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

MARCH 2020

In accordance with § 71 item 8 of the Ordinance of the Minister of Finance on current and periodical information provided by issuers of securities and the conditions for regarding information required by the law of non-member state as equivalent dated 29 March 2018 (Journal of Laws of 2018, item 757, as amended), report on activities of the Bank and the Group was prepared in the single report. The information in the report refer to the Group (including the Bank) or only to the Bank as specified in the individual chapters, tables or descriptions.

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I. Introduction

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

Bank Handlowy w Warszawie S.A. ('Bank','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 fostering its leading position among banks which provide services to international corporations and the largest local companies. Small and medium enterprises sector (SME) is another group of clients which is significant for the Group. Concentration on acquiring new clients coupled with efforts to strengthen relations with the existing clients from selected industries, as well as support for clients who seek their business opportunities abroad (the initiative Emerging Market Champions) are the key for building the Group's market position.

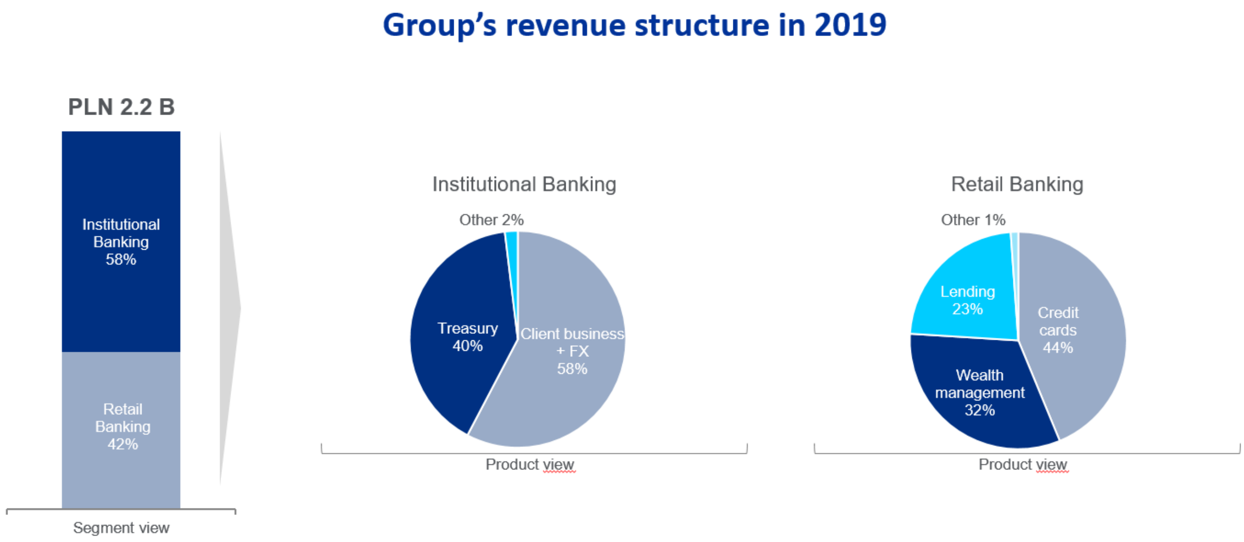
The Group 's objective is to play the role of Strategic Partner to Polish enterprises, who actively supports the expansion of the Polish industry. This is tangibly reflected in the Bank's product offer with foreign exchange transactions and products associated with trade finance and secure trade transactions being its important and inextricable part. Furthermore, the Bank strives to maintain the status of one of the safest venue for keeping institutional clients' savings, which delivers many state-of-the art and useful solutions in operational accounts and day-to-day cash management.

The Bank's sound capital position and its landmark network of international connections, is also appreciated by consumer banking clients. The Bank uses its competitive edge in this regard to foster its leader position in net worth clients banking. Aim-driven, the Bank is constantly developing 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. In the retail segment, the Bank focuses on investment products and unique rewards for clients who decide to use the Bank's online wealth management products. The Bank's geographic breadth thanks to its international connections, makes the offer for individual clients more attractive and a unique experience in global banking.

Other individual clients, notably emerging affluent clients for whom the Bank develops a special proposition - Citi Priority, also are very important for the Bank. Citi Handlowy refines its package solutions to foster deposit based relations with clients from that segment and to address at the same time their lending needs.

Moreover, Citi Handlowy is an undisputed industry leader in credit cards with access to products from Citi global product range, accepted worldwide and providing exceptional value to the client, such as, among other rewards, loyalty reward schemes. The Bank aims at further 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 as well as innovative and agile processes.

Dom Maklerski Banku Handlowego S.A. (DMBH) (the Brokerage House of Bank Handlowy) is one of the most active actors in Poland's capital market and one of the leaders in terms of share in turnover on the Warsaw Stock Exchange.



2. History of the Bank Handlowy w Warszawie S.A.

Founded in 1870, Bank Handlowy w Warszawie S.A. is the oldest commercial bank in Poland today and one of the oldest continuously operating banks in Europe. After 150 years in the market, Bank Handlowy has developed a strong brand. Since 2001, the Bank has been a part of Citigroup, a global financial institution, and has since operated in Poland under the brand name of Citi Handlowy.

Today, under the brand name Citi Handlowy, Bank Handlowy w Warszawie SA offers a broad and modern range of products and services of corporate, investment and retail banking. Affiliation with Citi, the leading global financial institution, ensures that clients of Citi Handlowy have access to financial services in more than 100 countries. For more information, please visit http://www.citibank.pl/poland/homepage/polish/historia.htm.

Citigroup is a leading global provider of financial services. Its customer base totals approx. 200 million clients, including consumers, corporations, governments and their agencies, and various institutions in more than 160 countries. It offers a wide range of financial products and services including corporate and investment banking, consumer banking, credits, insurance, securities market services and asset management. For more information, please visit www.citigroup.com or www.citi.com.

3. Major developments in 2019

The year 2019 was the time of implementation of the growth strategy in the key areas of the Group activities, which is confirmed by the following achievements and events:

- Another year of a two-digit **growth rate of loans** in Institutional Banking **(+ 11% yoy),** mainly due to growing credit volumes of global clients and the largest Polish enterprises, thus reaching the highest level in history, ie PLN 16.4 billion;
- Strengthening **the leadership position in global banking**: launching a new initiative for international SMEs investing in Poland and for the third year in a row double-digit growth in global clients' assets (+ 26% yoy at the end of 2019);
- The first choice bank for **domestic and international financial institutions**: conducting securitization transactions worth PLN 4.5 billion (80% of transactions on the Polish market in 2019);
- **High customer transactions** in Institutional Banking: average balance of operational accounts +24% yoy;
- **Continuation of automation and digitization** of processes in Institutional Banking:
  - biometric identification in the CitiDirect BE mobile application;
  - introduction of the CitiManager Mobile application for corporate card users;
  - development of an electronic document exchange platform (eWnioski);
  - automation of the system of issuing guarantees and collateral letters of credit (e-guarantees constituted 65% of the volume of all guarantees issued by the Bank at the end of 2019 compared to 20% of the volume of e-guarantees at the end of 2018).
- **Implementation of projects for sustainable development and environmental protection** in special economic zones (financing the construction of waste incineration plants - Lower Silesia, financing the construction of the battery factory for electric cars - South Poland);
- **Consistent development of relationship banking** in Retail Banking: increase in deposit volumes by 13% yoy, thanks to the acquisition of new clients in the strategic client group (Citi Private Client, Citigold, Citi Priority) by 30% yoy;
- Confirmation of **the leader position** of Citi Handlowy in **private banking**:
  - an increase in the investment portfolio by 8% yoy, thanks to the introduction of a new offer to invest in treasury bonds using the Bank's expertise;
  - increase in the number of Ultime cards by 28% yoy;
  - introduction of a new service dedicated to clients of video materials about the situation on financial markets.
- **The introduction of the first cash loan sales model for new customers on the market in Poland** using biometrics, thanks to which the time of granting a loan is reduced from about 5-7 days to even 30 minutes ("time to money"). At the end of 2019, sales of new cash loans using online channels accounted for 81% of total sales;
- **Growing customer involvement in the area of credit cards**: increase in customer spending volumes by 2% yoy. thanks to the unique model that promotes customer transactions. The increase in customer transactions is possible thanks to the use of contextual banking and the introduction of special facilities for credit card customers (Comfortable Online Installments, Card Loans and Citi Specials Program).

4. Strategy 2019-2021 - development prospects for the Bank Handlowy w Warszawie S.A.

4.1 General development objectives of the Group

In 2018, Citi Handlowy set out its strategy for years 2019-2021 („the Strategy"). It is a continuation of the strategy for years 2016-2018 regarding Citi Handlowy's fundamental operational framework and the strategy's focal points are:

- coherent offer for companies seeking for a global financial partner (specifically in foreign exchange products),
- maintaining its leading position in the segment of global companies,
- providing full services to dynamically growing companies in a new economy, seeking complex banking solutions (for example cash management products),
- 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).
- building the scale of business by pursuing strategic partnerships that will allow for both growing the customer base

and building additional credit volumes through access to new, yet untapped groups of customers,

- the digitalization and simplification of new customer acquisition process, i.e. the use of state-of-the-art technological solutions (such as biometrics and AI).
- growing the wealthy customer base (Citigold, Citi Private Client) thanks to continuous enlargement of product offer, launch of extended advisory services and regular updates of our offer of structured products and investment funds.
- enhancing Customer Experience, using modern contextual banking development tools,
- keeping a leading position in credit cards,
- client security (in terms of both high liquidity, secure capital level and in cyber-security),
- changing the organizational culture to simplify and streamline processes and to promote cooperation and diversity,
- rise in value for investors.

The first year of applying the Strategy brought about the first measurable effects allowing the Bank to embark on the implementation of long-term objectives:

- increase in FX volumes by 9% YoY among institutional banking customers;
- a new personalized offer for companies from the software development industry (the so-called new economy), including automation of FX hedging transactions;
- double-digit growth in global customer assets (+ 26% YoY at the end of 2019);
- The Bank participated in the largest transactions on the corporate banking market in Poland in 2019: arranging consortium agreements PLN 3.8 billion for a client from the e-Commerce industry and PLN 1.8 billion for a client from the retail industry and conducting two securitization transactions in the amounts of PLN 1.2 billion and PLN 2.5 billion;
- implementation of the first online credit process on the market for new clients using biometrics;
- an increase in the number of retail clients in strategic segments: Citi Private Client (CPC) + 57% YoY, Citigold + 30% YoY and Citi Priority + 29% YoY;
- new solutions based on AI / Machine Learning (Recommendation Engine, Shopping Queen) promoting the increase in contact efficiency with clients and informing clients about benefits under the Citi Special and PricelessSpecial partner programs in real time;
- implementation of the new CitiMobile application (offering, among others, the possibility of spreading the transaction by credit card into installments, all card benefits in one place, changing and setting PIN);
- Bank's capital security maintained at a high level: high quality of assets and capital, capital adequacy ratio (TCR) at 17.2%, i.e. 3.6 pp above regulatory capital thresholds;
- continuation of automation processes at the Bank: as part of the "Paperless" project, paper consumption dropped by 26% YoY;
- in accordance with the Management Board's announcement, the Bank paid out 75% of profit for the year 2018 in the form of a dividend.

In 2020, the Bank will continue the adopted Strategy taking into consideration its changing environment. The Bank will pay significant attention to the development of its offer using a partner model in consumer banking, which should translate into a more dynamic increment in credit volumes. In the institutional client segment, cooperation with companies which extend or intend to extend their business abroad will remain the main point of focus and in the field of support processes the Bank will still be committed to the digitization and simplification of processes and their automation.

Bank's competitive position

The Bank belongs to the group of 10 largest banks in Poland in terms of balance sheet total and it holds a special strong competitive position in institutional client banking and, specifically in:

- providing services to global enterprises and enterprises involved in international trade
- foreign exchange products and trade finance products
- securitization transactions
- cash management
- custody and brokerage services

In consumer banking, the Bank retains its strong market position:

- on the credit card market
- in a complex offer for affluent clients (CPC, Citigold segments)
- services in Wealth Management.

This is a good moment for the Group to generate further growth. It is possible thanks to its strong capital position and a good quality of its credit portfolio, and also high liquidity. In addition, a significant competitive advantage is the global range and unique proposal for institutional clients running international operations as well as for individual clients travelling and investing in global markets.

4.2 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. 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. 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.

4.3 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 introduction of Employee Capital Plans (PPK), should positively affect Poland's capital market in the long run, it is also a chance to increase the activity level in institutional client segment (the PKKs should be fully implemented by 2021).

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 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.

4.4 Consumer banking

In 2020, 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 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.

The Bank will strive to strengthen its leading position in the area of banking for affluent client segment. Aim-driven, the Bank will continue to develop its offer for Citigold Private Client (CPC) and Citigold clients. The Bank is going to increase the portfolio of clients from those segments by proactive acquisition and reinforcement of relationships with existing clients. Clients from the CPC and Citigold segments will have at their disposal a network of 9 modern, fully renovated financial service centers located in 8 major Polish cities. They will meet their financial and investment needs with the help of dedicated, professional personal advisors. 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.

In 2020, the Bank will strive to digitise the process of opening a current account by launching a fully remote acquisition process based on biometric identity verification. Expanding the range of FX products and services, the Bank will strive to acquire new clients, also from lower segments, responding to current market trends and customer needs.

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 2020, the Bank will also continue 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 2020 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 mentioned strategic partnerships and development of the personal account offer will allow us to better implement this goal, owing to better possibilities to sell a cash loan in addition to the already owned banking products.

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 2020, the Bank will develop the remote customer acquisition process, introduced in 2019, which allows for identity verification based on facial biometrics, extending it to new products (current account) and channels. The Bank will also strive to implement digital solutions using the benefits of PSD2.

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.

5. Awards and honors

In 2019, the Bank, DMBH and the Kronenberg Foundation at Citi Handlowy were awarded prestigious titles and rewards:

- The Bank was named once again the **Leader of Treasury BondSpot Poland Market** regarding turnover on the bond spot market. In turn, 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.
- On the 25th anniversary of Krajowy Depozyt Papierów Wartościowych (the Central Securities Depository of Poland), Citi Handlowy was awarded **a special prize by KDPW for active support and for taking intensive measures on the Polish post-trading services market**. For years, Citi Handlowy has been the largest custody bank in Poland, the leader in terms of kept clients' assets with KDPW and one of the leaders in terms of turnover on the WSE.
- **Transactional banking** (TTS) at Citi Handlowy for yet another year in a row took first place in a prestigious ranking of **Euromoney** magazine, winning the "Market Leader" and "Best for Overall Service" titles. For six years now Citi Handlowy has been an unquestionable leader in Treasury and Trade Solutions on the Polish market.
- The prestigious British financial magazine **Euromoney** once again distinguished Citi Handlowy also in its yearly market survey of **private banking and Wealth Management**. Citi Handlowy was also distinguished in three categories: *Asset Management, Family Office Services and Advisory services and analysis regarding asset allocation*.
- **Citi Handlowy's Private Banking** was also awarded by the **Forbes magazine,** which in its prestigious ranking once again granted **five stars to Citi Handlowy's Private Banking.** Citi Handlowy focuses on emphasizing a global nature of its offer, especially addressed to clients doing business 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.
- **Citibank World Elite Mastercard Ultime** black credit card again made it to the podium of the **best prestigious cards ranking organized by Forbes**. The Ultimate black card was designed and dedicated to high-net-worth clients - the package of extra services offers, among other products, insurance worth millions of euros, lifestyle manager's assistance and an access to elite sites.
- 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.
- Citi Handlowy (together with Citibank Europe plc) entered the 1st edition of the **Diversity & Inclusion Rating**. This is a new initiative of the Responsible Business Forum and Deloitte, aimed at measuring advancement level of a company in terms of building a diverse, inclusive and ethical organization. The first edition of the rating included 5 companies which demonstrated the highest level of diversity management.
- Citi Handlowy's employees involved in Citi Pride Poland received (together with representatives from Citibank Europe plc), the title of the LGBT+ Employee Network of the year in the competition **LGBT+ Diamonds 2019 Polish Business Awards** for taking measures supporting LGBT+ persons in the organization. This is another distinction for activities promoting the building of a work place which supports diversity as a proxy for Citi's organizational culture.
- The Bank was ranked 4 in the category Banking financial and insurance sector in **the Responsible Companies Ranking 2019**. This is a ranking of the largest companies operating in Poland assessed for their corporate social responsibility management (CSR). The ranking enables the companies to credibly assess their involvement in addressing issues related to sustainable development and it is a precious educational tool.
- For two years, Citi Handlowy has been a member of the **Super Ethical Company Forum**. This prestigious group includes companies which are named the "Ethical Company" consecutively over the period of three years. As a Super Ethical Company, Citi Handlowy shares its experience, transfers its best practices, promotes an ethical approach to business and inspires changes. Since the first edition of the competition, Citi Handlowy has been recognized for the most complex and systemic involvement in building and fostering an organizational culture based on ethics and values.
- By the end of 2019 the Bank was included in the **RESPECT Index**, the first index of socially responsible companies in Central and Eastern Europe, initiated by the Warsaw Stock Exchange. The Bank was one of the few listed companies awarded continuously since the inception of the index in 2009. Since 3 September 2019, the Warsaw Stock Exchange has published a new index, **WIG-ESG** embracing large size companies traded on the WSE as part of the WIG20 and mWIG40 indexes, replacing the RESPECT Index since January 2020. The Bank is among the companies qualified for the WIG-ESG Index.

II. Poland's economy in 2019

1. Main macroeconomic trends

External environment

The global economic growth slumped in 2019 to app. 2.7% compared with 3.2% in 2018. The slowdown of the global economy was triggered by, first and utmost, tensions in trade relations between the United States and China, which contributed to considerable slowdown in global trade. The economic slowdown as such considerably affected the euro zone, including, mostly, Germany. Such a downturn was visible mainly in the industrial sector and it was reflected in PMI indexes that hit new 9-year-lows and in industrial production data. The services sector fared much better. Economic growth in the euro zone dropped in 2019 to app. 1.2% from 1.8% and in Germany to app. 0.6% from 1.5%. In such a landscape, the U.S.'s economic growth turned out to be exceptionally high and the American economy grew by app. 2.3% as compared with 2.9% in 2018, mainly as a result of the continued dovish fiscal policy.

At the same time, major central banks responded to the worsening perspectives for business by easing their monetary policy. In September, the European Central Bank reduced the deposit rate by 10 bps to -0.50% and it activated an asset purchase program for 20 billion euros per month. On the other hand, the Federal Reserve cut interest rates three times by 25 bps to 1.75% and it also began to enlarge again the balance by buying treasury bills per 60 billion dollars per month. As a result of such cuts, yields on basic debt markets diminished and yield curves became significantly flatter.

The emergence of a new type of coronavirus in early 2020 in China and its gradual spread to other countries has led to a significant deterioration in the outlook for the global economy. As a result, a sharp and largest declines in stock markets since 2008 has been recorded. In order to support market sentiment, the American Central Bank lowered interest rates at the extraordinary meeting in early March by 50 bp and we expect further cuts to the range of 0-0.25%. Other central banks also decide to ease monetary policy, and governments of affected countries ease fiscal policy.

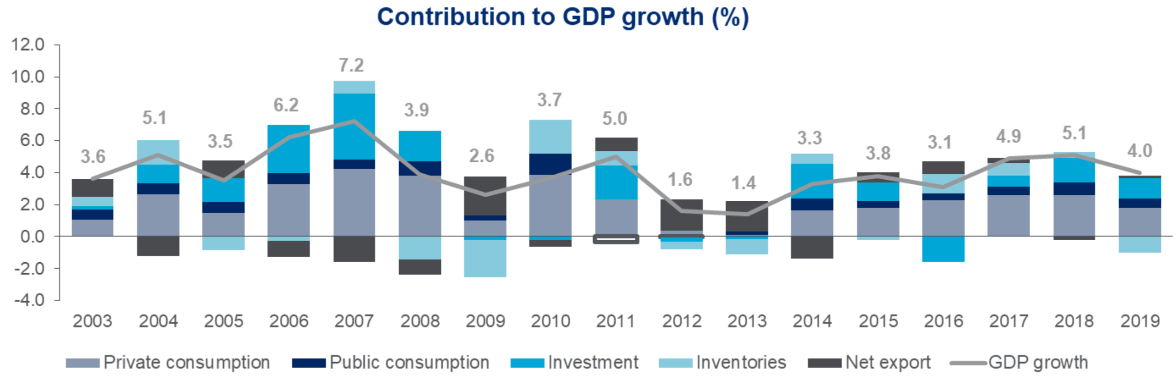
Gross Domestic Product

The Poland's Gross Domestic Product slowed down in 2019 to about 4.0%, as compared to 5.1% in 2018. Economic growth became more healthy in the first half of the year but the third quarter was the first flop for eleven quarters and in the fourth quarter the slowdown was already much deeper to about 3%. The growth in 2019 was still propelled mainly by domestic demand, which slackened off to app. 3.8% from 5.3% in 2018. Such a result was an outcome of a slight downturn in private consumption to 3.9% from 4.3% and in investments to 7.8% from 8.9%. The share of net export increased to 0.4 pp from -0.4 pp, with a much deeper slump in imports than in exports.

Private consumption was fueled by good labor market conditions and increased transfers to households. Pays at enterprises in 2019 did not rise as much as in 2018, falling inconsiderably to 6.6% as compared with 7.1% in 2018. Although employment was down to 2.7% from 3.4%, it was not harmful as the unemployment rate dropped at the end of 2019 to 5.2% as compared with 5.8% at the end of 2018. Surveys made by the central bank imply that the peak of pay pressure occurred at the turn of 2018 and 2019 however the minimum wage rise should keep the dynamics of salaries at a quite high level also in 2020. The government decided to, among other measures, enlarge the 500+ program, to pay out additional pensions and to slash personal income tax rates. The effect of that stimulating program is to be visible also in 2020.

The growth of investments in the entire year 2019 was quite high primarily because of investments by large and mid-size companies, with a palpable slowdown in investments in the public enterprises sector. That slowdown in investments reverberated in construction production shrinking to as much as 4.8% from 21.1%. The intensive inflow of EU funds boosted the ongoing strong increase of investments.

Due to the outbreak of the COVID-19 pandemic in 2020, we expect a deep slowdown in GDP growth, most likely below 2% compared to 4.1% in 2019, while both private consumption and investment outlays slowed down. We also expect a slowdown in export and import dynamics with a much lower contribution of net exports than in 2019 and with poor results in global trade.



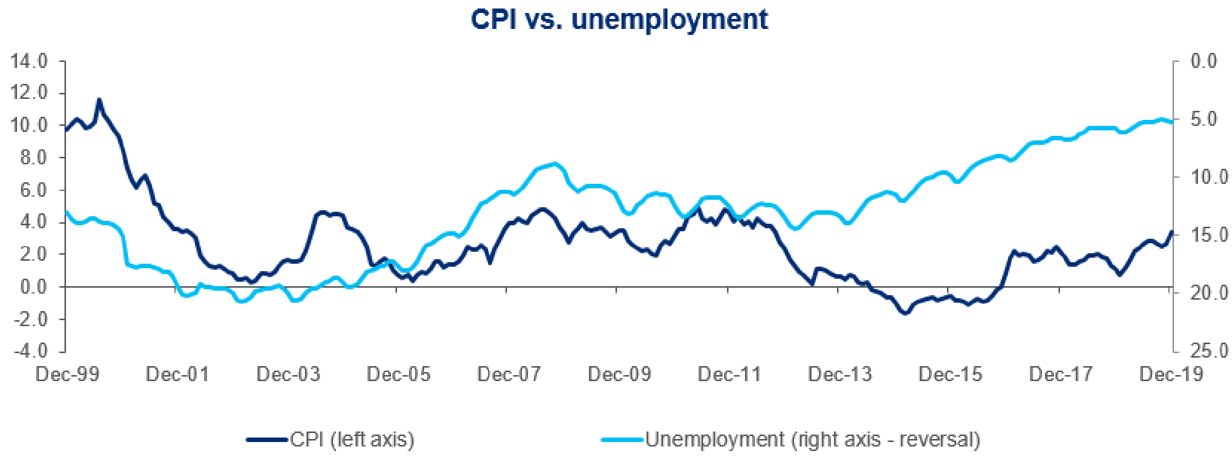
Source: Chief Statistical Office, Citi Handlowy forecasts

Inflation

Price levels of consumer goods and services in 2019 rose on average by 2.3% as compared with 1.7% in 2018. During the year, inflation visibly rose from 0.7 in January to 3.4% in December. Such a gradual increase of inflation resulted primarily from a quicker than it could have been concluded from seasonal patterns, growth of food prices caused by drought and the impact of ASF in China on global pork prices. In addition, the rate of growth in consumer prices depended on the increase of net inflation rate on average to 2% from 0.7% annually, and to 3.1% in December from 1% in January. The increase of net inflation rate was also an outcome of growing supply pressure in connection with the maintenance of a supply gap and tensions on the labor market.

At the beginning of 2020, inflation surprised again, rising to 4.4%, as a result, among other factors, high food prices,,higher energy prices and higher waste disposal charges. At the same time in our opinion, inflation will grow temporarily and statistical effects and the slowdown of economic growth will cushion inflation below 3% at the end of the year.

Considering the fact that inflation was rising and the economy was shrinking, the Monetary Policy Council decided to uphold the reference rate at its historic low level of 1.50%. The interest rate market began to price interest rate cuts along with the increase in the probability of a deep economic slowdown.



Source: NBP, GUS, Citi Handlowy

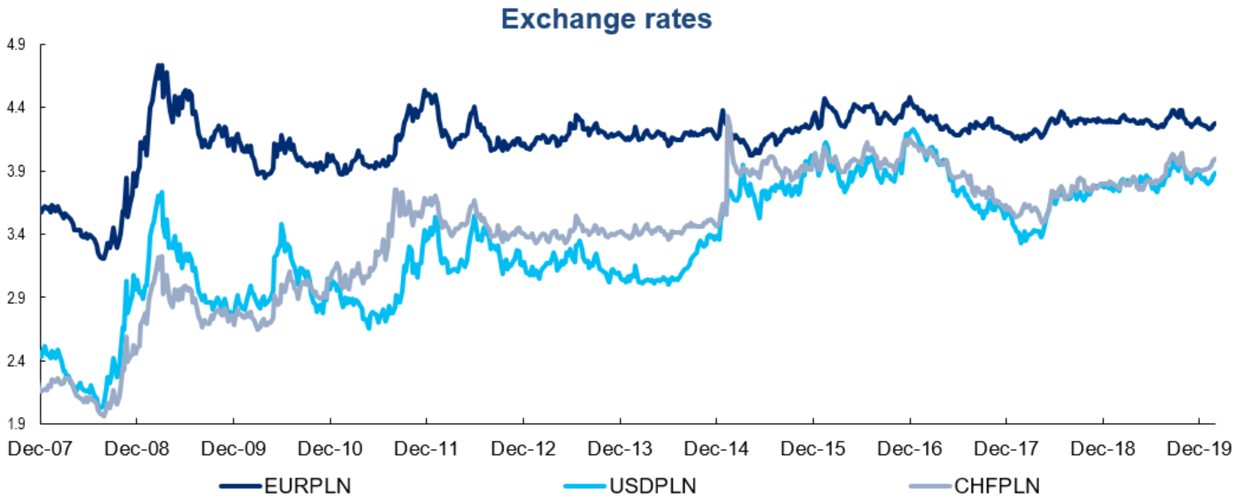
2. Money and forex markets

In 2019, the Polish zloty appreciated by about 0.9% versus the euro and by about 1.6% to the U.S. dollar. In the past year, the zloty against the euro was exceptionally stable. Despite of a temporary increased volatility in the third quarter, the average implied volatility was record low in the past year. At the end of the year, the EUR/PLN rate hit levels close to those quoted at the end of 2018, namely app. 4.30. Although some of the investors might be afraid of the CJEU's ruling concerning CHF loans and potential ramifications for the zloty, the zloty made up for the losses once the ruling was issued. The zloty also remained stable against the euro despite of a gradual appreciation of the dollar against the euro over the year. An increase in the USD/PLN rate was the only consequence of the appreciation. As a result, over the year, the EUR/PLN rate decreased to 4.26 from 4.29, the USD/PLN rate rose from 3.74 to 3.80 and the CHF/PLN rate increased from 3.81 to 3.91.

The money market rates remained relatively stable during 2019. The WIBOR 3M rate was 1.71% at year end, as compared with 1.72% at the end of 2018. The past year was characteristic of a palpable decline of profitability particularly at the long end of the yield curve (by 50 - 80 base pts), making eventually the curve flatter. The decline in yields on Polish 5-year and 10-year bonds and the compression of the spread to the yield on German 10-year bonds, has been the highest since 2014. Declining yields on underlying debt markets considerably fostered the debt market. In the case of Polish 10-year bonds, the scale of decline in yields was more harmful than in the case of German bonds (although Germany's economic slowdown was much more severe) and it was close to the change in yields on American bonds.

The debt market grew in strength despite of rising inflation. The issue how the monetary policy would develop was more important than inflation itself. Although the Monetary Policy Council (the MPC) did not change interest rates and it confirmed its decision to keep the interest rates unchanged as long as possible, the FRA market began to measure interest rates cuts. External threats as to Poland's economic growth and expected slowdown entailed such an approach. Furthermore, bonds prices reflected the budget's good performance and considerably lower borrowing needs as compared with the initial estimates. As a result, at the end of the year, 2-year yields went up to 1.49% from 1.35% at the end of 2018 while 5-year yields on bonds dropped to 1.83% from 2.29%, and 10-year yields to 2.13% from 2.85%.

In the first quarter of 2020, there was a significant decline in market rates due to the deterioration of the outlook for the global and domestic economy. At the same time, the zloty depreciated against the euro, but on a rather limited scale, especially when compared to other emerging market currencies.



Source: Reuters, Citi Handlowy

3. Capital market

The year 2019 was an underwhelming year for the domestic equity market, particularly in the context of outstanding performance by stock indexes around the world. The alleviated trade conflict between the USA and China, the FED's shift towards a more dovish approach and the ECB's Asset Purchase Program, turned out to be insufficient arguments to spark a greater interest in Polish stocks. Notwithstanding the fact that economic growth kept its high pace, an uncertainty as to the impact of the CJEU's ruling regarding CHF loans on the banks' results, and the decisions concerning freezing energy charges (weighing on the energy sector) tarnished the opinion of the equity market among the investors. A supply of stocks on the part of Open Pension Funds (OFE) was another factor that spoiled stock prices.

Given all this, the broadest market index (WIG) closed the year at a level comparable with its year-end showing in 2018. Top companies in market capitalization reeled under pressure. The WIG20 index drifted downwards another year in a row, this time by 5.6% (2.6% including dividends). At the same time, an index for mid-cap companies, the mWIG40 index remained flat. As regards the sWIG80 index - with the rate of return at 13.9% - rebounded partially after the very sluggish 2018. From the perspective of industries, the very robust performance of a widely understood TMT sector is noticeable. A sub-index made up of companies from the computer gaming industry unquestionably ushered in an upsurge and saw new peaks (+87.7%). Also WIG-Informatyka (+42.3%) and WIG-Telekomunikacja indexes for IT and telecoms companies (+40.9%) earned handsome returns. On the other hand, the WIG-Paliwa index for fuel companies (which led the rally in 2018) lost much of its bloom by 18.9%. Similar lows were also hit (by 18.6%) by a sub-index composed of companies from the energy sector.

In 2019, the initial public offerings market mired in stagnation. The main floor welcomed stocks from 7 new players (six moved from the New Connect market and one as an outcome of division by spin off). The aggregate value of the offerings amounted to scarcely PLN 35 million (compared with PLN 301 million in the preceding year). On the other hand, the last year was characteristic of a record number of withdrawals. 23 entities left the main floor thus at the end of December 2019 stocks of 449 companies were traded on the Warsaw Stock Exchange WSE (including 48 foreign companies).

The aggregate capitalization of all the entities traded on the WSE main floor shrank by 5% YoY to PLN 1,104 billion (including PLN 550 billion from the capitalization of domestic companies).

Stock market indices, as at 31 December 2019

Index	2019	Change (%)	2018	Change (%)	2017
WIG	57,832.88	0.2%	57,690.50	(9.5%)	63,746.20
WIG-PL	59,064.17	0.3%	58,889.85	(9.7%)	65,183.78

Index	2019	Change (%)	2018	Change (%)	2017
WIG-div	1,051.08	(1.7%)	1,069.63	(11.9%)	1,213.88
WIG20	2,150.09	(5.6%)	2,276.63	(7.5%)	2,461.21
WIG20TR	3,914.45	(2.6%)	4,018.80	(5.4%)	4,248.89
WIG30	2,472.20	(4.2%)	2,581.52	(8.6%)	2,825.27
mWIG40	3,908.20	0.0%	3,909.37	(19.3%)	4,847.27
sWIG80	12,044.34	13.9%	10,571.10	(27.6%)	14,595.76
Sector sub-indices					
WIG-Banks	6,768.39	(9.2%)	7,453.65	(12.1%)	8,481.97
WIG- Construction	2,278.75	19.0%	1,915.00	(32.1%)	2,819.16
WIG-Chemicals	8,390.97	(10.3%)	9,350.86	(38.9%)	15,297.93
WIG-Energy	1,961.62	(18.6%)	2,410.68	(19.4%)	2,990.57
WIG-Games	18,765.23	87.7%	10,000.00	-	-
WIG-Mining	3,089.84	(9.7%)	3,423.39	(22.1%)	4,394.93
WIG-IT	2,834.29	42.3%	1,991.93	(2.4%)	2,041.80
WIG-Medicines	5,197.43	1.8%	5,105.98	(12.4%)	5,827.07
WIG-Media	5,375.11	19.1%	4,513.06	(5.8%)	4,791.34
WIG-Automotive	3,521.67	(0.5%)	3,540.98	(31.6%)	5,174.38
WIG-Developers	2,460.44	28.7%	1,911.66	(13.0%)	2,198.05
WIG-Odzież	5,665.06	(5.9%)	6,021.68	(19.8%)	7,506.99
WIG-Oil & Gas	6,489.03	(18.9%)	7,998.16	12.0%	7,140.43
WIG-Food	3,126.05	(7.6%)	3,383.22	(6.7%)	3,627.59
WIG-Telecom	873.56	40.9%	619.93	(16.8%)	745.44

Source: WSE, Dom Maklerski Banku Handlowego S.A.

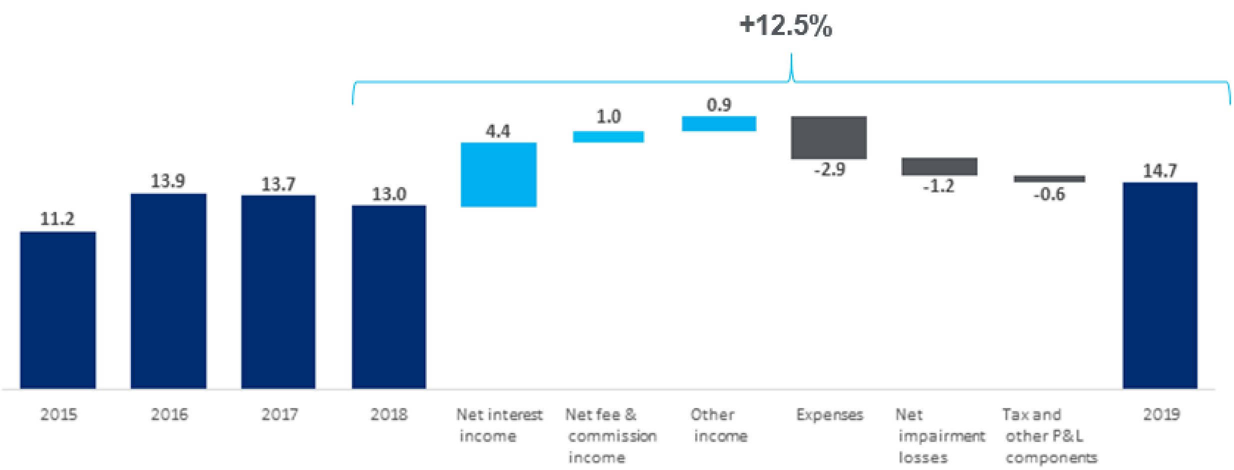
Value of trading in shares and bonds, volume of trading in derivatives on WSE, as at 31 December 2019

	2019	Change (%)	2018	Change (%)	2017
Shares (PLN million)*	390,533	(7.8%)	423,700	(18.8%)	521,957
Bonds (PLN million)	3,178	19.4%	2,662	(8.0%)	2,893
Futures ('000 contracts)	13,457	(14.5%)	15,741	7.5%	14,637
Options ('000 contracts)	474	(19.2%)	586	(3.8%)	609

*Source: WSE, Dom Maklerski Banku Handlowego S.A, * including session and block transactions.*

4. Banking sector

Net profit of the banking sector (PLN billion)



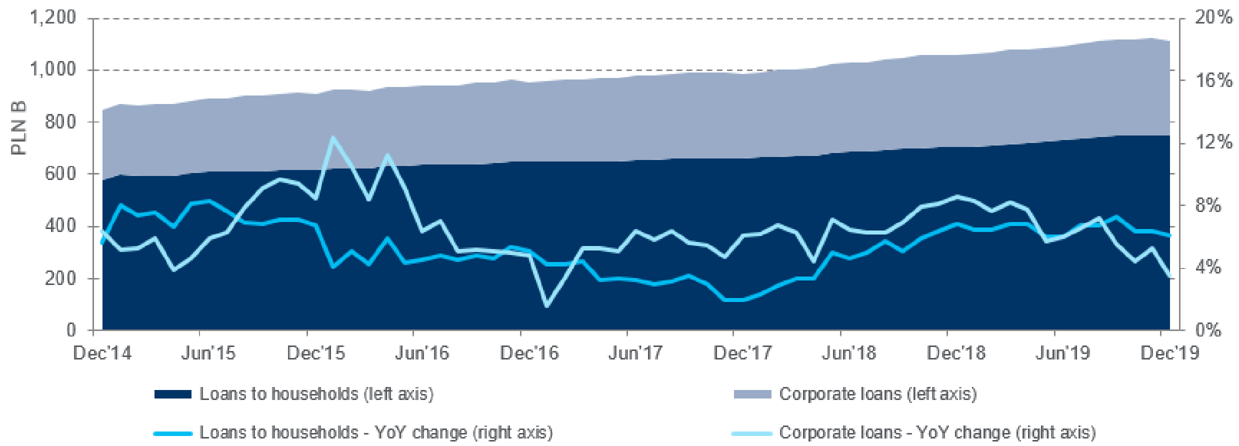
Source: KNF, own calculations

Financial results

According to data revealed by the Polish Financial Supervision Authority, the net profit of the banking sector considerably improved in 2019 as compared to prior year, i.e. by 12.5% (PLN 1.6 billion) to PLN 14.7 billion. The key contributor leading to the higher result of the banking sector was a significant increase in net interest income (+9.8% YoY, PLN 4.4 billion), supported by higher net fee and commission income (+8.3% YoY, PLN 1.0 billion). Other revenues also had a positive impact on the sector's result (+12.1% YoY, PLN 0.9 billion). In consequence, the total revenues of the banking sector came close to PLN 71 billion in 2019 i.e. they were 9.8% (PLN 6.3 billion) higher than in the prior year. The other profit & loss lines negatively affected the result generated by the banking sector. There was an significant increase of expenses (+7.9% YoY, PLN 2.9 billion), which was due to higher operating expenses (+4.1 YoY, PLN 1.4 billion).Banks' expenses were also charged by a higher contribution to the BFG by almost PLN 0.6 billion and the tax on financial institutions. A significant increase of depreciation was recorded (+ 51.1% YoY, PLN 1.5 billion), due to increase of real estate, property and equipment, which was related to the implementation of the new accounting standard IFRS 16. In the second and third quarter of 2019, there were several events that had a negative impact on the amount of Impairment due to financial assets value loss. Total impairment and provisions increased in the banking sector by + 11.8% YoY (PLN 1.2 billion). In addition, banks were forced to create additional provisions due to an announcement of the CJEU judgment concerning mortgage loans denominated in foreign currency and the judgment on the reimbursement of commission on consumer loans paid out ahead of schedule. Income tax paid by banks also increased by 8.3% YoY, i.e. PLN 430 million. The banking sector cost/income ratio (C/I) stood close to the previous year - 55%.

