

Report of the Audit Committee of the Supervisory Board
of Bank Handlowy w Warszawie S.A.
for year 2018

The Audit Committee of Bank Handlowy w Warszawie SA (the “Bank”) is a permanent committee of the Bank’s Supervisory Board. The Audit Committee is composed of the 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.

The Committee operates in accordance with its regulations as set forth in Article 390 of the Commercial Companies Code. In performing its duties, the Committee applies also the guidelines set forth in the “Recommendations concerning work of the Audit Committee” issued by the Office of the Polish Financial Supervision Authority.

The Committee’s Regulations are displayed on the Bank’s website www.citihandlowy.pl. Under these regulations, the Audit Committee oversees the reliability of the Bank’s financial reporting, its systems of internal control and the process for monitoring and evaluating the risks to which the Bank is exposed. The Committee also reviews and assesses the independence and results of the external auditor examinations.

In 2017, the Audit Committee was composed of the following members: Mr. Shirish Apte, Mr. Marek Belka (between October 5 and December 6, 2017), Mr. Grzegorz Bielicki (from December 7, 2017 Chairman of the Committee), Mr. Mirosław Gryszka (until October 5, 2017), Mr. Igor Chalupiec, Mr. Frank Mannion (Vice Chairman of the Committee), Mr. Marek Kapuściński (between October 5 and December 6, 2017 Chairman of the Committee).

The current composition of the Audit Committee is as follows:

- 1) Grzegorz Bielicki – Chairman (independent member);
- 2) Frank Mannion – Vice Chairman;
- 3) Shirish Apte;
- 4) Igor Chalupiec (independent member);
- 5) Marek Kapuściński (independent member);

During the reporting period, the Audit Committee met four times on the following dates:

- 1) March 21, 2018,
- 2) May 29, 2018,
- 3) October 4, 2018,

4) December 7, 2018.

The Audit Committee is in frequent contact with the Bank's Supervisory Board and with the Bank's Management; the representatives of the external auditor take part in the Committee meetings related to financial statements.

At the meeting of the Audit Committee held on March 21, 2018, the Committee carried out the annual review of the Regulations of the Audit Committee. No need to make any changes was identified. At another item of the agenda, the Committee approved the change of the so-called Checklist, which constitutes the annual work schedule for the Committee, and approved the "Report on business activities of the Audit Committee for 2017". The Committee read the Presentation given by the Quality Assurance Function regarding the results of the Quality Assurance and Improvement Program pursued within the Internal Audit Department.

Then, as a part of information about activities of the Internal Audit Department, the Committee was informed that the Audit Plan 2017 was implemented. The Committee went through the information about the assessment of organizational independence of the Internal Audit Department. The Regulations of the Internal Audit Department set out that the Internal Audit Department is independent within the organization. The independent status of the Internal Audit Department did not change in 2017. The present reporting rules applicable to Internal Audit Department enable it to perform its duties and do not limit the accountability of the Internal Audit Head before the Audit Committee. In addition, there were no limitations of the scope of work, resources and access that would affect Internal Audit Department.

Within the framework of supervision over financial reporting, the Audit Committee carried out, supported by the Bank's management and statutory auditor, review of annual financial statements (stand-alone and consolidated) and, having got acquainted with the opinion and report of the statutory auditor, adopted the resolution regarding recommending the Supervisory Board to approve the "Annual financial statements of Bank Handlowy w Warszawie S.A. for the fiscal year ended on 31 December 2017", "Report on the business activities of Bank Handlowy w Warszawie S.A. in 2017" and "Consolidated annual financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the fiscal year ended on 31 December 2017" and "Report on business activities of the Capital Group". The Committee received the information concerning the solvency ratio in accordance with the document "Information on Capital Adequacy in the Capital Group of Bank Handlowy w Warszawie S.A. as at December 31, 2017".

The Audit Committee discussed in detail the presented information on the status of implementation of IFRS 9 at the Bank. The potential impact of IFRS 9 on tax settlements of banks in connection with provisions for non-performing receivables was also discussed.

Having reviewed the Compliance Department's Report on independent assessment of the Bank's compliance with Principles of Corporate Governance for Supervised Institutions, the Audit Committee recommended that the Supervisory Board confirm that, in 2017, the Bank acted in accordance with the Principles of Corporate Governance for Supervised Institutions, with the exception of those principles which were decided not to be applied. The Committee also looked at the "Report on Compliance Monitoring and Non-compliance Risk Management at Bank Handlowy w Warszawie S.A. for 2017, with due consideration of tasks pursued to ensure security."

At the meeting held on May 29, 2018, the Audit Committee discussed the details of outsourcing and vendor management issues. As a part of information about compliance status, the Committee went through the information about the implementation of the so-called Forth AML Directive by the Bank.

At its next meeting on October 4, 2018, the Audit Committee reviewed, as a part of the standard reporting package, the issues relating to the application of IFRS9 and information about the proposed implementation of the tax scheme reporting in Poland (Mandatory Disclosure Rules MDR). Later on, the Committee analyzed the Report on remuneration paid to the staff of the Audit and Compliance Departments.

