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REPORT ON ACTIVITIES OF THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. IN THE FIRST HALF OF 2019

AUGUST 2019

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I. Introduction

1. Description of activities of Bank Handlowy w Warszawie S.A.

Bank Handlowy w Warszawie S.A. (further "Bank" or "Citi Handlowy") is strategically focused on its defined target market comprising the areas of Institutional Banking and Consumer Banking.

In the institutional client segment, Citi Handlowy focuses on maintaining its leading position among the banks which service international corporations and the largest domestic companies. Enterprises from the SME sector (Small and medium Enterprises) are another group of clients that are important to the Group. Focusing on acquiring new clients while actively expanding relations with existing clients in selected sectors as well as providing support to clients planning international expansion (the Emerging Market Champions initiative) are keys to further building the Group's market position. The goal of the Group is to be the Strategic Partner for Polish companies and to actively support the expansion of Poland's industry. This is clear from the range of products offered by the Bank in which foreign exchange transactions and products related to trade finance and guarantees occupy an important place. Additionally, the Bank strives to maintain its status as one of the safest places for institutional clients to deposit their savings, providing many useful modern solutions related to operating accounts and the day-to-day management of corporate finances.

The Bank's stable capital position as well as its outstanding network of international contacts are also appreciated by consumers. The Bank uses this competitive advantage to strengthen its leading position in the affluent banking segment. To this end, the Bank continues to develop products for Citigold clients and its unique offering launched at the end of 2015 for the most affluent clients – Citigold Private Client. In the consumer segment, the Bank focuses on investment products and its unique ways of rewarding those clients who decide to use the Bank's online wealth management products. The Bank's international connections enable it to expand the range of products offered to consumers by providing them with a unique global banking experience.

The Bank also stresses the importance of other groups of consumers, and especially so-called aspiring clients for whom the Bank is developing the special Citi Priority range of products. Citi Handlowy enhances the package solutions offered to this segment, tightening the clients' deposit relations with the Bank and at the same time addressing their need for loans.

Moreover, Citi Handlowy is the unquestioned leader of the credit card market, since it offers products from the global Citi product range, which are accepted all over the world and offer exceptional value for the client, e.g. in the form of loyalty programs. The Bank's objective will be also to increase the market share of unsecured loan products by meeting the credit needs of the growing number of clients with a competitive offering of cash loans or hire purchase products as well as innovative, fast processes.

The Bank's brokerage house (Dom Maklerski Banku Handlowego S.A., further DMBH) is among the most active participants of the Polish capital market and a leading player in terms of share in Warsaw Stock Exchange turnover.

Major achievements in the first half of 2019 include:

- **Strong client business growth in Institutional Banking:**
  - Affirmation of the leading position in strategic areas, FX: volume growth by 23% YoY and custody services: asset value growth +4% YoY;
  - Bank of the first choice for global clients: lending growth by 21% YoY;
  - Focus on relationship banking thanks to the development of transactional banking: current account balances growth by 9% YoY
- **Good first half of the year in Consumer Banking:**
  - A wide-ranging offer (Citi Specials) in the area of credit cards adjusted to individual needs of customers led to an increase in transaction volumes by 3% YoY, moreover, the number of transactions made outside of Poland increased by 9% YoY, which confirms the international aspirations of the Bank's clients;
  - A significant increase in the number of transactional clients in the strategic target group Citigold and Citi Private Client by 7% YoY, thanks to growing current account volumes by 9% YoY.
- **Bank consistently focuses on digital customer service and increases automation in its internal processes:**
  - Increase in the volume of cash loans sold via the Internet by 60% YoY;
  - Increase in the share of online credit card sales by 5 pp to 41% as of the end of June 2019;
  - Threefold increase in the volume of transactions made via Google Pay;
  - Implementation of the updated online banking system for institutional clients used for digital exchange of documents with the Bank.
- **High customer revenue[1] at the level of PLN 826 million** supported by high business volumes. In Consumer Banking segment customer revenue went up by 3% YoY due to higher loan volumes by 4% YoY, including cash loans by 8% YoY.

[1] Customer revenue: sum of net interest income from non-banking sector, net fee and commission income and FX revenue

- **Operating expenses under control[2],** despite bigger investments in technology by 5% YoY, among others, through the launch of a new credit card module in Citi Mobile app.
- **In accordance with the proposed profit distribution adopted in the Bank's Strategy for 2019-2021, the Bank paid out dividend** to its shareholders in the amount of **75% of the profit for 2018. Dividend rate** amounted to **6%.**
- **Thanks to the unique organizational culture of the Bank,** the employee volunteering initiative supporting local communities ended in another success (the largest employee volunteering program in Poland).
- **Yet again, the Bank emphasized its great social involvement** with volunteering initiatives. The Bank's support reached 46,000 beneficiaries. Under 200 projects, the Bank's employees were active in the following areas: improvement of living conditions, digital education and ecology.

2. Development prospects for the Bank Handlowy w Warszawie S.A.

2.1 General development objectives of the Group

In December 2018, the Supervisory Board of the Bank approved the new Strategy of Bank Handlowy w Warszawie S.A. Group for 2019 - 2021. The key assumption of the Strategy is to expand client operations. In order to achieve this object the Group will implement new strategic initiatives in the segments of institutional and retail clients. Simultaneously, it is going to use existing competitive advantages to achieve growth in the following areas: unsecured retail loans, foreign exchange and cash management, Wealth Management services and services for clients looking for a global financial partner.

This is a good moment for the Group to increase its growth rate. It is possible thanks to its strong capital position and a good quality of its credit portfolio, and also high liquidity, which make a good launch pad for healthy growth. In addition, a significant competitive advantage is the global range and unique proposal for clients running international operations, travelling and investing in global markets. A vital success factor of the new strategy is also trust the clients have in the Group.

The Group will develop context banking in both corporate and retail dimension. One of the strategic target groups will be the Economy of the Future companies, with high growth potential (so called MME plus). The Group will deliver them comprehensive financial solutions to enable them to rapidly adapt their business models to the changing scale of activities. And individual clients will receive precisely tailored solutions exactly when they may need them. As a result of consistent investments in data management, the Group will provide its clients with solutions which meet their current needs, and will share its knowledge of international markets with dynamically growing companies to enable them to scale up their business.

The Bank will use and develop new technologies (for example in the area of artificial intelligence, machine learning, biometry or big data) to increase the effectiveness of its activities to reach to clients and to improve the quality of its services. Additionally, the Group will focus on the further digitization and streamlining of documentation and on the automation of processes, both in the area of client communication and its internal procedures.

The strategy of the Group for 2019-2021 includes a new organizational culture as one of its key elements. The Group will implement initiatives aimed at making significant changes to introduce more flexible working hours and workplace, to reinforce intergenerational dialogue, to promote a culture of acceptance of diversity in teams, to ensure work-life balance, to create new development paths, for example by increasing workforce mobility in the Group and Citi, and to strengthen the culture of recognition for everyday successes and achievements.

2.2 Institutional banking

In the Institutional Banking segment, the Bank is a leading provider of services to international corporations and the largest local companies. The segment strategy envisages initiatives to increase revenues from client operations. The most important initiatives in that area include a change of attitude to cooperation with fast growing companies of the new economy (MME+). These are businesses which want to grow beyond any limits and search for more complex banking solutions. The Bank offers such clients multi-product solutions which can meet their expectations (for example in the area of capital markets, debt instruments or international cash management) and is ready to provide appropriate financing. Using advanced data analysis techniques, the Bank is able to identify such companies at an early stage of development and offer them appropriate solutions, also on the basis of its global nature and know-how derived from many markets in the world. In addition, the Group discerns a significant potential to increase its revenues by participating in transformational transactions carried out by the largest corporate clients, also with involvement of private equity funds (e.g. LBO, IPO or M&A transactions). The Group also wants to maintain its leading position in the segment of global companies.

2.3 Brokerage activity

A key factor that contributes to DMBH's performance is the investment activity of institutional investors, which in turn depends on the equity market situation and inflows of funds. After 10 years of the global upward trend in the capital markets, we are now in the period of temporary declines. The Bank expects that 2020 will bring an improvement in the situation and the introduction of Employee Capital Plans (PPK) should positively affect Poland's capital market (the full implementation of PPK should be fully completed 2021).

[2] Operating expenses excluding the Bank Guarantee Fund charges

Simultaneously with regulatory changes (including in particular MIFID II), the concentration and share of remote members of the Warsaw Stock Exchange is on the rise. The largest actors compete more and more aggressively in the institutional client segment, which, historically, was the main area of operations of DMBH. DMBH implements technology projects aiming at further automation and improvement of processes and development towards solutions which ensure the cost effective service of local and international institutional clients which are interested in algorithmic trading and high-volume transactions.

In the face of changes in the market of brokerage services for institutional clients, the Group perceives as particularly important the development of the retail client segment, where it discerns various opportunities to continue activities to improve the effectiveness of cooperation between DMBH and the Bank.

Another vital area is capital market operations, where the Group wants to actively participate in IPO and SPO transactions.

2.4 Consumer banking

In 2019, the Bank will continue its strategy with regard to client segmentation and business model. According to its plans, the Bank will expand its products and services so that it can provide the highest value possible and meet, to the maximum extent, the financial needs of its clients in the target segments. The Bank will also continue the strategy of digitization of its products and services, by offering innovating and tailored solutions to its clients.

One of its strategic goals will be activities to strengthen its leading position in the affluent client segment. Aim-driven, the Bank will continue to develop its offer for Citigold clients and a unique offer - Citigold Private Client, which was launched at the end of 2015 for the most affluent clients – Citigold Private Client (CPC). The Bank is going to increase the portfolio of clients from those segments by proactive acquisition and reinforcement of relationships with existing clients. The Bank wants to enhance the product range for those clients, both in the traditional channel served by relationship managers and on electronic platforms. The Bank will review and update benefits offered to clients to ensure they represent the best response to their changing needs. For those client groups, the Bank will also continue cooperation with other Citi companies throughout the world in order to provide top quality services in the area of global banking.

The Bank will be still focused on acquisition of so called emerging affluent clients, by developing the Citi Priority offer, dedicated to that segment. Emerging affluent clients will have an opportunity to get to know a broad range of advisory services and products.

Moreover, the Bank will strive to strengthen the position of a leader in credit cards with access to products from Citi global range, accepted worldwide and providing exceptional value to the client, such as CitiSpecials Program. In 2019, the Bank will also start a strategic partnership program. The Bank wants to use strategic partnerships to raise the value created for clients and, by this, to considerably increase its acquisition of new clients.

In 2019, the Bank will also aim at strengthening its market share in non-secured credit products by satisfying lending needs and increasing the number of clients relying on its competitive cash loan or instalment product offer.

The Bank intends to continue its strategy in the area of retail branches, which will be concentrated in the largest cities throughout Poland. Simultaneously, the Bank will continue investing in its electronic platforms as its main client service channel and a more and more important source of new clients. In 2019, the Bank will offer its client a new mobile application and will start a fully-automated process for sales of credit cards and cash loans. The process will use biometric facial recognition for authentication purposes.

The Bank will continue initiatives which are to automate banking operations with the aim to optimize costs and improve client experience thanks to shorter and simplified processes.

In 2019, one of the key challenges and strategic goals of the Bank will be business preparations for the implementation and use of potential benefits arising from PSD2.

3. Awards and honors

In the first half of 2019, the Bank, DMBH and the Leopold Kronenberg Foundation at Citi Handlowy received a number of prestigious titles and awards:

- Citi Handlowy keeps the title of **"Super Ethical Company"**, granted in the competition organized by the *Puls Biznesu* magazine. Only eight other companies have been granted a right to use this title. The contest is to reward brands for which ethical conduct is a key and indispensable element of their presence in the market. From the first edition of the contest, Citi Handlowy has been ranked among its winners, i.e. companies that are the most proactive in building and reinforcing an organizational culture founded on ethics and values using the most comprehensive and systemic approach in the process.
- Citi Handlowy was named once again the **Leader of Treasury BondSpot Poland Market** regarding turnover on the bond spot market.
- Dom Maklerski Banku Handlowego (Brokerage House of Bank Handlowy) was awarded for **the highest share of a local Stock Exchange Member in session trading in shares on the WSE's Main Market**.
- Citi Handlowy was rewarded, again, by **Euromoney**, a prestigious British financial magazine. In the current issue of the annual study of the private banking market, the Bank received recognition in three categories: *Asset Management, Family Office Services and Advisory services and analysis regarding asset allocation*.
- In the ranking of the **Forbes** magazine, Citi Handlowy once again received **5 stars** for private banking, in which the Bank emphasizes the global nature of its offer, dedicated to clients engaged in business activity all over the world. This trend was very well supported by its original offer for business related to e-commerce, and a clear strengthening

of the investment offer based on investment advice. The Citigold Private Client clients can use, inter alia, an investment platform with a multitude of domestic and foreign investment funds and the wealth management service via Citi Private Bank in London.

- Yet again, the jury of the prestigious **"Golden Banker"** ranking recognized Citi Simplicity Credit Card as the best card in the market. Citi Handlowy received its fourth consecutive Golden Banker statue in the Credit Card category of the ranking "Golden Banker 2019", organized by Puls Biznesu and Bankier.pl. For four years, the credit card of Citi Handlowy has had no competition in its category.
- This year's **17th edition of the report prepared by the Responsible Business Forum features not less than 20 CSR initiatives of Citi in Poland.** The "Responsible Business in Poland. Good Practices" publication is the only elaboration of this kind which sums up the most important CSR initiatives in Poland. As regards long-standing practices, such initiatives were considered, as: The Citi Employee Volunteer Program, survey "Attitudes of Poles Towards Saving" and the new initiatives by Citi Pride Network Poland.
- In the **Responsible Companies Ranking 2019**, organized by Gazeta Prawna, Citi Handlowy was ranked 6th in the overall classification, and 4th in its sector. The ranking covers mature companies, active in the area of CSR.

II. Poland's economy in the first half of 2019

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

External environment

The first half of this year was marked by deteriorating prospects of global growth. This was mainly caused by anxiety about the outcomes of further escalation of the trade war between the United States and China, coupled with surprisingly weak performance of the manufacturing sectors in the eurozone, and especially in Germany. And this in turn spurred market expectations of interest rate reductions by main central banks. Central banks in the United States (Fed) and eurozone (EBC) tempered their comments and expect that market expectations will be partially fulfilled this year by two cuts by Fed and reduction in the deposit rate and the start of another asset purchase program by the EBC.

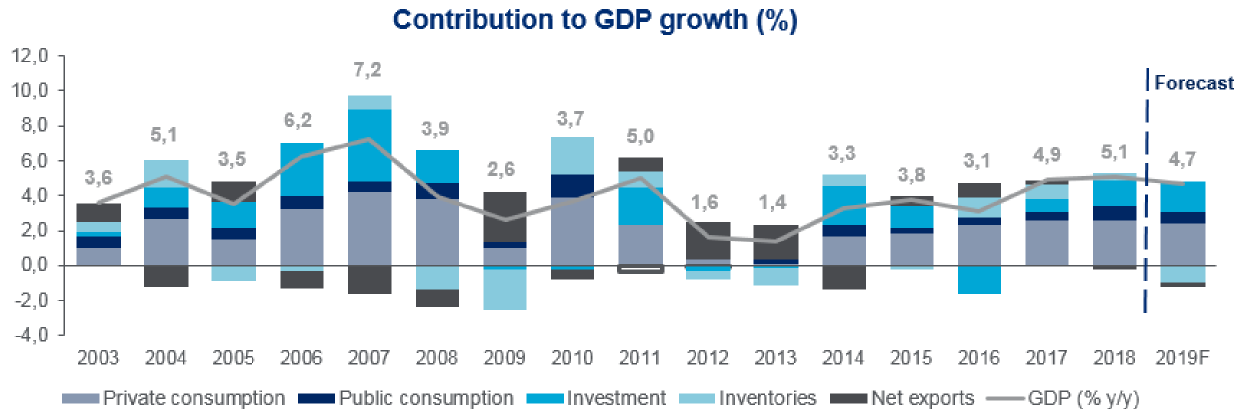
At the same time, the Brexit date, originally the end of March 2019, intensified uncertainty in financial markets. Ultimately, the Brexit date was postponed to the end of October 2019, which calmed the markets down.

From the beginning of this year, the growth forecasts for the global economy for 2019 have been reduced and now we expect a slowdown to 2.8% YoY from 3.2% YoY in 2018.

A more dovish note in comments of main central banks supported both equity and debt markets. As a result the U.S. stock market indices broke record after record, the yield of long-term U.S. treasury bonds declined to the lowest level since fourth quarter 2016 and the yield of German Bunds also dropped to record-low levels.

Gross Domestic Product

Despite weaker performance in the eurozone and a downward revision of GDP growth forecasts, the growth of Poland's GDP in the first half of this year turned out to exceed any expectations from the beginning of the year. In the first quarter 2019, the economy slowed down, but only to 4.7% from 4.9% in the fourth quarter 2018, and in the second quarter GDP growth was probably only slightly below the level achieved in the first months of this year. Monthly economic activity statistics showed a stabilization of growth of manufacturing output and retail sales at about 5.5% in the first half of 2019 and a slowdown in the construction sector to about 9.5% from over 17% in the second half of 2018. Our estimates indicate that the main reason behind the slowdown in the first half of this year was domestic demand. Simultaneously, an exceptionally good performance of trade in goods and services, despite weaker trends in global trade and declining economic results in Germany, positively affected the contribution of net exports. In addition, exports was still supported by the relatively weak zloty. Because of the strong data for the first half of 2019, we expect that the GDP growth rate will only decline to 4.7% y/y in 2019 from 5,1% y/y. We also expect that the second half of this year will see acceleration in private consumption thanks to fiscal transfers under the enhanced 500+ program, distribution of the "13th pension" and reduction in personal income tax rates, with a still good situation in the labor market. Additionally, the inflow of EU funds should maintain a solid trend of capital expenditures.



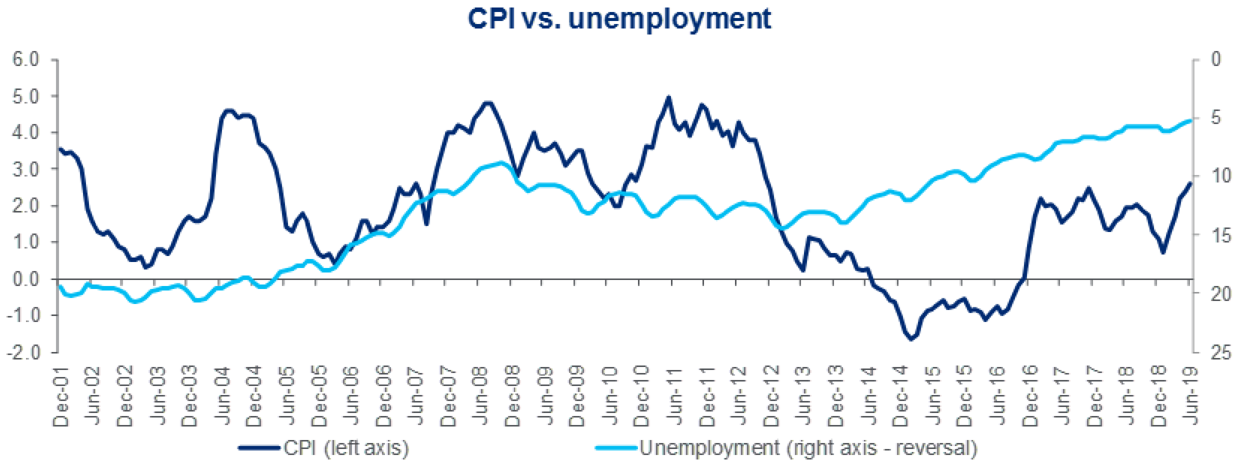
Source: Chief Statistical Offce, Citi Handlowy forecasts

Labour market

The labor market continued to improve and the unemployment rate dropped to 5.3% YoY as at the end of June 2019 from 5.8% YoY as at the end of 2018. Demand for labor was still high and companies signaled big problems to find employees. However, pay pressure in the labor market has already achieved its peak. Nominal increases in salaries and wages in the companies sector slightly slowed down in the second quarter, to 6.7% from 6.9% in the first quarter, as compared to 7.0% in the second half of 2018. In turn, employment growth declined to 2.8% from 3.0% in the first quarter and 3.2% in the second half of 2018. We expect the labor market should stabilize by the end of this year.

Inflation

The growth of prices of consumer goods and services accelerated to 1.8% YoY in the first half of 2019 from 1.6% YoY in the second half of 2018. After a temporary decline to 1.2% YoY in the first quarter of 2019, inflation rose to 2.4% YoY in the second quarter in connection with a significant increase in food prices. We expect that inflation will be gradually increasing to 3% YoY at the end of 2019 and it should exceed the upper limit of the inflation band, i.e. 3.5% in the beginning of 2020 in connection with a likely increase in energy prices. At the same time, we assume the inflation rate will return below 3% in the next months of 2020. We believe that the expected temporary growth of inflation and the anticipated slowdown in the economy, as well as external risks, should translate into a prudent approach of the Monetary Policy Council (MPC) to changes in monetary policy parameters. The MPC has been keeping the interest rates unchanged since March 2015 and in the base case scenario we assume that it will be striving to maintain the rates without any modification as long as possible, perhaps even until the end of its term.