The portfolio quality data as at the end of December 2019 indicates a significant improvement in the quality of bank receivables in all customer segments. The level of the non-performing loan ratio (NPL) of the loan portfolio for non-financial entities amounted to 5.9%, which means a decrease of 0.4 pp YoY. The NPL ratio for households improved by the same percentage (5.5% YoY). In its structure the consumer loans improved more (-1.0 pp YoY, up to 9.8%) than mortgage loans (- 0.2 pp YoY, up to 2.3%). The NPL ratio for the corporate loans improved even more (-0.6 pp YoY up to 8.1%), in particular in the segment of small and medium-sized enterprises (-0.7 pp YoY, up to 10.7%).

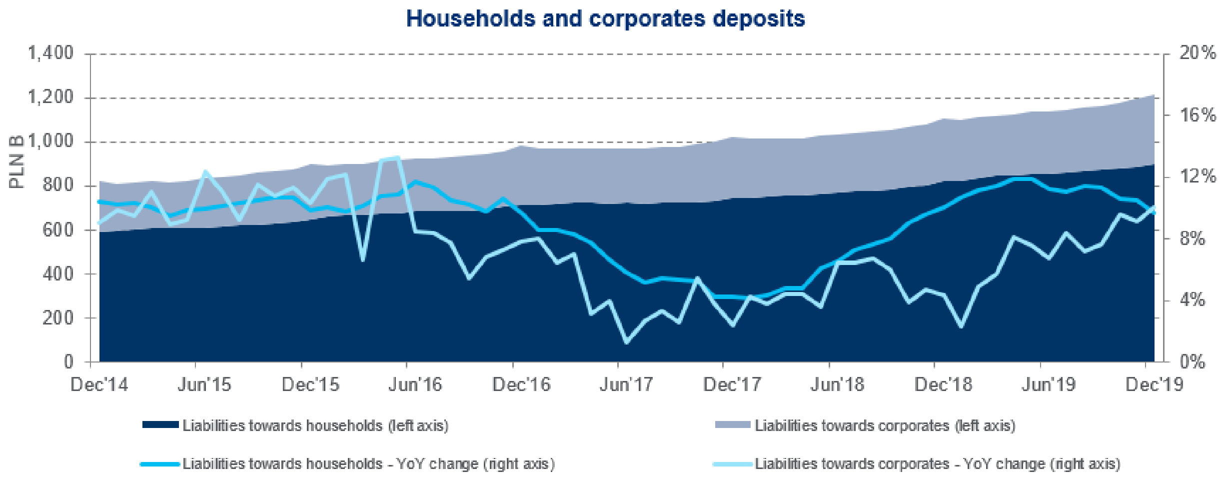
Loans to households and corporates



Source: NBP, own calculations

In 2019, the growth rate of loans to the non-financial sector decreased from 7.1% YoY (PLN 79 billion) as at 31 December 2018 to 4.6% YoY (PLN 54 billion). The retarded dynamics of growth could be assigned primarily to non-financial enterprises where the rate of growth in volumes of granted loans fell from +8.6% YoY, PLN 27.8 billion at the end of 2018 to +3.5% YoY, PLN 12.2 billion, as at the end of 2019). The slowdown concerned both current loans (+3.7% YoY PLN 6.1 billion), and real property loans (-1.6% YoY, PLN 1.0 billion), while investment loan portfolio grew the most by +5.7% YoY, PLN 7.1 billion. In terms of time to maturity, the rate of growth was rising along with maturity and the dynamics of long-term loans (over 5 years) hit the level of +3.4% YoY, PLN 5.8 billion), loans with maturities from 1 to 5 years +2.8% YoY, PLN 2.7 billion), while loans up to 1 year and other current receivables decreased by -1.1% YoY, i.e. PLN 1.0 billion, as at the end of 2019. The total receivables of the banking sector from companies exceeded PLN 364 billion.

On the part of consumer clients, the dynamics of credit volumes was losing its steam more mildly. The value of mortgage loans granted to households deteriorated from +6.8% YoY (PLN 27.6 billion) as at the end of December 2018 to 6.7% YoY (PLN 28.7 billion) as at the end of 2019, while the growth rate for the PLN mortgage loans rose to +12.1% YoY (PLN 36.7 billion) but despite of the weakening zloty against the Swiss franc, the volume of mortgage loans denominated in foreign currencies dropped by -6.2% YoY (PLN 8.0 billion). The household mortgage loan portfolio reached nearly PLN 461 billion at the end of 2019. Also in the field of consumer loans, the dynamics of growth was slightly weaker in credit volumes, falling to 8.4% YoY (PLN 15.3 billion). The growth in portfolio of current loans for individual entrepreneurs and farmers was slower as compared with 2018, to reach +4.6% YoY (PLN 2.3 billion) and the portfolio of investment loans for households declined significantly by -9.6% YoY (PLN 2.9 billion). As regards maturities, the dynamics of growth in credit volumes was higher than in the previous year only in the area of short-term loans (up to 1 year) (+1.5% YoY, PLN 760 million), while the dynamics of loans from 1 to 5 years fell to 5.6% YoY, PLN 4.5 billion, and long-term loans to 6.5% YoY, PLN 38.1 billion.



Source: NBP, own calculations

In 2019, the banking sector reported a significantly stronger dynamics of growth in deposits rather than in loans. Enterprises' deposits grew by +10.0% YoY (PLN 28.9 billion) exceeding the level of PLN 317 billion. A high rate of outflows of funds from time deposits was still visible (-5.4% YoY, PLN 4.7 billion), while the volume of current deposits rose spectacularly by +16.9% YoY, or PLN 33.7 billion. The rate for household deposits was similar (+9.7% YoY, PLN 79.2 billion), and, in consequence, their total volume reached PLN 898 billion as at the end of December 2019. A surge was notably reported in current deposits at banks (+15.4% YoY, PLN 80.4 billion), and time deposits remained at a similar level (-0.4% YoY, i.e. PLN 1.2 billion).

5. Factors with an impact on the financial results of the Bank's Group in 2020

The most fundamental risk factor in the first half 2020 is SARS-CoV-2 virus causing contagious COVID-19 disease. Initially it was identified in China, while the unprecedented scale of its spread to other countries caused the World Health Organization (WHO) on March 11, 2020 to officially declare a pandemic virus. The spread of the virus will affect all major economies in the world, reducing labor and consumer mobility and leading to supply chain disturbances. As a result, economic growth in Poland and among its primary trading partners may turn out to be much lower than previously forecasted. The magnitude of the economic growth drop is currently difficult to estimate. Such as significant slowdown will certainly translate into a deterioration of the financial situation and growing liquidity problems, mainly in the SME sector. In the first stage of the pandemic in Poland, industries such as transport, tourism, clothing and the production of electronic equipment will suffer the greatest negative impact.

The Polish government has taken unprecedented steps to limit the spread of the virus in Poland. They concern the closing of the country's borders to foreigners, the ban on organizing public gatherings of over 50 people and the closing of all universities, schools and kindergartens. On March 20, 2020, epidemic state was declared in Poland.

The weakening of economic growth and persistent uncertainty will have a negative impact on the volume of loans sold to both retail and institutional clients. As a consequence, this will translate into lower interest income, which is the most important source of income for the Group. At the same time, on March 18, 2020, the National Bank of Poland reduced the reference rate by 50 basis points (to the lowest level in history: 1.00%), which will lead to lower margins on credit products and a lower profitability of treasury bonds. The aforementioned deterioration in the financial standing of borrowers - Group customers will have a negative impact on the expected credit losses. As a result, the above factors may have a negative impact on the profitability and capital base of the banking sector. On the other hand, in order to maintain demand for loans among retail customers, the Group will focus more intensively on selling loans via remote channels, which may have a positive impact on the Bank's cost base.

In order to limit the effects of the pandemic on the Polish economy, a number of initiatives have been set up by the National Bank of Poland, the Polish Financial Supervision Authority, the Government of the Republic of Poland and the Polish Bank Association (representative of banks).

On March 16, 2020, the Management Board of the National Bank of Poland ("NBP") announced that it introduces instruments supplying banks with liquidity. One of these tools is the first quantitative easing program in the history of the NBP and it reflects the purchase of Treasury bonds on the secondary market, introducing discount credit in aim to the refinancing of loans granted by banks to non-financial corporations and conducting operations supplying banks with liquidity so – called repo operations.

On March 18, 2020, the Polish Financial Supervision Authority (KNF) appointed the Supervisory Stimulus Package strengthening the resilience of the Polish banking sector and to enhance its ability to finance the economy. The PFSA's proposal includes in the following areas: provisions and classification of credit exposures, capital buffers, liquidity requirements and the area of day-to-day supervision. At the same time, the Ministry of Finance issued an ordinance regarding repealing the ordinance on the systemic risk buffer (previously the buffer for the Bank was 2.83%, while for groups 2.84%).

On March 18, 2020, the government of the Republic of Poland presented its assumptions regarding the anti-crisis package for clients and employees. The anti-crisis shield covers five pillars: employee safety, business insurance, health protection, financing system security and public investment program.

The offer of the Polish Bank Association ("ZBP") allows clients to not pay principal and interest of installments or principal of installments for a period of three months and they are automatically extended for the same period of total repayment period ("loan vacations").

The current activities of the Group, in line with sectoral initiatives, concern the introduction of a special offer for clients whose employers have been affected by the COVID-19 epidemic. As part of this offer, retail customers can take advantage of the deferred repayment program up to 3 loan installments. In addition, the Group made it possible to make contactless payments at POS terminals with all Citi Handlowy payment cards up to PLN 100 without having to enter a PIN (currently PLN 50). For the Group, customer safety is a priority, which is why it offers online banking through Citibank Online and mobile application through Citi Mobile, which are available 24/7 and thanks to which customers can perform ongoing banking operations without leaving home.

At the time of publication of the annual report, it is impossible to quantify the impact of the ongoing pandemic impact and the above-mentioned stabilization packages on the financial situation and business activities of the Group and the entire banking sector. Nevertheless, the Group's liquidity and capital position remains good. Emerging legislative proposals are subject to constant monitoring and assessment of the Group.

The Group has and implements appropriate plans, infrastructure and organizational solutions to ensure business continuity and critical functions. Constant monitoring and evaluation of the development of the epidemiological situation is carried out on a number of dimensions of the Group's operations as well as cooperation with supervisory institutions in order to maintain financial sector stability.

Any possible intensification of protectionist measures, including the intensification of the trade conflict between the United States and the European Union, or any re-escalation of trade tensions between the United States and China, may further spoil international turnover. China's lower GDP readings would primarily have negative impact on the demand for German exports, leading to sluggishness in the euro zone, negatively affecting the condition of the Bank's clients - manufacturers of goods to the European market.

The potential increase in geopolitical tensions, especially between the US and China, Iran or North Korea, as well as the intensification of conflicts in the Middle East or Ukraine remains an additional threat. This could result in higher volatility in financial markets. If tensions between the U.S. and China, Iran or North Korea or conflicts in Middle East or Ukraine step up, the risk premium included in prices of emerging market assets, including the Polish zloty, can go up. In addition, uncertainty could contribute to reduction in inflows of foreign direct investments to Poland, suppressing the growth of capital expenditures.

In the process of preparation for the new financial framework for the European Union, against the background of Brexit and changing priorities of the Union, can lead to reduction in the EU funds allocated to Poland for 2021-2027.

If a high growth of pay and low unemployment continue, with a simultaneous potential surge of oil prices, the unit labor cost is likely to increase, followed by a decline in the profitability of companies. In addition, Polish companies are likely to postpone new investment projects due to the uncertainty connected with changes in the domestic legal environment. In the long run, this creates a risk translating into a decline in the growth potential of the companies sector.

The Group is carefully following the changes of the legal environment arising out of the courts' case law regarding mortgage loans indexed to foreign currencies, including the judgment of the Court of Justice of the European Union (CJEU), case no. C 260/18, of 3 October 2019. The Group has identified a number of doubts as regards interpretation of the above-mentioned judgment. As at the day of these financial statements, these doubts prevent a reliable and rational assessment of the influence of the judgment on proceedings pending before national courts and necessitate a thorough analysis of the relevant case law. Given the marginal share of mortgage loans indexed to CHF in the entire loan portfolio, the Group finds that any court rulings on these loans that are unfavorable to the Bank should not significantly affect the Group's financial situation.

On September 11, 2019, CJEU passed a ruling in the case C 383/18, indicating the following interpretation of Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers (Directive): "the right of the consumer to a reduction in the total cost of the credit in the event of early repayment of the credit includes all the costs imposed on the consumer." Hence, according to the provisions of the Directive, the above-mentioned right of the consumer includes costs both related and not related to the duration of the contract. In performance of the banking activities falling under the definition of a consumer credit, the Bank charged commissions which were structurally not related to the duration of the contract, and thus not subject to reduction in the event of early repayment of a consumer credit. CJEU ruled on the interpretation of the provision of the Directive which is not directly binding upon domestic law entities and requires implementation into the national law, whose potential amendment, interpretation and application will be of significant importance in assessing customers' claims for the reimbursement of a part of commissions in the event of early repayment of a consumer credit.

In its practice, the Bank has taken into account the influence of the judgment on the interpretation of the national law, whereby the total cost of credit specified for consumer credit agreements concluded after the date of delivery of the judgment, will be accordingly reduced,

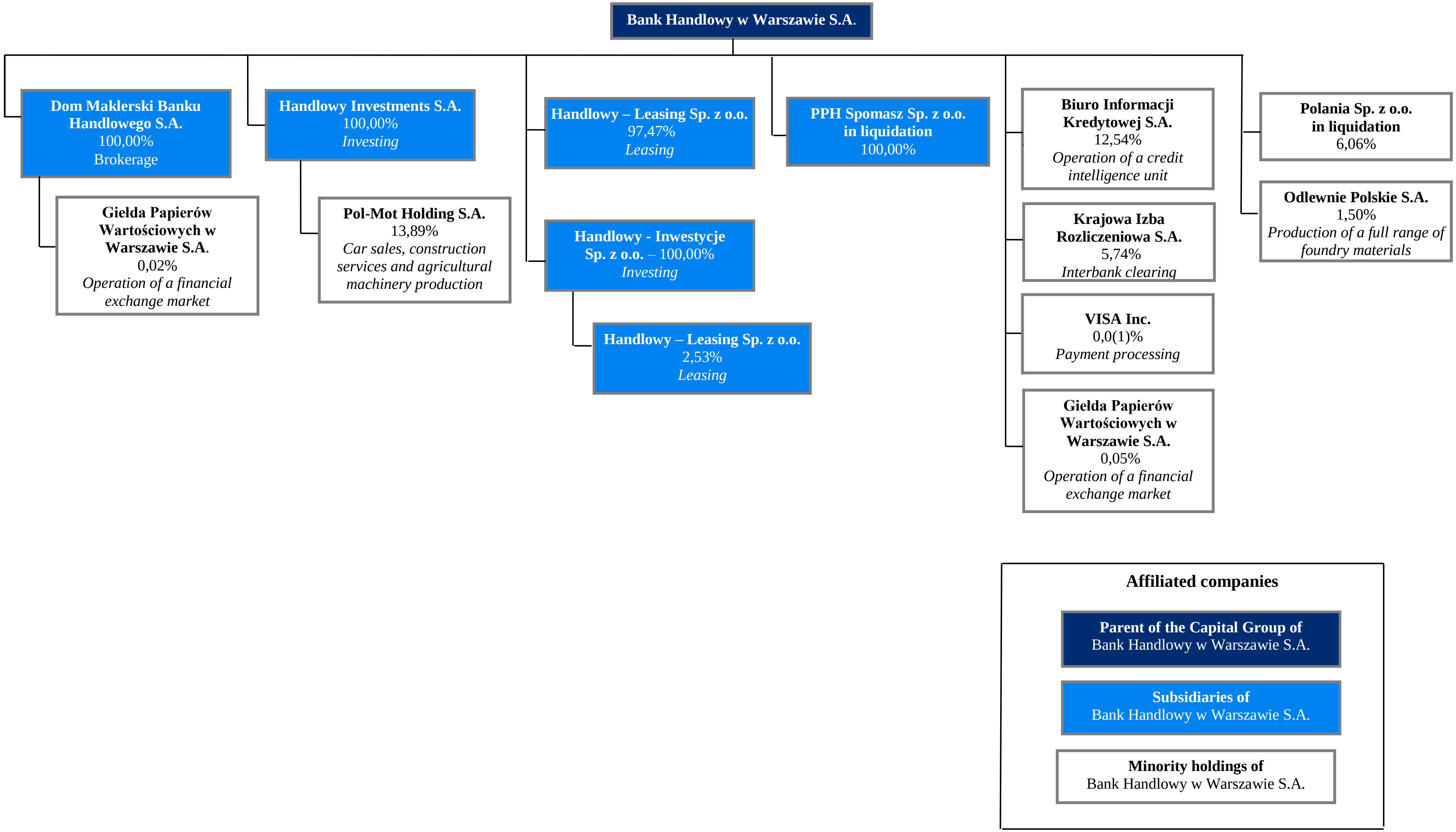
The Group is monitoring the risk of claims for the return of a part of commission. The Group, based on internal and external legal analysis, previous court rulings in the this case and the number of court cases received by the Group, did not create provisions for potential commission returns for customers who repaid consumer loans early as of 2019.

As of December 30, 2019, the Group is sued in 15 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 124 thousand and in 14 cases concerning a credit indexed to CHF for the total amount of PLN 1 914 thousand (most of the cases are in the first instance).

The above factors may affect the financial performance of the Group in the future.

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

The organisational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as at 31 December 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. (the "Group") consists of a parent company and subsidiaries.

GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000)
Bank Handlowy w Warszawie S.A.*	Banking	parent	-	-	7,023,703
Dom Maklerski Banku Handlowego S.A. (DMBH)***	Brokerage	subsidiary	100.00%	full consolidation	98,805
Handlowy - Leasing Sp. z o.o.***	Leasing	subsidiary	100.00%**	full consolidation	21,404
Handlowy Investments S.A.***	Investing activity	subsidiary	100.00%	full consolidation	4,824
PPH Spomasz Sp. z o.o. w likwidacji***	Ceased operations	subsidiary	100.00%	full consolidation	in liquidation
Handlowy-Inwestycje Sp. z o.o.***	Investing activity	subsidiary	100.00%	full consolidation	10,780

** Equity of Bank Handlowy w Warszawie S.A. as per the statement of the financial position of the Bank for 2019*
*** Including indirect participations*
**** Pre-audit data*

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

1. Summary financial data of the Bank and the Group

This document presents financial data for both Bank and Group. As activities of the Bank account for the vast majority of operations of the Group (the assets, equity and revenues of the Bank account for 99.9%, 99.3% and 99.8% of the assets, equity and consolidated revenues of the Group, respectively), both results and financial situation are discussed on the basis of consolidated data, except where it is expressly indicated that the data of the Bank are discussed.

PLN million	Bank		Capital Group	
	2019	2018	2019	2018
Total assets	51,897.7	49,242.0	51,978.5	49,304.7
Equity	7,023.7	7,007.1	7,074.7	7,056.8
Amounts due from customers*	23,608.8	21,853.3	23,731.9	21,949.0
Deposits *	39,581.5	38,159.0	39,519.5	38,097.4
Net profit	478.8	653.1	480.1	638.9
Capital adequacy ratio	17.0%	16.5%	17.2%	16.8%

** Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.*

2. Financial results of the Bank and the Group in 2019

2.1 Income statement

In 2019 the Group posted a preliminary net profit of PLN 486.5 million, down by PLN 158.7 million (or 24.8%) versus the net profit for 2018. The decrease in net profit was primarily due to the extraordinary items associated with higher net write-offs in the Institutional Banking segment and a higher contribution to the Bank Guarantee Fund's obligatory Resolution Fund.

Selected income statement items

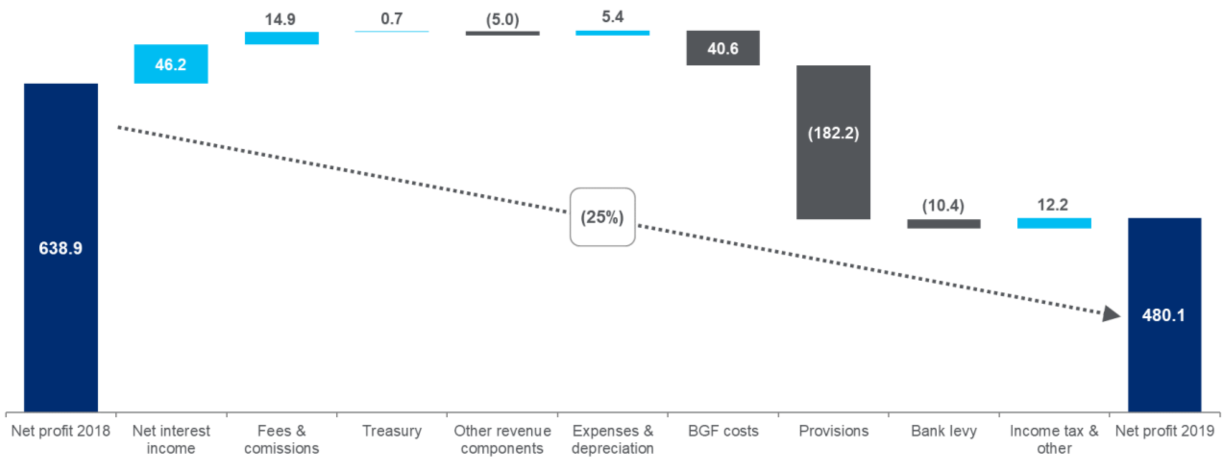
PLN '000	Bank		Capital Group			
					Change	
	2019	2018	2019	2018	PLN '000	%
Net interest income	1,151,729	1,105,079	1,153,727	1,107,574	46,153	4.2%
Net fee and commission income	544,047	527,291	564,876	549,948	14,928	2.7%
Dividend income	10,949	23,778	11.080	9,533	1,547	16.2%
Net income on trading financial instruments and revaluation	375,458	361,546	379,525	364,204	15,321	4.2%
Net gain/(loss) on debt investment financial assets	97,969	112,631	97,969	112,631	(14,662)	(13.0%)

PLN '000	Bank		Capital Group			
	2019	2018	2019	2018	Change PLN '000	Change %
measured at fair value through other comprehensive income[a]						
Net gain/(loss) on equity and other instruments measured at fair value through income statement[b]	17,366	6,276	17,392	6,522	10,870	166.7%
Net gain on hedge accounting	(3,493)	3,682	(3,493)	3,682	(7,175)	(194.9%)
Net other operating income	(4,019)	8,801	(4,322)	5,901	(10,223)	(173.2%)
Total income	**2.190.006**	**2,149,084**	**2.216.754**	**2.159.995**	**56.759**	**2.6%**
Overheads and general administrative expenses and depreciation, including	(1,189,843)	(1,155,065)	(1,214,768)	(1,179,631)	(35,137)	3.0%
Overheads and general administrative expenses	(1,104,050)	(1,084,387)	(1,128,269)	(1,108,247)	(20,022)	1.8%
Depreciation/amortization of tangible and intangible fixed assets	(85,793)	(70,678)	(86,499)	(71,384)	(15,115)	21.2%
Profit/loss on sale of other assets	(354)	(834)	(354)	(813)	459	(56.5%)
Net impairment on financial assets and provisions for off–balance sheet commitments[c]	(245,898)	(63,562)	(245,898)	(63,511)	(182,207)	286.9%
Share in net profits of entities valued at equity method	-	-	-	(22)	22	(100.0%)
Tax on some financial institutions	(97,722)	(87,350)	(97,722)	(87,350)	(10,372)	11.9%
Profit before tax	**656,189**	**842,273**	**658,192**	**828,668**	**(170.476)**	**(20.6%)**
Income tax expense	(177,387)	(189,154)	**(178,068)**	(189,816)	11.748	(6.2%)
Net profit	**478,802**	**653,119**	**480,124**	**638,852**	**(158.728)**	**(24.8%)**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*
a. Corresponds to the 'Net gain on debt investment securities available-for-sale' in accordance with IAS 39.
b. Corresponds to the 'Net gain on equity investment instruments available-for-sale' in accordance with IAS 39.
c. Corresponds to the 'Net impairment due to financial assets and provisions for granted financial liabilities and guarantees' in accordance with IAS 39.

The impact of individual items of the income statement on net profit is shown on the graph below:

An impact of the Profit & Loss Statement components on net profit in 2019 (PLN million)



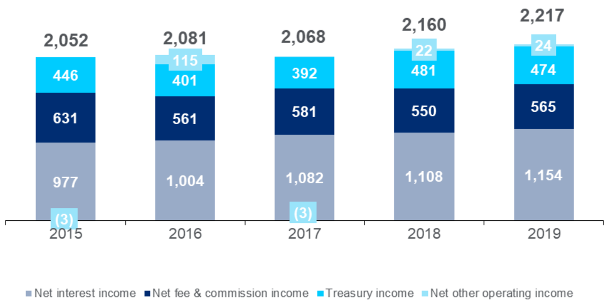
The following factors contributed to a change in net profit for 2019 as compared with 2018:

- Operating revenues amounted to PLN 2,216.8 million as compared to PLN 2,160.0 million in 2018 – an increase by PLN 56.8 million (i.e. 2.6%). This growth was mainly generated by higher net interest income;
- General administrative and depreciation expenses in 2019 amounted to PLN 1,214.8 million, up by PLN 35.1 million (or 3.0%). Excluding the higher contribution to the BFG's obligatory Resolution Fund, the operating expenses declined slightly by 0.9% YoY.
- Provision for expected credit losses of PLN 245.7 million compared to PLN 63.5 million in 2018, which was related to the Institutional Banking segment. This was a result of the additional impairment provisions in the area of Commercial Banking.

2.1.1 Revenue

In 2019, revenues from operating activities amounted to PLN 2,216.8 million as compared to PLN 2,160.0 million in 2018, i.e. increased by PLN 56.8 million, i.e. 2.6%.

Group's revenue (PLN MM)

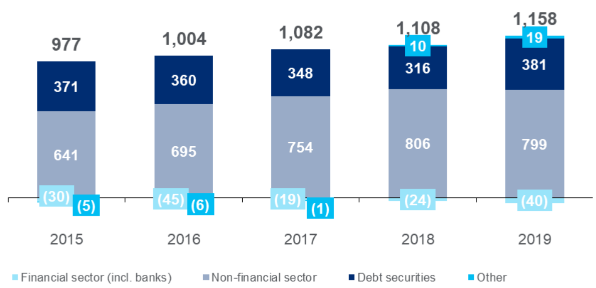


Breakdown of revenues by segments (%)

The operating result generated by the Group in 2019 was shaped in particular by:

- Net interest income was the main source of the Group's revenue in the year 2019 (52.0% of total revenue). It amounted to PLN 1,153.7 million compared to PLN 1,107.6 million in 2018, up by PLN 46.2 million (or 4.2%).

  Net interest income (PLN MM)

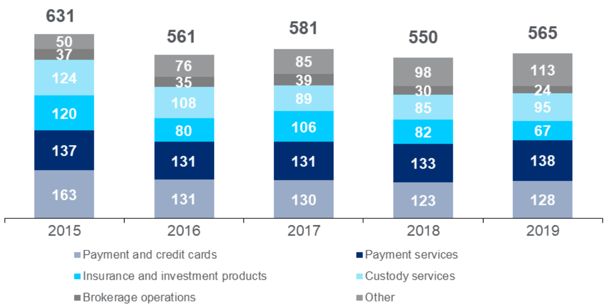
  

  Interest income in 2019 amounted to PLN 1,406.5 million, up by PLN 218.6 million (or 7.8%) versus 2018. Excluding "Interest income from derivatives in hedge accounting", the comparable interest income grew in 2019 by PLN 86.9 million (or 6.7%). Interest income from amounts due from customers (in both financial and non-financial sectors) constituting the main source of interest income, amounted to PLN 971.9 million, up by PLN 22.4 million (or 2.4%) compared to 2018. It was mainly due to an increase in the average volume of receivables from customers, partially offset by a lower margin on institutional clients' loans.

  Interest expenses in 2019 increased by PLN 55.8 million (or 28.3%) compared to 2018. Excluding "Interest expense and similar charges for derivatives in hedge accounting", the comparable interest expenses in 2019 grew by PLN 43.7 million (or 22.6%). Interest expenses for amounts due to customers (both in the financial and the non-financial sectors), constituting the main source of interest expenses grew by PLN 19.6 million (or 13.3%) compared to 2018 due to a lower margin on client deposits and higher volumes from individual customers.

- Net fee and commission income of PLN 564.9 million versus PLN 549.9 million in 2018 – up by PLN 14.9 million (or 2.7%). The biggest change was observed in the "Other" item, which was impacted by the profit from the sale of the company held by the Bank. At the same time the Group reported positive dynamics in its core operations – transaction banking, custody operations, payment and credit cards due to higher transaction volumes. The above increases were partially offset by a decline in net fee and commission income on insurance and investment products as well as brokerage operations due to lower trading activity at the Warsaw Stock Exchange by 6% YoY and a negative mood of individual customers on the capital market.

  Net fee and commission income (PLN MM)

- Other operating income (i.e. non-interest and non-commission income) of PLN 498.2 million compared to PLN 502.5 million in 2018. The slight decrease in other operating income was mainly due to a lower net gain on debt investment financial assets measured at fair value through other comprehensive income and on hedge accounting.

2.1.2 Expenses

General expenses & depreciation

PLN '000	Bank		Capital Group			
					Change	
	2019	2018	2019	2018	PLN '000	%
Personnel costs	504,228	514,222	520,548	529,500	(8,952)	(1.7%)

General administrative expenses, including:	**599,822**	**570,165**	**607,721**	**578,747**	**28,974**	**5.0%**
Telecommunication fees and IT hardware	190,164	182,095	195,449	187,339	8,110	4.3%
Building maintenance and rent	53,198	64,043	53.366	64,208	(10,842)	(16.9%)
Costs of external services, including advisory, audit, consulting services	49,479	54,592	50,159	55,169	(5,010)	(9.1%)
Total overheads	**1,104,050**	**1,084,387**	**1,128,269**	**1,108,247**	**20,022**	**1.8%**
Depreciation	85,793	70,678	86,499	71,384	15,115	21.2%
Total general expenses & depreciation	**1,189,843**	**1,155,065**	**1,214,768**	**1,179,631**	**35,137**	**3.0%**

General administrative and depreciation expenses in 2019 amounted to PLN 1,214.8 million, up by PLN 35.1 million (or 3.0%). Excluding the higher contribution to the BFG's obligatory Resolution Fund, the operating expenses declined slightly by 0.9% YoY. The biggest change was observed in staff expenses. On the other hand, the Bank heavily invested in technology (among others in remote biometric authentication for loan application processing and a number of solutions increasing the level of digitization of communication between the Bank and Institutional Banking clients).

In 2019, average employment in the Group amounted to 3,161 FTEs, thus being by 7.4% lower than in 2018. (the number of FTEs at the end of the period decreased by 252 as compared with the same period of 2018). As of December 31, 2019 employment in the Group amounted to 3,071 FTEs, of which 1,724 in consumer banking, 638 in institutional banking and 709 in support units.

In 2019 rental and maintenance costs have been reduced as a result of the introduction of IFRS 16. On the other hand, depreciation grew in connection with the implementation of IFRS 16. There is more details in consolidated and stand-alone financial statements.

2.1.3 Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments

Net impairment and provisions

PLN '000	Bank		Capital Group			
	2019	**2018**	**2019**	**2018**	**Change PLN '000**	**Change %**
Net impairment allowances for receivables, including	(210,397)	(74 035)	(210,397)	(74,035)	(136,362)	184.2%
Net impairment allowances for financial assets – Stage 1	11,629	(2 006)	11,629	(2,006)	13,635	(679.7%)
Net impairment allowances for financial assets – Stage 2	(37,459)	1 569	(37,459)	1,569	(39,028)	(2487.4%)
Net impairment allowances for financial assets – Stage 3	(184,567)	(73 598)	(184,567)	(73,598)	(110,969)	150.8%
Net provisions for granted financial and guarantee commitments	(35 155)	9 455	(35 155)	9 455	(44 610)	(471.8%)
Net impairment allowances for equity investments	(180)	(51)	-	-	-	
Net impairment allowances for debt investment financial assets measured at fair value through other comprehensive income	(166)	1 069	(166)	1 069	(1 235)	(115.5%)
Net impairment on financial assets	**(245 898)**	**(63 562)**	**(245,718)**	**(63 511)**	**(182,207)**	**286.9%**

In 2019 provision for expected credit losses of PLN 245.7 million compared to PLN 63.5 million in 2018 (a worsening by PLN 182.2 million), which was related to the Institutional Banking segment. This was a result of the additional impairment provisions in the area of Commercial Banking (relating to construction and food industries).

On the other hand, the Consumer Banking segment reported higher negative impairments of PLN 77.5 million compared to PLN 71.1 million in 2018. The slight change was due to the behavior of the loan portfolio and a new exposure.

2.1.4 Ratio analysis

The Group's efficiency ratios

	2019	**2018**
Return on equity (ROE)*	7.2%	10.0%
Return on assets (ROA)**	0.9%	1.4%
Net interest margin (NIM)***	2.3%	2.4%
Margin on interest-bearing assets	2.5%	2.6%
Earnings per share in PLN	3.67	4.89
Cost/income****	55%	55%
Non-financial sector loans to non-financial sector deposits	60%	58%
Non-financial sector loans to total assets	46%	45%

	2019	2018
Net interest income to total revenue	52%	51%
Net fee and commission income to total revenue	25%	25%

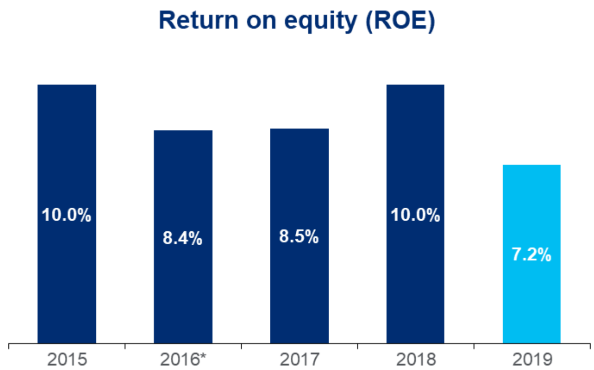
** Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis;*
*** Net profit to average total assets calculated on a quarterly basis;*
**** Net interest income to average total assets calculated on a quarterly basis;*
***** Overheads, general administrative expenses, depreciation and amortization to operating income.*

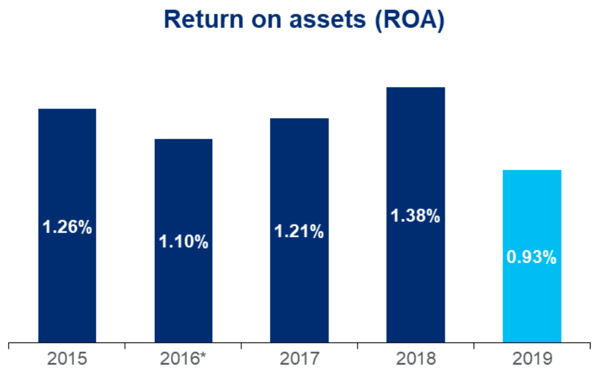
The Bank's efficiency ratios

	2019	2018
Return on equity (ROE)*	7.4%	10.3%
Return on assets (ROA)**	0.9%	1.4%
Net interest margin (NIM)***	2.3%	2.4%
Earnings per ordinary share in PLN	3.71	5.00
Cost/Income****	54%	54%

** Net profit to average equity (including net profit for the current year) calculated on a quarterly basis*
*** Net profit to average total assets calculated on a quarterly basis*
**** Net interest income to average total assets calculated on a quarterly basis*
***** Overheads, general administrative expenses, depreciation and amortization to operating income*

In 2019, the Group's returns on equity and assets remained at levels of respectively 7.2% and 0.93%. Excluding the extraordinary items (higher contribution to the BGF's obligatory Resolution Fund) return on equity amounted to 9.6% and return on assets 1.23% as of 2019.





**Net profit from 2016 was adjusted by VISA transaction in the amount of PLN 75 MM*

In the area of cost effectiveness, the cost-to-income ratio amount to 55% as at the end of 2019. Excluding higher contribution to the BGF's in 2019, the ratio decreased to the level of 53%. Efficient increased was driven by higher operational revenue (net interest income and net fee and commission income).

In 2018, the interest rate margin slightly deteriorated. It decreased to 2.5% on total assets and 2.6% on interest-bearing assets, primarily in connection with higher interest costs for individual clients. In 2019 Grupa focused to attract transactional clients (30% y/y growth).

