Annual Report 2019

citi handlowy®

Ladies and Gentlemen

This year, Bank Handlowy w Warszawie S.A. (operating under the brand Citi Handlowy) celebrates its 150th anniversary. We are the oldest bank in Poland, providing banking services continually since 1870 to develop Polish enterprise and support innovation. By delivering financial solutions to our clients, we support their ambitions and help them carry out their plans. With our support, they can spread their wings and implement their inventive concepts. Together with our business partners, we are successful in addressing the needs of the times in order to change the economy, the environment and social life in a positive way. Therefore, those 150 years, during which history and the activities of Citi Handlowy have been inextricably interwoven, were a time of building and progress for both Poland's economy and society. In giving you this report, I am proud that I can invoke that meaningful anniversary and the heritage that inspires us and motivates us to boldly look into the future and take up new challenges to enable our client to continue their development.

Sławomir S. Sikora
Chairman of the Board

For our Group, the year 2019 was a time of rapid growth of both business volumes and revenues. As assumed in the strategy we adopted at the beginning of the year, this growth was mainly driven by client business, in particular in Institutional Banking. Once more, as a result of our achievements, we won the trust of institutional and individual clients, as well as investors.

Last year, Poland's economy grew by 4.1 percent. However, in the second half of the year, some signs of a slowdown emerged in connection with rising tensions on trade between the United States and China. Uncertainty concerning foreign markets adversely affected the willingness of Polish companies to invest, with a secondary effect on domestic demand. At the same time, low unemployment helped maintain the high growth of wages, but at the expense of pushing inflation higher. Some of our clients were supported by continuously high consumption.

In such a macroeconomic and political environment, **we achieved a double-digit increase in loans in Institutional Banking, mainly fueled by the growing loan portfolio of global clients and the largest Polish companies, and our all-time high in this area**. We reinforced our leading position in global banking. The year 2019 was our third in a row with double-digit growth in the assets of our globally-operating clients.

In 2019, the Group recorded a net profit of PLN 480 million. Revenues rose by 3 percent, to PLN 2.2 billion. Return on Equity (ROE) was at 7.2% and 9.6% excluding one-off events, while Citi Handlowy's ROA amounted to 0.9 percent compared to 0.7 percent in the banking sector.
Citi Handlowy is still the first bank of choice for Polish and international financial institutions. **The year 2019 saw new records in terms of assets covered by securitizations. We used our vast experience in this market to complete securitization transactions totaling PLN 4.5 billion, which accounted for 80 percent of all such transactions finalized in the Polish market throughout the year**. One such transaction involved the record-high sales of leasing securities by a leading Polish leasing company to a securitization special purpose entity (SSPE), amounting to PLN 2.5 billion. The experience of Citi Handlowy in arranging such financing and our local expertise combined with global know-how make us a professional and reliable partner for such transactions, both in terms of obtaining financing and releasing the capital.
The advantages of Citi Handlowy, such as its global scope supported by local expertise and solutions adapted to Polish legal requirements (e.g. split payment), translated into high business dynamics. Its position as a partner of international corporations, which offers global solutions, is confirmed by an increase in FX turnovers and international fund transfers.
Citi Handlowy was also successful in developing private banking. The results of the survey conducted by Euromoney, in which the Bank took first place in as many as 9 categories, confirm my own belief that we have the best private banking offer in Poland. The number of customers of this business line increased by 57 percent vs. the prior year period thanks to, i.e. our support of customers in making investments in global shares and bond markets as well as offering investments in foreign bonds via the Citi FX Stocks investment platform.
The Bank supported the development of its clients not only by offering them financial solutions tailored to their individual needs but also by investing in innovative technologies. We have built a system to serve our clients remotely – now they have our banking services within reach. As the first bank in Poland, last year Citi Handlowy launched an entirely remote and automated process for credit card applications based on biometric solutions. With this, our clients can initiate that process from any place and the automated income and identity verification process has considerably reduced the waiting time for credit approval.
We also increased our focus on cooperation with companies from the so-called new economy. As part of the Silicon project, we offer solutions to tech start-ups to support their growth and enable them to build strong innovative companies, able to conquer the whole world.
The economic slowdown in the second half of the year was not without an impact on the business environment of our bank. After 10 years of positive experience with our risk management model, which let us keep our costs of risk significantly below the average market level throughout the last decade, our impairment charges grew in 2019. Our model allows for such a situation within such a time framework.
In pursuance of the strategy of our Group, which assumes that Citi Handlowy's leading position in the corporate services market will be used to build an attractive proposal for both corporate clients and their individual customers, we started cooperation with BP in December 2019 to launch a co-branded credit card, which Citi Handlowy has been offering to its clients since February 2020. BP Citibank cards give users unique benefits, including no annual fee, cash back when buying fuel and special promotions at BP filling stations, the Citi Specials discount program, and access to exclusive presales of tickets to concerts by top stars.
The development of Citi Handlowy's business was coupled with a transformation of our organizational culture. With the changing needs of our employees in mind, and following our new approach to ensuring effective work conditions, we implemented our People Strategy initiative. The team assigned to that task includes the most committed representatives of our organization. Together with them, we have been implementing changes to make how long and where we work more flexible, to strengthen our intergenerational dialog, to promote a culture of diversity in our teams and find new paths of development, including within the structures of Citi Handlowy. We are also aware that all the credit for the success of our Group goes to our employees, so we promote a culture of mutual recognition and gratitude for everyday achievements and accomplishments.
Pursuant to the mission of Citi Handlowy, we sup-

"Cit Handlowy, as the first bank in Poland, launched an entirely remote and automated process for credit card applications based on biometric solutions. With this, our clients can initiate that process from any place and the automated income and identity verification process has considerably reduced the waiting time for credit approval."

port both economic and social aspects of growth and progress. Our activities to build a society that both is inclusive and accepts diversity and other initiatives that enable local communities to develop are broadly covered in the "Non-financial Report," which is an integral part of our annual report. The positive impact of our activities on the community is confirmed by many awards granted to Citi Handlowy in 2019.

By the end of 2019, Citi Handlowy was listed in the RESPECT Index, started by the Warsaw Stock Exchange (WSE) in 2009. Citi Handlowy was one of a few listed companies rewarded in this way since the first edition. As of September 2019, socially responsible companies have been listed on the WSE in a new index, WIG-ESG, which replaced the RESPECT Index from January 2020. In addition, Citi Handlowy has been a member of the Super Ethical Companies Forum for two years. This prestigious group includes companies that have won the "Ethical Company" award at least three times. Citi Handlowy has been recognized for the most complex and systemic involvement in building and fostering an organizational culture based on ethics and values.

The development strategy of Citi Handlowy, implemented at the beginning of 2019, is ambitious and effectively supports our business. We have been implementing it successfully since then thanks to the devoted team I have the honor to lead.

At the beginning of this year, we learned about the many new challenges which both the global and Polish economy have to face. It is reasonable to assume that the crisis triggered by the COVID-19 outbreak in China at the end of 2019 and its continuous spread throughout Europe and the Americas in the coming months will adversely affect the outlook for Poland's economy in 2020. This can considerably deteriorate domestic activity by leading to a slowdown in consumption and exports. It is therefore even more important for us to continue to support our clients' plans and help them if they are affected by this pandemic-related situation, which is so unprecedented in Poland.

With this annual report of our Group for 2019, I wish to express my thanks and respect to the Members of the Supervisory Board for their work and support of our activities. I also want to thank our shareholders and clients for their loyalty and trust, which help us feel ready to take up new challenges and future joint development and progress.

Best regards,

Sławomir S. Sikora
President of the Management Board
Banku Handlowego w Warszawie S.A.

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Independent Auditor's Report to the General Shareholders' Meeting and Supervisory Board of Bank Handlowy w Warszawie S.A.

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

This document relates solely to the Polish language financial statements.

Independent Auditor's Report

To the General Shareholders' Meeting and Supervisory Board of Bank Handlowy w Warszawie S.A.

Report on the Audit of the Annual Consolidated Financial Statements

Opinion

We have audited the accompanying annual consolidated financial statements of Bank Handlowy w Warszawie S.A. Group (the "Group"), whose parent entity is Bank Handlowy w Warszawie S.A. (the „Parent Entity"), which comprise:

— the consolidated statement of financial position as at 31 December 2019,

and, for the period from 1 January to 31 December 2019:

— the consolidated statement of profit or loss;
— the consolidated statement of comprehensive income;
— the consolidated statement of changes in equity;
— the consolidated statement of cash flows;

and

— notes comprising a summary of significant accounting policies and other explanatory information

(the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements of the Group:

— give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and the adopted accounting policy;
— comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Parent Entity's articles of association.

Our audit opinion on the consolidated financial statements is consistent with our report to the Audit Committee dated 25 March 2020.

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k.

ul. Inflancka 4A, 00-189 Warszawa, tel. +48 (22) 528 11 11, fax +48 (22) 528 10 09, Email kpmg@kpmg.pl, Internet www.kpmg.pl

Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the “NSA”); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (the “Act on certified auditors”); and
- regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the “EU Regulation”); and
- other applicable laws.

Our responsibilities under those regulations are further described in the Auditor’s Responsibility for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Ethics

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (“IFAC Code”) issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit engagement in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditors and the audit firm remained independent of the Group in accordance with requirements of the Act on certified auditors and the EU Regulation.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matter:

Impairment of due from customers and provisions for off-balance sheet commitments

The carrying amount of due from customers amounted to PLN 23,731.9 million as at 31 December 2019 and PLN 21,949.0 million as at 31 December 2018, and provisions for off-balance sheet commitments amounted to PLN 61.7 million as at 31 December 2019 and PLN 26.5 million as at 31 December 2018. Impairment losses for expected credit losses on financial assets and provisions for off–balance sheet commitments amounted to PLN 245.7 million in 2019 and PLN 63.5 million in 2018 (Notes 12, 22 and 30 of the consolidated financial statements).

Key audit matter	*Our procedures*
The process of estimation of expected credit losses on loans and advances to customers measured at amortized cost comprise two major phases – identification of significant increase in credit risk or impairment triggers and measurement of expected credit losses. The impairment triggers and triggers indicating significant increase in credit risk	Our audit procedures performed with the support of our internal financial risk management and IT specialists included i.e.: ▪ critical assessment of the Group’s methodology used for estimating expected credit losses in terms of its compliance with the requirements of

are identified mainly on the basis of payment delinquencies, economic and financial standing of the debtor and current probability of default level as compared to the date of initial recognition of a given exposure, while impairment allowances for expected credit losses are estimated individually for specific loans and advances to customers and collectively for homogenous loan portfolios using statistical methods on the basis of risk parameters. Risk parameters such as probability of default (PD), loss given default (LGD) or exposure at default (EAD) are determined for homogenous groups of loan exposures based on historical data taking into account forward looking information on expected macroeconomic conditions.

Impairment allowances for expected credit losses are the best estimate of expected credit losses on loans and advances as at the balance sheet date to be incurred within the next 12 month period or within the lifetime of the exposure. We have considered this area as a key audit matter because of the size of the loan portfolio and the significant impact that estimation of expected credit losses may have on the financial statements. Furthermore, estimating impairment allowances for expected credit losses involves certain uncertainty and requires from the Management of the Parent Entity to use substantial judgment. The main risk area comprises the failure to identify existing impairment triggers and significant increase in credit risk as well as the application of inappropriate data to calculate the parameters of statistical model, which may not adequately reflect the expected credit losses existing as at a given balance sheet date and for loans that are assessed on an individual basis there is a risk of applying inappropriate assumptions regarding recovery scenarios, valuation of collateral or assumed timing of expected cash flows. Moreover, there is a risk of errors occurring during the impairment allowances calculation process.

applicable financial reporting standards and market practice;

- assessment of the design and implementation as well as, testing of effectiveness of relevant key internal controls, including general IT system controls, applied in the process of identification of impairment triggers or significant increase in credit risk and estimation of expected credit losses;
- analysis of the structure and dynamics of the loan portfolio including quality ratios and level of allowance (e.g. non-performing loans, coverage ratio) in order to identify groups of loans with underestimated impairment allowances;
- analysis of appropriateness of the Group's identification of impairment triggers and significant increase in credit risk for the entire population of loans (i.e. overdue status, significant increase in PD, forbearance);
- independent recalculation of expected credit losses for a sample of impaired loans;
- critical assessment of assumptions and input data used for key credit risk parameters, such as PD, LGD and EAD including analysis of results of tests performed by the Group regarding appropriateness of models used for estimating of expected credit losses;
- independent recalculation of selected risk parameters and expected credit losses for a selected sample of exposures;
- assessment of adequacy of provisions for expected credit losses through comparison with losses incurred historically on a given portfolio;
- for loans and advances to customers assessed individually on the basis of a selected sample – assessment of the appropriateness of identification of significant increase in credit risk and impairment triggers and for impaired assets – critical assessment of relevant assumptions adopted by the Group and independent recalculation of impairment allowances.