Source: National Bank of Poland, Central Statistical Office, own calculations

2. Money and foreign exchange markets

In the first half of 2019, the rate of the zloty to euro was relatively stable, as in the second half of 2018, with a temporary decline in February and appreciation in June. The improved behavior of the Polish currency at the end of the first half of 2019 was supported by a more doveish stance adopted by main central banks and by expectations that central banks in the U.S. and eurozone will cut interest rates in the face of the headwinds threatening the global economy, coupled with continued commercial tensions between China and the U.S. By the end of June 2019, the zloty appreciated by 1.1% to the euro, which declined to PLN 4.24 from PLN 4.29 as at the end of 2018 and lost 2.6% to the U.S. dollar, to 3,73 from 3,83. However, the EUR/PLN changes were low as compared to fluctuations of other emerging market currencies to the euro. Small changes were also recorded for the EUR/USD rate, which declined by 0.9% from the beginning of the year, to about 1.14 from about 1.15 as at the end of 2018.

The money market rates remained relatively stable during the first half of 2019. The WIBOR 3M rate was 1.72% at the end of June, and remained unchanged as compared to the end of 2018. In turn, swap rates declined deeply, although mainly in the second quarter of 2019, and as a result of increasing external risks and rising fears about global growth and rising market expectations that main central banks should cut interest rates. And this in turn translated into the Monetary Policy Council's decision to continue its dovish stance and reduced the probability, as estimated by the markets, of interest rate hikes in the light of positive surprises in the national economy and inflation growth prospects. As a result, the swap curve became flattened, but also the bond curve was flattened by a drop in the credit spread for long-term bonds. The yield of 10-year bonds declined by 46 bps, to 2.39% as at the end of June 2019 from 2.85% as at the end of 2018. At the same time, the yield of 2-year bonds increased, which was caused by a drop in demand from investors and an increase in inflation.

3. Capital market

The first half of 2019 saw changeable moods in the stock market. The signals that appeared early in the year, on possible appeasement of the trade conflict between the USA and China, supported positive tendencies in the global financial markets. However, the lack of real agreement cooled the moods down in the subsequent months. Only as late as June did some dovish comments by EBC and FED appear, suggesting possible reductions of interest rates, which led to improved sentiment in the global markets, and that supported also the improvement of companies' share prices at the Warsaw Stock Exchange.

In consequence, almost all main indices recorded growth during the first six months of this year. From the beginning of the year, the WIG – the broadest market index – grew by 4.3%. During the same time WIG20 (for companies with the highest capitalization) improved its results by 2.2%, while the index of medium-sized companies, the mWIG40, gained 4.4%. A two-digit growth rate (+11.8%) was recorded by the index of companies with the smallest capitalization, the sWIG80.

Among the sector-specific sub-indices, the following are worth mentioning: WIG-Games (covering companies from the gaming sector) and WIG-Telecommunication, which improved their results since the beginning of the year by 52.8% and 40.9%, respectively. On the other hand, during the first half of the year the supply pressure affected primarily the fuel sector (-15.7%) and the power sector (-7.1%).

During the first half of 2019, the domestic market of public offerings remained stagnant. During that time, four new companies were brought into trading on the WSE Main Market (of which three transferred from the alternative New Connect market), and the value of initial public offerings dropped to PLN 45.2 million (as compared to PLN 279 million during the same period of the previous year). At the same time, shares of 9 companies were removed from trading at the WSE. In consequence, at the end of June the number of companies listed on the Main Market fell, year-on-year, by 13 entities, to 460 companies (of which 50 are foreign companies).

Since the beginning of the year, the total market value of all companies listed at the WSE rose by 3% to the level of PLN 1,162 billion (domestic companies accounted for 51% of the capitalization), whereas on the annual basis it fell by more than 5%.

Warsaw Stock Exchange (WSE) Equity Indices as of June 30, 2019

Index	30.06.2019 (1)	31.12.2018 (2)	Change (%) (1)/(2)	30.06.2018 (3)	Change (%) (1)/(3)
WIG	60,187.43	57,690.50	4.3%	55,954.44	7.6%
WIG-PL	61,462.31	58,889.85	4.4%	57,060.37	7.7%
WIG-div	1,053.47	1,069.63	(1.5%)	1,045.17	0.8%
WIG20	2,327.67	2,276.63	2.2%	2,135.47	9.0%
WIG20TR	4,132.41	4,018.80	2.8%	3,690.51	12.0%
WIG30	2,675.56	2,581.52	3.6%	2,464.89	8.5%
mWIG40	4,082.45	3,909.37	4.4%	4,219.73	(3.3%)
sWIG80	11,821.16	10,571.10	11.8%	12,689.02	(6.8%)
Sector sub-indices					
WIG-Banks	7,908.32	7,453.65	6.1%	7,219.40	9.5%
WIG-Construction	2,092.92	1,915.00	9.3%	2,143.10	(2.3%)
WIG-Chemicals	10,645.19	9,350.86	13.8%	11,891.50	(10.5%)
WIG- Energy	2,239.32	2,410.68	(7.1%)	2,344.45	(4.5%)
WIG-Games	15,276.11	10,000.00	52.8%	-	-
WIG- Mining	3,580.94	3,423.39	4.6%	3,509.32	2.0%
WIG-IT	2,396.24	1,991.93	20.3%	1,894.21	26.5%
WIG-Medicines	5,410.86	5,105.98	6.0%	5,781.01	(6.4%)
WIG-Media	5,312.94	4,513.06	17.7%	4,845.23	9.7%
WIG-Motorisation	3,695.27	3,540.98	4.4%	4,332.54	(14.7%)
WIG- Developers	2,245.46	1,911.66	17.5%	2,088.32	7.5%
WIG-Clothing	5,716.38	6,021.68	(5.1%)	6,485.32	(11.9%)
WIG- Fuel	6,745.59	7,998.16	(15.7%)	6,011.42	12.2%
WIG- Food	3,293.69	3,383.22	(2.6%)	3,463.23	(4.9%)

Index	30.06.2019 (1)	31.12.2018 (2)	Change (%) (1)/(2)	30.06.2018 (3)	Change (%) (1)/(3)
WIG-Telecoms	873.44	619.93	40.9%	651.38	34.1%

Source: WSE, Dom Maklerski Banku Handlowego S.A. ("DMBH")

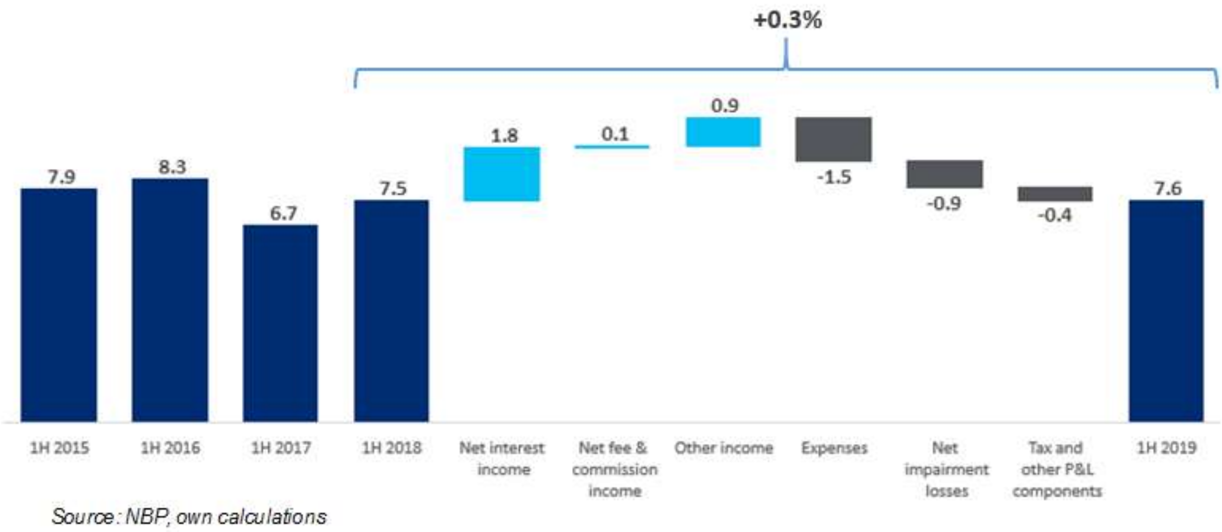
Equity, bond and derivatives trading volumes on WSE in the first half of 2019

	1st half of 2019 (1)	2nd half of 2018 (2)	Change (%) (1)/(2)	1st half of 2018 (3)	Change (%) (1)/(3)
Equity (PLN million)*	199,277	213,845	(6.8%)	209,855	(5.0%)
Bonds (PLN million)	1,486	1,043	42.4%	1,619	(8.2%)
Futures ('000 contracts)	6,376	7,669	(16.9%)	8,072	(21.0%)
Options ('000 contracts)	242	281	(13.8%)	305	(20.7%)

** figures excluding calls*
Source: WSE, DMBH

4. Banking sector

Net profit of the banking sector (PLN billion)

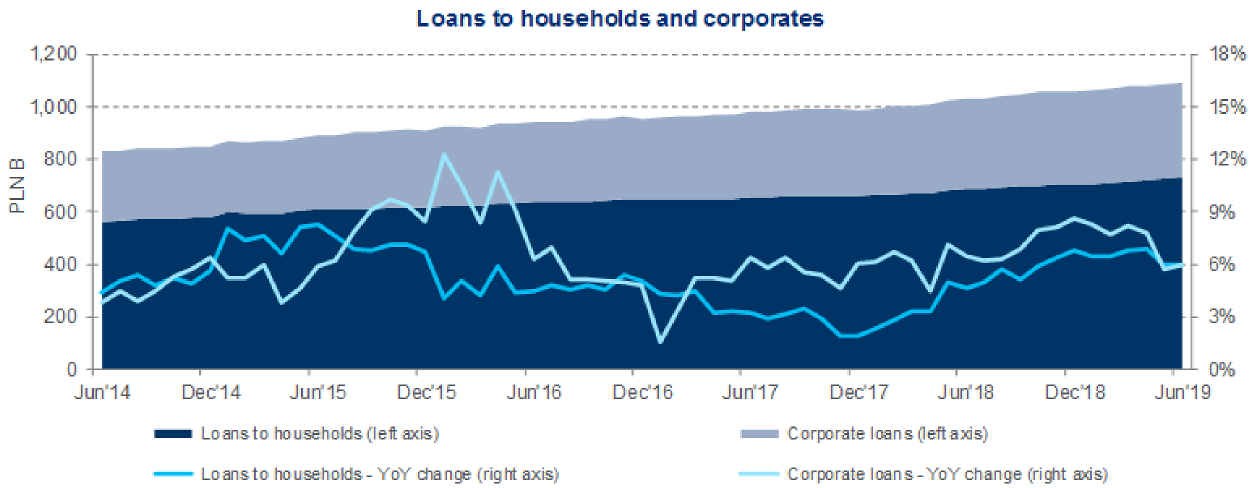


Source: PFSA, own calculations

Financial results

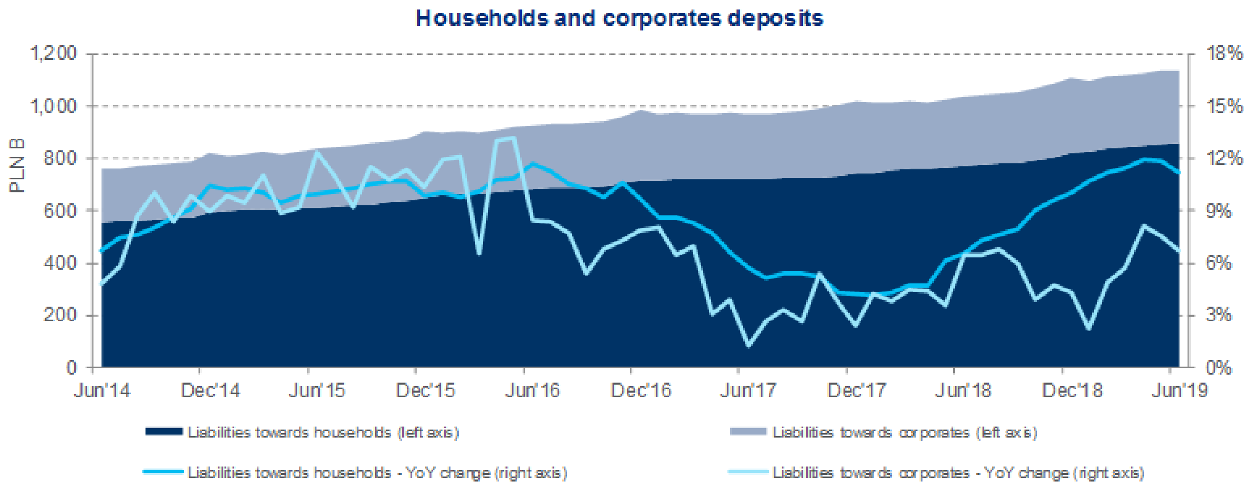
The data published by the NBP (National Bank of Poland) show that, in the first half of 2019, the banking sector generated a net profit of PLN 7.6 billion, which is slightly more than in the prior year period (+0.3% YoY, PLN 26 million). Consequently, the main factor contributing to the improvement of banks' results is a growth of interest income caused, above all, by an increase in scale and also by the efforts to improve the balance sheet structure. In the first half of 2019, the achieved interest income was by +8.0% higher than the year before, i.e. PLN 1.8 billion. Improvement in other revenues (+21.8% YoY, PLN 936 million) was equally important, whereas the fee and commission income grew only slightly. As a result, the sector recorded a considerable increase in total revenues (+8.5% YoY, PLN 2.8 billion), which leveled at PLN 36 billion. However, higher revenues were accompanied by growing costs. Despite the optimization processes being implemented at many banks, the operating costs went up by 4.3% YoY, due to, among others, higher contributions to BFG (Bank Guarantee Fund), incurred mainly in the first quarter of 2019. A considerable growth was also recorded in depreciation costs (+49.2% YoY, PLN 716 million). This increase is due to the implementation of the new IFRS 16 as of January 1, 2019. The banking sector also significantly raised the costs related to deterioration of a part of the corporate loans portfolio, which translated into higher write-offs, by +21.4% YoY (PLN 890 million). As a result, the untaxed result of banks increased by 2.5% YoY; however, the surplus was almost entirely offset by the higher income tax paid. The banking sector maintained the cost effectiveness measured by the C/I ratio at 57%, similarly to the first half of 2018.

Despite the one-off events resulting in deterioration of the loan portfolio quality, a clear decrease of non-performing loans measured by the NPL ratio is visible in the long term. As regards corporate loans, that ratio leveled at 8.5% as at the end of June 2019, i.e. by 0.5 p.p. less than a year before. However, the improvement was achieved by big corporations to a much greater extent (5.3%, -0.7 p.p. YoY) than in the SME segment (11.1%, -0.2 p.p. YoY). In the consumer loan portfolio, an improvement in quality was also observed (-0.1 p.p. y/y to 6.0%). A positive influence in that regard was exerted both by mortgage loans with the NPL ratio of 2.4% and by consumer loans with the NPL ratio of 11.0%.



Source: NBP, own calculations

During the first half of 2019, the dynamics of loans to non-financial sector remained at +5.2% (PLN 60 billion), which was similar to the level recorded a year ago, at +5.7% YoY (PLN 63 billion). The high lending dynamics was attributed primarily to significant increases of loans to households, whose value reached PLN 729 billion (+6.0% YoY, +PLN 41 billion). Among all the loans granted in that segment, the highest growth rate was seen in the group of consumer loans (+9.0% YoY, PLN 16 billion, to a total of PLN 191 billion). The volume of housing credits grew at a slower rate (+5.6% YoY, PLN 23 billion), which however was primarily due to the appreciation of Polish zloty with respect to foreign currencies, resulting in the negative dynamics of housing credits in foreign currencies (-7.1% YoY, PLN 9 billion). Housing credits in Polish zloty during the same period reached the level of PLN 304 billion, which was +11.8% (PLN 32 billion) more than at the end of June 2018. Among the other credits, high dynamics was seen also in current loans for individual entrepreneurs and individual farmers (+7.7% YoY, PLN 4 billion, to the total level of PLN 53 billion). The volume of investment loans dropped to PLN 29 billion (-2.8% YoY). During the first half of 2019, loans for non-financial enterprises, despite a slight slowdown in comparison to the same period of the previous year, maintained their high growth rate (decline in dynamics by 0.5 percentage points, to the level of +6.0% YoY). Their total volume reached PLN 362 billion, which was PLN 20 billion more than at the end of June 2018. In terms of designation of the loans, the largest dynamics was seen in current loans (+9.8% YoY, PLN 15 billion). The dynamics of loans for investments other than real property was much smaller (+2.9% YoY, PLN 3.5 billion), and loans for the purchase of real property (+2.4% YoY, PLN 1.5 billion). As regards the period for which the loans are granted, there was a clear domination of medium-term loans (more than a year, up to 5 years), whose volume increased by +13.2% YoY (PLN 2.5 billion), followed by long-term loans (more than 5 years) (+2.9% YoY, PLN 5 billion), while the volume of short-term loans dropped by -2.7% YoY (PLN 2.5 billion).



Source: NBP, own calculations

The value of deposits of non-financial enterprises reached the level of almost PLN 281 billion at the end of the first half of 2019, which was +6.7% more on a year-on-year basis. Nevertheless, an overwhelming majority of deposited funds is kept in current deposits, whose volume reached PLN 193 billion (+12.9%, + PLN 22 billion). During the same time, the level of term deposits dropped by -4.7% (PLN 4 billion). In the household segment, both the current and term deposits increased. The balance of term deposits grew by 3.3% YoY (PLN 9.6 billion), while current deposits recorded a two-digit growth, by +16% YoY (PLN 76.6

billion). The total value of household deposits, collected in the banking sector, reached almost PLN 856 billion (+11.2% YoY, PLN 86 billion).

In the first half of 2019, the results of the banking sector were significantly affected by the growth of the total amount of contributions for the Bank Guarantee Fund. This factor will not influence the banks' results in the second half of the year – as the whole contribution to the mandatory restructuring fund was posted in the first quarter. The general situation of the banking sector should not change significantly – despite the increase of inflation, the attitude of the Monetary Policy Council remains definitely dovish, and no changes in the level of interest rates should be expected.

5. Trends in the Polish and global economy in the second half of 2019

The most important risk factor for the Polish economy is increasing protectionism in the United States and the resulting response by other countries. Escalating commercial tensions between the U.S. and China, EU, Japan, Canada and Mexico can reduce global growth even by 1 pp. New barriers to trade may reduce demand also for Polish products and adversely affect growth in Poland.

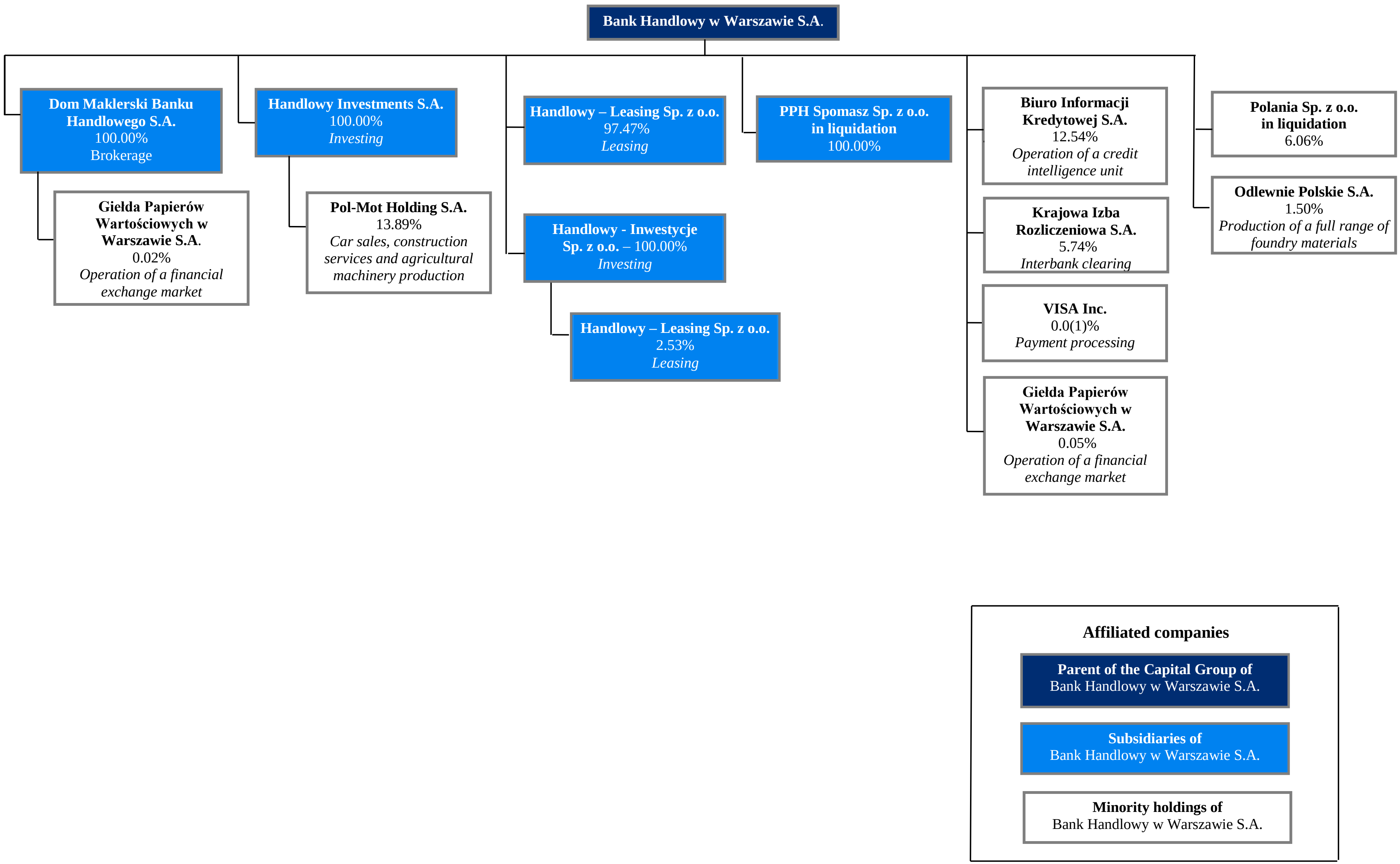
The Brexit process, still not regulated, may spur uncertainty in financial markets and anxiety about the future situation of European economies. Due to difficulties faced by the British Parliament to agree on the terms of Brexit and the replacement of Prime Minister, the risk increased that the UK will leave the EU without agreement on 31 October 2019. In addition, Brexit is one of the factors that led to discussion about reduction in EU funds for Polish companies and local governments. Although the new EU financial framework will start only in 2021, the expected changes in available funds may affect the sentiment and investment plans of companies even in upcoming quarters.