2.2 Consolidated statement of financial position

As at 31 December 2019, the Group's balance sheet total amounted to PLN 51 978,5 million and was 5.4% higher than at the end of 2018.

Consolidated statement of financial position

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	thousand PLN	%
ASSETS						
Cash and balances with central bank	3,736,706	7,272,193	3,736,706	7,272,193	(3,535,487)	(48.6%)
Receivables from banks	1,165,625	1,333,816	1,165,684	1,333,977	(168,293)	(12.6%)
Financial assets held for trading	5,406,595	2,213,849	5,446,511	2,237,076	3,209,435	143.5%

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	thousand PLN	%
Debt financial asstes measured at fair value through other comprehensive income[d]	15,484,578	14,241,363	15,484,578	14,241,363	1,243,215	8.7%
Equity investments valued at equity method	-	-	-	10,399	(10,399)	(100.0%)
Equity and other instruments measured at fair value through income statement[e]	168,250	154,586	62,638	48,768	13,870	28.4%
Receivables from customers	23,608,775	21,853,349	23,731,874	21,949,014	1,782,860	8.1%
Property and equipment	498,799	363,002	499,753	364,261	135,492	37.2%
Intangible assets	1,441,953	1,417,506	1,443,139	1,418,794	24,345	1.7%
Receivables due to current income tax	-	-	3,016	1,744	1,272	72.9%
Asset due to deferred income tax	237,338	205,165	238,065	204,207	33,858	16.6%
Other assets	149,093	187,195	166,579	222,918	(56,339)	(25.3%)
Total assets	**51,897,712**	**49,242,024**	**51,978,543**	**49,304,714**	**2,673,829**	**5.4%**
LIABILITIES						
Liabilities towards banks	2,125,383	1,402,124	2,125,495	1,402,233	723,262	51.6%
Financial liabilities held for trading	1,867,900	1,606,189	1,877,898	1,609,382	268,516	16.7%
Hedging derivatives	19,226	-	19,226	-	19,226	-
Liabilities towards customers	39,849,772	38,395,885	39,787,802	38,334,345	1,453,457	3.8%
Provisions	65,199	29,984	65,199	29,984	35,215	117.4%
Current income tax liabilities	41,725	66,297	41,725	66,297	(24,572)	(37.1%)
Other liabilities	904,804	734,493	986,543	805,723	180,820	22.4%
Total liabilities	**44,874,009**	**42,234,972**	**44,903,888**	**42 247 964**	**2 657 429**	**6.3%**
EQUITY						
Issued capital	522,638	522,638	522,638	522,638	-	-
Supplementary capital	2,944,585	2,944,585	3,003,290	3,003,290	-	-
Revaluation reserve	114,893	84,372	114,893	84,372	30,521	36.2%
Other reserves	2,874,289	2,877,122	2,867,358	2,883,838	(16,480)	(0.6%)
Retained earnings	567,298	578,335	566,476	562,612	3.864	0.7%
Total equity	**7,023,703**	**7,007,052**	**7,074,655**	7,056,750	24,322	0.3%
Total liabilities and equity	**51,897,712**	**49,242,024**	**51,978,543**	**49,304,714**	**2,673,829**	**5.4%**

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*

d. Corresponds to the 'Debt securities available-for-sale' in accordance with IAS 39.

e. Corresponds to the 'Equity investments available for sale' in accordance with IAS 39.

2.2.1 Assets

Gross receivables from clients

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	PLN '000	%
Non-banking financial entities	3,030,136	2,052,764	3,152,802	2,148,206	1,004,596	*46.8%*
Non-financial sector entities	13,529,251	12,879,266	13,531,425	12,881,440	649,985	*5.0%*
Individuals	7,706,513	7,534,795	7,706,946	7,535,018	171,928	*2.3%*
Public entities	30,793	50,907	30,793	50,907	(20,114)	*(39.5%)*
Other non-financial sector entities	456	3	456	3	453	*15100.0%*
Total gross receivables from clients	**24,297,149**	**22,517,735**	**24,422,422**	**22,615,574**	**1,806,848**	**8.0%**

Net receivables from clients

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	PLN '000	%
Receivables from financial sector entities	**3,027,920**	**2,051,373**	**3,150,586**	**2,146,815**	**1,003,771**	**46.8%**
Receivables from non-financial sector entities, including:	**20,580,855**	**19,801,976**	**20,581,288**	**19 802 199**	**779,089**	**3.9%**
Corporate clients*	13,201,441	12,644,282	13,201,441	12,644,282	557,159	4.4%
Individuals, including:	7,379,414	7,157,694	7,379,847	7,157,917	221,930	3.1%
Unhedged liabilities	5,490,113	5,507,928	5,490,546	5,508,151	(17,605)	(0.3%)
Mortgage loans	1,889,301	1,649,766	1,889,301	1,649,766	239,535	14.5%
Total net receivables from clients	**23,608,775**	**21,853,349**	**23,731,874**	**21 949 014**	**1,782,860**	**8.1%**

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

As of the end of 2019 net amounts due from customers had the biggest share in the Group's total assets. As of the end of December 2019 they accounted for 45.7% of the Group's total assets. The value of net amounts due from customers as of the end of December 2019 amounted to PLN 23.7 billion, and was significantly higher by PLN 1.8 billion (or 8.1%) compared to 2018 and was driven mainly by increased lending to the financial sector clients (PLN +1.0 billion, or 46.8%). Amounts due from customers in the non-financial sector increased both on the institutional clients side (+PLN 0.6 billion, or 4.4%; increase was reported in global and corporate clients) and the individual customers side (+PLN 0.2 billion, or 3.1%; due PLN 453 million mortgage loans originated in 2019, up by 27% YoY).

Debt securities portfolio of the Bank

PLN '000	As at		Change	
	31.12.2019	31.12.2018	PLN '000	%
Treasury bonds, including:	17,662,234	14,935,516	2,726,718	18.3%
covered bonds in fair value hedge accounting	1,833,308	-	1,833,308	-
Bank bonds	1	1	-	0.0%
Bills issued by financial entities	704,241	237,018	467,223	197.1%
NBP bills	999,917	-	999,917	-
Total	**19,366,393**	**15,172,535**	4,193,858	27.6%

The volume of the debt securities portfolio increased by PLN 4.2 billion (i.e. 27.6%) as at the end of 2019. This was the result of a increased position in Treasury bonds.

2.2.2 Liabilities

Liabilities towards customers

PLN '000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	PLN '000	%
Deposits of financial sector entities	**4,764,396**	**7,213,788**	**4,556,646**	**7 040 000**	**(2,483,354)**	**(35.3%)**
Deposits of non-financial sector entities, including	**34,817,065**	**30,945,200**	**34,962,845**	**31 057 448**	**3,905,397**	**12.6%**
Non-financial sector entities	17,855,098	15,016,944	17,859,634	15,012,645	2,846,989	19.0%
Non-commercial institutions	185,848	395,005	185,848	395,005	(209,157)	(53.0%)
Individuals	13,320,687	11,786,786	13,461,931	11,903,332	1,558,599	13.1%
Public sector entities	3,455,432	3,746,465	3,455,432	3,746,466	(291,034)	(7.8%)
Other liabilities	**268,311**	**236,897**	268,311	236 897	31,414	13.3%
Total liabilities towards customers	**39,849,772**	**38,395,885**	**39,787,802**	**38 334 345**	**1,453,457**	**3.8%**
Deposits of financial and non-financial sector entities, including:						
Liabilities in PLN	29,374,974	29,349,659	29,313,004	29 288 119	24,885	0.1%
Liabilities in foreign currency	10,206,487	8,809,329	10,206,487	8 809 329	1,397,158	15.9%
Total deposits of financial and non-financial sector entities	**39,581,461**	**38,158,988**	**39,519,491**	**38 097 448**	**1,422,043**	**3.7%**

As of December 31, 2019, total liabilities of the Group amounted to PLN 44.9 billion, up by PLN 2.7 billion (or 6.3%) compared to the end of 2018.

In 2019 amounts due to customers were the dominant source of financing of the Group's activity and accounted for 76.5% of the Group's liabilities and own funds. Total amounts due to customers as of the end of 2019 amounted to PLN 39.8

billion, up by PLN 1.5 billion (or 3.8%) compared to the end of 2018. The main driver of growth were deposits of non-financial sector clients, which grew by PLN 3.9 billion versus 2018. The biggest growth was reported mainly in current accounts of both Institutional and Consumer Banking clients, which was a result of a consistent strategy to focus on these accounts.

2.2.3 Source and use of funds

PLN '000	Bank		Capital Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Source of funds				
Funds of banks	2,125,383	1,402,124	2 125 495	1 402 233
Funds of customers	39,849,772	38,395,885	39 787 802	38 334 345
Own funds with net income	7,023,703	7,007,052	7 074 655	7 056 750
Other funds	2,898,854	2,436,963	2,990,591	2 511 386
Total source of funds	**51,897,712**	**49,242,024**	**51 978 543**	**49 304 714**
Use of funds				
Receivables from banks	1,165,625	1,333,816	1 165 684	1 333 977
Receivables from customers	23,608,775	21,853,349	23 731 874	21 949 014
Securities, shares and other financial assets	21,059,423	16,609,798	20 993 727	16 537 606
Other uses of funds	6,063,889	9,445,061	6 087 258	9 484 117
Total use of funds	**51,897,712**	**49,242,024**	**51 978 543**	**49 304 714**

2.3 Equity and the capital adequacy ratio

As compared to 2018, shareholders' equity increased by PLN 176.6 million (i.e. 2.8%) mainly due to remain the part of net income from 2018 (PLN 163.3 million) as undivided.

Group's equity*

PLN '000	As at		Change	
	31.12.2019	31.12.2018	PLN '000	%
Issued capital	522,638	522,638	-	-,
Supplementary capital	3,003,291	3,003,290	1	*0.0%*
Other reserves	2,334,622	2,347,028	(12,406)	*(0.5%)*
Revaluation reserve	114,893	84,372	30,521	*36.2%*
General risk reserve	540,200	540,200	-	-,
Other equity	78,887	(79,630)	158,517	*(199.1%)*
Total equity	**6,594,531**	**6,417,898**	**176,633**	**2.8%**

** Equity net of net profit/(loss)*

The capital is fully sufficient to ensure financial security of the institution and client deposits and to support the future growth of the Group.

The following table shows the financial data used for calculation of the capital adequacy ratio on the basis of the consolidated financial statements of the Bank and the Group.

Group's capital adequacy ratio*

Capital adequacy ratio*

PLN'000	31.12.2019	31.12.2018
Common Equity Tier 1 Capital	**5,122,175**	**4,970,103**
Total capital requirements, including:	**2,379,064**	**2,361,451**
credit risk capital requirements	1,889,760	1,893,873
counterparty risk capital requirements	95,797	50,745
Credit valuation correction capital requrements	26,314	28,466
excess concentration and large exposures risks capital requirements	-	12,459
total market risk capital requirements	81,802	95,391
operational risk capital requirements	285,391	280,517
Common Equity Tier 1 Capital ratio	**17.2%**	**16.8%**

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

Both in 2019 and 2018, the Group met all the regulatory prudential standards relating to capital adequacy.

In 2019, the capital adequacy level for the Group was always at a secure level, 3.6 p.p. above the supervisory limits.

The level of the required Capital ratios encompasses:

- The basic requirement resulting from CRR provisions to maintain the total capital ratio of 8% and the Tier 1 ratio of 6%
- The combined buffer requirement of additional 5.62% on consolidated basis, which consists of:
  - The capital conservation buffer – 2.50%
  - The other systemically important institution's buffer – 0.25%
  - Systemic risk buffer – 2.84% due to fact that not all exposures are located in Poland
  - Countercyclical capital buffer – 0.03%

As at 31 December 2019, as compared to 31 December 2018, the capital adequacy ratio of the Group increased to 17.2%. This value enables the Group to develop its lending activities.

The increase of the capital adequacy ratio in 2019 was caused by an increase of own funds thanks to remaining net profit for 2018 as an undivided.

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

1. Lending and other risk exposures

1.1 Lending

The credit policy of the Group is consistent and covers the Bank, as parent company, and its subsidiaries (DMBH, Handlowy-Leasing Sp. z o.o.), excluding special purpose vehicles (so called investment vehicles), companies in the course of liquidation or bankruptcy proceedings and companies which do not run their statutory activities. The policy is based on the active management of the portfolio and the precisely determined target markets, designed to facilitate exposure analysis and credit risk analysis at the level of a client's sector. Borrowers are monitored on an ongoing basis to ensure the early detection of any signals of possible deterioration in their creditworthiness and the early implementation of corrective actions.

In 2019, in the area of credit risk management, the Group was focused on:

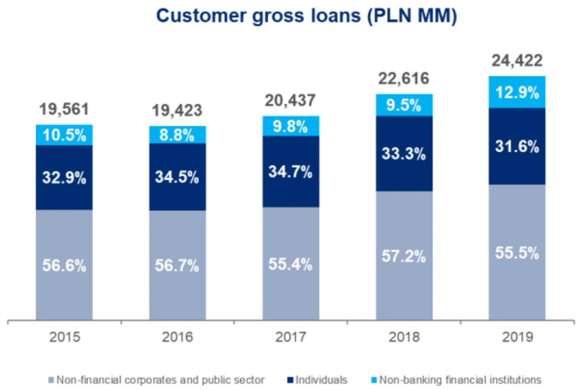
- supporting the growth of assets;
- optimizing the credit process and adjusting the credit products offered by the Group to market conditions;
- ensuring top quality of the credit portfolio;
- intensifying collection activities for the retail credit exposure portfolio;
- ensuring the effective allocation of capital;
- improving processes for the management of risk generated by models used for credit risk measurement;
- continuing the development of credit risk measurement methodologies.

Gross loans to customers of the Group

PLN '000	As at		Change	
	31.12.2019	31.12.2018	PLN '000	%
Loans in PLN	21,375,045	19,146,512	2,228,533	11.6%
Loans in foreign currency	3,047,377	3,469,062	(421,685)	(12.2%)
Total	**24,422,422**	**22,615,574**	**1,806,848**	**8.0%**
Loans to non-financial sector entities	21,269,620	20,467,368	802,252	3.9%
Loans to financial sector entities	3,152,802	2,148,206	1,004,596	46.8%
Total	**24,422,422**	**22,615,574**	**1,806,848**	**8.0%**
Non-bank financial entities	3,152,802	2,148,206	1,004,596	46.8%
Non-financial sector entities	13,531,425	12,881,440	649,985	5.0%

PLN '000	As at		Change	
	31.12.2019	31.12.2018	PLN '000	%
Individuals	7,706,946	7,535,018	171,928	2.3%
Public sector entities	30,793	50,907	(20,114)	(39.5%)
Non-commercial institutions	456	3	453	15100.0%
Total	**24,422,422**	**22,615,574**	**1,806,848**	**8.0%**

As at 31 December 2019, gross credit exposure to clients was PLN 22,422.4 million, i.e. it increased by 8.0% from 31 December 2018. The highest portion of the customer debt portfolio were loans granted to non-financial companies (55%), which increased by 5.0% in 2019. Receivables from individual clients increased by 2.3% as compared to 2018, and their share in the total gross customer debt was 31.6%.



Foreign-currency loans amounting to 15.3% in December 2018, decreased to 12.5% in December 2019. It should be stressed that the Group does not grant loans in a foreign currency to individual clients, but only to businesses which earn revenues in the currency of the loan or to entities which, as the Group believes, are able to foresee or absorb currency risk without putting their financial condition to jeopardy.

In order to avoid a situation where its portfolio would be overly dependent on a small number of clients, the Group monitors the concentration of its credit exposures on an ongoing basis.

Concentration of exposure to customers of the Group

PLN'000	31.12.2019			31.12.2018		
	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure	Balance sheet exposure*	Granted financial and guarantee liabilities	Total exposure
CLIENT 1	1,200,000	-	1,200,000	1,000,000	-	1,000,000
GROUP 2	907,844	134,518	1,042,362	369,570	253,148	622,718
GROUP 3	798,876	206,306	1,005,181	799,072	202,774	1,001,846
GROUP 4	631,959	171,724	803,683	537,517	180,813	718,330
CLIENT 5	653,720	96,280	750,000	263,100	486,900	750,000
GROUP 6	361,258	268,830	630,089	116,063	449,424	565,486
GROUP 7	106,471	518,472	624,943	107,523	521,365	628,888
CLIENT 8	605,484	-	605,484	556,637	-	556,637
CLIENT 9	545,000	-	545,000	-	-	-
GROUP 10	536,000	-	536,000	600,000	-	600,000
Total	**6,346,612**	**1,396,130**	**7,742,742**	**4,349,481**	**2,094,424**	**6,443,904**

** Net of equity and other securities exposures*

Concentration of exposure in individual industries of the Group*

Sector of the economy according to the NACE*	31.12.2019		31.12.2018	
	PLN'000	%	PLN'000	%
Wholesale trade, except of motor vehicles	4,672,631	17.45%	4,695,369	17.48%
Financial service activities, excluding insurance and pension funds	3,912,715	14.62%	3,385,386	12.61%
Production and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,919,053	7.17%	2,760,531	10.28%
Activities of head offices; consulting related to the management	1,499,261	5.60%	1,028,293	3.83%
Retail trade, except of motor vehicles	1,141,985	4.27%	1,065,354	3.97%
Production of food products	1,134,162	4.24%	673,491	2.51%
Manufacture of fabricated metal products, except machinery and equipment	946,640	3.54%	1,084,312	4.04%
Mining of metal ores	937,344	3.50%	893,827	3.33%
Production of electrical equipment	906,495	3.39%	929,839	3.46%

Sector of the economy according to the NACE*	31.12.2019		31.12.2018	
Production and processing of coke and refined petroleum products	759,755	2.84%	862,454	3.21%
10 business sectors	**17,830,041**	**66.6%**	**17,378,856**	**64.7%**
Other sectors	**8,941,245**	**33.4%**	**9,475,804**	**35.3%**
Total	**26,771,286**	**100.0%**	**26,854,660**	**100.0%**

**Gross balance-sheet and off-balance-sheet exposure to institutional customers (including banks), based on NACE Revision 2.*

1.2 Loan portfolio quality

Receivables of the Group are allocated to two portfolios: a portfolio of impaired exposures and a portfolio of not impaired exposures. 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 per portfolio with not recognized credit losses vs. portfolio with recognized credit losses

PLN'000	As of		Change	
	31 Dec 2019	31 Dec 2018	PLN'000	%
Loans without recognized impairment (Stage 1), including:	**21,225,119**	**20,246,985**	**978,134**	**4.8%**
financial institutions	3,152,788	2,148,206	1,004,582	46.8%
non-financial sector entities	18,072,331	18,098,779	(26,448)	(0.1%)
institutional clients*	11,659,740	11,752,193	(92,453)	(0.8%)
individual customers	6,412,591	6,346,586	66,005	1.0%
Loans without recognized impairment (Stage 2), including:	**2,355,543**	**1,642,100**	**713,443**	**43.4%**
financial institutions	14	-	14	0.0%
non-financial sector entities	2,355,529	1,642,100	713,429	43.4%
institutional clients*	1,376,283	832,118	544,165	65.4%
individual customers	979,246	809,982	169,264	20.9%
Loans with recognized impairment (Stage 3), including:	**831,720**	**669,671**	**162,049**	**24.2%**
financial institutions	-	-	-	0.0%
non-financial sector entities	831,720	669,671	162,049	24.2%
institutional clients*	516,611	291,221	225,390	77.4%
individual customers	315,109	378,450	(63,341)	(16.7%)
Amounts due from matured transactions in derivative instruments (Stage 3)	**10,040**	**56,818**	**(46,778)**	**(82.3%)**
Total gross loans to customers, including:	**24,422,422**	**22,615,574**	**1,806,848**	**8.0%**
financial institutions	3,152,802	2,148,206	1,004,596	46.8%
non-financial sector entities	21,259,580	20,410,550	849,030	4.2%
institutional clients*	13,552,634	12,875,532	677,102	5.3%
individual customers	7,706,946	7,535,018	171,928	2.3%
Impairment, including:	**(690,548)**	**(666,560)**	**(23,988)**	**3.6%**
Amounts due from matured transactions in derivative instruments	(4,241)	(50,859)	46,618	(91.7%)
Total net amounts due from customers	**23,731,874**	**21,949,014**	**1,782,860**	**8.1%**
Impairment provisions coverage ratio	**66.7%**	**72.4%**		
institutional clients*	60.4%	66.4%		
individual customers	77.1%	77.0%		
Non-performing loans ratio (NPL)	**3.4%**	**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.*

As compared to 2018, the value of impaired loans increased by 24%. The quality of the institutional client portfolio remained at a stable good level, typical of the Bank, and the increased level of write-offs resulting mainly from financial difficulties of a three individual clients from the Commercial Bank segment in 2019. These were unconnected events and in the Bank's opinion they were episodic.

The Bank does not discern any sectoral concentration which could lead to the uncontrolled growth of the NPL portfolio in the future. As at the end of 2019, the non-performing loan (NPL) ratio amounted to 3.4% and remains significantly below the sector average.

The Management Board of the Bank believes that the level of provisions of loan receivables as at the balance sheet date is the best portfolio impairment estimate. The individual approach takes into account a forecast of discounted cash flows connected with repayment of debts or recovery from collateral. The collective approach is based on loss indicators calculated on a reliable, historical data base which contains data of clients facing difficulties with repayment of their liabilities to the Bank. And for exposures without any signs of impairment, charges relating to expected losses are calculated in accordance with the requirements of IFRS 9, taking into account the risk profile of a client, the expected recovery rates, based on provided collateral, the probability of a client's non-performance, the historical losses upon non-performance and the macroeconomic scenarios.

As at 31 December 2019, the portfolio impairment value was PLN 683 million, i.e. increased by 2.4% as compared to PLN 667 million as at the end of December 2018. The provision coverage ratio was maintained at a high level of 82.0%.

Impairment due to financial assets value loss

PLN '000	As at		Change	
	31.12.2019	31.12.2018	PLN '000	%
Impairment due to financial assets value loss				
Impairment due to financial assets value loss - Stage 1	51,388	56,110	(4,722)	(8.4%)
Impairment due to financial assets value loss - Stage 2	79,952	74,776	5,176	6.9%
Impairment due to financial assets value loss - Stage 3	551,286	535,674	15,612	2.9%
Total impairment	**682,626**	**666,560**	**16,066**	**2.4%**
Provision coverage ratio Stage 3	81.6%	91.9%		

1.3 Contingent commitments

As at 31 December 2019, the commitment relating to contingent liabilities taken by the Group was PLN 15,441.9 million, i.e. lower by 8.1% as compared to 31 December 2018. The largest portion of total contingent liabilities is still committed loans (i.e. 83.7%), which declined by PLN 1,087.9 million. Committed loans include promised but not used credit lines and unused overdrafts.

Contingent contingent liabilities granted

PLN '000	As at		Change	
	31.12.2019	31.12.2018	PLN '000	%
Guarantees	2,273,926	2,589,013	(315,087)	(12.2%)
Letters of credit issued	174,555	137,669	36,886	26.8%
Third-party confirmed letters of credit	7,771	-	7,771	-
Committed loans	12,935,767	14,023,057	(1,087,290)	(7.8%)
Other	49,935	47,587	2,348	4.9%
Total	**15,441,954**	**16,797,326**	**(1,355,372)**	**(8.1%)**
Provisions for contingent liabilities	61,703	26,481	35,222	133.0%
Provision coverage ratio	0.40%	0.16%		

Total value of security established on accounts or assets of borrowers of the Bank was PLN 5,212 million as at 31 December 2019, as compared to PLN 4,385 million as at 31 December 2018.

2. External funding

As at 31 December 2019, total external funds of the Bank (obtained from clients and banks) amounted to PLN 41.9 billion and were lower by PLN 2.2 billion (i.e. 5.5%) than the balance as at 31 December 2018. Funds from clients had the largest share in changes of sources of external financing of the Bank's activities. They increased by PLN 1.5 billion (i.e. 3.8%), in connection with an increase in deposits of clients from the non-financial sector by PLN 3.9 billion as compared to 2018, while this increase mainly covered funds on current accounts and was a consequence of the consistently applied strategy to focus on those accounts. That increase was partially offset by a decrease in term deposits from the financial sector.

Group's funding from banks

PLN '000	As at		Change	
	31.12.2019	31.12.2018	PLN '000	%
Current account	1,457,233	912,995	544,238	59.6%
Term deposits	156,425	162,737	(6,312)	(3.9%)
Loans and advances received	-	1,326	(1,326)	(100.0%)
Liabilities from securities sold under agreement to repurchase	214,135	115,208	98,927	85.9%
Other liabilities, including:	297,702	209,967	87,735	41.8%
Hedging deposits	297,669	208,901	88,768	42.5%
Total funding from banks	**2,125,495**	**1,402,233**	**723,262**	**51.6%**

Group's funding from customers

PLN '000	As at		Change	
	31.12.2019	**31.12.2018**	**PLN '000**	**%**
Deposits of financial sector entities				
Current accounts	797,540	704,512	93,028	*13.2%*
Term deposits	3,759,106	6,335,488	(2,576,382)	*(40.7%)*
	4,556,646	**7,040,000**	**(2,483,354)**	**(35.3%)**
Deposits of non-financial sector entities				
Current accounts, including:	27,714,669	24,987,518	2,727,151	*10.9%*
Corporate clients	13,990,381	11,930,693	2,059,688	*17.3%*
Individuals	10,335,509	9,380,065	955,444	*10.2%*
Public entities	3,388,779	3,676,760	(287,981)	*(7.8%)*
Term deposits, including:	7,248,176	6,069,930	1,178,246	*19.4%*
Corporate clients	4,055,101	3,476,957	578,144	*16.6%*
Individuals	3,126,422	2,523,267	603,155	*23.9%*
Public entities	66,653	69,706	(3,053)	*(4.4%)*
	34,962,845	**31,057,448**	**3,905,397**	**12.6%**
Total deposits	**39,519,491**	**38,097,448**	**1,422,043**	**3.7%**
Other liabilities				
Other liabilities, including:	268,311	236,897	31,414	*13.3%*
Cash collateral	159,986	*121,416*	38,570	*31.8%*
Margin deposits	43,929	*66,583*	(22,654)	*(34.0%)*
	268,311	**236,897**	**31,414**	**13.3%**
Total funding from customers	**39,787,802**	**38,334,345**	**1,453,457**	**3.8%**

3. Interest rates

The table below presents weighted average effective interest rates of receivables and payables by the respective business segments of the Group:

As at 31 December 2019

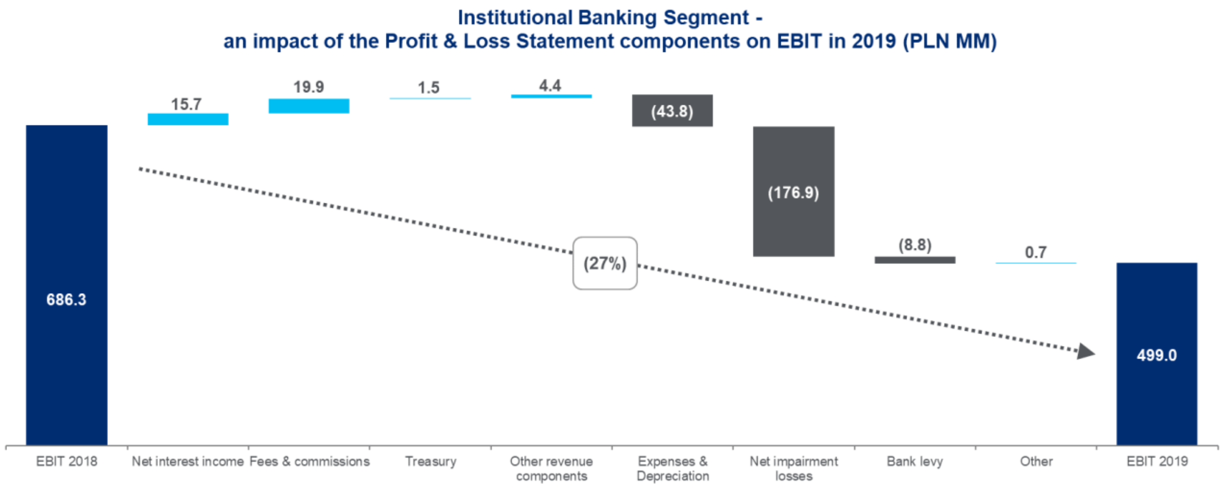
in %	Institutional Bank			Consumer Bank		
	PLN	**EUR**	**USD**	**PLN**	**EUR**	**USD**
ASSETS						
Receivables from banks and customers						
- fixed term	3.06	0.90	3.53	7.41	4.00	-
Debt securities	1.91	0.17	2.68	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	0.96	0.003	1.84	1.01	0.10	1.62

As at 31 December 2018

in %	Institutional Bank			Consumer Bank		
	PLN	**EUR**	**USD**	**PLN**	**EUR**	**USD**
ASSETS						
Receivables from banks and customers						
- fixed term	3.05	1.02	3.73	7.90	4.00	-
Debt securities	2.04	0.12	3.41	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
- fixed term	0.87	0.06	1.14	1.01	0.10	1.32

4. Institutional Banking Segment

4.1 Summary of segment's results



In 2019, the pre-tax profit of the Institutional Banking segment declined by PLN 179.4 million, i.e. 26.1%. The following factors affected the pre-tax profit of the Institutional Banking segment in 2019 as compared to the previous year:

- Net interest income of PLN 515.0 million versus PLN 499.3 million in 2018 – increase by PLN 15.7 million, was mainly due to an increase in interest income on debt securities, because of their lower volume;
- Net commission income of PLN 303,4 million, as compared to PLN 283.5 million in 2018, in particular due to an improvement in net commission income from transactional and custody activities, as a result of higher business volumes;
- Result on financial instruments held for trading and revaluation in the amount of PLN 351.9 million, as compared to PLN 335.7 million in 2018, in consequence of a higher result on client operations – increase of FX transactions volumes by 9% YoY, and result on investment debt financial assets recognized at fair value through other comprehensive income in the amount of PLN 98.0 million, as compared to PLN 112.6 million in 2018, i.e. a decline by PLN 14.7 million;
- Other revenues – rose by PLN 4.4 million as compared to 2018, mainly because of an increase in equity investments, due to positive valuation of shares in non-subsidiaries;
- General and administrative expenses and depreciation of PLN 552.9 million versus PLN 509.1 million in 2018 – an increase by PLN 43.8 million in connection with an increase in fees for the resolution fund under the Bank Guarantee Fund;
- An increase in net impairment charges (creation of net charges of PLN 168.3 million in 2019 as compared to reversal of net impairment charges of PLN 8.6 million in 2018), mainly affected by extraordinary items related to higher net impairment charges in the Institutional Banking segment.

4.2 Institutional Bank

In the area of institutional banking, the Group provides comprehensive financial services to the largest Polish companies and strategic companies with a large potential of growth, and also to the largest financial institutions and to companies from the public sector.

As at the end of 2019, the number of institutional clients (which include strategic clients, global clients and commercial bank clients) stood at 5,700, which means that the level of 2018, with the number of clients slightly above 5.7 thousand, was maintained. Through its commercial bank segment (small and medium-sized companies, large companies and the public sector) the Group cooperated with 3,100 clients as at the end of 2019 (which means a decline by 3% as compared to 3,200 clients as at the end of 2018).

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

The table below shows the assets and liabilities by segment in the management accounting approach.

Assets

PLN million	31.12.2019	31.12.2018	Change	
			PLN million	%
Enterprises, including:	4,664	4,774	(110)	(2%)
SMEs	1,442	1,582	(140)	(9%)

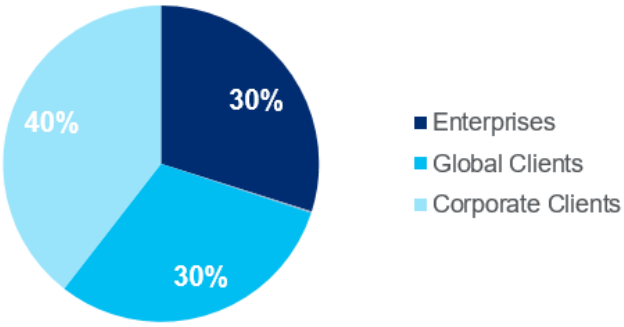
PLN million	31.12.2019	31.12.2018	Change	
			PLN million	%
Large enterprises	3,222	3,192	30	1%
Public Sector	25	50	(25)	(50%)
Global Clients	4,755	3,782	973	26%
Corporate Clients	6,162	5,592	570	10%
Total Institutional Bank	**15,606**	**14,198**	**1,408**	**10%**

Liabilities

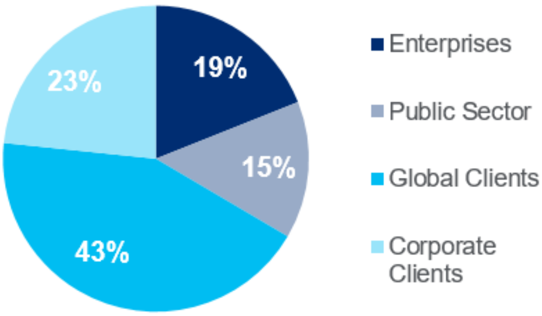
PLN million	31.12.2019	31.12.2018	Change	
			PLN million	%
Enterprises, including:	4,783	4,376	407	9%
SMEs	2,593	2,209	384	17%
Large enterprises	2,190	2,167	23	1%
Public Sector	3,658	4,083	(425)	(10%)
Global Clients	10,887	8,484	2,403	28%
Corporate Clients	5,888	8,645	(2,757)	(32%)
Other*	65	69	(3)	(5%)
Total Institutional Bank	**25,282**	**25,657**	**(375)**	**(1%)**

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

Structure of the Institutional Bank assets as of 31.12.2019



Structure of the Institutional Bank liabilities as of 31.12.2019



Key transactions and achievements in Institutional Banking in 2019:

- In 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:
  - Granted two facilities to one of the biggest global manufacturer of lithium-ion batteries for electric cars. In March 2019, the amount of the granted loan was EUR 50 million, in August 2019, further EUR 50 million;
  - In April 2019, the Bank granted a long-term loan in the amount of PLN 300 million to finance acquisition for a top beer company and it opened an escrow account in the amount of PLN 50 million to settle the transaction;
  - The Bank concluded a loan agreement for a two-year structured loan in the amount of PLN 400 million for a top FMCG company;
  - In May 2019, Citi Handlowy and Citibank N.A., London Branch, acting as the Lender, the Mandated Lead Arranger and Bookrunner, was involved in a syndicated loan agreement with a client from the e-Commerce industry. The transaction was to increase financing to the aggregate amount of PLN 3.8 billion, and the Bank's final share in financing amounted to PLN 180 million.
  - In July 2019, Citi Handlowy acting jointly with Citibank N.A., London Branch as the Bookrunner and Mandated Lead Arranger, arranged additional financing for a client from the retail industry in the amount of PLN 1.8 billion. As a result, the Bank's total commitment amounts to PLN 200 million. The invitation of Bank to the transaction is an acknowledgement of strong position of Citi structures in Poland and the Bank's commitment to provide support to strategic clients in pursuit of goals;
  - In July 2019, the Bank granted a syndicated loan of PLN 198 million to a client producing mineral water and other types of bottled water.

- In October 2019, the Bank granted a two-year loan in the amount of PLN 400 million to a leading company from the automotive industry on the Polish market. Through the financing the Bank attains a ramp-up position in that industry and provides an opportunity of developing the relationship with the client in new areas of cooperation.
- Also in October 2019, the Bank supported its clients in pro-environmental projects. It granted funding of EUR 20 million for the leading recycling company in Poland for construction of an incineration plant,
- In December 2019, the Bank together with a client from the exploration and mining industry signed a 5-year syndicated loan agreement for 1.5 billion dollars with possible two extending options for one year (at the client's request), for approval by each of the parties to the syndicate. The Bank's share in that financing amounts to USD 62 million.

- In addition, in 2019 the Bank, as part of consistent implementation of its strategy to support its clients, also signed and implemented:
  - 66 long-term loan agreements, with the Bank's involvement amounting to PLN 491 million;
  - 5 short-term loan agreements, 59 overdraft agreements, 21 revolving and multi-purpose facility agreements and 14 trade loan agreements for a total amount of PLN 768 million;
  - 6 commitments, 3 guarantees and 3 letters of credit for a total amount of PLN 302 million;
  - 3 Supplier Financing Programs with a new Split Payment option (Green Label Project) for international companies performing in Poland..

- In the course of implementation of its acquisition strategy and thanks to support provided by its global network and also thanks to a set of its unique technology solutions, the Bank won in 2019:
  - 13 mandates for comprehensive banking services or to enhance existing relationships of the Bank with its clients.

- In 2019, the Bank was focused on:
  - Further promoting of e-Commerce solutions provided by the Bank through the participation in the conference "e-Commerce Development", dedicated to e-Commerce trends (from technology to payment);
  - Support the newest digital trends and challenges through participation in the conference "New technologies and company development in the global market" and in the second edition of the conference "EMEA Digital Leaders Summit 2019" held in Amsterdam;
  - Further supporting its clients during their preparations for implementation of the Act introducing the VAT Split Payment mechanism through the arranging the Split Payment workshops;

- Client acquisition: in the Commercial Bank segment the Bank attracted 287 new clients in 2019, including 46 Large Companies, 239 Small and Medium-Sized Companies and 2 Public Sector entities. In the strategic and global client segments, the Bank established 33 new client relationships.

4.3 Treasury Division Operations

In 2019, the Bank remained 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 Bank's clients. About 80% of all FX transactions are executed via that platform. On the platform, clients may execute transactions on their own at times that are convenient for them and can conclude up to 300 transactions with various dates with only one click. The platform ensures that our clients have 24/7 access to quotations and continuous access to market information. It also enables them to manage their currency exposures, create useful reports and confirm transactions online. It is an innovative and convenient tool that provides automated FX solutions.

The Bank continues to develop electronic channels for sales of FX instruments ("eSolution"). The Bank is developing solutions that can connect financial systems of Clients (ERPs) with systems of the Bank. 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 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 1.8 billion;
- An issue of 4-year bonds for PLN 3.85 billion for Bank Gospodarstwa Krajowego;
- Participation as one of the lenders in syndicated financing for a company from the e-Commerce 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;
- Participation - as one of the borrowers in syndicated financing for a company from the mining metallurgical sector.