Responsibility of the Management Board and Supervisory Board of the Parent Entity for the consolidated financial statements

The Management Board of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Parent Entity's articles of association and for such internal control as the Management Board of the Parent Entity determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board of the Parent Entity is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Parent Entity either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

According to the accounting act dated 29 September 1994 (the "Accounting Act"), the Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Parent Entity are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the Management Board of the Parent Entity has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Parent Entity;

— conclude on the appropriateness of the Management Board of the Parent Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the consolidated financial statements to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report on the audit of the consolidated financial statements. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Parent Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Parent Entity with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Parent Entity, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including report on activities

The other information comprise:

- the Letter of the President of the Management Board;
- the report on activities of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. in 2019 (the "Report on activities"), including the corporate governance statement and the statement of the Management Board regarding accuracy and fairness of the statements presented, which is a separate part of the Report on activities;
- Non-Financial Statements of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. for the year ended 31 December 2019 referred to in art. 49b paragraph 9 of the Accounting Act;
- Information of the Management Board of Bank Handlowy w Warszawie SA on the selection of the audit firm to audit annual financial statements of the Bank and the Capital Group of the Bank;
- The Supervisory Board's Resolution, in connection with § 70.1.8 and § 71.1.8 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent;
- Assessment of the Supervisory Board with justification concerning the Management's Report on activities and Financial statements for 2019;

(together the "Other information").

Responsibility of the Management Board and Supervisory Board

The Management Board of the Parent Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the Report on activities, including separate parts of the Report on activities and the report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our opinion on the consolidated financial statements does not cover the Other information.

In connection with our audit of the consolidated financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report if the Report on activities was prepared in accordance with applicable laws and the information given in the Report on activities is consistent with the consolidated financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Group included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the consolidated financial statements and to inform whether the Group prepared a separate report on non-financial information.

Opinion on the Report on activities

Based on the work undertaken in the course of our audit of the consolidated financial statements, in our opinion, the accompanying Report on activities, in all material respects:

- has been prepared in accordance with applicable laws, and
- is consistent with the consolidated financial statements.

Opinion on the statement on corporate governance

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (the "decree").

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the consolidated financial statements.

Information about the statement on non-financial information

In accordance with the requirements of the Act on certified auditors, we report that the Group has prepared a separate report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act.

We have not performed any assurance procedures in relation to the separate report on non-financial information and, accordingly, we do not express any assurance conclusion thereon.

Statement on Other information

Furthermore, based on our knowledge about the Group and its environment obtained in the audit of the consolidated financial statements, we have not identified material misstatements in the Report on activities and the Other information.

Report on other legal and regulatory requirements

Information on compliance with prudential regulations

The Management Board of the Parent Entity is responsible for the Group's compliance with the applicable prudential regulations defined in separate laws, in particular for the appropriate determination of the capital ratios.

Our responsibility was to inform in our auditor's report whether the Group complies with the applicable prudential regulations defined in separate laws, in particular whether the Group appropriately determined the capital ratios presented in note 48 "Risk Management".

The audit objective was not to express an opinion on the Group's compliance with the applicable prudential regulations and therefore we do not express such an opinion.

Based on our audit of the consolidated financial statements of the Group, we inform that we have not identified any instances of non-compliance, in the period from 1 January to 31 December 2019, of the Group with the applicable prudential regulations, defined in separate laws, in particular with respect to the determination of the capital ratios as at 31 December 2019, that could have a material impact on the consolidated financial statements.

Statement on services other than audit of the financial statements

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the act on certified auditors. Services other than audit of the separate financial statements, which were provided to the Group in the audited period are listed in note XIII of the Report on activities.

Appointment of the audit firm

We have been appointed for the first time to audit the annual consolidated financial statements of the Group by resolution of the Supervisory Board dated 25 March 2017 and reappointed in the following years, including the resolution dated 7 December 2018, to audit the annual consolidated financial statements for the year ended 31 December 2019. Our period of total uninterrupted engagement is 3 years, covering the periods ended 31 December 2017 to 31 December 2019.

On behalf of audit firm
KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546

Signed on the Polish original	*Signed on the Polish original*
Justyna Zań	Ewa Józwik-Kopiec
Key Certified Auditor Registration No. 12750 *Limited Partner, Proxy*	Key Certified Auditor Registration No. 11154

Warsaw, 25 March 2020

Selected financial data

SELECTED FINANCIAL DATA	PLN'000		EUR'000**	
	2019	2018	2019	2018
Interest and similar income	1,406,479	1,304,514	326,954	305,728
Fee and commission income	653,409	638,961	151,893	149,748
Profit before tax	658,192	828,668	153,005	194,208
Net profit	480,124	638,852	111,611	149,723
Total comprehensive income	506,572	730,458	117,759	171,192
Increase/decrease of net cash	(3,678,117)	6,960,393	(855,026)	1,631,253
Total assets	51,978,543	49,304,714	12,205,834	11,466,213
Amounts due to banks	2,125,495	1,402,233	499,118	326,101
Amounts due to customers	39,787,802	38,334,345	9,343,149	8,914,964
Shareholders' equity	7,074,655	7,056,750	1,661,302	1,641,105
Share capital	522,638	522,638	122,728	121,544
Number of shares (in pcs)	130,659,600	130,659,600	130,659,600	130,659,600
Book value per share (PLN/EUR)	54.15	54.01	12.71	12.56
Total capital adequacy ratio (in %)	17.2	16.8	17.2	16.8
Earnings per share (PLN/EUR)	3.67	4.89	0.85	1.15
Diluted net earnings per share (PLN/EUR)	3.67	4.89	0.85	1.15
Declared or paid dividends per share (PLN/EUR)*	-	3.74	-	0.87

* *The Management Board has not concluded its analysis to be able to provide a recommendation regarding dividend payments from the appropriation of the 2019 profit. The presented ratios for 2018 are related to the dividend paid in 2019 from the appropriation of the 2018 profit.*

** *The following foreign exchange rates were applied to convert PLN into EUR: for the consolidated statement of financial position – NBP mid-exchange rate as at 31 December 2019 - PLN 4.2585 as at 31 December 2018: PLN 4.3000); for the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement – the arithmetic mean of NBP end-of-month exchange rates in 2019 – PLN 4.3018 (in 2018: PLN 4.2669).*

The Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ended 31 December 2019

March 2019

Contents

Consolidated income statement

For the period	Note	2019	2018
Interest income	4	1,300,146	1,249,769
Similar income	4	106,333	54,745
Interest expense and similar charges	4	(252,752)	(196,940)
Net interest income	**4**	**1,153,727**	**1,107,574**
Fee and commission income	5	653,409	638,961
Fee and commission expense	5	(88,533)	(89,013)
Net fee and commission income	**5**	**564,876**	**549,948**
Dividend income	**6**	**11,080**	**9,533**
Net income on trading financial instruments and revaluation	**7**	**379,525**	**364,204**
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	**38**	**97,969**	**112,631**
Net gain/(loss) on equity and other instruments measured at fair value through income statement		**17,392**	**6,522**
Net gain/(loss) on hedge accounting	**8**	**(3,493)**	**3,682**
Other operating income	9	24,460	35,243
Other operating expenses	9	(28,782)	(29,342)
Net other operating income and expense	**9**	**(4,322)**	**5,901**
General administrative expenses	**10**	**(1,128,269)**	**(1,108,247)**
Depreciation expense	**11**	**(86,499)**	**(71,384)**
Profit/loss on sale of other assets		**(354)**	**(813)**
Provision for expected credit losses on financial assets and provisions for off-balance-sheet commitments	**12**	**(245,718)**	**(63,511)**
Operating profit		**755,914**	**916,040**
Share in net profits/(losses) of entities valued at equity method*		**-**	**(22)**
Tax on some financial institutions		**(97,722)**	**(87,350)**
Profit before tax		**658,192**	**828,668**
Income tax expense	**13**	**(178,068)**	**(189,816)**
Net profit		**480,124**	**638,852**
Including:			
Net profit attributable to the Bank's shareholders		480,124	638,852
Weighted-average number of ordinary shares (in pcs)	14	130,659,600	130,659,600
Net earnings per share (PLN)	14	3.67	4.89
Diluted net earnings per share (PLN)	**14**	**3.67**	**4.89**

* *From 1 January 2019 Handlowy-Inwestycje Sp. z o.o. is fully consolidated.*

Explanatory notes on pages 12-98 are an integral part of the annual consolidated financial statements.

Consolidated statement of comprehensive income

For the period	Note	2019	2018
Net profit		**480,124**	**638,852**
Other comprehensive income that might be subsequently reclassified to profit or loss:			
Change in value of financial assets measured at fair value through other comprehensive income	15	30,521	94,286
Currency translation differences		(47)	162
Other comprehensive income that cannot be subsequently reclassified to profit or loss			
Net actuarial profits/(losses) on defined benefit program valuation	15	(4,026)	(2,842)
Other comprehensive income net of tax		**26,448**	**91,606**
Total comprehensive income		**506,572**	**730,458**
Including:			
Comprehensive income attributable to the Bank's shareholders		506,572	730,458

Explanatory notes on pages 12-98 are an integral part of the annual consolidated financial statements.

Consolidated statement of financial position

As at	Note	31.12.2019	31.12.2018
ASSETS			
Cash and balances with the Central Bank	16	3,736,706	7,272,193
Amounts due from banks	17	1,165,684	1,333,977
Financial assets held-for-trading	18	5,446,511	2,237,076
Debt financial assets measured at fair value through other comprehensive income	19	15,484,578	14,241,363
Equity investments valued at equity method*	20	-	10,399
Equity and other instruments measured at fair value through income statement	21	62,638	48,768
Amounts due from customers	22	23,731,874	21,949,014
Tangible fixed assets	23	499,753	364,261
Intangible assets	24	1,443,139	1,418,794
Current income tax receivables		3,016	1,744
Deferred income tax asset	26	238,065	204,207
Other assets	27	166,579	222,918
Total assets		**51,978,543**	**49,304,714**
LIABILITIES			
Amounts due to banks	28	2,125,495	1,402,233,
Financial liabilities held-for-trading	18	1,877,898	1,609,382,
Hedging derivatives		19,226	-
Amounts due to customers	29	39,787,802	38,334,345
Provisions	30	65,199	29,984
Current income tax liabilities		41,725	66,297
Other liabilities	31	986,543	805,723
Total liabilities		**44,903,888**	**42,247,964**
EQUITY			
Share capital	33	522,638	522,638
Supplementary capital	33	3,003,290	3,003,290
Revaluation reserve	33	114,893	84,372
Other reserves	33	2,867,358	2,883,838
Retained earnings		566,476	562,612
Total equity		**7,074,655**	**7,056,750**
Total liabilities and equity		**51,978,543**	**49,304,714**

* *From 1 January 2019 Handlowy-Inwestycje Sp. z o.o. is fully consolidated.*

Explanatory notes on pages 12-98 are an integral part of the annual consolidated financial statements.