High economic growth and low interest rates in Poland fuel tensions in the labor market and pressure over pay raise. And high unit labor costs may weaken, over time, the competitive advantage of Polish companies and undermine the growth of exports. One of the potential outcomes is a risk of higher price pressure in subsequent quarters.

In the face of still relatively accommodative policy of main central banks, its further easing can push higher imbalances in the global economy and create speculative bubbles in financial markets. If they are broken, while fiscal possibilities are already limited and monetary policy instruments of main central banks have been exhausted, the global growth may take a steep decline, which can adversely affect the functioning of Polish companies.

III. Organizational chart of the Capital Group of Bank Handlowy w Warszawie S.A.

The organizational chart below depicts the structure of the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as of June 30, 2019; the Bank's share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego S.A. 100.00% Brokerage
Giełda Papierów Wartościowych w Warszawie S.A. 0.02% Operation of a financial exchange market
Handlowy Investments S.A. 100.00% Investing
Pol-Mot Holding S.A. 13.89% Car sales, construction services and agricultural machinery production
Handlowy – Leasing Sp. z o.o. 97.47% Leasing
Handlowy - Inwestycje Sp. z o.o. – 100.00% Investing
Handlowy – Leasing Sp. z o.o. 2.53% Leasing
PPH Spomasz Sp. z o.o. in liquidation 100.00%
Biuro Informacji Kredytowej S.A. 12.54% Operation of a credit intelligence unit
Krajowa Izba Rozliczeniowa S.A. 5.74% Interbank clearing
VISA Inc. 0.0(1)% Payment processing
Giełda Papierów Wartościowych w Warszawie S.A. 0.05% Operation of a financial exchange market
Polania Sp. z o.o. in liquidation 6.06%
Odlewnie Polskie S.A. 1.50% Production of a full range of foundry materials
Affiliated companies
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiaries of Bank Handlowy w Warszawie S.A.
Minority holdings of Bank Handlowy w Warszawie S.A.

IV. The organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The Capital Group of Bank Handlowy w Warszawie S.A. ("Group") consists of a parent company and subsidiaries:

BANK HANDLOWY W WARSZAWIE S.A. GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30 Jun 2019
Bank Handlowy w Warszawie S.A.*	Banking	parent	-	-	6,725,576
Dom Maklerski Banku Handlowego S.A. ("DMBH")	Brokerage activities	subsidiary	100.00%	full consolidation	98,195
Handlowy - Leasing Sp. z o.o.	Leasing activities	subsidiary	100.00%**	full consolidation	21,676
Handlowy Investments S.A.	Investing activity	subsidiary	100.00%	full consolidation	17,134
PPH Spomasz Sp. z o.o. w likwidacji	Ceased operations	subsidiary	100.00%	full consolidation	Entity under liquidation
Handlowy-Inwestycje Sp. z o.o.	Investing activity	subsidiary	100.00%	equity valuation	10,815

** Equity of Bank Handlowy w Warszawie S.A. as per statement of financial position of the Bank for the first half of 2019*
*** Including indirect participations*

V. Selected financial data of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Summary financial data of the Group

PLN million	30 Jun 2019	31 Dec 2018
Total assets	51,477,163	49,304,714
Total equity	6,776,298	7,056,750
Amounts due from customers**	22,111,273	21,949,014
Customer deposits**	36,764,811	38,097,448
Net profit***	192,626	328,212

** Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.*
*** Net profit for the first half of adequately 2019 and 2018.*

2. Financial result of the Group for the first half of 2019

The following financial results are presented on the basis of the abridged semi-annual financial statement of the Group for the period of the first 6 months of the year ended June 30, 2019.

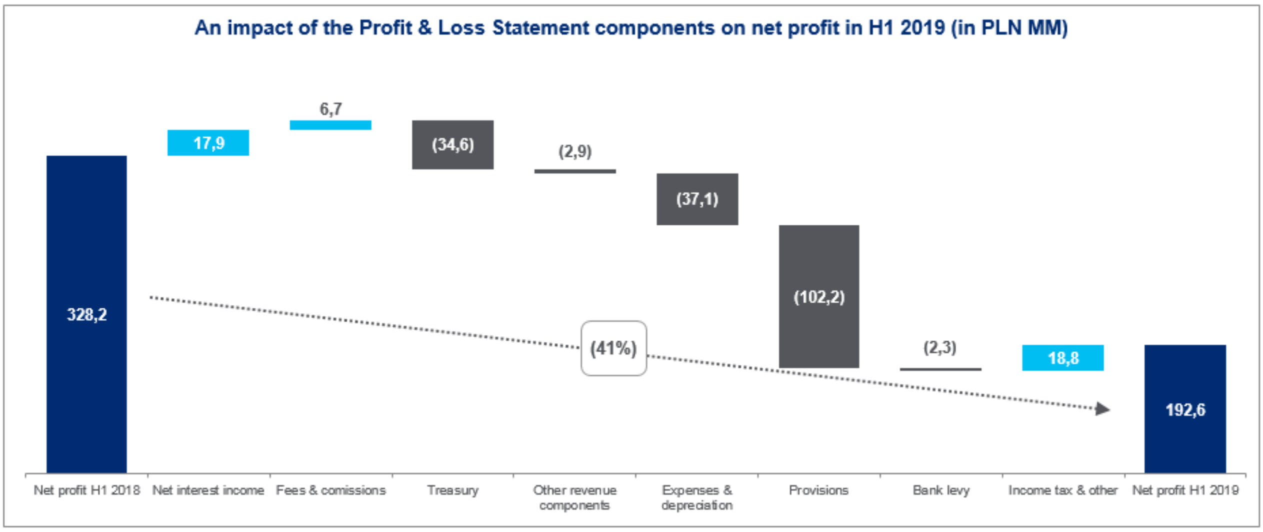
2.1 Income statement

In the first half of 2019 the Group delivered a consolidated profit before tax of PLN 273.2 million compared to PLN 427.1 million in the first half of 2018 (PLN -153.9 million or 36.0%). The consolidated net profit of the Group amounted to PLN 192.6 million compared to PLN 328.2 million a year ago.

Selected income statement items

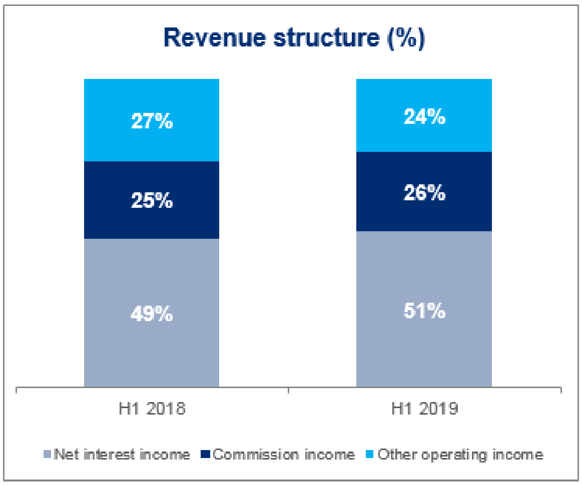
	1st half of		Change	
PLN'000	2019	2018	PLN'000	%
Net interest income	565,701	547,761	17,940	3.3%
Net fee and commission income	287,146	280,412	6,734	2.4%
Dividend income	9,860	8,950	910	10.2%
Net income on trading financial instruments and revaluation	187,642	192,743	(5,101)	(2.6%)
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	54,147	79,193	(25,046)	(31.6%)
Net gain/(loss) on equity and other instruments measured at fair value through income statement	13,199	6,792	6,407	94.3%
Net gain/loss on hedge accounting	(758)	3,682	(4,440)	(120.6%)
Net other operating income	(1,328)	8,899	(10,227)	(114.9%)
Total income	**1,115,609**	**1,128,432**	**(12,823)**	**(1.1%)**

	1st half of		Change	
PLN'000	**2019**	**2018**	**PLN'000**	**%**
General administrative expenses and depreciation:	(663,425)	(626,331)	(37,094)	5.9%
General administrative expenses	(620,845)	(588,970)	(31,875)	5.4%
Depreciation and amortization	(42,580)	(37,361)	(5,219)	14.0%
Profit on sale of non-financial assets	(31)	(836)	805	(96.3%)
Net impairment on financial assets and provisions for off–balance sheet commitments	(134,762)	(32,524)	(102,238)	314.3%
Share in net profits/losses of entities valued at equity method	-	255	(255)	(100.0%)
Tax on some financial institutions	(44,205)	(41,933)	(2,272)	5.4%
Profit before tax	**273,186**	**427,063**	**(153,877)**	**(36.0%)**
Income tax expense	(80,560)	(98,851)	18,291	(18.5%)
Net profit	**192,626**	**328,212**	**(135,586)**	**(41.3%)**



The main determinants of the Group's financial result in the first half of 2019 were the following:

- Core revenue growth (including net interest income and net fee and commission income) by 3.0% compared to the first half of 2018, owing to an increase in net interest income by 3.3%. At the same time in the first half of 2019 gains from the sale of shares in a company owned by the Bank in the amount of PLN 12.1 million were recognized in the Bank's books (details are described in Note 31 to the Consolidated Financial Statements). Excluding the one-off gain from the sale, core revenue grew by 1.5%.
- Decrease in other operating income (i.e. non-interest and non-commission income) by 12.5% due to lower treasury result, mainly as a result of lower realization of gains from the sale of investment debt financial assets.
- Increase in operating expenses (including depreciation) by 5.9% compared to the first half of 2018 as a result of a higher contribution to the Bank Guarantee Fund.
- Increase in net impairment losses compared to the first half of 2018 due to higher provisions in the Institutional Banking segment.

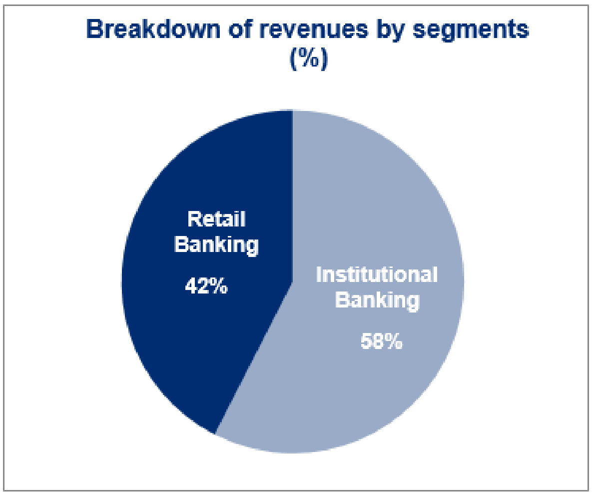


2.1.1 Revenues

Net interest income was the most important source of revenue of the Group in the first half of 2019 (51% of total revenue). It amounted to PLN 565.7 million compared to PLN 547.8 million in the first half of 2018, up by PLN 17.9 million (or 3.3%).

Interest income in the first half of 2019 increased by PLN 44.8 million (or 6.9%) to PLN 689.8 million. Interest on amounts due from customers, which were the main source of interest income, amounted to PLN 479.6 million, up by PLN 11.1 million (or 2.4%) compared to the first half of 2018. It was mainly due to an increase in average credit volumes of both individual and institutional clients. At the same time interest income on debt investment assets increased by PLN 35.2 million (or 22.4%) compared to the first half of 2018, mainly due to a higher average balance of this portfolio.

Interest expenses in the first half of 2019 increased by PLN 26.9 million (or 27.6%) compared to the corresponding period of the previous year. Interest expenses on amounts due to clients (from the financial and non-financial sectors) constituting the main source of interest expenses, reached the level of PLN 79.4 million, up by PLN 8.5 million (or 12%) vs.,first half of 2018, which was mainly due an increase in average deposit volumes of the non-financial sector and higher margin on deposits from individual customers (promotional offer for new customers). At the same time interest expenses on amounts due to banks grew significantly by PLN 19.6 million (or 89.2%) compared to the first half of 2018.



Consequently, the total net interest margin in relation to the average interest assets in the first half of 2019 dropped to the level of 2.43% from 2.70% in the first half of 2018.

Net fee and commission income in the first half of 2019 amounted to PLN 287.1 million compared to PLN 280.4 million in the corresponding period of 2018 – up by PLN 6.7 million (or 2.4%), mainly as a result of the recognition of the gains from the sale of shares in the company owned by the Bank (details described in Note 31 to the Consolidated Financial Statements). At the same time higher net fee and commission income was reported in custody operations (asset growth) as well as payment and credit cards (increase in payment volumes in terminals).

On the other hand, the fee and commission income on insurance and investment products distribution went down due to continued risk aversion among individual clients and a lower turnover on the Warsaw Stock Exchange led to a drop in the commission on brokerage operations.

Net income on trade financial instruments and revaluation in the first half of 2019 amounted to PLN 187.6 million compared to PLN 192.7 in the corresponding period of 2018 – down by PLN 5.1 million (or 2.6%), mainly as a result of the deterioration of the result on the Bank's proprietary management;

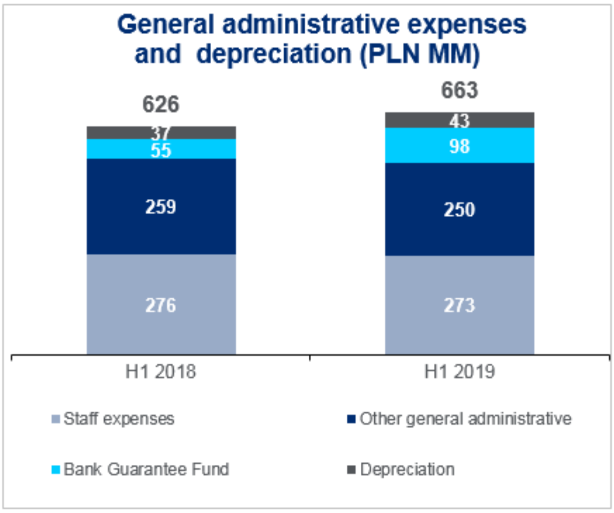
Net income on investment debt financial assets measured at fair value through other comprehensive income in the first half of 2019 amounted to PLN 54.1 million, down by PLN 25.0 million compared to the corresponding period of the previous year;

Net income on other capital investments measured at fair value through profit or loss in the first half of 2019 grew by PLN 6.4 million (or 94.3%), compared to the corresponding period of 2018, primarily as a result of the higher valuation of shares of the companies the Bank has exposure to and the sale of part of the shares in Odlewnie Polska S.A., which had a positive impact on the Bank's result in the amount of PLN 2.9 million.

Net other operating income in the first half of 2019 dropped by PLN 12.8 million compared to the corresponding period of the previous year, mainly due to the one-off reimbursement of the fine paid in the first quarter of 2018.

2.1.2 Expenses

In the first half of 2019 he Group's general administrative and depreciation expenses amounted to PLN 663.4 million vs. PLN 626.3 million in the corresponding period of the previous year. The increase by PLN 37.1 million (or 5.9%) was generally due to higher administrative costs and depreciation, partially offset by lower staff expenses.



The administrative costs were mostly affected by higher Bank Guarantee Fund charges by PLN 43.0 million YoY. The BFG's compulsory resolution fund charge (upfront recognition in the first quarter of 2019) amounted to PLN 93.1 million (47.8 million in the first quarter of 2018) and the deposit guarantee fund contribution in the first half of 2019 amounted to PLN 4.6 million (compared to 6.9 million in the first half of 2018). A significant increase in the depreciation line was associated with the implementation of IFRS 16, which led to a shift of some of the costs from the building maintenance and rent costs line to the depreciation line.

On the other hand, staff expenses dropped by PLN 2.6 million (or 1.0%). The employment in the Group in the reporting period dropped by 285 FTEs (3,142 as of the end of June 2019 compared to 3,427 as of the end of June 2018).

2.1.3 Net impairment on financial assets

Net impairment losses and provisions

PLN'000	1st half of		Change	
	2019	2018	PLN'000	%
Net impairment losses on financial assets	(131,366)	(35,665)	(95,701)	268.3%
Net impairment losses on financial assets - Stage 1	945	(6,445)	7,390	(114.7%)
Net impairment losses on financial assets – Stage 2	(11,795)	(2,235)	(9,560)	427.7%
Net impairment losses on financial assets – Stage 3	(120,516)	(26,985)	(93,531)	346.6%
Net impairment losses on provisions for financial and guarantee liabilities	(1,852)	2,521	(4,373)	(173.5%)
Net impairment losses on debt investment financial assets measured at fair value through other comprehensive income	(1,544)	620	(2,164)	(349.0%)
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	**(134,762)**	**(32,524)**	**(102,238)**	**314.3%**

In the first half of 2019 net impairment losses amounted to PLN -134.8 million versus PLN -32.6 million in the first half of 2018. The Institutional Banking segment reported an increase in impairment losses by PLN 74.7 million, among others, due to impairment write-offs for clients from the Commercial Banking segment. In the Consumer Banking segment net impairment losses grew in the first half of 2019 by PLN 27.5 million, mainly due to the low risk cost base in the first quarter of 2018 as a result a one-off positive increase in the effectiveness of the recovery process in that period.

2.1.4 Tax on assets of certain financial institutions

The total charge to the income statement of Bank Handlowy w Warszawie S.A. Capital Group due to the tax on certain financial institutions for the first six months of 2019 amounted to PLN 44.2 million compared to PLN 41.9 million in the first half of 2018. The cost is non-deductible and thus it increases the effective tax rate.

2.1.5 Ratio analysis

Selected financial ratios

	1st half of 2019	1st half of 2018
Return on equity (ROE) *	7.5%	10.4%
Return on assets (ROA) **	1.0%	1.5%
Cost/Income (C/I)	59%	56%
Non-financial sector loans to non-financial sector deposits	66%	73%
Non-financial sector loans to total assets	39%	43%
Net interest income to total revenue	51%	49%
Net fee and commission income to total revenue	26%	25%

** Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis.*

*** Net profit to average total assets calculated on a quarterly basis.*

Employment within the Group

FTEs	1st half of 2019	1st half of 2018	Change	
			FTEs	%
Average no. of jobs in the period	3 205	3 452	(247)	(7,2%)
No. of jobs at the end of the period	3 142	3 427	(285)	(8,3%)

In the first half of 2019, average employment in the Group amounted to 3,205 FTEs, thus being by 7.2% lower than in the first half of 2018. As at June 30, 2019, employment in the Group amounted to 3,142 FTEs, of which 1,633 in consumer banking, 793 in institutional banking and 716 in support units. As compared with the same period last year, the number of FTEs at the end of the period decreased by 285 (i.e. 8.3%).

2.2 Consolidated statement of financial position

As of June 30, 2019, total assets of the Group stood at PLN 51.5 billion, up by 4.4% compared to the end of 2018.