For years, the Bank has been the leader on the securitization market. Thanks to its experience and local expertise combined with global know-how, the Bank is perceived as a professional and reliable partner for conducting such type of transactions, both in the context of obtaining funding and freeing up of capitals. In 2019 the Bank was a co-provider of securitization transactions of the total value of PLN 4.5 billion, which contributes to ca. 80% of the value of all transactions of this type on the Polish market. In the third quarter was finalized a record-high sales of leasing securities by PKO Leasing to a securitization special purpose entity (SSPE), amounting to PLN 2.5 billion. That transaction was arranged by the Bank together with PKO Bank Polski and Citigroup Global Markets.

Citi Handlowy has been one of the key entities in the field of custody operations for years, covering the largest and the most demanding institutional customers. Citi Handlowy is constantly committed to optimize solutions to meet the needs of the clients.

4.4 Transactional banking

Citi Handlowy is a leading provider of transactional banking services. For the sixth year in a row, the transactional services provided by Citi Handlowy won the "Euromoney" ranking as the best services in Poland. This award is granted on the basis of assessments of clients, who chose the leader of the financial sector yet again.

At present, the transactional banking product range includes:

- Electronic banking;
- Deposits and current accounts;
- Liquidity management products;
- Cross border (international) transfers;
- Card products;
- Payments and receivables: Direct Debit, SpeedCollect;
- Cash products;
- EU-funding advisory services;
- Trade finance products.

Electronic banking

In 2019, Citi Handlowy initiated activities to improve its electronic banking system, following the development trends in the area of advanced technologies. The CitiDirect BE system was modified to comply with further regulatory changes, by providing, inter alia, further functionalities for the Split Payment Mechanism (Split Payment). In the reporting period, the Bank was involved in activities aimed to automate and simplify the process of creating and servicing payments. New mechanisms were introduced, which facilitate the management of user's entitlements by authorized system administrators and which reduce to a minimum the need for exchange of traditional documentation.

The Bank continued the commercialization of an electronic platform for the exchange of documents -eWnioski and the MobilePASS application, a mobile solution alternative to traditional tools for generating platform access codes. To make on-line services security innovative, bases were developed for the authentication of logging in to the CitiDirect BE system using biometrics and a mechanism of scanning fingerprints or face recognition.

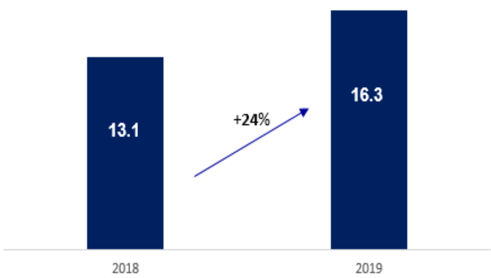
In 2019, the Bank processed approximately 50 million transactions via electronic channels. Presence in the market of advanced e-banking services is a key element of the current strategy, created to provide more and more convenient solutions to clients.

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. In 2019, the average level of balances on current accounts of institutional clients increased by 24% from 2018, to PLN 16.3 billion.

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.

Average current account balances (PLN B)



* difference may result from rounding

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.

Cross-border fund transfers

The Bank has a comprehensive and very broad range of settlements in over 130 currencies worldwide. Striving to meet its clients' needs, the Bank enhanced its multicurrency account proposal by an option enabling its users to receive payments in exotic currencies (like Chinese yuan, Mexican peso, Indian rupee or Brazilian real). This is a unique solution in Poland's market.

Card products

In 2019, the Bank followed its strategy to promote a "self-service" model in business cards by launching a distribution service for card statements directly to the card holder's email address and by enabling the clients to lodge complaints concerning online card transactions without contacting customer service by phone.

Another novelty in 2019 was the introduction of the application CitiManager Mobile. The new application enables the clients to control their expenses also out of office, on their phone or tablet. The application CitiManager Mobile enables card holders remote access to information and basic functions of the CitiManager platform.

In that period, the value of cashless transactions for the cards with credit limit processed by the Bank increased by over 12 YoY%. For debit cards, the value of cashless transactions rose by 13% YoY.

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

Citi Handlowy is a leader on the direct debit services market (presently it handles 36% of transactions on the market), it is an active member of the Direct Debit Coalition under the auspices of the Polish Bank Association. In June 2019, the Coalition worked out and consequently implemented significant changes concerning the product. They were to remove hurdles impeding the activation of that service by the Recipients. In the case of consumers' Payers (in the meaning of the Civil Code), the obligation to send consent to the Payer bank before the first debit transaction was waived. The obligation to obtain by the Recipient the Payer's consent is a still required element of activating settlements through a Direct Debit however the Recipient may refrain from delivering it to its bank for verification at the Payer bank. The new facilitations are already available to the Corporate Clients of Citi Handlowy.

- SpeedCollect

SpeedCollect is a service for automated booking of receivables, dedicated to creditors – recipients of mass payments. 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. In 2019, the Bank recorded a 2% increase in the number of clients using this solution as compared to 2018.

Trade finance products

The trade finance proposal of Citi Handlowy covers various solutions, such as letters of credit, bank guarantees, collection, trade credit, a supplier and distributor financing program and factoring. In 2019, the Bank kept on developing its offer in Vendor Financing Programs. A solution offered by the Bank allowed global clients to adapt their settlement and payment structures to legislative amendments in effect from 2019 concerning a split payment mechanism. Since the fourth quarter 2019, Citi Handlowy corporate clients can use global solutions for financing supply chains, designed to meet local legal and tax requirements. Thus, the Bank is still a leader among of providers of supply chain financing.

In the last quarter of 2018, e-guarantees accounted for nearly 20% of the total volume of guarantees issued by the Bank. In the last quarter 2019, their number was almost 65%. The more and more advanced digitization of services offered to the Bank's clients resulted in, among other things, the automation of a guaranty and standby letters of credit issuing process as presently applications and requests can be created using data imported directly from accounting and financial systems. Another result of the digital transformation is the implementation of an electronic system for introducing amendments to agreements between the Bank and clients. Presently, one in three agreements is uploaded to that channel of communication.

4.4.1 Custody and depositary 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 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 and vice versa, as well as settlement confirmations and statements to accounts opened at KDPW 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 – International Central Securities Depository)* and covers the management of securities accounts and collective accounts of such entities.

In 2019, 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 leader 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 31 December 2019, the Bank maintained over 14.5 thousand securities accounts.

Simultaneously, the Bank acted as depositary of two open-end pension funds: Aviva OFE Aviva Santander, Nationale - Nederlanden OFE, two voluntary pension funds: Nationale - Nederlanden DFE, Generali DFE, and 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) and Skarbiec TFI S.A.

In the second half of 2019 the Bank started servicing investment funds and pension funds operating under the Employee Capital Plans programme: PKO Emerytura SFIO, Santander PPK SFIO, Aviva SFIO PPK, Esaliens PPK SFIO, Nationale - Nederlanden DFE Nasze Jutro.

At the same time, 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 fifth consecutive term of office. In the reporting period, the Council was involved in activities to improve contractual standards and recommended good practices relating to performance of the function of an investment fund depositary in line with the requirements of AIFMD and UCITS V (EU directives).

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, KDPW_CCP 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 by the Council, and in projects carried out by market working parties.

4.5 Brokerage Activity

The Group runs brokerage activities in the capital market via Dom Maklerski Banku Handlowego S.A. ("DMBH"), a wholly-owned subsidiary of the Bank.

As at the end 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. 14,3% of the shares listed in its main equity market.

In 2019, DMBH was the intermediary in in-session transactions accounting for 7.5% 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 29 billion and declined by 10% as compared to last year, with decline in turnovers on the WSE by 6%. The structure of in-session turnovers continues to change – 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 2019, DMBH became the vice-leader of session trading on the WSE Main Market and, as a local Exchange Member, has the highest share in session trading - similarly to 2018.

The number of investment accounts and registers for foreign markets maintained by DMBH was 13.8 thousand as at the end of 2019 and slightly decreased compared to the previous year, due to systematic closure of inactive accounts.

Summary financial data as at 31 December 2019*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2018
		%	PLN '000	PLN '000	PLN '000
Dom Maklerski Banku Handlowego S.A.	Warszawa	100.00	421 716	98 805	1 256

**pre-audit data*

4.6 Leasing

The leasing products are still offered by the Bank's Group as part of the so-called "open architecture", which is a partnership cooperation with entities not being part of the Bank's Group.

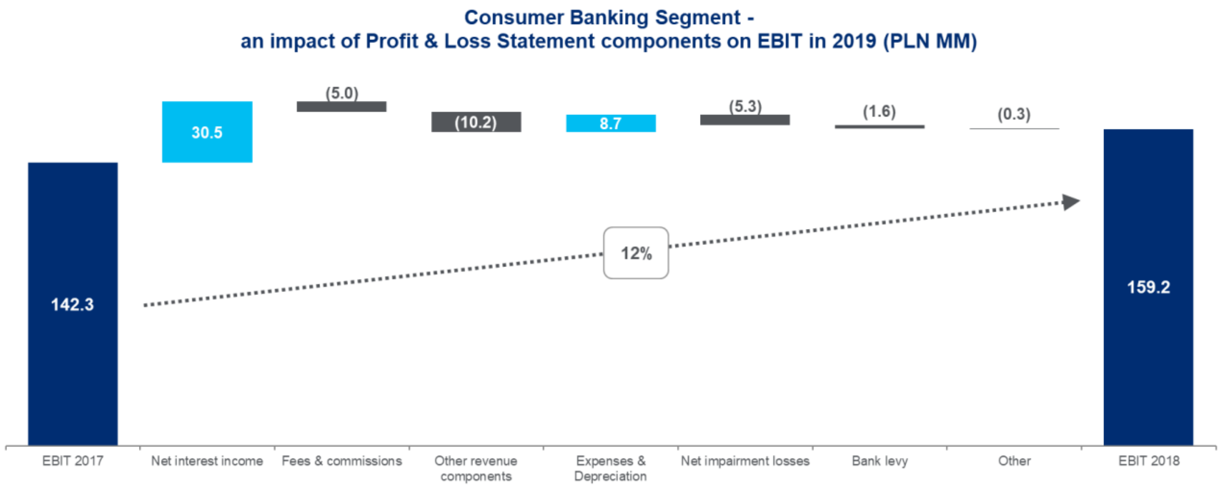
Summary financial data as at 31 December 2019*

Company	Headquarter	% of authorized Capital/votes in GM held by the Bank	Balance sheet total	Equity	Net financial profit/loss for 2019
		%	PLN '000	PLN '000	PLN '000
Handlowy-Leasing Sp. z o.o.	Warszawa	100.00	21,929	21,404	(502)

**pre-audit data*

5. Consumer Banking Segment

5.1 Summary of the segment's results



In 2019, the pre-tax profit of the Consumer Bank segment recorded increase by PLN 16.9 million, i.e. 11.8%: The following factors affected the pre-tax profit of the Consumer Bank segment in 2019 as compared to the previous year:

- an increase in net interest income as a result of higher credit volumes (+3% YoY), partially offset by higher interest expenses resulting from the significant growth of deposits (+13% YoY), also due to an attractive promotional offer applied as an acquisition tool to attract new affluent clients (an increase in the number of active clients in the segments Citi Private Client and Citigold by 31% YoY);
- a decline in net fee and commission income, primarily on sales of investment products as a result of worsened market sentiment;
- a decrease in operating costs, thanks to savings generated by initiatives implemented to optimize the cost basis, partially reinvested in marketing and technology;
- higher negative impairments of PLN 77.5 million compared to PLN 71.1 million in 2018. The slight change was due to the behavior of the loan portfolio and a new exposure.

5.2 Selected business data

	2019	2018	Change PLN '000	%
Number of individual customers	674.9	687.4	(12.5)	(1.8%)
Number of current accounts	457.7	460.6	(2.9)	(0.6%)
Number of savings accounts	139.6	140.8	(1.3)	(0.9%)
Number of credit cards	651.8	679.9	(28.1)	(4.1%)
Number of debit cards	238.2	245.8	(7.6)	(3.1%)

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5.3 Key business achievements

Bank accounts

Current accounts

The total balance on the accounts increased by over 7% and exceeded PLN 6.8 billion. The number of personal accounts was 458,000 as at the end of 2019 (at the end of 2018: 460,000). Of that number, 255,000 were PLN accounts and 202,000 accounts in foreign currencies.

Savings accounts

The number of savings accounts was 140,000 as at the end of 2019, with a simultaneous their total balance of PLN 3.3 billion, as compared to 140,000 savings accounts with PLN 2.8 billion in the same period in 2018.

Changes in the offering

As of 14 September 2019, an adjusted Table of Fees and Commission became effective for clients having a Citigold and Citigold Private Client personal account. The new Table introduced new minimum thresholds for a free of charge Private Account.

- Citigold from PLN 300 thousand to PLN 400 thousand,
- Citigold Private Client from PLN 3 million to PLN 4 million.

In 2019, in the area of individual clients, the Bank continued to reward new Citi Priority, Citigold and Citigold Private Client accounts with:

- promotional interest rates on savings accounts,
- special offer for new Citi Priority clients holding a balance in their accounts up to PLN 100 000 and a more advantageous one with a balance above PLN 100 000
- recommendation program for Citi Priority, Citigold and Citigold Private Client segments.

For clients from the Microenterprises segment, the Bank also brought forward a new offer concerning a Business Overdraft and at the same time, the Bank also enabled the clients to apply for a credit line online.

In 2020, the Bank is going to continue its strategy that is focused on increasing the client portfolio and balances in selected segments, with particular emphasis on the digitization of the acquisition process.

In 2019, Citi Handlowy was rewarded again by financial magazine Euromoney,, for Citigold and Citigold Private Client account offer. In the 16th edition of the annual survey of the private banking market, the Bank was appreciated in three categories: Asset management, Advice on asset allocation and Family Office Services. In 2019, for the fourth time in a row, Forbes magazine awarded Citigold Private Client the highest rating in its private banking rating, emphasizing the global character of the Bank and the strengthening of its investment advisory offer.

Credit cards

As at the end of 2019, the number of credit cards was 652,000. The total debt on credit cards amounted to PLN 2.8 billion as at the end of 2019 and increased by 1.6% from the end of 2018. In consequence, the Bank maintained its leading position in the credit card market in terms of the value of loans on credit cards, with the market share of 23%.

In 2019, credit card acquisition was at a stable high level, as in the prior year, and amounted to about 47,000 cards. This was achieved thanks to intensive acquisition activities of the Bank which made its credit card proposal more attractive. As a result, in 2019 for the fourth time in a row the Bank was honored with the Golden Banker award for the best credit card: Citi Simplicity.

In 2019, the quality of card acquisition and a high share of cards acquired on the basis of the client’s documented income data were maintained, which translated into a higher activation level and a higher transactional activity of the newly acquired clients.

The Bank consistently diversifies its acquisition channels while continuously optimizing its sales processes.

Credit products

Cash loans and installment products on credit card accounts

The balance of unsecured loans (cash loans and loans on credit card accounts) amounted to PLN 2.8 billion as at the end of 2019, i.e. decreased by 1.7% as compared to the previous year. The lowered balance is an outcome of lower sales in unsecured loans, including new cash loans for credit card holders, which declined by 4% compared with the previous year. In the same time period, the balance of installment loans used by clients as part of credit card limits granted to them earlier, and which are a solution complementary to financing the clients' credit requirements, increased by 3% on a yearly basis.

Mortgage products

As at the end of 2019, the mortgage loan portfolio amounted to PLN 1.9 billion, i.e. it increased by 15% from the end of 2018. In 2019, sales of mortgage products amounted to PLN 461 million, i.e.increased by 29% compared to the sales results recorded in 2018.

Investment and insurance products

Investment products

As at the end 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 8% higher as compared to the same period in 2018. This was most likely due to growth in the group of investment funds.

In the structured product segment, the Bank completed 53 subscriptions for PLN, USD and EUR denominated structured bonds in 2019.

As regards open-ended investment funds, in 2019, the Bank enhanced the offer by adding three new investment strategies in a variety of currencies, including units of "hedge" type mitigating the currency risk and distribution units paying dividends.

Insurance products

The Bank still offered insurance in a multi-channel distribution model - both at branches and in remote channels. In the case of Citigold branches, the products were offered under the model where clients are served by insurance specialists who provide their clients with expert support in the area of financial planning using insurance products.

The Bank also enlarged its offer in life insurance linked to credit debt for clients holding cash loans. With respect to insurance products offered in cooperation with Towarzystwo Ubezpieczeń na Życie WARTA S.A., further changes in offered life insurance products were made in 2019 to optimize processes used for signing insurance contracts. In the application for clients, they covered additional features, which offered a better insight in the insurance held and a possibility to perform additional operations. Changes also involved the application for the Bank’s employees, and facilitated handling of applications for insurance contracts.

6. Development of distribution channels

6.1 Direct acquisition

In 2019, the Universal Bankers retail distribution channel continued its new client acquisition strategy while focusing on three key products: credit cards, Citi Priority account and cash loans. As in previous years, mobile sales force carries out its activities throughout Poland from local branches situated in 6 cities.

In accordance with the assumptions of periodic refreshment of the sales potential with the cost effectiveness of the formula unchanged, the mobile sales forces continued their presence in corporations and focused on activities and public administration entities.

Universal Bankers also supported building the perception of Citi Handlowy as an innovative institution that both offers state-of the art solutions and is client oriented through sales activities of various social and cultural events, such as shows, business conferences, concerts and sports events.

6.2 Branch network

Citigold and Citigold Private Client outlets

As at the end of 2019, the network of outlets included 9 Hub Gold branches, 10 Smart branches and 1 corporate branch.

In 2019, the transformation process was completed for affluent client services branches. Presently, the Bank offers at all its subsidiaries a coherent service and selling format. Each of the branches is so designed as to ensure a proper style and standard for providing best quality services, comfortable conditions, and prestige. The location of the branches in the centers of the largest Polish cities guarantees accessibility and convenience for their clients.

In January 2019, the branch Hub Gold in Katowice was relocated to a new location. As a result, the clients could enjoy a modern service space in an entirely fresh standard, in close vicinity to its previous location.

In February 2019, a new Smart branch was opened in the Shopping Mall Galeria Mokotów, thus relocating the original operating branch to a new larger space. As a result of the change, one could see considerable improvement in the quality of service and the effectiveness of sales of banking products. The initiative met the clients' expectations regarding the accessibility of round o'clock continuous services (a special 24-hour space with an ATM and internet services stands), and the availability of a larger service space to ensure privacy, comfort and convenience.

In March 2019, the branch Smart Hub Gold located in Gdańsk was remodeled into the Hub Gold format. This transformation allowed for the most efficient use of commercial space, at the same time maintaining the unchanged standard of service for all serviced client segments.

In the second and third quarters 2019, two Smart branches located in Warsaw and Wrocław were closed. As a result of the changes, one could see a considerable improvement of cost effectiveness and operational efficiency at the remaining branches located in cities that initiative embraced.

In November 2019, the traditional branch Smart Hub Gold in Kraków was relocated to an office center thus the branch changed into a Hub Gold branch type with dedicated and special space for Citigold Private Client services with access to all the services available at modern branches, dedicated to affluent clients.

Number of branches (at the end of period)

	December 31, 2019	December 31, 2018	Change
Number of branches (at the end of period):	**21**	**23**	**(2)**
- HUB Gold	9	7	2
- Smart Hub Gold	0	2	(2)
- Investment Center	1	1	-
- Smart Branches	10	12	(2)
- Corporation Branches	1	1	-
Other POS:			
Smart Mini	0	3	(3)

6.3 Internet and telephone banking

Online banking

The online platform for retail and macro clients is built in a responsive technology, i.e. it can adapt itself to the device used by a client. Modern design was inspired by clients expectations and extended functionality makes traditional channels of communication unnecessary. One of the improvements is for credit card holders, which can manage their card limit, convert transactions into installments or buy insurance products by themselves. The clients can construct and update their investment profile coherent with the MiFID II regulation. In September, as Directive PSD2 came into force, also new functionalities were made available on the website in line with the strong customer authentication requirements.

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 397,000 as at the end of fourth quarter 2019. The share of active Citibank Online users in the entire client portfolio of the Bank was 60.2% as at the end of the fourth quarter of 2019, i.e. it increased by 1 p.p . as compared to the fourth quarter of 2018.

At the same time, as at the end of the fourth quarter of 2019, digital users accounted for 81,7% of all transactionally active clients, which means an increase by 0.7 p.p. as compared to the fourth quarter of 2018.

In the fourth quarter of 2019, the share of credit cards sold through the Internet channel stood at 47% in relation to total credit card acquisitions in the Bank, which means an increase by 15 p.p. YoY.

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 of changes on the account or card, and login activation with the use of a fingerprint or face image, which makes access to the application even easier, which is highly appreciated by clients. A new module of the application was activated especially for Citi credit card holders and the application was upgraded for private account holders. The clients have had access to, among other functionalities, simplified and intuitive navigation, a new layout and a mobile authorization service - Citi Mobile Token. The mobile application was also upgraded from the point of view of strong customer authentication requirements.

As at the end of the fourth 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 218,000, i.e. increased by about 5.1% as compared to fourth quarter of 2018.

The share of active users of mobile banking in the retail client portfolio of Citi Handlowy was 33,1%, i.e. increased by 2.5 p.p. as compared to the same period in 2018.

Social media

In 2019, Citi Handlowy continued its activities in social media, which are a vital channel for both contacts and interactions with clients. In its day-to-day communication, the Bank focused on promoting its content on Facebook and Instagram. The Bank not only provided information on current offerings or promotions, but also sent invitations to special events and competitions to its fans. The posts shared by the Bank were received every day by above 155,000 Facebook and Instagram users and each of these people had on average 4 contacts with the Bank's marketing material during the year. In 2019, 51 posts were published on Facebook and 6,400 comments were left by users of this platform.

In 2019, Facebook was also a key tool used for processing of client inquiries Average inquiry response time was 15 minutes. The number of fans didn’t change - the Bank still has 146,000 fans.

7. Changes in IT technologies

In 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 outcome of recertification/supervision 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 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;
  - **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:**
  - **new view of the Citi Mobile mobile application** and new functionalities. The development of mobile banking is one of the key facets of the Bank's strategy and as part of modifications of the application introduced in 2019, main efforts were made to develop, among other things, a range of functionalities regarding credit card services (such as the division of a transaction into installments), a new tool was added regarding mobile transaction authorization (Citi Mobile Token), and a new clear layout was designed with intuitive navigation;
  - introduction of a modern **remote biometric verification service** as part of the credit approval process, enabling the clients to apply for a loan fully in a remote mode by showing scans using a smart phone.

- **launch of the application for automatic verification of bank statements for clients applying for credit products** – the Bank expects that this new application will not only significantly accelerate the credit process, thanks to the automated verification of authenticity of bank statements supplied by the clients, but will also reduce 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 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:**

- implementation of regulatory changes to adapt IT systems of the Bank to the requirements of **PSD2** regulation (including implementation of Strong Customer Authentication);
- 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 and to control versions of certificates, requirements related to a secure runtime environment as well as pinning a device and application to a specific user;
- extension of existing and adding new solutions in data leakage prevention (Data Leakage prevention systems);

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 proactively 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 process 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;

• **in consumer banking:**

- **adding a payment service via Apple Pay** for Mastercard debit and credit cards;
- 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**;**
- **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 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 telephone systems to Cisco voice solutions together with the application of the “Softphone first” principle and increasing mobility, optimization of the environment of voice recording, contact center and Autodialer 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 modernisation of the ICT infrastructure at the RPC Olsztyn site.

8. Equity investments

The investments of the Bank are divided between the portfolio of strategic companies and the portfolio of companies held for sale. In 2019, the Bank continued the investment policy it had decided to adopt earlier. Its objectives for the strategic companies portfolio were: to maximize profits in the long run, to increase market shares, to develop cooperation with the Bank and to expand the product range of the Bank; and for the portfolio of companies held for sale: to optimize the financial result of capital transactions and to minimize the risk in the areas arising from those transactions.

8.1 Strategic portfolio

Strategic portfolio includes entities which conduct their activities in the financial sector and through which the Bank enlarges its product offer, raises prestige and fosters its competitive position on the Polish financial services market.

Strategic portfolio also includes infrastructural companies which operate for the financial sector. The Bank holds non-controlling interest in such companies but they are of strategic importance for the Bank given their operations and collaboration with the Bank.

For its strategic investments in the so-called infrastructural companies, the Bank is going to retain its share and to participate proactively in decision making to determine strategic directions of their development to the extent of the options the Bank may pursue with the voting rights it holds. As its overriding goal when exercising corporate oversight over those companies, the Bank has chosen to support their growth insofar as the continuation of their current operations utilized by financial market participants, including the Bank, is not put in jeopardy. Simultaneously, in order to ensure that the Bank's proposal is innovative and comprehensive and that it meets diverse product needs and expectations of clients, the Bank may consider an expansion of its strategic companies portfolio by those which will complement its own proposal and make it more attractive, while ensuring that all offered services are safe. To this end, the Bank may opt for an acquisition, create a new company or use a special purpose investment vehicle it already has in its portfolio.

8.2 Divestment portfolio

Companies held for sale are entities in which the Bank's involvement is not of strategic nature. They include both companies held by the Bank directly and indirectly as well as special purpose investment vehicles. Some of the companies held for sale are restructuring commitments taken over by the Bank as a result of debt-to-equity conversion.

Strategic assumptions of the Bank regarding companies held for sale provide for gradual reduction of the Group's exposure in these companies. It is assumed that the individual entities shall be sold at the most favorable moment, determined on the basis of market conditions. The held-for-sale portfolio covers investments without a pre-determined rate of return. The Bank does not plan any new investments that would be held for sale in the future. The portfolio of companies which are held for sale may be enlarged by adding new companies taken over in the course of debt-to-equity conversions or as a result of takeover/enforcement of a pledge established on shares during the lending process or other processes aimed at securing or enforcing receivables of the Bank, and by investments which the Bank may take over in the course of its operations. Investment resulting from restructuring activities will be sold in accordance with the restructuring plan created individually for each company.

Special purpose investment vehicles companies

As at 31 December 2019, the Group included two investment special purpose vehicles. Their activities were financed with reverse capital contributions of the shareholder and with their profits.

As the Bank continues its strategy which assumes that its activities carried out via special purpose vehicles should be trimmed down, it is expected that its special purpose vehicles will be gradually sold or liquidated.

According to information available as the date of preparation of the (preliminary and unaudited) financial statements, the key financials of those companies as at 31 December 2019 were as follows:

Special purpose investment vehicle companies

Entity	Headquarter	Authorized capital/votes in GM held by the Bank	Balance sheet	Equity	Net financial profit/loss for 2018
		%	PLN '000	PLN '000	PLN '000
Handlowy-Inwestycje Sp. z o.o.	Warszawa	100.00	10,820	10,780	(33)
Handlowy Investments S.A.*	Luksemburg	100.00	4,903	4,824	(212)

* Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2020 (pre-audit data), which is the entity's balance sheet date.

VII. Significant risks related to the activities of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Significant risks and threats related to the Group's operating environment

1.1 Regulatory and legal risks

In 2019, the financial and organizational situation of the Group was affected, among other things, by:

Legal acts / regulations	Effective date and summary of new requirements
Recommendation L on the role of statutory auditors in the process of supervision over banks	• Date: March 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. As regards collaboration between entities involved in a financial statements audit process at banks, the amended Recommendation L's aim is to work out a relationship close to a partnership and free of hierarchy, however the Recommendation sets out in detail duties and obligations regarding taking and maintaining proper and correct records and information exchange. Recommendation effective date: 31 March 2019.
EBA's Guidelines on the Management of Interest Rate Risk Arising from Non-trading Activities	• Date: June 2019 • 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 were prepared on the basis of their earlier release of 22 May 2015 and 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). The revised guidelines contain specifically requirements concerning the definition of strategies for IRRBB risk, including risk appetite and manners of risk mitigation, the definition of IRRBB management framework (the definition of policies, processes and controls) and the delegation of responsibility in this regard, the performance of proper assessment of new products and activities for the needs of IRRBB. 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 B on the mitigation of banks' investment risk	• Date: December 2019 • The aim of the amended Recommendation B is to guide the banks through good practices regarding selected facets of investment risk management (analyses, identification, management, supervision, measurement, monitoring and reporting), except for loans and credits, derivative instruments, cooperative banks' contributions to an affiliating bank's capital and involvement on the part of protection scheme participants in protection scheme instruments. The Recommendation underlines the role of the management board and supervisory board as well as it defines regulatory expectations to such bodies regarding risk management and mitigation for investments made at a bank, it contains provisions concerning investment risk counteracting and mitigation, investment risks monitoring and reporting, and it addresses regulatory expectations as to the organizational structure at a bank in the context of investments made at the bank, including the Investment Policy Committee. The Recommendation is applicable to investments made on own account and it stipulates, among other obligations, the duty to proclaim and adopt an investment strategy and policy at banks.
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) - ("GDPR"). and the Act of 21 February 2019 amending certain Acts in connection with the assurance of the GDPR application ("the Act")	• Date: 25 May 2018 , 4 May 2019 (Act) • This regulation is binding on all entities which carry out the processing of personal data in connection with their business activities. The regulation introduces numerous changes and significantly enhances the responsibilities of personal data controllers and processors. The new provisions are also to equip natural persons and supervisory authorities with effective tools of responding to infringements of the Regulation. The most important changes include: ➢ New and enhanced rights of data owners: "right to be forgotten" (for persons who want their personal data to be deleted), the right to data portability and a strengthened right of a citizen to access and view their data. Data subjects will also have a stronger right to object to processing of their personal data. ➢ Certain limitations have been introduced with respect to profiling, including an obligation to obtain consent to profiling before the collection of personal data is started, a strict obligation to inform data subjects about profiling and the necessity to accept the lack of consent to profiling.

	➢ The GDPR implements new or supplemented rules under which consent to the processing of personal data is to be obtained from data subjects. The GDPR also determines numerous types of information which must be taken into account when communicating the method of personal data processing to data subjects. • Data controllers must notify the competent supervisory authority, within 72 hours of detection, of breaches which may pose a risk to rights and freedoms of persons whose data have been breached. • In addition, the Act proclaimed new data processing rules for the needs of assessing consumers' creditworthiness.
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.	• Date: 01 January 2018 • This regulation implements, among other things, a common framework which is to ensure accuracy and integrity of indices used in the EU as benchmarks in financial instruments and financial contracts, as well as the protection of consumers and investors. • The regulation also applies to entities which provide benchmarks or input data for a benchmark and to supervised entities which use benchmarks in financial contracts and financial instruments.
Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MIFID II"), Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 ("MIFIR") and other EU regulations and the related amendment to the Act of 29 July 2005 on trading in financial instruments and certain other laws and secondary regulations	• Date: 3 January 2018 (EU regulations) and 21 October 2018 (local regulations) • The primary objective of MIFID II and MIFIR is to strengthen the protection of clients which use investment services and to increase the transparency of functioning of financial markets, and • To ensure an increase in the competitiveness and efficiency of financial markets in Poland and the European Union.
Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories and executive regulations to the above regulation issued by the European Commission ("EMIR").	• The implementation of EMIR has been progressing in stages since 2012. In 2018, subsequent stages of implementation in connection with EMIR were carried out, in particular those related to the widening of the group of entities obliged to use initial margins for derivative transactions. • EMIR imposes on undertakings which are financial and non-financial counterparties, as defined in the Regulation, numerous obligations connected with the conclusion of derivative transactions, and in particular transactions concluded on the OTC market (e.g. obligations to report derivative transactions, to have derivative transactions settled by a central counterparty (CCP), to confirm transactions, to reconcile, and to secure exposures arising from transactions).
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	• Date: 21 July 2019 • The most important amendments concerned the change of the definition and rules of public offerings
The Act of 15 December 2017 on insurance distribution	• Date: 01 October 2018 • The Act sets out new regulations arising from the need to implement Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 into the Polish legal system. • The Act lays down the principles of execution of activities to distribute personal and property insurance products and to distribute reinsurance products.
The Act of 30 November 2016 amending the payment services act and certain other acts, implementing Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the	• Date: 08 August 2018 • The most important changes included: ➢ access to the main account, i.e. the need to ensure that consumers have access to a charge-free main payment accounts and to basis payments services connected with that account, ➢ statutory principles applicable to transfers of payments accounts,

comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features ("PAD")	➢ disclosure obligations related to fees.
The Act of 16 October 2019 amending the Act on Public Offering and Terms of Introduction of Financial Instruments to an Organized Trading System and on Public Companies and some other acts	• Date: 30 November 2019 (3 September 2020 in respect of shareholders identification) • The most important changes included: ➢ the change of the definition and rules of public offerings (adaptation to the EU regulations) ➢ the introduction of a public offering as a rule, ➢ of new obligations for entities keeping securities accounts regarding shareholders identification, disclosures to the shareholders and facilitating the execution of shareholders' rights (effective 3 September 2020).
The Act of 4 October 2018 on employee capital plans	• Date: 01 January 2019 • 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 depositary • 1 July 2019 - 1st stage of the introduction of Employee Capital Plans - entities hiring at least 250 persons
The Act of 9 August 2019 Amending the Goods and Services Tax Act and Certain Other Acts	• Date: 01 November 2019 • The Act imposes on the entrepreneurs who pay invoices containing at least one item enumerated in Appendix 15 to the Tax on Goods and Services Act and the value of invoice exceeds PLN 15 000, the obligation to apply a split payment mechanism. Furthermore, funds gathered on the account are to cover liabilities under VAT, PIT, CIT taxes, excise duties, customs duties, and amounts contributed to the social security scheme maintained by ZUS (the Social Insurance Institution). • In connection with sanction imposing mechanisms envisaged in the Act in respect of some of the banking products, it ensues from the regulation that business and operational processes must be modified although a bank is not a direct buyer of goods or services subject to a split payment mechanism.
The Act of 12 April 2019 Amending the Goods and Services Tax Act and Certain Other Acts	• Date: 01 September 2019 • The Act requires that entrepreneurs screen an entity's account a given taxpayer is to credit with payment, against the list of VAT payers (the so-called white list). Any payment onto any account which is not listed entails tax consequences. In accordance with the provisions of the Act, negative consequences to the entrepreneur who has credited an account that is not displayed on the white list are enforceable beginning from 1 January 2020. • The Act does not refer directly to payments made for banks and in principle, no accounts of the so called own operations are to be placed on the white list, which may entail a risk on the part of counterparties.
The Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Code and certain other acts	• Date: 01 January 2019 • The Act laid forward a range of changes concerning specifically the scope of duties on the part of taxpayers by imposing, inter alia, more stringent requirements concerning a possible use of exemptions or preference rates in and on paid out interest, dividends and other revenues subject to a withholding tax. In addition, along with the implementation to the national legal system of the provisions of Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements, an obligation was introduced to identify and report incidents recognized as tax schemes. Also more extensive and detailed responsibilities were laid forward to document transactions with related parties. The Act also put further strain on the taxpayers for tax law violations, by making the sanctions more severe and by setting new categories of sanctions.
The ruling of the Court of Justice of the European Union of 11 September 2019 on the interpretation of Article 16.1 of the Directive of the European Parliament and of the Council 2008/48/EC of 23 April 2008 on	• Announcement date: 11 September 2019 • The Directive was implemented in Poland by way of the Consumer Credit Act of 12 May 2011. The publication of the ruling setting out conditions of settling an earlier repayment of a consumer loan, as envisaged in the said Directive, necessitated a review at the Bank of its existing practice regarding consumer loans.

credit agreements for consumers and repealing Council Directive 87/102/EEC, concerning the settlement of cost of borrowing in the case of an earlier repayment.	

In 2020, the financial and organizational situation of the Group will be affected, among other things, by:

Legal acts / regulations	Effective date and summary of new requirements
Recommendation R on principles of credit risk management and recognition of expected credit losses (project)	• Date: 2020/2021 (draft) • Recommendation is addressed to banks and is a set of principles and guidelines regarding credit risk management and recognition of expected credit losses. The amendment to Recommendation R is the result of the entry into force on January 1, 2018 of the new International Financial Reporting Standard - IFRS 9 Financial Instruments. The purpose of Recommendation R is to show banks a set of good practices in credit risk management, classification of credit exposures and estimation of expected credit losses in accordance with the accounting policy adopted and binding in the bank.
Recommendation S on good practices for management of credit exposures secured with mortgages	• Date: 2019 • Recommendation S as amended 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. In addition, the amended Recommendation S implements provisions related to loans with an option under which a liability to a bank arising from a credit exposure secured with a mortgage on a residential property may be waived if the borrower assigns to the bank the ownership titles to the property financed with that loan, which is called the “key for debt” option. 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.
Recommendation Z on internal governance at banks EBA and ESMA’s guidelines on suitability assessment for management body members and key function holders EBA guidelines on internal governance	• Date: 2019. • 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 at a bank, organizational structure, roles and responsibilities, the composition and functioning of the supervisory board, the management board, and senior management, a bank's code of conduct (ethics) and conflict of interests, rules of remuneration at a bank, risk management and internal controls, information systems and communication, the introduction of new products at a bank, a dividend policy, an outsourcing policy, business continuity and the transparency and integrity of management system at a bank. Recommendation Z is being prepared taking into account guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA).
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	• Date: 14 September 2019 • This regulation sets out the requirements that must be met by providers of payment services in order to implement security measures which enable them, among other things, to use a strong customer authentication procedure and associated security measures and also to determine common and secure open standards of communication between account servicing payment service providers, payment initiation service providers, account information service providers, payers, payees and other payment service providers in relation to the provision and use of payment services.
The Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Code and certain other acts	• Date: 01 January 2019 • The Act implements new regulations arising from the need to implement in the Polish legal system the provisions of Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements. • Obligation to report tax schemes to the Director of the National Tax Administration. • Quick access of the tax administration to information on potentially aggressive planning or abuses connected with tax planning as well as on promoters and users of tax schemes. • Discouraging the preparation and use by taxpayer and their advisers of arrangements which may represent tax avoidance.