Consolidated statement of changes in equity

PLN'000	Share capital	Supple-mentary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Restated balance as at 1 January 2019	**522,638**	**3,003,290**	**84,372**	**2,883,838**	**562,612**	**-**	**7,056,750**
Total comprehensive income, including:	-	-	30,521	(4,073)	480,124	-	506,572
Net profit	-	-	-	-	480,124	-	480,124
Currency translation differences from conversion of foreign operations	-	-	-	(47)	-	-	(47)
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	30,521	-	-	-	30,521
Net actuarial profits/(losses) on defined benefit program valuation							
Dividends	-	-	-	-	(488,667)	-	(488,667)
Transfer to capital	-	-	-	(12,407)	12,407	-	-
As at 31 December 2019	**522,638**	**3,003,290**	**114,893**	**2,867,358**	**566,476**	**-**	**7,074,655**

PLN'000	Share capital	Supple-mentary capital	Revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	Total equity
Balance as at 1 January 2018	**522,638**	**3,003,969**	**(9,118)**	**2,895,598**	**525,796**	**-**	**6,938,883**
Impact of adopting IFRS 9	-	-	(796)	-	(74,784)	-	(75,580)
Restated balance as at 1 January 2018	**522,638**	**3,003,969**	**(9,914)**	**2,895,598**	**451,012**	**-**	**6,863,303**
Total comprehensive income, including:	-	-	94,286	(2,680)	638,852	-	730,458
Net profit	-	-	-	-	638,852	-	638,852
Currency translation differences from the conversion of foreign operations	-	-	-	162	-	-	162
Net valuation of financial assets measured at fair value through other comprehensive income	-	-	94,286	-	-	-	94,286
Net actuarial profits/(losses) on defined benefit program valuation	-	-	-	(2,842)	-	-	(2,842)
Dividends	-	-	-	-	(537,011)	-	(537,011)
Transfer to capital	-	(679)	-	(9,080)	9,759	-	-
As at 31 December 2018	**522,638**	**3,003,290**	**84,372**	**2,883,838**	**562,612**	**-**	**7,056,750**

Explanatory notes on pages 12-98 are an integral part of the annual consolidated financial statements.

Consolidated cash flow statement

PLN'000	2019	2018
A. DZIAŁALNOŚĆ OPERACYJNA		
I. Net profit	**480,124**	**638,852**
II. Adjustments:	**(4,598,184)**	**5,963,842**
Current and deferred income tax recognized in income statement	178,068	189,816
Share in net profits/(losses) of entities valued at equity method	-	22
Depreciation expense	86,499	71,384
Net impairment due to financial assets value loss	210,563	72,966
Net provisions (recoveries)	36,795	(10,904)
Net interest income	(1,153,727)	(1,107,574)
Dividend income	(11,080)	(9,533)
Profit/loss on sale of fixed assets	354	823
Net unrealized exchange differences	(643)	(8,800)
Equity and other investment measured at fair value though the income statement	(17,366)	(6,522)
Other adjustments	7,243	3,004
Change in amounts due from banks	25,397	(348,629)
Change in amounts due from customers	(1,940,056)	(2,278,685)
Change in debt securities measured at fair value through other comprehensive income	(1,338,302)	3,199,537
Change in financial assets held-for-trading	(3,203,023)	(58,011)
Change in other assets	55,984	101,633
Change in amounts due to banks	725,029	(130,863)
Change in amounts due to customers	1,436,822	6,194,610
Change in liabilities held-for-trading	254,906	256,167
Change in amounts due to hedging derivatives	19,226	(50,191)
Change in other liabilities	29,127	(116,408)
Interest received	**1,501,305**	**1,439,811**
Interest paid	**(244,613)**	**(193,814)**
Income tax paid	**(243,505)**	**(208,116)**
III. Net cash flows from operating activities	**(3,104,873)**	**7,640,575**
B. Investing activities		
Inflows		
Disposal of tangible fixed assets	627	38
Disposal of capital shares	20,640	-
Disposal of fixed assets/liabilities held-for-sale	-	1,068
Received dividends	10,783	9,260
Other inflows connected with investing activities	-	-
Outflows		
Purchase of tangible fixed assets	(31,031)	(17,813)
Purchase of intangible assets	(70,005)	(109,313)
Purchase of capital shares	(41)	-
Net cash flows from investing activities	**(69,027)**	**(116,760)**

C. Financing activities		
Inflows		
Drawing of long-term loans from financial sector	-	-
Outflows		
Paid dividends	(488,667)	(537,011)
Repayment of long-term loans from financial sector	(1,673)	(35,936)
Outflows from lease payments	(13,930)	-
Net cash flows from financing activities	**(504,270)**	**(572,947)**
D. Exchange rate differences resulting from cash and cash equivalent calculation	**53**	**9,525**
E. Net increase/(decrease) in cash and cash equivalent	**(3,678,117)**	**6,960,393**
F. Cash and cash equivalent at the beginning of reporting period	**7,474,978**	**514,585**
G. Cash and cash equivalent at the end of reporting period (see note 45)	**3,796,861**	**7,474,978**

* *From 1 January 2019 Handlowy-Inwestycje Sp. z o.o. is fully consolidated.*

Explanatory notes on pages 12-98 are an integral part of the annual consolidated financial statements.

Additional information including the description of adopted accounting principles and other explanatory information

1. General information about the Bank and the Capital Group ("the Group")

Bank Handlowy w Warszawie S.A. ("Bank" or "parent entity") has its registered office in Warsaw at Senatorska 16, 00-923 Warszawa. The Bank was founded on the basis of the Notarial Deed of 13 April 1870 and is registered in the Register of Entrepreneurs in the National Court Register kept by the District Court for the Capital City of Warsaw, XII Commercial Department in Warsaw, under KRS number 0000001538.

The parent entity was given REGON number: 000013037 and tax identification number NIP: 526-030-02-91.

The parent entity and the entities of the Group were set up for an unspecified period of time.

The share capital of the Bank equals PLN 522,638,400 and is divided into 130,659,600 common bearer shares with

a nominal value of PLN 4.00 per share. The shares are quoted on the Warsaw Stock Exchange.

The Bank is a member of Citigroup Inc. The Bank's parent company is Citibank Overseas Investment Corporation with headquarters in New Castle, USA. Citibank Overseas Investment Corporation is a subsidiary of Citibank N.A. with headquarters in New York, USA, whereas the ultimate parent is Citigroup Inc.

The Bank is a universal commercial bank that offers a wide range of banking services for individuals and corporate clients on domestic and foreign markets. Additionally, the Group operates in brokerage operations through its subsidiaries.

These annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. show the data for the Bank as the parent and its subsidiaries (jointly "Group").

From 1 January 2019 Handlowy-Inwestycje Sp. z o.o. is fully consolidated.

The Group consists of the Bank and the following subsidiaries:

Subsidiaries	Registered office	% of share capital/votes at the General Meeting	
		31.12.2019	31.12.2018
Entities fully consolidated			
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	100.00
Handlowy-Leasing Sp. z o.o.	Warsaw	97.47	97.47
Handlowy Investments S.A.	Luxembourg	100.00	100.00
PPH Spomasz Sp. z o.o. w likwidacji	Warsaw	100.00	100.00
Handlowy-Inwestycje Sp. z o.o.	Warsaw	100.00	-
Entities accounted for under the equity method			
Handlowy-Inwestycje Sp. z o.o.	Warsaw	-	100.00

Financial information on subsidiaries, 31.12.2019

Subsidiaries fully consolidated

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Assets	Liabilities	Equity	Revenues	Profit/ loss
HANDLOWY - LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	97.47	21,929	525	21,404	266	(502)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100	421,716	322,910	98,805	44,659	1,256
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100			Entity in liquidation		
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100	4,903	54	4,824	376	(212)
HANDLOWY - INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100	10,820	40	10,780	117	(33)

** direct share.*

Explanation of indirect relationships:

1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o. PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY-LEASING	Warsaw	Leasing	Subsidiary	2.53	414	21,929	525	21,404	266	(502)

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. Financial data of Handlowy Investments S.A. originate from the financial statements prepared as at 29 February 2020, which is the entity's balance sheet date.

Financial information on subsidiaries, 31.12.2018

Subsidiaries fully consolidated PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Assets	Liabilities	Equity	Revenues	Profit/ loss
HANDLOWY-LEASING Sp. z o.o	Warsaw	Leasing	Subsidiary	97.47	22,154	248	21,906	294	(524)
HANDLOWY INVESTMENTS S.A.	Luxembourg	Investment activity	Subsidiary	100	5,178	52	5,100	258	(12,517)
DOM MAKLERSKI BANKU HANDLOWEGO S.A.	Warsaw	Brokerage	Subsidiary	100	364,086	265,309	98,777	49,021	1,250
PPH SPOMASZ Sp. z o.o. w likwidacji	Warsaw	-	Subsidiary	100	Entity under liquidation				

* *Udział bezpośredni.*

Other entities

PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]*	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY-INWESTYCJE Sp. z o.o. 1/	Warsaw	Investment activity	Subsidiary	100	672	10,856	43	10,813	129	(22)

* *direct share.*

Explanation of indirect relationships:

1/ Indirect relationship via Handlowy-Inwestycje Sp. z o.o. PLN'000

Name of subordinate	Location	Activity	Capital relationship	Share in equity [%]	Book value of shares	Assets	Liabilities	Equity	Revenues	Profit
HANDLOWY-LEASING Sp. z o.o.	Warsaw	Leasing	Subsidiary	2.53	414	22,154	248	21,906	294	(524)

The above presented financial data of the entities available at the time of preparation of the financial statements originate from the non-audited financial statements of the entities. 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.

2. Significant accounting policies

Declaration of conformity

The annual unconsolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("IFRS EU") and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2018, item 395), respective operating regulations and regulations relating to issuers of securities admitted or sought to be admitted to trading on the official stock exchange quotation market.

The annual consolidated financial statements were approved by the Management Board of the Bank for publication on 25 March 2020. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

The annual standalone financial statements were approved by the Management Board of the Bank for publication on

25 March 2020. The financial statements will be finally approved by the General Shareholders' Meeting of the Bank.

Basis of preparation

These annual financial statements of the Group were prepared as at 31 December 2019 and the comparable financial data are presented as at 31 December 2018.

The consolidated financial statements are presented in PLN (presentation currency), rounded to the nearest thousand.

The financial statements have been prepared on the fair-value-basis for financial assets and financial liabilities measured at fair value through profit and loss including derivatives and capital investments (minority shareholdings) and financial assets measured at fair value through other comprehensive income. Other financial assets are presented at cost decreased by depreciation/amortization and impairment losses. Other financial liabilities are presented at amortized cost.

The preparation of consolidated annual financial statement of the Group in accordance with IFRS requires the Management to estimate and adopt assumptions that affect the amounts reported in financial statement. The most important accounting policies, estimations and assessments applied in the preparation of this annual financial statements were applied by the Group in all the presented years on a continuous basis, except for changes resulting from the implementation since 1 January 2019 of IFRS 16 "Leases", the impact of which is provided later in the report.

Estimates and associated assumptions are made on the basis of available historical data and many other factors that have been considered as relevant in the presented period. These factors form the basis for estimates of the balance-sheet value of assets and liabilities whose value cannot be estimated on the basis of other sources. Actual results may differ from those estimates.

Estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant estimates applied in the year ending 31 December 2019 related to:

- Provisions for expected credit losses of financial assets;
- Fair value of derivatives;
- Goodwill testing;
- Reserves;
- Employee benefits.

