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citi handlowy

# REPORT ON ACTIVITIES
# OF BANK HANDLOWY W WARSZAWIE S.A.
# AND THE CAPITAL GROUP OF
# BANK HANDLOWY W WARSZAWIE S.A.
# IN 2018

MARCH 2019

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. 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.

And 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 148 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.

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 100 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

# *3.* Major developments in 2018

The year 2018 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:

- **Rapid growth of lending** at the Bank: **institutional clients +13% YoY** (asset increase in all segments: corporate clients +16% YoY, global clients +16% YoY, commercial bank +6% YoY) and **retail clients +5% YoY** (record high sales of mortgage loans: PLN 357 million or +12% YoY);
- **Consistent development of relationship banking:** loan volumes of retail clients rose by 15% YoY thanks to acquisition of new clients in a strategic client group – Citi Private Clients (+8% YoY);
- **Profitability ratios significantly above the banking sector levels:** ROE – 10.0% vs. 7.2% in the banking sector and ROA – 1.40% vs. 0,80% in the banking sector;
- **Digitization of the consumer banking model:**
  - **More digital users** – the number of mobile banking users increased by 22% from the end of 2017;
  - **Digitization of acquisition** – sales of cash products via profiled offers on the Citibank Online platform nearly doubled as compared to the end of 2017;
  - **Launch of the Google Pay telephone payment services;**
- **Implementation of the Citi Specials benefit program –** privileges attached to payment cards of the Bank, such as shopping discounts, a new loyalty program and limited offerings - as a result the card transaction rate increased by 5% YoY;
- **The Bank defended its leading position in the FX market –** FX transaction volumes rose by 3% YoY and the majority of those transactions are executed via the Citi FX Pulse platform. Citi FX Pulse also operates as an access channel to more than 130 currencies, which makes it a valuable choice for e-commerce companies;
- **First corporate card for senior management in the market –** the Business Executive card is a unique solution in Poland's market which combines access to Citi banking systems and a package of benefits and privileges, for example fast track, priority pass or iPass, which support international business operations and help running them in a transparent and friendly manner;
- **Capital security** of the Bank is maintained at a high level: high quality of assets and capitals with Tier 1 ratio at 16.8%. Tier 1 ratio is about 5.2 p.p.[1] above the minimum capital thresholds;
- **Shareholder value building** – secure and stable position of the Bank, confirmed by a consistent dividend policy. Simultaneously, the Bank was again included in the next edition of the RESPECT Index, i.e. a WSE index of the companies that are most committed to the society. Citi Handlowy is one of only two banks incessantly included in the index from its first edition.

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

## 4.1 General development objectives of the Group

In December 2018, the Supervisory Board of the Bank approved the new Strategy of Bank Handlowy w Warszawie S.A. Group for 2019 - 2021. The key assumption of the Strategy is to expand client operations, which are to contribute to accomplishment of the following financial objectives:

- High one-digit annual-average growth of credit volumes in the retail banking segment and the medium one-digit annual-average growth of credit volumes in the institutional banking segment;
- High one-digit annual-average growth of revenues from client operations;
- ROE constantly above 10% in 2019 – 2021 (in 2021 the Bank wants to exceed 12%) unless any future legal, regulatory or tax events occur which may affect this objective.

In order to achieve the annual-average growth of revenues from client operations at about 8% in the period covered by the strategy, the Group will implement new strategic initiatives in the segments of institutional and retail clients. Simultaneously, it is going to use existing competitive advantages to achieve growth in the following areas: unsecured retail loans, foreign exchange and cash management, Wealth Management services and services for clients looking for a global financial partner.

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

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

[1] At present, the minimum Tier 1 capital required for the Group is 11.6% after the OSII buffer is maintained at the level of 0.25%.

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

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

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

## 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. After the very difficult year 2018, during which stock market indices in Poland were hit by two-digit drops, extremely low activity in the IPO market and the undermined trust of investors, the year 2019 should bring a recovery. The introduction of Employee Capital Plans (PPK), which will accelerate in the second half of 2019, should positively affect Poland's capital market, especially in the long run (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 and development towards solutions which ensure the cost effective service of local and international institutional clients which are interested in algorithmic trading and high-volume transactions.

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

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

## 4.4 Consumer banking

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

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

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

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

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

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

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

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

## 5. Awards and honors

In 2018, the Bank, DMBH and the Kronenberg Foundation at Citi Handlowy were awarded prestigious titles and rewards:

- For the third consecutive year, Citi Handlowy was rewarded with the **"Ethical Company" title from *Puls Biznesu*** and, as a result, became a **"Super Ethical Company"** as the only bank in that special category. Only eight other companies have been granted a right to use this title so far. The contest is to reward brands for which ethical conduct is a key and indispensable element of their presence in the market. From the first edition of the contest, Citi Handlowy has been ranked among its winners, i.e. companies that are most proactive in building and reinforcing an organizational culture founded on ethics and values using the most comprehensive and systemic approach in the process.
- For the twelfth time, Citi Handlowy 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 is one of the few listed companies awarded continuously since the inception of the index in 2009. Assessment is focused here on activities in the area of sustainable growth carried out within the framework of a long-term business strategy.
- Citi Handlowy took the 1st place in the competition organized by the Ministry of Finance to select **Treasury Securities Dealers (DSPW)** for 2018. It is another Bank's consecutive victory in the prestigious competition held since 2002, and at the same time a confirmation of its strong position in that segment of the market.
- Citi Handlowy has been honored with the title "Best Digital Bank in Poland" in the **"World's Best Consumer Digital Banks In Central & Eastern Europe 2018"** ranking prepared by the famous American "Global Finance" magazine. This honorable distinction has been granted to Citi Handlowy for top quality electronic banking services for retail clients. This achievement is confirmed by the number of the Bank's clients who use its mobile banking services, which increased by 32% in the first quarter of 2018.
- Citi Handlowy was rewarded, again, by **Euromoney**, a prestigious British financial magazine. In the 15th edition of the annual survey of the private banking market, the Bank was appreciated in two categories: for the best private banking proposal and for the best proposal for global clients.
- Private banking from Citi Handlowy enjoyed great success also in the prestigious domestic ranking of **Forbes magazine "Perfect banks for the most wealthy"**, in which Citi Handlowy's proposal was granted the highest mark: 5 stars. The Bank was rewarded for its global business model, under which it offers its services to clients that run their businesses throughout the world. The most valued features included the mobility of its proposal and an original offer for business in the fast growing e-commerce segment.
- The innovative acquisition strategy for the Citi Handlowy Credit Card, developed in cooperation with top actors in the e-commerce market, was granted the main prize in the **Innovation Award** contest, organized by the SAR Marketing Communication Association, in the "Business Model" category. This award confirms the effectiveness of the Bank's strategy implemented in 2017, the main pillars of which include meeting the needs of clients and progressing towards process automation. Cooperation with the largest e-commerce portals brought an increase in the sales of the Credit Card in digital channels by 26% year over year.
- For the third time in a row, the jury of "**Golden Banker**" ranking recognized Citi Simplicity Credit Card as the best card on the market. In the 9th edition of the competition, the Cash Loan at Citi Handlowy also ranked among 3 top products. The credit card has been a flagship product of Citi Handlowy for 20 years. It is appreciated by clients for clear and transparent rules and outstanding functionality recognized and accepted throughout the world.
- The President of Citi Handlowy's Management Board was honored in the first Polish edition of the competition **Male Champion of Change**. This title is granted to individuals with outstanding achievements in building diversity and supporting women. The Male Champion of Change statuettes were granted during the 9th edition of the Businesswoman of the Year gala, organized by the Success Written with a Lipstick (Sukces Pisany Szminką) Foundation.
- In the 9th edition of the **"White Ribbon Awards"**, organized under the motto "Don't be indifferent – stop violence against women", Citi Handlowy was awarded in the "Employer – Sponsor" category. The Bank was granted the award for "support to convert the SOWA Centre, wise employee volunteering initiatives and long-term continuous assistance to the Women's Rights Centre Foundation.
- This year's **16th edition of the report prepared by the Responsible Business Forum features 15 CSR initiatives of Citi in Poland.** The "Responsible Business in Poland. Good Practices" publication is the only elaboration of this kind which sums up the most important CSR initiatives in Poland. As regards longstanding practices, such initiatives were considered, as: Citi Employee Volunteering Program, the survey "Poles' Attitudes Towards Saving" and Aleksander Gieysztor Award.
- In the **Responsible Company Ranking 2018** organized by Gazeta Prawna, Citi Handlowy was ranked at the crystal level which involves CSR mature and active companies.

# II. Poland's economy in 2018

## 1. Main macroeconomic trends

### External environment

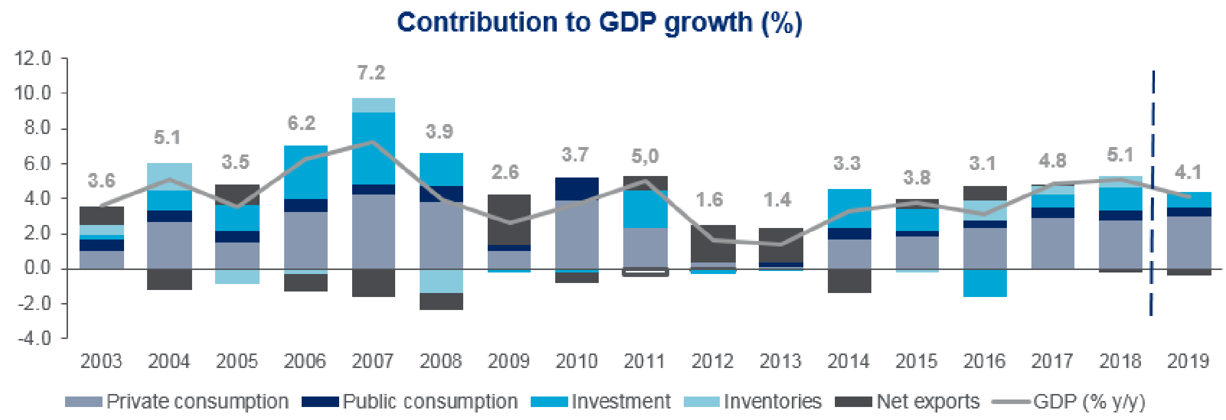
The year 2018 saw a slight slowdown in the global economy, which, however, still stayed near to the highest levels since 2010-2011. The optimism aroused in 2017 was reflected in gradually improving growth forecasts for the previous year during the first half of 2018, but in the second half of the year macroeconomic data started to be disappointing, leading to lower forecasts. A decline in sentiment was caused by the increasing trade conflict between the United States and China, weaker manufacturing performance in Germany and the upcoming shutdown of the fiscal stimulus package in the U.S.A. In consequence, global growth probably slowed down from 3.3% to 3.2% YoY, due to a GDP increase in the United States from 2.3% to 2.9% and a slowdown in the Eurozone from 2.5% to 1.8% and in China from 6.9% to 6.6%. The good performance of the U.S. economy was accompanied by a tightening of monetary policy by the Fed. Simultaneously, the European Central Bank ended its asset purchase program at the end of last year. In turn, the fiscal policy of the new Italian government led to tensions in its relationships with the European Union and an increase in the yields of Italian bonds. Interest rate hikes also translated into higher yields of U.S. bonds. In 2019, we expect that the global GDP rate will decline to 2,9%, with a slowdown in the U.S. to 2,6% and in the Eurozone to 1.0%.

### Gross Domestic Product

Poland's Gross Domestic Product rose about 5.1% in 2018, as compared to 4.8% in 2017. The GDP growth pace was a positive surprise in nearly every consecutive quarter for the second year in a row. The main growth driver was still domestic demand, which accelerated from 4.9% to 5.5%, as a result of continued recovery of investment from 3.9% to 7.3%. The capital expenditure recovery was coupled with higher inflows of EU funds, which is partially reflected in the higher growth of construction output: 21.2% YoY versus 10.9% in 2017. At the same time, retail sales slowed down from 5.5% to 4.5%, and private consumption slowed down from 4.9% to about 4.6%. Weaker data were also revealed by the manufacturing sector, where output growth slowed down from 6.2% to 6.0%, also as a result of a lower increase in exports. The worse performance of the manufacturing sector was also indicated by a deep decline in the PMI, which forecasts the future economic situation, below 50.0 for the first time since 2014. The lower growth of exports and manufacturing output was influenced by the slowing down global growth of trade. Simultaneously, the weakening of the dynamics of Polish export was partially offset by the relatively weak Polish zloty. Despite a slightly higher slowdown of imports, in 2018 the contribution of net exports was lower than in 2017 and remained negative.

Good consumption performance was supported by continued improvement in the labor market. In the companies sector, pay growth accelerated from 5.9% to 7.1% YoY thanks to increasing shortages of workforce and a high demand for labor. At the same time, over last year, the unemployment rate declined from 6.6% as at the end of 2017 to 5.8%, while the employment growth rate in the companies sector decreased from 4.5% to 3.5% YoY.

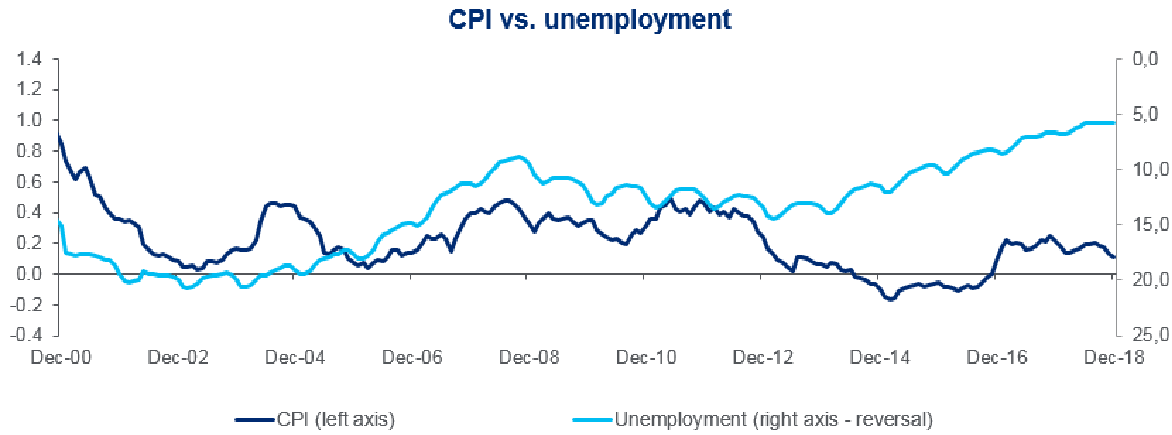
In 2019, we expect that a GDP growth rate will fall to about 4.1%, as a result of slowing down in investments with simultaneous dynamic growth in consumption.




*Source: Chief Statistical Offce, Citi Handlowy forecasts*

### Inflation

Prices of consumer goods and services rose, on average, by 1.6% in 2018, as compared to an increase by 2.0% in 2017, and at the end of the year inflation dropped to 1.1%, i.e. below the lower threshold of the inflation target range. This inflation decline was mainly a result of lower increases in food and product and services communication prices and in the end of the year also of declining oil and fuel prices. In addition, net inflation was stable at 0.7%. Despite strong economic growth, the Monetary Policy Council decided to keep the reference rate at its historical low level of 1.50%, because of low inflation. Additionally, representatives of the Monetary Policy Council signaled in their most recent statements that the rates could be left unchanged also in 2019 and 2020.

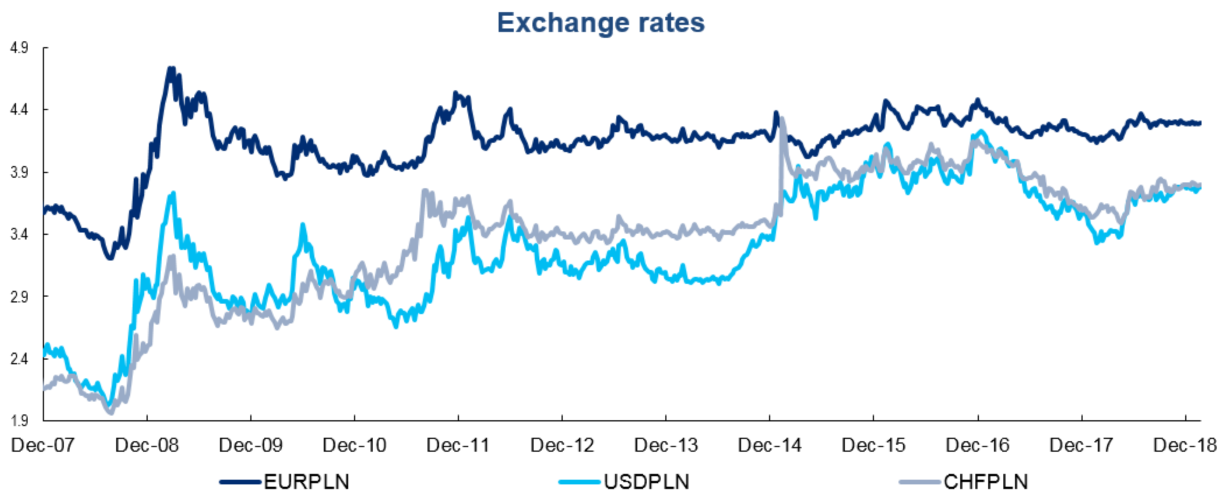



*Source: NBP, GUS, Citi Handlowy*

## 2. Money and forex markets

In 2018, the Polish zloty declined by about 2.7% versus the euro and by about 7.4% to the U.S. dollar. Last year, the zloty was strongly correlated with the U.S. dollar rates in global markets and clearly depreciated in the first six month of the year to about 4.40 to the euro following the declining of the EURUSD rate towards 1.13. In the second half of the year the EURPLN rate was stable near 4.30. At the same time, the volatility of the zloty lowered to all time lows. The key drivers that contributed to the appreciation of the U.S. dollar during the year included the tightening of monetary policy by the Fed and the increasing interest rate disparity between the United States and the Eurozone, as well as the growing yields of U.S. bonds. As a result, over the year, the EUR/PLN rate increased from 4.18 to 4.29, the USD/PLN rate rose from 3.48 to 3.74 and the CHF/PLN rate increased from 3.57 to 3.81.

The money market rates remained relatively stable during 2018. The WIBOR 3M rate was 1.72% at year end, i.e. unchanged as compared to 2017. The bond yield shrunk by about 35-45 basis points over the year. The vast majority of that decline occurred in the first quarter and in the end of the year. Simultaneously, credit spreads were mostly on the decline during the year, however as at the end of the year they bounced back to the levels observed in the end of 2017. In consequence, as at the end of the year, the yield of 2-year bonds lowered to 1.35% from 1.71% as at the end of 2017 and the yield of 10-year bonds dropped from 3.3% to 2.84%.




*Source: Reuters, Citi Handlowy*

## 3. Capital market

Despite a very good beginning of the year (as both S&P500 and WIG index reached their all time highs in January), next months were a time of a visible deterioration in Poland's equity market. The WSE-listed companies weren't supported by the global environment and increasing risk aversion was caused, *inter alia*, by the escalating trade war between the United States and China, the harbingers of an economic slowdown both in China and Europe and the protracting negotiations of the Italian government and the European Commission over the budget for 2019. Additional factors that adversely contributed to the WSE situation were the Getback crisis and problems faced by some investment fund companies (which resulted in mass capital outflows from investment funds, mainly from the absolute return segment), as well as declining earnings of companies, which were under visible cost pressure (due to, for example, rising labor costs and raw material prices).

In consequence, all main indexes plummeted in 2018. The broadest market index (WIG) declined by 9.5%. In turn, WIG20 (largest caps) went down by 7.5% (5.7% dividend-related adjustment). Those outflows from investment funds largely translated into a visible fall in mid-cap prices (mWIG40 declined by 19.3%) and small-cap prices (SWIG80 closed the year 27.6% below the level as at the end of 2017). Of all the sectors, only the fuel companies managed to repulse the downward trend (WIG-Fuel sub-index increased by 12% YoY). The deepest drop was in the chemical and construction sectors with their indexes going down 38.9% and 32.1%, respectively.

2018 turned out to be the second consecutive year with a decline in the number of companies listed on the main market of the Warsaw Stock Exchange. Over the last 12 months, only 7 companies joined the WSE (the lowest number of new entrants since 2003), including 2 transferred from the New Connect market. In the same period, shares of 25 companies were delisted (all time high). In consequence, as at 31 December 2018 the total number of companies listed on the WSE fell to 465. The total value of public offerings was slightly above PLN 301 million and was significantly below the level reached in 2017 (PLN 7.5 billion). The aggregate capitalization of all the companies listed on the WSE main market amounted to PLN 1,165 billion (including PLN 616 billion for the Polish companies) and was lower by 15.6% as compared to the same period in 2017.