Consolidated statement of financial position

PLN'000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
ASSETS				
Cash and balances with the Central Bank	376,742	7,272,193	(6,895,451)	(94.8%)
Amounts due from banks	960,585	1,333,977	(373,392)	(28.0%)
Financial assets held-for-trading	5,672,463	2,237,076	3,435,387	153.6%

PLN'000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
Hedging derivatives	474	-	474	-
Debt financial assets measured at fair value through other comprehensive income	19,836,965	14,241,363	5,595,602	39.3%
Equity investments valued at equity method	-	10,399	(10,399)	(100.0%)
Equity and other investments measured at fair value though the income statement	58,444	48,768	9,676	19.8%
Amounts due from customers	22,111,273	21,949,014	162,259	0.7%
Tangible fixed assets	500,391	364,261	136,130	37.4%
Intangible assets	1,411,431	1,418,794	(7,363)	(0.5%)
Current income tax receivables	1,423	1,744	(321)	(18.4%)
Deferred tax asset	249,266	204,207	45,059	22.1%
Other assets	297,706	222,918	74,788	33.5%
Non-current assets held-for-sale	-	-	-	-
Total assets	**51,477,163**	**49,304,714**	**2,172,449**	**4.4%**
LIABILITIES				
Amounts due to banks	4,337,702	1,402,233	2,935,469	209.3%
Financial liabilities held-for-trading	1,739,793	1,609,382	130,411	8.1%
Hedging derivatives	4,064	-	4,064	-
Amounts due to customers	37,013,996	38,334,345	(1,320,349)	(3.4%)
Provisions	32,702	29,984	2,718	9.1%
Current income tax liabilities	47,788	66,297	(18,509)	(27.9%)
Other liabilities	1,524,820	805,723	719,097	89.2%
Total liabilities	**44,700,865**	**42,247,964**	**2,452,901**	**5.8%**
EQUITY				
Ordinary shares	522,638	522,638	-	-
Share premium	3,003,290	3,003,290	-	-
Revaluation reserve	100,018	84,372	15,646	18.5%
Other reserves	2,871,374	2,883,838	(12,464)	(0.4%)
Retained earnings	278,978	562,612	(283,634)	(50.4%)
Total equity	**6,776,298**	**7,056,750**	**(280,452)**	**(4.0%)**
Liabilities and equity	**51,477,163**	**49,304,714**	**2,172,449**	**4.4%**

2.2.1 Assets

Gross amounts due from customers

PLN'000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
Non-banking financial institutions	2,085,263	2,148,206	(62,943)	(2.9%)
Non-financial companies	13,089,693	12,881,440	208,253	1.6%
Individuals	7,675,172	7,535,018	140,154	1.9%
Public sector entities	53,977	50,907	3,070	6.0%
Non-commercial institutions	2	3	(1)	(33.3%)
Total gross receivables from clients	**22,904,107**	**22,615,574**	**288,533**	**1.3%**

Customer net receivables

PLN '000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN '000	%
Receivables from financial sector entities	**2,083,868**	**2,146,815**	**(62,947)**	**(2.9%)**
Receivables from non-financial sector entities, including:	**20,027,405**	**19,802,199**	**225,206**	**1.1%**
Institutional customers*	12,784,038	12,644,282	139,756	1.1%
Individual customers, including:	7,243,367	7,157,917	85,450	1.2%
Unsecured receivables	5,490,199	5,508,151	(17,952)	(0.3%)

PLN '000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN '000	%
Mortgage loans	1,753,168	1,649,766	103,402	6.3%
Total net customer receivables	**22,111,273**	**21,949,014**	**162,259**	**0.7%**

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

In the first half of 2019 amounts due from customers (net) amounted to PLN 22.1 billion, slightly up by PLN 163 million (or 0.7%) compared to the end of 2018. The increase was primarily due to increased lending to the non-financial sector clients (PLN + 225.2 million, or 1.1%). Amounts due from customers in the non-financial sector grew on both the institutional customers' side (PLN 139.8 million, or 1.1%; in global and commercial segments) and the retail customers' side (PLN 85.4 million, or 1.2%; due to a higher mortgage loans balance).

Debt securities portfolio

PLN'000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
Treasury bonds, including:	19,994,230	14,935,516	5,058,714	33.9%
Bonds hedged in the fair value hedge accounting	1,910,342	-	1,910,342	-
Bonds issued by banks, including:	1	1	-	0.0%
Bonds issued by financial institutions	705,666	237,018	468,648	197.7%
Bonds and notes issued by Central Bank	3,299,582	-	3,299,582	-
Debt securities, total	**23,999,479**	**15,172,535**	**8 826 944**	**58.2%**

The debt securities portfolio increased as of the end of the first half of 2019 by PLN 8.8 billion (or 58.2%), primarily due to the increased position in treasury bonds and NBP monetary bills.

2.2.2 Liabilities

Liabilities towards customers

PLN'000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
Deposits from financial sector entities	**6,621,005**	**7,040,000**	**(418,995)**	**(6.0%)**
Deposits of non-financial sector entities, including:	**30,143,806**	**31,057,448**	**(913,642)**	**(2.9%)**
non-financial companies	15,061,091	15,012,645	48,446	0.3%
non-commercial institutions	348,629	395,005	(46,376)	(11.7%)
individual customers	12,430,932	11,903,332	527,600	4.4%
public sector units	2,303,154	3,746,466	(1,443,312)	(38.5%)
Other liabilities	**249,185**	**236,897**	**12,288**	**5.2%**
Liabilities towards customers, total	**37,013,996**	**38,334,345**	**(1,320,349)**	**(3.4%)**
Deposits of financial and non-financial sector entities, including:				
in PLN	27,166,123	29,288,119	(2,121,996)	(7.2%)
in foreign currency	9,598,688	8,809,329	789,359	9.0%
Deposits from financial and non-financial sector entities, total	**36,764,811**	**38,097,448**	**(1,332,637)**	**(3.5%)**

In the first six months of 2019 amounts due to customers constituted the dominant source of financing of the Group's activity and constituted 71.9% of the Group's liabilities and equity. Total amounts due to customers as of the end of June 2019 amounted to PLN 37.0 billion, down by PLN 1.3 billion (or 3.4%) compared to the end of 2018, which was due to a decrease in deposits of the public sector clients by PLN 1.4 billion or 38.5%, seasonally higher at the end of the year and in the financial sector by PLN 419 million (or 6.0%). On the other hand, deposits in the non-financial section on the retail customers' side grew by PLN 527.6 million, or 4.4% compared to the end of 2018.

2.2.3 Source and use of funds

PLN'000	30 Jun 2019	31 Dec 2018
Source of funds		
Banks	4,337,702	1,402,233
Customers	37,013,996	38,334,345
Own funds including net income	6,776,298	7,056,750
Other	3,349,167	2,511,386
Total source of funds	**51,477,163**	**49,304,714**
Use of funds		
Amounts due from banks	960,585	1,333,977

PLN'000	30 Jun 2019	31 Dec 2018
Amounts due from customers	22,111,273	21,949,014
Securities, shares and other financial assets	25,568,346	16,537,606
Other	2,836,959	9,484,117
Total use of funds	**51,477,163**	**49,304,714**

2.3 Equity

As compared to the end of 2018 the value of equity (excluding the financial result) of the Group as of the end of the first half of 2019 increased by PLN 165.8 million (or 2.6%) due to retention of 25% of the net profit for 2018 (i.e. PLN 163.3 million), partially offset by the changes resulting from the application of IFRS9.

Equity

	As of		Change	
PLN'000	30 Jun 2019	31 Dec 2018	PLN'000	%
Ordinary shares	522,638	522,638	-	-
Share premium	3,003,290	3,003,290	-	-
Reserve capital	2,334,622	2,347,028	(12,406)	*(0.5%)*
Revaluation reserve	100,018	84,372	15,646	*18.5%*
General risk reserve	540,200	540,200	-	-
Other reserves	82,904	(79,630)	162,534	*(204.1%)*
Total equity	**6,583,672**	**6,417,898**	**165,774**	**2.6%**

The equity level is fully sufficient to ensure the financial security of the company and the security of funds deposited in the Bank as well as it fully supports growth opportunities of the Group.

2.4 Earnings forecast for 2019

The Bank as the parent entity did not publish earnings forecast for 2019.

VI. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2019

1. Lending and other risk exposures

1.1 Lending

The Group's lending policy is consistent and covers the Bank as the parent company and its subsidiaries (DMBH, Handlowy-Leasing Sp. z o.o.), excluding special purpose vehicles (so-called SPVs), companies in liquidation or bankruptcy and entities that ceased their statutory operations. The policy is based on active portfolio management and precisely specified target markets, designed to facilitate exposure and credit risk analysis within a given industry of each client. Borrowers are continuously monitored so that any signs of deterioration in creditworthiness can be detected promptly and appropriate corrective measures can be taken as needed.

In the first half of 2019, the Group focused its credit risk management activities primarily on:

- supporting the growth of assets;
- optimizing the lending process and adapting the Group's loan offer to the market situation;
- maintaining the high quality of the loan portfolio;
- efficient allocation of capital;
- improvement of management processes for the risk of the models used to measure credit risk
- continuing the development of credit risk measurement methodologies.

Gross receivables to customers

PLN'000	As at		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
Receivables in PLN	19,622,353	19,146,512	475,841	2.5%
Receivables in foreign currency	3,281,754	3,469,062	(187,308)	(5.4%)
Total	**22,904,107**	**22,615,574**	**288,533**	**1.3%**

Receivables from non-financial sector entities	20,818,844	20,467,368	351,476	1.7%
Receivables from financial sector entities	2,085,263	2,148,206	(62,943)	(2.9%)
Total	**22,904,107**	**22,615,574**	**288,533**	**1.3%**

As at 30 June 2019, the gross credit exposure to customers was PLN 22.9 billion, increasing by 1.3% in comparison to 31 December 2018.

The share of FX-loans which stood at 15.3% as in December 2018 went down to 14.3% as at 30 June 2019. It should be stressed that the Group does not grant foreign currency loans to individual clients but only to business entities who have foreign currency cash flows or to entities which, in the Group's opinion, are able to predict or absorb the foreign exchange risk without a significant threat to their financial position. The Group monitors the concentration of its credit exposures on a regular basis in order to avoid situations where its portfolio is dependent on a small number of customers.

Concentration of exposure in individual industries *

Sector of the economy according to the Polish Classification of Economic Activity (PKD)	30 Jun 2019		31 Dec 2018	
	PLN'000	%	PLN'000	%
Wholesale trade, except of motor vehicles	4,640,248	17.02%	4,695,370	17.48%
Financial service activities, excluding insurance and pension funds	2,573,329	9.44%	3,385,386	12.61%
Production and supply of electricity, gas, steam, hot water and air for air conditioning systems	2,490,455	9.14%	2,760,531	10.28%
Production of food products	1,235,719	4.53%	1,028,293	3.83%
Manufacture of fabricated metal products, except machinery and equipment	1,138,376	4.18%	1,084,312	4.04%
Retail trade, except of motor vehicles	1,115,950	4.09%	1,065,354	3.97%
Mining of metal ores	1,009,760	3.70%	929,839	3.46%
Production and processing of coke and refined petroleum products	963,064	3.53%	939,402	3.50%
Manufacture of motor vehicles, trailers, semi-trailers, excluding motorcycles	912,325	3.35%	673,491	2.51%
Activities of head offices; consulting related to the management	859,800	3.15%	893,827	3.33%
„10" industries total	**16,939,026**	**62.14%**	**17,455,805**	**65.00%**
Other industries	**10,320,392**	**37.86%**	**9,398,855**	**35.00%**
Total	**27,259,418**	**100.00%**	**26,854,660**	**100.00%**

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks) as at 30.06.2019. The data as at 31.12.2018 are comparative data and do not illustrate the concentration of exposures as at 31.12.2018.*

1.2 Loan portfolio quality

Receivables of the Group are allocated to appropriate portfolios depending on the existing impairment risk: a receivables portfolio of not impaired exposures (Stage 1 and Stage 2) and a revenues portfolio of impaired exposures (Stage 3). Significant exposures from the impaired portfolio are assessed individually and for exposures which are not individually significant impairment assessment is carried out using collective (group) analysis.

Loans to customers by portfolio with/without recognized impairment

PLN'000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
Loans without recognized impairment (Stage 1), including:	**20,157,554**	**20,246,985**	**(89,431)**	**(0.4%)**
institutional entities	2,085,256	2,148,206	(62,950)	(2.9%)
non-financial sector entities	18,072,298	18,098,779	(26,481)	(0.1%)
institutional clients*	11,704,419	11,752,193	(47,774)	(0.4%)
individual customers	6,367,879	6,346,586	21,293	0.3%
Loans without recognized impairment (Stage 2), including:	1,750,189	1,642,100	**108,089**	**6.6%**
non-financial sector entities	1,750,182	1,642,100	108,082	6.6%
institutional clients*	874,564	832,118	42,446	5.1%
individual customers	875,618	809,982	65,636	8.1%
Loans with recognized impairment (Stage 3), including:	939,545	669,671	**269,874**	**40.3%**
non-financial sector entities	939,545	669,671	269,874	40.3%
institutional clients*	507,871	291,221	216,650	74.4%
individual customers	431,674	378,450	53,224	14.1%
Amounts due from matured transactions in derivative instruments (Stage 3)	**56,819**	**56,818**	**1**	**0.0%**
Total gross loans to customers, including:	**22,904,107**	**22,615,574**	**288,533**	**1.3%**
non-financial sector entities	20,762,025	20,410,550	351,475	1.7%
institutional clients*	13,086,854	12,875,532	211,322	1.6%

PLN'000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
individual customers	7,675,171	7,535,018	140,153	1.9%
Provision for expected credit losses, including:	**(792,834)**	**(666,560)**	**(126,274)**	**18.9%**
Amounts due from matured transactions in derivative instruments	(50,771)	(50,859)	88	(0.2%)
Total net amounts due from customers	**22,111,273**	**21,949,014**	**162,259**	**0.7%**
Impairment provisions coverage ratio**	**79.0%**	**91.9%**		
institutional clients*	60.8%	81.5%		
individual customers	100.0%	99.6%		
Non-performing loans ratio (NPL)	**4.1%**	**3.0%**		

* Institutional *clients include enterprises, the public sector, state-owned and private companies, co-operatives, individual enterprises, non-commercial institutions acting for the benefit of households.*

*** In accordance with Transition Resource Group for Impairment of Financial Instruments the value of receivables in Stage 3 shall be presented increased by accrued contract interest in total amount of PLN 423,549 thousand (as the end of 2018 PLN 411,529 thousand).*

In the first half of 2019, the coverage ratio (impairment losses to receivables with recognized impairment) decreased by 12.9 p.p. compared to the end of 2018 and stood at 79.0%.

The share of non-performing loans at the end of June 2019 represented 4.1% of the portfolio of gross receivables from clients and remained below the average for the banking sector.

As at 30 June 2019, provision for expected credit losses in portfolio stood at PLN 792.8 million, which represented an increase by PLN 126.3 million (i.e. 18.9%) vs the end of December 2018. The growth in impairment charges as compared to the end of 2018 was mainly recorded in the group of receivables with recognized impairment. It results from financial difficulties of individual clients in the Commercial Banking segment.

Provision for expected credit losses of the customer loan portfolio

PLN'000	As of*		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
Impairment of financial assets				
Provision for expected credit losses of financial assets - Stage 1	54,770	56,110	(1,340)	(2.4%)
Provision for expected credit losses of financial assets – Stage 2	80,803	74,776	6,027	8.1%
Provision for expected credit losses of financial assets – Stage 3	657,261	535,674	121,587	22.7%
Total provision for expected credit losses	**792,834**	**666,560**	**126,274**	**18.9%**
Impairment provision coverage ratio on total receivables	79.0%	91.9%		

The Management Board believes that the current level of provision for expected credit losses accurately reflects the observed growth in the balance of receivables and the expected portfolio impairment, considering the discounted projection of the cash flow associated with repayments.

1.3 Contingent liabilities

As at June 30, 2019, exposure from conditional commitments granted by the Group amounted to PLN 17.7 billion, up by PLN 0.9 billion (or 5.1%) compared to the end of 2018. Promised loan commitments still represent the largest share in total conditional commitments granted (i.e. 85%). Promised loan commitments consist of committed but currently unutilized credit lines and unutilized overdraft facilities.

Contingent off-balance sheet liabilities granted

PLN'000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
Guarantees	2,406,399	2,589,013	(182,614)	(7.1%)
Import letters of credit issued	132,996	137,669	(4,673)	(3.4%)
Export letters of credit confirmed	1,770	-	1,770	-
Credit commitments	15,069,532	14,023,057	1,046,475	7.5%
Other	49,225	47,587	1,638	3.4%
Total	**17,659,922**	**16,797,326**	**862,596**	**5.1%**
Provisions for contingent liabilities granted	28,367	26,481	1,886	7.1%
Provisions coverage ratio	0.16%	0.16%		

As at 30 June 2019, the total value of accounts or assets of the Bank's borrowers pledged as collateral stood at PLN 5,000 million, compared to PLN 4,385 million on 31 December 2018.

At the end of the first half of 2019, the total value of guarantees and sureties provided by the Bank or its subsidiary to a single entity or its subsidiary did not exceed 10% of the Group's equity.

2. External funding

As at the end of June 2019 the Group's total external funds obtained from banks totaled PLN 4.3 billion, up by PLN 2.9 billion (or 209,3%) compared to the end of December 2018.

Total external funding from customers amounted to PLN 37.0 billion as at the end of the first half of 2019, lower from the deposit base as at the end of 2018 by PLN 1.3 billion (or 3.4%) mainly due to a lower balance of deposits of the public sector entities (PLN 1.4 billion, or 38.5%), partially offset by an increase in deposits of individual clients (by PLN 0.5 billion or 4.4% compared to the end of 2018).

Funding from banks

PLN'000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
Current accounts	2,354,058	912,995	1,441,063	157.8%
Term deposits	1,541,258	162,737	1,378,521	847.1%
Loans and advances received	-	1,326	(1,326)	(100.0%)
Liabilities due to sold securities under repurchase agreements	158,860	115,208	43,652	37.9%
Other liabilities	283,526	209,967	73,559	35.0%
Total funding from banks	**4,337,702**	**1,402,233**	**2,935,469**	**209.3%**

Funding from customers

PLN'000	As of		Change	
	30 Jun 2019	31 Dec 2018	PLN'000	%
Deposits from financial sector entities				
Current accounts	1,193,242	704,512	488,730	69.4%
Term deposits	5,427,763	6,335,488	(907,725)	(14.3%)
	6,621,005	**7,040,000**	**(418,995)**	**(6.0%)**
Deposits from non-financial sector entities				
Current accounts, including:	24,069,540	24,987,518	(917,978)	(3.7%)
corporate customers	12,332,341	11,930,693	401,648	3.4%
individual customers	9,579,307	9,380,065	199,242	2.1%
public sector units	2,157,892	3,676,760	(1,518,868)	(41.3%)
Term deposits, including:	6,074,266	6,069,930	4,336	0.1%
corporate customers	3,077,379	3,476,957	(399,578)	(11.5%)
individual customers	2,851,625	2,523,267	328,358	13.0%
public sector units	145,262	69,706	75,556	108.4%
	30,143,806	**31,057,448**	**(913,642)**	**(2.9%)**
Total deposits	**36,764,811**	**38,097,448**	**(1,332,637)**	**(3.5%)**
Other liabilities				
Liabilities due to securities sold under repurchase agreements				
Other liabilities, including:	7,792	236,897	7,792	100.0%
Cash collateral	241,393	121,416	4,496	1.9%
Hedging deposits	168,205	66,583	46,789	38.5%
Other liabilities, total	168,205	66,583	(27,893)	(41.9%)
	38,690	**236,897**	**12,288**	**5.2%**
Total amounts due to customers	**37,013,996**	**38,334,345**	**(1,320,349)**	**(3.4%)**

3. Institutional Bank

3.1 Segment results summary

PLN'000	1st half of 2019	1st half of 2018	Change	
			PLN'000	%
Net interest income	248,955	251,723	(2,768)	(1.1%)
Net fee and commission income	148,827	144,988	3,839	2.6%

PLN'000	1st half of 2019	1st half of 2018	Change	
			PLN'000	%
Dividend income	1,262	1,032	230	22.3%
Net income on trading financial instruments and revaluation	174,103	178,677	(4,574)	(2.6%)
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	54,147	79,193	(25,046)	(31.6%)
Net gain/(loss) on equity and other instruments measured at fair value through income statement	12,274	6,792	5,482	80.7%
Net gain/(loss) on hedge accounting	(758)	3,682	(4,440)	-
Net other operating income	5 812	5,016	796	15.9%
Total income	**644,622**	**671,103**	**(26,481)**	(3.9%)
General administrative expenses and depreciation	(320,886)	(280,121)	(40,765)	14.6%
Profit on sale of other assets	1	(836)	837	-
Net impairment losses on financial assets and provisions for granted financial liabilities and guarantees	(81,995)	(7,254)	(74,741)	1 030.3%
Share in net profits/(losses) of entities valued at equity method	-	255	(255)	(100.0%)
Tax on some financial institutions	(32,264)	(30,925)	(1,339)	4.3%
Profit before tax	**209,478**	**352,222**	**(142,744)**	**(40.5%)**
Cost/Income	**50%**	**42%**		

The key highlights that impacted the gross profit of the Institutional Banking segment in the first half of 2019 when compared to the corresponding period of 2018 were as follows:

- decrease in net interest income by PLN 2.8 million YoY due to higher interest expenses mainly in the interbank area, due to increased average volume of amounts due from banks, partially offset by higher interest income, mainly from securities;
- increase in net fee and commission income by PLN 3.8 million YoY, first of all due to higher business volumes in the area of custody operations and transactional banking;
- increase in operating expenses by PLN 40.8 million YoY due to higher BFG's compulsory resolution fund charge and higher technology expenses;
- increase in net impairment losses for financial assets (PLN 82.0 million write-offs in the first half of 2019 compared to PLN 7.3 million in the corresponding period of the previous year) primarily due to a wirte-off for the clients from the Commercial Banking segment.

3.2 Institutional Bank and the Capital Markets

3.2.1 Institutional Bank

As regards corporate and commercial banking, the Bank provides comprehensive financial services to the largest Polish companies and strategic enterprises with a strong growth potential as well as to the largest financial institutions and public sector entities.

At the end of the first half of 2019 there were 5,600 institutional customers (including strategic, global and corporate banking customers). Within the framework of commercial banking (small and medium-sized enterprises, large companies and the public sector), the Group served 3,200 clients at the end of the first half of 2019.

What institutional banking clients have in common is their demand for advanced financial products and advisory related to financial services. In that area, the Group provides coordination of the investment banking, treasury and cash management products offered, and prepares loan offers involving diverse forms of financing. The innovative, competitive and innovative financing structures offered by the Group rely on the combination of its expertise and experience as well as on collaboration within the global Citigroup structure.