Significant accounting policies applied to prepare the financial statements are presented either in the notes to the financial statements or below:

Income statement	No of note with accounting policy description
Net interest income	4
Net fee and commission income	5
Dividend income	6
Net income on trading financial instruments and revaluation	2.1
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	2.1
Net gain/(loss) on equity and other instruments measured at fair value through income statement	2.1
Net gain/(loss) on hedge accounting	36
Provisions for expected credit losses on financial assets and provisions for off-balance-sheet commitments	47

Statement of financial position	No of note with accounting policy description
Amounts due from banks	2.1
Financial assets held-for-trading	2.1
Debt financial assets measured at fair value through other comprehensive income	2.1
Equity investments valued at equity method	20
Equity and other instruments at fair value through the income statement	2.1
Amounts due from customers	2.1
Tangible fixed assets	23
Intangible assets	24
Deferred income tax asset	26
Amounts due to banks	2.1
Financial liabilities held-for-trading	2.1
Hedging derivatives	36
Amounts due to customers	2.1
Provisions	30
Other liabilities	31

Standards and interpretations approved but not obligatory as at 31 December 2019 that may have an impact on financial statements of the Group

The standards and interpretations approved but not obligatory as at 31 December 2019 that may have an impact on financial statements of the Group include:

- amendments in the conceptual framework implementing comprehensive financial reporting rules, including measurement and its grounds, presentation and disclosures, derecognition of assets and liabilities from the balance sheet updates as well as and explanations of specific terms.
- IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors" to clarify the definition of the term "significant" and to align it with the definition used in the conceptual assumptions.
- IFRS 9, IAS 39 and IFRS 7 applicable to all hedging relationships directly affected by interest rate benchmark reform and uncertainties it gives rise to. Amendments introduce temporary exceptions from applying specific hedge accounting requirements that allow not to discontinue hedging relationships. Changes require entities to disclose additional information on hedging relationships that are affected by the above-mentioned uncertainties.

The above-mentioned changes are applicable from 1 January 2020 and will not impact the financial statements significantly.

Other standard amendments awaiting endorsement by the European Union

- IFRS 17 "Insurance" replacing IFRS 4 "Insurance contracts" and introducing comprehensive regulations for accounting of insurance contracts, in particular the measurement of relevant liabilities. The standard eliminates differences in accounting of insurance contracts depending on local jurisdictions, allowed by IFRS 4,
- IFRS 3 'Business combinations' amendment - introducing a clarification of the definition of a project that helps to distinguish between acquisitions as a group of assets or a project.

will not impact the financial statement significantly.

Standards applicable from 1 January 2019

- IFRS 16 "Leasing", endorsed by the European Union for application starting from 1 January 2019 will replace IAS 17.

  The new standard introduces an amended comprehensive approach to lease contract identification and their recognition in financial statements of lessors and lessees. IFRS 16 introduces a control model, which is a method of distinguishing lease contracts from service agreements. Distinguishment focuses on assessment whether within the contract a specified asset controlled by customer can be identified.

  The standard introduces significant changes in lessee accounting – no longer will there be a separation of operating and finance leases but it is required to recognize right-of-use asset and corresponding lease liability.

  Additional information about the impact of adoption is provided later in the note.
- IFRS 9 "Financial instruments" amendment. It clarifies situations in which prepayment of receivable results in repayment of a significantly lower amount than an outstanding one; in cases when it is reasonable, it does not impact the SPPI test – the amendment will not have a significant impact on the financial statement.
- amendments to IAS 28 "Investments in associates and joint ventures" regarding measurement of the long-term share in affiliate companies and joined ventures in accordance with IFRS 9 "Financial instruments" - the amendment will not have a significant impact on the financial statement.
- IAS 19 "Employee Benefits" amendment stating that if a planned amendment, curtailment or settlement occurs, it is mandatory that the current service cost and net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. No significant impact on the financial statement.
- IFRIC 23 "Uncertainty relating to the recognition of income taxes" specifying measurement of uncertainties resulting from solutions applied for use of IAS 12 "Income taxes" when it is not clear if they are appropriate from the perspective of tax authorities. The Group does not expect the interpretation to have a significant impact on the financial statements as there are no significant uncertainties related to the recognition of income tax.

- Standard amendments cycle 2015-2017 including: IFRS 3 "Business combinations" and IFRS 11 "Joint Arrangements" in respect of measurement of interest in case of taking control over joint arrangements, IAS 12 in respect of recognition of tax on dividends in profit and loss, IAS 23 "Borrowing costs" for treatment of borrowing costs. No significant impact on the financial statement.

Basis of consolidation

Subsidiaries are all entities controlled by the Group. The Group controls an entity when the Group has power over an entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Any identifiable purchased assets and assumed liabilities, including contingent liabilities, acquired in a business combination, are measured initially at fair value at the acquisition date, irrespective of the extent of any minority interest. Any excess of the cost of acquisition over the fair value of the Group's interest in the acquired identifiable net assets is recognized as goodwill. If the cost of acquisition is lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the income statement.

Intra-group transactions and balances are eliminated on consolidation. Material unrealized gains and losses on transactions between Group companies are also eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency in all material aspects with the accounting policies adopted by the Group.

Subsidiaries which are not fully consolidated due to the immateriality of their financial statements in the consolidated financial statements of the Group are presented in accordance with the equity method.

Foreign currency

The values reported in annual consolidated financial statement are presented in PLN, which is the functional currency and currency of presentation of the Group.

The statement of financial position and contingent liabilities received and granted items denominated in foreign currencies are converted to PLN equivalents using the average exchange rate of the currency determined by the Governor of the National Bank of Poland ("NBP") prevailing at the date of preparation of the statement of financial position.

Foreign currency transactions are converted at initial recognition to the functional currency (PLN) using the exchange rates prevailing at the date of transactions.

Foreign exchange profits and losses resulting from revaluation of the statement of financial position items denominated in foreign currencies and settlement of transactions in foreign currencies are included in net profit on foreign exchange, within the trade financial instruments and revaluation income.

The exchange rates of the major currencies applied in the preparation of these financial statements are:

PLN	31 December 2019	31 December 2018
1 USD	3.7977	3.7597
1 CHF	3.9213	3.8166
1 EUR	4.2585	4.3000

2.1 Financial assets and liabilities – classification and measurement

Classification

The Bank classifies financial instruments into the following categories:

- financial assets measured at fair value through profit and loss,
- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income,
- financial liabilities measured at fair value through profit and loss,
- financial liabilities measured at amortized cost.

Financial assets measured at fair value through profit and loss (Financial assets held-for-trading and Equity and other instruments at fair value through the income statement)

This category comprises:

1) financial assets that were classified neither as measured at amortized cost nor as measured at fair value through other comprehensive income
2) financial assets classified at initial recognition as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases
3) minority shareholdings

Assets are included in this category especially if they are held-for-trading (held-for-trading model), that is: they were purchased with the primary objective of selling or repurchasing to generate short-term profits, they are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of generating short-term profits, they are derivatives.

Minority shareholdings are presented in the consolidated financial statement as "Equity and other investments at fair value through the income statement".

Financial assets measured at amortized cost (Amounts due from banks and due from clients)

A financial asset is measured at amortized cost if both conditions are met:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category comprises, in the first instance, amounts due in respect of loans, purchased receivables and debt securities that are not quoted on the active market and interbank deposits and also reverse repo transactions.

In accordance with the Transition Resource Group for Impairment of Financial Instruments, the Bank presented the gross carrying amount of receivables in Stage 3 in the amount increased by accrued contract interest in note 22 "Amounts due from customers". The value of credit provisions is increased by the same amount.

Purchased or originated credit-impaired assets (POCI)

Purchased or originated credit-impaired assets on initial recognition may be identified when the Bank has originated or purchased exposures already impaired at the moment of initial recognition or the Bank has modified (significant modification) an impaired exposure and a derecognition criterion has been met. POCI assets would be recognized at fair value at initial recognition and subsequently at amortized cost using the effective interest rate adjusted by expected credit losses. Expected credit losses would be considered and recognized in the relation to the lifetime of those instruments.

Financial assets measured at fair value through other comprehensive income (Debt financial assets measured at fair value through other comprehensive income)

A financial asset is measured at fair value through other comprehensive income if both conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank includes in this category selected debt instruments.

Financial liabilities measured at fair value through profit and loss (Financial liabilities held-for-trading)

The category comprises derivative liabilities which are not hedging instruments and short sale liabilities.

Financial liabilities measured at amortized cost (Amounts due to banks and clients)

Customer deposits are primarily classified in this category as are commercial commitments and liabilities from repo transactions, measured at amortized cost.

Recognition, derecognition and insignificant modifications

Transactions of purchase or sale of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are recognized in the Bank's statement of financial position and derecognized at the transaction settlement date, i.e. the date on which the Bank will receive or transfer the ownership right to assets. The rights and liabilities from a concluded transaction are measured at fair value from the transaction conclusion day to the transaction settlement day.

Loans and receivables are recognized at the time of disbursement of funds for the borrower.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when and only when they are extinguished, i.e. the obligation described in the agreement was discharged, cancelled or expired.

The Bank applies the following criteria, which result in asset derecognition from the balance sheet and obligation to recognize them according to the classification rules:

- a contract change that causes change of SPPI test assessment,
- a change of the debtor,
- currency conversion,
- granting additional loan amount of at least 10% of the outstanding loan principal.

At the moment of derecognition, the undepreciated part of the commission is recognized fully in interest income. The newly charged commission is settled in time using the effective interest rate method.

If there is a change in the cash flows of financial assets containing the repayment schedule measured at amortized cost that results from the annex to the contract, the Bank recalculates the gross balance-sheet value of financial assets and recognizes modification profit or loss in profit and loss. The gross balance-sheet value of that financial asset is calculated as present value of renegotiated or modified contract cash flows, discounted at the original effective interest rate of financial assets (or credit risk adjusted effective interest rate for credit risk for originated or purchased financial assets credit-impaired at initial recognition). All origination costs and fees adjust the balance-sheet value of modified assets and are amortized until the maturity date of modified financial assets.

Derivative financial instruments value from the trade date and are derecognized from the balance on the settlement date.

Valuation

When financial assets or financial liabilities are recognized initially, they are measured at fair value plus, in the case of assets and liabilities not measured at fair value, through profit or loss, significant transactional costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

After initial recognition, the Bank measures financial assets:

- at fair value without deducting transactional costs which it may incur in connection with the sale or disposal of assets. This measurement relates to financial assets held-for-trading, debt financial assets measured at fair value through other comprehensive income and equity and other instruments at fair value through the income statement),
- at amortized cost using the effective interest rate method – for amounts due from banks and from clients. Amounts measured at amortized cost include provisions for expected credit losses.

Financial liabilities:

- financial liabilities held-for-trading are measured at fair value through the income statement,
- amounts due to banks and amounts due to clients after initial recognition are measured at amortized cost using the effective interest rate method.

Profits or losses resulting from the change of fair value of financial assets or financial liabilities, which are not part of the hedging relationship, are recognized in the following way:

- in the case of financial assets or financial liabilities measured at fair value through profit or loss, they are shown in revenues or expenses;
- profits or losses resulting from measurement of financial assets classified as measured at fair value through other comprehensive income are recognized in other comprehensive income. Impairment of financial assets measured at fair value through other comprehensive income and exchange rate differences on monetary assets and liabilities are recognized in the income statement. When financial assets are excluded from the statement of financial position, accumulated profits or losses which were previously included in equity are recognized through profit or loss.

The fair value of derivatives is established based on quotations in active markets, prices of transactions recently closed, and measurement techniques, including discounted cash flow models and option measurement models, depending on which method is appropriate for a given case. The derivatives that were not designated as hedging instruments according to hedge accounting principles are classified as trading assets or liabilities measured at fair value through profit or loss.

Embedded derivatives in host contracts that are liabilities are separated from the host and accounted for as derivatives, if their characteristics and risks are not closely related to the characteristics and risks of the host, and if the hybrid contract is not measured at fair value through profit or loss.

Impairment of financial assets

On a commitment basis, the Bank classifies assets measured at amortized cost into the portfolio of assets that are individually significant and the portfolio of assets that are not individually significant (portfolio basis).