**Stock market indices, as at 31 December 2018**

| Index | 2018 | Change (%) | 2017 | Change (%) | 2016 |
|---|---|---|---|---|---|
| WIG | 57,690.50 | (9.5%) | 63,745.30 | 23.2% | 51,754.03 |
| WIG-PL | 58,889.85 | (9.8%) | 65,263.00 | 24.1% | 52,583.91 |
| WIG-div | 1,069.63 | (11.9%) | 1,213.88 | 16.8% | 1,039.29 |
| WIG20 | 2,276.63 | (7.5%) | 2,461.21 | 26.4% | 1,947.92 |
| WIG20TR | 4,018.80 | (5.7%) | 4,261.88 | 29.3% | 3,296.32 |
| WIG30 | 2,581.52 | (8.6%) | 2,825.27 | 25.9% | 2,243.30 |
| mWIG40 | 3,909.37 | (19.3%) | 4,847.27 | 15.0% | 4,215.54 |
| sWIG80 | 10,571.10 | (27.6%) | 14,595.76 | 2.4% | 14,259.47 |
| **Sector sub-indices** | | | | | |
| WIG-Banks | 7,453.65 | (12.1%) | 8,481.97 | 35.4% | 6,263.33 |
| WIG-Construction | 1,915.00 | (32.1%) | 2,819.16 | (1.3%) | 2,857.41 |
| WIG-Chemicals | 9,350.86 | (38.9%) | 15,297.93 | 11.2% | 13,755.90 |
| WIG-Energy | 2,410.68 | (19.4%) | 2,990.57 | 63.5% | 1,829.06 |
| WIG-Mining | 3,423.39 | (22.1%) | 4,394.93 | 72.3% | 2,551.21 |
| WIG-IT | 1,991.93 | (2.4%) | 2,041.80 | (5.3%) | 2,155.40 |
| WIG-Media | 4,513.06 | (5.8%) | 4,791.34 | 5.0% | 4,561.93 |
| WIG-Developers | 1,911.66 | (13%) | 2,198.05 | (61.2%) | 5,668.84 |
| WIG-Oil & Gas | 7,998.16 | 12% | 7,140.43 | 71.9% | 4,154.32 |
| WIG-Food | 3,383.22 | (6.7%) | 3,627.59 | 3.2% | 3,516.44 |
| WIG-Telecom | 619.93 | (16.8%) | 745.44 | 2.1% | 730.02 |

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

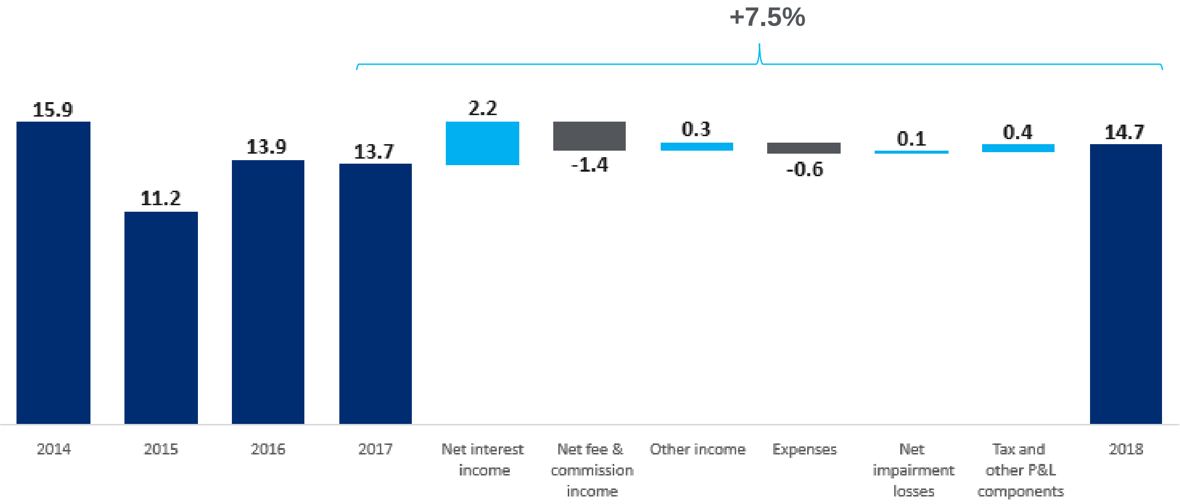
**Value of trading in shares and bonds, volume of trading in derivatives on WSE, as at 31 December 2018**

| | 2018 | Change (%) | 2017 | Change (%) | 2016 |
|---|---|---|---|---|---|
| Shares (PLN million)* | 423,700 | (18.8%) | 521,957 | 29.0% | 404,585 |
| Bonds (PLN million) | 2,662 | (8.0%) | 2,893 | 1.5% | 2,851 |
| Futures ('000 contracts) | 15,741 | 7.5% | 14,637 | (3.7%) | 15,196 |
| Options ('000 contracts) | 586 | (3.8%) | 609 | (19.2%) | 754 |

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

## *4.* Banking sector

**Net profit of the banking sector (PLN billion)**



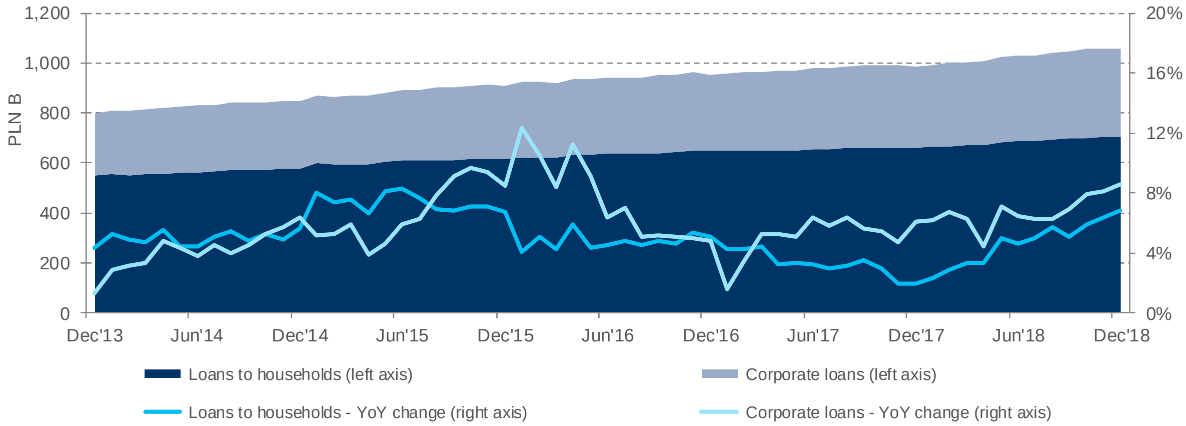

*Source: Polish FSA, own calculations*

## Financial results

According to data revealed by the Polish Financial Supervision Authority, the net profit of the banking sector considerably improved in 2018 as compared to prior year, i.e. by 7.5% (PLN 1.0 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 (+5.2% YoY, PLN 2.2 billion), supported by higher other revenues (+4.6% YoY, PLN 348 million). On the other hand, net fee and commission income detracted total revenues as it declined by 10.5% YoY. (PLN 1.4 billion). In consequence, the total revenues of the banking sector exceeded PLN 65 billion in 2018, i.e. they were 1.8% higher than in the prior year and amounted to PLN 1.1 billion. The other profit & loss lines which were detractors at the level of the entire banking sector included, first of all, higher operating expenses (+1.7% YoY, PLN 550 million), while depreciation and amortization were stable and the bank levy slightly increased (+3.8% YoY, as estimated by the Ministry of Finance with respect to actual performance of the budget for 2018). Earnings of banks were also adversely affected by a significant decline in write-offs and provisions, by 0.7% YoY (PLN 65 million). In 2018, the income tax paid by the banking sector was PLN 4.8 billion, which means only a small increase as compared to prior year (+0,2% YoY, PLN 11 million), however at the same time the sector recorded a considerable increase in revenues from its participation in profits and losses of subsidiaries and also in other profit & loss lines, which improved its pre-tax profit by more than PLN 0.4 billion. The cost effectiveness ratio (C/I) of the banking sector was flat from the previous year and amounted to 56%.

The new financial accounting standards that became effective on 1 January 2018 (IFRS 9) significantly limit the comparability of data related to credit portfolio quality. In the first quarter of 2018, the NPL ratio was clearly on the rise for the majority of banks as a result of adaptation of data to new requirements. However, the portfolio quality data as at 31 December 2018 show that the banking sector managed to return gradually to the previous levels of the non-performing loan ratio (NPL for the credit portfolio for non-financial entities was 6.4%, i.e. It increased by 0.1 p.p. YoY) . The new standards had the most significant impact on the NPL ratio for corporate clients (+0.4 p.p. YoY to 8.7%), especially in the segment of small and medium sized enterprises (where NPL increased by 1.3 p.p. YoY to 11.4%). The credit portfolio improved in the category of loans for households, where the NPL ratio declined by 0.2 p.p. YoY to 5.9% and a similar positive tendency was observed both for mortgage and consumer loans.

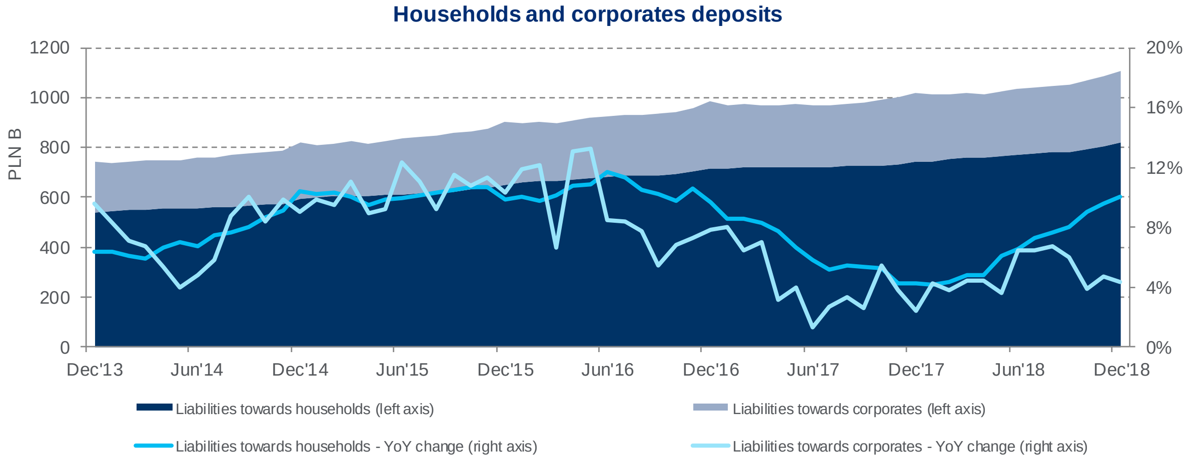
**Loans to households and corporates**




*Source: NBP, own calculations*

In 2018, the growth rate loans to the non-financial sector increased substantially from 3.2% YoY (PLN 35 billion) as at 31 December 2017 to 7.1% YoY (PLN 79 billion). That increase was mainly driven by the higher growth of loans to companies (+8.6% YoY, PLN 27.8 billion, as at the end of 2018 versus +6.1% YoY, PLN 18.5 billion, as at the end of 2017). Unlike in 2017, the key driver of growth was current loans (+15.8% YoY, PLN 22.5 billion), while the volume of real property loans was growing at a slightly slower pace (+14.4% YoY, PLN 8.0 billion). On the other hand, the capital expenditure loan portfolio shrunk by 2.1% YoY or PLN 2.6 billion. In terms of time to maturity, the highest growth was recorded for long-term loans (over 5 years) (+9.8% YoY, PLN 15.4 billion), followed by 1-5 year loans (+6.0% YoY, PLN 5.4 billion), while loans up to 1 year and other current receivables increased by 5.3% YoY, i.e. PLN 4.5 billion, as at the end of 2018. The total receivables of the banking sector from companies amounted to PLN 352 billion.

In the retail client segment, a crucial factor was in an increase in the growth rate for mortgage loans to households, from -0.1% YoY (PLN 421 million) as at 31 December 2017 to 6.8% YoY (PLN 27.6 billion) as at 31 December 2018, while the growth rate for the PLN mortgage loans changed only slightly to +11.3% YoY (PLN 30.7 billion), and the change was mainly a result of Swiss franc appreciation to the zloty, which led to reduction in the decline rate for the volume of foreign-currency mortgage loans to -2.3% YoY (PLN 3.1 billion). The total household mortgage loan portfolio reached PLN 432 billion at the end of 2018. The banking sector saw the accelerated growth of volume of loan receivables from households also in the segment of consumer loans, where the growth rate reached 9.3% YoY (PLN 15.6 billion). The portfolio of current loans for individual entrepreneurs and farmers also increased by 6.9% YoY (PLN 3.2 billion) and the portfolio of investment loans for households declined by 2.4% YoY (PLN 763 million). From the time to maturity perspective, long term loans (over 5 years) gained importance with their growth rate increasing to 7.7% YoY, while loans for 1- 5 years were growing at a little slower pace (by 6.8% YoY). Short term loans (up to 1 year) were flat YoY.




*Source: NBP, own calculations*

In 2018, deposits of companies increased by 4.3% YoY, (PLN 11.9 billion) to PLN 288 billion. Time deposits continued to decline, although at a slower pace, by 0.8% YoY, or PLN 697 million, while the volume of current deposits rose by 6.7% YoY, or PLN 12.6 billion. In turn, the growth rate for household deposits significantly increased, to 10.1% YoY, PLN 74.9 billion, and, in consequence, their total volume reached PLN 819 billion as at 31 December 2018. The growth leader was current deposits at banks (+15.5% YoY, PLN 69.9 billion), but the trend was also positive for time deposits, which rose by 1.7% YoY, i.e. PLN 5.0 billion.

The macroeconomic forecasts for 2019 indicate a partial change of market conditions. After the very strong growth of GDP in 2018, a gradual slowdown is expected. It should be assumed that this may lead to the slower growth of lending, both in the segment of individual clients (consumer loans) and companies. It seems likely that the demand for housing loans, reduced by more and more stringent requirements of banks, will be maintained at a quite high level. The still healthy financial condition of companies and households should protect the good quality of the credit portfolio.

## 5. Possible threats in global and Poland’s economy in 2019

Intensifying protectionist tendencies, and especially rising tensions between the United States and China or European Union, may push down both international trade volumes and global growth. A slowdown in China’ economy would hit German exports in the first place and the resulting slowdown in Germany could adversely affect economic activity in Poland.

The UK economy may suffer serious consequences as a result of potential hard Brexit (i.e. the UK leaving the EU without an agreement). It is unlikely that Poland’s economy would survive this course of action intact as the United Kingdom is the third largest market for Polish exports and a source of transfers in the current account. In addition, hard Brexit will probably contribute to a considerable increase in risk aversion leading to depreciation of both Polish currency and treasury bonds.

The pace adopted by main central banks throughout the world to tighten their monetary policies, including intervals between consecutive rate hikes, may also have a significant impact on capital flows incoming to emerging markets. If the interest rates in the United States and the Eurozone were raised above the expected levels, the risk of outflow of foreign investors from the domestic market would be higher, especially if Polish interest rates are kept unchanged. This could lead to depreciation of the Polish zloty and an increase in yields of long-term treasury bonds.

The recurrence of geopolitical tensions could result in higher volatility in financial markets. If tensions between the U.S. and China, Iran or North Korea or conflicts in Syria 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 significant reduction in the EU funds allocated to Poland for 2021-2027.

If a high growth of pay and low unemployment continue, with a simultaneous 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.

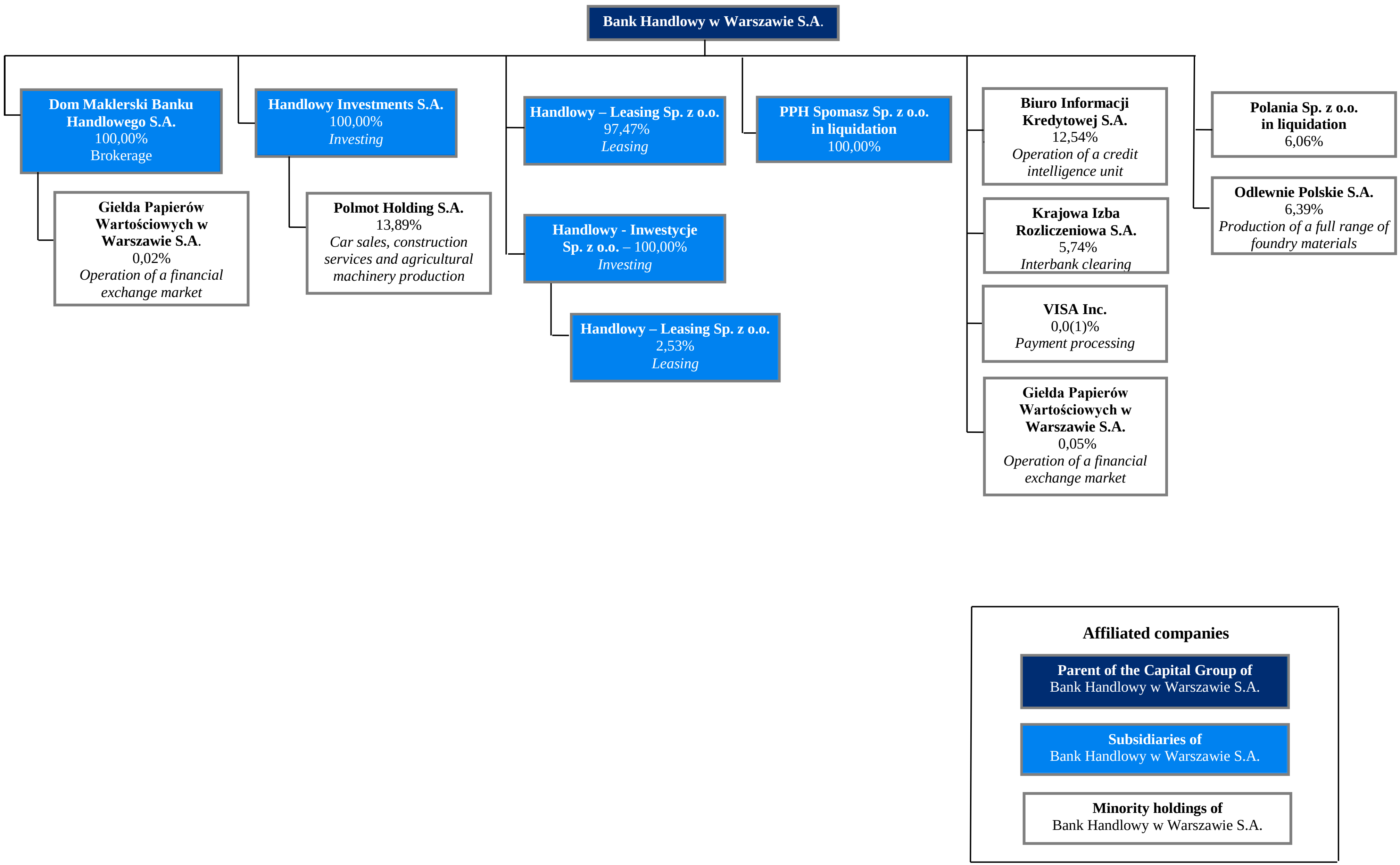
The above factors may affect the financial performance of the Group in the future.

| Poland economic indicators (%) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018F | 2019F |
|---|---|---|---|---|---|---|---|---|
| GDP growth, yoy | 1.6 | 1.4 | 3.3 | 3.8 | 3.1 | 4.8 | 5.1 | 4.1 |
| Domestic demand growth, yoy | -0.5 | -0.7 | 4.7 | 3.3 | 2.3 | 4.9 | 5.5 | 4.5 |
| Private consumption growth, yoy | 0.8 | 0.3 | 2.6 | 3.0 | 3.9 | 4.9 | 4.6 | 5.4 |
| Investment growth, yoy | -1.8 | -1.1 | 10.0 | 6.1 | -8.2 | 3.9 | 7.3 | 4.7 |
| CPI (eop) | 2.4 | 0.7 | -1.0 | -0.5 | 0.8 | 2.1 | 1.1 | 2.0 |
| Policy interest rate (eop) | 4.25 | 2.50 | 2.00 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |

*Source: Citi Handlowy's estimates as of January 1, 2019*

# 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 2018; 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
Polmot 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. 6,39% 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 | - | - | 7,007,052 |
| Dom Maklerski Banku Handlowego S.A. (DMBH)*** | Brokerage | subsidiary | 100.00% | full consolidation | 98,777 |
| Handlowy - Leasing Sp. z o.o.*** | Leasing | subsidiary | 100.00%** | full consolidation | 21,906 |
| Handlowy Investments S.A.*** | Investing activity | subsidiary | 100.00% | full consolidation | 18,137 |
| PPH Spomasz Sp. z o.o. w likwidacji*** | Ceased operations | subsidiary | 100.00% | full consolidation | in liquidation |

** Equity of Bank Handlowy w Warszawie S.A. as per the statement of the financial position of the Bank for 2018*
*** Including indirect participations*
**** Pre-audit data*

**GROUP ENTITIES NOT FULLY CONSOLIDATED**

| Entity | Core business | Capital relationship | % of authorized capital held | Accounting method | Equity (PLN '000) |
|---|---|---|---|---|---|
| Handlowy-Inwestycje Sp. z o.o.*** | Investing activity | subsidiary | 100.00% | equity valuation | 10,813 |

**** 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 99.5% 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Total assets | 49,242.0 | 42,864.0 | 49,304.7 | 43,037.6 |
| Equity | 7,007.1 | 6,874.6 | 7,056.8 | 6,938.9 |
| Amounts due from customers* | 21,853.3 | 19,766.8 | 21,949.0 | 19,849.0 |
| Deposits * | 38,159.0 | 31,980.9 | 38,097.4 | 31,945.2, |
| Net profit | 653.1 | 537.1 | 638.9 | 535.6 |
| Capital adequacy ratio | 16.5% | 17.6% | 16.8% | 17.9% |

** 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 2018

### 2.1 Income statement

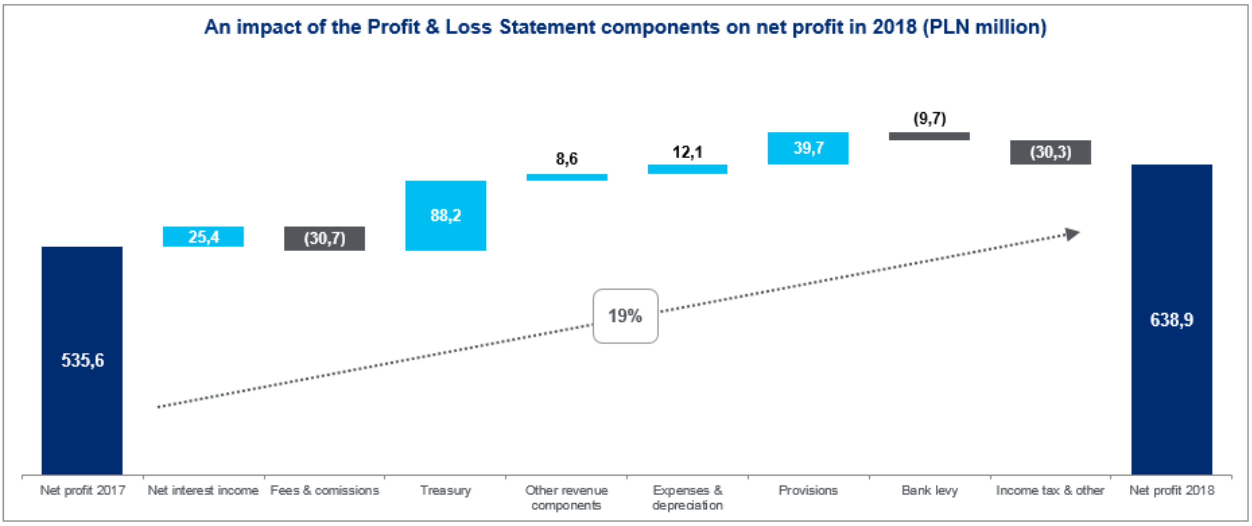
In 2018, the Group generated a net profit of PLN 638.9 million, which was higher by PLN 103.3 million (i.e. 19.3%) as compared to profit for 2017. The consolidated gross profit for 2018 amounted to PLN 828.7 million and increased by PLN 121.6 million (i.e. 17.2%) as compared to the prior year.