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

Assets

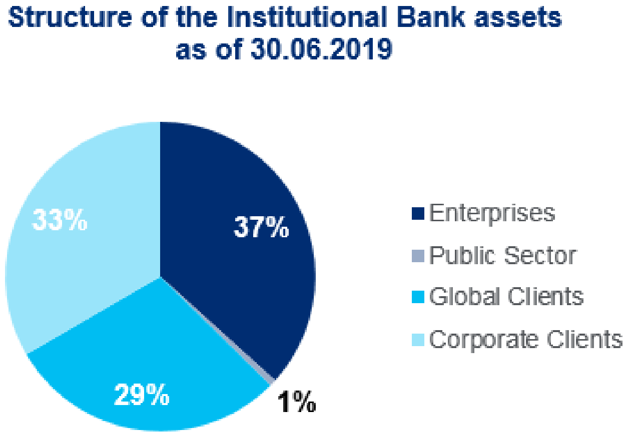
PLN million	30 Jun 2019	31 Dec 2018	30 Jun 2018	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises, including:	5,156	4,773	4,964	383	8%	192	4%
SMEs	1,598	1,582	1,591	16	1%	7	0%
Large enterprises	3,558	3,192	3,374	366	11%	184	5%
Public Sector	96	50	68	46	92%	28	41%
Global Clients	4,102	3,782	3,400	320	8%	702	21%

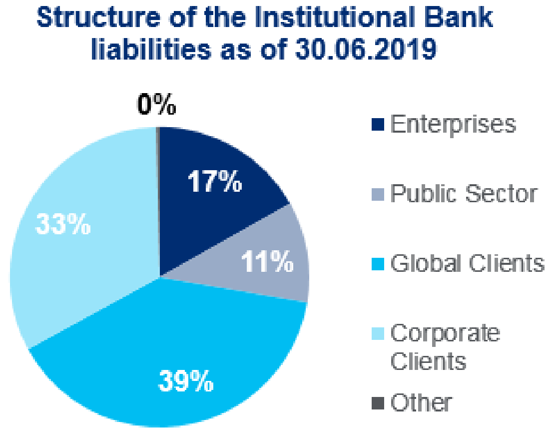
PLN million	30 Jun 2019	31 Dec 2018	30 Jun 2018	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Corporate Clients	4,687	5,592	5,092	-905	(16%)	-405	(8%)
Total Corporate Bank	**14,041**	**14,198**	**13,524**	**-157**	**(1%)**	**517**	**4%**

Liabilities

PLN million	30 Jun 2019	31 Dec 2018	30 Jun 2018	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises, including:	3,950	4,376	4,062	-426	(10%)	-112	(3%)
SMEs	2,316	2,209	2,081	107	5%	235	11%
Large enterprises	1,633	2,167	1,981	-534	(25%)	-348	(18%)
Public Sector	2,544	4,083	2,122	-1,539	(38%)	422	20%
Global Clients	9,227	8,484	6,855	743	9%	2,372	35%
Corporate Clients	7,648	8,645	7,554	-997	(12%)	94	1%
Other*	75	69	70	6	9%	5	7%
Total Corporate Bank	**23,443**	**25,657**	**20,663**	**-2,214**	**(9%)**	**2,780**	**13%**

** 'Other' includes, among others, clients under restructuring and clients of Handlowy - Leasing Sp. z o.o. who are not clients of the Bank.*





Key transactions and successes of the Corporate and Commercial Bank in the first half of 2019:

- In the first half of 2019, within the framework of initiatives to expand its relationships with strategic clients, the Bank successfully carried out some key financing transactions, including the following:
- the signing by the Bank and Citibank N.A., London Branch, acting as the Lender, the Lead Manager and Sole Bookrunner, of a syndicated loan agreement with a customer from the e-commerce sector, with the Bank's total involvement at PLN 180 billion.
- Moreover, consequently implementing the strategy of supporting its clients, the Bank concluded also:
  - Twenty one long-term loan agreements, with the Bank's total involvement amounting to PLN 1.317 million;
  - Twenty two overdraft, revolving and multi-purpose facility agreements for a total amount of PLN 455 million;
  - Five stand-by arrangements for a total of PLN 86 million;
  - Two supplier-financing or receivables-financing agreements, for a total of PLN 30 million;
  - Two guarantees for a total of PLN 123 million;
  - An agreement for the increase of reverse factoring by PLN 13 million.
- Simultaneously, implementing its strategy for acquisition of new clients and owing to the support of its global network, as well as the range of its unique technological solutions, during the first half of 2019 the Bank established with 12 clients cooperation involving comprehensive banking services, and extended the scope of cooperation with existing clients;

- Client acquisition in the first half of 2019: in the Commercial Bank segment the Bank attracted 177 new clients in the first half of 2019, including 42 Large Companies, 133 Small and Medium-Sized Companies and 2 Public Sector entities. In the strategic and global client segments, the Bank established 13 new client relationships.

3.2.2 Achievements of the Sub-Sector Financial Markets

- The Bank remains among the leaders in terms of turnover in the spot market. In the beginning of this year, it was awarded the title of Spot Market Leader of Treasury BondSpot Poland for 2018.
- The CitiFX Pulse platform incessantly enjoys enormous confidence among clients. Due to its innovative nature and functionality, it is a solution used in circa 80% of all FX transactions. The client can use the Platform to independently conclude online transactions in a simple and safe manner, has access to listings and market information on a round-the-clock basis. The automated FX solutions, management of currency exposure, generation of reports and online confirmation of transactions save time and facilitate the work of financial departments.
- The Bank continues the development of electronic sales channels for FX instruments ("eSolutions"), in particular tools that enable connecting the clients' financial systems (ERP) with the Bank's systems. Such solutions enable clients to increase their operation efficiency by offering instant and automatic access to FX products of the Bank and create a shared data exchange platform.
- In the first half of 2019, the Bank was active in the market of debt securities and syndicated loans, through its participation in the following transactions:
    - Conducting the market issue of 5- and 10-year bonds, for a total amount of PLN 2 billion for KGHM Polska Miedź S.A.;
    - Two issues of 6- and 5-year bonds for the European Investment Bank for the total amount of PLN 1.750 billion;
    - An issue of 4-year bonds for PLN 2 billion for Bank Gospodarstwa Krajowego;
    - Participation as one of the lenders in syndicated financing for a company from the e-commerce sector;
    - Participation as one of the lenders in syndicated financing for a company from the FMCG sector;
    - Participation as the lead organizer, lender and credit agent in syndicated financing for a company from the pharmaceutical sector;
    - Participation as the lead organizer and lender in syndicated financing for a company from the medical sector.

3.2.3 Transaction services

Citi Handlowy is a leading provider of transactional banking services. The prestigious Euromoney magazine has declared the Citi Handlowy transactional banking services the best in Poland, for the fifth consecutive year. This award is granted on the basis of assessments of clients, who yet again chose the leader of the financial sector.

The current range of transactional products and services on offer includes:

- Electronic banking;
- Deposits and current accounts;
- Liquidity management products;
- Cross-border fund transfers;
- Card products;
- Payment and receivables processing: Direct Debit and SpeedCollect;
- EU advisory;
- Trade finance products.

Electronic banking

Following the advanced technology trends in the banking sector and in response to comprehensive needs of clients that use electronic and mobile solutions, the Bank has been improving the CitiDirect BE system. The focus is on automation and simplification of the process for setting up and handling payments. New mechanisms were introduced, which facilitate the management of user's entitlements by system administrators, which reduces the need for exchange of traditional documentation. At the same time, the electronic documentation exchange platform – eWnioski was further commercialized.

Deposits and current accounts

One of the most important elements of the Bank's strategy is concentration on the acquisition and maintenance of operating accounts. A current account gives access to all products of Citi Handlowy. Funds accumulated by the client that are not used to finance ongoing activities can be moved to term deposits or stay on a current account with a higher interest rate. The Bank also offers, among other things, negotiable deposits, automatic deposits and blocked deposits.

Liquidity management products

Liquidity management solutions reduce debt and decrease the costs of its servicing, while maintaining ability to pay liabilities. Liquidity management instruments enable the optimization of cash flows at the level of a single client or a single group of companies. The Bank provides solutions for the optimized management of liquidity surplus generated by companies and businesses with higher capital needs. Liquidity management products include:

- Consolidated account;
- Real cash pooling;
- Netting.

International fund transfers

The Bank has a comprehensive and very broad range of settlements in over 130 currencies worldwide. Responding to client needs, the Bank promoted a multi-currency account dedicated to businesses that develop their commercial, import and export operations. Cross border payments in exotic currencies (such as: Chinese yuan, Mexican peso, Indian rupee or Brazilian real) are a unique solution in Poland's market.

Card products

As part of the development of its card products, the Bank implemented a new tool – the Virtual Client Academy. This is an interactive platform, dedicated to the holders and administrators of Corporate Card Programs, which was created on the basis of experiences and in response to needs reported by the clients. The users of the Academy can profit from a database of instructional videos that explain how to use the card platforms, schedules of settlement cycles, document repository and an interactive multimedia presentation with the full offer of Transactional Banking.

The Bank made available technological solutions which involve API-based communication for its clients using prepaid cards. Thanks to these works, selected clients and holders of prepaid cards may check in real time the available funds and history of transactions performed with their cards. The solution supports also PIN management processes and the activation and blocking of cards.

In the area of business cards, a solution was launched on a pilot basis that enables the clients to manage parameters of their cards from the application level (change of limit, activation and blocking of card, etc.). The client does not need to call the Bank to submit an instruction of that type, which simplifies the processes on both sides.

Another solution in the area of business cards, whose implementation was completed, is the functionality that makes it possible to dynamically change the level of fee for currency conversion. These works brought a significant increase of the revenues on that basket of products offered to corporate clients.

As a result of changes in services for clients using prepaid cards, many activities tied to the telephone services, such as questions regarding card balance, were moved to communication channels that do not require contact with the Bank's employee. This not only brought an improvement of productivity and efficiency of operation processes, but also shortened the waiting time for discussion with the consultant on matters that really require urgent intervention, such as blocking a stolen card. Reducing the burden on the call centre, tied to such queries, is one of the examples of the strategy of digitization of the operational processes, implemented by the Bank, which demonstrates that process optimization can be beneficial both for the Bank and for its clients.

Payment and receivables processing: Direct Debit and SpeedCollect

The Bank offers convenient and effective payment and receivable processing tools. These advanced solutions are designed for companies and institutions that have mass customers that buy their products and services.

- Direct debit

This tool enables the effective collection of receivables from payers, while reducing collection costs. Citi Handlowy is the leader of the direct debit segment (it processes the highest transaction volumes in the market) and,moreover, as the only bank in Poland, it has a text messaging option for payers (Comfort Direct Debit).

- SpeedCollect

SpeedCollect is a service for automated booking of receivables, dedicated to creditors – recipients of mass payments. The Bank offers also advanced receivables reconciliation solutions. The virtual account functionality makes it possible to include in the account number some details considered important by creditors, such as the contractor number or the number of the creditor's sales unit that settles its proceeds. The volume of SpeedCollect transactions processed by Citi Handlowy is continuously at a very high level in that market segment.

EU advisory

In the first half of 2019, clients of the Bank actively used an EU-funding advisory program and related credit products. Among the clients, the most popular were sub-activities dedicated to businesses under Smart Growth Operational Program 2014-2020.

Trade finance products

In the first half of 2019, the Bank concluded an agreement with a large Power Company for the issue of guarantees securing transactions at the Polish Power Exchange. The value of the guarantee limit is set at PLN 300 million. In the second quarter of 2019, the Trade Finance Department of Citi Handlowy recorded an increase of its assets by 26%, in comparison to the level of assets during the same period of 2018.

The trade finance proposal of the Bank covers various solutions, such as letters of credit, bank guarantees, collection, trade credit, a supplier and distributor financing program and factoring.

At the request of the client, and in a setup adapted to the client's needs, the Bank offers trade finance services (factoring / supply chain financing), using the split payment mechanism. As the Bank carefully follows proposed regulatory changes and implements the introduced changes early on, it is able to successfully prepare the clients, processes and products for the new regulatory requirements.

The Trade Finance and Service Department offers a very strong support to its clients in digitization processes. As one of the pioneering banks on the market, the Bank engineered eGwarancje (electronic guarantees) for its clients and embarked on Qualified Electronic Signature in concluding agreements under Supplier Financing Program. The development of these areas resulted in an increase of the ratio of guarantees granted in electronic form to the level of 71,5% in June 2019.

The Bank maintains the position of one of the leaders of supply chain financing, with market share exceeding 26%, and maintains the second place in that area (based on data provided by the Polish Factors Association for the second quarter of 2019).

All the activities performed by the Bank to ensure client satisfaction with the offered solutions are accompanied by regular questionnaires, testing client satisfaction, in which the Bank receives very high satisfaction rating.

3.2.4 Custody services

The Bank runs its custody operations under Polish law and in accordance with international standards of custody services offered to investors and intermediaries active in international securities markets. The Bank can meet the requirements of the largest and most demanding institutional clients.

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 of client 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.

The Bank also provides services as operator of accounts kept in the name of a client at the KDPW S.A. (Polish central depository and clearing institution), under which the Bank passes orders received from the client to KDPW S.A. and vice versa, as well as settlement confirmations and statements to accounts opened at KDPW S.A. to the client of the Bank. This service is dedicated to foreign financial institutions, in particular depository and settlement ones (financial entities classified as ICSD) and covers the management of securities accounts and collective accounts of such entities.

The Bank maintained its leading position in the market of securities transaction settlements carried out for remote members of the Warsaw Stock Exchange and BondSpot. In addition, the Bank was still the active participant of settlements of transactions concluded by foreign institutional clients on the Treasury BondSpot Poland debt securities electronic platform, managed by BondSpot S.A.

As at 28 June 2019, the Bank maintained over 14 thousand of securities accounts.

At the same time, the Bank was the depository for open-end pension funds: Aviva OFE Aviva Santander, Nationale - Nederlanden OFE (Open Pension Funds), voluntary pension funds: Nationale - Nederlanden DFE, Generali DFE, as well as for the Employee Pension Fund 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., Aviva Investors Poland TFI S.A., Templeton Asset Management (Poland) TFI S.A. and Skarbiec TFI S.A.

The Bank continued its activities to help refine legal regulations applicable to the securities market. A representative of the Bank was the Chairman of the Steering Committee of the Council of Depository Banks at the Polish Bank Association ("Council") for the seventh consecutive term of office. During the reporting period, members of the Council worked together on agreeing a good practice recommendations for the performance of depositary obligations.

The Council proactively participated in efforts to provide opinions on other draft regulations affecting activities of domestic custodian banks. With the use of its own resources, experience and competences, employees of the Bank, in cooperation with the Polish Financial Supervision Authority, KDPW S.A., KDPW_CCP S.A. and the Warsaw Stock Exchange, participated in consultations about the implementation of new solutions in the Polish capital market as part of works of working groups established at the Polish Bank Association, and in projects carried out by market working parties. The Council actively participated, among others, in the consultations of the plan for market implementation of projects tied to adaptation to the provisions of the Central Securities Depository Regulation (CSDR), and participated in consultations regarding the creation of Capital Market Strategy.

3.2.5 Brokerage activities

The Group pursues brokerage activity on the capital market via the Dom Maklerski Banku Handlowego S.A. brokerage house, which is wholly owned by the Bank.

As at the end of the first half of 2019, DMBH was the market maker for 64 companies listed on the Warsaw Stock Exchange (of which 20 from the WIG20 index), i.e. 14% of the shares listed in its main equity market.

In the first half of 2019, DMBH was the intermediary in in-session transactions accounting for 7.8% of equity turnover in the secondary market. The value of the in-session transactions concluded via DMBH in the equity market on the WSE was PLN 15.2 billion and declined by 6.7% as compared to the same period last year, with the turnovers on the WSE lower by 4%. In the period in question, the structure of in-session turnovers on the WSE changed – the share of turnovers on the client's account in total turnovers declined and the share of turnovers on DMBH's own account in total turnovers increased. In the second quarter 2019, the value of in-session transactions executed by DMBH decreased by 6% from the previous quarter, while the change in turnovers on the WSE declined by 10% in the same period.

The number of investment accounts maintained by DMBH was 13.4 thousand as at the end of the first half of 2019, And fell by 4.8% in comparison to the same period of 2018, which resulted primarily from the closure of inactive accounts, and grew by 0.3% in comparison to the end of the first quarter 2019.

In 2019 DMBH was awarded for the highest share of a local Stock Exchange Member in session trading in shares on the WSE's Main Market in 2018.

Summarized financial data as of June 30, 2019

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2019	Total equity 30 Jun 2019	Net financial result for the period of 1 Jan – 30 Jun 2019
		%	PLN'000	PLN'000	PLN'000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	598,851	98,195	631

Summarized financial data as of June 30, 2018

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2018	Total equity 30 Jun 2018	Net financial result for the period of 1 Jan – 30 Jun 2018
		%	PLN'000	PLN'000	PLN'000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	515,831	98,504	977

3.2.5 Leasing activities

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

Summary financial data as of June 30, 2019

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2019	Total equity 30 Jun 2019	Net financial result for the period of 1 Jan – 30 Jun 2019
		%	PLN'000	PLN'000	PLN'000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	22,075	21,676	(230)

Summary financial data as of June 30, 2018

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2018	Total equity 30 Jun 2018	Net financial result for the period of 1 Jan – 30 Jun 2018
		%	PLN'000	PLN'000	PLN'000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00	22,360	21,197	(233)

4. Consumer Bank

4.1 Segment results summary

PLN'000	1st half of 2019	1st half of 2018	Change	
			PLN'000	%
Net interest income	316,746	296,038	20,708	7.0%
Net fee and commission income	138,319	135,424	2,895	2.1%
Dividend income	8,598	7,918	680	8.6%
Net income on trading financial instruments and revaluation	13,539	14,066	(527)	(3.7%)
Wynik na inwestycjach kapitałowych i pozostałych wycenianych w wartości godziwej przez rachunek zysków i strat	925	-	925	-
Net other operating income	(7,140)	3,883	(11,023)	-
Total income	**470,987**	**457,329**	**13,658**	**3.0%**
General administrative expenses and depreciation	(342,539)	(346,210)	3,671	(1.1%)
Wynik z tytułu zbycia pozostałych aktywów	(32)	-	(32)	-
Net impairment on financial assets and provisions for off–balance sheet commitments	(52,767)	(25,270)	(27,497)	108.8%
Tax on some financial institutions	(11,941)	(11,008)	(933)	8.5%
Profit before tax	**63,708**	**74,841**	**(11,133)**	**(14.9%)**
Cost/Income	**73%**	**76%**		

The key highlights that impacted the gross profit of the Consumer Banking segment in the first half of 2019 compared to the corresponding period of 2018 were as follows:

- increase in net interest income as a result of increased volumes of credit products (+4.3% YoY) partially consumed by the increase in interest expenses resulting from a significant increase in deposit balances (+13.0% YoY), including an attractive promotional offer being a tool to acquire new customers from the affluent customer segment (increase in the number of customers by 7% YoY);
- increase in net fee and commission income mainly as a result of the recognition of the gains from the sale of the shares in the company owned by the Bank (details described in Note 31 to the Consolidated Financial Statements).
- decrease of operating expenses thanks to saves from the initiatives aimed at optimizing the cost base, partially reinvested in technology.

4.2 Selected business data

'000	1st half of 2019	1st half of 2018	Change	
Number of individual customers	683.3	691.5	(8.2)	(1.2%)
Number of current accounts, including:	459.6	460.8	(1.2)	(0.3%)
number of operating accounts	99.4	101.1	(1.7)	(1.7%)
Number of operating accounts acquired in the period	16.0	15.5	0.5	3.2%
Number of savings accounts	139.1	141.8	(2.7)	(1.9%)
Number of credit cards, including:	667.3	691.7	(24.4)	(3.5%)
Number of debit cards, including:	242,6	247.4	(4.8)	(1.9%)

Receivables from individual clients – management view

PLN '000	30.06. 2019 (1)	31.12.2018 (2)	30.06.2018 (3)	Change YTD		Change YoY	
				PLN '000	%	PLN '000	%
Unsecured receivables, including:	5,490,199	5,508,151	5,413,507	(17,952)	(0.3%)	76,692	1.4%
Credit cards	2,723,018	2,721,397	2,660,007	1,621	0.1%	63,011	2.4%
Cash loans	2,718,812	2,723,192	2,696,365	(4,380)	(0.2%)	22,447	0.8%
Other unsecured receivables	48,369	63,562	57,135	(15,193)	(23.9%)	(8,766)	(15.3%)
Mortgage loans	1,753,168	1,649,766	1,529,614	103,402	6.3%	223,554	14.6%
Total net individual clients' receivables	**7,243,367**	**7,157,917**	**6,943,121**	**85,450**	**1.2%**	**300,246**	**4.3%**

4.3 Business highlights

Bank accounts

Current accounts

The total balance in accounts during the first half of 2019 increased, in comparison to the end of the first half of 2018, by almost 8% and exceeded PLN 6.4 billion. The number of personal accounts at the end of June 2019 reached the level of 459 thousand, of which 257 thousand were accounts in PLN, and 202 thousand – accounts maintained in foreign currencies.