At the December meeting, the Audit Committee gave its consent to approve the Audit Plan 2019 for Bank Handlowy w Warszawie S.A., and then issued its positive opinion on a change in the "Regulations for Control of the Internal Audit Department" to implement the so-called continuous audit.

Moreover, the ongoing verification covered the following areas of the Bank's activities: implementation of strategic goals, application of IFRS 9, accuracy of the Bank's accounting and financial reporting, any changes to the Bank's accounting and financial reporting as recommended by the Management or the Bank's certified auditor, the accounting treatment of significant risks, key estimates and judgments of the Management that may be material to the Bank's financial reporting.

Within the framework of its competence concerning internal audit, the Audit Committee at its meeting held on December 7, 2017 verified and approved the Internal Audit Department's Annual Audit Plan and then supervised the execution of planned audits on the basis of quarterly reports submitted by the Audit Department Head. The Committee also regularly reviewed the processes related to the assessment of internal control mechanisms in the Bank. The Committee analyzed key risk areas of internal control that were highlighted as a result of the Management's control and self-assessment process and / or as a result of internal audit findings. In 2017, as part of activities to adapt the Bank to the requirements of the amended Recommendation H, the Supervisory Board approved amendments to the "Principles of functioning of the internal control system", including the assignment of particular areas of the Bank to three levels of control, the classification and rules of reporting of significant and critical irregularities, the units responsible for vertical monitoring and coordination of the control function matrix and the criteria of assessment of the internal control system. The Committee assessed the

internal control system and concluded that it is adequate and effective and recommended that the Supervisory Board should confirm that assessment. The Audit Committee also reviewed the Annual Compliance Plan and regularly analyzed updates from the Head of Compliance on the status of regulatory controls.

In the reporting period, the Audit Committee performed its duties in respect of external audit by recommending to the Supervisory Board the selection of the Bank's certified auditor and reviewing the terms of the certified auditor's contract. In accordance with procedure, the recommendation indicated two entities and identified the one preferred by the Committee.

Considering § 70.1.7 & 8 and § 71.1.7 & 8 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent, it is the assessment of the Committee that:

- 1) The selection of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. as an audit firm to audit annual financial statements of the Bank and the Bank's Capital Group for 2018, was duly carried out in compliance with the regulations, including those governing the audit firm selection and selection procedure;
- 2) KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and the members of the audit team have satisfied the conditions to issue an impartial and independent report from audit of annual financial statements in accordance with the applicable regulations, auditing standards and principles of professional ethics;
- 3) The regulations on rotation of audit firm and key auditor as well as mandatory breaks in audit engagements have been complied with;
- 4) The Bank has the audit firm selection policy and the policy regarding the provision of additional non-audit services for the Bank by the audit firm, its affiliate or member of the audit firm's network, including any services that are conditionally exempted from the ban on provision by the audit firm;
- 5) The provisions regarding the appointment, composition and operation of the Audit Committee of the Bank's Supervisory Board have been complied with, including those regarding the fulfilment of independence criteria and the requirements as to knowledge and skills in the field of finance, accounting or audit of financial statements by its members;
- 6) The Audit Committee of the Bank's Supervisory Board has fulfilled the audit committee tasks as provided for in the applicable regulations.

As part of its regular activity, the Committee reviewed the independence and effectiveness of the Bank's auditor's performance. The Audit Committee received a written statement of the auditor, submitted as required pursuant to Article 88 point 2 of the Act on certified auditors, their self-government, entities authorized to audit financial statements and on public supervision (Journal of Laws of 2009, No. 77, item 649), that confirms a fulfillment of impartiality and independence requirements as specified in the Act. The Committee reviewed the Bank's external auditor's plan for the audit of the Bank's financial statements, which included key areas of audit focus, auditor independence and the proposed audit fee, and reviewing the terms of engagement of the audit.

The Committee Chairman held individual meetings with representatives of the Bank's independent auditor as well as Heads of the Bank's Financial Division (CFO), Audit Department, Legal Division and Compliance Department without participation of the Bank's Management. In the assessment of the Chairman of the Audit Committee, the cooperation between the above-mentioned areas is correct as in previous years.

In the reporting period, the Audit Committee supervised financial reporting, internal control, risk management system as well as internal and external audits conducted at the Bank. Based on the information received on a quarterly basis, the Committee confirms its positive assessment of both operation of the internal control, risk management and compliance risk management systems used by the Bank and activities of the Bank's Internal Audit function. This assessment covers all the key controls, including the internal controls over financial reporting and the operational controls.

The Audit Committee claims that it appropriately fulfilled its mandate for the year ended December 31, 2018.

The Audit Committee very positively evaluates the cooperation with the Compliance Department and that between the Internal Audit Department and the Audit Committee. Moreover, the Audit Committee's assessment of the performance of the Compliance and Audit Departments in 2018 is positive.

Grzegorz Bielicki

Chairman of the Audit Committee