## Selected income statement items

| *PLN '000* | Bank | | Capital Group | | | |
|---|---|---|---|---|---|---|
| | | | | | Change | |
| | 2018 | 2017* | 2018 | 2017* | PLN '000 | % |
| Net interest income | 1,105,079 | 1,078,921 | 1,107,574 | 1,082,147 | 25,427 | 2.3% |
| Net fee and commission income | 527,291 | 541,523 | 549,948 | 580,661 | (30,713) | (5.3%) |
| Dividend income | 23,778 | 32,939 | 9,533 | 9,428 | 105 | 1.1% |
| Net income on trading financial instruments and revaluation | 361,546 | 343,910 | 364,204 | 346,275 | 17,929 | 5.2% |
| Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income[a] | 112,631 | 35,772 | 112,631 | 35,772 | 76,859 | 214.9% |
| Net gain/(loss) on equity and other instruments measured at fair value through income statement[b] | 6,276 | 3,377 | 6,522 | 3,377 | 3,145 | 93.1% |
| Net gain on hedge accounting | 3,682 | 10,261 | 3,682 | 10,261 | (6,579) | (64.1%) |
| Net other operating income | 8,801 | (2,747) | 5,901 | 556 | 5,345 | 961.3% |
| **Total income** | **2,149,084** | **2,043,956** | **2,159,995** | **2,068,477** | **91,518** | **4.4%** |
| Overheads and general administrative expenses and depreciation, including | (1,155,065) | (1,166,928) | (1,179,631) | (1,191,745) | 12,114 | (1.0%) |
| Overheads and general administrative expenses | (1,084,387) | (1,094,472) | (1,108,247) | (1,118,653) | 10,406 | (0.9%) |
| Depreciation/amortization of tangible and intangible fixed assets | (70,678) | (72,456) | (71,384) | (73,092) | 1,708 | (2.3%) |
| Profit/loss on sale of other assets | (834) | 437 | (813) | 10,929 | (11,742) | (107.4%) |
| Net impairment on financial assets and provisions for off–balance sheet commitments[c] | (63,562) | (99,491) | (63,511) | (103,189) | 39,678 | (38.5%) |
| Share in net profits of entities valued at equity method | - | - | (22) | 242 | (264) | (109.1%) |
| Tax on some financial institutions | (87,350) | (77,634) | (87,350) | (77,634) | (9,716) | 12.5% |
| **Profit before tax** | **842,273** | **700,340** | **828,668** | **707,080** | **121,588** | **17.2%** |
| Income tax expense | (189,154) | (163,238) | (189,816) | (171,514) | (18,302) | 10.7% |
| **Net profit** | **653,119** | **537,102** | **638,852** | **535,566** | **103,286** | **19.3%** |

** 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:



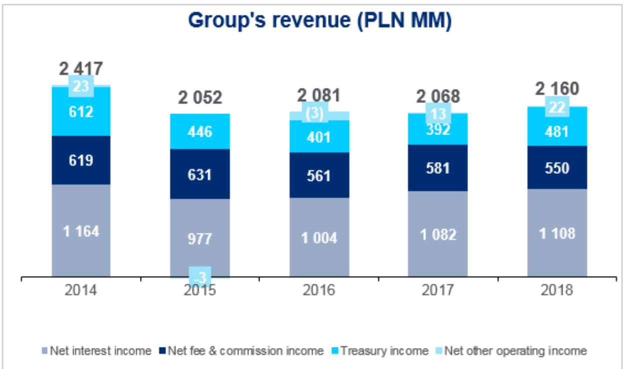

The following factors contributed to a change in net profit for 2018 as compared with 2017:

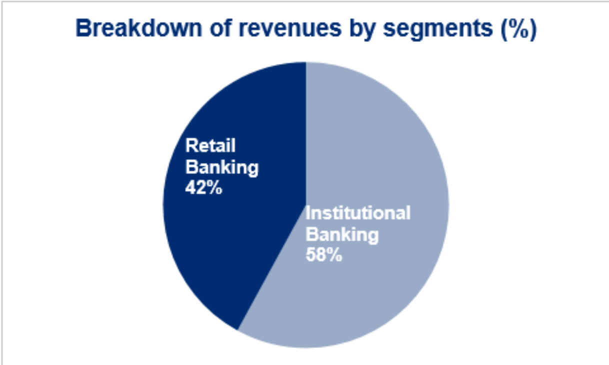
- Operating revenues (which include net interest income and net fee and commission income, revenues from dividends, result on financial instruments held for trading and revaluation, result on investment debt securities, result on investment equity instruments, hedge accounting results and result on other operating revenues and expenses) amounted to PLN 2,160.0 million as compared to PLN 2,068.5 million in 2017 – an increase by PLN 91.5 million (i.e. 4.4%). This growth was mainly generated by the result on treasury operations (which includes result on financial instruments held for trading and revaluation, result on investment debt financial assets recognized at fair value through other comprehensive income and hedge accounting result), which was higher by PLN 88.2 million (i.e. 22.5%).
- In 2018, the Group continued its cost discipline policy which led to a decrease in operating and overhead costs as well as depreciation by PLN 12.1 million (i.e. 1.0%).

- In 2018, net impairment charges with respect to financial assets and provisions for granted financial and guarantee commitments were PLN 63.5 million as compared to PLN 103.2 million in 2017, i.e. declined by PLN 39.7 million - this was an effect of lower charges in the Institutional Clients Group.

### *2.1.1 Revenue*

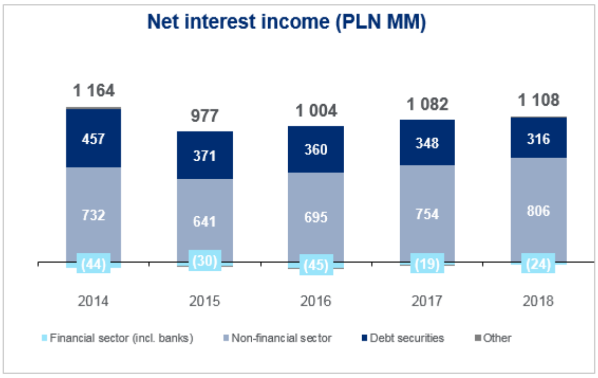
In 2018, revenues from operating activities amounted to PLN 2,160.0 million as compared to PLN 2,068.5 million in 2017, i.e. increased by PLN 91.5 million, i.e. 4.4%.




The operating result generated by the Group in 2018 was shaped in particular by:

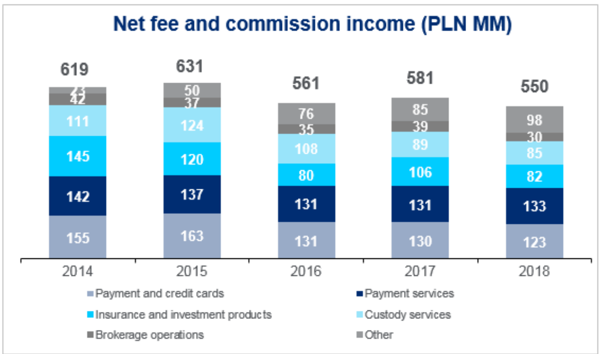
- Net interest income was the most important source of revenues for the Group in 2018 (51.3% of total revenues). It amounted to PLN 1,107.6 million as compared to PLN 1,082.1 million in 2017, i.e. increased by PLN 25.4 million (i.e. 2.3%).

  Interest income in 2018 amounted to PLN 1,304.5 million and fell by PLN 46.9 million (i.e. 3.5%) as compared to the prior year. This difference was mainly caused by the lack of adequate relations in hedge accounting and, in consequence, the presentation of interest income on hedging derivative instruments in that line (a decline by PLN 41.1 million, i.e. 100% in 2018). Simultaneously, interest on customer debt (in both financial and non-financial sector), which is the main source of interest income, reached the level of PLN 949.5 million and was higher by PLN 33.7 million (i.e. 3.7%) as compared to 2017. This was mainly connected with an increase in the average volume of unsecured receivables from individual clients and the volume of loans to institutional clients.

  In 2018, interest expenses declined by PLN 72.3 million (i.e. 26.9%) as compared to 2017. The highest change occurred for interest expenses for derivative instruments in hedge accounting (a decrease by PLN 61.1 million, i.e. 94.3% in 2018). In turn, interest on liabilities to clients (from both financial and non-financial sector), which is the main source of interest expenses, declined by PLN 17.0 million (i.e. 10.3%) as compared to 2017 due to a lower margin on deposits of institutional clients.

- Net fee and commission income, amounting to PLN 549.9 million versus PLN 580.7 million in 2017 (a decrease by PLN 30.7 million (i.e. 5.3%), was mainly affected by deterioration in the situation in the domestic equity market and higher risk aversion amongst individual clients, which adversely affected the result on agency sales of insurance and investment products, brokerage services and custody operations. On the other hand, net fee and commission income from regular activities increased by PLN 8.0 million (i.e. 2.3%) as compared to 2017;

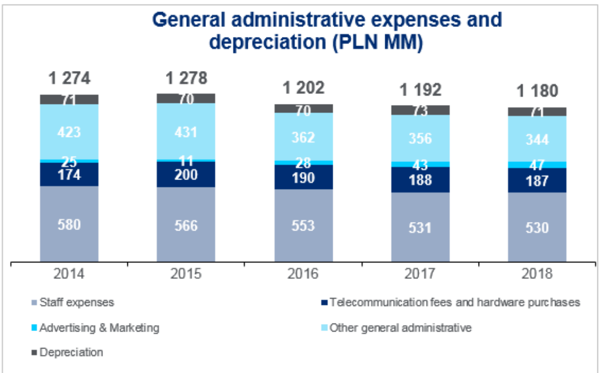
- Other operating revenues (i.e. incomes other than interest income and fee and commission income) amounted to PLN 502.5 million as compared to PLN 405.7 million in 2017. The increase in other operating revenues, by PLN 96.8 million (i.e. 23.9%) was mainly caused by an increase in the result on investment debt financial assets recognized at fair value through other comprehensive income by PLN 76.9 million in consequence of favorable conditions in Poland's debt market in 2018. Simultaneously, the result on financial securities held for trading and revaluation increased by PLN 17.9 million due to a higher result on client operations – FX transactions.

### *2.1.2 Expenses*

#### General expenses & depreciation

| *PLN '000* | Bank | | Capital Group | | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | Change | |
| | | | | | PLN '000 | % |
| **Personnel costs** | **514,222** | **516,363** | **529,500** | **531,316** | **(1,816)** | **(0.3%)** |
| **General administrative expenses, including:** | **570,165** | **578,109** | **578,747** | **587,337** | **(8,590)** | **(1.5%)** |
| Telecommunication fees and IT hardware | 182,095 | 182,848 | 187,339 | 188,484 | (1,145) | (0.6%) |
| Building maintenance and rent | 64,043 | 69,248 | 64,208 | 69,409 | (5,201) | (7.5%) |
| Costs of external services, including advisory, audit, consulting services | 54,592 | 52,745 | 55,169 | 53,447 | 1,722 | 3.2% |
| **Total overheads** | **1,084,387** | **1,094,472** | **1,108,247** | **1,118,653** | **(10,406)** | **(0.9%)** |
| Depreciation | 70,678 | 72,456 | 71,384 | 73,092 | (1,708) | (2.3%) |
| **Total general expenses & depreciation** | **1,155,065** | **1,166,928** | **1,179,631** | **1,191,745** | **(12,114)** | **(1.0%)** |

Operating expense and general and administrative expenses, including depreciation and amortization, amounted to PLN 1,179.6 million as compared to PLN 1,191.7 million in the prior year period. The decline in expenses by PLN 12.1 million (i.e. 1.0%) was mainly caused by lower general and administrative expenses (a decrease by PLN 8.6 million, i.e. 1.5%), due to a lower contribution to the compulsory restructuring fund of the Bank Guarantee Fund and lower costs of lease. On the other hand, costs connected with sales of banking products and costs of advertising and marketing increased in connection with promotional actions carried out to build the awareness of the Citi Handlowy brand.




The average headcount in the Group declined by 148 FTEs in the reporting period. As at 31 December 2018, the Group employed 3,276 employees.

### *2.1.3 Net impairment losses on financial assets and provisions for financial and guarantee commitments*

#### Net impairment and provisions

| *PLN '000* | Bank | | Capital Group | | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | Change | |
| | | | | | PLN '000 | % |
| Net impairment allowances for receivables, including | (74,035) | (97,788) | (74,035) | (97,614) | 23,579 | (24.2%) |
| Net impairment allowances for financial assets – Stage 1 | (2,006) | n/a | (2,006) | n/a | n/a | n/a |
| Net impairment allowances for financial assets – Stage 2 | 1,569 | n/a | 1,569 | n/a | n/a | n/a |
| Net impairment allowances for financial assets – Stage 3 | (73,598) | n/a | (73,598) | n/a | n/a | n/a |
| Net provisions for granted financial and guarantee commitments | 9,455 | (5,575) | 9,455 | (5,575) | 15,030 | (269.6%) |
| Net impairment allowances for equity investments | (51) | 3,872 | - | - | - | - |
| Net impairment allowances for debt investment financial assets measured at fair value through other comprehensive income | 1,069 | - | 1,069 | - | 1,069 | - |
| **Net impairment on financial assets** | **(63,562)** | **(99,491)** | **(63,511)** | **(103,189)** | **39,678** | **(38.5%)** |

Establishment of net impairment charges amounting to PLN 63.5 million, as compared to establishment of net charges of PLN 103.2 million in 2017, which means an improvement by PLN 39.7 million, was related to the Institutional Clients Group (reversal of net charges amounting to PLN 8.6 million in 2018 as compared to establishment of net charges of PLN 51.4 million in 2017). This was an effect of lower charges for identified impaired loans and the repayment of a few credit commitments. The Consumer Banking Sector recorded a higher negative result in the category net impairment charges, i.e. PLN 72.1 million as compared to PLN 51.8 million in 2017, in connection with implementation of IFRS 9 and clients for which an impairment was recognized in 2018.

### *2.1.4 Ratio analysis*

**The Group's efficiency ratios**

| | 2018 | 2017 |
|---|---|---|
| Return on equity (ROE)* | 10.0% | 8,5% |
| Return on assets (ROA)** | 1,4% | 1,2% |
| Net interest margin (NIM)*** | 2,5% | 2,5% |
| Margin on interest-bearing assets | 2,6% | 2,7% |
| Earnings per share in PLN | 4,89 | 4,10 |
| Cost/income**** | 55% | 58% |
| Non-financial sector loans to non-financial sector deposits | 64% | 66% |
| Non-financial sector loans to total assets | 40% | 41% |
| Net interest income to total revenue | 51% | 52% |
| Net fee and commission income to total revenue | 25% | 28% |

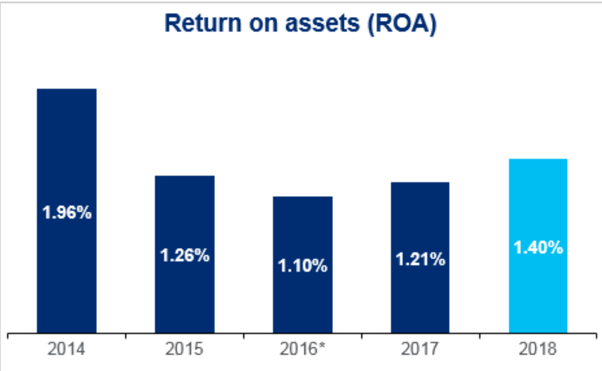
** Net profit to average equity (excluding net profit for the current year) calculated on a quarterly basis;*
*** Net profit to average total assets calculated on a quarterly basis;*
**** Net interest income to average total assets calculated on a quarterly basis;*
***** Overheads, general administrative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

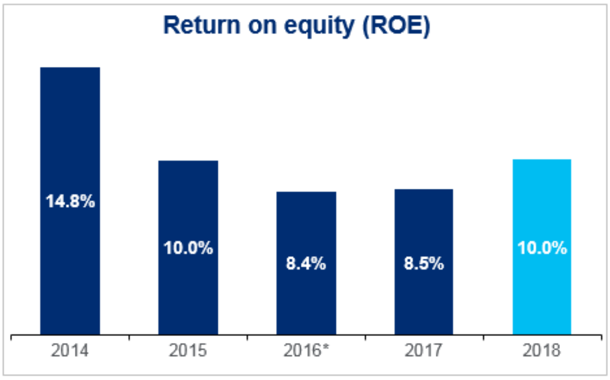
**The Bank's efficiency ratios**

| | 2018 | 2017 |
|---|---|---|
| Return on equity (ROE)* | 10.3% | 8.6% |
| Return on assets (ROA)** | 1.4% | 1.2% |
| Net interest margin (NIM)*** | 2.4% | 2.5% |
| Earnings per ordinary share in PLN | 5.00 | 4.11 |
| Cost/Income**** | 54% | 57% |

** 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 2018, the Group's returns on equity and assets remained at levels of respectively 10.0% and 1.40%.




**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 declined by 3 p.p. to 55% as at the end of 2018. This improvement in effectiveness was a result of both higher revenues (mainly thanks to a higher result on treasury operations) and lower costs (thanks to savings in the area of real property lease and maintenance).

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 a decline of the credit margin.

## 2.2 Consolidated statement of financial position

As at 31 December 2018, the Group's balance sheet total amounted to PLN 49,304.7 million and was 14.6% higher than at the end of 2017.

## Consolidated statement of financial position

| *PLN '000* | Bank | | Capital Group | | | |
|---|---|---|---|---|---|---|
| | As at | | As at | | Change | |
| | 31.12.2018 | 31.12.2017* | 31.12.2018 | 31.12.2017* | tys. zł | % |
| **ASSETS** | | | | | | |
| Cash and balances with central bank | 7,272,193 | 462,126 | 7,272,193 | 462,126 | 6,810,067 | - |
| Receivables from banks | 1,333,816 | 836,166 | 1,333,977 | 836,774 | 497,203 | 59.4% |
| Financial assets held for trading | 2,213,849 | 2,162,040 | 2,237,076 | 2,179,925 | 57,151 | 2.6% |
| Debt financial asstes measured at fair value through other comprehensive income[d] | 14,241,363 | 17,439,439 | 14,241,363 | 17,439,439 | (3,198,076) | (18.3%) |
| Equity investments valued at equity method | | | 10,399 | 10,664 | (265) | (2.5%) |
| Equity and other instruments measured at fair value through income statement[e] | 154,586 | 132,539 | 48,768 | 26,500 | 22,268 | 84.0% |
| Receivables from customers | 21,853,349 | 19,766,803 | 21,949,014 | 19,849,033 | 2,099,981 | 10.6% |
| Property and equipment | 363,002 | 375,673 | 364,261 | 376,775 | (12,514) | (3.3%) |
| Intangible assets | 1,417,506 | 1,351,583 | 1,418,794 | 1,352,413 | 66,381 | 4.9% |
| Receivables due to current income tax | - | - | 1,744 | 667 | 1,077 | 161.5% |
| Asset due to deferred income tax | 205,165 | 176,979 | 204,207 | 175,904 | 28,303 | 16.1% |
| Other assets | 187,195 | 158,688 | 222,918 | 325,448 | (102,530) | (31.5%) |
| Non-current assets available-for-sale | - | 1,928 | - | 1,928 | (1,928) | (100.0%) |
| **Total assets** | **49,242,024** | **42,863,964** | **49,304,714** | **43,037,596** | **6,267,118** | **14.6%** |
| **LIABILITIES** | | | | | | |
| Liabilities towards banks | 1,402,124 | 1,568,261 | 1,402,233 | 1,568,376 | (166,143) | (10.6%) |
| Financial liabilities held for trading | 1,606,189 | 1,351,031 | 1,609,382 | 1,353,215 | 256,167 | 18.9% |
| Hedging derivatives | - | 50,191 | - | 50,191 | (50,191) | (100.0%) |
| Liabilities towards customers | 38,395,885 | 32,172,441 | 38,334,345 | 32,136,698 | 6,197,647 | 19.3% |
| Provisions | 29,984 | 17,871 | 29,984 | 18,300 | 11,684 | 63.8% |
| Current income tax liabilities | 66,297 | 52,340 | 66,297 | 52,340 | 13,957 | 26.7% |
| Other liabilities | 734,493 | 777,211 | 805,723 | 919,593 | (113,870) | (12.4%) |
| **Total liabilities** | **42,234,972** | **35,989,346** | **42,247,964** | **36,098,713** | **6,149,251** | **17.0%** |
| **EQUITY** | | | | | | |
| Issued capital | 522,638 | 522,638 | 522,638 | 522,638 | - | - |
| Supplementary capital | 2,944,585 | 2,944,585 | 3,003,290 | 3,003,969 | (679) | - |
| Revaluation reserve | 84,372 | (9,376) | 84,372 | (9,118) | 93,490 | - |
| Other reserves | 2,877,122 | 2,879,669 | 2,883,838 | 2,895,598 | (11,760) | (0.4%) |
| Retained earnings | 578,335 | 537,102 | 562,612 | 525,796 | 36,816 | 7.0% |
| **Total equity** | **7,007,052** | **6,874,618** | **7,056,750** | **6,938,883** | **117,867** | **1.7%** |
| **Total liabilities and equity** | **49,242,024** | **42,863,964** | **49,304,714** | **43,037,596** | **6,267,118** | **14.6%** |

** 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 | |
| | 31.12.2018 | 31.12.2017* | 31.12.2018 | 31.12.2017* | PLN '000 | % |
| Non-banking financial entities | 2,052,764 | 1,931,845 | 2,148,206 | 2,012,490 | 135,716 | 6.7% |
| Non-financial sector entities | 12,879,266 | 11,251,852 | 12,881,440 | 11,255,032 | 1,626,408 | 14.5% |
| Individuals | 7,534,795 | 7,092,086 | 7,535,018 | 7,092,665 | 442,353 | 6.2% |
| Public entities | 50,907 | 76,626 | 50,907 | 76,626 | (25,719) | (33.6%) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other non-financial sector entities | 3 | 3 | 3 | 3 | - | 0.0% |
| **Total gross receivables from clients** | **22,517,735** | **20,352,412** | **22,615,574** | **20,436,816** | **2,178,758** | **10.7%** |

## Net receivables from clients

| *PLN '000* | Bank | | Capital Group | | | |
|---|---|---|---|---|---|---|
| | As at | | As at | | Change | |
| | 31.12.2018 | 31.12.2017 | 31.12.2018 | 31.12.2017 | PLN '000 | % |
| **Receivables from financial sector entities** | **2,051,373** | **1,914,372** | **2,146,815** | **1,995,017** | **151,798** | **7.6%** |
| **Receivables from non-financial sector entities, including:** | **19,801,976** | **17,852,431** | **19,802,199** | **17,854,016** | **1,948,183** | **10.9%** |
| Corporate clients* | 12,644,282 | 11,055,884 | 12,644,282 | 11,056,890 | 1,587,392 | 14.4% |
| Individuals, including: | 7,157,694 | 6,796,547 | 7,157,917 | 6,797,126 | 360,791 | 5.3% |
| Unhedged liabilities | 5,507,928 | 5,322,620 | 5,508,151 | 5,323,199 | 184,952 | 3.5% |
| Mortgage loans | 1,649,766 | 1,473,927 | 1,649,766 | 1,473,927 | 175,839 | 11.9% |
| **Total net receivables from clients** | **21,853,349** | **19,766,803** | **21,949,014** | **19,849,033** | **2,099,981** | **10.6%** |

**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 at the end of 2018, the biggest share in the Group's structure of assets was represented by net customer debt. Its share in total assets amounted to 44.5% as at the end of December 2018. Net customer debt levelled, as at the end of 2018, levelled at PLN 21.9 billion and was significantly higher (by PLN 2.1 billion, i.e. 10.6%) as compared with 2017, which resulted mainly from increased lending activity to non-financial sector clients (+1.9 billion, i.e. 10.9%). In the non-financial sector, net customer debt increased for both institutional clients (PLN 1.6 billion, i.e. 14.4%, increase in all client segments) and retail clients (PLN 0.4 billion, i.e. 5.3%, due to a higher balance of unsecured loans and mortgage loans).