For each of the above categories of assets, the Bank makes impairments for expected credit losses, according to the developed internal rules and methodologies for their calculation. They are aggregated for each of the three stages:

- Stage 1: Credit exposures that have not had a significant increase in credit risk since initial recognition
- Stage 2: Credit exposures that have experienced a significant increase in credit risk since initial recognition
- Stage 3: Credit exposures with credit loss that has already been suffered by the assets

On the balance sheet date, the Bank assesses if there is objective evidence of impairment of one financial asset or a group of financial assets.

A financial asset or a group of financial assets are impaired and the impairment loss is incurred only when there is objective evidence of impairment resulting from one or more events taking place after the initial recognition of an asset (the loss event) and the loss event (or events) influences the future expected cash flows resulting from a financial asset or a group of financial assets which may be reliably estimated.

Objective evidence of impairment of a financial asset or a group of assets includes information obtained by the Bank concerning events, which are provided in the later part of the note 47 "Risk management".

Non-recoverable loans (i.e. loans for which the Bank does not expect any future cash flows and that may be treated as tax deductible costs under separate tax regulations or that were unconditionally written off under an agreement with the customer) are, on the basis of Bank's decision, written down against impairment allowances. If a written-down amount is subsequently recovered, the amount of income is presented in "Provision for expected credit losses on financial assets and provisions for off-balance-sheet commitments".

Forbearance

Forborne exposures are exposures for which concessions were granted due to economic or legal reasons (for financial conditions), resulting from financial difficulties of the Obligor that the lender would not otherwise extend.

The client's restructuring and its exposure does not always imply a loss of value (e.g. in the case of obtaining appropriate compensations). Impaired exposures are restructured exposures with forced restructuring.

In case the Bank grants a concession to the debtor, if it does not change significantly the terms and expected cash flows of the financial asset, the expected cash flows from the financial asset subject to the concession are included in the measurement of the asset using the prior effective interest rate for the instrument.

If the concession granted significantly changes the important terms or expected cash flows, the financial asset is derecognized and the new one is recognized at fair value on the day of the initial recognition.

Impairment provisions for expected credit losses

In order to determine the Stage of reported expected credit loss, exposure should be assessed if there was a credit loss that has already been suffered by the assets (Stage 3) or not (Stages 1 and 2). The allocation between Stage 1 and 2 is determined by a significant increase in credit risk since initial recognition.

The impairment provisions for expected credit losses are calculated using statistical parameters for the groups of assets combined in portfolios having similar credit risk characteristics. In the financial statements, the Bank corrects credit exposure with the value of expected credit losses provisions.

Provisions for expected credit losses for individually significant assets

The level of impairment provisions for receivables that are deemed as individually significant and for which evidence of impairment was detected is calculated as the difference between the carrying value of an asset and the present value of the future cash flows from expected repayments by the borrower, from cash settlement of collateral or the sale of receivables. The future cash flows are discounted to the present value with the effective interest rate for a given instrument.

If the present value of the estimated cash flows increases after an event occurring after impairment was identified, the write-off that was previously made will be reversed as appropriate through profit or loss.

Impairment provisions for individually not significant assets

The level of impairment allowances for receivables that are deemed as individually not significant, for which evidence of impairment was detected, is calculated on the basis of a portfolio assessment which is based on the history of losses incurred for assets with similar risk characteristics.

Impairment allowances for amounts due from banks and customers, allowances for impairment of securities and other assets adjust the value of particular asset categories. Provisions for contingent liabilities are shown in the liabilities section "Provisions".

Credit risk in debt financial instruments at fair value through other comprehensive income

For financial assets measured at fair value through other comprehensive income, the increase or decrease in expected credit losses is recognized in the profit and loss account under the item "Provision for expected credit losses on financial assets and provisions for off-balance-sheet commitments".

In order to calculate the expected credit losses for assets measured at fair value through other comprehensive income, the Bank uses an internal methodology to define default probability (PD parameter), loss value at default (LGD parameter) and exposure value at the time of default (EAD parameter).

2.2 IFRS 16 Leases

On 1 January 2019 the Group adopted IFRS 16 "Leases" ("IFRS 16") replacing IAS 17 "Leases".

The new standard relates to all leases of tangible assets excluding certain items that are within the scope of other IFRS. IFRS 16 contains a holistic approach to lease identification, recognition and measurement in the financial statements of lessees and lessors. Particularly impactful changes were introduced to accounting for leases by lessees by assuming a single accounting model and abandoning a distinction between operating and finance leases.

In order to identify a lease contract, IFRS 16 uses a concept of control over an asset. The standard distinguishes lease contracts from service agreements depending on whether there is a specified asset that is controlled by a lessee. According to IFRS 16, a contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement of each lease, IFRS 16 requires a lessee to recognize a lease liability (resulting from an obligation to make lease payments) and an asset – right of use of a specified asset over a lease term. A lessee may elect not to apply the requirement to:

- short-term leases that at the commencement date have a lease term of 12 months or less; and
- leases for which the underlying asset is of low value.

Implementation of IFRS 16 has not changed the classification and measurement of lease contracts where the Group is a lessor.

At the commencement date, the Bank as a lessee measures the lease liability at the present value (discounted) of the lease payments that are not paid at that date. The payments include, inter alia:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate.

At the commencement date, right-of-use assets are measured at cost, comprising:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The Group recognizes a lease contract as a right-of-use asset and corresponding lease liability at the lease commencement date.

Most real estate leases are denominated in foreign currency and the corresponding lease liabilities are monetary items re-measured at each reporting date with revaluation gains and losses recognized in the income statement.

The Group presents right-of-use assets within tangible fixed assets and it includes lease liabilities in the line Other liabilities.

Interest expense resulting from a lease liability is recognized in profit and loss as interest cost during the lease using the effective interest rate method, in order to produce a constant periodic rate of interest on the remaining balance of the lease liability.

A right-of-use asset is amortized on a linear basis over whichever of the two periods is shorter: the useful life of the right-of-use asset or the end of the lease term. In the scope of impairment of assets due to the right of use, the Group applies IAS 36 Impairment.

The Group elected to apply the following practical expedients:

- the Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment),
- the Group applies an exemption for short-term leases for which the lease term ends within 12 months of the date of initial application,
- the Group elected not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component,
- the Group used hindsight, such as in determining the lease term, if the contract contains options to extend or terminate the lease,
- for operating lease contracts for which the underlying asset is of low value, the Group did not recognize any lease liabilities or related right-of-use assets. Lease payments on this account are recognized as expenses during the leasing period.

Initial application of IFRS 16

In accordance with the transitional provisions included in IFRS 16, when adopting the new standard the Group as a lessee opted to follow a simplified approach based on which comparative information is not restated and cumulative effect is recognized as an adjustment to the opening balance of retained earnings (however no retained earnings adjustment was recognized because the right-of-use asset balance was equal to lease liabilities).

As at initial application of IFRS 16, i.e. 1 January 2019, the Group recognized new assets, mainly related to right-of-use of real estate linked to the Bank's branches as well as perpetual usufruct of land. IFRS 16 initial application resulted in an increase in Group assets and liabilities by PLN 146.0 million (equivalent of 0.3% of the Group's total assets as at 31 December 2018).

The impact of IFRS 16 first time adoption as at 1 January 2019 is presented below:

PLN'000	31.12.2018	IFRS 16 impact	1.1.2019
Tangible fixed assets	364,261	145,964	510,225
Total assets	**364,261**	**145,964**	**510,225**
Other liabilities	805,723	145,964	951,687
Total liabilities	**805,723**	**145,964**	**951,687**

The following table presents the reconciliation between operating lease commitments disclosed applying IAS 17 as at 31 December 2018 and lease liabilities recognized in the statement of financial position at the date of IFRS 16 initial application.

Reconciliation of Lease Liabilities

PLN'000	Rights to perpetual usufruct	Real estate and other	Total
Weighted-average Incremental Borrowing Rate	4.3%	1.4%	3.8%
Total non-cancellable operating lease rentals disclosed as at 31 December 2018 in accordance with IAS 37	**-**	**58,719**	**58,719**
Inclusion of Rights to perpetual usufruct and lease term change options	268,695	9,116	277,811
Total Undiscounted Lease Liability	**268,695**	**67,835**	**336,530**
Imputed Interest	186,507	4,059	190,566
Total Discounted Lease Liability as at 1 January 2019	**82,188**	**63,776**	**145,964**

The Group applies its incremental borrowing rates because interest rates implicit in leases are not readily determined. Incremental borrowing rates are determined by the Group taking into account the risk-free rate and credit risk spread of the Group, and reflect the lease term as well as currency of a lease contract.

The following rates were applied as at 1 January 2019:

- PLN: 1.6% - 4.3% depending on the remaining lease term
- EUR: 0.02% - 2.2% depending on the remaining lease term

The Group updates the rate curves on a recurring basis and applies new rates to new leases (and with respect to certain modified leases).

IFRS 16 changes the accounting of leases in the income statement by replacing rental costs with depreciation and interest expense and the timing of cost recognition – under IFRS 16 cost recognition will be front-loaded due to the effective interest rate method applied to lease liabilities, which was not used with respect to operating leases under principles in force before 31 December 2018. The Group estimates that the impact is not significant and will be reversed as leases mature.

2.3 Accounting estimates and judgments

Determination of the carrying values of selected assets and liabilities as well as revenue and expense requires estimating the effect of uncertain future events on these items at the balance sheet date. The estimates and assumptions are subject to continuous evaluation and are based on historical experience and other factors, including expectations of future events which seem justified in a given situation. The most crucial estimates applied in the preparation of the financial statements are presented below.

Fair value of derivatives

The fair value of financial instruments not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are tested and approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair value of financial instruments disclosed.

The Group applies the following methods for measuring particular types of derivative instruments:

- FX forwards – discounted cash flows model;
- options – option market-based valuation model;
- interest rate transactions – discounted cash flows model;
- futures – current quotations.

The Group uses a Credit Default Swap quotation for valuation of counterparty credit risk.

The Group differentiates the valuation of counterparty risk due to the availability of quotations of credit derivatives (CDS):

- Counterparty Credit Risk of companies for which there is an active CDS market: It is considered that the CDS quotes reflect the market value of the credit risk;
- Counterparty Credit Risk of companies for which there is no active CDS market: On the basis of the credit rating (external or internal, when an external rating is not available) and industry, the CDS index (for a given industry) is assigned to the company. It is considered that the industry index CDS quotes reflect the market value of the credit risk.

In the case of valuation of own credit counterparty risk (DVA), the Group is using a method defined for clients for which there is no active CDS market.

The main factors determining the change of counterparty credit risk estimations are: (i) change of fair value of derivative instruments correlated with a change of, inter alia, fx rates and interest rates, (ii) a change of CDS quotes (iii) changes in credit risk ratings.

Provisions for expected credit losses

The Group estimates the value of impairments for expected credit losses for all financial assets in connection with the classification of these assets to one of three stages determining the value of estimates and depending on the parameters adopted for the calculation.

On the basis of the calculations made, the Group makes regular allowances for impairment of loan expected losses, whose level is regularly monitored.

At each balance sheet date, the Group assesses whether there is objective evidence of impairment of loan exposures. Exposure is assumed to be impacted by a credit impairment, when, because of credit risk, one or more events occurred that have a negative impact on forecasted future cash flow as per this exposure.

If so, the Group records an impairment loss equal to the difference between the carrying value and the estimated present value of the future cash flows from a given loan exposure.

Exposures that have not been classified as impaired exposures, despite the occurrence of certain conditions, require justification and documentation to explain why there was no credit impairment.

The methodology and assumptions used to determine the impairment level of loans are regularly reviewed and updated, as required. Further, data are back-tested (based on historical data) to compare the actual amounts with estimated credit impairment, which may have an influence on the methodology applied by the Group.