	• Identification of gaps in tax regulations and improvement of the quality of the tax system
Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories and executive regulations to the above regulation issued by the European Commission ("EMIR").	• The implementation of EMIR has been progressing in stages since 2012. In 2020, subsequent stages of implementation in connection with EMIR will be carried out, in particular those related to the widening of the group of entities obliged to use initial margins for derivative transactions. • EMIR imposes on undertakings which are financial and non-financial counterparties, as defined in the Regulation, numerous obligations connected with the conclusion of derivative transactions, and in particular transactions concluded on the OTC market (e.g. obligations to report derivative transactions, to have derivative transactions settled by a central counterparty (CCP), to confirm transactions, to reconcile, and to secure exposures arising from transactions).
The Act of 9 November 2018 amending certain acts in connection with the strengthening of supervision over the financial market and of the protection of investor in that market	• Date: 01 January 2019 • Strengthening the protection of investors in the capital market. • Introducing the mandatory dematerialisation of certain financial instruments (including bonds and covered bonds). Due date: 1 July 2019 • Implementing the role of issue agent, which may be performed exclusively by investment firms or custodian banks. The obligations of the issue agent will include verification whether the issuer of financial instruments meets the relevant legal requirements. Due date: 1 July 2019 • Giving the President of the Office of Competition and Consumer Protection a right to fine persons responsible for adding the so-called abusive clauses to contracts with customers. • Extending, to 12 months, the period during which the Polish Financial Supervision Authority may audit supervised institutions (previously: 6 months). – Giving the Polish Financial Supervision Authority a right to order a bank to take over another bank whose capital has fallen below the applicable legal thresholds.
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.	• This regulation implements, among other things, a common framework which is to ensure accuracy and integrity of indices used in the EU as benchmarks in financial instruments and financial contracts, as well as the protection of consumers and investors. • The regulation also applies to entities which provide benchmarks or input data for a benchmark and to supervised entities which use benchmarks in financial contracts and financial instruments.
Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MIFID II"), Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 ("MIFIR") and other EU regulations and the related Act of 1 March 2018 amending the Act of 29 July 2005 on trading in financial instruments and certain other acts	• The primary objective of MIFID II, MIFIR is to strengthen the protection of clients which use investment services and to increase the transparency of functioning of financial markets, and to ensure an increase in the competitiveness and efficiency of financial markets in Poland and the European Union. • In 2020, it is anticipated that other obligations will enter into force resulting from MiFID II and EMIR regulations, including, specifically obligations arising from subordinating derivative instruments to the regime of the so-called systematic internalizers.
The Act of 30 August 2019 amending the Code of Commercial Companies and certain other acts	• Date: 01 January 2021 (with exceptions) • The most important changes included: ➢ The obligatory dematerialization of all shares ➢ Registration of shares in the register of shareholders kept by an authorized entity
The Act of 16 October 2019 amending the Act on Public Offering and Terms of Introduction of Financial Instruments to an Organized Trading System and on Public Companies and some other acts	• Date: 3 September 2020 in respect of shareholders identification • The most important changes included: ➢ of new obligations for entities keeping securities accounts regarding shareholders identification, disclosures to the shareholders and facilitating the execution of shareholders' rights (effective 3 September 2020).
The Regulation (EU) 2015/2356 of the European Parliament and of the Council of 25 November 2015	• Date: 11 April 2020 • The Regulation imposes the obligation to report detailed information concerning securities financing transactions as well as information concerning all changes in

on transparency of securities financing transactions and of reuse, and amending Regulation (EU) No 648/2012	such transactions or termination thereof, to a transaction repository. Securities financing transactions are understood as: ➢ repurchase transaction (Repo), ➢ securities loans or loans for goods granted and securities loans or loans for goods taken, ➢ buy-sell back transaction or sell-buy back transaction, ➢ margin lending transaction.
Draft Act amending certain acts in connection with the transfer of funds from open-end pension funds to individual pension accounts	• Date: According to the draft, the act is to enter into force on 1 June 2020 while the significant provisions of the draft are to be implemented in November 2020 and in 2021. • The draft provides for the liquidation of open-end pension funds (OFE) and voluntary pension funds (DFE) by converting them into specialized open-end investment funds and by transferring funds of OFE and DFE members to individual pension accounts of the members kept with such funds. • The draft also provides for the collection of a conversion fee in the amount of 15% of funds gathered in OFE unless an OFE member submits a declaration in which the member declares that he or she joins Zakład Ubezpieczeń Społecznych (the Social Insurance Institution) and in that case, no such fee will be collected. • The draft changes may affect services provided by a depositary to OFE and DFE and they necessitate adaptations to the draft provisions.
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 depositary. • 1 January 2020 - 2nd stage of the introduction of Employee Capital Plans - entities hiring at least 50 persons • 1 July 2020 - 3rd stage of the introduction of Employee Capital Plans - entities hiring at least 20 persons
Rozporządzenie Parlamentu Europejskiego i Rady (UE) nr 909/2014 z dnia 23 lipca 2014 roku w sprawie usprawnienia rozrachunku papierów wartościowych w Unii Europejskiej i w sprawie centralnych depozytów papierów wartościowych, zmieniające Dyrektywę 98/26/EC oraz Rozporządzenie (EU) 236/2012	Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and Regulation (EU) No 236/2012
Akty prawne dotyczące relacji pomiędzy Zjednoczonym Królestwem Wielkiej Brytanii i Irlandii Północnej a Unią Europejską, w tym Polską, wobec wystąpienia Zjednoczonego Królestwa z Unii Europejskiej	Legal acts pertaining to the relation between the United Kingdom of Great Britain and Northern Ireland and the European Union, including Poland, in the context of the United Kingdom leaving the European Union.
New WIBID and WIBOR Reference Rate documentation of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)	• On 6 December 2019, GPW Benchmark S.A. decided to amend the Code of Conduct for WIBID and WIBOR Fixing Participants. The amended Code of Conduct will become effective as of 04 February 2020. This draft documentation is to ensure compliance with the requirements of 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.
The Act of 31 July 2019 on amending certain acts to reduce regulatory burdens	• The amendment of the Civil Code takes effect as of 1 June 2020 whereby protective measures will apply to consumers regarding, among other things, abusive clauses in respect of natural persons concluding an agreement (with, for instance, the Bank) directly connected to that person's business activity if and when it infers from its provisions that the agreement is not of professional nature to that person. •

The Act of 19 July 2019 on the amendment of certain acts to reduce payment backlogs	• Date: 01 January 2020 • The fundamental aim of the act is to further limit late payments due to counterparties, taking into special consideration micro, small and mid-size entrepreneurs. The so-called large entrepreneurs will not be allowed to agree with smaller entrepreneurs payment dates going beyond 60 days.
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.	• Date: 15 December 2019 • The Regulation induces equality of charges on cross-border payment transactions in EUR with corresponding charges on national payment transactions in PLN (the equality of charges rule). Effective 19 April 2020, the transparency rule will be in force which induces the obligation to inform customers by payment services providers before a payment transaction is delivered, of the range of charges related to currency conversion and extra fees resulting therefrom.

2. Significant risks and threats related to the Group and its activity

2.1 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 control mechanisms 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:

- Asset and Liability Committee (ALCO);
- Risk and Capital Management Committee, which includes the Models Commission and the Consumer Bank Risk Commission;
- New Products 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 that the following risk families were significant for the purposes of risk management and the internal capital estimation and maintenance process:

- Credit risk;
- Counterparty credit risk;
- Market risk for the trading book;
- Interest rate risk for the banking book;
- Liquidity risk;
- Operational risk;
- Compliance risk;

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 laws and regulations, in particular the Banking Act; – requirements of Polish 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 analyses 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 analyses 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 Asset and Liability 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 Asset and Liability Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

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: the requirements of Polish regulatory institutions, and especially resolutions of the Polish Financial Supervision Authority (KNF); 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. • 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 Asset and Liability 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 is covered by the decision-making powers of the Asset and Liability Committee (ALCO) of the Bank. ALCO carries out interest rate management by setting risk limits for banking portfolios and by conducting monthly reviews of exposures and results of management of those portfolios. – 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 (NIR – net interest revenues) which may be earned in a specified time interval. IRE is

	the difference between the NIR base plan and the NIR in an interest rate shock scenario (nap +100 basic pionts, +200 basic points, -100 basic points -200 basic points). 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. In addition, the Bank regularly calculates, on a monthly basis, the impact of supervisory interest rate shocks on the economic value of EVE capital. If the decrease in EVE is greater than 15% of the institution's Tier 1 capital in any of the six scenarios, the Bank informs the competent supervisory authority about this fact. • 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 Asset and Liability Committee and the Risk and Capital Committee of the Supervisory Board.

Credit risk and counterparty 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.

Operational 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, external event (business continuity) risk, tax and accounting risk, product risk, legal risk, model risk, HR risk, concentration risk, conduct risk and reputational 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.
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.
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	• Ongoing operational risk monitoring is a responsibility of the Risk and Capital Management Committee and the Commissions which support it. – 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 semiannually, 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. The Bank's community initiatives and cultural sponsorship

The full-scope information on the implementation by the Bank of the corporate social responsibility principles, including all statutory non-financial disclosures, is presented in the Non-Financial Statements of Bank Handlowy w Warszawie S.A. and Bank Handlowy w Warszawie S.A. Group of Companies for the financial year ended 31 December 2019. The statements were prepared on the basis of the requirements set out in the Accounting Act of 29 September 1994 (i.e. J.L. of 2019 item 351 as amended), which imposes the reporting obligation.

1. Corporate Social Responsibility (CSR)

The Bank is socially responsible for and sensitive to the needs of both its business and social partners. All Bank's actions are undertaken following the needs of its customers, but also the community in which Bank operates.

Bank's activities with regard to Corporate Social Responsibility (CSR) cover work place and market environment and local community as well as environmental protection. The strategic objective is to become a company setting Corporate Social Responsibility (CSR) standards, both outside and inside the organization. The Bank carries on investments supporting local communities implemented for public good in such fields as financial education, promotion of entrepreneurship, local development and protection of cultural heritage. The Bank's mission in this scope has been implemented through the Kronenberg Foundation at Citi Handlowy established in 1996. Public recognition for the social commitment of the Bank is confirmed by various independent rankings. In 2019, Citi Handlowy appeared in the first edition of **Diversity & Inclusion Rating**. This is a new initiative of the Responsible Business Forum and Deloitte, aimed at measuring advancement level of a company in terms of building a diverse, inclusive and ethical organization. The first edition of the rating included 5 companies which demonstrated the highest level of diversity management. Since 2018, the Bank has been included in the Super Ethical Companies list as part of the competition organised by Puls Biznesu in cooperation with PwC. The Super Ethical Company title is granted to entities which have won the title of "Ethical Company" at least three times in a row. In order to receive this award, a company has to meet the highest standards in the area of corporate governance, reputation and leadership, fraud risk management, irregularity reporting system, report verification methods, etc.

1.1 Client relationships – market practice

The establishment of client relations based on trust and a shared vision of growth is the Bank's mission and the biggest ambition. A strategic goal is to attain such level of client satisfaction, which will naturally translate into unwavering loyalty to the Bank. Therefore a range of activities is taken, on the basis of surveys and feedback from clients, which are to enhance and elevate the quality of our customer service standards and product offer on an ongoing basis. Following changing clients' expectations, one of such activities is the adaptation of brick- and-mortar customer services to new technologies. At present, over 95% of bank transactions are concluded individually via Citibank Online. The network of modern Smart Banking

Ecosystem allows the client to conclude individually financial transactions, pay in/withdraw cash from fx ATMs, obtain a credit card and on an interactive screen learn about special rebates for holders of Citi Handlowy cards.

Client satisfaction surveys

The Bank conducts regular customer satisfaction surveys among both institutional and retail clients. NPS (Net Promoter Score) is the key measure of quality. NPS measures clients' propensity to recommend the Bank and thus their satisfaction regarding provided services. Surveys cover the Bank's key client segments as well as the most important channels of communication (i.e. Citibank Online, Citiphone, branches). Scores and comments are analyzed by a team which analyzes clients' experience and results of such analyses and proposed enhancements are discussed at a monthly meeting with the Bank's management. Thanks to its disciplined approach, the Bank received excellent marks in 2019 in each of the key NPS indicators and, in particular, the Bank retained its leading position in the credit card segment.

The Bank's sound position in providing customized solutions for clients was confirmed by many awards and recognitions won in 2019. One of them is the award granted in the 10th edition of the ranking prepared by Bankier.pl and Puls Biznesu for the Citi Simplicity credit card, which won the Golden Banker award for the fourth time in a row in the product category: “best credit card”. Other awards were granted, among others, by Euromoney (UK financial magazine) for the best transactional banking on a Polish market in the "Market Leader" and "Best for Overall Service" categories.

The Bank promotes the idea of high level of customer satisfaction not only through NPS tests. In 2019 we systematized the new approach to searching, recording and changing the customer experience in relations with the Bank. Selected units not only analyze the clients’ complaints, but also search for the information on customer experience in the NPS forms, comments posted in the social media or among the employees of the Bank who are also its clients. The initiative engages the senior management of the Bank that regularly contacts customers via telephone and in person to discuss their experiences with Citi Handlowy and subsequently improve our processes and procedures, and continuously improve the customer satisfaction. Every employee at the Bank is involved in building a new organizational culture predominantly for the client's interest and in delivering more and more revamped solutions. The growth of customer satisfaction level is among the Bank’s key goals for 2020.

Communication with clients

For more than seven years the Bank has consistently pursued its transparent client communication strategy, systematically aligning its offer with the clients' needs. As part of such projects as "Treating Customers Fairly" requirements were defined regarding communication, which were necessary for conducting product campaigns. Given the above, despite of dynamically changing market conditions, clients are assured that they will be informed of the Bank's products in a fair and transparent manner. At the same time, the Bank ensures that its agreements are explicit and its information concerning costs, risks and potential advantages is transparent. All employees who are responsible for a product offer are also trained in transparent communication standards and are obligated to abide by them. In addition, the policy and standards of top quality customer service, advertising and responsible marketing at the Bank are governed by internal regulations, including the Code of Ethics for Advertising and the Ethical Business Practices of Bank Handlowy w Warszawie S.A.

Client complaints and enquiries

Information on the possible forms of submitting claims, complaints and grievance is easily accessible on the Bank's website. It is possible to submit comments by:

- Sending a message after logging in to the electronic banking system – Citibank Online https://www.citibankonline.pl/
- Sending a letter to the Bank's address or orally at the Bank's Branch
- Sending an email to the address: listybh@citi.com or – in case of escalation - to Customer Advocate: rzecznik.klienta@citi.com
- Contact with CitiPhone: 22 362 2484

The Bank informs of a possibility to resolve amicably disputes in relations with clients and this information is made public on the Internet. An important quality-related element, monitored in the complaint handling process is the time taken to respond. The standard time for consideration of the complaints filed by Citigold and Citigold Private Clients is one working day, whereas for clients from other segments is 4 working days.

The Bank logs each dissatisfaction and each lack of consistency identified by customers as complaints. 88% of cases involved queries, explanations or complaints where the root of error was outside the Bank. Analyses of complaints and clients' comments, manners of handling them and drawing conclusions for the needs of the Bank's operations, are presented at the Client Experience Board meetings held on a monthly basis. Based on the prepared analyses, corrective action plans are specified to reduce errors on the part of the Bank in the future.

In 2019, the Bank made another step towards digitalization of its processes in line with customer expectations. Bank continued the development of the social media (Messenger) as its communication channel. About 800 queries submitted through this channel are handled monthly. This is an increase of about 40% compared to 2018. In addition to standard queries how its products and services work, the Bank developed the chat bot function – automated and customized information about rebates in the Citi Specials program. The chat bot can answer the customers’ queries about Citi Specials in a few seconds without involvement of the Banks’ human staff.

As a means of contacting the Bank, the Chat is also available on the official website of Citi Handlowy. A specialised group of consultants reply online to queries posted by the Bank's customers. In our satisfaction survey, as much as 79% of customers confirmed their true satisfaction with the degree of commitment demonstrated by consultants to solve their problem; 82% customers claim that their issue was resolved fully or in part.

Client Advocate

Establishment of the Customer Advocate is to both strengthen the cooperation between the Bank and the customers and increase customer satisfaction as far as the products and services offered by the Bank are concerned. The Bank invites its clients to dialogue, through contact with the Customer Advocate. This way, the Bank invites its customers to share their opinions, comments and suggestions about functioning of the Bank. Customers are able to share their opinions, comments and suggestions about functioning of the Bank, and are provided with another opportunity to have their unsuccessful complaint examined again. Customers can contact the Customer Advocate by sending an enquiry to the Customer Advocate. In 2019, the Customer Advocate received 259 issues for consideration.

Client education

A different type of activity, which is not obligatory but perfectly fits into the overall effort to provide security and accessibility of banking products, is financial education of existing and potential clients.

Through the Kronenberg Foundation at Citi Handlowy the Bank pursues programs designed with the aim to build Poles' financial awareness leading to preclude financial exclusion. The activities of the Foundation focus on the activity in the area of financial education, within which a particular emphasis is put on building digital competences, which, in view of the ongoing digital transformation of financial services, seems essential for safe banking. The support for entrepreneurship by preparing young people to launch their own businesses and enhancing the potential of existing companies – this is the Foundation's contribution to the development of the Polish economy. The Foundation pays particular attention to startups, whose business model is based on international operations.

The Foundation's activities are supplemented with competitions for companies conquering international markets.

The Foundation implements its tasks also through a program of surveys, under which it investigates, inter alia, Poles' attitudes towards saving and various aspects of activity of Polish companies abroad. The Foundation is also investigating innovative market trends - in 2019 the dynamically growing segment of Polish software houses was surveyed.
In addition, the Bank develops its internet sites to include the most important educational materials concerning transaction security and use of products and mobile access.

Gaining assurance that clients understand the mechanism of a product and that they know how to use it in the most suitable way, is also of importance to the Bank. For this purpose the Bank created on its sites Most Frequently Asked Questions section. Also educational materials are prepared for clients, from which they can learn how to manage their credit and credit history, observe current credit repayment dates and why it is important.

Client data protection

The Bank applies the highest information security standards. Regular audits are conducted in this regard, validated by the Bank's certificates such as certificates of compliance with ISO 27001 and ISO22301 for processes, products and services provided by the Bank to its clients.

The Bank undertakes to protect private and confidential information about its clients and to properly use that information. Those rules are described in the "Rules for Personal Data Protection at Bank Handlowy w Warszawie S.A." The Bank gathers, keeps and processes clients' personal data in manners prescribed by national laws so that products and services offered to clients could be more efficient in meeting clients' financial needs and in supporting them in attaining their financial goals. With this in mind, the Bank makes every effort to implement and maintain appropriate systems and technology, and to properly train employees who have access to such information. The suppliers whose services are used by the Bank also have an obligation to protect confidentiality of information, including personal data and confidential information they receive from the Bank. The Bank also observes its own stringent internal standards and regulations concerning the confidential nature and security of information and personal data (standards concerning information systems management, information security standards, general provisions on security). Concerned about the issue of security the Bank applies the best standards and uses such information only for justified reasons related to the performance of business duties, makes it available only to authorized persons and organizations, and keeps it in a proper and secure manner.

1.2 Caring for people

A strategic goal of the Bank is to attract, develop and retain the best talents who share the values of the Bank:

Shared goal	One team which pursues a shared goal: the best service for clients and stakeholders.
Responsible business	Striving to act in a transparent, prudent and responsible manner.
Innovation	Continuous improvements of solutions offered to our clients by providing them with complete information on products and services and delivering world-class products.
Talent development	A talented team of highly qualified professionals, offering excellent service, showing initiative and are capable of meeting even the most difficult challenges.

For is employees, the Bank has safe and friendly workplace, where employees can use their energy and feel appreciated for their personal achievements, satisfied and able to pursue their individual development paths. Employee development is supported by such activities as: training, involvement in challenging projects as well as an assessment process when employees gain information on their strong points and areas which need to be developed. The Bank has a HR policy which includes documented, measurable and systematically monitored objectives.

At the Bank, diversity is treated as an indicator of the organizational culture. It is about ensuring that the organization employs people with different length of working experience and of different ages, and that the people being in the minority due to their origin, sexual orientation or views can feel good at the Bank and have the same opportunities to grow their careers. The Bank takes ongoing efforts to ensure diversity regarding its staff through respective regulations and internal procedures, respective corporate customs, by building employee awareness, promoting equal treatment at work place so to ensure a work environment where every employee may use all his or her abilities, in an effort to ensure sustainable development, namely to enhance the Bank's effectiveness and competitiveness.

In 2018, the Bank adopted a HR strategy for the next 3 years, which assumes further activities, especially in the area of work-life balance, recognition of employee achievements and harmonious cooperation between teams.

People Strategy is an HR strategy adopted for years 2019 – 2021, dedicated to employees and alterations in the Bank's organizational culture. The backbone of the strategy is feedback received from employees as part of the VOE survey, during focus group surveys and during mutual conversations. People Strategy is made up of six project groups:

- Work Life Balance
- Beyond Borders
- Digital Native
- Global Gratitude
- People Board
- Being The Best For The Client Academy

The personnel selection and development process is one of the Bank’s priorities. Employees have access to work proposals on the Career Mobility site, which enables them to apply for positions they are interested in within the Bank and other Citi companies.

Additionally, the Bank provides its employees with a rich package of perks to meet their personal and social needs.

Employee may opt for an employee pension scheme, life insurance products, sports package, private medical care, a social fund and banking products on preferential terms. Employees may also work flexible hours in order to enable them to fulfil their personal and professional obligations more efficiently.

Striving to ensure a safe workplace, the Bank makes efforts to optimize the working environment for all employees, with particular emphasis on compliance with occupational health and safety rules.

Employee satisfaction survey

The Bank enables its staff to express their opinions freely by conducting an employee satisfaction survey, called Voice of Employee. The objective is to find out more about the satisfaction and commitment of employees. Participation in the survey is voluntary. Questions asked in the survey concern, i.a., communication, professional development opportunities, meritocracy, relations with the supervisor and co-workers, participation in a decisions, balance between professional and personal life, diversity, and values and ethical principles followed by the Bank.

In the first step of the process to examine employee feeling employees fill in questionnaires. The next steps include an analysis of results, group interviews to provide more insight on the basis of those results and enable preparation of improvement plans after the survey, implementation and communication of outcomes to employees.

Following the best practices of Citi and market trends in the area of employee satisfaction surveys, in 2017 Bank Handlowy enhanced its dialogue with employee by deciding to carry out a Puls VOE survey three times a year. In 2019 the Bank conducted a survey with the participation of 2.4 thousand of employees.

Dialogue and freedom of association

Two unions are active at the Bank: NSZZ "Solidarność" - Mazowsze Region Intercompany Union Organization No 871 at Bank Handlowy w Warszawie S.A and the Independent Self-Governing Trade Union of Employees of Bank Handlowy w Warszawie S.A.

Code of Conduct for Employees of Bank Handlowy w Warszawie S.A.

The Code of Conduct is a general review of the most important internal regulations applicable at the Bank. All employees of the Bank are obliged to adhere to applicable laws, internal regulations and standards adopted by the Bank. The Bank strives to create for its employees optimal opportunities to develop their potential, to ensure them development and to support diversity while respecting dignity regardless of gender, race, religious beliefs or sexual orientation. The Code includes formal solutions for reporting of breaches. The Bank has an Ethics Helpline which may be used by employees to report issues relating to selection of the best course of action in specific situations or their reasonable suspicions or information relating to a possible infringement of laws or ethical standards and internal regulations applicable at the Bank. Reports can be submitted to the Ethics Helpline by telephone or to a mailbox. Reports can also be submitted anonymously.

Every year, employees of the Bank take part in mandatory online training relating to the Code of Conduct. Every newcomer receives the Code of Conduct and must sign a statement that they have read it and will adhere to it in their everyday work.

The Bank works continuously on the formation of an organizational culture where employee relationships are based on mutual respect, professionalism and respect for others. Any forms of discrimination are forbidden at Citi Handlowy. The Bank's policy forbids any acts of vengeance in respect of persons who report cases of negative phenomena in their work environment. The Bank takes preventive actions to counteract discrimination and unequal treatment, consisting of a range of educational activities and activities aimed at bringing about proper organizational climate favorable to the fair play principle at work place. Since 2018, the Bank has conducted cyclical obligatory training for all its employees called "“Undesirable Situations in a Work Place" to counteract such phenomena.

Employee Volunteering Program

In the Bank, the largest Polish employee volunteering program is conducted coordinated by the Kronenberg Foundation at Citi Handlowy. It is designed with the aim of developing social commitment of the Bank's existing and former employees. 250 volunteering projects were implemented in 2019 for nearly 50,000 addressees. Volunteers – Bank employees, partners, client's representatives took part in volunteering actions 4,500 times. They supported, including but not limited to: local communities, educational care centers, social organizations, self-government facilities and shelters for animals. The most important initiative in the previous year was another, already 14th edition of Citi Global Community Day. Every year, under that project, the Bank's employees together with their families and friends try to identify precisely the needs of their closest communities. In 2019, Citi volunteers conducted 209 social projects for over 46,000 addresses, as part of efforts made in connection with Citi Global Community Day. The activities undertaken by the volunteers included renovation and construction works at social care homes and senior homes as well as cleaning works at animal shelters and in forest areas (also the Kampinos Forest). The diversity and number of delivered projects shows that social commitment on the part of the Bank's employees is being fostered and developed, for the benefit of a growing number of addressees - which is also confirmed in statistics.

In 2019, also key projects were continued, such as seasons action "Become Santa's Helper", integration trips for volunteering employees, blood donations.

In order to continue good practices in competency volunteering, the #CitiVolunteers for Progress program has been launched. This initiative benefits the development of Citi volunteers - employees by proving themselves in a new environment but primarily it affects the professionalization of start-ups and NGOs.

The following initiatives are implemented as part of the #CitiVolunteers for Progress program:

- Citi Mentoring aimed at involving Citi Handlowy experts in mentoring programs for start-ups, conducted under projects co-financed by Citi Foundation (mentoring for micro entrepreneurs, start-ups, women interested in growing their own business, female IT and technology students and for migrants dreaming of their own business).
- Citi Skills Marathon for non-governmental organizations – volunteering days organized to use Citi employees' skills to support NGOs and start-ups in pursuit of their mission and goals.

Furthermore, the Kronenberg Foundation at Citi Handlowy together with Narodowe Centrum Kultury (national Centre for Culture) organized the 4rd Nationwide Conference "Volunteering in Culture", which took place on 25 November 2019 in Royal Castle in Warsaw. Over 180 participants took part in the Conference – experts, volunteers and guests, representing cultural institutions from all over Poland. The role of a director, coordinator and volunteer in building volunteering initiatives in the institution was the main topic of that edition. During workshops the participants, male and female, of the event could discuss specified issues, they could take part in practical sessions and exchange good practices.

In 2019, the 3rd edition of the Nationwide Survey of Employee Volunteering Program was carried out. The survey was designed by the Responsible Business Forum and the Citi Handlowy L. Kronenberg Foundation and Orange Foundations were its partners. It was dedicated to 3 groups: decision makers at large and mid-size companies, employees from large and mid-size companies, and to beneficiaries of employee volunteering activities. According to the results of 817 interviews, 88% of volunteers claim that EVP influences their perception of their workplace. 96% of decision-makers from companies with employee volunteering claim that volunteering improves employees' competencies. This is confirmed by the last survey of the Citi Employee Volunteering Program. An overwhelming majority of volunteers who took part in the survey admitted that involvement in volunteering made them more aware of social problems. Apart from the sole satisfaction that comes from helping others, volunteers have noticed that implementation of projects brings them benefits also in their professional life. A majority of them have noticed great improvement in their communication and organization skills.

1.3 Reduced environmental footprint

Environment protection is one of the fundamental principles pursued at the Bank. The Bank committed itself to conduct its activity in accordance with sustainable development principles. In 2007, a Comprehensive Environment Management Plan was adopted upon a resolution of the Management Board. In 2012 the Bank adopted the Environmental Policy and introduced the Environmental Management System (SZŚ). In 2013 the Bank introduced the Energy Policy and implemented Energy Management System (SZE). In 2015 both systems were integrated into one Environmental and Energy Management System (SZŚiE).

As part of its Policies, the Bank has identified the following objectives: ensuring correct waste segregation, reducing greenhouse gas emissions, ensuring most efficient management of utilities, in particular energy, minimize consumption of natural resources, controlling noise emissions, giving priority to buying energy saving products and services and improving energy performance.

Direct impact on the natural environment

Within the framework of its Policies, the Bank has identified two main areas where it affects the environment. The first impact is of direct nature and ensues from the Bank's activities, such consumption of resources (water, energy, paper consumption), waste production and air pollution. The second is of indirect nature and ensues from services rendered by the Bank and the environmental practice of bank's vendors.

As part of the integrated System (SZŚiE), the impact of particular locations of the Bank on the environment is monitored on an ongoing basis. For the Bank, consumption of energy is the top priority environmental aspect. At the same time, it is the impact which can be reduced most by the Bank. In 2012 - 2019, the Bank implemented various energy saving technology projects. These included upgrades of heating, ventilation and air conditioning systems (the ecological Free Cooling technology was installed in cooling systems in three buildings). On an ongoing basis, the Bank is switching to energy saving lighting systems, upgrading lifts or installing new equipment with energy recovery systems and improving thermoinsulation efficiency of its buildings by replacing windows or elevations. In addition, the Bank invests in the state-of-the art BMS (Building Management System) infrastructure, used for optimization of its utilities costs. Citi Handlowy also takes care of advanced office equipment, installs card-controlled air conditioning switches in conference rooms and upgrades UPS sets.

The Bank also strives to decrease consumption of other materials, like water or paper. One of its buildings is equipped with a rainwater collection system. In most objects, electric water dispensers are connected to the city water supply system to eliminate plastic bottles. The Bank uses a system for economic use of office paper for printing and economic use of paper towels. The Bank takes care of the environment by arranging greenery around its buildings, while paying attention to viability of planted trees and putting out nesting boxes for birds and bats. In its five main locations, the Bank has built bicycle shelters and self-service bicycle repair stations for employees, thus encouraging them to ride a bicycle more frequently.

In 2019, the Environmental and Energy Management System of the Bank passed a supervisory audit of compliance with ISO 14001 and ISO 50001. The audit results confirm that the system is effective and accomplishes its objectives.

Personnel education

The Bank runs environmental education and information campaigns for its employees and service providers. These include volunteering actions, training courses and intranet messages which disseminate information on the Environmental and Energy Management System. Every year, the Bank takes part in the Earth Hour and Earth Week events. In 2019, as in previous years, power supply was turned off in the main buildings of the Bank during the Earth Hour. As part of the International Earth Day, Citi Handlowy organized an Earth Week, dedicated to ecology. In April 2019, in connection with the overlapping festive season, an action was arranged called: „Świąteczne Porządki dla Ziemi!” (Easter season clean up for the Earth), when employees received spring seedlings in return for electro waste brought from their homes. In 2019, also employee volunteering was arranged concerning cleaning, the purchase, assembly and maintenance of a didactic and recreational infrastructure at Kampinos National Park. Messages covering completed energy saving projects, consumption of natural resources and Waste Segregation System in Citi Handlowy were published on the intranet. In addition, as in every previous year, the Bank took part in the My City Free of Electrowaste action. For delivered electrowaste, the Bank received vouchers, which it donated to schools in Warsaw for purchase of educational materials and aids for pupils.

Indirect impact

Indirect environmental aspects emerge in connection with activities but are beyond the full control of the Bank. In cooperation with vendors, the Bank introduces the “Ethical Business Practices of Bank Handlowy w Warszawie S.A.”. It also encourages vendors to implement their own effective policies in the area of environment protection, optimized use of goods and materials and reduction of pollution emissions. The Bank also expects that vendors will take the necessary steps in order to ensure that they would not buy from or sign agreements with companies which may be linked to illegal resources acquisition (illegal tree cutting).

1.4 Local community involvement and development

The Kronenberg Foundation at Citi Handlowy has been acting for entrepreneurship and financial education, cultural legacy and employee volunteering for years, at the same being committed to the development of local communities. It was established in 1996 on the occasion of the 125th anniversary of Bank Handlowy w Warszawie S.A.

The Foundation coordinates one the largest and oldest (introduced in 2005) employee volunteering programs in Poland.

One of the areas of the Foundation operation is cultural heritage protection. As a result of the Foundation's efforts made under its program of recovering works of art, 42 graphics and lithographs of the greatest Polish painters (Juliusz Kossak, Leon Wyczółkowski) and two paintings (by Anna Bilińska - Bohdanowiczowa and Wojciech Gerson) returned to Poland. Also 172 items from the silver collection were recovered. The Professor Aleksander Gieysztor Award was granted to 20 persons and institutions for their outstanding achievements in the protection of Polish cultural heritage.

Programs organized by the Kronenberg Foundation at Citi Handlowy

- **The Emerging Market Champions Citi Handlowy Award** - the purpose of the competition is to promote enterprises which with success roll out their activity abroad. The project includes surveys, which are a tool to diagnose the climate of conducting business in Poland and global potential of our domestic companies. On 26 September 2019, during the plenary session " Poland in the Puzzle of Great Superpowers. Rivalry between China and the U.S.A. from the perspective of Poland and the EU”, organized as part of the European Forum for New Ideas in Sopot, an award ceremony was organized to honor the winners of the 6th edition of the contest. The "Emerging Market Champion" title in the category "Polish foreign investments" was granted to Polfarma Group and the winner in the category "Foreign investments in Poland" was Adampol S.A.. In the e-Commerce category, the winner was ZnanyLekarz sp. z o.o..   In the course of the project, the 5th edition of survey was carried out – this time the dynamic growth of the Polish software house segment was analysed.
- **IT for SHE** – is an innovative combination of solutions in the field of mentoring, networking, inspiring and also in the development of competences, which support the development of female careers in the area of IT. Under the project, a coalition of international companies present on the Polish market and having a clear technological component in their activity is operating. Program components: an IT training camp for 135 girls, a mentoring program at top technology companies for 35 participants, a volunteering campaign in the countryside and small towns to promote computer programming education and, as the final stage of the project, the Women in Tech Summit, a two-day international conference visited by over 6,000 guests.
- **The Professor Aleksander Gieysztor Award:** this is the most prestigious award granted annually for outstanding achievements in the protection of Polish cultural heritage to institutions or private individuals. The 20th

edition was won by bishop Waldemar Pytel for more than 30 years of his efforts to save, revitalize and restore the splendor of the Lutheran block of streets along with the Church of Peace in Świdnica – the UNESCO World Heritage Site. Thanks to the extraordinary determination of bishop Waldemar Pytel, Świdnica is an authentic place of dialogue between cultures and nations today.

- **Recovering works of art:** the program which is aimed at recovering cultural goods lost by Poland during and as a result of the Second World War.
- **Roots:** the program under which the Foundation promotes the history of the Bank, as well as the lives and achievements of its founders the Kronenberg family. From 2014, one can use the digital archives, which contain over 31 thousand pages of scanned documents and iconographic materials concerning the Bank and the Kronenberg family's activity. The materials are used for promotional actions, on occasions related to the Bank and Leopold Kronenberg's anniversaries.
- **Employee Volunteering Program at Citi Handlowy:** the program which is designed with the aim of developing social commitment of the Bank's existing and former employees.
- **Donations Program:** grant-based competition by means of which the Kronenberg Foundation at Citi Handlowy supports the most valuable projects implemented by non-profit institutions in the area of education and local development. Three grants were awarded in 2019.

Programs implemented with the support of the Citi Foundation

- **Savings Week (TDO):** the program which combines financial education and the development of entrepreneurial attitudes, aimed at promoting saving and rational finance management among Poles and encouraging young people who enter the labor market to take their chances in business. The project is implemented together with the THINK! Foundation. The goal of the program is to work out systemic changes in the area of personal finance management and entrepreneurship education. The project consists of research "Poles' attitudes toward finance" (13th edition), Entrepreneurship Development Program and competitions at universities and high schools as part of the game "First Million".
- **Be Entrepreneurial** is an economic education program addressed to students of high schools. It is being carried out in cooperation with the Junior Achievement Foundation. The aim of the project is to impart knowledge regarding the broadly understood entrepreneurship to students and help them develop skills and competences in that area through incorporation and management of an enterprise in the form of a general partnership. In 2019, more than 2,000 students from 220 schools participated in the program.
- **Business in Women's Hands:** it is the program implemented together with the Foundation for Female Entrepreneurship addressed to 50 women who want to start their own company. Thanks to lectures, training and individual work with female mentors, each of the female participants has a chance to commence a business. The goal of the program is to establish a women company cluster operating in the territory of the Warsaw agglomeration. In 2019 the 6th edition of the cluster of female companies was launched and would end in the half of 2020.
- **Microentrepreneur of the Year** - competition organized in 2019 by the Association Inicjatywa Firm Rodzinnych (Family Business Initiative) with support of Koalicja na rzecz mikroprzedsiębiorczości (Coalition for microentrepreneurship). The aim of the competition consists in supporting entrepreneurship, encouraging people to set up their own companies and promoting the best of them as examples of effective economic actions. The contest participants may win the main prize – the title Microentrepreneur of the Year – and category awards, depending on the age of a company. The youngest businesses are eligible to compete in the START category, middle-aged companies in the PROGRES category and the mature ones in the SENIOR category.
- **Hello Entrepreneurship** – a pilot program to support social entrepreneurship among migrants, male and female, in Poland, implemented in cooperation with Ashoka Polska Foundation. The mission of the project is to use migrants' talents and their hard work to develop jointly Poland's prosperity and social and economic success. Upon presentment of their initiative as part of the program, the participants receive support over a period of three months according to their needs to make their ideas deliverable. Some examples of such support include: assistance in designing a business model, promotional support, facilitating contacts with investors and other companies. Above 50 originators proposed their ideas in the first edition of the project kicked off in the autumn of 2019. The purpose of the program is to establish 10 social enterprises by May 2020.
- **Shesnnovation Academy** - a pilot project to encourage women to launch start-ups in STEM fields. The program is conducted in cooperation with the "Prospects" ("Perspektywy") Educational Foundation. According to the 2018 report prepared by Startup Poland, only 26% of Polish start-ups have a woman among their founders. The project is addressed to female students, PhD students and graduates of technical and science faculties as well as to any other women who want to establish their own tech start-up. It comprises a range of supporting tools which allow the participants to build necessary competencies, both business and soft competencies, so their dreams to start own business can come true. The program also provides individual mentoring support by experienced female managers, female owners of technological companies, who are successful on the market, and by female representatives of the world of science. Above 100 female originators participated in the project and the purpose of the program is to establish 10 technological start-ups by May 2020.

2. Cultural patronage and sponsorship

In 2019, the Bank and the Foundation supported numerous nation-wide and international conferences and events. One of them was the 9th edition **of the European Forum for New ideas in Sopot**, one of the largest conferences in Central and

Eastern Europe with over 1,200 representatives from the world of science, business and politics. During the conference, the laureates of the 6th edition of the Emerging Market Champions Competition were honored.

Citi Handlowy was also a partner of the **9th European Financial Congress in Sopot**, an annual meeting of representatives of the European financial sector, the world of politics and economic experts. The main topic of the 9th edition of the Congress was the slogan "How to Live in Uncertain Times".