## Debt securities portfolio of the Bank

| *PLN '000* | As at | | Change | |
|---|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | PLN '000 | % |
| Treasury bonds, including: | 14,935,517 | 17,020,453 | (2,084,936) | (12.2%) |
| covered bonds in fair value hedge accounting | - | 2,492,215 | (2,492,215) | (100.0%) |
| Bank bonds | 1 | 32,577 | (32,576) | (100.0%) |
| Bills issued by financial entities | 237,017 | 130,604 | 106,414 | 81.5% |
| NBP bills | - | 1,399,713 | (1,399,713) | (100.0%) |
| **Total** | **15,172,535** | **18,583,347** | **(3,410,812)** | **(18.4%)** |

The volume of the debt securities portfolio decreased by PLN 3.4 billion (i.e. 18.4%) as at the end of 2018. This was the result of a decreased position in Treasury bonds.

### *2.2.2 Liabilities*

## Liabilities towards customers

| *PLN '000* | Bank | | Capital Group | | | |
|---|---|---|---|---|---|---|
| | As at | | As at | | Change | |
| | 31.12.2018 | 31.12.2017 | 31.12.2018 | 31.12.2017 | PLN '000 | % |
| **Deposits of financial sector entities** | **7,213,788** | **4,977,728** | **7,040,000** | **4,853,148** | **2,186,852** | **45.1%** |
| **Deposits of non-financial sector entities, including** | **30,945,200** | **27,003,168** | **31,057,448** | **27,092,005** | **3,965,443** | **14.6%** |
| Non-financial sector entities | 15,016,944 | 13,415,235 | 15,012,645 | 13,403,515 | 1,609,130 | 12.0% |
| Non-commercial institutions | 395,005 | 416,064 | 395,005 | 416,064 | (21,059) | (5.1%) |
| Individuals | 11,786,786 | 10,248,163 | 11,903,332 | 10,348,720 | 1,554,612 | 15.0% |
| Public sector entities | 3,746,465 | 2,923,706 | 3,746,466 | 2,923,706 | 822,760 | 28.1% |
| **Other liabilities** | **236,897** | **191,545** | **236,897** | **191,545** | **45,352** | **23.7%** |
| **Total liabilities towards customers** | **38,395,885** | **32,172,441** | **38,334,345** | **32,136,698** | **6,197,647** | **19.3%** |
| **Deposits of financial and non-financial sector entities, including:** | | | | | | |
| Liabilities in PLN | 29,349,659 | 23,799,960 | 29,288,119 | 23,764,217 | 5,523,902 | 23.2% |
| Liabilities in foreign currency | 8,809,329 | 8,180,936 | 8,809,329 | 8,180,936 | 628,393 | 7.7% |
| **Total deposits of financial and non-financial sector entities** | **38,158,988** | **31,980,896** | **38,097,448** | **31,945,153** | **6,152,295** | **19.3%** |

In 2018, liabilities to clients were the main source of financing of the Group's activities and accounted for 77.7% of total liabilities and equity of the Group. As at the end of 2018, liabilities to clients amounted to PLN 38.3 billion and were higher by PLN 6.2 billion (i.e. 19.3%) as compared to the end of 2017. The key driver of growth was deposits of clients from the non-financial sector, which increased by PLN 4.0 billion as compared to 2017, and this growth was mainly observed for current accounts and resulted from the consistent strategy which assumed a focus on those accounts.

### 2.2.3 Source and use of funds

| *PLN '000* | Bank | | Capital Group | |
|---|---|---|---|---|
| | **31.12.2018** | **31.12.2017** | **31.12.2018** | **31.12.2017** |
| **Source of funds** | | | | |
| Funds of banks | 1,402,124 | 1,568,261 | 1,402,233 | 1,568,376 |
| Funds of customers | 38,395,885 | 32,172,441 | 38,334,345 | 32,136,698 |
| Own funds with net income | 7,007,052 | 6,874,618 | 7,056,750 | 6,938,883 |
| Other funds | 2,436,963 | 2,248,644 | 2,511,386 | 2,393,639 |
| **Total source of funds** | **49,242,024** | **42,863,964** | **49,304,714** | **43,037,596** |
| **Use of funds** | | | | |
| Receivables from banks | 1,333,816 | 836,166 | 1,333,977 | 836,774 |
| Receivables from customers | 21,853,349 | 19,766,803 | 21,949,014 | 19,849,033 |
| Securities, shares and other financial assets | 16,609,798 | 19,734,018 | 16,537,606 | 19,656,528 |
| Other uses of funds | 9,445,061 | 2,526,977 | 9,484,117 | 2,695,261 |
| **Total use of funds** | **49,242,024** | **42,863,964** | **49,304,714** | **43,037,596** |

## 2.3 Equity and the capital adequacy ratio

As compared to 2017, shareholders' equity was practically unchanged in 2018 (a slight decrease by PLN 14.6 million. i.e. 0.2%).

**Group's equity***

| *PLN '000* | As at | | Change | |
|---|---|---|---|---|
| | **31.12.2018** | **31.12.2017** | **PLN '000** | **%** |
| Issued capital | 522,638 | 522,638 | - | - |
| Supplementary capital | 3,003,290 | 3,003,969 | (679) | - |
| Other reserves | 2,347,029 | 2,356,109 | (9,080) | (0.4%) |
| Revaluation reserve | 84,372 | (9,118) | 36,991 | (405.7%) |
| General risk reserve | 540,200 | 540,200 | - | - |
| Other equity | (79,631) | (10,481) | (66,238) | 632.0% |
| **Total equity** | **6,417,898** | **6,403,317** | **(39,006)** | **(0.6%)** |

** 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 separate and consolidated financial statements of the Bank and the Group.

**Group's capital adequacy ratio***

**Capital adequacy ratio***

| *PLN'000* | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Common Equity Tier 1 Capital | **4,970,103** | **4,981,895** |
| | | |
| **Total capital requirements, including:** | **2,361,451** | **2,230,567** |
| credit risk capital requirements | 1,893,873 | 1,749,046 |
| counterparty risk capital requirements | 50,745 | 57,819 |
| Credit valuation correction capital requements | 28,466 | 49,033 |
| excess concentration and large exposures risks capital requirements | 12,459 | 3,746 |
| total market risk capital requirements | 95,391 | 82,411 |
| operational risk capital requirements | 280,517 | 288,512 |
| **Common Equity Tier 1 Capital ratio** | **16.8%** | **17.9%** |

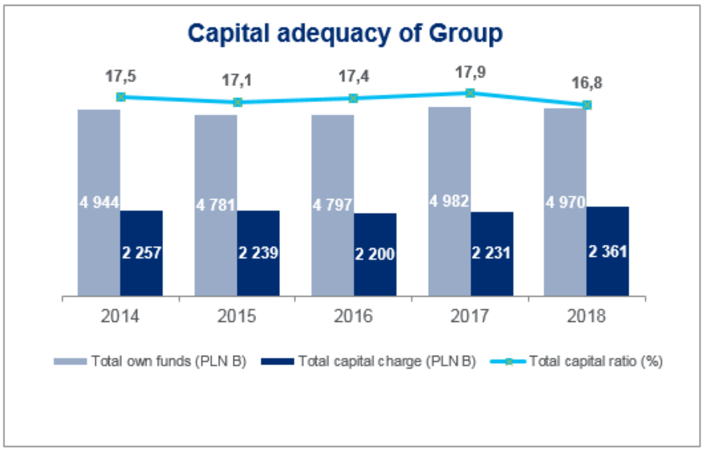
**Capital Adequacy Ratio was calculated according to the rules stated in the Regulation no 575/2013 of the European Parliament and of the Council (EU) of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) no 648/2012.*

Both in 2018 and 2017, the Group met all the regulatory prudential standards relating to capital adequacy.

In 2018, the capital adequacy level for the Group was always at a secure level, significantly above the supervisory limits.

As at 31 December 2018, as compared to 31 December 2017, the capital adequacy ratio of the Group declined to 16.8%. This value enables the Group to develop its lending activities.

The decline of the capital adequacy ratio in 2018 was caused by an increase of the requirement relating to credit risk in connection with an increase in receivables from clients.




2014–2017 – the Capital Adequacy Ratio was calculated according to the rules stated in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 648/2012 ("CRR").
2013 – the Capital Adequacy Ratio was calculated according to the rules stated in Resolution No 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 regarding the scope and detailed rules for the calculation of capital requirements against individual risks.

# VI. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in 2018

## 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 2018, in the area of credit risk management, the Group was focused on:

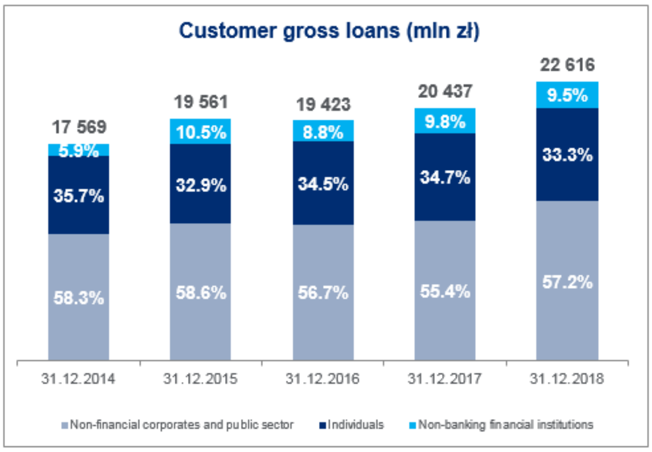
- supporting the growth of assets;
- optimizing the credit process and adjusting the credit products offered by the Group to market conditions;
- ensuring top quality of the credit portfolio;
- intensifying collection activities for the retail credit exposure portfolio;
- ensuring the effective allocation 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 | |
|---|---|---|---|---|
| | **31.12.2018** | **31.12.2017** | **PLN '000** | **%** |
| Loans in PLN | 19,146,512 | 18,059,110 | 1,087,402 | 6.0% |
| Loans in foreign currency | 3,469,062 | 2,377,706 | 1,091,356 | 45.9% |
| **Total** | **22,615,574** | **20,436,816** | **2,178,758** | **10.7%** |
| Loans to non-financial sector entities | 20,467,368 | 18,424,326 | 2,043,042 | 11.1% |
| Loans to financial sector entities | 2,148,206 | 2,012,490 | 135,716 | 6.7% |
| **Total** | **22,615,574** | **20,436,816** | **2,178,758** | **10.7%** |
| Non-bank financial entities | 2,148,206 | 2,012,490 | 135,716 | 6.7% |
| Non-financial sector entities | 12,881,440 | 11,255,032 | 1,626,408 | 14.5% |
| Individuals | 7,535,018 | 7,092,665 | 442,353 | 6.2% |
| Public sector entities | 50,907 | 76,626 | (25,719) | (33.6%) |

| *PLN '000* | As at | | Change | |
|---|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | PLN '000 | % |
| Non-commercial institutions | 3 | 3 | - | - |
| **Total** | **22,615,574** | **20,436,816** | **2,178,758** | **10.7%** |

As at 31 December 2018, gross credit exposure to clients was PLN 22,615.6 million, i.e. it increased by 10.7% from 31 December 2017. The highest portion of the customer debt portfolio were loans granted to non-financial companies (57%), which increased by 14.5% in 2018. Receivables from individual clients increased by 6.2% as compared to 2017, and their share in the total gross customer debt was 33.3%.




Foreign-currency loans accounted for 15.3% in December 2018, as compared to 11.6% in December 2017. 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* | 31.12.2018 | | | 31.12.2017 | | |
|---|---|---|---|---|---|---|
| | Balance sheet exposure* | Granted financial and guarantee liabilities | Total exposure | Balance sheet exposure* | Granted financial and guarantee liabilities | Total exposure |
| GROUP 1 | 799 072 | 202 774 | 1 001 846 | 828 101 | 115 658 | 943 759 |
| CLIENT 2 | 1 000 000 | - | 1 000 000 | 1 000 000 | - | 1 000 000 |
| CLIENT 3 | 310 424 | 628 978 | 939 402 | 251 522 | 475 980 | 727 502 |
| GROUP 4 | 332 064 | 472 010 | 804 074 | 261 317 | 574 317 | 835 634 |
| CLIENT 5 | 263 100 | 486 900 | 750 000 | 191 400 | 558 600 | 750 000 |
| GROUP 6 | 537 517 | 180 813 | 718 330 | 557 053 | 83 530 | 640 583 |
| GROUP 7 | 107 523 | 521 365 | 628 888 | 18 | 618 348 | 618 366 |
| GROUP 8 | 369 570 | 253 147 | 622 717 | 140 852 | 150 639 | 291 491 |
| CLIENT 9 | 523 638 | 81 562 | 605 200 | 396 000 | 205 185 | 601 185 |
| CLIENT 10 | 600 000 | - | 600 000 | 600 000 | - | 600 000 |
| GROUP 11 | - | - | - | 74 439 | 495 376 | 569 815 |
| **Total** | **4 842 908** | **2 827 549** | **7 670 457** | **4 300 702** | **3 277 633** | **7 578 335** |

** Net of equity and other securities exposures*

## Concentration of exposure in individual industries of the Group*

| Sector of the economy according to the NACE* | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| | PLN'000 | % | PLN'000 | % |
| Wholesale trade, excluding trade in vehicles | 4,695,369 | 17.5% | 4,458,077 | 18.3% |
| Financial intermediation, excluding insurance and pension funds | 3,385,386 | 12.6% | 3,039,423 | 12.5% |
| Manufacture and supply of electricity, gas, steam, hot water and air conditioning | 2,760,531 | 10.3% | 2,645,822 | 10.8% |
| Retail trade, excluding retail trade in vehicles | 1,084,312 | 4.0% | 825,311 | 3.4% |
| Production of food and beverages | 1,065,354 | 4.0% | 1,071,761 | 4.4% |
| Activities of head offices; consulting related to the management | 1,028,293 | 3.8% | 592,729 | 2.4% |
| Metal ore mining | 939,402 | 3.5% | 727,502 | 3.0% |
| Production of metal goods, excluding machines and equipment | 929,839 | 3.5% | 657,375 | 2.7% |
| Production and processing of coke and petroleum products | 893,827 | 3.3% | 884,023 | 3.6% |
| Production of motor vehicles, trailers and semi-trailers, excluding motorcycles | 862,454 | 3.2% | 633,978 | 2.6% |
| **10 business sectors** | **17,644,767** | **65.7%** | **15,536,001** | **63.7%** |
| **Other sectors** | **9,209,893** | **34.3%** | **8,855,908** | **36.3%** |

| Sector of the economy according to the NACE* | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| **Total** | **26,854,660** | **100.0%** | **24,391,909** | **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 2018 | 31 Dec 2017* | PLN'000 | % |
| **Loans without recognized impairment (Stage 1), including:** | **20,246,985** | **19,714,214** | **532,771** | **2.7%** |
| financial institutions | 2,148,206 | 1,995,354 | 152,852 | 7.7% |
| non-financial sector entities | 18,098,779 | 17,718,860 | 379,920 | 2.1% |
| institutional clients** | 11,752,193 | 10,946,510 | (97,713,316) | (89.3%) |
| individual customers | 6,346,586 | 6,772,350 | (425,764) | (6.3%) |
| **Loans without recognized impairment (Stage 2), including:** | **1,642,100** | **n/a** | **n/a** | **n/a** |
| financial institutions | - | n/a | n/a | n/a |
| non-financial sector entities | 1,642,100 | n/a | n/a | n/a |
| institutional clients** | 832,118 | n/a | n/a | n/a |
| individual customers | 809,982 | n/a | n/a | n/a |
| **Loans with recognized impairment (Stage 3), including:** | **669,671** | **660,094** | **9,577** | **1.5%** |
| financial institutions | - | 17,136 | (17,136) | (100.0%) |
| non-financial sector entities | 669,671 | 642,958 | 26,713 | 4.2% |
| institutional clients** | 291,221 | 322,643 | (31,422) | (9.7%) |
| individual customers | 378,450 | 320,315 | 58,135 | 18.1% |
| **Amounts due from matured transactions in derivative instruments (Stage 3)** | **56,818** | **62,508** | **(5,690)** | **(9.1%)** |
| **Total gross loans to customers, including:** | **22,615,574** | **20,436,816** | **2,178,758** | **10.7%** |
| financial institutions | 2,148,206 | 2,012,490 | 135,716 | 6.7% |
| non-financial sector entities | 20,410,550 | 18,361,818 | 2,048,732 | 11.2% |
| institutional clients** | 12,875,532 | 11,269,153 | 1,606,379 | 14.3% |
| individual customers | 7,535,018 | 7,092,665 | 442,353 | 6.2% |
| **Impairment, including:** | **(666,560)** | **(587,783)** | **(78,777)** | **13.4%** |
| Amounts due from matured transactions in derivative instruments | (50,859) | (54,295) | 3,436 | (6.3%) |
| **Total net amounts due from customers** | **21,949,014** | **19,849,033** | **2,099,981** | **10.6%** |
| **Impairment provisions coverage ratio***** | **91.9%** | **80.8%** | | |
| institutional clients** | 81.5% | 68.3% | | |
| individual customers | 99.6% | 92.3% | | |
| **Non-performing loans ratio (NPL)** | **3.0%** | **3.2%** | | |

** On 1st. January 2018 Group adopted IFRS 9 "Financial instruments" for the first time without restatement of comparative data for earlier periods.*
*** 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 2017, the value of impaired loans was stable, with only an insignificant increase by PLN 10 million. The quality of the institutional client portfolio stabilized at a good level, typical of the Bank, and the increased level of charges resulting from financial difficulties of a few clients from the Commercial Bank segment in 2017 confirmed the sporadic nature of that event.

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 2018, the non-performing loan (NPL) ratio declined from 3.2% to 3.0% 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 2018, the portfolio impairment value was PLN 667 million, i.e. increased by 13.4% as compared to PLN 588 million as at the end of December 2017. Impairment increased mainly for clients covered by the portfolio approach (by PLN 58.0 million, i.e. 18.1%) and was partially offset by a decline in the balance of impaired loans granted to institutional clients by 9.7%. The provision coverage ratio was maintained at a high level of 92.0%.

### Impairment due to financial assets value loss

| *PLN '000* | As at | | Change | |
|---|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | PLN '000 | % |
| Impairment due to financial assets value loss | | | | |
| Impairment due to financial assets value loss - Stage 1 | 56,110 | n/a | n/a | n/a |
| Impairment due to financial assets value loss - Stage 2 | 74,776 | n/a | n/a | n/a |
| Impairment due to financial assets value loss - Stage 3 | 535,674 | n/a | n/a | n/a |
| **Total impairment** | **666,560** | **587,783** | **78,777** | **13.4%** |
| Provision coverage ratio Stage 3 | 91.9% | 80.8% | | |

## 1.3 Contingent commitments

As at 31 December 2018, the commitment relating to contingent liabilities taken by the Group was PLN 16,797.3 million, i.e. lower by 0.1% as compared to 31 December 2017. The largest portion of total contingent liabilities is still committed loans (i.e. 83%), which declined by PLN 269,477 thousand. Committed loans include promised but not used credit lines and unused overdraftst.

### Contingent contingent liabilities granted

| *PLN '000* | As at | | Change | |
|---|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | PLN '000 | % |
| Guarantees | 2,589,013 | 2,312,023 | 276,990 | 12.0% |
| Letters of credit issued | 137,669 | 148,607 | (10,938) | (7.4%) |
| Third-party confirmed letters of credit | - | 19,376 | (19,376) | (100.0%) |
| Committed loans | 14,023,057 | 14,292,534 | (269,477) | (1.9%) |
| Other | 47,587 | 43,942 | 3,645 | 8.3% |
| **Total** | **16,797,326** | **16,816,482** | **(19,156)** | **(0.1%)** |
| Provisions for contingent liabilities | 26,481 | 12,789 | 13,692 | 107.1% |
| Provision coverage ratio | 0.16% | 0.08% | | |

Total value of security established on accounts or assets of borrowers of the Bank was PLN 4,385 million as at 31 December 2018, as compared to PLN 3,762 million as at 31 December 2017.

## 2. External funding

As at 31 December 2018, total external funds of the Bank (obtained from clients and banks) amounted to PLN 39.7 billion and were lower by PLN 6.0 billion (i.e. 17,9%) than the balance as at 31 December 2017. Funds from clients had the largest share in changes of sources of external financing of the Bank's activities. They declined by PLN 6.2 billion (i.e. 19,3%), in connection with an increase in deposits of clients from the non-financial sector by PLN 4.0 billion as compared to 2017, while this increase mainly covered funds on current accounts and was a consequence of the consistently applied strategy to focus on those accounts.