Impairment of goodwill

The Group carries out obligatory annual impairment tests of goodwill in accordance with the model based on guidance from IAS 36. The basis of valuation of the recoverable amount of cash-generating units to which the goodwill is assigned is their value in use which is estimated by the Bank's management based on the financial plan reflecting the adopted assumptions on future economic conditions and expected Bank performance, as well as the discount rate used in cash flow forecasts and the growth rate used to extrapolate cash flow forecasts beyond the period covered by the financial plan.

Employee benefits

Provisions for future payments in respect of employee benefits such as jubilee awards and retirement and pension allowances are subject to periodic actuarial estimation by an independent actuary. The amount of provisions corresponds to the current value of future long-term liabilities of the Group to its employees according to employment and salaries on reporting day and is based on a number of assumptions in the field of staff statistics. Provisions are calculated on the basis of a number of assumptions on financial discount and the probability of a given person reaching the retirement age as the Group's employee, including staff turnover, risk of death and risk of total work incapacity.

3. Segment reporting

A segment is a separable component of the Group engaged in business activities, generating income and expenses (including intergroup transactions), whose operating results are regularly reviewed by the Management Board of the parent entity as the chief operating decision-maker of the Group in order to allocate resources and assess its performance.

The Group is managed at the level of two main business segments – the Institutional Bank and Consumer Bank. The valuation of a segment's assets and liabilities as well as calculation of financial results comply with the Group's accounting policies applied in the preparation of the financial statements, including intergroup transactions between segments.

The allocation of the Group's assets, liabilities, revenues and expenses to segments was made on the basis of internal information prepared for management purposes. Transfer of funds between the Group's segments is based on market prices. Transfer prices are calculated using the same rules for both segments and any difference results only from maturity and the currency structure of assets and liabilities. The basis for assessment of segment performance is gross profit or loss.

The Group conducts its operations solely within the territory of Poland.

Institutional Bank

Within the Institutional Bank segment, the Group offers products and renders services to business entities, local government units and the public sector. Apart from traditional banking services, including credit and deposit activities, the segment provides services in the area of cash management, trade financing, leases, brokerage, custody services in respect of securities and offers treasury products on financial and commodity markets. In addition, the segment offers investment banking services on local and international capital markets, including advisory services, obtaining and underwriting financing via public and non-public issues of financial instruments. The activities of the segment also include proprietary transactions in the equity, debt and derivative instruments markets.

Consumer Bank

Within the Consumer Bank segment, the Group provides products and financial services to individuals as well as to micro-enterprises and individual entrepreneurs within the framework of the CitiBusiness offer. Apart from keeping bank accounts and providing credit and deposit offers, the Group offers cash loans, mortgage loans, credit cards, provides asset management services, and acts as an agent in the sale of investment and insurance products.

Income statement of the Group by business segment

For the period (PLN'000)	2019			2018		
	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Net interest income	514,992	638,735	1,153,727	499,331	608,243	1,107,574
Internal interest income, including:	(71,563)	71,563	-	(43,366)	43,366	-
Internal income	-	71,563	71,563	-	43,366	43,366
Internal expenses	(71,563)	-	(71,563)	(43,366)	-	(43,366)
Net fee and commission income	303,405	261,471	564,876	283,490	266,458	549,948
Dividend income	2,360	8,720	11,080	1,474	8,059	9,533
Net income on financial instruments and revaluation	351,856	27,669	379,525	335,714	28,490	364,204
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	97,969	-	97,969	112,631	-	112,631
Net gain/(loss) on equity and other instruments measured at fair value through income statement	16,467	925	17,392	6,522	-	6,522
Net gain/(loss) on hedge accounting	(3,493)	-	(3,493)	3,682	-	3,682
Net other operating income	9,915	(14,237)	(4,322)	9,199	(3,298)	5,901
General administrative expenses	(533,086)	(595,183)	(1,128,269)	(490,817)	(617,430)	(1,108,247)
Depreciation and amortization	(19,846)	(66,653)	(86,499)	(18,326)	(53,058)	(71,384)
Profit on sale of other assets	(113)	(241)	(354)	(829)	16	(813)
Net impairment loss on financial assets and provisions for off-balance-sheet commitments	(168,266)	(77,452)	(245,718)	8,628	(72,139)	(63,511)
Operating income	**572,160**	**183,754**	**755,914**	**750,699**	**165,341**	**916,040**
Share in net profits/(losses) of entities valued at equity method	-	-	-	(22)	-	(22)
Tax on some financial institutions	(73,155)	(24,567)	(97,722)	(64,339)	(23,011)	(87,350)
Profit before tax	**499,005**	**159,187**	**658,192**	**686,338**	**142,330**	**828,668**
Income tax expense	-	-	(178,068)	-	-	(189,816)
Net profit	**-**	**-**	**480,124**	**-**	**-**	**638,852**

** From 1 January 2019 Handlowy-Inwestycje Sp. z o.o. is fully consolidated.*

As at (PLN'000)	31.12.2019			31.12.2018		
	Institutional Bank	Consumer Bank	Total	Institutional Bank	Consumer Bank	Total
Total assets	**44,299,208**	**7,679,335**	**51,978,543**	**41,778,812**	**7,525,902**	**49,304,714**
Total liabilities and shareholder equity, including:	**35,665,583**	**16,312,960**	**51,978,543**	**34,822,272**	**14,482,442**	**49,304,714**
Liabilities	30,254,827	14,649,061	44,903,888	29,342,859	12,905,105	42,247,964

4. Net interest income

Accounting policy:

For all financial instruments, interest income and interest expense is recognized through the profit or loss account using the effective interest rate method.

The effective interest rate method calculates the amortized cost of a financial asset or a financial liability and allocates interest income or interest expense to appropriate periods. The effective interest rate is a rate that discounts the estimated futures inflows or payments in the expected period until the maturity of the financial instrument to the carrying value of a financial asset or a financial liability. When calculating the effective interest rate, the Bank takes into account all the terms and conditions of a financial instrument agreement (e.g. prepayments, call options, etc.), but excludes potential future losses in connection with non-recoverable loans. The calculation covers all the commissions payable to and receivable from the parties to the agreement, integral components of the effective interest rate, transactional costs and any other premiums and discounts. As a result, commissions that are an integral part of the effective interest rate less direct costs of obtaining the financial instrument are recognized as components of interest income.

The effective interest rate applies for the gross carrying amount of financial assets, except for purchased or originated credit-impaired financial assets or impaired financial assets.

In the case of financial assets for which impairment losses were recognized, interest income is measured using the interest rate that was used to discount the future cash flows to estimate such impairment losses.

Interest income in respect of purchased or originated credit-impaired financial assets is determined by the effective interest rate adjusted for credit risk.

Financial information:

PLN'000	2019	2018
Interest income from:	**1,300,146**	**1,249,769**
financial assets measured at amortized cost	**997,084**	**978,996**
Balances with Central Bank	7,334	6,559
Amounts due from banks	17,831	22,941
Amounts from customers, including:	971,919	949,496
financial sector entities	55,411	55,653
non-financial sector entities, including:	916,508	893,843
credit cards	281,531	286,435
Financial assets measured at fair value through comprehensive income	**303,062**	**270,773**
Debt investment financial assets measured at fair value through comprehensive income	303,062	270,773
Similar income from:	**106,333**	**54,745**
Debt securities held-for-trading	77,607	44,802
Liabilities with negative interest rate	13,644	9,943
Derivatives in hedge accounting	15,082	-
	1,406,479	**1,304,514**
Interest expense and similar charges for		
financial liabilities measured at amortized cost	**(236,208)**	**(191,070)**
Amounts due to banks	(64,131)	(43,021)
Amounts due to customers	(167,396)	(147,803)
Amounts due to financial sector entities	(49,503)	(59,482)
Amounts due to non-financial sector entities	(117,893)	(88,321)
Loans and advances acquired	(345)	(246)
Lease liabilities	(4,336)	-
Assets with negative interest rate	**(756)**	**(2,161)**
Derivatives in hedge accounting	**(15,788)**	**(3,709)**
	(252,752)	**(196,940)**
Net interest income	**1,153,727**	**1,107,574**

5. Net fee and commission income

Accounting policy:

Commission and fee income is generated when the Bank renders financial services to its customers. The Bank classifies its commission into the following categories:

- commissions that are an integral part of the effective interest rate,
- commissions for services rendered,
- commissions for executing significant transactions.

Commissions that are an integral part of the effective interest rate are recognized in the income statement adjusted by the calculation of the effective interest rate and are shown in interest income.

In the case of loans and borrowings with undetermined installment payment dates, e.g. overdrafts or credit cards, commissions and fees are recognized using the straight-line method until the expiry date of a credit limit. Such commissions and fees are recognized as commission income.

For other commissions, the Bank performs:

- Identification of the contract with a customer,
- Identification of performance obligations,
- Determination of the transaction price,
- Allocation of the transaction price to performance obligations to identify amounts to be recognized as revenue,
- Revenue recognition when (or as) it satisfies the performance obligation by transferring a promised good or service to a customer (transfer of a promised good or service is when the customer obtains control of the good or service).

If the Bank transfers control of service over time and, therefore, satisfies a performance obligation and the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs, then fees are recognized over time in proportion to the completion of the service in fee income. In other cases, the fees are recognized at a point in time when services have been completed and are presented in fee income. The above approach corresponds to the manner of meeting the obligations to provide services by the Bank in accordance with IFRS 15. There are no situations of withholding services which would affect the manner of revenue recognition described above in connection with meeting the obligation to provide services. The nature of services provided by the Bank is described in the Statutes, including situations in which the Bank acts as an intermediary. In the area of commission income, the remuneration received is in principle non-refundable.

The Bank considers the terms of the contract to determine the transaction price. The transaction price is the amount of consideration (fixed, variable or both) to which the Bank expects to be entitled in exchange for transferring promised services to a customer, excluding amounts collected on behalf of third parties.

The Bank shall recognize an asset from the costs incurred to fulfill a contract only if those costs meet all of the following criteria:

a) the costs relate directly to a contract or to an anticipated contract that the Bank can specifically identify;

b) the costs generate or enhance resources of the Bank that will be used to satisfy (or continue to satisfy) performance obligations in the future; and

c) the Bank expects to recover the costs.

The Bank renders intermediary services for insurance products. Income for the distribution of insurance products not directly relating to the occurrence of financial assets is recognized in the income statement when the service has been provided or renewal of the insurance policy has taken place, except for the part of remuneration for services provided after the sale, which is amortized over the life of the facility using the straight-line method.

In the case of products directly attributable to financial assets, where income is received up front for a period longer than one month, to establish the way of showing income on distributing this insurance, a model of relative fair value is used. On the basis of proportions of fair value of insurance product distribution service and fair value of a loan against the sum of these values, the allocation of total income is established. Income from the sale of an insurance product is divided into the following components:

- income on account of services provided as an insurance agent, and
- income recognized in the Income Statement as an effective interest rate component, adjusted by the estimated amounts of potential future returns in case of early termination of insurance products based on the share of the fair value of each of these parts in the total of their fair values.

The income described above takes into account the estimation of future returns on customers renouncing their insurance in given conditions.

Part of income corresponding to services rendered by the Bank after the sale of an insurance product is bifurcated from income on account of services provided as an insurance agent and the portion is recognized over the life of the facility. The remainder is recognized up front.

Costs directly attributable to the acquisition of a cash loan are amortized over the life of the product as an effective interest rate component and are part of the interest income.

If the Bank incurs costs directly associated with the sale of an insurance product, such costs are accounted for in accordance with the principle of matching revenues and expenses. Costs not directly associated with the sale of insurance products are recognized when incurred.

