, functioning within Bank's organizational structure and reporting directly to the President of the Management Board.

The persons managing the Compliance Department and Audit Department are entitled to communicate directly and report to the Management Board and Audit Committee.

The main objective of the compliance unit is ensuring Bank Handlowy w Warszawie S.A. (Bank) compliance with law, by-law, regulatory requirements applicable to the Bank's activity or financial services provided by the Bank, internal regulations and available market practices and standards, as well as Citi best practices.

The role of compliance is to ensure compliance through following tools: (1) vertical monitoring of use of control mechanism through first line of defense and use of assigned to compliance control mechanisms of second line of defense (Compliance control mechanisms) and horizontal monitoring of use of these mechanisms and (2) non-compliance risk management. Processes of non-compliance risk management include: identification, assessment, control, monitoring of risk exposure and profile, testing, reporting.

The main responsibility of Audit Department is to examine and assess (independently and objectively) the adequacy and effectiveness of the Internal Control System and to evaluate the Bank's management system, including the effectiveness of managing risk connected with the activity of the Bank and its subsidiaries.

Bank ensures independency of Internal Audit Department and Compliance Department by applying following mechanisms:

- Management Board and Supervisory Board approve Regulations of Internal Audit Department and Compliance Department,
- Heads of Internal Audit and Compliance Departments have a direct contact with Management Board and Supervisory Board members ensured,
- Heads of Internal Audit and Compliance Departments or their replacements attend Management Board meetings,
- Heads of Internal Audit and Compliance Departments or their replacements attend Supervisory Board and Audit Committee meetings in case agenda includes internal control system, compliance, internal audit or risk management topics,
- appointments of Internal Audit and Compliance Department Heads requires Supervisory Board approval,
- dismissing of Internal Audit and Compliance Department Heads requires Supervisory Board approval after they are heard by Supervisory Board,
- detailed procedure of controlling remuneration of people employed in Internal Audit unit and Compliance unit, ensuring independency and objectivity in fulfilling their tasks and enabling employment of people with adequate qualifications, experience and skills, described in § 40 p. 1 and 2 of Minister of Development and Finance Decree of 6 March 2017 on risk management system and internal control, remuneration policy and particular methods of calculating internal capital in banks ("Resolution"),
- mechanisms protecting Internal Audit and Compliance Departments employees against unjustified employment agreement termination,
- in case of changes on the position of Internal Audit Department Head or Compliance Department Head Bank informs Polish Financial Supervision Authority without delay and points a reason of change,
- Internal Audit Department cannot be combined with other organizational units, roles and positions in the Bank. Department employees cannot perform other activities than those resulting from its Regulations,
- Compliance Department cannot be combined with other organizational units, roles and positions in the Bank. Department employees cannot perform other activities than those resulting from its Regulations.

Accepted by the Bank internal control system's adequacy and effectiveness assessment criteria

Internal control system's adequacy and effectiveness is assessed with consideration of management information system reports, self-assessment reports, control environment's assessment submitted by Internal Audit and criteria correlated with ratings' scores assigned within internal control system.

Rules of annual internal control system's adequacy and effectiveness assessment by Supervisory Board.

Supervisory Board conducts annual internal; control system's adequacy and effectiveness Assessment, including annual adequacy and effectiveness of assessment of control function, Compliance Department and Audit Department, based on reports submitted to the Supervisory Board within management information system and Audit Committee's opinion.