### Group's funding from banks

| *PLN '000* | As at | | Change | |
|---|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | PLN '000 | % |
| Current account | 912,995 | 1,108,689 | (195,694) | (17.7%) |
| Term deposits | 162,737 | 248,373 | (85,636) | (34.5%) |
| Loans and advances received | 1,326 | 36,467 | (35,141) | (96.4%) |
| Liabilities from securities sold under agreement to repurchase | 115,208 | 9,085 | 106,123 | - |
| Other liabilities, including: | 209,967 | 165,762 | 44,205 | 26.7% |
| Hedging deposits | 208,901 | 163,769 | 45,132 | 27.6% |
| **Total funding from banks** | **1,402,233** | **1,568,376** | **(166,143)** | **(10.6%)** |

## Group's funding from customers

| *PLN '000* | As at | | Change | |
|---|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | PLN '000 | % |
| **Deposits of financial sector entities** | | | | |
| Current accounts | 704,512 | 531,361 | 173,151 | 32.6% |
| Term deposits | 6,335,488 | 4,321,787 | 2,013,701 | 46.6% |
| | **7,040,000** | **4,853,148** | **2,186,852** | **45.1%** |
| **Deposits of non-financial sector entities** | | | | |
| Current accounts, including: | 24,987,518 | 22,129,625 | 2,857,893 | 12.9% |
| Corporate clients | 11,930,693 | 10,766,475 | 1,164,218 | 10.8% |
| Individuals | 9,380,065 | 8,536,410 | 843,655 | 9.9% |
| Public entities | 3,676,760 | 2,826,740 | 850,020 | 30.1% |
| Term deposits, including: | 6,069,930 | 4,962,380 | 1,107,550 | 22.3% |
| Corporate clients | 3,476,957 | 3,053,104 | 423,853 | 13.9% |
| Individuals | 2,523,267 | 1,812,310 | 710,957 | 39.2% |
| Public entities | 69,706 | 96,966 | (27,260) | (28.1%) |
| | **31,057,448** | **27,092,005** | **3,965,443** | **14.6%** |
| **Total deposits** | **38,097,448** | **31,945,153** | **6,152,295** | **19.3%** |
| **Other liabilities** | | | | |
| Other liabilities, including: | 236,897 | 191,545 | 45,352 | 23.7% |
| Cash collateral | 121,416 | 112,611 | 8,805 | 7.8% |
| Margin deposits | 66,583 | 40,671 | 25,912 | 63.7% |
| | **236,897** | **191,545** | **45,352** | **23.7%** |
| **Total funding from customers** | **38,334,345** | **32,136,698** | **6,197,647** | **19.3%** |

## 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 2018

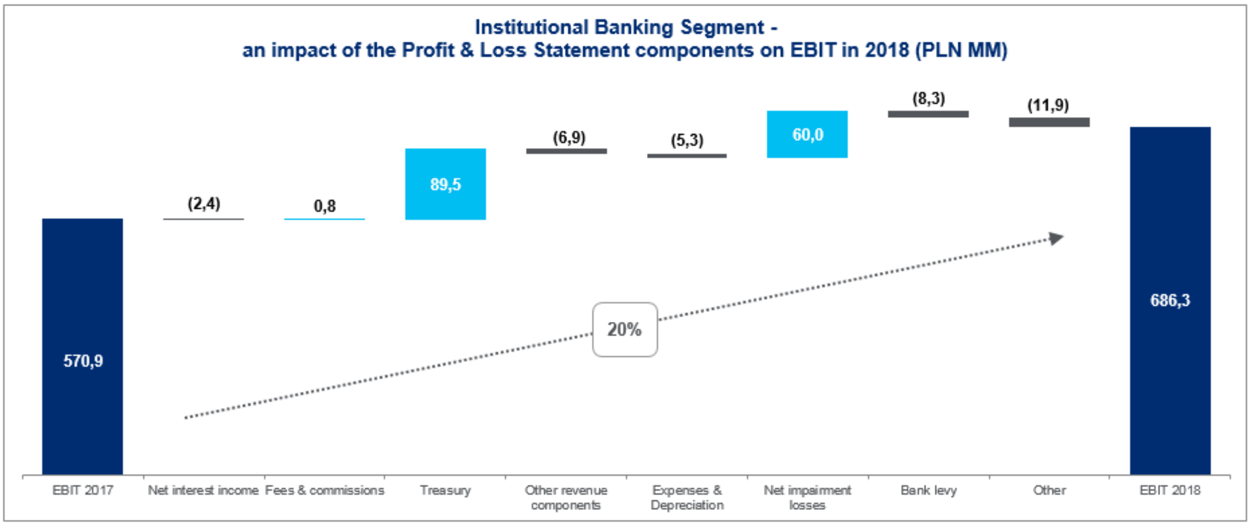
| *in %* | Institutional Bank | | | Consumer Bank | | |
|---|---|---|---|---|---|---|
| | PLN | EUR | USD | PLN | EUR | USD |
| **ASSETS** | | | | | | |
| Receivables from banks and customers | | | | | | |
| - fixed term | 3.05 | 1.02 | 3.73 | 7.90 | 4.00 | - |
| Debt securities | 2.04 | 0.12 | 3.41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

### As at 31 December 2017

| *in %* | Institutional Bank | | | Consumer Bank | | |
|---|---|---|---|---|---|---|
| | PLN | EUR | USD | PLN | EUR | USD |
| **ASSETS** | | | | | | |
| Receivables from banks and customers | | | | | | |
| - fixed term | 3.09 | 1.34 | 2.66 | 8.44 | 4.00 | - |
| Debt securities | 2.16 | 0.09 | 2.08 | - | - | - |
| **LIABILITIES** | | | | | | |
| Liabilities towards banks and customers | | | | | | |
| - fixed term | 0.94 | 0.19 | 1.03 | 0.96 | 0.10 | 0.54 |

## 4. Institutional Banking Segment

## 4.1 Summary of segment's results




In 2018, the pre-tax profit of the Institutional Banking segment rose by PLN 115.4 million, i.e. 20.2%. The following factors affected the pre-tax profit of the Institutional Banking segment in 2018 as compared to the previous year:

- Net interest income of PLN 499.3 million versus PLN 501.7 million in 2017 – a slight decline by PLN 2.4 million, was mainly due to a decline in interest income on debt securities, because of their lower volume and profitability. On the other hand, interest income on client operations increased thanks to the rising credit volumes;
- Net commission income of PLN 283.5 million, as compared to PLN 282.7 million in 2017, in particular due to an improvement in net commission income from transactional activities, as a result of higher business volumes;
- Result on financial instruments held for trading and revaluation in the amount of PLN 335.7 million, as compared to PLN 316.5 million in 2017, in consequence of a higher result on client operations – FX transactions, and result on investment debt financial assets recognized at fair value through other comprehensive income in the amount of PLN 112.6 million, as compared to PLN 35.8 million in 2017, i.e. an increase by PLN 76.9 million due to favorable conditions in Poland's debt market in 2018;
- Other revenues – a decline by PLN 6.9 million as compared to 2017, mainly because of a decline in net other operating revenues and expenses and the result of hedge accounting (no active relations in hedge accounting in 2018);
- General and administrative expenses and depreciation of PLN 509.1 million versus PLN 503.8 million in 2017 – an increase by PLN 5.3 million in connection with an increase in IT expenditure;
- A decline in gains on disposal of other assets by PLN 11.7 million in connection with a one-off transaction completed in 2017;
- A decline in net impairment charges (reversal of net charges of PLN 8.6 million in 2018 as compared to establishment of net impairment charges of PLN 51.4 million in 2017), mainly caused by lower charges for identified impaired loans and repayment of a few credit commitments.

## 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 2018, the number of institutional clients (which include strategic clients, global clients and commercial bank clients) was 5,700, i.e. declined by 6% as compared to 2017, when their number was 6,200. Through its commercial bank segment (small and medium-sized companies, large companies and the public sector) the Group cooperated with 3,200 clients as at the end of 2018 (which means a decline by 11% as compared to 3,600 clients as at the end of 2017).

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

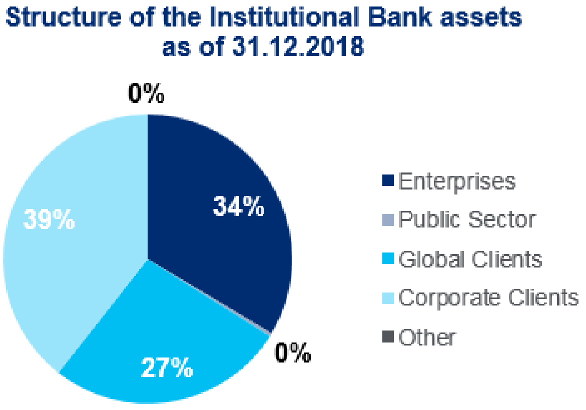
| *PLN million* | 31.12.2018 | 31.12.2017 | Change | |
|---|---|---|---|---|
| | | | PLN million | % |
| Enterprises*, including: | 4,774 | 4,494 | 280 | 6% |

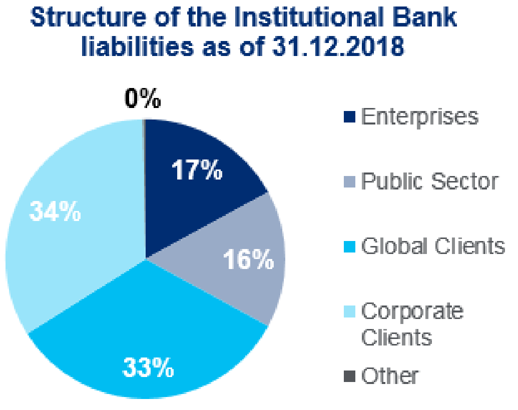
| *PLN million* | 31.12.2018 | 31.12.2017 | Change | |
|---|---|---|---|---|
| | | | PLN million | % |
| SMEs | 1,582 | 1,671 | (89) | (5%) |
| Large enterprises | 3,192 | 2,823 | 369 | 13% |
| Public Sector | 50 | 66 | (16) | (24%) |
| Global Clients | 3,782 | 3,271 | 511 | 16% |
| Corporate Clients | 5,592 | 4,819 | 773 | 16% |
| Other** | 0 | 2 | (2) | (89%) |
| **Total Institutional Bank** | **14,198** | **12,652** | **1,546** | **12%** |

## Liabilities

| *PLN million* | 31.12.2018 | 31.12.2017 | Change | |
|---|---|---|---|---|
| | | | PLN million | % |
| Enterprises*, including: | 4,376 | 3,865 | 511 | 13% |
| SMEs | 2,209 | 2,129 | 80 | 4% |
| Large enterprises | 2,167 | 1,736 | 431 | 25% |
| Public Sector | 4,083 | 3,313 | 770 | 23% |
| Global Clients | 8,484 | 7,745 | 739 | 10% |
| Corporate Clients | 8,645 | 5,856 | 2,789 | 48% |
| Other** | 69 | 71 | (2) | (3%) |
| **Total Institutional Bank** | **25,657** | **20,850** | **4,807** | **23%** |

** Enterprises include clients with annual turnover from PLN 8 million to PLN 150 million (SMEs) and from PLN 150 million to PLN 1.5 billion (MMEs).*
*** 'Other' include, among others, clients subject to restructuring and clients of Handlowy-Leasing Sp. z o.o., who are not clients of the Bank.*




<u>Key transactions and achievements in Institutional Banking in 2018:</u>

- In 2018, within the framework of initiatives to expand its relationships with strategic clients, the Bank successfully carried out some key financing transactions, including the following:
  - In January 2018, the Bank signed with a chemical company an amendment agreement to a syndicated loan agreement for PLN 1.6 billion to extend the financing period by 2 years. Citi Handlowy is the Agent with the total commitment of the Bank amounting to PLN 330 million.
  - In February 2018, the Bank prolonged a consortium agreement relating to a bond issue program with a client from the power sector for a total amount of PLN 5.8 billion. Bank Handlowy is the Agent with the total commitment of the Bank amounting to PLN 750 million.
  - In April 2018, the Bank signed a supplier financing agreement with a leading company from the chemical sector. This is the first program of that client, which, ultimately, is to cover tens of its key vendors.
  - In June 2018, the Bank, as a lead arranger, joined a new long-term syndicated loan agreement for EUR 400 million with one of its corporate clients. The Bank's commitment accounted for 16% of the total loan amount.
  - In December 2018, Bank Handlowy and Citigroup carried out the first synthetic securitization transaction in Poland for a Polish bank. That deal covered the SME portfolio and the involvement of the European Investment Fund and the European Investment Bank enabled the client to improve its capital adequacy ratio and capital buffers.
- In addition, in 2018 the Bank, as part of consistent implementation of its strategy to support its clients, also signed:

- 16 long-term loan agreements, with the Bank's involvement amounting to PLN 845 million;
- 11 overdraft, revolving and multi-purpose facility agreements for a total amount of PLN 548 million;
- 10 commitments and guarantees for a total amount of PLN 344 million;
- 6 supplier financing and reverse factoring agreements for PLN 295 million.

- 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 2018:
  - 17 mandates for comprehensive banking services or to enhance existing relationships of the Bank with its clients.
- In 2018, the Bank was focused on initiatives to:
  - Promote e-commerce solutions provided by the Bank – to this end the Bank took part in the conferences "eCommerce Journey" and "E-commerce Standard", dedicated to development of the online sales market;
  - Support its Clients during their preparations for implementation of the Act introducing the VAT Split Payment mechanism – to this end the Bank arranged the Split Payment workshops;
  - Support the newest digital trends and challenges – to this end the Bank participated in the conference "Digital Champion" and carried out, through Citi Commercial Bank, the conference "EMEA Digital Leaders".
- Client acquisition: in the Commercial Bank segment the Bank attracted 180 new clients in 2018, including 26 Large Companies, 146 Small and Medium-Sized Companies and 8 Public Sector entities. In the strategic and global client segments, the Bank established 25 new client relationships.

## 4.3 Treasury Division Operations

In 2018, Citi Handlowy, again, won the prestigious contest organized by the Ministry of Finance to select the Treasury Securities Dealer (TSD) and, by this, confirmed its strong position in that market segment.

In March 2018, during the review of the Stock Market Year 2017, the Bank was named the "Market-making leader in the Treasury BondSpot Poland market" and the "Spot market leader in the Treasury BondSpot Poland market".

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.

The CitiFx Pulse platform incessantly enjoys enormous confidence among our 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.

Innovative eCommerce solutions launched in 2018 enabled the full automation of valuation and sales in many currencies, while reducing the exchange-rate risk to which the seller is exposed. Via APIs, such a solution can be fully integrated with systems of the client. Automation allows the effective processing of high volumes of low-amount transactions, which makes the solution especially useful in online sales.

Development of electronic channels for sales of FX instruments ("eSolution") is an inseparable part of the business strategy of the Bank. 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.

The Bank was active in debt securities market where it participates in the following transactions:

- Four consortium-led issues of 6- and 7-year bonds for the European Investment Bank for the total amount of PLN 3.5 billion;
- A consortium-led issue of 3-year bonds for PLN 500 million for a Polish bank;
- A synthetic securitization transaction for a Polish bank to increase its capital adequacy ratio and improve its capital buffers.

## 4.4 Transactional banking

Citi Handlowy is a leading provider of transactional banking services. For the fifth 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 2018, 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 the most recent regulations, by launching a VAT Split Payment Mechanism. Additionally, some key functionalities of the system were upgraded and the process used for activation and configuration of user rights was streamlined.

The Bank encouraged institutional clients to use its eWnioski electronic documentation exchange platform, which can almost entirely eliminate paper documents. The Bank also promoted the MobilePASS application which ensures secure access to the CitiDirect BE electronic banking system via a smartphone and is an alternative to traditional devices that generate codes allowing access to the platform.

Innovations introduced by the Bank in the area of on-line services improve the security of the clients' funds and enable the Bank to operate faster and more efficiently.

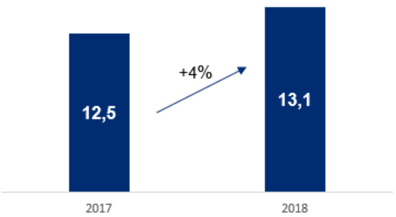
In 2018, the Bank processed approximately 26 million transactions via electronic channels. Presence in the market of advanced e-banking services is a key element of the current strategy, created to provide more and more convenient solutions to clients.

## 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 2018, the average level of balances on current accounts of institutional clients increased by 4% from 2017, to PLN 13.1 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 2018, the Bank implemented contactless payments for clients that use its Business Cards and the Bank gradually extends the range of services offered on the platform that support Business Cards, which was started in the previous year. As part of those works, the PIN distribution and card activation process was automated, leading to reduction in labor intensity in the area of customer service.

In the area of prepaid cards, the Bank launched services that are based on API communication, with which prepaid card holders can check online their available balances. API-based communication tools also enable the automation of the card activation and blocking process and improve the PIN management process.

In addition, in 2018 the Bank introduced the 3D Secure service, i.e. an additional mechanism to improve security of transactions carried out without the physical use of a Business Card, and, by this, reduced the risk of fraudulent transactions.

At the end of the first quarter of 2018, Citi Handlowy launched a new card product, i.e. the Business Executive Card, which is at present one of the most prestigious cards in the corporate market. It includes a package of ten especially-selected benefits, such as free access to more than a thousand Executive Lounges in airports throughout the world, fast security check at Chopin Airport in Warsaw and access to more than 20 million hotspots on all the continents and unlimited access to the Polityka Insight portal.

The Bank continued the commercialization of its Your Card in Travel service (www.kartybiznes.pl), dedicated to holders of Business Cards. The number of visitors of that service was 5,600 by the end of the year.

In that period, the value of cashless transactions with deferred payment date processed by the Bank increased by over 15%. For debit cards, the value of cashless transactions rose by 40%.

### Payment and receivables processing: Direct Debit and SpeedCollect

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

- Direct debit

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

- SpeedCollect

SpeedCollect is a service for automated booking of receivables, dedicated to creditors – recipients of mass payments. The 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.

### Cash products

The Bank provides its clients with comprehensive cash management services. The closed-deposit service is available throughout Poland, in more than 1,200 locations (Cash Processing Centers and Post Offices). In addition, the Bank offers open-deposit services through more than 4,500 outlets, in partnership with Poczta Polska S.A.

In 2018, activities connected with preparation of deposit payments, tracking of the closed cash deposit status and reports on expected funds were optimized. In addition to cash deposits, clients of the Bank also use withdrawals and money transfers. In partnership with Poczta Polska S.A. they are executed by all post offices of Poczta Polska S.A. in the entire territory of Poland.

### EU-funding advisory services

In 2018, the energy efficiency programs carried out by Bank Handlowy w Warszawie under the agreements signed with Kreditanstalt für Wiederaufbau (KfW) in 2012 and 2014 reached their financial closure. Under those programs, the Bank offered both refundable (loans) and non-refundable (grants) financing to its Clients (using EU funds to this end). The ELENA, MFF EE and SME EE programs supported local and regional governments and other public actors, as well as private businesses, in their efforts to finance projects aimed at improving energy efficiency (thermomodernization of buildings, replacement of systems and equipment for energy efficient solutions).

### 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. As compared to the previous year, the assets rose by 10%, which means a significant increase in sales volumes in that product segment. The Bank is still a leader among of providers of supply chain financing.

In 2018, the Bank achieved a huge increase in volumes of issued e-guarantees (by 474% YoY). In the last quarter of 2018, e-guarantees accounted for nearly 20% of the total volume of guarantees issued by the Bank.

The Bank’s results improved versus 2017 also for the other trade finance products. The number of letters of credit opened by the Bank was higher by over 3%.

## 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 2018, 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.

The Bank put its custody operations in line with the directive on markets in financial instruments ("MiFID II"), which is to further improve the transparency of activities of investment firms and banks and the level of protection offered to investors in capital markets.

As at 31 December 2018, the Bank maintained over 14.3 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. and Templeton Asset Management (Poland) TFI S.A.

In 2018, preparations were started to establish cooperation with companies offering Employee Capital Plans. 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 2018, DMBH was the market maker for 61 companies listed on the Warsaw Stock Exchange (of which 20 from the WIG20 index), i.e. 13,2% of the shares listed in its main equity market.

In 2018, DMBH was the intermediary in in-session transactions accounting for 7.8% of equity turnover in the secondary market. The value of the in-session transactions concluded via DMBH in the equity market on the WSE was PLN 31.9 billion and declined by 29% as compared to last year, with decline in turnovers on the WSE by 14%. At the same time, the structure of in-session turnovers changed – the share of turnovers on the client's account in total turnovers declined and the share of turnovers on DMBH's own account in total turnovers increased.

The number of investment accounts maintained by DMBH was 13.9 thousand as at the end of 2018 and increased by 1.5% from the previous year. The growth of the number of investment accounts was still fuelled by a regular increase of the number of agreements concluded for foreign market services.

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. A chance to increase the activity level in that client segment may be the launch of Employee Capital Plans (expected in 2019). From the perspective of activities of the brokerage house, a significant element affecting the market is the implementation of MIFID II.

### Summary financial data as at 31 December 2018*

| 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 | 364,086 | 98,777 | 1,250 |

**pre-audit data*

## 4.6 Leasing

In the fourth quarter of 2016, the Bank decided to acquire the remaining performing portfolio from Handlowy Leasing Sp. z o.o. The transaction became effective as at the end of the first quarter of 2017.

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.

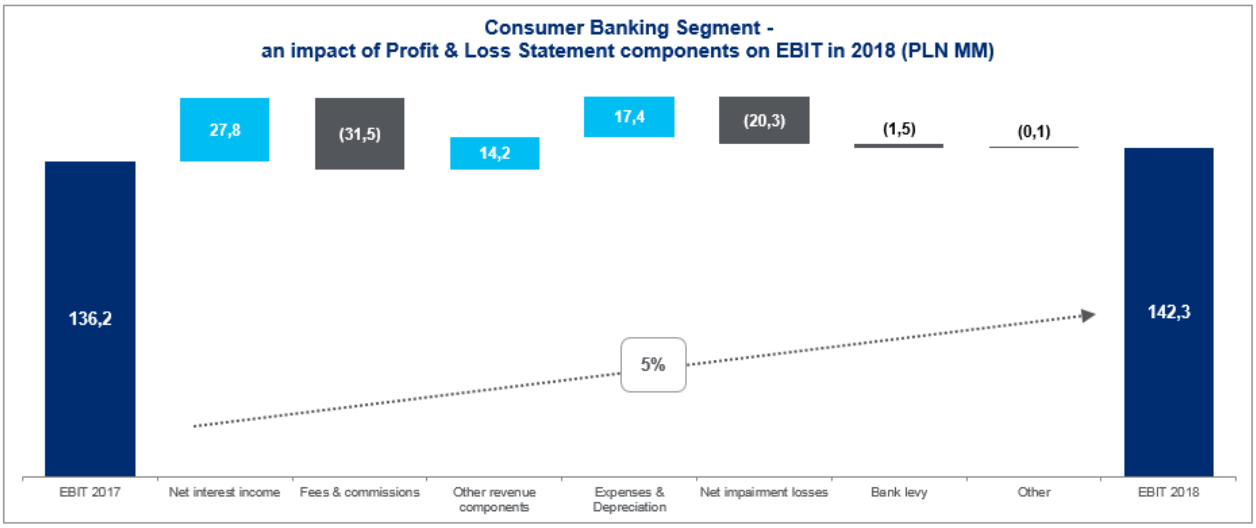
**Summary financial data as at 31 December 2018***

| 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 |
| Handlowy-Leasing Sp. z o.o. | Warszawa | 100.00 | 22,154 | 21,906 | (524) |

**pre-audit data*

# 5. Consumer Banking Segment

## 5.1 Summary of the segment's results




In 2018, the pre-tax profit of the Consumer Bank segment recorded increase by PLN 6.1 million, i.e. 4.5%: The following factors affected the pre-tax profit of the Consumer Bank segment in 2018 as compared to the previous year:

- an increase in net interest income as a result of higher credit volumes (+6% y/yYoY), partially offset by higher interest expenses resulting from the significant growth of deposits (+8% 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 11% 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.