Savings accounts

The number of savings accounts as at the end of the first half of 2019 was 139 thousand, their total balance exceeded PLN 2.9 billion, as compared to 141 thousand savings accounts with the total balance exceeding PLN 2.7 billion in the prior year period.

Changes to the range of products offered

Similarly as during the previous reporting period, during the first 6 months of this year the Bank focused on acquisition of new clients in the Citi Priority, Citigold and Citigold Private Clients, through:

- promotional interest rates on term deposits,
- promotional interest rates on savings accounts,
- promotional online Citi Priority account, with free of charge access to all basic functionalities,
- recommendation program for Citi Priority, Citigold and Citi Private Client segments.

In subsequent months of 2019, the Bank is going to continue its strategy that is focused on increasing the client portfolio in selected segments, with particular emphasis on the digitization of the acquisition process.

In February 2019, the prestigious British financial magazine Euromoney once again distinguished the Bank for its Citigold and Citigold Private Client accounts. In the 16th edition of the yearly private banking market survey, the Bank was named the best in three categories: asset management, advisory in asset allocation and "Family Office Services". In the annual Euromoney ranking, banks from the top world finance select the best, in their opinion, competitors. The rankings signed with the Euromoney brand enjoy international recognition and are considered to be a reliable barometer of the condition of the industry and a reliable certificate of quality obtained from clients. Private banking from Citi Handlowy was also rewarded, for the fourth time in a row, with the highest prize, i.e. 5 stars, in the private banking ranking of Forbes magazine. The awards show that the Bank is well established as an effective and efficient player in the area of best quality private banking solutions.

Credit cards

As at the end of the first half of 2019, the number of credit cards was 667.3 thousand. In comparison to the end of the first quarter of 2019, the volume of the credit portfolio dropped by 0.8%.

The credit cards portfolio amounted to PLN 2.6 billion as at the end of the first half of 2019, which means that the Bank was still the leader in the credit card market, in terms of the credits granted on the credit cards, with a market share of 24%, according to data as at the end of June 2019.

A high level of activation and transactions was maintained for newly-acquired clients. In the first half of 2019, the acquisition structure of credit cards was dominated by the Citi Simplicity card, with a share in acquisition leveling at 92%.

Credit products

Cash loans and hire purchase products associated with credit card accounts

The balance of cash products at the end of June 2019 amounted to PLN 2.8 billion, which amounts to less than 2% increase year-on-year. Simultaneously, the balance of cash loans constituting part of this amount rose at the rate of 9%, and part of the balances and acquisitions were moved and charged to the credit card limits.

The total sales of cash products amounted to PLN 0.6 billion during the first half of 2019. The Bank continues its strategy of sale of cash products in remote and online processes, which results in significant increases of sales to the group of new clients of the Bank. During the first half of the year, dynamics of this segment reached 30%, compared to the same period of 2018.

Mortgage products

In the first half of 2019, the Bank was still selling mortgage loans via its own sales channels and credit agencies, rolling out its sales also in the online channel. The offer of mortgage loans was continuously directed primarily to selected client segments, that is, Citigold Private Client, CitiGold and Citi Priority.

The sales of mortgage products in the first half of 2019 reached the value of PLN 203 million, which represented a growth by PLN 56 million, or by 38%, in comparison to the same period of 2018. As at the end of that period, the mortgage portfolio amounted to PLN 1.77 billion, i.e. by 14% more than in the first half of 2018.

Investment and insurance products

Investment products

As at the end of the first half of 2019, the funds under management as part of investment products (including investment insurance products, without dual currency investments) acquired by retail clients via the Bank were 2.5% lower as compared to the same period in 2018.

This decline applied primarily to investment funds, insurance capital funds and assets in instruments kept in accounts maintained by Dom Maklerski Banku Handlowego S.A. (the Brokerage House of Bank Handlowy S.A.), (DMBH).

In the structured product segment, the Bank completed 29 subscriptions for PLN, USD, GBP and EUR denominated structured bonds in the first half of 2019.

Insurance products

In February 2019 the Bank extended the range of available insurance solutions by introducing an additional version of life insurance for borrowers. The product is addressed to clients with already active loan agreements, who did not take advantage of this kind of insurance at the time of concluding the loan agreement. The insurance benefits are linked to the outstanding loan amount, and the scope of insurance can include coverage in the case of death, temporary inability to work (for persons professionally inactive – hospitalization), permanent inability to work, serious illness.

During the first half of 2019, the Bank continued the development of offering insurance products in the various sales channels (online, telephone, branch-based) and to the various client segments. It focused its offer on the wide range of life insurance solutions, using the specialist model of client service for insurance solutions offered to affluent clients of the Citigold and Citigold Private Client segments.

4.4 Development of distribution channels

4.4.1 Direct acquisition

In the first half of 2019, the Universal Bankers retail distribution channel continued its new client acquisition strategy while focusing on credit products: credit cards and cash loans. As in previous years, mobile sales force carried out its activities throughout Poland from local branches situated in six cities.

Universal Bankers supported also the creation of the Bank's image as an innovative institution, proposing modern solutions and focused on the clients' needs, through the presence at cultural and social events, such as concerts organized by the Bank's partner – the Live Nation agency.

4.4.2. Branch network

Construction of a Smart Bank Ecosystem

The first half of 2019 for the network of Citi Handlowy outlets was a period of continuing the implementation of the Bank's strategy and consolidation on the basis of the Bank Smart Ecosystem. Currently, the Bank provides services to its clients in 12 outlets operating in the six biggest cities, where the Bank invariably sees the largest potential in the target client segments it has chosen as the basis of the development strategy for consumer banking.

The Smart outlets focus on acquisition of new clients and on providing the top level of service to current clients. At the branches, the clients can perform all service transactions and can obtain products that meet their financial needs: credit cards, loans, accounts and insurance.

The Bank is still developing remote service processes, which enable it to offer its clients more and more transactions that can be executed without the need to visit a brick and mortar branch.

Number of branches and other points of sale / touch points at the end of the period

	30.06.2019 (1)	31.12.2018 (2)	30.06.2018 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	**22**	**23**	**26**	**-**	**-**
HUB Gold	8	7	8	1	-
Smart HUB Gold**	1	2	2	(1)	(1)
Investment Center	1	1	1	-	-
Smart branch	11	12	14	(1)	(3)
Corporate branch	1	1	1	-	-
Other PoS/touch points:					
Smart Mini	0	3	4	(3)	(4)

4.4.3 Internet and telephone banking

Internet Banking

The online platform of the Bank for retail clients is built in a responsive technology, i.e. it aligns itself with a device used by the client. Modern design was inspired by comments of clients and extended functionality makes other channels 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. In addition, an investment profile can be created and updated in accordance with the MIFID II regulation and in the coming quarter a transactional module for investment funds is going to be accessible.

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 396,000 as at the end of the second quarter of 2019.

The share of active Citibank Online users in the entire client portfolio of the Bank was 59.19% as at the end of June 2019, i.e. it increased by 0.41 p.p. as compared to the second quarter of 2018.

At the same time, digital users accounted for 81.2% of all transactionally active clients at the end of the first half of 2019, which is an 0.75 p.p. increase as compared to the first half of 2018.

In the second quarter of 2019, the share of the credit cards sold via the online channel was about 40% of the whole credit card acquisition at the Bank.

Mobile Banking

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 on the changes on the account or card, and login activation with the use of a fingerprint or face recognition, which makes access to the application easier. Also a new module dedicated to Citi credit card holders was launched. The clients shall profit from the simplified and intuitive navigation and from functions that facilitate everyday banking, such as quick conversion of transactions into installments. It is the first phase of the implementation of the Bank's new mobile app planned this year.

As at the end of the second quarter of 2019, 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, exceeded 206,000, i.e. increased by about 5% as compared to the second quarter of 2018.

The share of active users of mobile banking in the retail client portfolio of the Bank was 30.81%, i.e. increased by 2.01 p.p. as compared to the same period in 2018.

Social media

Social media still constitute an important channel of communication with clients. Since the beginning of 2019, the Bank reaches not only the users of Facebook, Twitter or LinkedIn, but also of Instagram and Messenger, using for this purpose the integrated Facebook Ads advertising system. The activities are carried out in two areas – Usage/Brand building and Acquisition. On a monthly basis, the Bank reaches more than 1.2 million of Facebook users and 700,000 of Instagram users. The Bank strongly focuses also on the use of video materials – on average, 10 audiovisual content materials are produced per month. The matters presented in social media include not only current offers for new and existing clients, but also issues tied to education on Digital Security, CSR activities or the use of the mobile app.

As part of the new cycle based on social media communication, "Citi Inspires – People with a Passion", the Bank interviews well-known and respected representatives of the travel, music and cuisine worlds. The Social Media channels receive an average of 900 queries per month, both from the existing and potential clients of the Bank. The average response time was under 7 minutes.

5. Changes in information technology

In the first half of 2019, a strategic goal of the Bank in the area of IT technology was to continue increasing the competitiveness of the Bank by providing top quality products and services with the extensive use of innovative solutions, digitization and automation and concurrently with cost optimization. In accordance with prevailing market trends, the technology of the Bank is based, to a large extent, on centralized services and outsourcing. The services centralization processes enable the Bank to generate savings, improve quality, standardize processes and ensure a high level of control and information security. As the promotion of electronic distribution channels and the decision to link banking products with the most advanced technologies, including online and mobile solutions, are vital components of the Bank's strategy, the Technology Division of the Bank focused its activities on the development and implementation of solutions which support those business objectives.
IT processes of the Bank are executed in accordance with international standards, which was confirmed, in the first quarter of 2019, by the positive outcomes of recertification/supervisory audits of compliance with ISO 20000 (Information technology – service management), ISO 27001 (information security management) and ISO22301 (business continuity management).

The most crucial modifications and improvements implemented in H1 2019 included:

- **in institutional banking:**
  - **implementation of solutions that increase the level of digitization for communication between the Bank and its clients –** new solutions will be implemented to increase the digitization of communication between clients and the Bank. As a result of new changes, more and more clients can use digital channels to submit and download documents to/from the Bank. The Bank expects that those changes will increase the level of digitization of communication and reduce the volume of non-digital documents exchanged with its clients;
  - **Implementation of a system supporting treasury processes at the Bank** – the new solution will ensure increased level of process automation in the management of the Bank's treasury activities and digitalization of services for corporate clients;
- **in consumer banking:**
  - **The new release of Citi Mobile, launching new credit card functions under the mobile app** – development of mobile banking is one of the key items of the Bank's strategy. The first phase of changes focused on developing the functionalities of credit cards. These new functionalities will significantly facilitate credit card

management for the clients: they will enable personalization of information, simplify the checking of history and – which is very important – will enable the clients to convert the transaction into installments;

- **launch of the Kontomatik application for automatic verification of bank statements for clients applying for credit products** – this new application not only significantly accelerated the credit process, thanks to the automated verification of authenticity of bank statements supplied by the clients, but also reduced the risk of credit fraud through reducing the possibility of accepting faked statements;
- **migration of the Autodialer application** (controlling telephone calls in the area of collection and telesales) **to a newer ICT environment** – which led to limiting the level of operating risk, including through increased environment redundancy level, which in turn reduced the risk of unavailability of the application that gives the Bank significant financial benefits;

- **in the scope of adaptation of systems of the Bank to ensure their compliance with regulatory requirements:**
  - continued implementation of regulatory changes, adapting the Bank's IT systems to the requirements of financial market regulations tied to **PSD2**; the planned implementations shall ensure compliance of the Bank with subsequent requirements of the **PSD2** regulations, in force as of September 2019;
  - implementation of further regulatory changes to adapt IT systems of the Bank to the requirements of the AML regulations (anti-money laundering and combating of terrorist financing);
  - analysis and implementation of regulatory requirements tied to designation of the Bank as key services operator within the meaning of the Act on the National Cybersecurity System;
- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - continued implementation of improvements to increase the security of use of the CitiBank Online platform, including the implementation of additional authentication mechanisms at the server level to secure the systems against possible attacks and manipulation of data of defined customers of the client;
  - introduction of improvements in mobile banking for retail clients to minimize the exposure of applications to the risk of fraudulent transactions;
  - modernization of the network and telecommunication infrastructure in 11 locations of the Bank, in accordance with the demand of the Bank's business units and to mitigate the EoVS risks; completion of the development of the corporate WiFi infrastructure in all Gold and Smart branches;

Technology units proactively develop and improve their portfolios of services to fully meet both current and future business needs of the Bank. They propose and deliver to their business partners optimal technology solutions used to build competitive advantage. Technology units actively support initiatives which enable a broader use of information technologies that automate processes at the Bank and increase the services digitization level.

Pending and not completed initiatives and modifications of systems which will affect the operations of the Bank in the near future are presented below:

- **in institutional banking:**
  - **implementation of systems which support activities of the Financial Markets and Corporate Banking Sector in the area of derivative instruments** – implementation of the new platform is carried out to use more advanced product solutions offered in Citi group of companies and to execute the strategy of consolidation of product solutions; as a result of that implementation the Bank expects a higher effectiveness and automation of processing of derivative instruments;
  - **implementation of solutions for robotization of operating processes of the Bank** – the platform for robotization of business processes is being implemented to increase the effectiveness of back-office processes used by the Bank; as a result of that implementation the Bank expects an increase in effectiveness and automation of back-office processes;
  - **implementation of the EMV solution for prepaid cards** – extending the functionality of the prepaid card with the new EMV solution in order to deliver new products (Paypass) and to increase the security of the card product;
- **in consumer banking:**
  - continued **automation and digitization of sales processes (straight through processing) in the area of consumer banking products –** for credit card, cash loan and account-related processes**;**
  - launch of a service that allows for **automated confirmation of a client's identity** – in order to accelerate and increase the acquisition of new clients;
  - **continued improvement of the online and mobile banking platform** (addition of a new functionality and products) in order to increase the client satisfaction level, revenues and security;
  - launch of **a new marketing platform** to automate distribution of materials during advertising campaigns;
- **in the scope of adaptation of systems of the Bank to ensure their compliance with regulatory requirements:**

- further adaptation of IT systems of the Bank to an enhanced scope of transaction monitoring within the framework of anti-money laundering activities;

- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - implementation of additional new-generation security solutions in banking systems;
  - migration of the telephone system to Cisco voice solutions, including the application of the “Softphone first” rule, optimization of the voice recording and contact center services;
  - continued upgrading of the information and communication infrastructure in various locations of the Bank in accordance with the needs of the Business and in order to optimize costs and mitigate EoVS risks; in particular, full upgrading of the information and communication infrastructure in RPC Olsztyn location;
  - increasing the capacity of the Bank’s international communication links, to address the demand of the information and communication infrastructure with relation to planned migrations of the telephone system, and the change of structure of the technology of desktop environments;

6. Equity investments of the Group

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In the first half of 2019, the Bank continued to pursue its earlier equity investment policy. The Bank managed the strategic investment portfolio in order to maximize profits in the long term, increase its market share, stimulate development of the Bank’s relations and expand the Bank’s offering; the Bank managed the divestment portfolio in order to optimize gains on equity transactions and minimize the risk inherent in such transactions.

6.1 Strategic investment portfolio

This portfolio includes companies running a business in the financial sector which contribute to the Bank’s product offering, bring prestige to the Bank’s operations and strengthen its competitive position in the Polish financial services market.

Strategic holdings also include infrastructure providers operating for the benefit of the financial sector. The Bank holds minority interest in such companies but they are of strategic importance to the Bank in view of their operations as well as their cooperation with the Bank.

The Bank intends to retain its strategic holdings in infrastructure providers and play an active role in defining the strategic directions of their development by exercising its right of vote. The overall aim of the Bank when exercising corporate governance over such companies is to maintain their development without affecting their business operations, which is taken advantage of by the Bank as well as other financial market participants.

6.2 Portfolio of investments intended for sale

Divestment holdings are entities in which the Bank’s investment is not strategic. They include entities held directly and indirectly by the Bank, as well as special purpose vehicles used by the Bank to execute equity transactions. Some of these holdings are restructured exposures which originate from debt-to-equity conversion performed by the Bank.

The strategic aims for the Bank with regard to such companies is to gradually reduce the Group commitment. The assumption is that individual participations will be sold whenever market conditions are most favourable. The portfolio of companies intended for sale includes equity investments without a predetermined rate of return. The Bank is not planning any new equity investments which would be sold later. The portfolio of companies intended for sale might be increased with additional exposure taken over by the Bank as part of debt for capital swaps or acquired in the course of operating activities.

6.3 Special-purpose investment vehicles

As at 30 June 2019, the Group included two investment vehicles through which the Bank runs capital transactions. The activity of the companies was financed with the partner’s returnable contributions to capital and with their net profits.

As the Bank continues to pursue a strategy of restricting the activity run through special-purpose investment vehicles, it is expected that further investment vehicles will be gradually sold or liquidated.

According to information available as at the date of preparation of the financial statements, the main financial data of the companies in question as at 30 June 2019 were as follows:

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2019	Total equity 30 Jun 2019	Net financial result for the period of 1 Jan – 30 Jun 2019
		%	PLN ‘000	PLN ‘000	PLN ‘000
Handlowy - Inwestycje Sp. z o.o.	Warsaw	100.00	10,862	10,815	2
Handlowy Investments S.A.	Luxemburg	100.00	17,203	17,134	(1)

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2018	Total equity 30 Jun 2018	Net financial result for the period of 1 Jan – 30 Jun 2018
		%	PLN '000	PLN '000	PLN '000
Handlowy - Inwestycje Sp. z o.o.	Warsaw	100.00	11,135	11,090	13
Handlowy Investments S.A.	Luxemburg	100.00	18,832	18,391	(263)

VII. Key risk factors relating to the operations of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Regulatory risk

Legal acts	The essence of the regulated issue
Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for retail collective investment products and insurance investment products – (PRIIPs).	• This is to improve the protection of individual investors which buy such products. • The regulation imposes various new obligations on entities which create and sell PRIIPs (including the Bank and DMBH), first of all with respect to the scope of presentation of certain information to investors.
Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU together with secondary regulations "MiFIDII"; Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No. 648/2012 together with secondary regulations "MiFIR"; The Act on trading in financial instruments of 29 July 2005, together with secondary regulations.	• The purpose of this regulation is to strengthen the widely understood safety of trade in financial instruments, in particular through the introduction of detailed organizational requirements (e.g. appropriate structure and distribution of tasks, managing conflicts of interests, product management, requirements regarding the so-called incentives), the transparency of business (e.g. reporting of transactions to the regulator, publishing selected transaction details) and solutions meant to protect the clients using services in the area of financial instruments (e.g. the obligation for reliable, clear and non-misleading information for the client regarding product features and related risks, as well as testing the appropriateness of financial instruments).
Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014 ("BMR").	• The Regulation defines, among others, the rules for management and control performed by administrators who develop benchmarks in financial instruments and financial contracts, the requirements regarding action by entities transferring data and requirements regarding entities using the benchmarks in certain types of financial contracts and financial instruments. The Bank is a supervised entity, transferring the data for the purpose of developing the benchmarks, it is also the user of benchmarks for the purpose of certain contracts.
Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories as well as delegated and secondary regulations ("EMIR").	• The EMIR regulation imposes on entrepreneurs being financial and non-financial counterparties a number of obligations tied to the conclusion of derivative transactions, and in particular transactions concluded outside the regulated market. • The EMIR obligations apply in particular to transaction reporting, central settlement of transactions, confirmation of transactions, reconciliation, compression and provision of collateral for transactions.

The Act of 21 February 2019 amending certain Acts in connection with the assurance of application of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).	• Pursuant to the Act, the banks may, in order to assess creditworthiness and to perform analysis of credit risk, make decisions based only on automated processing, including profiling, of personal data – including data constituting bank secret – under the condition that the person affected by the automated decision is guaranteed the right to – receive the relevant explanations regarding the basis for the decision made, – obtain human intervention in order to obtain a renewed decision, and – to express his/her own position. • The Act introduces also a catalogue of data that may be used for the purpose of making the automated decisions. Automated decisions, including profiling, may be made solely on the basis of data necessary due to the purpose and type of credit. It is forbidden to use for that purpose sensitive data, that is, special categories of personal data listed in Article 9 of the GDPR, including racial or ethnic origin, political opinions, religious or philosophical beliefs, trade union membership, genetic data, biometric data, data concerning health, sexuality or sexual orientation. The Act regulates in a comprehensive manner the issue of providing explanations regarding the assessment by the bank of creditworthiness of an individual or another entity requesting credit or a cash loan. • The change concerned also the catalogue of data that the bank is authorized to process in order to examine the warranty which should be provided by members of the bank's management board and supervisory board, as well as the range and basis for the processing of the broadly defined employee data (including data of candidates, employees and data required for the Company Social Fund).
The Act on the National Cybersecurity System (entry into force – 28 August 2018), implementing the Directive (EU) 2016/1148 of the European Parliament and of the Council concerning measures for a high common level of security of network and information systems across the Union (the so-called NIS Directive).	• The purpose of the Act is to build a system for identification of and reaction to cybersecurity incidents in service sectors with key importance to maintain the critical social and economic activity, including banking. • On the basis of criteria included in the Act, the Bank has been recognized as key services operator, with consequences including the obligation to: – report serious incidents to the appropriate CSIRT (computer security incident response team), – develop documentation on the cybersecurity of the used IT systems, technical and organizational solutions (Regulation of the Council of Ministers on the documentation of cyber security of IT systems used for the provision of key services and the Regulation of the Minister of Digital Affairs on the organizational and technical conditions for entities providing services in the field of cybersecurity and on the internal organizational structures of operators of key services responsible for cybersecurity), – perform at least every two years an audit of information and communication security.
Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication.	• The Regulation lays down the rules for application of the strong authentication and the rules for communication between payment services providers who maintain the payer's payment account and payment services providers who perform the service of payment initiation and the service of access to account;
Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No. 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges.	• The Regulation introduces changes to two groups of issues: – The obligation to align charges for cross-border payments in EUR with charges for domestic payments of the same value made in local currency. – Information obligations regarding payment transactions (card-based and bank transfers) tied to currency conversion.
EBA guidelines on fraud reporting under PSD2.	• Date: 01.2019 • Under the guidelines, providers of payment services in 28 Member States must collect and report data relating to payment transactions and fraudulent payment transactions by using a consistent methodology, definitions and data categories. The guidelines are to ensure a uniform reporting of transaction data in accordance with the requirements of the second Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market.