Financial information:

PLN'000	2019	2018
Fee and commission income		
Insurance and investment products distribution	67,456	82,085
Payment and credit cards	161,019	159,205
Payment services	111,213	106,995
Custody services*	94,805	85,086
Brokerage operations	36,206	42,665
Cash management services on customer accounts	27,078	25,610
Guarantees granted	18,895	19,194
Financial liabilities granted	7,866	7,933
Other, including:	128,871	110,188
installment products in credit card	28,740	27,483
	653,409	**638,961**
Fee and commission expense		
Payment and credit cards	(32,896)	(36,685)
Brokerage operations	(12,553)	(12,865)
Fees paid to the National Depository for Securities (KDPW)	(20,820)	(18,928)
Broker's fees	(4,184)	(4,516)
Other	(18,080)	(16,019)
	(88,533)	**(89,013)**
Fee and commission income	**564,876**	**549,948**

The net fee and commission income for 2019 comprises commission income (other than income covered by the calculation of the effective interest rate process) related to financial assets and liabilities not measured at fair value through profit or loss in the amount of PLN 202,964 thousand (for 2018: PLN 194,200 thousand) and commission expenses in the amount of PLN 37,331 thousand (for 2018: PLN 40,911 thousand).

The "other" item in the fee and commission income contains a value that is the result of transactions carried out in the first half of 2019. Purchased on 8 March 2019, 100% shares in Bimmer Sp. z o.o. were sold to an external investor on 30 May 2019 for PLN 17.1 million. The subject of activity of Bimmer Sp. z o.o. is insurance brokerage, in particular providing insurance products services separated from the Bank, which the Bank has historically excluded from its offer. The transaction resulted in an increase in commission income in 2019 by PLN 13.1 million, while the remaining part will be recognized in the income statement in future periods.

6. Dividend income

Accounting policy:

Dividends resulting from equity investments are recognized in profit and loss when the entity's right to receive payment is established. There is a possibility that the entity will obtain economic benefits connected with the dividend and the dividend will be set credibly.

Financial information:

PLN'000	2019	2018
Equity and other instruments at fair value through the income statement	9,807	9,106
Securities held-for-trading	1,273	427
Total dividend income	**11,080**	**9,533**

7. Net income on trading financial instruments and revaluation

Accounting policy:

This item covers net income on trading financial instruments measured in fair value through profit or loss (as described in note 2.1 Financial assets and liabilities – classification and measurement) and net income on revaluation.

Financial information:

PLN'000	2019	2018
Net income on financial instruments measured at fair value through profit		
and loss from:	35,456	28,236
Debt instruments	(13,500)	(5,924)
Equity instruments	(65,045)	8,425
Derivative instruments, including:	(83,003)	(313)
Interest rate derivatives	17,605	8,777
Equity	353	(39)
Commodities	**(43,089)**	**30,737**
Net income on FX operations		
Operations on FX derivative instruments	470,297	498,691
FX gains and losses (revaluation)	(47,683)	(165,224)
	422,614	**333,467**
Net income on trading financial instruments and revaluation	**379,525**	**364,204**

The net income on trading financial instruments and revaluation for 2019 contains movement in (net) adjustment of the valuation of derivatives reflecting the counterparty credit risk and own credit risk in the amount of PLN 2,580 thousand (in 2018: minus PLN 11,051 thousand), presented as "Net income on financial instruments at fair value through profit and loss from derivative instruments".

Net income from debt instruments includes the net results on trading in government securities, corporate debt securities and money market instruments held-for-trading.

Income from derivative instruments includes net income due to transactions in interest rate swaps, options, futures and other derivatives.

Net profit on foreign exchange includes profit and losses on valuation of assets and liabilities denominated in foreign currency and foreign currency derivatives such as forward, CIRS and option contracts and also contains a margin realized on spot and forward currency transactions.

8. Net gain/(loss) on hedge accounting

Accounting policy:

Detailed information on hedge accounting applied by the Bank, including the accounting policy, are presented in note 36.

Financial information:

PLN'000	2019	2018
Fair value hedge accounting		
Net gain on hedged transaction valuation	334	14,526
Net gain on hedging transaction valuation	(3,827)	(10,844)
Hedge accounting income	**(3,493)**	**3,682**

9. Net other operating income and expense

Financial information:

Other operating income and expenses comprise income and expenses that are not directly related to banking activities. They include the proceeds from and costs of selling or disposing of tangible fixed assets and assets held for disposal, income from processing data for related companies, compensation, penalties and fines.

PLN'000	2019	2018
Other operating income		
Income from provision of services for related parties outside the Group	6,626	7,092
Income from office rental	7,585	7,650
Other, including:	10,249	20,501
reimbursement of legal and enforcement costs	2,762	2,709
	24,460	**35,243**
Other operating expenses		
Amicable procedure and vindication expenses	(8,564)	(9,043)
Fixed assets held-for-sale maintenance cost	-	(87)
Net provision for litigation	(390)	(165)
Other, including:	(19,828)	(20,047)
donation	(3,856)	(4,075)
	(28,782)	**(29,342)**
Net other operating income	**(4,322)**	**5,901**

10. General administrative expenses

Accounting policy:

General administrative expenses are recognized in the period they apply to.

Financial information:

In the building maintenance and rent cost position, there are lease payments for short-term leases and low-value assets, variable lease payments, non-lease components and maintenance costs related to real estate owned or leased by the Group.

PLN'000	2019	2018
Staff expenses		
Remuneration costs, including:	(382,631)	(385,245)
Provisions for retirement allowances	(29,001)	(28,626)
Bonuses and rewards, including:	(73,319)	(81,241)
Payments related to own equity instruments	(4,751)	(8,700)
Rewards for long time employment	(30)	(38)
Social insurance costs	(64,598)	(63,014)
	(520,548)	**(529,500)**
Administrative expenses		
Telecommunication fees and hardware purchases	(195,449)	(187,339)
Costs of external services, including advisory, audit, consulting services	(50,159)	(55,169)
Building maintenance and rent costs	(53,366)	(64,208)
Advertising and marketing costs	(46,324)	(47,213)
Cash management service, KIR service and other transactional costs	(38,053)	(37,634)
Costs of external services related to the distribution of banking products	(44,779)	(40,402)
Postal services, office supplies and printing costs	(8,215)	(7,657)
Training and education costs	(1,451)	(1,409)
Banking and capital supervision costs	(5,902)	(4,316)
Bank Guarantee Funds costs	(102,292)	(61,720)
Other expenses	(61,731)	(71,680)
	(607,721)	**(578,747)**
Total general administrative expenses	**(1,128,269)**	**(1,108,247)**

Staff expenses include the following employee benefits for current and former members of the Management Board:

PLN'000	2019	2018
Short-term employee benefits	13,348	13,158
Long-term employee benefits	2,796	2,784
Capital assets	2,760	4,550
	18,904	**20,492**

11. Depreciation expense

Accounting policy:

Depreciation expenses are recognized on a straight-line basis according to depreciation rates described in note 23 for tangible fixed assets and note 24 for intangible assets.

Financial information:

PLN'000	2019	2018
Depreciation of property and equipment	(41,461)	(28,759)
Amortization of intangible assets	(45,038)	(42,625)
Depreciation expense, total	**(86,499)**	**(71,384)**

12. Provisions for expected credit losses on financial assets and provisions for off-balance-sheet commitments

Accounting policy:

Provisions for expected credit losses and provisions for contingent commitments are presented in this position. Impairment policy is described in detail in note 47.

Financial information:

PLN'000	2019	2018
Net impairment on amounts due from banks		
Provision creation	(3,244)	(5,664)
Provision reversals	4,664	4,355
	1,420	**(1,309)**
Net impairment on amounts due from customers		
Provision creation and reversals	**(216,110)**	**(75,099)**
Provision creation	(365,127)	(214,719)
Provision reversals	151,861	140,690
Other	(2,844)	(1,070)
Recoveries from sold debts	**4,293**	**2,373**
	(211,817)	**(72,726)**
Net impairment on debt investment financial assets measured at fair value through other comprehensive income		
Provision creation	(166)	-
Provision reversals	-	1,069
	(166)	**1,069**
Net impairment on financial assets	**(210,563)**	**(72,966)**
Created provisions for granted financial and guarantee commitments	(68,808)	(33,810)
Release of provisions for granted financial and guarantee commitments	33,653	43,265
Net impairment on provisions for granted contingent commitments	**(35,155)**	**9,455**
Net impairment on financial assets and provisions for contingent commitments	**(245,718)**	**(63,511)**

13. Income tax expense

Accounting policy:

Income tax consists of current tax and deferred tax. Income tax is recognized in the income statement, except for taxes related to amounts that are allocated to other comprehensive income.

Financial information:

Recognized in the income statement

PLN'000	2019	2018
Current tax		
Current year	(215,824)	(207,258)
Adjustments for prior years	(392)	(1,120)
	(216,216)	**(208,378)**
Deferred tax		
Origination and reversal of temporary differences	38,148	18,562
	38,148	**18,562**
Total income tax expense in income statement	**(178,068)**	**(189,816)**

Reconciliation of effective tax rate

PLN'000	2019	2018
Profit before tax	658,192	828,668
Income tax at the domestic corporate tax rate of 19%	(125,056)	(157,447)
Impairment provision not constituting deductible expenses	(12,101)	(2,322)
Deductible income not recognized in the income statement	(3,536)	(1,294)
Deductible expenses not recognized in the income statement	(6)	(120)
Non-taxable income	2,311	1,828
Tax on some financial institutions	(18,567)	(16,597)
Bank Guarantee Fund	(19,436)	(11,727)
Other permanent differences, including other non-deductible expenses	(1,677)	(2,137)
Total tax expenses	**(178,068)**	**(189,816)**
Effective tax rate	**27.05%**	**22.91%**

The increase in effective tax rate is caused by the increase in the value of regulatory costs and the level of provision for receivables that are not tax deductible.

Deferred tax recognized directly in equity

Deferred tax recognized directly in equity as at 31 December 2019 is related to financial assets measured at fair value through other comprehensive income and valuation of the defined benefit plan and amounted to PLN 24,150 thousand (31 December 2018: PLN 18,227 thousand).

14. Earnings per share

As at 31 December 2019, earnings per share amounted to PLN 3.67 (31 December 2018: PLN 4.89).

The calculation of earnings per share as at 31 December 2019 was based on profit attributable to shareholders of PLN 480,124 thousand (31 December 2018: PLN 638,852 thousand) and the weighted-average number of ordinary shares outstanding during the year ending 31 December 2019 of 130,659,600 (31 December 2018: 130,659,600).

The Bank does not have any ordinary shares that may have a dilution impact or any other dilutive instruments.

15. Changes in other comprehensive income

Deferred income tax and reclassification included in other comprehensive income concerns the valuation of financial assets measured at fair value recognized in the revaluation reserve and valuation of the defined benefit program recognized in other reserves.

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2019	**94,399**	**(17,937)**	**76,462**
Change in valuation of financial assets measured at fair value through other comprehensive income	135,650	(25,773)	109,877
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(97,970)	18,614	(79,356)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**132,079**	**(25,096)**	**106,983**
Net actuarial profits/(losses) on defined benefit program valuation	(4,971)	945	(4,026)
As at 31 December 2019	**127,108**	**(24,151)**	**102,957**

PLN'000	Gross amount	Deferred income tax	Net amount
As at 1 January 2018	**(17,513)**	**3,327**	**(14,185)**
Change in valuation of financial assets measured at fair value through other comprehensive income	229,136	(43,619)	185,517
Valuation of financial assets measured at fair value through other comprehensive income sold, recognized to income statement	(112,631)	21,400	(91,231)
Total comprehensive income connected with financial assets measured at fair value through other comprehensive income	**98,992**	**(18,892)**	**80,100**
Net actuarial profits/(losses) on defined benefit program valuation	(3,507)	665	(2,842)
As at 31 December 2018	**95,485**	**(18,227)**	**77,258**

16. Cash and balances with the Central Bank

PLN'000	31.12.2019	31.12.2018
Cash in hand	436,216	422,064
Current balances with Central Bank	3,300,490	3,850,088
Deposits	-	3,000,041
Cash and balances with the Central Bank, total	**3,736,706**	**7,272,193**

On the current account in the National Bank of Poland (NBP), the Bank maintains an obligatory reserve which may be used only under the condition that the sum of the average monthly balance on the current account in NBP is not lower than the declared balance.