## 5.2 Selected business data

| | 2018 | 2017 | Change PLN '000 | % |
|---|---|---|---|---|
| Number of individual customers | 687.4 | 691.7 | (4.3) | (0.6%) |
| Number of current accounts, including: | 460.6 | 463.2 | (2.6) | (0.6%) |
| number of operating accounts* | 101.6 | 100.9 | 0.7 | 0.7% |
| Number of operating accounts newly acquired in the period* | 31.2 | 37.1 | (5.9) | (15.8%) |
| Number of savings accounts | 140.8 | 144.4 | (3.6) | (2.5%) |
| Number of credit cards, including: | 679.9 | 702.9 | (23.0) | (3.3%) |
| Number of debit cards, including: | 245.8 | 251.2 | (5.4) | (2.2%) |

** In the first quarter of 2018, there was a change in the classification of operating accounts. 2017 was adjusted.*

## 5.3 Key business achievements

### Bank accounts

*Current accounts*

The total balance on the accounts increased by over 12% and exceeded PLN 6.3 billion. The number of personal accounts was 460,000 as at the end of 2018 (at the end of 2017: 463,000). Of that number, 260,000 were PLN accounts and 200,000 accounts in foreign currencies.

*Savings accounts*

The number of savings accounts dropped to 140,000 as at the end of 2018, however their total balance increased to PLN 2.8 billion, as compared to 144,000 savings accounts with PLN 2.7 billion in the same period in 2017.

*Changes in the offering*

In March 2018, an adjusted Table of Fees and Commission became effective. For clients having a Citi Priority personal account, a fee for the use of the CitiPhone telephone banking service was introduced. Clients may cancel that service free of charge, while retaining the possibility to block their Debit Cards and file complaints with CitiPhone Consultants and to use, free of charge, the Automatic Banker functionality (interactive response system). ATM cash withdrawal limits and Citibank Online transfer order limits were raised.

Those changes are consistent with the digitization strategy adopted by the Bank. The new fee and commission model and the higher transaction limits incentivize clients to use online banking, where the majority of services are provided free of charge.

In 2018, the Bank launched various solutions aimed at improving the clients' experience when using bank accounts. For example, the Bank introduced, in the Citibank® Online service, a function that enables clients to change their contact details or send documents to the Bank. In addition, Google Pay (phone payments) and Express Elixir (instant payments) were introduced.

As in the previous year, the Bank was focused on attracting new Citigold, Citigold Private and Citi Priority clients. This objective was supported by promotional proposals for new clients, traditional and online advertising and via Tele Gold and Tele Priority (telephone customer service). In August 2018, the Bank added the Primary Payment Account to its product range to allow those clients who have not had an account at the Bank yet to get a charge-free account. Simultaneously, for clients searching for full digital solutions, the Bank initiated a campaign to promote the Citi Priority Online Account. In 2019, 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. The Bank also wants to develop the Citigold recommendation program by reinforcing communication via Citibank® Online and in social media and by enhancing education programs for Citi Handlowy's staff.

In February 2018, Citi Handlowy was rewarded, again, by Euromoney, a prestigious British financial magazine. In the 15th edition of the annual survey of the private banking market, the Bank was appreciated in four categories, including in the main category: for the best private banking proposal in Poland. Private banking from Citi Handlowy was also rewarded with the highest prize, i.e. 5 stars, in the private banking ranking of Forbes magazine. The awards granted to the Bank confirm the effectiveness of its activities in that area.

## Credit cards

As at the end of 2018, the number of credit cards was 680,000. The total debt on credit cards amounted to PLN 2.7 billion as at the end of 2018 and increased by 7.3% from the end of 2017. 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 25% as at end of November 2018.

In 2018, credit card acquisition was at a stable high level, as in the prior year, and amounted to about 50,000 cards. This was achieved thanks to intensive acquisition activities of the Bank which made its credit card proposal more attractive. As a result, in 2018 the Bank was honored with the Golden Banker award for the best credit card: Citi Simplicity.

In 2018, 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 2.7 billion as at the end of 2018.

In 2018, the total sales of unsecured loans, including cash loans for credit card holders, amounted to PLN 1,236 million.

*Mortgage products*

As at the end of 2018, the mortgage loan portfolio amounted to PLN 1.7 billion, i.e. it increased by 12% from the end of 2017, which means that the portfolio growth rate achieved in 2017 was maintained. In 2018, sales of mortgage products amounted to PLN 357 million or 12% above the level recorded in 2017.

## Investment and insurance products

*Investment products*

As at the end of 2018, 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 5% lower as compared to the same period in 2017.

As part of its cooperation with DMBH, the Bank provided its clients with access to 14 issues of investment certificates of closed-end investment funds and 3 public offerings of bonds.

In the structured product segment, the Bank completed 109 subscriptions for PLN, USD, GBP and EUR denominated structured bonds in 2018.

In the open-end investment fund segment, the Bank added 28 equity, mixed and bond funds in various currencies to its product range in 2018.

*Insurance products*

The Bank still offered insurance products, while focusing on those distributed via Citigold branches, 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.
With respect to insurance products offered in cooperation with Towarzystwo Ubezpieczeń na Życie WARTA S.A., additional changes in offered life insurance products were made in 2018 to optimize processes used for signing insurance contracts and to modify products to make them more attractive.

# 6. Development of distribution channels

## 6.1 Direct acquisition

In 2018, 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.

While continuing to use the functional model of that channel, mobile bankers were even closer to target clients. Last year, some Smart Mini points were relocated between shopping centers in accordance with the assumptions of refreshment of the sales potential from time to time with the cost effectiveness of the formula unchanged, and, simultaneously, with the continued presence in corporations and public administration entities.

Universal Bankers also supported activities to build the perception of Citi Handlowy as an innovative institution that both offers state-of the art solutions and is client oriented, by participating in a summer roadshow with a Mobile Smart Mini, where mobile bankers carried out sales activities during various social and cultural events, such as air shows, auto shows or sports events.

## 6.2 Branch network

### Citigold and Citigold Private Client outlets

As at the end of 2018, the network of outlets dedicated to affluent clients included 10 branches, divided into three outlet types: Smart Hub Gold (2 branches), Hub Gold (7 branches) and Investment Centre (1 branch).

The year 2018 was a time of accelerated transformation of Hub Gold branches, leading to relocation of some outlets.

New branches in the network dedicated to affluent clients were opened in four regional capital cities: Poznań, Łódź, Wrocław and Szczecin. Striving to ensure top quality services and to improve availability, it was decided to deploy those branches in city centers. Those outlets were opened in modern office space, in famous office buildings. This change considerably improved both quality of service and comfort of clients using sales services. Technologies deployed in the branches allow using advanced solutions which give Clients access to services of the Bank via standard channels of direct service or remote channels. Each of the new branches has space dedicated to the most affluent customers – Citigold Private Clients.

### Development of Smart Ecosystem

For the branch network of Citi Handlowy, the year 2018 was a time of continuation of the Bank's strategy and consolidation around the Smart Ecosystem, built on the objective to develop outlets in places that are most often visited by our clients. In connection with changing behaviors of our Clients and the rise of new technologies, two Smart branches were closed and, as a result, the operating effectiveness of the other outlets improved. As at the end of the period, the Smart branch network consisted of 14 outlets, in two categories: Smart (12 branches) and Smart Hub Gold (2 branches). Smart outlets are situated in the 7 biggest cities, where the Bank invariably sees the largest potential in the target client segments it has chosen as the basis of the development strategy for consumer banking.

### Number of branches (at the end of period)

| | December 31, 2018 | December 31, 2017 | Change |
|---|---|---|---|
| **Number of branches (at the end of period):** | **23** | **26** | **(3)** |
| - HUB Gold | 7 | 8 | (1) |
| - Smart Hub Gold | 2 | 2 | - |
| - Investment Center | 1 | 1 | - |
| - Smart Branches | 12 | 14 | (2) |
| - Corporation Branches | 1 | 1 | - |
| **Other POS:** | | | |
| Smart Mini | 3 | 4 | (1) |

## 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 comments of clients and extended functionality makes other channels unnecessary. One of the improvements is for credit card holders, which can manage their card limit, convert transactions into installments or buy insurance products by themselves. In addition, a new documentation management module has been added, which enables its users to send correspondence, to accept agreements and to download certificates from home.

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 399,000 as at the end of Q4 2018, which is a increase by 6,000 users as compared to the corresponding period of 2017. The share of active Citibank Online users in the entire client portfolio of the Bank was 59.1% as at the end of the fourth quarter of 2018, i.e. it increased by 1.5 p.p . as compared to the fourth quarter of 2017.

At the same time, as at the end of the fourth quarter of 2018, digital users accounted for 81% of all transactionally active clients, which means an increase by 1.5 p.p. as compared to the fourth quarter of 2017.

The Bank is working on the implementation of a new mobile application, which will be made available to Credit Card holders in the first quarter of 2019.

### 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 viewing account balances without signing in (Snapshot), free Push notifications, which keep the client updated of changes on the account or card, and login activation with the use of a fingerprint, which makes access to the application easier.

As at the end of Q4 2018, 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 207,000, i.e. increased by about 22% as compared to Q4 2017.

The share of active users of mobile banking in the retail client portfolio of Citi Handlowy was 30,6%, i.e. increased by 5.7 p.p. as compared to the same period in 2017.

### Social media

In 2018, 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 not only focused on providing information on current offerings or promotions, but also sent invitations to special events and competitions to fans – every day posts published by the Bank were received by nearly 90,000 Facebook users. In 2018, the Bank reached about 4.45 million users on Facebook.

In 2018, Facebook was also a key tool used for processing of client inquiries – all fan commitment indicators significantly improved and the average inquiry response time was 7 minutes. The Bank has 146,000 fans.

# 7. Changes in IT technologies

In 2018, 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 was possible because of innovation, automation and leading edge project management and implementation method, but also thanks to very close cooperation between business and technology units and with market partners (FinTechs, startups) from the creation of the concept of a banking product to its full-scope implementation in the production environment.
IT processes of the Bank are executed in accordance with international standards, which was confirmed, in the first quarter of 2018, by the positive outcome of recertification 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 2018 included:

- **in institutional banking:**
  - **finalization of migration of commercial cards for institutional clients to a new platform implemented in 2017** in order to enable the continued development of a card product for companies. With the implementation of the new platform, the corporate clients were given additional possibilities of use of EMV chip cards and access to data via digital front-end systems. The Bank expects that the new platform will intensify client acquisition in the corporate card product area;
  - **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;

- **migration of the voice communication and recording system in the area of Financial Markets and Corporate Banking to IPC Unigy/NIM 4.1** – migration is to mitigate operational risk, for example by raising the redundancy level of this environment, which is crucial for transactional operations;

- **in consumer banking:**
  - **launch of the Android Pay service for Mastercard debit and credit cards** – online banking and mobile banking are the two fastest growing areas of the cashless payment market. Poland is one of the markets where mobile payments are the most popular, have a huge development potential, and the number of virtual cards is growing rapidly. This trend is fuelled by the fact that nearly all terminals support proximity payments, which already account for more than 60% of all transactions. Therefore, the Bank decided to implement the Android Pay functionality, which enables its users to make proximity payments via a smartphone, without the physical use of a card, in a modern, fast, simple and efficient way;
  - **launch of KIR instant payments for retail clients (Express Elixir) –** introduction of a new innovative method for making payments in less than 30 seconds, dedicated to retail clients and small and medium-sized enterprises, while maintaining invariably high transaction security standards. This is to improve the clients' experience level measured by the NPS indicator and to increase revenues as a result of the expected growth of the total number of transactions;
  - **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**;**

- **in the scope of adaptation of systems of the Bank to ensure their compliance with regulatory requirements:**
  - implementation of regulatory changes to introduce at the Bank a new type of payment for business clients, the so-called **Split Payment**. Implementation of changes in IT systems ensured full compliance of the Bank with the new regulation issued by the Ministry of Finance. As a result of the implementation, the full-scope functionality of the Split Payment mechanism was made available to Business Clients of the Bank;
  - implementation of regulatory changes to ensure compliance of IT systems of the Bank with the requirements of the General Data Protection Regulation (**GDPR**), which became effective in May 2018. Those changes put the IT systems of the Bank in line with the new European regulation;
  - implementation of regulatory changes to adapt IT systems of the Bank to further requirements of the new regulation on markets in financial instruments **(MIFID 2)**. As a result, the Bank's compliance with additional requirements of MIFID 2 was ensured;
  - implementation of regulatory changes to adapt IT systems of the Bank to the requirements of financial market regulations connected with **PSD2**. As a result, the Bank's compliance with new requirements of **PSD2** which came into force in 2018 was ensured;
  - implementation of regulatory changes to adapt IT systems of the Bank to the requirements of the Payment Account Directive;
  - implementation of regulatory changes to adapt IT systems of the Bank to the requirements of the AML regulations (anti-money laundering and combating of terrorist financing);

- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - completion of migration of the "Sitekiosk" application to a new version, which opens new opportunities for applications used by Smart branches;
  - implementation of an application used to monitor the location and other login parameters to improve the security of the information and communication technology environment;
  - 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;
  - change of technology and an increase in capacity of international telecommunication lines of the Bank to enable the practical elimination of limitations in that area and the faster response of Technology to increasing business needs in the area of data transfers over the network;
  - upgrades of firewalls/B2B and network and telecommunication infrastructure in 15 locations of the Bank, in accordance with the needs of the Business and in order to mitigate EoVS risks;

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 Sub-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:**
  - continued **automation and digitization of sales processes (straight through processing) in the area of consumer banking products –** for credit card, cash loan and account-related processes**;**
  - launch of a service that allows for **automated confirmation of a client's identity** – in order to accelerate and increase the acquisition of new clients;
  - **continued improvement of the online and mobile banking platform** (addition of a new functionality and products) in order to increase the client satisfaction level, revenues and security;
  - **migration of the Autodialer application to a new environment** – in order to mitigate operational risk, among other things by increasing the redundancy level for the environment, which should significantly reduce the risk of loss of access to an application that generates measurable financial benefits for the Bank;
  - **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;
  - adaptation of IT systems of the Bank to certain RTS-related requirements of the financial market regulations **(PSD2)** which will come into force in 2019;
- **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;
  - 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;

# 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 2018, 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 2018, 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 2018 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 | 10,856 | 10,813 | (22) |
| Handlowy Investments S.A.* | Luksemburg | 100.00 | 18,445 | 18,137 | (305) |

* Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 28 February 2019, 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 2018, the financial and organizational situation of the Group was affected, among other things, by:

| Legal acts / regulations | Effective date and summary of new requirements |
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| The EBA's guidelines concerning remuneration policies and practices related to the provision and sale of consumer banking products and services. | • Date: January 2018<br>• The EBA's guidelines concerning remuneration policies and practices related to the provision and sale of consumer banking products and services set out the requirements relating to preparation and implementation of remuneration policies and practices connected with offering or distributing banking products and services to consumers. Their aim is to protect the consumers against undesired negative effects of remunerating staff involved in selling activities. |
| WIBID and WIBOR Reference Rate Documentation of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) | • Date: February 2018<br>• This 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. |

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| Recommendation H concerning internal control systems of banks | • Date: December 2017<br>• The Recommendation H implemented treatment of internal control system as part of a three line of defense model, coupled with assigned respective control mechanisms and the independent monitoring of such mechanisms for their observance by all units which act as such defense lines. It also hinged the internal control system on the concept of the set of control mechanisms which ensure the delivery of the statutory objectives. |
| Act of 24 November 2017 amending certain acts to prevent the financial sector from being used for tax frauds | • Date: 13 January 2018<br>• This regulation is to combat tax frauds, especially those relating to fraudulent VAT refunds. Banks are now obliged to provide the settlement chamber with certain data relating to clients and their transactions in order to determine risk indicators. The settlement chamber will pass those risk indicators to the Director of the National Tax Administration and to banks. The Act has established a system for exchange of information between banks and the tax administration. The tax administration will be using information provided by banks to carry out financial analyses to identify flows that are typical of tax frauds. If it is suspected that an account is used for tax frauds, the National Tax Administration may freeze client accounts for 3 days, with an option to extend its decision for up to 3 months. |
| The Act of 10 May 2018 amending the Payment Services Act and certain other acts | • Date: 20 June 2018<br>• This act implements into the Polish legal system Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, which is to create a single market of payment services in the EU based on safe and innovative payment services. The Act provided for a 6-month period (expired on 20 December 2018) for providers of payment services to ensure compliance with the amended regulations.<br>• The most important changes include:<br>➢ addition of a new category of providers – the list of payment services has been enlarged by two new types of services: payment initiation service (“PIS”) and account information service (“AIS”),<br>➢ implementation of strong authentication,<br>➢ modification of responsibility for an unauthorized transaction,<br>• introduction of the category of small payment institutions. |
| 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”). | • Date: 25 May 2018<br>• 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:<br>➢ 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.<br>➢ 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.<br>➢ 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.<br>• 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. |
| The Act of 15 December 2017 Amending the Goods and Services Tax Act and Certain Acts | • Date: 01 July 2018<br>• The split payment act introduces a split payment mechanism, which means that a taxpayer who has received an invoice which shows the amount of tax may use the split payment mechanism when paying the amount due under that invoice. The split payment mechanism is used as follows:<br>➢ The full amount of tax from the received invoice or its part is paid to the VAT account;<br>➢ The full amount of net sales (ex VAT) resulting from the received |

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| | invoice or its part is paid to the bank account or the account at a savings and credit union for which the VAT account is kept, or is settled in a different manner.<br>• The taxpayer's options to manage the funds on the VAT account are limited. The funds on that account may be used by the client to pay VAT to its suppliers, however only to a VAT account, or to pay its VAT liabilities to tax authorities. This solution is to help combat VAT frauds.<br>• Under that Act banks are obliged to open one charge-free VAT account for each client. The solution assumes a change in technology in the interbank settlement system and may affect the way some products are delivered. The regulation does not apply to retail clients. |
| Act on Anti-Money Laundering and Combating the Financing of Terrorism of 1 March 2018 | • Date: 13 July 2018<br>• This Act implements the Fourth AML Directive into the Polish legal system. The main changes cover the principles of GIIF reporting, a broader scope of client and beneficial owner data, a broader definition of the client and significantly extended obligations of the bank. |
| Regulation No. 1286/2014/EU of the European Parliament and of the Council of 26 November 2014 on key information documents for retail collective investment products and insurance investment products – (PRIIPs), | • Date: 01 January 2018<br>• The regulation imposes various new obligations on entities which create and sell PRIIPs, first of all with respect to the scope of presentation of certain information to investors. This is to improve the protection of individual investors which buy such products. |
| 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<br>• 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.<br>• 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 of15 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)<br>• 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<br>• 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.<br>• 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 15 December 2017 on insurance distribution | • Date: 01 October 2018<br>• 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.<br>• The Act lays down the principles of execution of activities to distribute personal and property insurance products and to distribute reinsurance products. |

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| 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 comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features ("PAD") | • Date: 08 August 2018<br>• The most important changes included:<br>➢ 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,<br>➢ statutory principles applicable to transfers of payments accounts,<br>➢ disclosure obligations related to fees. |

In 2019, 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 |
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| Recommendation S on good practices for management of credit exposures secured with mortgages | • Date: 2019<br>• The draft of amended Recommendation S provides, among other things, for an obligation to add to product ranges of banks fixed-rate loans with an option to convert a variable-rate loan to a fixed-rate loan. 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 L on the role of statutory auditors in the process of supervision over banks | • Date: March 2019<br>• Changes include a new model of cooperation between auditors and the supervisory authority and changes in the process of selection of auditors and audit firms by banks. Recommendation effective date: 31 March 2019. |
| Recommendation Z on internal governance at banks<br><br>EBA and ESMA’s guidelines on suitability assessment for management body members and key function holders<br><br>EBA guidelines on internal governance | • Date: 2019.<br>• 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). |
| EBA’s Guidelines on the Management of Interest Rate Risk Arising from Non-trading Activities | • Date: June 2019<br>• 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. |
| EBA guidelines on fraud reporting under PSD2 | • Date: January 2019<br><br>Under the guidelines, providers of payment services in 28 Member States must collect and report data relating to payment transactions and fraudulent payment transactions by using a consistent methodology, definitions and data categories. The guidelines are to ensure a uniform reporting of transaction data in accordance with the requirements of the second Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market. |

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| 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<br>• 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<br>• 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.<br>• Obligation to report tax schemes to the Director of the National Tax Administration.<br>• 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.<br>• Discouraging the preparation and use by taxpayer and their advisers of arrangements which may represent tax avoidance.<br>• 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 2019, 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.<br>• 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<br>• Strengthening the protection of investors in the capital market.<br>• Introducing the mandatory dematerialisation of certain financial instruments (including bonds and covered bonds).<br>• 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.<br>• 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.<br>• Extending, to 12 months, the period during which the Polish Financial Supervision Authority may audit supervised institutions (previously: 6 months).<br>– 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. |
| The draft Act 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: 21 July 2019<br>• This draft is, among other things, to implement certain provisions of Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement and to ensure compliance with 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.<br>• Implementing the shareholders register, maintained by the KDPW, to which investment firms and custodian banks will submit information on shareholders of companies. Data in the register are to be updated at least after a transfer of shares recorded on a securities account.<br>• Enhancing shareholders’ rights by a right to vote on the remuneration policy of the company and on periodic reports on the performance of that policy. |

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| | • Authorizing the Polish Financial Supervision Authority to fine investment companies and custodian banks for a breach of their obligations related to the maintenance of the shareholders register.<br>• Implementing changes related to public offerings, including a limit for private offerings by setting out that such offering may only be addressed to not more than 149 persons in a year. |
| 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.<br>• 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 of15 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 and the national regulations adopted to implement them is to strengthen the protection of clients which use investment services and to increase the transparency of functioning of financial markets, and<br>• To ensure an increase in the competitiveness and efficiency of financial markets in Poland and the European Union. |
| 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"), the draft Act amending certain Acts in connection with the assurance of application of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) – ("GDPR") | • The regulation has introduced numerous changes and significantly enhanced the responsibilities of personal data controllers and processors.<br>• The most important changes included:<br>– 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.<br>– 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, an obligation to inform data subjects about profiling and the necessity to accept the lack of consent to profiling.<br>– 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.<br>– Data controllers will have to 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 and in certain cases also to inform those persons of such breaches.<br>• In addition, a draft Act which is to support the application of the GDPR is currently in the legislative pipeline. Depending on its final shape, it may affect the activities of the Bank, for instance with respect to data processed for the purposes of assessment of creditworthiness of natural persons. |

# 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 2018 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;
- Information security risk (including cybersecurity risk);
- Outsourcing risk;
- Model risk.