As part of its cooperation with the American Chamber of Commerce, Citi Handlowy was a partner of the **AmCham Diner** organized during the **European Economic Congress** in Katowice, the **Economic Forum** in Krynica and the **Congress 590** in Rzeszów. Representatives of Citi Handlowy participated in all those events and in numerous discussion panels.

In May 2019, Citi Handlowy announced cooperation with **the Polish Paralympic Committee**. The cooperation is an element of Citi's global initiative to support the paralympic movement and efforts to change the social perception of disabilities. As part of the global project **Citi Team,** Citi in Poland also supports two outstanding sport persons - **Natalia Partyka**, a four-time Paralympic female champion in table tennis and **Maciej Lepiato**, a two-time Paralympic champion and a four-time World Champion for the disabled in high jump.

Acting as an organization supporting the paralympic movement in Poland, Citi Handlowy was the Main Sponsor **of the Final Gala of the 1st. Athlete of the Year 2019 Competition of the Polish Paralympic Committee**. The event during which the winner of the Competition was announced and the statuette named after Sir Ludwig Guttmann was awarded for the first time in history, was held in December at the headquarters of the Polish Olympic Committee in Warsaw.

One of many activities through which Citi Handlowy supported persons with disabilities and was involved in building a society that accepts diversity, was Citi Handlowy's participation in the largest charity business run in Poland - Poland Business Run. Relay races are organized in 9 cities all over Poland to support young people after amputations, to give them a chance for a better life. Citi Handlowy was the sponsor of the Warsaw edition of that event – **Warszawa Business Run**.

In 2019, the Bank also supported the development of sports in Poland under the Live Well at Citi program, combining such elements as: volunteering, assistance to local communities and promoting a healthy lifestyle. It was also a partner of the **Polish Golf Union**, and a sponsor of the **Ironman Poland Tour** – triathlon races in Warsaw and Gdynia.

The third consecutive year, Citi Handlowy continued cooperation with the international city bike operator Nextbike. As part of that cooperation, from March to November 2019, bikers could rent over 6 thousand city bikes available in Warsaw, Łódź, Wrocław, Poznań, Katowice, including Górnośląski Okręg Przemysłowy (Upper Silesian Industrial Region) and - for the first time - in Trójmieście (Tricity). The bikes were used as a carrier for a campaign promoting the Bank's products and services. In 2019, the bikes with Citi Handlowy branding were rented almost 12.5 million times. The Varsovian bikers could use an extended functionality of the banking and biking application **Citi Handlowy Bikes,** for bike renting - they could, for instance, find out how biking reduced the city's air pollution. The Citi Handlowy Bikes application was downloaded almost 50 thousand times. In 2019, the bikers could for the first time - thanks to cooperation between Citi Handlowy and jakdojade.pl - find and mark a route by bike in Warsaw.

The year 2019 was another year of joint activities of Citi Handlowy and **Live Nation**, a leader in the field of concerts and "live" events organization. The Bank offered holders of Citi Handlowy cards access to exclusive pre-sales of tickets for concerts organized throughout Poland. Clients of the Bank were the first in line to buy tickets for concerts of Madonna, Sting, Bon Jovi, Pink, Rod Stewart, Ariana Grande or Guns'n'Roses. The strategic cooperation with Live Nation will be continued in 2020.

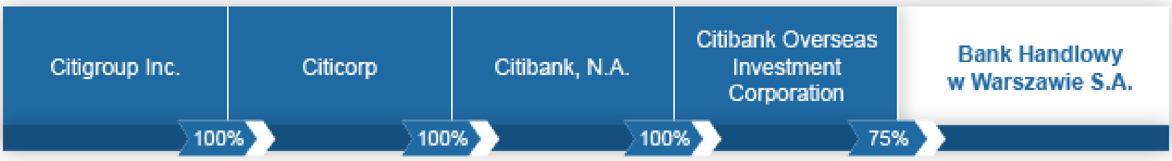
IX. Investor information

1. Ownership structure and stock prices on the Warsaw Stock Exchange

1.1 Shareholders

The only shareholder of the Bank holding at least 5% of shares and votes at General Meetings of Shareholders is Citibank Overseas Investment Corporation (COIC) – a company which holds foreign investment in Citi group of companies. COIC is also the strategic majority shareholder of the Bank. Over 2019, the number of shares held by COIC and its interest in the share capital and votes at General Meetings of Shareholders (GMS) did not change and was 97,994,700 shares and votes, i.e. 75% of share capital and votes.

The following diagram depicts the positioning of Bank Handlowy w Warszawie S.A. in the organizational structure of Citigroup:



The other shares (32,664,900, i.e. 25% of share capital) are the so called *free float*, which means that they are freely traded on the Warsaw Stock Exchange.

Investors holding the Bank's shares include open-end pension funds (OFE), which - according to available annual reports on their asset structure - held, as at 31 December 2019, 16.98% of the Bank's shares, i.e.1.67 p.p. more than as at 31 December 2018.

OFE investments in the Bank's shares were as follows:

Shareholder	31.12.2019		31.12.2018	
	Number of shares and votes in GSM	% of total number of shares and votes in GSM	Number of shares and votes in GSM	% of total number of shares and votes in GSM
Nationale Nederlanden OFE	5,789,721	4.43%	4,516,944	3.46%
Aviva OFE Aviva BZ WBK	4,121,313	3.15%	4,124,227	3.16%
OFE PZU	2,718,749	2.08%	2,723,970	2.08%
AXA OFE	1,790,663	1.37%	1,284,455	0.98%
PKO BP Bankowy OFE	1,726,489	1.32%	1,574,998	1.21%
Aegon OFE	1,650,949	1.26%	1,654,119	1.27%
Allianz Polska OFE	1,648,384	1.26%	1,459,838	1.12%
MetLife OFE	1,634,507	1.25%	1,637,646	1.25%
Generali OFE	765,871	0.59%	686,777	0.53%
OFE Pocztylion	339,849	0.26%	340,501	0.26%
Total	**22,186,495**	**16.98%**	**20,003,475**	**15.31%**

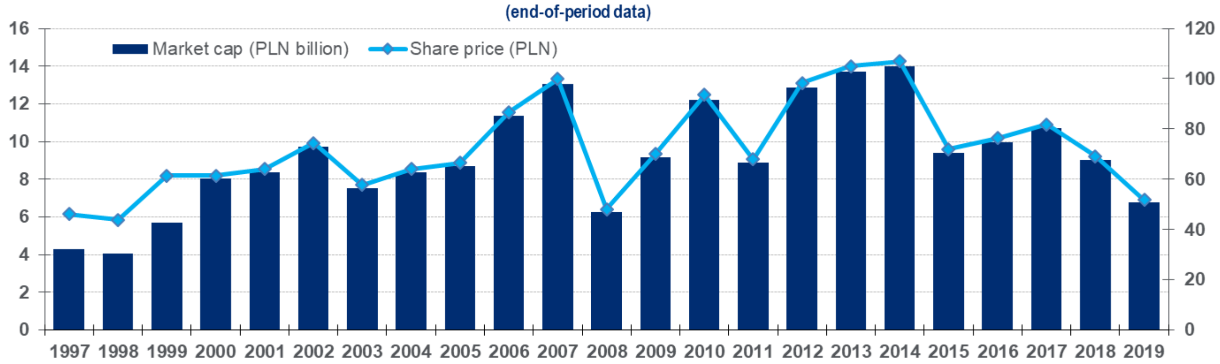
Source: Annual information about the structure of assets of Open Pension Funds; Bank share closing price at the end of the period.

1.2 Performance of the Bank's shares on the WSE

In 2019, the Bank's shares were part of the following indices: WIG, mWIG40, WIG Banks and WIGdiv. In addition, the Bank has been included in the new WIG-ESG Index (socially responsible companies listed on the WSE Main Market). WIG-ESG Index The WIG-ESG index began listing in September 2019 and replaced the RESPECT Index that has existed for the past 10 years. The Bank was a participant of the RESPECT Index through its entire existence (from 2009 to 2019).

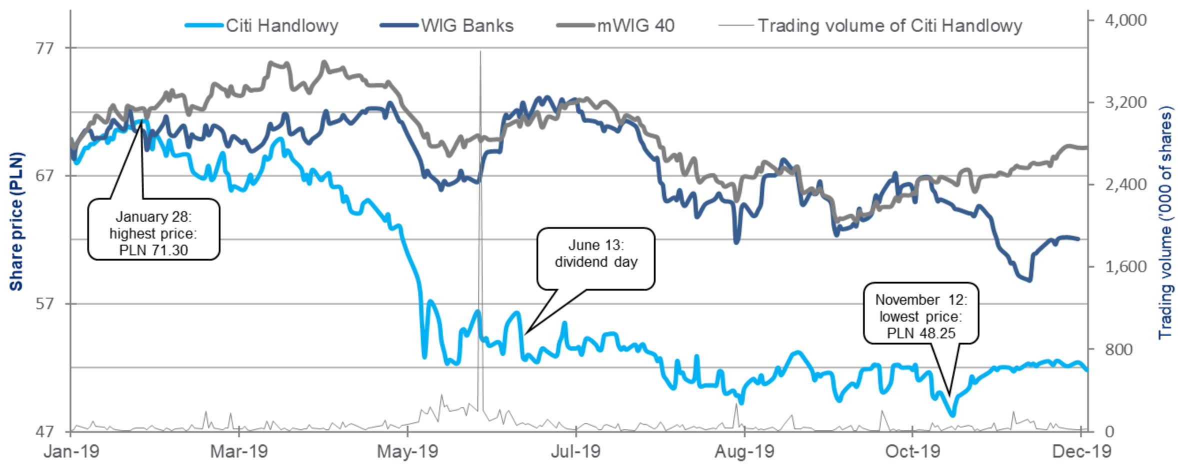
At the last session in 2019 (i.e. on 30 December 2019), the price of the Bank's shares was PLN 51.80, i.e. 25% below the level of 28 December 2018 (PLN 69.10). In the same period, the WIG Index stood at the same level (+0.2% YoY) and WIG-Banks Index declined by 9%.

Market capitalisation and share price of Citi Handlowy since its debut on the WSE
(end-of-period data)



As at the end of 2019, the capitalization of the Bank was PLN 7.6 billion (as compared to PLN 9.0 billion at the end of 2018). The stock market ratios were: price/earnings (P/E): 13.9 (in 2018: 14.1); price/book value (P/BV): 1.0 (in 2018: 1.3).

The Bank's share price and trading volume vs. WIG-Banks and mWig40 indices in 2019
(30/12/2019 = PLN 51.80)



At the beginning of 2019, the price of the Bank's shares showed an upward trend. On 28 January, they reached the 2019 high, i.e. PLN 71.30. In next months of 2019, the prices of Bank's shares declined to PLN 52.40 (in May), then to PLN 49.20 (in August) and dropped to its 2019 low, i.e. PLN 48.25 in November 2019. At the end of the year the Bank's share price rose to PLN 52.50 (in December). Finally, the Bank closed the year, on 30 December 2019, at the level of PLN 51.80.

The average price of the Bank's shares in 2019 was PLN 57.57, with the average daily turnover above 73,300 shares.

2. Dividend

As at the date of publication of this report, the Management Board of the Bank has not completed the analysis allowing for submission of recommendations on the payment of dividend for 2019. According to the adopted Group Strategy for 2019-2021 and the position of the Polish Financial Supervision Authority ("KNF") regarding the assumptions of dividend policy of commercial banks in the medium-term perspective of March 14, 2018, the Bank has formulated a directional proposal for the distribution of the Bank's profit for the years 2018-2021. The proposal assumes that the Bank will continue to allocate most of its profits to dividend payments, and its amount has been set at a level not lower than 75% of the Bank's profit, taking into account the PFSA's position regarding the dividend policy of banks

In accordance with the individual recommendation issued by the Polish Financial Supervision Authority on February 25, 2019 regarding the increase of own funds, the Bank's Management Board recommended allocating 75% of net profit for 2018 to dividend. The above proposal was approved by the Supervisory Board and then adopted by a resolution of the General Meeting of June 5, 2019. At the same time, the remaining part of profit for 2018 was left undistributed.

The table below shows a history of dividends since 1997, i.e., since the floatation of the Bank on the WSE.

Financial year	Dividend (PLN)	EPS (PLN)	Dividend per share (PLN)	Dividend pay-out 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	971,422,828	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	74.8%

** Dividend-pay-out ratio for 2004 - 100% plus prior year profits*
*** On 18 June 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008*

3. Rating

As at the end of 2019, the Bank had a full rating from the international rating agency: Fitch Ratings ("Fitch").

On 7 October 2019, after the annual rating review, Fitch maintained all the ratings of the Bank at the following levels:

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 (IDRs) are driven by the Bank's intrinsic strength, as reflected in the viability rating and underpinned by potential majority shareholder support.

The Viability rating reflects an exceptionally low-risk business model and good capitalization together with high levels of liquidity.

4. Investor relations

Investor relations, which provide existing and prospective investors, capital market analysts and rating agencies with necessary information, are an integral component of the information policy of the Bank, which is to meet the information needs of all persons and institutions searching for information on the Company. The information policy tools used in investor relations are:

- regular contacts with investors and analyst during conference calls and meetings, also at the Bank's seat, with participation of members of the Bank's Management Board;
- support by the Press Office during quarterly press conferences for the media, held after publication of periodic reports;
- the website of the Bank where information on the Bank and its activities and all periodic and current reports are published; the website is also a convenient venue for contacting the Investor Relations Unit (BRI), which is a source of comprehensive information on the Bank and the Group.
- presence of the media at General Meetings of Shareholders of the Bank.

In 2019, the Bank organized meetings regarding the publication of financial results after each quarter with capital market analysts and representatives of investors at the Bank's headquarters. At the same time, usually the day after the publication of the financial results, the President of the Bank's Management Board directly participates in the meeting with investors, which are a summary of the financial results and the question and answer session formula is held. Relations with analysts, shareholders and potential investors are also strengthened through meetings at conferences in Poland and abroad. In 2019, the Bank participated in three conferences in Warsaw and organized a roadshow in New York.

X. Statements of Bank Handlowy w Warszawie S.A. concerning application of corporate governance standards in 2019

1. Corporate governance standards applied by Bank Handlowy w Warszawie S.A.

Since 2003, Bank Handlowy w Warszawie S.A. ("Bank" or "Company") has been adhering to the corporate governance standards adopted by the Warsaw Stock Exchange, initially as the "Best practices of public companies 2002"and subsequently replaced by: "Best practices of public companies 2005" and "„Best Practice of GPW Listed Companies 2008", and from 1 January 2016 by „Best Practice of GPW Listed Companies 2016" ("BPLC"). This document is available on the website of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) (http://www.gpw.pl) in the section dedicated to corporate governance of listed companies.

The primary goal of the decision to adopt the corporate governance principles of the Warsaw Stock Exchange as the standard of the Bank was and is the intention to build transparent relations between all the bodies and entities involved in the functioning of the Company and to ensure that the management of the Company and its undertaking is carried out in a proper and prudent manner, with loyalty to all shareholders. The willingness to ensure transparency of the Bank's activities, in particular with respect to relations and processes between statutory bodies of the Company, also resulted in the adoption of best practices covered by the BPLC document for application at the Bank.

On 25 February 2016, the Management Board of the Bank declared an intent to comply with the corporate governance principles included in the "Best Practice of GPW Listed Companies 2016". On 11 March 2016, the Supervisory Board of the Bank accepted the Bank's policy towards the application of the corporate governance principles included in the "Best Practice of GPW Listed Companies 2016". However, either Boards made their declaration with the following reservations:

a) Recommendation IV.R.1 is not applicable. Best Practice of GPW Listed Companies (BPLC)(companies should strive to hold an ordinary general meeting as soon as possible after the publication of an annual report") is not applicable to the ordinary general meeting of the Bank to be held in 2016;

b) Recommendation IV.R.2 is applicable, Best Practice of GPW Listed Companies (BPLC) (e-general meeting) provided that the Management Board decides so before each such general meeting is held;

c) Principle VI.Z.2 is not applicable. Best Practice of GPW Listed Companies (BPLC)(the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years) is not applicable.

In 2019, the Bank did not apply the following BPLC principles and recommendations:

a) Principle VI.Z.2 relating to determination of the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability, which should be no less than two years;

b) Recommendation IV.R.1 which requires that an ordinary general meeting should be held by the Bank in 2019 as soon as possible after the publication of the an annual report.

c) Recommendation IV.R.2. Item 2) and item 3) concerning the obligation to enable shareholders to participate in a general meeting using electronic communication means, and in particular real-time bilateral communication, where shareholders may take the floor during a general meeting from a location other than the location where the general meeting is held, and to exercise the right to vote during a general meeting, either in person or through a representative.

Ad (a) Principle VI.Z.2. of the BPLC. The incentive programs of the Bank, including the deferred monetary remuneration programs and the programs based on a financial instrument, i.e. phantom shares, are in compliance with the best practice for the financial sector and the requirements set out in the Regulation of the Minister of

Development and Finance of 6 March 2017 on the risk management system and the internal control system, the remuneration policy and the detailed method of estimation of internal capital at banks and in the Banking Law, which implement CRD III and CRD IV. Those regulations include requirements that are slightly different from those set out in the "Best Practice of GPW Listed Companies 2016". The incentive programs of the Bank, which are based on the above regulations, reflect the specific nature of the banking sector and are to protect the interests of clients and shareholders of the Bank and to ensure its stable growth. The details of the incentive programs are available in the annual report of the Bank and in the information on the scope of capital adequacy of Bank Handlowy w Warszawie S.A. Group of Companies. Depending on the shape of regulations and laws applicable in the banking sector with respect to a broadly define remuneration policy, the Bank will consider a modification of the incentive schemes which are based on a financial instrument.

Ad (b) Recommendation IV.R.1. of the BPLC. Because of the adopted schedule of corporate events in 2019 and the fact that the Bank is waiting for the Regulator's consent to payment of dividends from profits for 2018, this recommendation was not applied during the Annual General Meeting that was held in 2019.

Ad (c) During the Annual General Meeting held on 5 June 2019, Recommendation IV.R.2. Item 2) and item 3) of the BPLC was not applied. When assessing the possibility to apply this recommendation, the Bank took into account the legal and organizational & technical risks connected with providing the shareholders who are not present in person at the General Meeting with real-time bilateral communication, with the use of electronic communication means, which may adversely affect the course of the General Meeting. The Bank believes that the possibility to exercise voting rights during an electronic General Meeting with the use of electronic communication means raises objections and generates an increased risk of irregularities during the General Meeting. The technology solutions which are available at present do not ensure safe remote voting, which may affect the issue of validity of resolutions, i.e. lead to serious legal consequences. The Bank also took into account potential technical problems, including those connected with identification of shareholders, selection of the appropriate medium for bilateral communication, inability to ensure that the equipment-related requirements will be met on the side of the shareholder, unpredictable delays in transmission for different remote shareholders in different time zones, communication problems caused by factor beyond the Bank's control, including those caused, for example, by regional problems with particular components of the Internet public network.

2. Information on the application of Corporate Governance Principles for Supervised Institutions

The Polish Financial Supervision Authority in a resolution of 22 July 2014 issued a document entitled Principles of Corporate Governance for Supervised Institutions ("Principles"), which came in force on 1 January 2015. The Principles are available on the official website of the Polish Financial Supervision Authority:
https://www.knf.gov.pl/knf/pl/komponenty/img/knf_140904_Zasady_ladu_korporacyjnego_22072014_38575.pdf

The principles are a set of rules governing internal and external relations of institutions supervised by the KNF, including their relationships with shareholders and customers, their organization, the operation of internal oversight as well as of key internal systems and functions, and of corporate bodies and their cooperation.

The purpose of the Principles is to enhance corporate governance in financial institutions and transparency of their operations, which is designed to promote public confidence in the Polish financial market.

Bank Handlowy w Warszawie S.A. performs a regular assessment of the application of the Principles of Corporate Governance for Supervised Institutions.

On 5 February 2019, the Management Board of Bank Handlowy w Warszawie S.A. approved the "2018 Report – Assessment of the Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." prepared by the Compliance Department. The Management Board of the Bank submitted to the Audit Committee of the Supervisory Board and, next, to the Supervisory Board of the Bank a Report of the Compliance Department which includes an independent assessment of application at the Bank of the "Principles of Corporate Governance for Supervised Institutions" for 2018, in order to enable the Audit Committee of the Supervisory Board and the Supervisory Board to make their own assessments of application at the Bank of the "Principles of Corporate Governance for Supervised Institutions" for 2018.

The Audit Committee, pursuant to the provision of Article 3.1 (b) of the Regulations of the Audit Committee, after becoming familiar with the "2018 Report – Assessment of Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." prepared by the Compliance Department, recommended that the Supervisory Board ought to assess that in 2018 the Bank applied rules stemming from the Principles of Corporate Governance for Financial Institutions, with the exception of those principles that the Bank decided not to apply.

On 21 March 2019, the Supervisory Board of Bank Handlowy w Warszawie S.A. became familiar with the "2018 Report – Assessment of Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." prepared by the Compliance Department and containing an independent assessment of the application of the Principles of Corporate Governance for Supervised Institutions.
On the basis of the above Report of the Compliance Department containing an independent assessment of the application of the "Principles of Corporate Governance for Supervised Institutions" and taking into consideration a positive recommendation issued by the Audit Committee of the Supervisory Board, the Supervisory Board assessed independently that in 2018 the Bank applied the rules resulting from the Principles of Corporate Governance for Supervised Institutions, except for the excluded principles.

The result of the independent assessment of the application of the Principles was passed on to other corporate bodies of the Bank.

The Annual General Meeting of Bank Handlowy w Warszawie S.A.by Resolution No. 14/2019 of 5 June 2019, approved the Report of the Supervisory Board of Bank Handlowy w Warszawie SA on the operations of the Supervisory Board in the period from the date of the Annual General Meeting of the Bank in 2018 to the date of the Annual General Meeting of the Bank in 2019, containing: the report and an assessment specified in the Principles of Corporate Governance for Supervised Institutions, adopted by the Bank for application and based on the assessment contained in the report of the Supervisory Board.

Pursuant to the requirements of the Principles of Corporate Governance for Supervised Institutions and the information policy adopted by the Bank, after the Supervisory Board of Bank Handlowy S.A. performed an independent assessment of the application of the Principles of Corporate Governance for Supervised Institutions, the Bank makes available on its website the information on the application of the Principles, and on the non-application of specific Principles.

With regard to three Principles, the decision not to apply them was upheld in 2018:

1) Article 11.2 (transactions with related parties) – this principle shall not be used with respect to contracts tied to day-to-day operations, in particular to contracts tied to liquidity, due to the nature of transactions and the number of contracts being concluded.

2) Article 8.4 (electronic General Meeting) – currently available IT solutions do not guarantee a secure and efficient electronic form of holding a General Meeting. However, the Management Board does see the importance of such form of shareholders' participation in the Bank's General Meeting, and therefore a separate decision on that matter shall be made before each General Meeting.

3) Article 16.1 (meetings of the Management Board of the Bank held in the Polish language) – meetings of the Management Board attended by foreigners, and especially foreigners who are members of the Management Board and do not speak Polish, are held in the English language. Simultaneously, any motions submitted to the Management Board, any materials and minutes of meetings are prepared and kept in Polish and in English.

3. Description of main features of internal control and risk management systems implemented in the Bank with respect to the process of preparation of financial statements and consolidated financial statements

Financial statements of the Bank are prepared by the Financial Reporting, Control and Tax Department, which is a separate organizational unit in the structure of the Finance Management Sector and reports directly to the Chief Financial Officer of the Bank, who is also a Vice President of the Bank's Management Board. The process of preparation of financial statements is covered by an internal control system, which is to ensure: effective and efficient activities of the Bank, reliability of financial reporting, compliance with the principles of risk management at the Bank and compliance of the Bank's activities with laws, internal regulations and market standards. The internal control system includes identification and control of risks connected with the process of preparation of financial statements, examination of compliance of those activities of the Bank with laws and internal regulations, horizontal and vertical monitoring and internal audit.

Internal control is exercised by each and every employee and, in addition, by their direct manager and persons cooperating with him/her as well as by managers of organizational units of the Bank. Risk management is carried out via internal mechanism for risk identification, assessment, mitigation, control, monitoring and reporting performed and supervised by units of the first level of risk management (first line of defense) and specialized organizational units of the second line of defense. Within the internal control functions, there is a separate financial control function, which is performed by a dedicated unit of the Finance Management Sector. Financial control in the Finance Management Sector covers the areas of accounting policy and financial reporting. Quarterly Self-Assessment is a process used to verify and assess the effectiveness of control processes and to proactively and effectively manage any significant risk categories which are inherent in the process of preparation of financial statements. The Quarterly Self-Assessment process is one of the key tools used to monitor the level of exposure to operational risk and changes in the financial reporting environment, identify emerging risks, verify the effectiveness of controls and implement remedial plans.
As part of the process of identification, prevention, control, monitoring and reporting of operational risk exposures, the Bank has implemented effective mechanisms that mitigate risks affecting the security of technology systems. The IT systems used in the process of preparation of financial reporting are covered by the continuity of business plan of the Bank in case they are lost.

Vertical monitoring is enforced by dedicated units from the second level of the control system. Horizontal monitoring is carried out in the course of the self-assessment process by units responsible for the control being verified.

Internal audit activities at the Bank are carried out by the Internal Audit Department. The Internal Audit Department is responsible for independent and objective assessments of adequacy and effectiveness of the internal control system and the effectiveness of management of risks connected with activities of the Bank. The Internal Audit Department carries out internal checks, assesses activities initiated by organizational units of the Bank and carries out audits in subsidiaries of the Bank in connection with supervision exercised by the Bank over risks connected with operations of its subsidiaries with respect to their compliance with internal regulations, applicable laws and regulatory requirements and the effectiveness and reasonableness of controls. The Internal Audit Department is a separate organizational unit in the structure of the Bank, reporting directly to the President of the Bank's Management Board.

The operation of the internal control system and the Internal Audit Department is overseen by the Supervisory Board of the Bank. The Supervisory Board carries out its function with help of the Audit Committee, which - as part of its supervisory tasks - verifies, jointly with the Management Board and the statutory auditor, the accuracy of prepared financial

statements and the correctness of functioning of processes connected with their preparation, and submits recommendations concerning approval of annual and interim financial statements by the Supervisory Board of the Bank.
The Head of the Internal Audit Department informs the Management Board of the Bank and the Audit Committee of the Supervisory Board of the Bank of results of completed audits and periodically, and at least once in a year, provides the Supervisory Board with a summary report on identified irregularities and conclusions arising from the completed internal audits, and corrective actions initiated to remedy those irregularities. The Head of the Internal Audit Department is authorized to participate in meetings of the Management Board and Supervisory Board at which issues relating to the functioning of the internal control systems at the Bank are to be discussed.

4. Significant shareholdings

A shareholder which holds a significant lot of the Bank's shares is Citibank Overseas Investment Corporation (COIC) (subsidiary of Citibank N.A.), which owns 97,994,700, shares, i.e. 75% of the Bank's share capital. The number of votes held by COIC from those shares is 97,994,700, i.e. 75% of total votes at the General Meeting of Shareholders of the Bank.

5. Holders of all securities with special control rights together with a description of those rights

The Bank has not issued any securities that would give its shareholders any special control rights.

6. Restrictions on the exercise of voting rights

No restrictions on the exercise of voting rights have been provided for at the Bank.

7. Restrictions on the transfer of ownership of the securities

No restrictions on the transfer of ownership of the securities issued by the Bank have been introduced at the Bank.

8. Rules governing the appointment and dismissal of Members of the Management Board and their powers

The Management Board of the Bank consists of five to nine members. The Management Board consists of: President of the Company's Management Board, Vice Presidents of the Company's Management Board and Members of the Management Board. At least half of all members of the Management Board should be Polish citizens. Each member of the Management Board is appointed by the Supervisory Board upon a request of the President of the Management Board or a member of the Supervisory Board for an individual 3-year term of office. Two members of the Management Board, including the President and the member in charge of risk management at the Bank, require consent of the Polish Financial Supervision Authority to be appointed.

The mandate of a member of the Management Board expires:

1) on the day on which the General Meeting is held to approve the report of the Management Board on the activities of the Bank and the financial statements for the last full financial year in which the member performed his or her function;
2) upon death of the Management Board member;
3) on the day the Management Board member is recalled;
4) on the day a resignation in writing is submitted to the Chairman of the Supervisory Board.

By way of resolution, the Management Board makes decisions in the Company's affairs, except for matters that - under the law or articles of association - are within the powers of other bodies of the Company, and in particular it:

1) determines the strategy of the Company;
2) establishes and dissolves committees of the Company and determines their competences;
3) adopts its rules and submits them to the Supervisory Board for approval;
4) adopts the rules of management of special funds created from net profit and submits them to the Supervisory Board for approval;
5) determines dividend payouts, on dates fixed by the General Meeting;
6) appoints general proxies (*prokurenci*) and general attorneys and general attorneys having a substitution right;
7) makes decisions in matters set out in the rules of the Management Board;
8) makes decisions in matters submitted by the President, a Vice President or a Member of the Management Board;
9) passes a resolution to adopt the annual financial plan of the Company, adopts investment plans and accepts reports on their performance;
10) accepts reports on activities of the Company and its financial statements;
11) prepares recommendations concerning appropriation of profits and losses;
12) approves the human resources management policy and the legal principles for the Company's activities;

13) approves the principles of management of the Company's capital;

14) approves the employment structure;

15) determines and presents to the Supervisory Board for approval the general organizational structure of the Bank reflecting the size and profile of incurred risks and appoints and removes Heads of Sectors and Heads of Divisions, and determines their competence;

16) determines the inspection plan for the Company and accepts reports on completed checks;

17) makes decisions in other matters which according to the Articles of Association are to be submitted to the Supervisory Board or General Meeting;

18) makes decisions to incur liabilities or dispose of assets if their total value with respect to a single entity exceeds 5% of the Company's equity or grants powers of attorney to designated persons to make such decision, however in case of matters within the powers of Committees established at the Company, such decisions must be first consulted with the competent Committee;

Persons authorized to submit matters to the Management Board include:

1) President of the Management Board;

2) other members of the Management Board;

3) heads of other organizational units - in matters within the scope of operations of those units, upon consent of the member of the Management Board in charge or the President of the Management Board.

Provided that decisions concerning matters relating to the basic organizational structure of the Bank and appointments or dismissals of Sector Heads or Division Head and to determine their competences are initiated or must be agreed with the President of the Management Board.

The Management Board determines, in a resolution, the internal division of powers between members of the Bank's Management Board and submits it to the Supervisory Board for approval.

Within the framework of the internal division of powers in the Management Board of the Bank:

1) there is a separate function of the member of the Management Board responsible for supervision over the management of risks significant to activities of the Bank;

2) the Internal Audit Department reports directly to the President of the Management Board

3) the President of the Management Board may not be appointed as member of the Management Board responsible for supervision over the management of risks significant to activities of the Bank;

4) the president of the Management Board must not be entrusted with supervision over those areas of the Bank's activities which create a significant risk to activities of the Bank;

5) the member of the Management Board who is responsible for supervision over the management of risks significant to activities of the Bank must not be entrusted with supervision over those areas of activities of the Bank that generate the risks the management of which is supervised by that member;

6) a designated member or members of the Management Board are entrusted with supervision over the area of management of non-compliance and the area of financial accounting and reporting.

9. Amendments to the Articles of Association

The Articles of Association of the Bank may only be amended by the General Meeting of Shareholders. An amendment to the Articles of Association must be recorded in the register of entrepreneurs of the National Court Register. Pursuant to Article 34(2) of the Act of 29 August 1997 - Banking Law, an amendment to the Articles of Association of the Bank requires approval by the Polish Financial Supervision Authority (*KNF*).

10. General Meeting procedure, description of its fundamental powers as well as shareholder rights and methods of exercising them

10.1 General Meeting procedure

The General Meeting at the Bank operates in accordance with the General Meeting Regulations, the Articles of Association and provisions of law. The General Meeting of the Bank (General Meeting) has stable Regulations, specifying detailed rules for conducting meetings and adopting resolutions.

According to the practice adopted by the Company, the General Meeting is held at the registered office of the Company in Warsaw. The Annual General Meeting is convened by the Management Board. It should be held within six months of the end of each financial year. The Supervisory Board has the right to convene the Annual General Meeting if the Management Board fails to do so within the time limit specified in the Articles of Association, and the Extraordinary General Meeting, whenever deemed necessary. The Management Board convenes the Extraordinary General Meeting at its own initiative and at the request of a shareholder or shareholders representing at least one-twentieth of the share capital. A request to convent the Extraordinary General Meeting must be submitted to the Management Board in writing or electronically. If the Extraordinary General Meeting is not convened within two weeks after a request is made to the Management Board, the registry court may, by way of a ruling, authorize the shareholders or shareholders who submitted the request to convene the Extraordinary General Meeting. The shareholder or shareholders so authorized by the registry court must invoke the registry court's ruling referred to in the preceding sentence in the notice convening the Extraordinary General Meeting. The registry court appoints the chairman of that Extraordinary General Meeting. The Extraordinary General Meeting may also be convened by shareholders representing at least half of the Bank's share capital or at least half of the total number of votes at the Bank. The chairman of the Meeting is appointed by shareholders. The General Meeting is convened by an announcement placed on the Bank's website and in the manner prescribed for making current disclosures by public companies, provided that the announcement should be made at least twenty-six days before the date of the General Meeting. The shareholders entitled to request that a specific matter be placed on the agenda of the General Meeting, in order to exercise that right to complete the agenda, should submit a written or electronic motion to the Bank's Management Board, together with reasons and a draft resolution on the proposed agenda item, by no later than twenty-one days before the set date of the General Meeting. The Management Board places the item requested on the agenda of the next General Meeting immediately but no later than eighteen days before the set date of the General Meeting. The General Meeting may only be cancelled if it becomes unnecessary or in the event of an extraordinary hindrance to its holding. Cancellation and rescheduling of the General Meeting is made in the same manner as its convocation, provided that the twenty-six day advance notice does not apply. Cancellation and rescheduling of the General Meeting should be made in a manner which is least prejudicial to the Bank and shareholders. The General Meeting may adopt a resolution on refraining from considering a matter placed on the agenda or on changing the order of agenda items. However, taking an item off the agenda or refraining from consideration of an item placed on the agenda at the request of shareholders is subject to a prior consent of all the present shareholders who submitted the request, with 80% of General Meeting votes in favor. Requests on above matters should state detailed reasons.

A full text of the documentation to be presented during the General Meeting together with draft resolutions (if no resolution is envisaged on a matter - remarks of the Management Board) is published on the Bank's website as of the date of convening the General Meeting, together with other information regarding the General Meeting. Materials for the General Meeting are also made available at the Bank's office at the time when the Bank announces the notice convening the General Meeting. Notwithstanding the foregoing, the Bank performs all the information obligations arising from generally applicable regulations regarding convocation of General Meetings.

The General Meeting is opened by the Supervisory Board Chairman and, in his absence, successively, by the Deputy Chairman or one member of the Supervisory Board. According to the practice of holding General Meetings, as adopted by the Company, immediately after opening of the General Meeting, election of its Chairman is ordered. Prior to election of the Chairman, the General Meeting does not make any decisions.

The Bank's Management Board, each time through the person opening the General Meeting, provides the Chairman of the General Meeting with instructions on how to serve in that capacity in a manner that ensures compliance with generally applicable laws, corporate governance, the Articles of Association and other internal Bank regulations. The General Meeting should be attended by members of the Management Board and the Supervisory Board as well as the Bank's statutory auditor if financial matters are the subject of the General Meeting.

Voting at the General Meeting shall be open. Secret voting shall be ordered on elections or on motions to recall or hold accountable members of Company authorities or its liquidators, and on personal matters. In addition, secret voting shall be ordered at the request of at least one of the shareholders present or represented at the General Meeting.

The General Meeting shall be valid regardless of the number of shares represented, save as provided for by law. Resolutions of the General Meeting are adopted by an absolute majority of votes present unless provisions of law or the Articles of Association provide otherwise.

The Bank may arrange the General Meeting in a manner which enables shareholders to participate in the General Meeting with the use of electronic means of communication, in particular through:

1) real-time transmission of the General Meeting;
2) two-way real-time communication which allows the shareholders who use electronic means of communication to take the floor remotely during the General Meeting;
3) exercising voting rights in person or by a proxy before or during the General Meeting.

The rules for shareholders' participation in the General Meeting and the rules of procedure during the General Meeting, as well as the method of communication between shareholders and the Bank using electronic means of communication are set out in the General Meeting Regulations. The General Meeting Regulations may authorize the Management Board to identify additional methods of communication between shareholders and the Bank, using means of electronic communication other than those specified in those Regulations.

Additional methods of communication will be published by the Management Board in the notice convening the General Meeting. Notwithstanding the foregoing, the Bank may broadcast proceedings of the General Meeting via the Internet as well as record the proceedings and publish that record on the Bank's website after the meeting.

Voting in practice is done with the help of a computer system for casting and counting votes, which ensures that the number of votes cast corresponds to the number of shares held, as well as prevents - in the case of secret voting - tracing the votes cast to individual shareholders.

The Chairman of the General Meeting should phrase resolutions in such a way that any authorized person who disagrees with the merits of the decision being made in the resolution could challenge it. The Chairman of the General Meeting is responsible for ensuring that resolutions are worded in a clear and transparent manner. The Management Board of the Company also allows the Chairman to obtain the assistance of the Company's legal services.

Resolutions of the General Meeting are recorded by a notary public. The minutes must state that the General Meeting has been validly convened and is able to adopt resolutions, listing the resolutions adopted, stating the number of votes cast in favor as well as any dissensions. A list of attendance with signatures of the participants of the General Meeting should be attached to the minutes. The Management Board should enclose evidence of convening the General Meeting with the book of minutes.

A copy of the minutes is placed by the Management Board in the book of minutes.

General Meetings may be attended by representatives of the media.

10.2 Fundamental powers of the General Meeting

The Annual General Meeting should be convened for the purpose of:

1) consideration and approval of the Management Board report on Company operations and its financial statements for the previous accounting year, as well as the consolidated financial statements of the Company's Group;
2) adoption of a resolution on profit distribution or coverage of losses,
3) acknowledgment of the fulfillment of duties by members of Company authorities.