Recommendation L on the role of statutory auditors in the process of supervision over banks.	• Date: 03.2019 • Changes include a new model of cooperation between auditors and the supervisory authority and changes in the process of selection of auditors and audit firms by banks. Recommendation effective date: 31 March 2019.
Guidelines regarding stress tests performed by institutions.	• Date: 01.2019 • The purpose of the guidelines is to ensure common organizational requirements, methods and processes for the performance of stress tests by institutions, taking into account capital adequacy and risk management, as part of the risk management processes employed by these institutions.
The Act of 23 October 2018 amending the Act on PIT, the Act on CIT, the Act - Tax Ordinance and certain other acts.	• The Act partially implementing into the Polish legal framework the EU Directive 2018/822 introducing the obligation to identify and report to the Head of the National Revenue Administration by, among others, banks and their employees events meeting the statutory recognition criteria indicating the occurrence of tax schemes. • The Act introduced a number of changes concerning the process of collecting income tax in a lump-sum form (the so-called withholding tax), in particular in situations where the payment of revenues covered by this form of taxation is made to an entity covered by a limited tax obligation. Entities obliged to collect tax were obliged to show due diligence in the event of applying reduced tax rates or exemptions, and also to make this activity conditional on exceeding the statutory thresholds for the amount of tax.

The following factors, among others, will affect the financial and organizational situation of the Group of Bank Handlowy w Warszawie S.A. in the second half of 2019:

- **The Act of 4 October 2018 on employee capital plans**: introduction of the long-term saving program for employees that would operate in the form of investment funds and voluntary retirement funds for which the Bank could act as depository;
- **Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication**: the Regulation lays down the rules for application of the strong authentication and the rules for communication between payment services providers who maintain the payer's payment account and payment services providers who perform the service of payment initiation and the service of access to account;
- **Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (Regulation) and the resulting amendments to the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organized trading, and on public companies (the "Act")**: introduction of amendments with respect to conducting public offering of securities, in particular with relation to the replacement of the current definition of public offering indicated in the Act with the definition contained in the Regulation and to broadening of the concept of public offering, which may be tied to a change of the manner for conducting public offerings / distribution of financial instruments to clients of the Bank, including the inclusion of an investment company into the process of offering financial instruments;
- **Act amending certain acts with relation to the transfer of funds from the open pension funds to individual pension accounts (draft):** assumes the liquidation of open pension funds (the OFE) through their transformation into specialist open-end investment funds and the transfer of funds of OFE members to individual pension accounts of the participants, maintained by these funds;
- **The Act on liability of collective entities for acts prohibited under the pain of penalty and on amendment to certain acts (draft)**: extending the basis for liability of collective entities to include behaviors of collective entities having the features of prohibited act. Waiver of the requirement to first obtain a judgement of conviction for an individual, as a prerequisite. In addition, the collective entity shall be liable together with an entrepreneur (its counterparty) for the cooperation which resulted in the prohibited act being performed.
- **The Act on amendment to certain acts in order to limit payment backlog (draft):** the purpose of this regulation is to introduce rules that effectively limit delayed payment of trade receivables. Moreover, the legislator wants to limit the phenomenon of setting excessively long payment deadlines in contracts, even if the creditor consents, for various reasons, including economic reasons, to enter into a contract that is unfavorable to him.
- **The Act on amending certain acts to reduce regulatory burden (draft):** extending the regulations on consumer protection to individuals conducting business activity, who conclude with another entrepreneur a contract tied directly to their business or professional activity, but which does not have a professional nature for them. Such entrepreneurs would be covered by protection provided for consumers, with respect to the use of abusive clauses, warranty for defects and also protection with regard to the right to withdraw from a distance or off-premises contract.
- **Act on accessibility (draft)**: the requirement for the bank to ensure that persons with disabilities have the right to obtain general terms and conditions of agreements and regulations in forms accessible to persons with disabilities, such as: audio recording, visual recording of the contents in the Polish sign language, a Braille printout or printout

with a comfortable font size, within 7 days from the time such person notifies such need. Simultaneously, the bank should make available the contents of general terms and conditions of agreements and other regulations in forms accessible to persons with disabilities through its electronic banking system.

- **Act amending the Act on value added tax and certain other acts (draft)**: the published draft act imposes on entrepreneurs the obligation to apply the split payment mechanism when paying for goods and services listed in appendix no. 15 to the act, which are documented with an invoice in which the total amount due is an amount referred to in Article 19 (2) of the Act of 6 March 2018 – the Law of Entrepreneurs. In addition, the Act allows the entrepreneurs to use funds collected in their VAT accounts for the purpose of settlements with the revenue office, tied to VAT, CIT and PIT, excise duty, customs duties and liabilities tied to Social Security Institution contributions.
- **Recommendation B on the mitigation of banks' financial investment risk:** The purpose of the amended Recommendation B is to indicate to the banks good practices for mitigating risk of investments whose value is determined by price parameters. The Recommendation specifies deadline for adaptation by 31 December 2019.
- **Recommendation Z on internal governance at banks**: Recommendation Z will provide a set of good practices in the area of internal governance. In particular, the document will refer to such issues as general principles of internal governance, organizational structure, roles and responsibilities, the composition and functioning of the supervisory board, the management board, and senior management, a code of conduct (ethics) and conflict of interests, rules of remuneration, risk management and internal controls, information systems and communication, the introduction of new products, a dividend policy, an outsourcing policy, business continuity and the transparency and integrity of management system at a bank.
- **EBA's Guidelines on the Management of Interest Rate Risk Arising from Non-trading Activities**: The EBA published the Guidelines on the Management of Interest Rate Risk Arising from Non-trading Activities with a view to defining supervisory expectations as to such risk. The Guidelines take into consideration supervisory expectations and practices, including standards concerning the interest rate risk in the banking book published by the Basel Committee in April 2016 (BCBS standards). These guidelines are both the first milestone and a bridge to the implementation of the IRRBB requirements reflected in CRD V / CRR II, the banking reforms package commenced in November 2016.
- **Recommendation S on good practices for management of credit exposures secured with mortgages**: The draft of amended Recommendation S provides, among other things, for an obligation to add to product ranges of banks fixed-rate loans with an option to convert a variable-rate loan to a fixed-rate loan. The draft also includes a possibility to consecutively inform client groups of the possibility to convert the loan if the bank foresees that it will not be able to process all the expected applications.
- **Guidelines on outsourcing**: The Guidelines lay down consistent rules for internal governance and management of risk associated with the entrusting of certain activities by financial institutions to external providers (outsourcing), including outsourcing of services with the use of cloud processing. The Guidelines shall come into effect on 30 September 2019.

2. Risk management principles

The Group carries out risk management by implementing cohesive rules, controls and tools through the Group, taking into account supervisory requirements and best market practices.

The risk management system used in the Group, which is based on the shared responsibility concept, is arranged on three independent levels ("three lines of defense"):

- Level 1, i.e. organizational units responsible for the activity which results in taking risks and responsible for risk management in the Bank's operational activity, as well as for risk identification and reporting to the second-line units;
- Level 2, i.e. risk management at organizational units, regardless of the first-line risk management, and the activity of the compliance unit – units or persons responsible for setting risk management standards in identifying, measuring or assessing, limiting, controlling, monitoring and reporting and for supervising controls applied by other organizational units of the Bank to mitigate risk – organizational units of the Risk Management Sector, Compliance Department, Finance Management Sector, Legal Division, Human Resources Division;
- Level 3, i.e. Internal Audit units which ensure independent assessment of both risk management processes and internal control system.

When organizing its risk management processes, the Group takes into account its risk profile, strategic and business objectives, available capital and liquidity resources, macroeconomic environment and regulatory requirements – these factors make up the framework of the risk control and management system.

Risk management processes are implemented on the basis of documented policies and rules relating to identification, measurement, mitigation, control, monitoring and reporting of risks to which the Group is exposed, approved by the Management Board, authorized persons in accordance with the rules of issuance of legislative acts at the Bank or duly established Committees, including:

- Assets and Liabilities Committee (ALCO);

- Risk and Capital Management Committee, which includes the Models Commission and the Consumer Bank Risk Commission;
- New Products Committee;
- Business Risk, Control System and Compliance Committee.

The risks connected with activities of the Group are mitigated by a system of limits arising from risk appetite and the management information system used by the Bank enables it to monitor risk levels by providing management with portfolio information on a regular basis.

The Group carries out the management of all significant risk families arising from the execution of its business strategy. As part of the process initiated in 2019 to identify key risk families, the Management Board of the Bank concluded the following were significant for the purposes of risk management and the internal capital estimation and maintenance process:

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

Definition	• Risk of a client's failure to perform their liabilities. • Risk of the counterparty's failure to perform their liabilities arising from a transaction, before or on the date of its final settlement.
Risk management strategy	• The primary objective of credit risk management is to support the long-term plan of stable growth of the credit portfolio, while maintaining appropriate quality. The credit process is based on a number of fundamental principles, such as: – Business and independent risk management units share responsibility for quality of the credit portfolio and credit process and for any credit losses; – Conduct must be in compliance with the guidelines on the portfolio structure to ensure its diversification and to keep balance between risk and capital; – A system of credit-related authorizations must be implemented which assumes that special authorization to make credit decisions may only be granted to properly trained and experienced employees of risk management units, taking into account their track record and risk assessment skills and abilities; – Acceptance level must depend on assumed risk – higher-risk exposures (defined taking into account both amount and level of risk) require higher-level approval; – Diversified and adequate risk assessment standards must be used for each borrower and each commitment, including as part of corrective actions; – A consistent rating process is required, which is based, *inter alia*, on results produced by rating or scoring models; – Periodic, regular monitoring of results of a client's activities and identification of adverse changes in their situation which require immediate activities to classify receivable or corrective actions are necessary; – External environment must be monitored to ensure early detection of economic threats which may adversely affect particular portfolios; – The credit policy rules must be complied with and, in special cases, approval of exceptions to the Credit Policy is required at higher organizational levels in order to ensure control of implementation of its principles in compliance with internal regulations applicable at the Bank, generally applicable laws and regulations and regulations issued by competent regulators.
Risk measurement	• Risk measurement is carried out using: rating models, scoring models and scorecards at the level of a client and provision models for portfolio risk assessment and an integrated ICAAP process, both at aggregate level and by business line.
Monitoring	• Credit risk exposures are monitored and managed at two levels: client level and portfolio level. Tools used to monitor the current creditworthiness of a borrower include: – annual comprehensive review of limits, exposures, financial situation of and cooperation with borrowers, – reports generated in the Early Warning process, – periodic financial reviews of borrowers, – periodic reviews of negatively classified credit exposures, – periodic visits to clients, – reports on ongoing contacts of employees of business units/bankers with clients,

	– analysis and assessment of external information (rating reports, analytical reports, press, sector sources, etc.), – internal classification system. • Portfolio-level monitoring – monitoring of utilization of risk concentration limits in the credit portfolio on the basis of appropriate reports, – regular periodic reviews of the credit portfolio, – “ad hoc” portfolio reviews due to sudden important external information, – monitoring of indicators determined for the retail exposure portfolio. • The monitoring of portfolio performance and the identification of trends in the portfolio are carried out using regular management information and control reports taking into account, *inter alia*, analysis of pace of changes in value and segmentation (sectors) of the credit portfolio, client risk (rating), quality of credit exposure collateral and exposures affected by non-performance, departures from applicable risk acceptance rules and limit utilization level. • The package of control reports for each portfolio is prepared on a regular basis and delivered to unit heads responsible for the client segment in question, the Risk and Capital Management Committee and the Management Board of the Bank.

Market risk

Definition	• Market risk is the risk that the financial result and equity of the Bank may be adversely affected by a change in: – market interest rates; – currency rates; – stock prices; – commodity prices; and – any parameters of volatility of such rates and prices.
Risk management strategy	• Market risk management is to ensure that the amount of risk accepted in the Group is consistent with the level acceptable for the shareholders and banking supervision authorities and to ensure that all market risk exposures are adequately reflected in calculated risk measures notified to relevant managers and governing bodies. • Adopted market risk measures and limits should prevent excessive concentrations of exposures to a single risk factor or a group of related risk factors and should enable determination of the maximum level of the risk accepted in the trading book or the banking book. • Market risk management at the Bank is based on: – applicable Polish laws and regulations, in particular the Banking Act, – applicable EU regulations, in particular the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR); – requirements of Polish and EU regulatory institutions and especially resolutions of the Polish Financial Supervision Authority (KNF), – principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market. • Market risk management covers all portfolios that generate incomes which are exposed to an adverse impact of market factors, such as interest rates, currency rates, stock prices, commodity prices and parameters of volatility of those factors. In market risk management, two portfolio types are distinguished: trading portfolios and banking portfolios. • Trading portfolios include transactions in financial instruments (on- and off-balance sheet ones) the purpose of which is to earn income connected with a change of market parameters in a short period. Trading portfolios cover on-balance sheet items, such as debt securities, categorized as held for trading, i.e. purchased for trading purposes and meeting specified liquidity criteria, and any positions in derivative instruments, provided that in this case portfolios are divided into those acquired for purely trading purposes and those created as hedging against the risk of positions included in a banking portfolio (so-called economic hedge). Valuation of trading portfolios is carried out either directly on the basis of market prices or by using valuation models that make use of price parameters quoted in the market. Activities on trading portfolios are carried out by the Interbank Transaction Division in the Financial Markets and Corporate Banking Sector for those portfolios which cover interest rate risk and currency risk. Trading portfolios also include options, including currency option transactions, interest rate options and option structures, which reflect the economic nature and risk arising from products offered to clients of the Bank. The operations of the Bank in that area are carried out so that they ensure the simultaneous (each time and immediate) conclusion of a counter transaction having the same parameters, as a result of which the option transaction portfolio generates no open market risk exposure. The only factor connected with the conclusion of option transactions which is taken into account in measurement of market risk, and specifically currency risk, is the amount of the premium paid/received in the foreign currency.

Risk measurement	• The following risk measurement methods are applied to trading portfolios: factor sensitivity (DV01) method, value at risk (VaR) method and stress tests. • Sensitivity factors measure the change in the value of the position in a given underlying instrument in the case of a specified change of the market risk factor (for example a change of the interest rate in a given point on the interest rate curve by 1 basis point or a change of the currency rate or stock price by 1%). – For interest rates, the sensitivity measure is DV01; – For currency risk the sensitivity factor is equal in value to the position in a given currency; – For positions in equity securities, the sensitivity factor is equal in value to the net position in a given instrument (stocks, index, participation unit). • The integrated measure of market risk for trading portfolios, which combines the impact of the positions in particular risk factors and takes into account the correlation effect between volatilities of individual factors, is value at risk (VaR). VaR is used to estimate the potential decline in value of a position or portfolio in normal market conditions, for a fixed confidence level and in a specified period. For positions opened in a trading portfolio of the Bank, VaR is calculated using the 99% confidence level and one-day holding period. • Both DV01 and VaR for a trading portfolio are calculated as net amounts without any economic hedging of the portfolio of securities available for sale, i.e. excluding any derivative instruments which are to secure the fair value of the portfolio. The risk exposure of such transaction is controlled by using appropriate risk measurement methods and mitigated with risk limits adopted for banking portfolios. • On a daily basis, the analysis of stress test scenarios is carried out, while assuming risk factor changes higher than those adopted for VaR measurement and ignoring any observed historical correlations between those factors. • The Bank has market risk exposures of trading portfolios in more than twenty currencies, both for currency positions and exposures to interest rate risk, but only exposures to a few currencies are significant. For a large group of currencies, exposures arise from the imperfect match of the transactions concluded upon the client's order and the counter transactions with other counterparties from wholesale markets. Significant exposures to market risk are opened for PLN, developed market currencies (mainly USD and EUR and less frequently GBP, CHF or JPY) and even currencies from Central European countries.
Monitoring	• The Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers, on a regular basis, with reports on portfolio sensitivity, value at risk (VAR), securities positions, stress test results for market risk, allocation of capital requirements relating to market risk and utilization of Trading MAT and Trading Stop Loss limits (warning thresholds). • In addition, market risk analyses are presented systematically to the following committees: the Assets and Liabilities Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

Interest rate risk for the banking book

Definition	• Interest rate risk for the banking book is the risk of an adverse impact of interest rate changes on the interest income and capital of the Group. • Interest rate risk may occur if assets and liabilities (including capital and derivative instruments that meet the requirements of hedge accounting) have different maturity dates or if their interest rates change on different dates or their interest rates are connected with different interest rate curves (basis risk), or if they include options.
Risk management strategy	• Interest rate risk management is to minimize the risk connected with the possibility of occurrence of adverse changes in market interest rates and with a negative impact of those changes on the net interest rate and, subsequently, financial result of the Group. • Market risk management at the Bank is based on: the requirements of Polish and European regulatory institutions, and especially resolutions of the Polish Financial Supervision Authority (KNF) and the EBA; and the principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market. • Interest rate risk management is carried out both at strategic and operational level. Division into particular risk management levels depends on the nature and type of decisions made by particular decision-making fora at the Bank which affect the profile and level of interest rate risk. – The strategic risk management perspective belongs to the decision-making competencies of the Assets and Liabilities Committee (ALCO) of the Bank, which manages the interest rate risk by setting risk limits for bank portfolios and performing monthly reviews of exposures and the result on portfolio management.

	– The operational management of interest rate risk is carried out by the Asset and Liability Management Department, which is authorized to open risk positions within the framework of adopted limits.
Risk measurement	• The following risk measurement methods apply to banking portfolios: interest rate gap analysis, method based on costs of closure of open interest positions (Value-at-Close) / total return on portfolio (Total Return), method based on interest income exposed to risk (Interest Rate Exposure, IRE) and stress tests. • The interest rate gap analysis uses the schedule of maturity or revaluation of on-balance sheet positions and derivatives recognized using hedge accounting or categorized as economic hedge in order to determine differences between positions whose maturity date or interest rate update date is in the subject time interval. • As a general rule applied in the interest rate gap analysis, transactions are allocated to particular bands of revaluation of positions in banking portfolios on the basis of contractual or assumed dates of change of transaction interest rates. • The Value-at-Close method determines the economic or “fair” value of positions, corresponding to market valuation of a trading portfolio. Total return on a portfolio is the sum of changes of value-at-close, accrued interest and gains/losses on sale of assets or cancellation of liabilities. • The Interest Rate Exposure (IRE) method is used for measurement of the potential impact of a pre-determined parallel shift of interest rate yields on pre-tax interest income on the banking book which may be earned in a specified time interval. This is a prospective measure. In addition, it is assumed that in standard conditions interest rate moves are identical for each currency and equal to 100 basis points up. The IRE measure is calculated separately for the position in each currency over a 10-year time horizon, provided, however, that 1-year and 5-year IRE measures are mainly used for the purposes of day-to-day monitoring and limitation of interest rate risk positions for banking portfolios. • Stress tests measure a potential impact of significant changes in the level or shape of interest rate yields on the positions opened in a banking portfolio. • The Bank carries out stress tests for pre-defined scenarios of movements of interest rates, which are combinations of moves of market factors, both defined as significant changes (large move) and crisis changes (stress move), which occur both in Poland and abroad. The extent of assumed shifts of market factors are reviewed at least annually and adjusted as appropriate to changes in the market conditions in which the Bank operates. • The Bank calculates also change to capital value as the result of fluctuations of interest rates for the individual currencies, under scenarios consistent with requirements of the CRR. • The Asset and Liability Management Department in the Interbank Transaction Division carries out activities relating to securities available for sale. Three key objectives have been adopted for activities relating to the portfolio of securities available for sale: carrying out financial liquidity management, hedging against the risk taken over by the Interbank Transaction Division from other organizational units of the Bank and opening own interest rate risk positions in portfolios of the Bank by the Interbank Transaction Division. • In order to avoid excessive fluctuations of capital funds of the Bank, caused by revaluation of assets held for sale, maximum limits are set for the DV01 (Dollar Value of 1 basis point) position, which determines the potential change in the value of risk position for a given interest rate curve on a specified nodal point (to which all cash flows in a given period are brought) caused by a shift of the market interest rate by 1 basis point up for such portfolios. Limits also cover open derivative instrument positions (for example interest rate swaps) established to hedge the fair value of a portfolio.
Monitoring	• The Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers with reports on portfolio sensitivity, securities positions, stress test results for interest rate risk of the banking book. • In addition, market risk analyses are presented systematically to the following committees: the Assets and Liabilities Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