### Liquidity risk

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| 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).<br>• Liquidity risk management is based on:<br>– applicable laws and regulations, in particular the Banking Act;<br>– requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority (KNF);<br>– principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank;<br>– taking into account best practices applied in the market.<br><br>• 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.<br>• 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.<br>• 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 |

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| | 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.<br>• 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.<br>• 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:<br>– gap analysis – MAR/S2<br>– crisis/stress scenarios,<br>– structural liquidity ratios,<br>– market warning signals,<br>– significant sources of financing,<br>– emergency financing plan,<br>– intra-day liquidity management process,<br>– short-term liquidity gap – M1,<br>– 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):<br>– limits for the S2 Report – for pre-determined currencies and time ranges;<br>– warning thresholds for structural liquidity ratios;<br>– warning threshold for tests of stress scenarios.<br>• 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.<br>• 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**

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| Definition | • Market risk is the risk that the financial result and equity of the Bank may be adversely affected by a change in:<br>– market interest rates;<br>– currency rates;<br>– stock prices;<br>– commodity prices; and<br>– 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.<br>• 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.<br>• 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.<br>• 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.<br>• Trading portfolios include transactions in financial instruments (on- and off-balance sheet |

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| | 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.<br>• 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%).<br>– For interest rates, the sensitivity measure is DV01;<br>– For currency risk the sensitivity factor is equal in value to the position in a given currency;<br>– For positions in equity securities, the sensitivity factor is equal in value to the net position in a given instrument (stocks, index, participation unit).<br>• 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.<br>• 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.<br>• 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.<br>• 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).<br>• 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**

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| 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.<br>• 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. |

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| 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.<br>• 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.<br>• 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.<br>– 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.<br>– 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.<br>• 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.<br>• 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.<br>• 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.<br>• The Interest Rate Exposure (IRE) method is used for measurement of the potential impact of a pre-determined parallel shift of interest rate yields on pre-tax interest income on the banking book which may be earned in a specified time interval. This is a prospective measure. In addition, it is assumed that in standard conditions interest rate moves are identical for each currency and equal to 100 basis points up. The IRE measure is calculated separately for the position in each currency over a 10-year time horizon, provided, however, that 1-year and 5-year IRE measures are mainly used for the purposes of day-to-day monitoring and limitation of interest rate risk positions for banking portfolios.<br>• 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.<br>• 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.<br>• 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.<br>• 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.<br>• 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 |

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| | Capital Committee of the Supervisory Board. |

### Credit risk and counterparty risk

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| Definition | • Risk of a client's failure to perform their liabilities.<br>• 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:<br>– Business and independent risk management units share responsibility for quality of the credit portfolio and credit process and for any credit losses;<br>– Conduct must be in compliance with the guidelines on the portfolio structure to ensure its diversification and to keep balance between risk and capital;<br>– 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;<br>– Acceptance level must depend on assumed risk – higher-risk exposures (defined taking into account both amount and level of risk) require higher-level approval;<br>– Diversified and adequate risk assessment standards must be used for each borrower and each commitment, including as part of corrective actions;<br>– A consistent rating process is required, which is based, *inter alia*, on results produced by rating or scoring models;<br>– 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;<br>– External environment must be monitored to ensure early detection of economic threats which may adversely affect particular portfolios;<br>– 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:<br>– annual comprehensive review of limits, exposures, financial situation of and cooperation with borrowers,<br>– reports generated in the Early Warning process,<br>– periodic financial reviews of borrowers,<br>– periodic reviews of negatively classified credit exposures,<br>– periodic visits to clients,<br>– reports on ongoing contacts of employees of business units/bankers with clients,<br>– analysis and assessment of external information (rating reports, analytical reports, press, sector sources, etc.),<br>– internal classification system.<br><br>• Portfolio-level monitoring<br>– monitoring of utilization of risk concentration limits in the credit portfolio on the basis of appropriate reports,<br>– regular periodic reviews of the credit portfolio,<br>– "ad hoc" portfolio reviews due to sudden important external information,<br>– monitoring of indicators determined for the retail exposure portfolio.<br><br>• 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.<br>• 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**

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| 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.<br>– 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);<br>– 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.<br>– 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.<br>– 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.<br>– 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).<br>– 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.<br>– 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.<br>– 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.<br>– 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.<br>– 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 2018. 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 2018 item 395), 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 it 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, such as the Respect Index or the Socially Responsible Companies Ranking. In addition, in 2018 the Bank was awarded a “Super Ethical Company” title in the contest organized by the *Puls Biznesu* newspaper in cooperation with PwC. This award is granted to companies which have already been awarded the “Ethical Company” title at least three times in three consecutive editions of the contest. 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 2018 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 2018. One of them is the award granted in the 9th 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 third time in a row in the product category: “best credit card”. Citi Handlowy also won an award for the Cash Loan as the best product in terms of price parameters of product functionality depending on the client's profile. Other awards were granted, among others, by Euromoney (UK financial magazine) for the best private banking proposal and by the SAR Marketing Communication Association for an innovative sales strategy conceived for credit cards.

The Bank promotes the idea of high level of customer satisfaction not only through NPS tests. In 2018 we systematized the 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. The growth of Customer satisfaction level is among the Bank’s key goals for 2019.

### Communication with clients

For more than six 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, complaint processing 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. 73% 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 2018, 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 500 queries submitted through this channel are handled monthly. In addition to standard queries how its products and services work, the Bank offers the use of a 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 84% of Customers confirmed their true satisfaction with the degree of commitment demonstrated by Consultants to solve their problem; 87% 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 2018, the Customer Advocate received 205 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 more reasonable and aware credit and investment decisions, as well as to preclude financial exclusion of specified social groups. The activities of the Kronenberg Foundation at Citi Handlowy focus on the activity in the area of financial education, within which a particular emphasis is put on building competences in personal finance. 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 , with regard to their innovativeness.

The Foundation's activities are supplemented with competitions for micro-entrepreneurs and Polish companies conquering international markets, as well as entities from emerging markets investing in Poland.

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.
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:

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| **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.

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.

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

Every year, the Bank carries out 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.

The next regular employee satisfaction survey in the Bank was scheduled for autumn 2018.

### 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.

### 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. 251 volunteering projects were implemented in 2018 for nearly 40,500 addressees. Volunteers (also those, who were not from the organization) took part in volunteering actions 4,480 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 13th 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 2018, Citi volunteers conducted 207 social projects for over 38,000 addresses, as part of efforts made in connection with Citi Global Community Day .

In 2018, also key projects were continued, such as seasons action "Become Santa's Helper", integration trips for volunteering employees In addition, as part of the all year activization, volunteers were invited to involve themselves in Senior Volunteering as well as in social actions in connection with the activity consisting in sending on a regular basis individual volunteering offers.

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.

Since 2015, effects of Citi volunteers' work within the largest Citi social action - World Citi for Community Day, can be measured by means of a questionnaire disseminated among partner organizations. Surveys conducted in 2018 showed that all partners were satisfied with cooperation with Citi volunteers and they declared their intention of further cooperation. As many as 99% of the surveyed persons were satisfied with the way, in which the project was implemented. The same number of persons confirmed the attainment of the goal. All the surveyed partners recorded lower organizational costs and 25% of them noticed that cooperation with qualified Citi employees significantly improved their organization management processes (e.g. in IT, HR or finance). All the surveyed persons would without hesitation have recommended cooperation with Citi volunteers to other organizations.

Furthermore, the Kronenberg Foundation at Citi Handlowy together with Narodowe Centrum Kultury (national Centre for Culture) organized the 3rd Nationwide Conference "Volunteering in Culture", which took place on 26 November 2018 in National Museum in Warsaw. Over 150 participants took part in the Conference – experts, volunteers and guests, representing cultural institutions from all over Poland. For the first time, the event included a presentation of 8 good practices. Representatives of cultural associations and institutions shared their proven ways to build trust in relationships with volunteers and to keep them committed. After presentations, the participants took part in a study visit to the National Museum, discussion panels and workshops about volunteering for heritage, youth volunteering and volunteering as a tool for education of HR resources for culture.

In 2018, the 6th edition of the Employee Volunteering Program survey was carried out. It covered Citi employees in Poland involved in volunteering (also outside the Employee Volunteering Program) and persons who have not had any contact with volunteering yet. The goal was to identify the satisfaction of volunteer of their social activities to date and also to learn their expectations toward the Program and benefits from participation in employee volunteering (both for employees and employer). The anonymous questionnaire was filled in by 267 respondents. The results show that Citi volunteers are mainly interested in repair and cleaning activities (this form of aid was chosen by as many as 80% of respondents). Employee volunteering affects the perception of Citi as their employer in the case of 83% of respondents. For 96% of them the influence is positive or definitely positive It is also worth noting that it is mainly volunteers who better assess their employer from the angle of employee volunteering. Volunteers also better assess the general climate of social responsibility at Citi.

## 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 our 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 - 2018, 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 (mechanical dispensing 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 four main locations, the Bank has built bicycle shelters for employees, thus encouraging them to ride a bicycle more frequently.

In 2018, 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 2018, 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 2018, an employee volunteering initiative to promote biodiversity protection was also carried out. Nesting boxes for birds and bats and insect hotels were deployed in the Powsin park. Messages covering completed energy saving projects, waste segregation, consumption of natural resources and the climate summit in Katowice (COP 24) 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). In 2018, a good example of support for the proecological Circular Economy model was the decision to order more than 5,000 calendars made of apple remains for employees and clients of the Bank. Those calendars are 100% recyclable and were produced from fruit remains which would otherwise not be utilized.

## 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 19 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 28 September 2018, during the plenary session “New division of the world: European Union – USA – China. Will digitization stop deglobalization?”, organized as part of the European Forum for New Ideas in Sopot, an award ceremony was organized to honor the winners of the 5th edition of the contest. The "Emerging Market Champion" title in the category "Polish foreign investments" was granted to Wielton Group and the winner in the category "Foreign investments in Poland" was CEZ Poland sp. z o.o. In the new e-commerce category, the winner was CCC S.A. In the course of the project, the 5th edition of survey was carried out – this time it was focused on e-commerce trends in the market.

- **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 120 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 2,500 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 winner of the 19th edition of the Award was Leon Tarasewicz rewarded for the many years of conscious efforts in building bridges between different ethnic, language and religious groups in the borderland of Poland, Belarus and Lithuania during many editions of the annual "Trialog" festival in Krynki (Podlaskie Voivodeship).

- **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. In 2018 activities commenced in the previous years were continued. Beginning 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. Two grants were awarded in 2018.

### Programs implemented with the support of the Citi Foundation

- **My Finance:** the largest financial education program in Poland addressed to the youth. In 2018, the program was implemented at schools by the Junior Achievement Foundation. In 2018 the program was addressed to 90,000 pupils. The program was delivered by 1,600 teachers.

- **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" (11th 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 2018, 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 2018 the fifth edition of the cluster of female companies was launched and would end in the half of 2019.

- **Microentrepreneur of the Year** - competition organized in 2018 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.

## 2. Cultural patronage and sponsorship

In 2018, the Bank and the Foundation supported numerous nation-wide and international conferences. One of them was the **8th European Financial Congress in Sopot**, an annual meeting of representatives of the European financial sector, the world of politics and economic experts. The leitmotiv of the 8th edition of the Congress was "For the centenary – innovative and secure future of the financial sector".

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 many panel discussions during all those events.

Citi Handlowy was a sponsor of the Polish edition of Graham Allison's ***Destined for War: Can America and China Escape Thucydides's Trap?*** This book, written by a renown historian from Harvard University and a practitioner in the field of international relations, is an insightful analysis of possible scenarios of future competition between the United States and China.

In 2018, Citi Handlowy continued its cooperation with Nextbike, an international city bike operator. Between March and November, city bikes in Warsaw, Łódź, Lublin, Wrocław, Białystok, Poznań, Szczecin, Upper Silesian Industrial Region, Katowice and Opole promoted products and services of the Bank. For Warsaw bikers, Citi Handlowy also launched a new version of the unique bank & bike application **Citi Handlowy Bikes**, for renting bikes. It includes many new functions, including an option to check how a bike ride improved quality of air in the city.

In 2018, Citi Handlowy established cooperation with **Live Nation**, leading organizer of concerts and live events. 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 Metallica, Bon Jovi, Beyoncé or Phil Collins. The strategic cooperation with Live Nation will be continued in 2019.

Under its Live Well at Citi program, the Bank supported development of sports in Poland in 2018. It was also a partner of the **Polish Golf Union** and the Title Sponsor of the **Citi Handlowy Lexus Business Cup**, a tennis tournament organized in six Polish cities from May to September. It was also a sponsor of the **Ironman Poland Tour** - triathlon races in Warsaw and Gdynia.

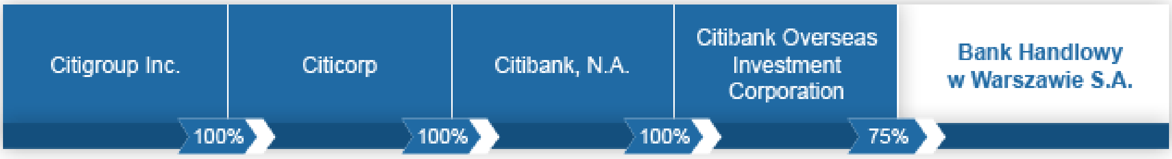
# IX. Investor information

## 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 2018, 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 2018, 15.31% of the Bank's shares, i.e. 0.54 p.p. more than as at 31 December 2017.

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

| Shareholder | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| | 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 | 4,516,944 | 3.46% | 4,360,787 | 3.34% |
| Aviva OFE Aviva BZ WBK | 4,124,227 | 3.16% | 4,020,913 | 3.08% |
| OFE PZU | 2,723,970 | 2.08% | 2,024,149 | 1.55% |
| Aegon OFE | 1,654,119 | 1.27% | 1,615,914 | 1.46% |
| MetLife OFE | 1,637,646 | 1.25% | 1,634,409 | 1.25% |
| PKO BP Bankowy OFE | 1,574,998 | 1.21% | 1,905,380 | 1.24% |
| Allianz Polska OFE | 1,459,838 | 1.12% | 1,085,852 | 0.98% |
| AXA OFE | 1,284,455 | 0.98% | 1,281,916 | 0.83% |
| Generali OFE | 686,777 | 0.53% | 550,005 | 0.42% |
| OFE Pocztylion | 340,501 | 0.26% | 339,828 | 0.37% |
| Pekao OFE | 0 | 0.00% | 484,256 | 0.26% |
| **Total** | **20,003,475** | **15.31%** | **19,303,410** | **14.77%** |

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

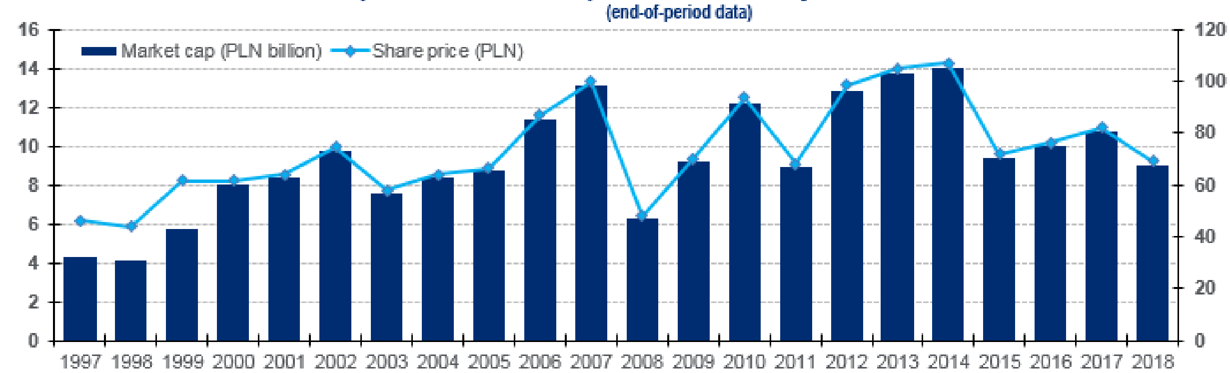
** In 2018 OFE PZU purchased assets of PEKAO OFE.*

## 1.2 Performance of the Bank's shares on the WSE

In 2018, 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 RESPECT Index (socially responsible companies listed on the WSE Main Market) since its first edition.

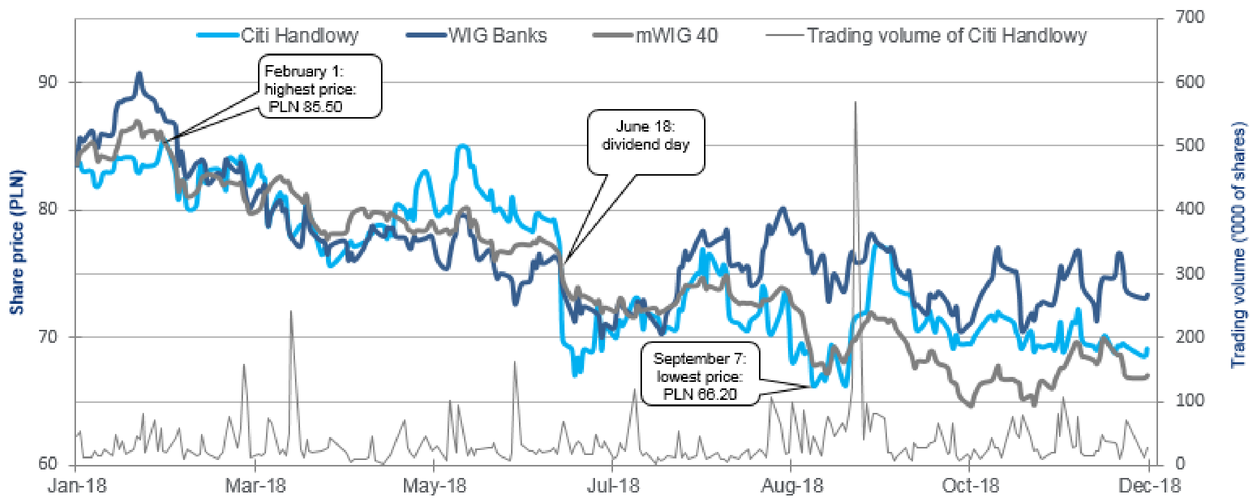
At the last session in 2018 (i.e. on 28 December 2018), the price of the Bank's shares was PLN 69.10, i.e. 16% below the level of 29 December 2017 (PLN 81.88). In the same period, the WIG and WIG-Banks indices declined by 9% and 12%, respectively.

**Market capitalization and share ptice of Citi Handlowy since its debut on the WSE**
(end-of-period data)




As at the end of 2018, the capitalization of the Bank was PLN 9.0 billion (as compared to PLN 10.7 billion at the end of 2017). The stock market ratios were: price/earnings (P/E): 14.1 (in 2017: 20.0); price/book value (P/BV): 1.3 (in 2017: 1.5).

**The Bank's share price and trading volume vs. WIG-Banks and mWig40 indices in 2018**
(28/12/2018 = 69.10 zł)




In the beginning of 2018, the Bank's shares were appreciating. In February, they reached the 2018 high, i.e. PLN 85.50. In next two months of 2018, the prices of Bank's shares declined to PLN 75.60 and, then, rose to PLN 84.80 (in May 2018). In the second half of 2018, the Bank followed a downward trend. In September 2018, it dropped to its 2018 low, i.e. PLN 66.20. Finally, the Bank closed the year, on 28 December 2018, at the level of PLN 69.10.

The average price of the Bank's shares in 2018 was PLN 75.54, with the average daily turnover above 36,500 shares.

# 2. Dividend

On 13 March 2019, the Management Board adopted a resolution on the proposed distribution of net profit for 2018 and recommended to allocate for the payment of the dividend 74.8%, which is PLN 3.74 per ordinary share.

The final decision on the distribution of net profit for 2018 will be made by the General Meeting of the Bank.

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% |

| Financial year | Dividend (PLN) | EPS (PLN) | Dividend per share (PLN) | Dividend pay-out ratio |
|---|---|---|---|---|
| 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*
**** As recommended by the Management Board on March 13, 2019.*

## 3. Rating

As at the end of 2018, the Bank had a full rating from the international rating agency: Fitch Ratings ("Fitch").

On 12 October 2018, after the annual rating review, Fitch maintained all the ratings of the Bank at the following levels:

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

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

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

## 4. Investor relations

Investor relations, which 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 2018, representatives of the Management Board and the Investor Relations Unit held over 51 individual, group meetings and teleconferences with investors. At the same time, representatives of the Bank took part in investor conferences organized in Poland and abroad.

In addition, the Bank held meetings at its head office with capital market analysts and representatives of investors in connection with presentation of its financial results after every quarter.

# X. Statements of Bank Handlowy w Warszawie S.A. concerning application of corporate governance standars in 2018

## 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 2018, 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 2018 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 previously in Resolution No 258/2011 of the Polish Financial Supervisory Authority (KNF) of 4 October 2011 and now 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 2018 and the fact that the Bank is waiting for the Regulator's consent to payment of dividends from profits for 2017, this recommendation was not applied during the Annual General Meeting that was held in 2018.

Ad (c) During the Annual General Meeting held on 8 June 2018, 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 7 March 2018, the Management Board of Bank Handlowy w Warszawie S.A. approved the "2017 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 2017, 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 2017.

The Audit Committee, pursuant to the provision of Article 3.1 (b) of the Regulations of the Audit Committee, after becoming familiar with the "2017 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 2017 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 2018, the Supervisory Board of Bank Handlowy w Warszawie S.A. became familiar with the "2017 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 2017 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 its Resolution no. 5/2018 dated 8 June 2018, upon examining the Management Board Report on activities of Bank Handlowy w Warszawie S.A. and of the Capital Group of Bank Handlowy w Warszawie S.A. containing the Statement on the application of corporate governance in 2017, decided to approve the Management Board Report on activities of Bank Handlowy w Warszawie S.A. and of the Capital Group of Bank Handlowy w Warszawie S.A. in the year 2017.

- by Resolution No. 13/2018 of 08 June 2018, 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 2017 to the date of the Annual General Meeting of the Bank in 2018, containing: the reports and the assessments specified in the Principles of Corporate Governance for Supervised Institutions, adopted by the Bank for application.