In addition to matters provided for in mandatory provisions of law, the General Meeting has the authority over the following matters in particular:

1) sale or lease of the enterprise or its organized portion, and establishment of limited property rights thereon;
2) amendments to the Articles of Association;
3) increasing and reducing the share capital of the Company;
4) determination of the date of pre-emptive rights to new shares;
5) determination of the dividend day for the previous accounting year and dividend payment dates;
6) creation and release of special funds set up from profit;
7) appointment and recall of Supervisory Board members;
8) determination of the remuneration of Supervisory Board members;
9) merger or winding up of the Company;
10) appointment and recall of liquidators;
11) cancellation of Company shares;
12) use of supplementary and reserve capital, including the reserve capital (fund) established in order to accumulate undistributed profit (not intended for dividends in a given accounting year) and the banking risk fund.

The General Meeting decides on profit distribution, specifying the amounts of accruals for:

1) supplementary capital accrued annually from profit at the minimum of 8% of the profit for the accounting year until that capital reaches at least one third of the share capital. The General Meeting may adopt a resolution requiring further accruals;
2) reserve capital;
3) general risk fund;
4) dividend;
5) special funds;
6) other purposes.

In the event of winding up of the Company, the General Meeting appoints one or more liquidators at the request of the Supervisory Board and determines the method of winding up.

10.3 Shareholders' rights and their exercise methods

Company's shares are bearer shares and are transferable. Shareholders have the right to share in the profit reported in the financial statements audited by a statutory auditor if that profit has been allocated by the General Meeting to payments to shareholders. Profit is distributed in proportion to the number of shares held.

Only those who are the Bank's shareholders sixteen days before the date of the General Meeting (Date of Registration for participation in the General Meeting) are entitled to participate in the General Meeting of the Bank as a public company. A shareholder participating in the General Meeting has the right to vote, put forward motions and raise objections, as well as provide a brief explanation of his/her position.

Draft resolutions proposed for adoption by the General Meeting and other relevant materials should be presented to shareholders together with the reasons and opinion of the Supervisory Board prior to the General Meeting, allowing sufficient time for their review and assessment.

A shareholder may participate in the General Meeting and exercise their voting rights in person or through a proxy.

Each shareholder has the right to run for Chairman of the General Meeting as well as propose a candidate for Chairman of the General Meeting for the record.

Whenever any item of the agenda is being considered each shareholder has the right to speak and respond.

The Management Board is required to provide the shareholder, at the latter's request, with information about the company if it is necessary to assess a matter on the agenda. The Management Board should refuse to provide such information if:

1) this may be detrimental to the Company, its affiliated company or its subsidiary company, in particular as a result of disclosure of technical, commercial or organizational company secrets.

2) this could expose a Management Board member to criminal, civil or administrative liability.

In justified cases, the Management Board may provide the information in writing by not later than 2 (two) weeks of the date of adjournment of the General Meeting.

Company authorities do not limit information but at the same time they adhere to the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and on Public Companies, the Act on Trading in Financial Instruments, Regulation of the European Parliament and Council (EU) No 596/2014 of 16 April 2014 on Market Abuse, the Regulation on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state, as well as provisions of the Code of Commercial Companies.

The General Meeting shall be valid regardless of the number of shares represented, save as provided for by law. Resolutions of the General Meeting are adopted by an absolute majority of votes present unless provisions of law or the Articles of Association of the Bank provide otherwise.

A shareholder has the right to object to the wording of a resolution of the General Meeting and, when objecting, may present his/her arguments and justify the objection.

Each shareholder has the right to propose amendments and additions to draft resolutions placed on the agenda of the General Meeting, until discussion on the agenda item ends with a draft resolution on that proposal. Such proposals together with a brief justification should be submitted in writing.

A shareholder at the General Meeting may submit motions on procedural matters. Motions on procedural matters are considered to be motions regarding the method of proceeding or voting.

Shareholders have the right to propose their candidates to the Supervisory Board of the Bank in writing to the attention of the Chairman of the General Meeting or verbally for the record, in both cases the proposals must be accompanied by a brief justification. When proposing candidates for members of the Supervisory Board, shareholders submit documents necessary to assess whether the candidates meet the requirements of Article 22aa of the Banking Law, following in this regard the guidelines set out in the "Qualification assessment policy for members of the Supervisory Board at Bank Handlowy w Warszawie S.A." If candidates are proposed in the course of the General Meeting, the Chairman orders a procedural break to allow shareholders to review the candidate profile and submitted documents as required by the above Policy.

Shareholders have the right to view the book of minutes, as well as to request copies of resolutions certified by the Management Board.

The shareholder who voted against a resolution of the General Meeting, and after its adoption, requested that his/her dissension be recorded, the shareholder who was unreasonably not allowed to participate in the General Meeting, and the shareholders who were not present at the General Meeting, provided only that the General Meeting was convened defectively or if a resolution was adopted on a matter not included in the agenda, will have the right to bring a lawsuit seeking to repeal the resolution of the General Meeting.

Shareholders have the right to bring a lawsuit against the Company to have an unlawful resolution of the General Meeting declared invalid.

Shares may be cancelled with the shareholder's consent by way of their purchase by the Company (voluntary redemption). Shares cancellation requires a resolution of the General Meeting. The resolution should specify, in particular, the legal basis for the cancellation, the amount of compensation payable to the shareholder of the cancelled share or the justification for shares cancellation without compensation and the method of decreasing the share capital.

The Bank ensures adequate protection of minority rights within the limits allowed by the Bank's capital nature and the resulting primacy of the majority over the minority. In particular, to ensure equal treatment of shareholders, the Bank applies, inter alia, the following practices:

- General Meetings of the Bank are always held at the registered office of the Bank, which is located in Warsaw;
- media representatives are allowed to be present at General Meetings;
- according to the practice adopted at the Bank, all relevant materials for the General Meeting, including draft resolutions with justifications and opinions of the Supervisory Board, are made available to shareholders at least 14 days before the date of the General Meeting at the Bank's registered office and on its website;
- the General Meeting of the Bank has stable Regulations, specifying detailed rules of procedure and adoption of resolutions;
- the General Meeting is attended by members of the Supervisory Board and the Management Board, who, within their respective authority, provide explanations and information about the Bank to participants of the Meeting;
- participants of the General Meeting who object to a resolution are allowed to justify their objection. In addition, each participant of the Meeting has the option to submit his/her written statement for the record.

11. Composition of and changes to the Management Board and the Supervisory Board of the Bank in 2019, rules of procedure of the Bank's managing and supervisory bodies

11.1 Management Board

The Management Board of the Bank consists of five to nine members. The Management Board consists of: President of the Management Board, Vice Presidents of the Management Board and Members of the Management Board. At least half of all members of the Management Board should be Polish citizens. Each member of the Management Board is appointed by the Supervisory Board for an individual term of three years.

As at 31 December 2019, the Management Board consisted of:

Member of The Management Board	Scope of responsibility
Sławomir S. Sikora President of the Management Board	The President of the Management Board is responsible for: • manages the work of the Management Board, including appointing from among the members of the Management Board a person to replace the President of the Management Board, during his absence, and determines the procedure of substitution for members of the Management Board who are absent; • calls and chairs meetings of the Management Board; • presents the position of the Management Board to other bodies of the Bank, central and local government and the general public; • submits motions to the Supervisory Board concerning appointments and dismissals of Vice Presidents and other Members of the Management Board and determination of their remuneration; • issues internal regulations applicable to activities of the Bank and may authorize other Members of the Management Board or other employees to issue such regulations; • decides how internal audit results are to be used and notifies such decision to the audited entity; • exercises other authorizations resulting from appropriate rules adopted by the Supervisory Board; • supervises the formulation and implementation of the strategy of the Bank; • is the officer to which the internal audit department is subordinated; • supervises the risk of non-compliance of the Bank with respect to the law, internal regulations and market standards; • supervises human resources policy; • is responsible for activities to control how the Bank is perceived; • ensures a consistent organizational structure of the Bank; • supervises activities to ensure appropriate corporate governance; • supervises legal services; • supervises the area of security at the Bank with respect to protection of persons and property; and ensures the implementation of risk management principles in supervised divisions and units outside the organizational structure of a division with respect to operational risk connected with their activities.
Natalia Bożek *Vice President of the Management Board*	Supervises the areas of accounting and financial reporting, including financial control; Responsible for: • management accounting; • bookkeeping; • preparation of accounting policies; • coordination of activities connected with implementation at the Bank of requirements resulting from laws and regulations, as well as resolutions and recommendations of the financial supervision authority, with respect to capital adequacy; and ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.
Maciej Kropidłowski *Vice President of the Management Board*	Responsible for: • financial market operations, including money market transactions as well as FX market, securities and derivative transactions; • activities related to securitization; • activities related to organizing financing for investment plans, mergers and acquisitions in the scope of: – syndicated loans; – bridge financing;

Member of The Management Board	Scope of responsibility
	– debt securities; – project finance; – off-balance sheet financing; • custody activities; • ongoing cooperation with and supervision over corporate bank and commercial bank, including supervision over services provided to clients from the financial institution sector; and ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.
David Mouillé *Vice President of the Management Board*	Responsible for consumer banking, including the quality standard of banking services in supervised organizational units and he ensures that principles of their business-related operational risk management are implemented in such supervised organizational units.
Barbara Sobala *Vice President of the Management Board*	Supervises management of risks significant to activities of the bank, she is responsible for risk management system including: • credit policy of the Bank; • quality of the Bank's credit portfolio; • credit risk; • market risk; • operational risk; • coordination of activities connected with implementation at the Bank of requirements resulting from risk management regulations, including recommendations issued by supervisory authorities. • supervision of risk management at second level, by employees in specially appointed positions or organisational units; • provides the Bank's Management Board and Supervisory Board with comprehensive information on risk. Responsible for adjustments of the organizational structure of the Bank to the amount and profile of risks to which the Bank is exposed. She accepts anonymous reports of infringements of law or procedures and ethical standards applicable at the Bank, and is also responsible for the ongoing functioning of the anonymous infringement reporting procedures, including for reporting to the Supervisory Board, at least semi-annually, any substantial ethical issues arising at the Bank.
James Foley *Member of The Management Board*	Responsible for global transaction services, including for: • finance management products; • trade finance products; • cash products; • liquidity management products; • supervision of EU programmes Also responsible for supervision within the internal functional relationship over services for the public sector. He ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.
Katarzyna Majewska *Member of The Management Board*	Responsible for the following activities of the Bank: operations and technology, real estate management, administration. She ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.

The tenure of Mr. James Foley started on February 1, 2019.

On October, 18, 2019 Mr. David Mouillé resigned as Vice President of the Management Board effective January 31, 2020.

The Management Board operates on the basis of generally applicable laws, the Articles of Association and the

Management Board Regulations. The Management Board Regulations define the scope and mode of operations of the Management Board as well as the procedure for adopting resolutions.

During 2019, the following committees consisting of Management Board Members were active:

1) Risk and Capital Management Committee,
2) Assets & Liabilities Committee (ALCO) of the Bank,
3) Business Risk, Control System and Compliance Committee for Bank Handlowy w Warszawie S.A.;
4) Bonus Committee,
5) New Products Committee,

President of the Management Board convenes and chairs meetings of the Management Board. President of the Management Board may set fixed dates for holding meetings.

Work organization at the Management Board is ensured by the Corporate Services Office.

Management Board members have an obligation to attend Management Board meetings. An anticipated absence of a Management Board member at a meeting should be reported to the Corporate Services Office and must be excused.

In addition to members, meetings of the Management Board are attended by: Director of the Corporate Services Office or his designee, Director of the Compliance Unit, Head of the Legal Division, Director of the Audit Department.

Resolutions of the Committee are valid provided that at least one half of the permanent members of the Committee are present. Resolutions of the Management are adopted by an absolute majority of votes.

The Management Board adopts resolutions in an open vote. Chairman of the meeting may order voting by ballot at his own initiative or at the request of a Board member. Member of the Management Board who disagrees with the wording of the adopted resolution may present a different position to be recorded in the minutes. A resolution of the Management Board is effective as of the date of its adoption unless it provides for a different effective date.

In justified cases, a resolution of the Management Board may be adopted through circulation (in writing) based on a decision of the President of the Management Board or the member substituting for the Management Board President. Draft resolutions to be adopted through circulation are submitted for approval to all members of the Management Board and become legally binding after being signed by an absolute majority of Management Board members, including the President of the Management Board or the member substituting for the Management Board President. The effective date of a resolution is the date it is signed by the Management Board member who signs the resolution already signed by at least half of all members of the Management Board. If even one of the Management Board members raises an objection to adoption of a resolution through circulation, the draft resolution should be presented at the next Management Board meeting. A resolution may be adopted through circulation provided that all members of the Management Board have been given a notice of its adoption. Resolutions adopted through circulation shall be added to the minutes of the next meeting of the Management Board.

With the consent of the President of the Management Board, members of the Management Board who are absent may participate in the meeting and vote through means of direct remote communication in a manner which enables simultaneous real-time communication and mutual identification among all Management Board members participating in the meeting or voting (e.g. videoconference, teleconference).

Minutes are drafted of each Management Board meeting. Drafting of the minutes is the responsibility of the Corporate Services Office. The minutes should include:

1) agenda;
2) names of persons taking part in the meeting;
3) information on excused absences or reasons for absences of Management Board members at the meeting;
4) wording of the resolutions adopted;
5) the number of votes cast in favor of individual resolutions and dissensions;
6) the organizational entity or unit, or the name of the person assigned with responsibility for implementing the resolution, and
7) deadline for implementation of the resolution.

The minutes are signed by all members of the Management Board present at the meeting, immediately upon receipt.

The Management Board provides the Supervisory Board with the following financial information:

1) immediately upon compilation but no later than 120 (one hundred and twenty) days after the end of each accounting year, individual and consolidated annual financial statements prepared in accordance with International Accounting Standards and International Financial Reporting Standards, audited by the Company's auditor;
2) immediately upon compilation but in any case no later than before the end of each year, a draft annual plan for the next accounting year;
3) other periodic information and reports, in accordance with a resolution of the Supervisory Board;
4) immediately, other available financial data related to Company operations and its financial condition, as well as the operations and financial condition of Company subsidiaries, which a member of the Supervisory Board may reasonably request.

11.2 Supervisory Board

The Supervisory Board consists of five to twelve members, each appointed by the General Meeting for a three-year joint term. By Resolution No. 6 of 5 December 2006, the Extraordinary General Meeting of the Bank, on the basis of Article 14.2 of the Articles of Association, established the number of Supervisory Board members to be at least 8. In addition, at least half of the Supervisory Board members, including its Chairman, must be Polish citizens. The Supervisory Board consists of independent members.

As at the date of signing this report on operations, the Company's Supervisory Board consisted of:

Member of Supervisory Board	Professional experience
Andrzej Olechowski *Chairman of the Supervisory Board*	Mr. Andrzej Olechowski is a member of the Board of Directors of Euronet, of the Supervisory Board of Play Communications S.A., of the advisory committee of Macquarie European Infrastructure Funds and a member of the Board of Trustees, the European Council on Foreign Relations. In the past, he served as Minister of Finance and Minister of Foreign Affairs of the Republic of Poland, and ran as a candidate for President of the Republic of Poland. He is a member of a number of non-governmental organizations, including chairman of the Polish group, The Trilateral Commission. He is an author of publications on international economic and political relations. In 1991-1996 and 1998-2000, he already served as member of the Supervisory Board of Bank Handlowy w Warszawie S.A as its chairman. He was re-appointed to the Supervisory Board on 25 June 2003. Since 23 July 2012, he has served as the Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Frank Mannion *Deputy Chairman of the Supervisory Board*	Mr. Frank Mannion currently serves as the Citi Chief Financial Officer for Europe, Middle East and Africa (EMEA). Within his new function, which he assumed in January 2011, he is responsible for a group of over 1,000 employees throughout the Region. Mr. Frank Mannion began his professional career in Ireland, and then moved to London, where he worked for PricewaterhouseCoopers. He started working at Citi in 1989 in a planning and analysis team in the UK. During his career, he has held many financial positions, including Technology Finance Manager and the Head of Product Control at CMB EMEA. In 2008, he became Citi Regional Franchise Controller for Europe, Middle East and Africa (EMEA), where he was responsible for a group of over 800 employees in various areas. Previously, he managed the areas of Product Control, Controllers and Regulatory Reporting as CMB EMEA Regional Controller. Frank Mannion graduated from the National University of Ireland in Galway, earning a degree in commerce. He has also earned the title of Chartered Accountant. Since 28 June 2010, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Shirish Apte *Member of the Supervisory Board*	Mr. Shirish Apte served as Co-Chairman of Citi Asia-Pacific Banking. In 2009-2011, he served as CEO at Citi Asia Pacific, with responsibility for South Asia covering countries such as: Australia, New Zealand, India and countries members of the Association of Southeast Asian Nations (ASEAN). He was a member of the Citi Executive Committee and Operating Committee. Mr. Shirish Apte has worked at Citi for over 32 years. He has served, among other things, as CEO for Central and Eastern Europe, Middle East and Africa (CEEMEA), and previously as Country Manager he was responsible for Citi operations in Poland and served as Vice President of Bank Handlowy w Warszawie S.A. Mr. Shirish Apte moved from India to London in 1993, where he took the position of Senior Risk Manager for the CEEMEA Region. Then, he served as Head of Corporate Finance and Investment Bank in the CEEMEA Region, which included India. Mr. Shirish Apte earned a diploma of Chartered Accountant from the Institute of Chartered Accountants in England and Wales and a bachelor's degree in commerce. Mr. Shirish Apte also has an MBA from London Business School. Since 25 June 2003, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Igor Chalupec *Member of the Supervisory Board*	Mr. Igor Chalupec: manager, financier, founder of ICENTIS Capital which specializes in capital market transactions; in 2013-2018, President of the Management Board of RUCH S.A., one of the largest press distributors in Poland. In 2004 - 2007, he served as President of the Management Board of PKN ORLEN S.A., the largest company in the refining and petrochemical sector in Central Europe. In 2003-2004, he held the position of deputy finance minister and deputy chairman of the Polish Financial Supervision Authority; he was also a member of the European Financial Committee in

Member of Supervisory Board	Professional experience
	Brussels. In 1995 - 2003, he served as Vice President of the Management Board of Bank Pekao SA (UniCredit Group). Founder and CEO of Centralny Dom Maklerski Pekao SA (in 1991-1995), the largest brokerage company in Poland; long-time member of the Warsaw Stock Exchange (from 1995 to 2003). Mr. Igor Chalupec serves on the Supervisory Board of Budimex S.A. (Ferrovial Agroman Group), since 2007, he is also a member of the Polish Business Council, Program Board of the Economic Forum (Polish Economic Forum in Krynica), Executive Club Program Council, member of the Council of the Institute of Public Affairs Foundation, member of the Main Board of the Polish Institute of Directors, member of the Lesław A. Paga Award Committee, Vice President of the Polish Bridge Association, member of the Women's Workshop Foundation Council. Founder and Chairman of the Council of the Evangelical Educational Society Foundation. Co-author of *Rosja, ropa, polityka, czyli o największej inwestycji PKN ORLEN*, a book on the purchase of a Lithuanian refinery in Mazeikiai. Mr. Igor Chalupec is a winner of numerous awards and distinctions, including: Manager Award (2012), Lesław A. Paga Award (2007), VECTOR (2006) and HERMER awards (1996). Since 18 June 2009, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Jenny Grey *Member of Supervisory Board*	In February 2016, Ms. Jenny Gray assumed the position of Citi HR Head for the EMEA Region. Previously, from October 2012, Ms. Gray served as Head of Public Relations for the EMEA Region and was responsible for protecting and strengthening Citi's reputation in the EMEA Region. Her responsibilities included media relations, internal and external communications, brand and community development. Ms. Jenny Gray has 24 years of experience in communications. She joined Citi in October 2012, after four years of service in the British government administration, most recently, at the UK Prime Minister's headquarters as Executive Director for Government Communication. She was Head of Profession and managed 5,000 communication employees of the entire government sector. In previous years, she worked in the public sector where she served as Director of Communications and Social Marketing, including in the National Health Service and on the Audit Committee. She was also Corporate and International Director at Cancer Research UK, the largest charity foundation in the United Kingdom, where she set up the first unit responsible for public policy and support. Ms. Jenny Gray began her professional career in advertising and then became a public relations consultant specializing in reputation and crisis management. She has advised many international clients, including corporations such as McDonald's, Toyota, BP and Allied Domecq. She earned a Master's Degree in Social Psychology from the London School of Economics and degrees with honors in English and English literature from the Durham University. Since 21 June 2016, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Marek Kapuściński *Member of Supervisory Board*	Mr. Marek Kapuściński graduated from the Faculty of Foreign Trade at the Main School of Planning and Statistics in Warsaw (currently, the Warsaw School of Economics) and completed postgraduate studies at SEHNAP / Stern School of Business at New York University. He had been associated with the Procter & Gamble company for 25 years till September 2016. He is co-creator of company's success on the Polish and Central European market, including numerous standards of the way the Polish market has functioned since the time of transformation. They encompass standards for the cosmetics industry, business ethics, social responsibility, or self-regulation in the field of advertising. Since July 2011, he has performed the function of General Director and Vice President (i.e. CEO) for 9 Central Europe markets which are of key importance for P&G, and since January 2007 for Poland and the Baltic States. He is the first Pole and a person from Central Europe at the managerial level in this global corporation, as well as an active member of the company's regional management and its Global Business Leadership Council, which unites all 250 top executive managers. An experienced CEO and leader, an expert in strategy, innovation and management, an active creator of standards constantly adapting to the new challenges of brand management, a shopper of marketing, sales and communication in the age of digitization and omni-channel. The first Pole and Central European to be promoted at P&G to the positions of Brand Manager, Marketing Manager and Marketing Director; also for 5 years, responsible for developing a number of brands in the Region of Central and Eastern Europe, Middle East and Africa. Co-author of the strategy and leading market position of numerous well-known brands in the P&G portfolio. . In recognition of his contribution to building brands and Polish advertising standards and practices, he was awarded the title of "20 Year Marketer" by Media Marketing Polska. Lecturer and speaker, juror, participant of discussion panels. Currently, he sits on Supervisory Boards of companies and public benefit organizations, and advises their managements. Privately, he invests in start-

Member of Supervisory Board	Professional experience
	ups and donates for the development of young Polish culture and art. Since 29 September 2016, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Gonzalo Luchetti *Member of Supervisory Board*	Mr. Gonzalo Luchetti is the incumbent head of Citi Consumer Banking in Asia and EMEA. In his role, Mr. Gonzalo Luchetti supervises all consumer banking operations, including deposits, Wealth Management, bancassurance, small business, credit cards, individual client loans and mortgage loans. Earlier, in 2015, he acted as the Consumer Banking Head in Asia and helped lead a significant transformation of the business by calibrating its distribution network, expanding the scale of activity of selected entities and digitization of the business model. Before coming to Asia, he had worked in New York as the Global Head of Wealth Management and Insurance. He was in charge of global distribution of Citigold and Citigold Private Client products, investment and insurance products as well as of the Global International Personal Bank. In his role he was responsible for global relations with asset management companies and insurance companies. Moreover, in 2009 he was in charge of International Personal Banking in the USA. Mr. Gonzalo Luchetti joined Citi in 2006 as the Citi Head for Private Banking Strategy in Latin America, where he managed activities related to growth strategy, search for sources of gains, client segmentation and boosting sales productivity. Then, in 2007 he simultaneously became CFO of that business. Before joining Citi, he worked at JP Morgan Chase in Business Optimization for the International Financial Services division. Beforehand, he worked for Bain & Company as a management consultant in the San Francisco and London offices. Mr. Gonzalo Luchetti holds an MBA from Standford University's Graduate School of Business and a BA in Computer Sciences from the Technological Institute of Buenos Aires. He holds FINRA US Securities Registration Series 7, 63, 24 and 65 licenses. Since 24 September 2019, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Anna Rulkiewicz *Member of Supervisory Board*	Since 2007, Ms. Anna Rulkiewicz has been the President of the Management Board of the LUX MED Group, which she joined in 2002 as a Member of the Management Board and Sales and Marketing Director. Since the end of 2011 she has also performed duties of the Managing Director of LMG Försäkrings AB, whose branch operates in Poland under the business name LUX MED Ubezpieczenia (Insurance). Since 2011, Ms. Anna Rulkiewicz has been the President of Private Medicine Employers (Pracodawcy Medycyny Prywatnej) and since 2016 she has been the Vice President of Employers of Poland (Pracodawcy RP). Ms. Anna Rulkiewicz gained professional experience by, among others, managing the Sales and Marketing Department at Credit Suisse Life & Pensions Towarzystwo Ubezpieczeń na Życie S.A. and at Powszechne Towarzystwo Emerytalne (General Pension Company)/Winterthur in the years 2001-2002, where she supervised the departments of internal and external sales, group insurance, marketing and communication. In the years 1998-2001, Ms. Rulkiewicz worked for Zurich Towarzystwo Ubezpieczeń na Życie S.A. and Zurich Powszechne Towarzystwo Emerytalne S.A. In her capacity as the Group Insurance and Training Director, she was responsible for, i.a. the group insurance segment, including development of services, recruitment system and training management. After becoming the Corporate Client Segment Head and being appointed a member of the Management Board of Zurich Towarzystwo Ubezpieczeń na Życie S.A., she was responsible for the Small Business and Corporate Client Segment. Between 1995-1998, she worked for Commercial Union Towarzystwo Ubezpieczeń na Życie S.A., where she was responsible, among others, for developing sales of group and individual insurance under bancassurance. Ms. Anna Rulkiewicz is a graduate of Nicolaus Copernicus University in Toruń (Uniwersytet Mikołaja Kopernika w Toruniu), where in 1994 she was awarded a Master's degree. Ms. Rulkiewicz is also a graduate of the University of Hamburg. In 1998, she completed postgraduate studies at the Polish and French Institute of Insurance (Polsko-Francuski Instytut Ubezpieczeń) and a range of training courses in, among other fields, management, sales, communication, and marketing organized under the certified insurance industry program LIMRA "Marketing Strategies for Executive Advancement" (LIMRA Executive Development Group). In 2018, she also completed the Stanford Executive Program at the Stanford University's Graduate School of Business. Between 2013-2017, Ms. Rulkiewicz was also a member of the Supervisory Board of Bank Handlowy w Warszawie S.A., and was again appointed to the Supervisory Board on June 5, 2019.
Barbara Smalska *Member of Supervisory Board*	In the years 2015-2017, Ms. Barbara Smalska held the function of the Vice President of the Management Board of Alior Bank S.A., responsible for strategy, mergers (specifically for legal and operational integration with separated operations of Bank BPH S.A. and for merger-related synergies), remote channels (online sales and online and mobile banking development), and for other development and IT projects.

Member of Supervisory Board	Professional experience
	Since 2008 she has worked for PZU Group: as the Director of the Product Management Office (2008-2010) and the Managing Director for Mass Market (2010-2012), she was in charge of various aspects of PZU Group's individual client and SME segment management, notably she has been responsible for product management, marketing and sales, and for analytical CRM. In the years 2013-2014, as a member of PZU SA and PZU Życie SA Management Board, she was responsible for PZU Group's individual client and SME segment as a whole. As the Chairperson, and then as an independent member of Link4 TU S.A.'s Supervisory Board (2014-2016), she was in charge of the supervision of the process of incorporating Link4 to PZU Group. Ms. Barbara Smalska also joined PTE PZU SA's Supervisory Board (2013-2014). Ms. Barbara Smalska began her professional career in 2002 at the Boston Consulting Group's Warsaw Office. As Associate, Senior Associate, and Consultant in the years 2002-2006, she was involved in many projects conducted for financial and telecommunications sectors in Poland and in Central and Eastern Europe in, among other fields, business strategy, operational model, sales network organization and activation, costs reorganization and optimization. In the years 2006-2008, as the Project Leader and next as the Principal, she managed strategic projects for the largest Polish banks, insurance companies and telecom companies, mainly in business strategy and distribution strategy in the retail client segment. Ms. Barbara Smalska is a graduate of the University of Warsaw (Uniwersytet Warszawski), where in 1997 she was awarded a Master's degree in physics and in 2001 a PhD's degree in high energy experimental physics. Since 05 June 2019, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Stanisław Sołtysiński *Member of the Supervisory Board*	Mr. Stanisław Sołtysiński: professor of legal sciences, engaged in academic activities as a professor of legal sciences associated with the Adam Mickiewicz University in Poznań (where he also served as the Dean of the Faculty of Law and Administration). He lectured as a visiting professor at the Pennsylvania Law School in Philadelphia, as well as at the College of Europe in Bruges, the Max Planck Institute in Munich and the International Law Academy in The Hague. He is a member of many academic associations and organizations. He is a correspondent member of the Polish Academy of Arts and Sciences and a member of the UNIDROIT Board of Directors. He co-authored the Commercial Companies Code. Professor Sołtysiński is also involved in legal practice as a partner in "Sołtysiński, Kawecki i Szlęzak" Doradcy Prawni, a law firm. Professor Sołtysiński has been a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 26 March 1997, and its Chairman between 30 June 2000 and 20 June 2012. Since 21 June 2012, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Zdenek Turek *Member of the Supervisory Board*	Mr. Zdenek Turek currently oversees all Citi's businesses in Europe. He is the Cluster Head for Europe and CEO of Citibank Europe, plc. He is based in Dublin, where Citi provides a broad range of services in corporate and investment banking, transaction services, as well as securities and capital markets products across the WE region, one of Citi's largest markets globally. Prior to that, Mr. Zdenek Turek was the CEO for Eastern and Central Europe and Citi Country Officer in Russia based in Moscow. Citi's business in the region covered 8 countries of CEE. From 2005 to 2008, Mr. Zdenek Turek was Citi Country Office for South Africa and managed the Region of Africa (as Division Head for Africa), covering 16 countries in the region where Citi has its business. Between 2002-2005, Mr. Turek was Citi Country Officer for Hungary and also oversaw the Region of Central Europe covering five countries (Hungary, the Czech Republic, Romania, Slovakia and Bulgaria). Mr. Zdenek Turek joined Citi in 1991 in Prague, where he held a number of Banking and Corporate Finance management roles before being promoted to Citi Country Officer in Romania in 1998. Prior to joining Citi, Mr. Zdenek Turek worked at the Foreign Exchange Department of the Central Bank of Czechoslovakia, focusing mainly on Export/Import and Services sectors (1986-1990). He then joined A.I.C., and Austrian-owned management consulting company, as Deputy Head of Representative Office in Prague, where he was responsible for corporate advisory in restructuring and financial recovery of industrial enterprises. Mr. Zdenek Turek graduated with an MA in Finance and Banking from University of Economics, Prague, in 1986. He further studied at Wharton School of the University of Pennsylvania, where he completed an Advanced Management Development Program in 1997. In 2010, he graduated from the Executive MBA program at INSEAD Business School. Between 2012-2016, Mr. Zdenek Turek was already a member of the Supervisory Board of Bank Handlowy w Warszawie S.A., and was again appointed to the Board on September 24, 2019.
Stephen R. Volk *Member of the Supervisory Board*	Mr. Stephen R. Volk is the Vice Chairman of Citigroup Inc., responsible for matters related to both senior-level management and investment banking. He is a member of

Member of Supervisory Board	Professional experience
	the Citigroup Executive Committee. Mr. Volk has been associated with Citigroup since September 2004. Until then, he served as Chairman of Credit Suisse First Boston, where he worked closely with the President of the Management Board on strategic management and key customer issues. He joined Credit Suisse First Boston in August 2001, moving from Shearman & Sterling, a New York law firm, where he was a Senior Partner since 1991. While at Shearman & Sterling, Mr. Volk was a legal counsel to numerous corporations, including Citicorp. Among the many areas in which Mr. Volk's firm advised Citicorp, there was also restructuring of the Citicorp's Latin American debt portfolio. Significant transactions in which Mr Volk played a key role include mergers of Glaxo and SmithKlein, Viacom-Paramount, Viacom-CBS and Vivendi-Universal-NBC. He joined Shearman & Sterling in 1960, after graduating from Dartmouth College and Harvard Law School, becoming a partner in 1968. Mr. Volk is a Director at Continental Grain Company, and also a former Director at Consolidated Edison, Inc. and Trizec Hahn Properties. He is also a member of the Council on Foreign Relations, the Harvard Law School Dean's Advisory Board and a member of the American Bar Foundation. Since 20 November 2009, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A.

In 2019, the following persons resigned from the Supervisory Board of Bank Handlowy w Warszawie S.A.: Mr. Marek Belka and Mr. Grzegorz Bielicki – as of 4 June 2019, Mr. Marc Luet – as of 27 June 2019, and Mr. Anand Selvakesari – as of 23 September 2019.

In the reporting year, the following persons were appointed to the Supervisory Board of Bank Handlowy w Warszawie: Ms. Anna Rulkiewicz and Ms. Barbara Smalska – as of 5 June 2019, and Mr. Gonzalo Luchetti and Mr. Zdenek Turek – as of 24 September 2019.

The Supervisory Board operates on the basis of generally applicable laws, the Articles of Association and the Supervisory Board Regulations.

The powers of the Supervisory Board, in addition to the rights and obligations provided for by law, include resolutions on the following matters:

1) appointing and recalling the President of the Management Board in secret voting,
2) appointing and removing, in secret voting, Vice Presidents and other members of the Management Board of the Bank."
3) setting the terms of contracts governing employment relationships or other legal relationships between Management Board members and the Bank,
4) authorization for opening or closing branch offices abroad,
5) adoption of the Supervisory Board Regulations and approval of the following documents drafted by the Management Board:
   a. regulations of the Management Board of the Bank,
   b. rules for managing special funds set up with net profits,
6) prior authorization for transactions disposing of the Bank's fixed assets worth more than 1/10 of the Bank's share capital,
7) selection of an audit firm to audit or review financial statements,
8) authorization for recruitment and dismissal (after prior hearing) of the person heading the Audit Department and the person heading the compliance unit, at the request of the Bank's Management Board,
9) authorization for the Bank to enter into a material contract with a shareholder holding at least 5% of the total votes at the Bank or a related party of the Bank,
10) supervision over implementation of the Bank's management system and assessment of the adequacy and effectiveness of that system, including supervision over adoption of the risk management system and annual assessment of the adequacy and effectiveness of that system, and supervision over adoption of the internal control system and annual assessment of the adequacy and effectiveness of that system, including assessment of the adequacy and effectiveness of the control function, compliance unit and the Audit Department, and assessment of the effectiveness of compliance risk management at the Bank,
11) approval of the Bank's strategy as well as the rules of prudent and stable management of the Bank,
12) approval of the basic organizational structure of the Bank, aligned with the size and profile of the risk involved, and determined by the Bank's Management Board,
13) approval of the acceptable general risk level of the Bank,
14) approval of the Bank's compliance policy,

15) approval of the Bank's internal procedures for internal capital assessment, capital management and capital planning,

16) approval of the Bank's information policy,

17) approval of the internal control procedure,

18) approval of the remuneration policy,

19) approval of the risk management strategy and determination of the rules for reporting to the Supervisory Board on the types and volumes of risk in Bank's operations,

20) approval of the regulations for the compliance unit and the Audit Department,

21) approval of the criteria developed by the Management Board for assessing adequacy and effectiveness of internal control,

22) approval of the rules for classifying irregularities detected by internal control,

23) approval of the compliance unit's annual action plan,

24) approval of the principles of cooperation between the compliance unit and the Audit Department with corresponding units at the parent entity and subsidiaries,

25) approval of the rules for the annual reporting by the compliance unit on the fulfillment of its tasks to the Bank's Management Board and the Supervisory Board,

26) approval of the rules of cooperation between the Audit Department and the statutory auditor,

27) approval of the Audit Department's business strategy,

28) approval of the audit rules prepared by the Head of the Audit Department, which ensure objective performance of responsibilities by the Audit Department, and the rules for transferring employees from other organizational units to the Audit Department, improving qualifications, identifying the number of internal auditors with professional certification and periodic performance assessment of internal auditors,

29) approval of the remuneration of the Head of the Audit Department,

30) approval of the strategic (long-term) and operational (annual) audit plans and their revisions,

31) approval of the remuneration of the Head of the Compliance Department, the authority which may be assigned, by a resolution, to the Audit Committee,

32) authorization for every cooperation in audits between the Audit Department with the corresponding unit at the parent entity, the authority which may be assigned, by a resolution, to the Audit Committee,

33) approval of the rules for reporting by the Audit Department to the Management Board and the Supervisory Board.

Based on the Banking Law Act, the Supervisory Board approves the internal division of responsibilities within the Management Board as well as the remuneration policy in effect at the Company.

The Supervisory Board also has the authority to suspend, for important reasons, individual or all members of the Management Board, as well as second Supervisory Board members to serve, temporarily for not more than three months, in the capacity of those Management Board members who have been recalled, submitted resignation or for other reasons are unable to serve.

Members of the Supervisory Board carry out their responsibilities in person. The Supervisory Board carries out its activities collegially, with each member of the Supervisory Board being entitled to receive information necessary to perform his/her responsibilities from the Management Board. The meetings of the Supervisory Board are held on a quarterly basis, as a minimum. The meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board or, in his/her absence, by Deputy Chairman of the Supervisory Board, on his own initiative or at a request of another Supervisory Board member or at a request of the Management Board of the Company. The Chairman of the Supervisory Board may set fixed dates for holding meetings of the Supervisory Board. A notice convening a meeting, including its agenda and materials for the meeting, will be sent by the Supervisory Board Secretary to Supervisory Board members at least 7 (seven) days before the date of the meeting.

The Supervisory Board meets on the day of the General Meeting which approves the Management Board's report on Company operations and the financial statements for the last full accounting year of service of the Management Board member, during which mandates of Management Board members expire, in order to elect new members of the Management Board.

The Supervisory Board adopts an annual resolution on the report on Supervisory Board operations, in which the Supervisory Board assesses the situation of the Company, the work of the Supervisory Board, the internal control system and the management of significant risks at the Bank, as well as the results of assessment of the Company's financial statements, including Management Board's proposals as to profit distribution. The Supervisory Board submits that document to the General Meeting for approval.

Members of the Supervisory Board may participate in the adoption of resolutions by casting their votes in writing through another member of the Supervisory Board. The Supervisory Board may adopt resolutions in writing or by means of direct remote communication.

Meetings of the Supervisory Board are chaired by its Chairman, and in his absence, one of the Vice Chairmen of the Supervisory Board, and in the absence of both, the Supervisory Board member elected by the other members.

Resolutions of the Supervisory Board are valid provided that at least one half of the members of the Supervisory Board are present at the meeting. Resolutions of the Supervisory Board are adopted by an absolute majority of votes. Without the consent of the majority of independent Supervisory Board members, no resolutions may be adopted on the following matters:

1) authorization for the Company to enter into any significant agreement with a shareholder holding at least 5% of the total number of votes in the Company or an entity related to the Company;

2) selection of an auditor company to audit or review the Company's financial statements.