Liquidity risk

Definition	• Liquidity risk is the risk of inability to perform financial liabilities to a client, lender or investor by their due dates as a result of mismatch between financial flows.
Risk management strategy	• The overriding goal of liquidity risk management is to ensure that the Bank and other companies from the Group have access to liquid funds sufficient to meet their financial liabilities when due (also in the event of probable extreme crisis situations). • Liquidity risk management is based on: – applicable Polish laws and regulations, in particular the Banking Act;

	– applicable EU regulations, in particular the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR); – requirements of Polish and EU regulatory institutions and especially resolutions of the Polish Financial Supervision Authority (KNF); – principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank; – taking into account best practices applied in the market. • The Group analyzes and manages liquidity risk in different time horizons and, to this end, distinguishes between current, short-term, medium-term and long-term liquidity and applies adequate risk measurement and limitation methods. The adopted measures and limits are to limit excessive concentrations with respect to the assumed structure of the balance sheet or sources of funding. • The management of long-term liquidity is a task of Assets & Liabilities Committee (ALCO) and is covered by the strategy of the Bank. It is carried out on the basis of monitoring of structural relations of the balance sheet and on the basis of regulatory long-term liquidity measures, and covers the liquidity gap analysis and the possibilities of obtaining sufficient financing sources in the future, as well as the analysis of funding costs in the context of the impact on the profitability of business operations. • The management of medium-term liquidity, within the 1-year time horizon, is a task of Assets & Liabilities Committee and is carried out on the basis of annual financing plans, which determine the levels of internal limits, plans prepared by business units of the Bank concerning changes in assets and liabilities, elaborated within the framework of financial plans for the next budget year. • The management of short-term liquidity, within the 3-month time horizon, is a task of the Financial Markets Sector and Corporate Banking Sector, and is carried out on the basis of both regulatory measures of short-term liquidity and internal limits. The Bank also analyzes the liquidity level in emergency situations, assuming, as a must, that there will be no negative gap in all time brackets in a 12-month time horizon. • Current liquidity management is a task of the Financial Markets and Corporate Banking Sector and is carried out on the basis of nostro accounts of the Bank, including in particular the mandatory reserve account with the National Bank of Poland, using available products offered by the money market and the central bank.
Risk measurement	• Liquidity risk measurement is carried out by using external supervisory measures (M3-M4, LCR/NSFR and additional liquidity monitoring indicators – ALMM) and additional measures and tools developed internally: – gap analysis – MAR/S2, – crisis/stress scenarios, – structural liquidity ratios, – market warning signals, – significant sources of financing, – emergency financing plan, – intra-day liquidity management process, – short-term liquidity gap – M1, – short-term liquidity ratio – M2.
Monitoring	• Liquidity risk monitoring and management are carried out using: supervisory liquidity risk limits determined by the Office of the Polish Financial Supervision Authority and internal prudential limits and thresholds determined for liquidity risk by the Assets and Liabilities Committee (ALCO): – limits for the S2 Report – for pre-determined currencies and time ranges; – warning thresholds for structural liquidity ratios; – warning threshold for tests of stress scenarios. • On a regular basis, the Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers with reports on the liquidity position, stress test results for liquidity risk and allocation of capital requirements relating to liquidity risk. • In addition, liquidity risk analyses are presented systematically to the following committees: the Assets and Liabilities Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

Operational risk and compliance risk

Definition	– Operational risk should be understood as a possibility of loss as a result of application of inappropriate or defective internal processes, human factors or technological systems, or as a result of external events. – Operational risk covers technology risk, outsourcing risk, fraud risk, money laundering risk, information security risk, business continuity risk, external and internal event risk, tax and accounting risk, product risk, legal risk, model risk, HR risk, concentration risk, conduct risk and reputation risk,

	connected with operational risk events, business and market practices, as well as operational risk embedded in other risks (for example credit, counterparty, liquidity or compliance risk); – Operational risk excludes strategic risk and the risk of potential losses resulting from decisions connected with taking credit, market, liquidity or insurance risks. – Compliance risk should be understood as a risk of negative consequences of non-compliance with the law, supervisory regulations, internal normative acts of the Bank and practices and standards available on the market.
Risk management strategy	• Operational risk management is to ensure a consistent and effective approach to identification, assessment, mitigation, control, monitoring and reporting of that risk and effective reduction in exposure to operational risk and, in consequence, reduction in the number of operational risk events and the severity of their outcomes. – Operational risk management is also to ensure the full integration of processes used for the management of that risk with the processes used for decision making purposes. – When organizing the operational risk management process the Group takes into account the business strategy, risk profile of the Group, macroeconomic environment, available capital and liquidity resources and regulatory requirements, which make up the framework of preparation of the system used to control and manage operational risk at the Group. • Management of compliance risk takes place as part of the Internal Control System. Management of compliance risk includes the following elements: identification, assessment, control, monitoring of the size and profile of compliance risk, reporting.
Risk measurement	• In the risk assessment process, the Group uses combinations of various risk measurement or estimation methods. – Risk assessment is to determine the probability of occurrence and the amount of future losses attributable to operational risk. To this end both quantitative and qualitative indicators are used (such as risk appetite, capital requirements, target risk profile, KRIs, data about losses and operational risk events, control issues and corrective actions, self-assessment process, risk map, key projects, risk concentration areas and rising-risk areas, scenario analysis, stress tests, changes in processes and products, operational risk attestation, information from internal and external reviews and audits and information reported to Commissions and Committees). – Such assessment also includes an analysis of both internal and external threats. A correct assessment of operational risk enables the Group to properly determine and manage the risk profile.
Monitoring	• The ongoing monitoring of operating risk is the responsibility of the Operating Risk Committee, the Control and Compliance System, the Risk and Capital Management Committee, the New Products Committee, the Bonus Committee and the various Commissions supporting the Committees. – Quality of the operational risk management process (including the self-assessment process) in particular units of the Group is checked and assessed by the Internal Audit function. – As part of consolidated supervision, operational risk data relating to the Bank and subsidiaries are presented to Commissions and Committees that support the Management Board and Supervisory Board of the Bank in the operational risk management process. – The Supervisory Board oversees the operational risk management system and assesses its adequacy and effectiveness. The Supervisory Board is supported by its committees: Audit Committee, Risk and Capital Committee and Remuneration Committee. – On the basis of synthetic reports which present the scale and types of operational risk to which the Group is exposed, risk concentration areas, operational risk management methods, probability of occurrence of operational risk events, assessment of potential adverse impact of the operational risk management methods, results of operational risk profile monitoring and operational risk appetite, submitted by the Management Board at least semi-annually, the Supervisory Board, supported by the Audit Committee and the Risk and Capital Committee, assesses the implementation of the assumptions of the strategy by the Management Board (including with respect to the operational risk management principles) and may order a review of the strategy if it deems it necessary.

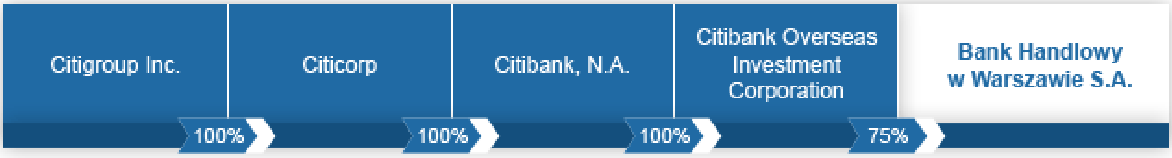
VIII. Investor information

1. The Bank's shareholding structure and performance of its shares on the WSE

1.1 Shareholders

The only shareholder of the Bank that holds at least 5% of share capital and of total voting rights at the General Meeting of Shareholders is Citibank Overseas Investment Corporation (COIC), a company belonging to the Citi Group and focused on its foreign investments. COIC is at the same time the strategic majority shareholder of the Bank. In the first half of 2019, the number of shares held by COIC as well as its stake in share capital and in total voting rights at the General Meeting of Shareholders remained unchanged and amounted to 97,994,700 and 75%, respectively.

The position of Bank Handlowy w Warszawie S.A. within the Citi Group structure is shown in the diagram below:

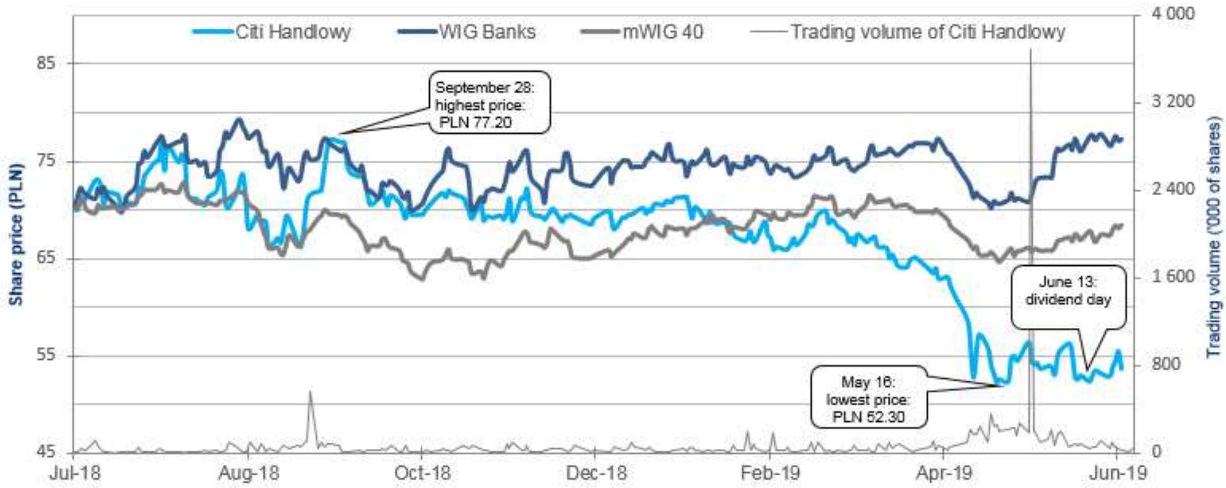


The remaining shares (32,664,900 shares representing 25% of the share capital) are free floating, which means that they are publicly traded and listed on the Warsaw Stock Exchange (WSE).

1.2 Performance of the Bank's shares on the WSE

The Bank's share price was PLN 53.70 at the end of the first half of 2019, an decrease of 24.2% within the last 12 months (i.e. compared to the closing price of PLN 70.80 as at 30 June 2018). During the same time, the mWIG 40 index recorded a year-on-year decrease by 3.3%, while the WIG-Banks index rose by 9.5% YoY.

The Bank's share price and trading volume vs. WIG-Banks and mWig40 indices in 2019
(28/06/2019 = 53.70 zł)



The Bank's highest share price since the end of the first half of 2018 was reached on 28 September 2018 at PLN 77.20 The average share price of the Bank in the last 12 months was PLN 67.31 and the average daily turnover in the Bank's shares was approximately 71,000 shares.

As at the end of June 2019, the Bank's capitalization was PLN 7.0 billion (compared to PLN 9.0 billion as at 28 December 2018 and PLN 9.3 billion as at end of the first half of 2018). As at the end of June 2019, stock exchange ratios were as follows: P/E (price/earnings) – 16.5 (compared to 14.1 as at 28 December 2018 and 14.1 as at the end of the first half of the previous year), P/B (price/book) – 1.0 (compared to 1.3 as at 28 December 2018 and 1.4 as at the end of June 2018).

The current consensus on the expected results of the Group is available on the Citi Handlowy's website at: http://www.citibank.pl/poland/homepage/polish/konsensus-wynikow.htm.

2. Dividend

On 5 June 2019, the Annual General Meeting of the Bank decided to allocate 74.82% of 2018 standalone net profit to dividend payout, which means that the dividend per share was PLN 3,74.

The table below presents the history of dividend payments since 1997 when the Bank was floated on the Warsaw Stock Exchange.

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*)
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%
2014	970,800,828	7.43	7.43	99.9%
2015	611,486,928	4.75	4.68	98.6%
2016	591,887,988	4.62	4.53	98.0%
2017	537,010,956	4.11	4.11	100.0%
2018	488,666,904	5.00	3.74	74.82%

** Dividend-pay-out ratio for 2004 - 100% plus prior year profits.*
*** On June 18, 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008 following the recommendation of the Polish Financial Supervision Authority (KNF) for the whole banking sector.*

3. Rating

As at 30 June 2019, the Bank was fully rated by an international rating agency: Fitch Ratings ("Fitch") and the Bank had the following ratings awarded by Fitch:

Long-term entity ranking *Long-term rating outlook*	A- *stable*
Short-term entity ranking	F1
Viability rating*	a-
Support rating	1
National long-term rating	AA+ (pol)
National short-term rating	F1+ (pol)

** The viability rating represents Fitch's view as to the intrinsic creditworthiness of an issuer excluding any impact of external factors.*

In the justification, Fitch declared that the Bank's ratings reflected its stable business model, conservative approach to risk, strong capital position, high quality of assets and high profitability, as well as stable financing and liquidity. Simultaneously, the Bank's rating reflects its capital surplus over the requirements imposed by the regulator and the prudent business model.

4. Investor relations

Investor relations, which ensure information to existing and prospective investors, capital market analysts and rating agencies, are an integral element of the Bank's information policy, the purpose of which is to cater for information needs of all persons and institutions interested in corporate information. In terms of investor relations, the main information policy tools are:

- regular contacts with investors and analysts in the form of conference calls and meetings, also at the Bank's premises, attended by members of the Bank's Management Board;
- support of the Press Office during quarterly press conferences for the media held after the publication of interim reports;
- publishing on the website current information on the Bank and its projects, and all current and interim reports. The website also enables contacts with the Investor Relations Office which has a broad knowledge of the Bank and its Group of Companies.

IX. Corporate governance rules in the Group

1. Best practice at the Bank

Corporate Governance Principles applied in the Group of the Bank are described in the Report of the Management Board on the activities in 2018.

2. Governing bodies of the Bank

2.1 Changes in the composition of the Management Board and Supervisory Board during the first half of 2019

3.1.1 Changes in the composition of the Management Board during the first half of 2019

In the first half of 2019, the Bank's Management Board consisted of:

Sławomir S. Sikora	President of the Bank's Management Board
Natalia Bożek	Vice-President of the Bank's Management Board
Maciej Kropidłowski	Vice-President of the Bank's Management Board
David Mouille	Vice-President of the Bank's Management Board
Barbara Sobala	Vice-President of the Bank's Management Board
James Foley	Member of the Bank's Management Board from 1 February 2019
Katarzyna Majewska	Member of the Bank's Management Board

3.1.2 Changes in the composition of the Supervisory Board during the first half of 2019

During the first half of 2019 the Supervisory Board of the Bank consisted of:

Andrzej Olechowski	Chair of the Supervisory Board
Frank Mannion	Deputy Chair of the Supervisory Board
Shirish Apte	Member of the Supervisory Board
Marek Belka	Member of the Supervisory Board until 4 June 2019
Grzegorz Bielecki	Member of the Supervisory Board until 4 June 2019
Igor Chalupec	Member of the Supervisory Board
Jenny Grey	Member of the Supervisory Board
Marek Kapuściński	Member of the Supervisory Board
Marc Luet	Member of the Supervisory Board until 27 June 2019
Anna Rulkiewicz	Member of the Supervisory Board from 5 June 2019
Anand Selvakesari	Member of the Supervisory Board
Barbara Smalska	Member of the Supervisory Board from 5 June 2019
Stanisław Sołtysiński	Member of the Supervisory Board
Stephen Volk	Member of the Supervisory Board

2.2 Rules of appointing and dismissing members of the Management Board

The Management Board consists of five to nine members. Each member of the Bank's Management Board is appointed by the Supervisory Board for an individual term of office of three years. At least half of the members of the Management Board should be of Polish nationality. The term of appointment of a Management Board member expires:

- on the day of the General Meeting of Shareholders approving the Management Report on the activities of the Bank and financial report for the full past year of the term of office of the Management Board member;
- upon death of the Management Board member;
- upon dismissal of the Management Board member;
- upon resignation of the Management Board member, submitted in writing to the Chair of the Supervisory Board.

2.3 Rights of the Management Board members

The Management Board makes decisions in matters concerning the Bank by way of resolutions, provided that decisions in such matters are not reserved for other governing bodies of the Bank by law or the Articles of Association.

By way of resolutions, the Management Board:
1) defines the Bank's strategy;
2) establishes and abolishes the committees supporting the work of the Bank and defines their mandates;
3) decides the Management Board's bylaws and submits them to the Supervisory Board for approval;

4) decides the rules of handling special purpose funds created from net profit and submits them to the Supervisory Board for approval;
5) decides on the date of payment of dividend within the time limits defined by the General Meeting of Shareholders;
6) appoints holders of general commercial power of attorney, attorneys and attorneys with powers of substitution;
7) decides in matters defined in Management Board bylaws;
8) makes decisions on matters brought by the President, Vice-President or Member of the Management Board;
9) independently decides on purchase or sale of real property, or on perpetual usufruct of, or share in, real property;
10) passes a resolution on the Bank's annual financial plan, accepts investment plans and reports of implementation of such plans;
11) accepts reports on the Bank's operations and financial reports;
12) formulates decisions regarding distribution of profit or coverage of losses;
13) approves the Bank's human resources policy, credit policy and legal principles of its operations;
14) approves the rules of the Bank's equity management;
15) approves the employment structure;
16) establishes the basic structure of the Bank's organization, appoints and dismisses Heads of Sectors, appoints and dismisses Heads of Divisions, and makes decisions on their competences;
17) establishes the audit plan at the Bank and accepts audit reports;
18) resolves other issues which, according to the Articles of Association, are submitted to the Supervisory Board or the General Meeting of Shareholders;
19) makes decisions on contracting liabilities or disposing of assets, when the total value of such liabilities or assets in relation to a single entity exceeds 5% of the Bank's own funds, or appoints authorized persons to make such decisions; however, in matters within the powers of Committees appointed by the Bank the decisions are made after consulting the relevant Committee.

The Bank's Management Board designs, implements, and ensures the operation of, the Bank's management system as well as designs, implements and updates written strategies and procedures, and undertakes actions relating to the system of risk management, internal controls and internal capital assessment as well as reviews of the internal capital assessment and maintenance processes.

3. Other principles

3.1 Information on owners of securities with special control rights towards the Bank

All shares issued by the Bank are common bearer shares and have no special control rights related to them.

3.2 Limitations regarding transfer of ownership of the Bank's shares or exercising the voting rights relating to the Bank's shares

Beside limitations stipulated by the Banking Law (Article 25 et seq.), the Bank's Articles of Association put no limitations with regard to transfer of Bank's shares.

X. Other information on the Bank's governing bodies and management principles

1. Information on the total number of the shares of the Bank held by Management Board or Supervisory Board members

According to the information available to the Bank as the parent company, the Bank's shares are held by the following members of the Management Board and Supervisory Board of the Bank:

Name	Function	Number of shares as at the day of submitting this consolidated semi-annual report for the first half of 2019	Number of shares as at the day of submitting the previous quarterly interim report for Q1 of 2019
Andrzej Olechowski	Chairman of the Supervisory Board	2,200	2,200
Total		**2,200**	**2,200**

Members of the Management Board and Supervisory Board of the Bank do not have any Bank share options.

2. Information on any agreements between the Bank and the Management Board members that provide for compensation in case of resignation or dismissal of such members without a valid reason, or when such dismissal is a result of a merger or acquisition of the Bank

Among all employment contracts between the Bank and the members of the Management Board of the Bank, there is only one contract with a member of the Management Board that provides for financial compensation in the case of termination with prior notice or for reasons specified in Article 53 of the Labour Code.

Each member of the Management Board of the Bank has signed a separate non-competition agreement with the Bank. In accordance with this agreement, if the employment relationship with the Bank is terminated, the member of the Management Board is obliged to refrain from undertaking any competitive activities in a period of 12 months (or 6 months in the case of one of the Management Board members). On account of this restriction, the Bank will be obliged to pay compensation to a terminated member of the Management Board.

XI. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Management Board of the Bank, composed as at the date of preparation of the financial statements of: Mr. Sławomir S. Sikora – President, Ms. Natalia Bożek – Vice President, Mr. Maciej Kropidłowski – Vice President, Mr. David Mouillé - Vice President, Ms. Barbara Sobala – Vice President, Mr James Foley – Member and Mrs. Katarzyna Majewska – Member, the semi-annual financial data and comparative data presented in the "Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2019" and the "Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2019" were prepared in accordance with the applicable accounting principles and give a true, fair and clear picture of the assets and the financial standing of the Bank and the Group as well as the financial result of the Bank and the Group. The "Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2019", contained in the semi-annual consolidated report, gives a true picture of developments, achievements and situation (and describes major risk) of the Group in the first half of 2019.

Other information required by the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as equivalent to information required by the law of a non-Member State (Journal of Laws [Dz. U.] of 2018 item 757, as amended) was provided in the Condensed Interim Consolidated Financial Statements of the Bank's Group of Companies.

21.08.2018	Sławomir S. Sikora	The President of Management Board
....	....	....
Date	Name	Position/Function
21.08.2018	Natalia Bożek	Vice-president of Management Board
....	....	....
Data	Name	Position/Function
21.08.2018	Maciej Kropidłowski	Vice-president of Management Board
....	....	....
Data	Name	Position/Function
21.08.2018	David Mouillé	Vice-president of Management Board
....	....	....
Data	Name	Position/Function
21.08.2018	Barbara Sobala	Vice-president of Management Board
....	....	....
Data	Name	Position/Function
21.08.2018	Katarzyna Majewska	Member of Management Board
....	....	....
Data	Name	Position/Function