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:

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 in place at 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, 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 2018, the Management Board consisted of:

| Member of The Management Board | Scope of responsibility |
|---|---|
| **Sławomir S. Sikora** | The President of the Management Board is responsible for: |

| Member of The Management Board | Scope of responsibility |
|---|---|
| President of the Management Board | • manages the work of the Management Board, determines the procedure of substitution for members of the Management Board who are absent;<br>• calls and chairs meetings of the Management Board;<br>• presents the position of the Management Board to other bodies of the Bank, central and local government and the general public;<br>• 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;<br>• 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;<br>• decides how internal audit results are to be used and notifies such decision to the audited entity;<br>• exercises other authorizations resulting from appropriate rules adopted by the Supervisory Board;<br>• supervises the formulation and implementation of the strategy of the Bank;<br>• is the officer to which the internal audit department is subordinated;<br>• supervises the risk of non-compliance of the Bank with respect to the law, internal regulations and market standards;<br>• supervises human resources policy;<br>• is responsible for activities to control how the Bank is perceived;<br>• ensures a consistent organizational structure of the Bank;<br>• supervises activities to ensure appropriate corporate governance;<br>• supervises legal services;<br>• supervises the area of security at the Bank with respect to protection of persons and property;<br><br>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**<br>*Vice President of the Management Board* | Supervises the areas of accounting and financial reporting, including financial control;<br><br>Responsible for:<br>• management accounting;<br>• bookkeeping;<br>• preparation of accounting policies;<br>• 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;<br><br>and ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities. |
| **Maciej Kropidłowski**<br>*Vice President of the Management Board* | Responsible for:<br><br>• financial market operations, including money market transactions as well as FX market, securities and derivative transactions;<br>• activities related to securitization;<br>• activities related to organizing financing for investment plans, mergers and acquisitions in the scope of:<br>– syndicated loans;<br>– bridge financing;<br>– debt securities;<br>– project finance;<br>– off-balance sheet financing;<br>• custody activities;<br>• ongoing cooperation with and supervision over corporate bank and commercial bank, including supervision over services provided to clients from the financial institution sector;<br><br>and ensures the implementation of risk management principles in supervised |

| Member of The Management Board | Scope of responsibility |
|---|---|
| | organizational units with respect to operational risk connected with their activities. |
| **David Mouillé**<br>*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**<br>*Vice President of the Management Board* | Supervises management of risks significant to activities of the bank, she is responsible for risk management system including:<br>• credit policy of the Bank;<br>• quality of the Bank's credit portfolio;<br>• credit risk;<br>• market risk;<br>• operational risk;<br>• coordination of activities connected with implementation at the Bank of requirements resulting from risk management regulations, including recommendations issued by supervisory authorities.<br>Responsible for adjustments of the organizational structure of the Bank to the amount and profile of risks to which the Bank is exposed. She is a Member of the Management Board to whom violations of law and procedures and ethical standards applicable at the Bank may be reported anonymously. |
| **Katarzyna Majewska**<br>*Member of The Management Board* | Responsible for the following activities of the Bank: operations and technology, real estate management, administration.<br>Furthermore, she is responsible for global transaction services, including for:<br>• finance management products;<br>• trade finance products;<br>• cash products;<br>• liquidity management products;<br>Also responsible for supervision over EU programs, supervision within the internal functional relationship over services for the public sector. She ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities. |

On 18 February 2018, Mr. Witold Zieliński resigned as Vice President of the Bank's Management Board and on 31 March 2018, Mr. Czesław Piasek resigned as Member of the Bank's Management Board.

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 2018, 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 and Compliance Committee for Corporate Banking Sector, Risk Management Sector and Management and Support Sector,
4) Business Risk, Control System and Compliance Committee for the Consumer Banking Sector,
5) Bonus Committee,
6) 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 at the Legal Division of the Company, hereinafter referred to as 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 Department, Head of the Legal Division, Director of the Audit Department.

The person heading the Audit Department and the person heading the Compliance Department participate in Management Board meetings if the subject of the meeting involves issues related to: internal control, internal audit or compliance, consideration by the Management Board of matters related to internal control operation at the Company. At the request of Management Board members, Company employees or persons from outside the Company relevant to the issue considered may participate in meetings. Chairman of the meeting may order proceedings without the participation of persons who are not members of the Management Board.

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. 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 Committee.

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) upon compilation but no later than 30 (thirty) days after the end of each month, monthly and periodic (covering the period from the beginning of the year until the end of the previous month) financial information, together with its comparison against the budget adopted in the annual plan, and against the previous year;
2) 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 Financial Reporting Standards, audited by the Company's auditor;
3) 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, and
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**<br>*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. Andrzej Olechowski, Ph.D., is a Professor of Vistula University.<br><br>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**<br>*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.<br><br>Mr. Frank Mannion began his professional career in Ireland, and then moved to London, where he worked for PricewaterhouseCoopers.<br><br>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.<br><br>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.<br><br>Since 28 June 2010, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. |
| **Shirish Apte**<br>*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.<br><br>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.<br><br>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. |
| **Marek Belka**<br>*Member of Supervisory Board* | Professor Marek Belka served twice as Deputy Prime Minister, and between May 2004 and October 2005, he was the Prime Minister of the Polish Government. In the years 2010-2016, Marek Belka served as President of the National Bank of Poland and Chairman of the Monetary Policy Council.<br><br>Between November 2011 and October 2015, he was chairman of the Development Committee at the World Bank and the International Monetary Fund. In January 2011, he was elected member of the Steering Committee of the European Systemic Risk Board (ESRB).<br><br>Professor Marek Belka has also held a number of high-level positions on the international stage. He served as head of the International Coordination Council in Iraq and as economic policy director in the Iraqi Provisional Coalition in Iraq (2003-2004). In 2006-2008, he was executive secretary of the United Nations Economic Commission for Europe (UNECE) in Geneva. In November 2008, he became head of the European Department of the International Monetary Fund. |
| **Grzegorz Bielicki**<br>*Member of Supervisory Board* | Mr. Grzegorz Bielicki has a Master's Degree in Economics, and is an expert in internal audit, finance and accounting. In 2013-2016, he headed the Internal Audit Department of the National Bank of Poland. In that capacity, he reported directly to the NBP President and took part in all Management Board meetings of the Polish central bank. He was actively involved in international cooperation, both within and outside the EU. |

| Member of Supervisory Board | Professional experience |
|---|---|
| | In particular, he organized technical assistance for the National Bank of the Republic of Belarus in the area of internal audit. He was also a member of the Internal Audit Committee under the auspices of the European Central Bank.<br><br>In 2008, Mr. Grzegorz Bielicki assumed the position of Head of the Internal Audit Department at Bank BPH S.A., GE Group (GE Capital). In that role, he was responsible for preparing a merger of internal audit functions in two local GE subsidiary banks (Bank BPH and GE Money Bank), which merged successfully in January 2010. At the same time, he was responsible for implementing Group's internal audit standards, methodologies and tools for BPH, and then for the newly created bank following the merger. He was also responsible for cooperating with financial market regulators and for coordinating inspections carried out at the bank.<br><br>In 2002-2008, he served as Director of the Banking System Analysis Office in the General Inspectorate of Banking Supervision (GINB) at the NBP. In that capacity, his responsibilities included: daily supervision, microanalysis, legal and supervisory measures in relation to commercial banks in Poland, as well as macroanalysis of the banking system. While in that role, Mr. Grzegorz Bielicki served as member of the Banking Supervision Committee under the auspices of the European Central Bank, as well as member of the Banking Supervision Group for Central and Eastern Europe (BSCEE Group).<br><br>In 1998, he joined Bank Handlowy w Warszawie S.A. as Head of the Accounting Department, with responsibilities including regulatory and financial reporting, including compilation of financial statements in accordance with IAS, financial reports for the Securities and Exchange Commission, the central bank, the Central Statistical Office and tax authorities. From June 2000, in addition to his existing responsibilities, he was also responsible for accounting policy complying with US GAAP and for reporting according to US GAAP.<br><br>Mr. Grzegorz Bielicki began his professional career at KPMG Polska, at the Banking and Finance Department, where he audited financial statements, reviewed loan portfolios and performed due diligence at numerous top Polish banks.<br><br>Mr. Grzegorz Bielicki has a Master's Degree in Economics from the Foreign Trade Department of the Warsaw School of Economics. He also studied abroad at the Limburg Business School (University of Limburg), where he interned under the Tempus program. He has high qualifications in finance and accounting, confirmed by ACCA (Association of Chartered Certified Accountants) exams. |
| **Igor Chalupec**<br>*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 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).<br><br>Since 18 June 2009, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. |
| **Jenny Grey**<br>*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.<br><br>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. |

| Member of Supervisory Board | Professional experience |
|---|---|
| | 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.<br><br>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.<br><br>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.<br><br>Since 21 June 2016, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. |
| **Marek Kapuściński**<br>*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-ups and donates for the development of young Polish culture and art.<br><br>Since 29 September 2016, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. |
| **Marc Luet**<br>*Member of Supervisory Board* | Mr. Marc Luet is Head of the Region including Russia, Ukraine, Kazakhstan, Turkey, Israel and Poland. Mr. Marc Luet also serves as President and Chairman of the Board of Directors of AO Citibank.<br><br>From 2014 until recently, Mr. Marc Luet was the Head of Citi for Central and Eastern Europe. Previously, for three and a half years, he served as Head of Citicorp Retail and Corporate Banking for Europe, Middle East and Africa (EMEA) and as temporary Head of the Global Consumer Marketing & Internet Office, GCMIO, which he assumed in June 2010 after returning to work at Citi.<br><br>Mr. Marc Luet has over 20 years of experience in consumer banking and credit cards. Previously, he worked for Visa, where in 2008-2010, he served as President of the CEMEA Region covering 80 countries. Mr. Marc Luet was responsible for strategy, marketing, sales, finances, legal aspects, corporate communication and regulatory contacts in the region. He also served as a member of the Visa Inc. Operating Committee.<br><br>Previously, Mr. Marc Luet worked at Fortis Group as the CEO of the Consumer for Finance & Retail International (in 2005-2008) and as the CEO of Egg France (in 2002-2005). Prior to 2002, for 12 years he worked at Citi, where he held a number of positions in the area of marketing, risk and operations in Europe and the US, and then became Head of Consumer Banking in Hungary and Belgium.<br><br>Mr. Marc Luet holds a bachelor's degree in economics from Panthéon Sorbonne University. He is also a graduate of the Institute of Political Sciences in Paris (Institut d'Etudes Politiques de Paris). He also earned a Master of Business Administration (MBA) degree from the Tuck School of Business Administration, Dartmouth College. Mr. Marc Luet is a member of the Board of the Russian-American Chamber of |

| Member of Supervisory Board | Professional experience |
|---|---|
| | Commerce. |
| **Anand Selvakesari**<br>*Member of Supervisory Board* | Mr. Anand Selvakesari has been with Citi since 1991. From 2018, he has served as Head of Consumer Banking in the US. Previously, in 2015 -2018, he was the Head of Citi Consumer Banking in the Asia-Pacific Region, where he was responsible for consumer banking and corporate banking throughout Asia.<br><br>Prior to taking up his current position, from December 2013, Mr. Anand Selvakesari was the Head of Consumer Banking for the region covering countries-members of the Association of Southeast Asian Nations (ASEAN) and India. In that capacity, he was responsible for consumer banking in the ASEAN Cluster which includes Singapore, Malaysia, Indonesia, the Philippines, Thailand, Vietnam and India.<br><br>Earlier, in 2011-2013, Mr. Selvakesari was the Head of Consumer Banking in India, managing consumer banking, credit cards, unsecured loans, banking for non-Indian nationals and corporate banking in India. Under Mr. Anand Selvakesari's direction the areas he managed became market leaders, enjoying record brand preference among clients and cooperating with other market leaders in implementing pioneer solutions.<br><br>Prior to taking up his post in India, in 2008-2011, Mr. Anand Selvakesari was the Head of Consumer Banking in Citi China. The business managed by Mr. Selvakesari reported multiple growth, becoming the industry leader in innovation, and introducing many new products on the market. Mr. Anand Selvakesari was also the Head of Consumer Banking in Taiwan in 2004-2006, and for 8 years, he served in regional roles in Singapore working at various positions in the areas of investment banking, wealth management and consumer banking between 1996 and 2004.<br><br>Mr. Anand Selvakesari has an MBA (finance and marketing) and an engineering (mechanical engineering) degree obtained in India.<br><br>Since 21 June 2016, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. |
| **Stanisław Sołtysiński**<br>*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.<br><br>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. |
| **Stephen R. Volk**<br>*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 the Citigroup Executive Committee.<br><br>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.<br><br>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.<br><br>Since 20 November 2009, he has served as a member of the Supervisory Board of Bank Handlowy w Warszawie S.A. |

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) payments for any reason from the Company or any entities related to the Company to members of the Management Board;

2) authorization for the Company or its subsidiary to enter into any significant agreement with an entity related to the Company, a member of the Supervisory Board or the Management Board, or their related parties;

3) selection of an auditor to audit 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: Marek Belka acting as Chair, Stanisław Sołtysiński acting as Vice-Chair, and Shirish Apte, Grzegorz Bielicki, Igor Chalupec, Jenny Grey, Marek Kapuściński, Frank Mannion, Marc Luet, Andrzej Olechowski, Anand Selvakesari and Stephen Volk acting as Committee members.

### Audit Committee

The Audit Committee is composed of the following members:

1) Grzegorz Bielicki - 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;

The Audit Committee is a permanent committee of the Supervisory Board that met four times in 2018.

The authority and responsibilities of the Audit Committee include monitoring of financial reporting, monitoring of the effectiveness of: internal control, internal audit and risk management systems, monitoring of audit activities 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. 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 should include two independent members, one of them should be the Committee Chairman. At least one member of the Committee should meet the independence conditions referred to in Article 56.3 items 1, 3, 5 of the Act on statutory auditors and their self-regulatory body, entities authorized to audit financial statements and public supervision, and have the skills of the industry in which the Company operates.

Members of the Audit Committee who meet the statutory independence criteria are: Grzegorz Bielicki, Igor Chalupec and Marek Kapuściński.

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

1) Grzegorz Bielicki - is an expert in internal audit, finance and accounting. In 2013-2016, he headed the Internal Audit Department of the National Bank of Poland. Grzegorz Bielicki began his professional career at KPMG Polska, at the Banking and Finance Department, where he audited financial statements, reviewed loan portfolios and performed due diligence at numerous top Polish banks. He has a master's degree in economics obtained at the Foreign Trade Department of the Warsaw School of Economics.

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.

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) Grzegorz Bielicki - due to his education and professional experience, including work at the NBP and KPMG;
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.

Meetings of the Audit Committee 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 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.

At least once a year, the Audit Committee meets:

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

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

3) by its own.

The Audit Committee may, at its discretion, also meet 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 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 or Deputy Chairman take part in the Committee meeting or its relevant part.

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) Stanisław Sołtysiński - Member of the Committee;

4) Marc Luet – 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. 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. 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 writing. 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 Belka – Member of the Committee;

4) Grzegorz Bielicki - Member of the Committee (since 21 March 2018);

5) Marek Kapuściński – Member of the Committee;

6) Marc Luet – Member of the Committee;

7) Andrzej Olechowski – Member of the Committee;

8) Anand Selvakesan - Member of the Committee;

9) 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. 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 supervise adoption of the risk management system at the Bank by the Management Board and to assess the adequacy and effectiveness 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 a Committee member or 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 certain elements of corporate governance resulting from that Act as well as implementing regulations; for example, under Article 103 of the above Act, the management board should include at least 2 persons with higher education, at least 3 years' work experience in financial institutions and good reputation earned in such service. The Polish Financial Supervision Authority (KNF) is kept informed by DMBH about any changes on the Management Board. 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 12 June 2018, 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 2017, 51% of persons employed through recruitment processes were women compared to 49% of employed men. In 2018 recruitment processes, the proportion of employed women to employed men increased: 54% women, 46% men. The majority of managers hired at the Bank in 2017 are women, who accounted for 51% of the total population of managers. This ratio remains the same also in 2018.

Average length of service in the Bank over the last 3 years has been about 8 years, however in women the average length of service in 2018 was above 10 years. The average length of service at the Bank is growing and exceeded 9 years in 2018.

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.

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.

Women's remuneration in the Bank amounts to 97% of men's remuneration.

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.

# 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) and the Employee Remuneration Policy of Dom Maklerski Banku Handlowego S.A. (adopted on 3 January 2018), 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 current or future 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. Assessment of the Bank’s or DMBH’s performance is 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 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. In the case of DMBH, according to the Remuneration Policy adopted on 3 January 2018, the value of phantom shares depends on the value of DMBH's common shares. 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.

The remuneration policy for this group of employees 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 2018.

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 2018:

| *PLN’000* | Salaries, awards and short-term benefits | |
|---|---|---|
| | Base salaries and awards | Other benefits |
| Sławomir S. Sikora | 3,022 | 372 |
| Maciej Kropidłowski | 1,868 | 257 |
| David Mouillé | 1,946 | 779 |
| Barbara Sobala | 958 | 102 |
| Witold Zieliński (1) | 340 | 550 |
| Katarzyna Majewska | 946 | 101 |
| Natalia Bożek (2) | 616 | 54 |
| *Former members of the Management Board:* | | |
| Czesław Piasek(3) | 460 | 91 |
| Iwona Dudzińska(4) | - | 11 |
| | **10,156** | **2,324** |

*(1) In employment until 18 February 2018*

*(2) In employment until 21 March 2018*

*(3) In employment until 31 March 2018*

*(4) 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 2017:

| *PLN'000* | Salaries, awards and short-term benefits | |
|---|---|---|
| | Base salaries and awards | Other benefits |
| Sławomir S. Sikora | 2,025 | 282 |
| Maciej Kropidłowski | 2,030 | 228 |
| David Mouillé | 1,912 | 744 |
| Barbara Sobala | 958 | 95 |
| Witold Zieliński(1) | 1,127 | 117 |
| Katarzyna Majewska | 942 | 96 |
| Czesław Piasek | 1,207 | 120 |
| *Former members of the Management Board:* | | |
| Iwona Dudzińska (2) | - | 7 |
| | **10,201** | **1,689** |

*(1) In employment since 18 February 2018*
*(2) In employment until 31 July 2015*

"Base salaries and awards" include gross base salary well as awards paid in 2018 and 2017.

"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 2018 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* | Capital assets granted | |
|---|---|---|
| | granted for year 2017 | granted for years 2014-2016 |
| Sławomir S. Sikora | - | 1,946 |
| Maciej Kropidłowski | 426 | 1,338 |
| David Mouillé | 545 | 367 |
| Barbara Sobala | 151 | 209 |
| Witold Zieliński(1) | 197 | 320 |
| Katarzyna Majewska(2) | 153 | 75 |
| Natalia Bożek | | |
| Czesław Piasek | 191 | 276 |
| *Former members of the Management Board:* | | |
| Brendan Carney (3) | - | 365 |
| Iwona Dudzińska (4) | - | 151 |
| | **1,663** | **5,047** |

*(1) In employment until 18 February 2018*
*(2) In employment since 11 January 2016*
*(3) In employment until 22 June 2015*
*(4) In employment until 31 July 2015*

Equity awards granted in 2017 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* | Capital assets granted | |
|---|---|---|
| | granted for year 2016 | granted for years 2013-2015 |
| Sławomir S. Sikora | 589 | 1,781 |
| Maciej Kropidłowski | 594 | 988 |
| David Mouillé | 532 | 101 |
| Barbara Sobala | 156 | 181 |
| Witold Zieliński(1) | 214 | 290 |
| Katarzyna Majewska(2) | 153 | - |
| Czesław Piasek | 194 | 250 |
| *Former members of the Management Board:* | | |
| Brendan Carney (3) | - | 521 |
| Iwona Dudzińska (4) | - | 164 |

| *PLN'000* | Capital assets granted | |
|---|---|---|
| | granted for year 2016 | granted for years 2013-2015 |
| Misbah Ur-Rahman-Shah (5) | - | 1,341 |
| Robert Daniel Massey JR (6) | - | 63 |
| | **2,432** | **5,680** |

*(1) In employment until 18 February 2018*
*(2) In employment since 11 January 2016*
*(3) In employment until 22 June 2015*
*(4) In employment until 31 July 2015*
*(5) In employment until 18 March 2014*
*(6) In employment until 19 June 2013*

The total amount of salaries, awards and benefits paid to the current and former members of the Bank's Supervisory Board in 2018 and 2017:

| *PLN'000* | 2018 | 2017 |
|---|---|---|
| Andrzej Olechowski | 402 | 402 |
| Igor Chalupec | 272 | 276 |
| Mirosław Gryszka(1) | 13 | 221 |
| Marek Kapuściński | 276 | 230 |
| Anna Rulkiewicz(2) | - | 121 |
| Stanisław Sołtysiński | 216 | 216 |
| Shirish Apte | 216 | 241 |
| Marek Belka(3) | 246 | 66 |
| Grzegorz Bielicki(4) | 288 | - |
| | **1,929** | **1,773** |

*(1) In employment until 5 December 2017*
*(2) In employment since 22 September 2017*
*(3) In employment until 22 June 2017*
*(4) In employment until 6 December 2017*

The remuneration paid and due in 2018 to persons managing subsidiaries amounted to t PLN 3,061 thousand (in 2017: PLN 3,783 thousand).

Persons supervising subsidiaries did not collect any remuneration for their services in 2018 and 2017.

## 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 2018 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 | - | - | 23,204 | 872 |
| Katarzyna Majewska | - | - | 29 | 1 |
| **Supervisory Board** | | | | |
| Andrzej Olechowski | 2,200 | 8,800 | - | - |
| Shirish Apte | - | - | 100,000 | 3,481 |
| Frank Mannion | - | - | 28,091 | 978 |
| Anand Selvakesari | - | - | 21,099 | 735 |
| Marc Luet | - | - | 23,007 | 801 |
| Stephen R. Volk | - | - | 135,559 | 4,719 |

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 2018. The policy is described in the Note to the Annual Consolidated Financial Statements of the Capital Group of the Bank.

## XII. Agreements concluded with the registered audit company

On 22 March 2017 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 2017 and 2018. 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 2012 and in previous years.

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 2018 and 2017 are presented in the table below:

| For the year<br>*PLN'000* | 2018 | 2017 |
|---|---|---|
| Bank (the parent company) audit fees (1) | 421 | 421 |
| Bank (the parent company) review fees (2) | 177 | 177 |
| Subsidiary companies audit fees (3) | 214 | 227 |
| Other assurance fees (4) | 325 | 325 |
| | **1,137** | **1,150** |

(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.

# XIII. Subsequent events

As from 1 February 2019 by the decision of the Supervisory Board of Bank from 7 December, 2018, James Foley was appointed to perform the function of a member of the Management Board of Bank for a three-year term of office. James Foley within the division of his competences will be responsible for the transactional banking area.
After 31 December 2018 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.

# XIV. 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; Mr. David Mouillé, 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 2018 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 2018 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 2018.

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

| | | |
|---|---|---|
| 21.03.2019 | Sławomir S. Sikora | President of the Management Board |
| ........................... | ............................................. | ............................... |
| Date | Name | Position/function |
| 21.03.2019 | Natalia Bożek | Vice-President of the Management Board |
| ........................ | ............................................. | ................................ |
| Date | Name | Position/function |
| 21.03.2019 | Maciej Kropidłowski | Vice-President of the Management Board |
| ........................ | ............................................. | ................................ |
| Date | Name | Position/function |
| 21.03.2019 | David Mouillé | Vice-President of the Management Board |
| ........................ | ............................................. | ................................ |
| Date | Name | Position/function |
| 21.03.2019 | Barbara Sobala | Vice-President of the Management Board |
| ........................ | ............................................. | ................................ |
| Date | Name | Position/function |
| 21.03.2019 | James Foley | Member of the Management Board |
| ........................ | ............................................. | ................................ |
| Date | Name | Position/function |
| 21.03.2019 | Katarzyna Majewska | Member of the Management Board |
| ........................ | ............................................. | ................................ |
| Date | Name | Position/function |