Each member of the Supervisory Board has an obligation to immediately advise the remaining members of any existing conflict of interests and to refrain from taking part in a discussion and voting on a resolution on the matter involving such conflict.

The Supervisory Board adopts resolutions in an open vote, with the exception of appointment and recall, by a secret ballot, of the President of the Management Board, and appointment and recall, by a secret ballot, of Vice Presidents and other members of the Company Management Board. Chairman of the meeting may order voting by ballot on other matters, at his own initiative or at the request of a Supervisory Board member.

A resolution of the Supervisory Board is effective as of the date of its adoption unless it provides for a different effective date.

Minutes of Supervisory Board meetings will be drawn up, containing the agenda, names of the Supervisory Board members present, the number of absent members at the meeting together with the reason for their absence, the number of votes cast on particular resolutions, dissensions, full wording of adopted resolutions. A list of Supervisory Board members present at the meeting and other persons participating in the meeting forms an attachment to the minutes. The minutes are signed by all members of the Supervisory Board present at a given meeting. Minutes of Supervisory Board meetings for the duration of its term are collected in a separate folder kept by the Company.

Supervisory Board meetings, except for those directly related to the Management Board, are attended by members of the Management Board. At the request of Supervisory Board Chairman or at the request of the Management Board of the Company, meetings may be attended by Company employees or persons from outside the Company relevant to the issue considered. During the Supervisory Board's consideration of issues related to the operation of internal control at the Company, the person heading the Audit Department may also take part in Supervisory Board meetings. In particularly justified circumstances, the Chairman of the Supervisory Board may order a meeting without the participation of persons who are not members of the Supervisory Board, even if the above provisions allow otherwise.

Supervisory Board Committees

Supervisory Board Permanent Committees are:

1) Audit Committee;

2) Nomination and Remuneration Committee;

3) Risk and Capital Committee.

The Supervisory Board has the right to adopt a resolution on the appointment of committees other than those specified above and composed exclusively of members of the Supervisory Board. The relevant resolution of the Supervisory Board sets forth the scope of responsibilities of such a committee.

In line with the aforementioned procedure, in 2003 the Supervisory Board appointed the **Strategy and Management Committee** responsible for ongoing analyses of all issues related to the activities performed by the Bank’s governing bodies as well as the streamlining of their functioning. The Committee is composed of: Zdenek Turek acting as Chair, Stanisław Sołtysiński acting as Vice-Chair, and Shirish Apte, Igor Chalupec, Jenny Grey, Marek Kapuściński, Frank Mannion, Gonzalo Luchetti, Andrzej Olechowski, Anna Rulkiewicz, Barbara Smalska and Stephen Volk acting as Committee members.

Audit Committee

The Audit Committee is composed of the following members:

1) Barbara Smalska - Chairman of the Committee;

2) Frank Mannion – Vice Chairman of the Committee;

3) Shirish Apte – Member of the Committee;

4) Igor Chalupec – Member of the Committee;

5) Marek Kapuściński – Member of the Committee;

6) Anna Rulkiewicz – Member of the Committee;

The Audit Committee is a permanent committee of the Supervisory Board that met four times in 2019.

The authority and responsibilities of the Audit Committee include among others monitoring of financial reporting process, monitoring of the effectiveness of: internal control, internal audit and risk management systems, monitoring of audit activities and controlling and monitoring of the independence of the statutory auditor and the entity authorized to audit financial statements.

Members of the Committee exercise their powers on the basis of Article 390 of the Code of Commercial Companies and Act of statutory auditors, audit firms and public supervision dated 11 May 2017. The Committee submits annual reports on its activities to the Supervisory Board. A report for each successive calendar year is submitted by the end of the first quarter of the following year. The reports are made available to shareholders through publication on the Bank's website. At the next following meeting of the Supervisory Board, the Committee reports to the Supervisory Board on each of the Committee meetings and the Committee's recommendations discussed at its meetings.

The Audit Committee is composed of three or more Supervisory Board members appointed by the Supervisory Board. The majority of members of the Audit Committee, including its Chairman, are independent within the meaning of Article 129(3) of the Act of May 11, 2017 on auditors, audit firms and public supervision. The Chairman of the Audit Committee also meets independence criteria set out in § 14(4) of the Charter. Members of the Audit Committee have knowledge and skills related to the financial sector. This condition is considered met if at least one member of the Audit Committee has knowledge and skills related to that sector or particular members have knowledge and skills related to that sector in determined scopes. At least one member of the Audit Committee has knowledge and skills related to accounting or audit of financial statements.

Members of the Audit Committee who meet the statutory independence criteria are: Barbara Smalska, Igor Chalupec, Marek Kapuściński and Anna Rulkiewicz.

The following members of the Audit Committee have knowledge and skills related to accounting or audit of financial statements:

1) Barbara Smalska – has practical professional experience gained over many years at managerial positions in the PZU Group, including: Vice President of the Management Board of Alior Bank S.A., Chairperson, and previously an independent member of the Supervisory Board of Link4 TU S.A., a Member of the Supervisory Board of PTE PZU S.A., a Member of the Management Board of PZU S.A. and PZU Życie S.A. and recently a Principal at The Boston Consulting Group's Warsaw offices,

2) Frank Mannion - graduated from the National University of Ireland in Galway, earning a degree in commerce. He also has the title of Chartered Accountant;

3) Shirish Apte earned a diploma of Chartered Accountant from the Institute of Chartered Accountants in England and Wales and a bachelor's degree in commerce. Mr. Shirish Apte also has an MBA from London Business School.

4) Anna Rulkiewicz - completed the Stanford Executive Program at the Stanford University's Graduate School of Business.

The following members of the Audit Committee have the knowledge and skills in the field of banking and finance in which the Company operates:

1) Barbara Smalska – due to her practical professional experience gained over many years at managerial positions in the PZU Group, including: Vice President of the Management Board of Alior Bank S.A., Chairperson, and previously an independent member of the Supervisory Board of Link4 TU S.A., a Member of the Supervisory Board of PTE PZU S.A., a Member of the Management Board of PZU S.A. and PZU Życie S.A. and recently a Principal at The Boston Consulting Group's Warsaw offices,

2) Frank Mannion - due to his education, the title of Chartered Accountant and professional experience which includes many years of service at managerial positions in Citi;

3) Shirish Apte - due to his education, a diploma of chartered accountant obtained at the Institute of Chartered Accountants in England and Wales, and professional experience which includes many years of service at managerial positions in Citi;

4) Igor Chalupec - due to his education and professional experience, including service in the capacity of Vice President of the Management Board of Bank Pekao S.A.

5) Anna Rulkiewicz – due to her educational training and practical professional experience gained over many years at managerial positions at the Lux Med Group, where she began as a Member of the Management Board, Sales and Marketing Director, and in 2007 she was appointed as the President of the LUX MED Group, and at her position as the Managing Director of LMG Försäkrings AB, whose branch operates in Poland under the name LUX MED Ubezpieczenia (insurance), and President of the Management Board of the Association of Private Medicine Employers (Związek Pracodawców Medycyny Prywatnej).

Meetings of the Audit Committee are convened by the Committee Chairman at his own initiative, at the request of a Committee member or Supervisory Board Chairman. If for any reason the Committee Chairman is unable to convene a meeting, it will be convened by the Deputy Chairman. Meetings are also convened at the request of a Committee member or the Supervisory Board Chairman.

A notice convening a meeting, setting out the agenda and materials for the meeting, are sent to members of the Audit Committee by the Committee Secretary who is the Secretary of the Supervisory Board. Meetings of the Audit Committee are held at least four times a year, on the dates set by the Chairman in consultation with the Deputy Chairman of the Committee.

The Audit Committee meets:

1) with the Head of the Audit Department without participation of the Company's management;

2) with the certified auditor of the Company without participation of the Company's management;

The Audit Committee may also meet:

1) by its own.

2) at its discretion, with individual members of the Company's management.

The agenda of the Audit Committee's meeting includes fixed items as well as matters considered on request. The list of fixed items considered at Committee meetings is determined by a resolution of the Committee. The Supervisory Board and individual members of the Committee and other members of the Supervisory Board, Management Board of the Company and Members of the Management Board of the Company have the right to put forward matters at Committee meetings.

The Secretary of the Audit Committee, on the basis of materials received, prepares a draft agenda of the meeting together with a list of invitees, and forwards it to the Committee Chairman and Deputy Chairman for approval. The draft agenda accepted by the Committee Chairman and Deputy Chairman is then forwarded, along with the materials, to Committee members.

All members of the Audit Committee are obliged to participate in the meeting of the Committee. The Committee member who is unable to attend a meeting should notify the Committee Secretary seven days before the fixed date of the meeting. The Committee may seek the advice of advisers and invite Company employees or other persons to its meetings to discuss or examine matters raised by the Committee. Persons invited by the Committee Chairman and, in particular, the persons who refer individual items on the agenda take part in the Committee meeting or its relevant part When issues related to the internal control system are the subject of the meeting, the Head of the Compliance Unit and the Head of the Audit Department shall participate.

The Chairman of the Audit Committee chairs Committee meetings. If the Chairman of the Committee is not present, the meeting is chaired by the Deputy Chairman of the Committee. The Committee Chairman may, in consultation with the Deputy Chairman, decide to remove an item from the agenda, in particular in order to rectify a motion or to obtain an opinion.

Resolutions of the Audit Committee are adopted by the absolute majority of votes of the members of the Committee present at the meeting.

The Chairman of the Audit Committee may, in consultation with the Deputy Chairman, decide to consider a matter in writing.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is composed of:

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

The Nomination and Remuneration Committee is a permanent committee of the Supervisory Board.

The Nomination and Remuneration Committee is the Supervisory Board's advisory body, and its members exercise their authority on the basis of Article 390 of the Code of Commercial Companies, Articles 9cb and 9cd of the Act of 29 August 1997 – Banking Law and Regulation of the Minister of Finance of 7 May 2018 on the specific scope of tasks of the nomination committee at significant banks. The Committee submits annual reports on its activities to the Supervisory Board. A report for each successive calendar year is submitted by the end of the first quarter of the following year. The reports are made available to shareholders through publication on the Bank's website. At the next following meeting of the Supervisory Board, the Committee reports to the Supervisory Board on each of the Committee meetings and the Committee's recommendations discussed at its meetings.

The Nomination and Remuneration Committee has, among others, the authority to:

1) review and monitor the remuneration policies adopted at the Bank and support the Bank authorities in supervising, shaping and implementing those policies, their validity, consistency with the practice and processes in place at the Bank and their impact on the Bank's risk profile,
2) assess the mechanisms and systems in place at the Bank in order to ensure that the remuneration policy adopted at the Bank takes into account all types of risk, and liquidity and capital levels, complies with the principles of, and supports sound and effective risk management, and is consistent with the Bank's strategy, objectives, corporate culture and values as well as long-term interests of the Bank, including assessment of the need to adjust remunerations for ex-post risk,
3) analyze possible scenarios to examine how the remuneration policies adopted at the Bank and the remuneration practice respond to external and internal events, and perform back-testing of the criteria used to determine remuneration levels and to adjust remunerations for ex-ante risk on the basis of actual risk-based results,
4) recommend candidates for the Management Board, taking into account the necessary knowledge, competence and experience of the Management Board as a whole, that are necessary to manage the Bank, and ensuring diversity on the Management Board,
5) identify the scope of duties for a candidate to the Management Board, as well as the requirements in terms of knowledge and competence, and the expected time commitment necessary to serve in that capacity,
6) identify the target representation of the gender underrepresented on the Management Board and develop a policy of diversity on the Management Board with the aim of achieving that target,
7) make periodic evaluation, at least once a year, of the structure, size, composition and effectiveness of the Management Board and recommend changes in that regard to the Supervisory Board,
8) make periodic evaluation, at least once a year, of the knowledge, competence and experience of the Management Board as a whole and of individual Management Board members, and inform the Management Board of the evaluation results,
9) review periodically the Management Board's policy on selection and appointment of Bank managers and present recommendations in that regard to the Management Board,
10) assess, based on market conditions, the remunerations received by members of the Management Board,
11) assess the remuneration paid to members of the Bank's Management Board as compared to their duties and performance;
12) submit recommendations for remuneration of Management Board members to the Supervisory Board, each time prior to its determination or revision,

13) review and monitor variable remuneration components of the persons whose professional activities have a significant impact on the Bank's risk profile, including in particular those responsible for risk management, management of the compliance unit, management of the internal audit unit, and key persons, as identified in the Employee Remuneration Policy of Bank Handlowy w Warszawie S.A.,

14) conduct preliminary assessments of qualifications of candidates for members of the Supervisory Board and prepare recommendations whether or not to appoint them,

15) conduct preliminary assessments of qualifications of members of the Supervisory Board and prepare recommendations if a re-assessment is required.

The Committee adopts the Management Board diversity policy, taking into account a wide range of characteristics and competences required from persons serving as members of the Management Board.

The Committee consists of at least three members of the Supervisory Board. The number of independent members must be at least the same as the number of dependent members, with the Chairman being an independent member. All Members of the Committee, including its Chairman and Deputy Chairman, are elected by the Supervisory Board in an open voting.

Meetings of the Nomination and Remuneration Committee are convened by the Committee Chairman at his own initiative or, if the Committee Chairman is unable to do so for any reason, by the Deputy Chairman. Meetings are also convened at the request of a Committee member or the Supervisory Board Chairman. Committee meetings are held at least twice a year, on the dates set by the Committee Chairman. The agenda of the Nomination and Remuneration Committee's meeting includes fixed items as well as matters considered on request.

The Secretary of the Nomination and Remuneration Committee, on the basis of materials received, prepares a draft agenda of the meeting together with a list of invitees, and forwards it to the Committee Chairman for approval.

Meetings of the Nomination and Remuneration Committee must be attended by all its members. The Committee member who is unable to attend a meeting should notify the Committee Secretary seven days before the fixed date of the meeting. The Committee may make use of external experts. In case of cooperation with an external expert, the Committee shall review the appointment of such experts. A meeting of the Committee or an appropriate part of a meeting is attended by persons invited by the Chairman of the Committee and especially persons who are to present particular matters.

Resolutions of the Nomination and Remuneration Committee are adopted by the absolute majority of votes of the members of the Committee present at the meeting.

The Chairman of the Nomination and Remuneration Committee may decide that a given matter will be resolved in circulation mode.

A member of the Nomination and Remuneration Committee who votes against may request that his dissension be recorded in the minutes.

Minutes are taken of meetings of the Nomination and Remuneration Committee. The minutes are signed by the Chairman and the Secretary. The minutes of the meeting of the Committee is approved by the members of the Committee at the next meeting of the Committee.

Risk and Capital Committee

The Risk and Capital Committee is composed of:

1) Frank Mannion – Chairman of the Committee;
2) Igor Chalupec – Vice Chairman of the Committee;
3) Marek Kapuściński – Member of the Committee;
4) Gonzalo Luchetti – Member of the Committee;
5) Andrzej Olechowski – Member of the Committee;
6) Barbara Smalska - Member of the Committee;
7) Zdenek Turek - Member of the Committee;
8) Stephen R. Volk – Member of the Committee.

Members of the Committee have the powers as set out in the Regulations under Article 390 of the Code of Commercial Companies and Article 9cb of the Banking Law Act of 29 August 1997. The Committee submits annual reports on its activities to the Supervisory Board. A report for each successive calendar year is submitted by the end of the first quarter of the following year. The reports are made available to shareholders through publication on the Bank's website and at the Bank’s office. At the next following meeting of the Supervisory Board, the Committee reports to the Supervisory Board on each of the Committee meetings and the Committee's recommendations discussed at its meetings. The Committee's Regulations are made available on the Bank's website and at the Bank’s office.

The Committee has the authority to ongoing monitoring of the risk management system and to supervise the process of estimating internal capital and capital management.

The Risk and Capital Committee consists of at least four Supervisory Board members, one of whom acts as the Committee’s Chairperson. In order for the Committee's resolutions to be valid, at least three of its members must attend the meeting.

Committee meetings are convened by the Committee Chairman at his own initiative or at the request of a Committee member. If for any reason the Committee Chairman is unable to convene a meeting, it will be convened by the Deputy Chairman. Meetings are also convened at the request of the Supervisory Board Chairman.

Committee meetings are held at least every six months, on the dates set by the Chairman in consultation with the Deputy Chairman of the Committee.

A notice convening a meeting, setting out the agenda and materials for the meeting, are sent to members of the Committee by the Committee Secretary who is the Secretary of the Supervisory Board. Notice should include the agenda and materials on the topics to be discussed at the meeting. The agenda of the Committee's meeting includes fixed items as well as matters considered on request. The Supervisory Board and individual members of the Committee and other members of the Supervisory Board have the right to put forward matters at Committee meetings.

All members of the Committee are obliged to participate in the meeting of the Committee.

The Committee may seek the advice of advisers and invite Bank employees or other persons to its meetings to discuss or examine matters raised by the Committee.

Persons invited by the Committee Chairman or Deputy Chairman take part in the Committee meeting or its relevant part.

The Committee Chairman chairs Committee meetings. If the Chairman of the Committee is not present, the meeting is chaired by the Deputy Chairman of the Committee.

Resolutions of the Committee are adopted by the absolute majority of votes of the members of the Committee present at the meeting. The Committee Chairman may, in consultation with the Deputy Chairman, decide to consider a matter in writing.

The minutes of a meeting of the Committee shall be prepared.

12. Good practices in Dom Maklerski Banku Handlowego S.A - company belonging to the Bank's capital group

Dom Maklerski Banku Handlowego S.A. (DMBH) is not a public company and is not required to adhere to the Best Practice for GPW Listed Companies or to make statements in that respect, however, due to the significant role of that entity in the Group, the following circumstances should be pointed out.

DMBH is a member of the Chamber of Brokerage Houses - as a member of the Chamber, it is required to comply with the Code of Good Practice for Brokerage Houses, developed by the Chamber of Brokerage Houses. The Code does not regulate corporate governance, it is mainly concerned with protection of professional secrecy, client relationships, conduct of brokerage house employees, including in relations with other brokerage houses. DMBH is regulated by the Act on Trading in Financial Instruments and therefore, in addition to the Code of Commercial Companies, it adheres to corporate governance rules for supervised institutions. The Financial Supervision Authority is informed by DMBH about changes in the composition of the Management Board, with the reservation that the appointment of the President of the Management Board and the Member of the Management Board responsible for supervising the risk management system is subject to the approval of the Financial Supervision Authority. In addition, DMBH has reporting obligations to the KNF (including on changes on the Management Board, on the wording of specific resolutions of the General Meeting). The Act on Trading also regulates the issue of purchase of shares in a brokerage house. It provides that the head office of a brokerage house must be in the territory of Poland. As of 1 January 2015, DMBH is subject to the Principles of Corporate Governance for Supervised Institutions (“CG") adopted by the KNF resolution of 22 July 2014. The Principles of Corporate Governance are a set of rules governing internal and external relations of institutions supervised by the KNF, including their relationships with shareholders and customers, their organization, the operation of internal oversight as well as of key internal systems and functions, and of corporate bodies and their cooperation. The purpose of the Principles of Corporate Governance is to enhance corporate governance in financial institutions and transparency of their operations, which is designed to promote public confidence in the Polish financial market. On 23 December 2014, the Management Board of DMBH declared the desire of DMBH to abide by the CG Rules, and the Supervisory Board accepted adherence to those CG Rules which fall under the authority of the Supervisory Board. On 14 June 2019, the Supervisory Board approved the 2017 CG compliance report.

Three CG Rules are not applied by DMBH:

a) § 11.2 (related party transactions) - this rule will not be applied to contracts related to daily operating activities;

b) § 22.1 and 22.2 (independence of members of the supervisory authority) - these rules are not applied due to the current composition of the Supervisory Board.

13. Diversity Policy

In its operations, Bank Handlowy w Warszawie S.A. applies solutions based on diversity which is the hallmark of Citi's corporate culture and its philosophy.

The strategy of Bank Handlowy w Warszawie S.A. for diversity integration consists in promoting a culture which attracts the best of the best, in which people are promoted for their competencies and skills, in which other people are appreciated and mutual respect is expected, and in which development opportunities are available to everyone -regardless of differences.

Our diversity initiatives apply to three levels:

- To individuals - the Bank empowers individuals to take responsibility for their own careers and personal development to achieve their full potential regardless of gender, religion, race, ethnicity, nationality or sexual orientation.
- To teams - the Bank strives to ensure an atmosphere of respect in which diverse teams utilize a wide range of perspectives, skills, experiences and approaches.
- To the organization - embracing everything that employees have to offer, the diversity strategy positions the Bank as an employer of choice.

Utilizing various perspectives and enabling employees to develop their skills, we focus on growth and innovation for our clients and employees, following the principle that each individual contributes to the value of whatever we develop together.

In its employment policy, the Bank strongly supports diversity, and being committed to talent development it takes on career and development of female employees who manage vital organizational units in Citi Handlowy. In 2019 the proportion of women to men employed in the recruitment process increased, reaching 58% of women to 42% of men, compared to 54% of women and 46% of men employed in 2018.

The majority of managers hired at the Bank in 2018 are women, who accounted for 51% of the total population of managers. In 2019, In 2019, women represented over 49% of the managerial staff and, simultaneously, 63% of the population of the entire Bank.

The average length of service at the Bank grows continuously. In 2019, it exceeded 10 years, while the average length of service of women is close to 11 years (exactly 10.71). The average length of service of men also grows, with 8.83 years in 2019.

The Bank's business variety and specific needs determine directions and requirements concerning professional knowledge necessary to preserve best quality services for, be it, an internal or external client.

The Bank ensures support for employee initiatives and commitment to others and to our organization. An example of such support are organizations which bring together the Bank's employees involved in different types of activities. The two largest and longest operating initiatives in Citi Handlowy are CitiClub and CitiWomen. Citi Parents, Citi Disability and Citi Pride also operates in the Bank.

When building its remuneration policy, the Bank hinges it on the best market practices taking into consideration corporate governance requirements, market trends and the organization's standing and potential.

When defining remuneration the Bank refers to experience and competence required for a given job position, performance, present remuneration, and position juxtaposed with a new group of employees on the market. Based on such information a new level of remuneration is defined.

Levels of remuneration are reviewed on a regular basis annually, taking into account the employee's annual assessment, his or her skills and scope of responsibilities juxtaposed with data obtained from market research concerning the level of remuneration in the industry.

Remuneration of women employed by the Bank is comparable to the base remuneration of men. In December 2019, it constituted 96% of the remuneration of men (taking into account employees actively performing work, excluding child care leave, unpaid leave and long-term sick leaves, and excluding Members of the Management Board).

Concerned about the life situation of its employees, Citi Handlowy provides a wide range of additional benefits, which make up one of the richest offer on the market.

The Bank strives to be a company which draws the best talent, hires and promotes employees based on performance and makes growth opportunities widely available. The aim is to create a workplace where responsible finance is practised, where employees treat each other with due respect and dignity, and may count on support to preserve a balance between work and private life. The Bank adheres to the principles of equality in recruitment and respects the provisions of law on fair employment practices and anti-discrimination.

The Bank takes preventive actions to counteract discrimination, consisting of a range of educational activities aimed at raising awareness as regards discrimination, unequal treatment, mobbing and actions which can bring about proper organizational climate favorable to the fair play principle at work place (primary prevention).

A dialogue with employees is an important part of the Group's activity. Every employee has access to an internal intranet network, where he or she can find the latest information concerning all the Bank's areas of operation. The most crucial information concerning the Bank and changes which take place in the organization is sent directly to the employees' inboxes in an internal newsletter "Puls CitiHandlowy".

Senior management organizes special meetings with employees called Town Halls. At such meetings the most crucial information is provided concerning particular business areas, the Bank's financial results as well as information on new products or organizational changes. Every employee can ask directly the hosting Member of the Management Board and invited guests questions.

The employees can also use the internal social platform "Citi Collaborate". Its wide accessibility allows for exchanging information and building close cooperation between employees and management.

2019 was an exceptional year in terms of building organizational culture focused on the employees. The goal of the people-oriented strategy is to strengthen employee engagement and improve their working conditions by taking actions and implementing projects facilitating their work and communication.

Under the People Strategy, six project groups were established that engage both HR employees and representatives of all areas in the Bank. The actions under the People Strategy engage over 70 employees. The sponsor and coordinator of each group is a dedicated Member of the Management Board.

Examples of groups operating under the People Strategy are the following:

People Board – a group of 9 representatives of employees appointed in internal elections by the employees. People Board is a bridge in communication between employees and the Bank's Management Board. Its mission is to strengthen the organizational culture in which employees feel that the Bank is a place where they can pursue their goals. Members of the People Board visit Bank's employees in all locations in Poland, talk with them and identify issues that require engagement of the Management Board and senior managerial staff.

Beyond the Borders – this group aims at building an environment in which the Bank's employees can feel proud of working in a global organization, in an international environment that is open to diversity. Thanks to the initiatives implemented by the Beyond the Borders group, each employee actively participates in creating an international environment of Citi. By meeting and working with colleagues from other countries, the Bank's employees may learn about other cultures and perfect their English, while working on projects in an international team and considering diverse perspectives allows them to arrive at the most effective solutions. In 2019, Beyond the Borders supported employment of foreigners at the Bank.

XI. Other information about the authorities of Bank Handlowy w Warszawie S.A. and corporate governance rules

1. Information regarding the remuneration policy

The Group of Bank Handlowy has the "Employee Remuneration Policy of Bank Handlowy w Warszawie S.A." (adopted on 22 December 2017 as amended) and the Employee Remuneration Policy of Dom Maklerski Banku Handlowego S.A. (adopted on 3 January 2018 as amended), hereinafter referred to as the "Remuneration Policy", which replaced previous policies in this area.

The Remuneration Policy lays down the rules adopted at the Bank and DMBH for remunerating all employees, including Key Personnel, and is aimed at achieving long-term growth of shareholder value and ensuring stable operation of the Company.

The Group's philosophy of remunerating people covered by the "Authorized Persons Remuneration Policy" assumes differentiation of the remuneration of individual employees based on financial or non-financial criteria, such as risk-taking approach and compliance with regulations, in order to reflect their input and to complement effective risk control mechanisms by containing the incentive to take unreasonable risks to the Group and its operations, and by rewarding thoughtful balance between risks and returns. According to that philosophy, the variable remuneration of people covered by the "Authorized Persons Remuneration Policy" depends on both short-term and long-term assessment of individual performance and financial results of the Bank or DMBH or the relevant organizational unit, respectively, while the persons serving in control roles are not evaluated for the performance of their supervised units. Work performance assessment in the Bank or DMBHis made on the basis of data for three financial years, which encompasses economic cycles and risks involved in the business activity pursued by the Group.

Eligibility for individual payments of deferred variable remuneration must be each time approved by the Supervisory Board - in relation to the Management Board and by the Management Board - in relation to other employees.

At least 50% of variable remuneration should be awarded in the form of non-monetary instruments the value of which depends strictly on the financial performance of the Bank or DMBH, respectively. This condition is met by the phantom shares adopted by the Group, whose value will fluctuate depending on the market value of the Bank's shares or the value of DMBH. In the case of DMBH, according to the Authorized Persons Remuneration Policy adopted on 3 January 2018, the value of phantom shares depends on the value of DMBH's common shares and they are granted if the value of the annual award for a given year exceeds 50% of the employee's permanent remuneration in that year.. The remaining portion of the variable remuneration is a monetary bonus, with interest accruing on the deferred portion of the bonus for the period between granting and payment of that remuneration component.

Eligibility for each portion of a deferred bonus will depend on performance of the Bank or DMBH, respectively, in the calendar year immediately preceding the date of becoming eligible for that portion and other conditions indicated in Authorized Persons Remuneration Policy.

An Authorized Persons Remuneration Policy is described in more detail in the Report on capital adequacy, risk and remuneration policy of the Bank Handlowy w Warszawie S.A. Group as of 31 December 2019.

In 2019 The Supervisory Board of the Bank positively assessed functioning of the Remuneration Policy applied in the Group.

2. Salaries and awards, including bonuses from profit, paid to persons managing and supervising the Bank

The total amount of salaries, awards and short-term benefits paid to current and former members of the Bank's Management Board in 2019.

"Other benefits" include the gross amount of paid remuneration arising from indemnification for employment contract termination, benefits in kind, lump-sum payment for the use of a company car, insurance policy premiums, holiday leave equivalent and any supplementary benefits consistent with the employment contracts of foreign employees.

Equity awards granted in 2019 include deferred cash prize awarded in previous years on the basis of the Policy of Variable Components of Remuneration of Officers in the Bank and paid management options as well as long-term and short-term awards in the form of phantom shares of the Bank granted also in previous years.

PLN'000	Salaries, awards and short-term benefits paid in 2019 aligned with personal tax income										
	Base salaries	Cash prize awards for:				Management options for:				Other benefits	Employer's social security contributions in 2019
		2018	2017	2016	2015	2018	2017	2016	2015		
Sławomir S. Sikora	2 391	445	198	331	347	-	566	267	306	363	180
Maciej Kropidłowski	1 733	560	244	148	265	464	173	119	233	279	150
David Mouillé (1)	1 444	586	139	133	53	486	98	107	46	554	141
Barbara Sobala	867	166	39	39	35	138	27	31	31	106	33
James Foley (2)	1 018	-	-	-	-	-	-	-	-	341	64
Katarzyna Majewska (3)	852	168	39	38	-	139	28	31	-	104	64
Natalia Bożek (4)	867	152	-	-	-	65	-	-	-	89	59
Byli członkowie Zarządu:										-	-
Czesław Piasek (5)	0	46	35	39	42	55	49	48	47	80	35
Witold Zieliński (6)	0	-	36	43	50	27	50	53	57	178	7
Brendan Carney (7)	0	-	-	-	64	-	-	-	71	-	-
Iwona Dudzińska (8)	0	-	-	-	27	-	-	-	30	4	2
	9 172	**2 123**	**730**	**771**	**883**	**1 374**	**991**	**656**	**821**	**2 099**	**734**

(1) In employment from 1 July 2015
(2) In employment from 1 February 2019
(3) In employment from 11 January 2016
(4) In employment from 31 March 2018
(5) In employment from 31 March 2018
(6) In employment until 19 February 2018
(7) In employment until 22 June 2015
(8) In employment until 31 July 2015

The total amount of salaries, awards and short-term benefits paid to current and former members of the Bank's Management Board in 2018.

PLN'000	Salaries, awards and short-term benefits paid in 2018 aligned with personal tax income										
	Base salaries	Cash prize awards for:				Management options for:				Other benefits	Employer's social security contributions in 2018
		2017	2016	2015	2014	2017	2016	2015	2014		
Sławomir S. Sikora	2 391	631	324	337	344	-	324	367	250	372	182
Maciej Kropidłowski	1 400	468	145	257	295	426	145	280	215	257	139
David Mouillé (1)	1 348	598	130	51	-	545	130	56	-	779	139
Barbara Sobala	792	166	38	34	35	151	38	37	26	102	43
Witold Zieliński	124	216	52	55	58	197	52	60	42	550	27
Katarzyna Majewska (2)	778	168	37	-	-	153	37	-	-	101	60
Natalia Bożek (3)	731	-	-	-	-	-	-	-	-	65	47
Czesław Piasek (4)	250	210	47	46	49	191	47	50	36	91	52
Byli członkowie Zarządu:	0	-	-	-	-	-	-	-	-	-	-
Iwona Dudzińska (5)	-	-	-	29	52	-	-	32	38	11	16
Michał H. Mrożek (6)	-	-	-	-	-	-	-	-	-	7	0
Brendan Carney (7)	-	-	-	66	130	-	-	77	93	-	-
	7 814	**2 457**	**773**	**876**	**963**	**1 664**	**775**	**961**	**699**	**2 335**	**706**

(1) In employment from 1 July 2015
(2) In employment from 11 January 2016
(3) In employment from 31 March 2018
(4) In employment until 31 March 2018
(5) In employment until 31 January 2015
(6) In employment until 28 February 2011
(7) In employment until 22 June 2015

The remuneration paid and due in 2019 to persons managing subsidiaries amounted to PLN 3,116 thousand (in 2018: PLN 3,061 thousand).

Persons supervising subsidiaries did not collect any remuneration for their services in 2019 and 2018.

3. Total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2019 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
Management Board				
Sławomir S. Sikora	-	-	13,204	459
James Foley			5,747	200
Katarzyna Majewska	-	-	29	1
Supervisory Board				
Andrzej Olechowski	2,200	8,800	-	-
Shirish Apte	-	-	18,172	632
Frank Mannion	-	-	33,106	1,152
Stephen R. Volk	-	-	101,301	3,525
Zdenek Turek			36,030	1,254

The total number and nominal value of the Bank's shares and shares in affiliated companies of the Bank held by members of the Management Board and the Supervisory Board as at 31 December 2017 is presented in the table below:

	Shares of Bank Handlowy w Warszawie S.A.		Shares of Citigroup Inc.	
	Number of shares (units)	Nominal value (PLN)	Number of shares (units)	Nominal value (PLN)
Management Board				
Katarzyna Majewska	-	-	29	1
Czesław Piasek	-	-	2,550	89
Supervisory Board				
Andrzej Olechowski	2,200	8,800	-	-
Shirish Apte	-	-	83,172	3,127
Frank Mannion	-	-	30,859	1,160
Anand Selvakesari	-	-	26,829	1,009
Marc Luet	-	-	12,584	473
Stephen R. Volk	-	-	142,981	5,376

As at 31 December 2018 and 31 December 2017, no member of the Management Board and the Supervisory Board was a shareholder of a subsidiary of the Bank.

4. Agreements between the Bank and members of the Management Board that provide for compensation in case of their resignation or dismissal without reason or as a result of the Bank's takeover

In terms of employment relationship, there is only one employment agreement, among employment agreements between the Bank and a Management Board Members, which provides for cash compensation following its termination.

Each of the Management Board Members signed a separate non-competition agreement with the Bank. A relevant paragraph in each of these agreements specifies that the Management Board Member must refrain from conducting business activities competitive to the Bank in the period of 12 months (6 months in case of one of the Management Board Members) following termination of the employment agreement with the Bank and that the Bank will pay relevant compensation to the Management Board Member.

5. Management policy

The management policy of the Bank did not change in 2019. The policy is described in the Note to the Annual Consolidated Financial Statements of the Capital Group of the Bank.

XII. Information on pending court proceedings

In 2019 there was no single proceeding regarding receivables and liabilities of the Bank or its subsidiary, pending in court, public administration authority or an arbitration authority, the value of which would be significant. A detailed description of pending court proceedings is provided in Note 39 to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended December 31, 2019.

XIII. Agreements concluded with the registered audit company

On 7 December 2018 the Supervisory Board of the Bank appointed the auditor: KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa [KPMG Audyt limited liability partnership] with its registered office in Warsaw, operating at the following address: ul. Inflancka 4A, 00-189 Warszawa entered into the list of entities authorized to audit financial statements under No. 3546, to conduct an audit and a review of the annual and the interim financial statements of the Bank and the Capital Group of the Bank for years 2019 - 2021. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa was selected in compliance with the applicable laws and auditing standards.

The Bank used the services of KPMG Audit Spółka z ograniczoną odpowiedzialnością sp. k. with respect to auditing and reviewing stand-alone and consolidated financial statements for 2017 and 2018.

In order to meet the requirements contained in Article 130 section 1 of the Act on statutory auditors, audit firms and public supervision (Journal of Laws of 2017, item 1089, hereinafter referred to as the "Act"), the Bank, as a public interest entity, has implemented for application on the basis of resolutions of the Supervisory Board of the Bank:

- Policy for selecting an audit firm to audit financial statements of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. and
- Policy for the service by the audit firm, by entities affiliated to that audit firm and by a member of the audit firm's network of permitted non-audit services of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A.

The auditor’s net fees under the agreements (paid or payable) for the years 2019 and 2018 are presented in the table below:

PLN'000	For the year	2019	2018
Bank (the parent company) audit fees (1)		480	421
Bank (the parent company) review fees (2)		199	177
Subsidiary companies audit fees (3)		246	214
Other assurance fees (4)		300	325
		1,225	**1,137**

(1) The audit fees include fees paid or payable for the audit of the annual stand-alone financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2018 signed on 30 June 2017).

(2) The review fees include fees paid or payable for the review of the semi-annual stand-alone financial statements of the Bank and the semi-annual consolidated financial statements of the Capital Group of the Bank (the agreement relating to the year 2018 signed on 30 June 2017).

(3) The audit fees include fees paid or payable for the audit of the financial statements of the Bank’s subsidiaries.

(4) The fees for other assurance services include all other fees paid to the auditor. These fees include assurance services related to the audit and review of the financial statements not mentioned in points (1), (2) and (3) above.

XIV. Subsequent events

After 31 December 2019 there were no other major events undisclosed in these report on activities, that could have a significant influence on the net result of the Group.

XV. Statement of the Bank’s Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Bank’s Management Board, composed of: Mr. Sławomir S. Sikora, President of the Management Board; Ms. Natalia Bożek, Vice-Presidend of the Management Board; Mr. Maciej Kropidłowski, Vice-President of the Management Board; Ms. Barbara Sobala, Vice-President of the Management Board; Mr. James Foley, Member of the Management Board; Ms. Katarzyna Majewska, Member of the Management Board, the annual financial data and the comparative data presented in the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2019 were prepared consistently with the accounting standards in force and reflect the accurate, true and fair view of the assets and the financial position as well as the financial profit or loss of the Bank. The Annual Report on the Activities of Bank Handlowy w Warszawie S.A and the Capital Group of Bank Handlowy w Warszawie S.A. for 2019 contained in the annual financial statements is a true representation of the development, achievements and situation (together with a description of the main risks) of the Bank in 2019.

Other information required by the Regulation of the Minister of Finance of 29 March 2018 on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof (Journal of Laws No. from 2018 item 757, as amended), in particular transactions with related companies and guarantees and sureties granted are included in the Annual Consolidated Financial Statements of the Capital Group of the Bank.

Signatures of Management Board Members

25.03.2020 .... Date	Sławomir S. Sikora .... Name	President of the Management Board .... Position/function
25.03.2020 .... Date	Natalia Bożek .... Name	Vice-President of the Management Board .... Position/function
25.03.2020 .... Date	Maciej Kropidłowski .... Name	Vice-President of the Management Board .... Position/function
25.03.2020 .... Date	Barbara Sobala .... Name	Vice-President of the Management Board .... Position/function
25.03.2020 .... Date	James Foley .... Name	Member of the Management Board .... Position/function
25.03.2020 .... Date	Katarzyna Majewska .... Name	Member of the Management Board .... Position/function