The declared balance of obligatory reserve amounted as at 31 December 2019 to PLN 1,422,651 thousand (31 December 2018: PLN 1,271,148 thousand).

17. Amounts due from banks

Accounting policy:

Classification and measurement of Amounts due from banks are described in note 2.1 "Financial assets and liabilities – classification and measurement".

Financial information:

PLN'000	31.12.2019	31.12.2018
Current accounts	60,469	203,311
Deposits	379,788	386,058
Loans and advances	3,428	28
Receivables due to purchased securities with a repurchase agreement	625,592	630,126
Deposits pledged as collateral of derivative instruments and stock market transactions	99,001	118,364
Total gross amount	**1,168,278**	**1,337,887**
Impairment provision	(2,594)	(3,910)
Total net amount due from banks	**1,165,684**	**1,333,977**

Changes in gross amounts due from banks that contributed to movements in provision for expected credit losses amounts are as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2019	**(3,910)**	**-**	**-**	**(3,910)**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
(Creation)/Releases in the period though the income statement	1,420	-	-	1,420
Foreign exchange and other movements	(104)	-	-	(104)
Gross amounts due from banks as at 31 December 2019	**(2,594)**	**-**	**-**	**(2,594)**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Provision for expected credit losses as at 31 December 2017	**-**	**-**	**-**	**(1,111)**
Impact of adopting IFRS 9	-	-	-	(1,236)
Gross amounts due from banks as at 1 January 2018	**(2,223)**	**(124)**	**-**	**(2,347)**
Transfer to Stage 1	(124)	124	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
(Creation)/Releases in the period though the income statement	(1,309)	-	-	(1,309)
Foreign exchange and other movements	(254)	-	-	(254)
Gross amounts due from banks as at 31 December 2018	**(3,910)**	**-**	**-**	**(3,910)**

* *As at December 31, 2018, the Group did not identify POCI assets (purchased or originated credit-impaired assets).*

The closing balance of impairment recognized on loans and advances to customers consisted of:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost	**1,337,884**	**3**	**-**	**1,337,887**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Purchased/paid receivables	(228,894)	-	-	(228,894)
Other movements	59,505	-	-	59,505
Gross amounts due from banks as at 31 December 2019	**1,168,276**	**3**	**0**	**1,168,278**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from banks measured at amortized cost				
Gross amounts due from banks as at 1 January 2018	**832,176**	**5,709**	**-**	**837,885**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Purchased/paid receivables	494,306	(5,700)	-	488,606
Derecognition	(9,118)	-	-	(9,118)
Other movements	20,520	(6)	-	20,514
Gross amounts due from banks as at 31 December 2018	**1,337,884**	**3**	**-**	**1,337,887**

18. Financial assets and liabilities held-for-trading

Accounting policy:

Classification and measurement of financial assets and liabilities held-for-trading are described in note 2.1 "Financial assets and liabilities – classification and measurement".

Financial information:

Financial assets held-for-trading

Derivative instruments, excluding hedging instruments, and selected debt securities are classified as held-for-trading and presented in the consolidated financial statement as "Financial assets held-for-trading".

PLN'000	31.12.2019	31.12.2018
Debt securities held-for-trading		
Bonds and notes issued by:		
Central Banks	999,917	-
Banks and other financial entities	7,125	12,944
Government	2,874,773	918,228
	3,881,815	**931,172**
Including:		
Listed on active market	2,881,898	931,172
Equity instruments held-for-trading	**39,916**	**23,227**
Including:		
Listed on active market	39,916	23,227
Derivative financial instruments	**1,524,780**	**1,282,677**
Financial assets held-for-trading, total	**5,446,511**	**2,237,076**

Financial liabilities held-for-trading

PLN'000	31.12.2019	31.12.2018
Liabilities related to short sale of securities	248,406	351,323
Derivatives	1,629,492	1,258,059
Financial liabilities held-for-trading, total	**1,877,898**	**1,609,382**

As at 31 December 2019 and 31 December 2018, the Group did not hold any financial assets and liabilities designated at fair value through profit or loss at initial recognition.

Derivative financial instruments as at 31 December 2019

PLN'000	Nominal amount with remaining life of					Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	Total	Assets	Liabilities
Interest rate instruments	**43,827,433**	**37,840,304**	**127,617,389**	**27,456,990**	**236,742,116**	**872,786**	**1,112,966**
FRA	34,030,000	15,240,000	14,753,000	-	64,023,000	2,558	3,815
Interest rate swaps (IRS)	9,797,433	22,600,304	110,965,539	27,415,264	170,778,540	870,228	1,109,106
Interest rate options	-	-	1,898,850	41,726	1,940,576	-	45
Currency instruments	**30,557,396**	**15,455,840**	**24,432,442**	**8,175,751**	**78,621,429**	**614,831**	**478,994**
FX forward	3,428,837	2,745,957	1,889,596	-	8,064,390	97,075	37,062
FX swap	20,442,422	5,466,035	3,838,179	-	29,746,636	242,510	306,517
Currency-interest rate swaps (CIRS)**	5,202,463	6,606,291	14,562,621	8,175,751	34,547,126	239,109	99,138
Foreign exchange options	1,483,674	637,557	4,142,046	-	6,263,277	36,137	36,277
Securities transactions	**164,724**	**14,097**	**-**	**-**	**178,821**	**293**	**618**
Futures*	38,581	14,097	-	-	52,678	-	-
Securities purchased/sold pending delivery	126,143	-	-	-	126,143	293	618
Commodity transactions	**55,783**	**237,429**	**141,962**	**-**	**435,174**	**36,870**	**36,914**
Swaps	55,783	237,429	141,962	-	435,174	36,870	36,914
Total derivative instruments	**74,605,336**	**53,547,670**	**152,191,793**	**35,632,741**	**315,977,540**	**1,524,780**	**1,629,492**

* *Exchange-traded products.*

** *foreign exchange interest rate swaps with capital exchange.*

Cross-currency interest-rate swaps presented so far among interest rate instruments were transferred to the group of currency based instruments. The change is for presentation purposes only, it does not affect the values presented and applies only to this note. Comparative data for 2018 has been restated accordingly.

Derivative financial instruments as at 31 December 2018

PLN'000	Nominal amount with remaining life of					Fair value	
	less than 3 months	between 3 months and 1 year	between 1 year and 5 years	more than 5 years	Total	Assets	Liabilities
Interest rate instruments	**44,393,395**	**46,972,777**	**93,481,018**	**19,114,163**	**203,961,353**	**708,657**	**824,146**
FRA	35,100,000	25,500,000	250,000	-	60,850,000	6,357	1,592
Interest rate swaps (IRS)	9,265,197	21,472,777	91,351,168	19,067,799	141,156,941	695,772	816,827
Interest rate options	-	-	1,879,850	46,364	1,926,214	5,806	5,727
Futures*	28,198	-	-	-	28,198	722	-
Currency instruments	**33,054,901**	**11,219,240**	**15,623,991**	**8,759,041**	**68,657,173**	**566,951**	**426,387**
FX forward	2,457,934	1,492,583	500,882	96,238	4,547,637	31,399	17,818
FX swap	28,261,956	3,934,789	2,885,819	-	35,082,564	210,549	107,304
Currency-interest rate swaps (CIRS)	842,568	4,886,479	12,135,010	8,662,803	26,526,860	315,904	292,151
Foreign exchange options	1,492,443	905,389	102,280	-	2,500,112	9,099	9,114
Securities transactions	**334,840**	**9,768**	**-**	**-**	**344,608**	**1,101**	**1,475**
Futures*	24,088	9,768	-	-	33,856	-	-
Securities purchased/sold pending delivery	310,752	-	-	-	310,752	1,101	1,475
Commodity transactions	**29,173**	**107,533**	**72,095**	**-**	**208,801**	**5,968**	**6,051**
Swaps	29,173	107,533	72,095	-	208,801	5,968	6,051
Total derivative instruments	**77,812,309**	**58,309,318**	**109,177,104**	**27,873,204**	**273,171,935**	**1,282,677**	**1,258,059**

* *Exchange-traded products.*

** *foreign exchange interest rate swaps with capital exchange*

19. Debt investment financial assets measured at fair value through other comprehensive income

Accounting policy:

The policy for classification and measurement of debt investment financial assets measured at fair value through other comprehensive income is described in note 2.1 "Financial assets and liabilities – classification and measurement".

Financial information:

PLN'000	31.12.2019	31.12.2018
Bonds and notes issued by:		
Other financial entities	697,117	224,074
Central governments, including:	14,787,461	14,017,289
bonds subject to fair value hedge accounting	1,833,308	-
Debt securities measured at fair value through other comprehensive income, total**	**15,484,578**	**14,241,363**
Including:		
Listed on active market instruments	15,484,578	14,241,363

For debt investment financial assets measured at fair value through other comprehensive income, the cumulated value of impairment as at 31 December 2019 amounts to PLN 4,689 thousand (as at 31 December 2018, PLN 4,524 thousand).

The movement in debt investment financial assets measured at fair value through other comprehensive income is as follows:

PLN'000	2019	2018
As at 1 January	**14,241,363**	**17,439,439**
Increases (due to):		
Purchases	50,264,752	44,485,571
Revaluation	22,399	100,274
Foreign exchange differences	-	65,153
Depreciation of discount, premium and interest	79,807	262,038
Decreases (due to):		
Sale	(48,902,634)	(47,960,505)
Foreign exchange differences	(21,221)	-
Depreciation of premium	(199,888)	(150,607)
As at 31 December	**15,484,578**	**14,241,363**

20. Equity investments valued using the equity method

Financial information:

PLN'000	31.12.2019	31.12.2018
Shares in subsidiaries	**-**	**10,399**
Including:		
Unlisted instruments	-	10,399

From 1 January 2019, Handlowy-Inwestycje Sp. z o.o. is fully consolidated. The movement in equity investments valued at equity method is as follows:

PLN'000	2019	2018
As at 1 January	**10,399**	**10,664**
Increases (due to):		
Revaluation	-	-
Decreases (due to):		
Revaluation	(10,399)	(265)
As at 31 December	**-**	**10,399**

21. Equity and other instruments measured at fair value through the income statement

Accounting policy:

Shares in entities other than dependent entities are classified as financial assets measured at fair value through the income statement. Their classification and measurement are described in note 2.1 "Financial assets and liabilities - classification and measurement".

Financial information:

PLN'000	31.12.2019	31.12.2018
Stocks and shares in other entities	21,314	20,248
Impairment	41,324	28,520
Equity and other instruments measured at fair value through income statement, total	**62,638**	**48,768**
Including:		
Listed on active market instruments	1,108	1,027
Unlisted on active market instruments	61,530	47,741

The movement in equity and other instruments measured at fair value through income statement is as follows:

PLN'000	2019	2018
As at 1 January	**48,768**	**26,500**
Reclassification /Impact of adopting IFRS 9	-	16,064
As at 1 January 2018	**48,768**	**42,564**
Increases (due to):		
Revaluation	14,470	6,204
Decreases (due to):		
Sale	(600)	-
As at 31 December	**62,638**	**48,768**

22. Amounts due from customers

Accounting policy:

Classification and measurement of amounts due from customers are described in note 2.1 "Financial assets and liabilities - classification and measurement".

Financial information:

PLN'000	31.12.2019	31.12.2018
Amounts due from financial sector entities		
Loans, placements and advances	641,317	401,223
Debt financial assets unlisted	1,765,711	1,156,233
Receivables due to purchased securities with a repurchase agreement	30,217	182,613
Guarantee funds and deposits pledged as collateral	647,489	362,807
Other receivables	68,068	45,330
Total gross amount	**3,152,802**	**2,148,206**
Provision for expected credit losses	(2,216)	(1,391)
Total net amount	**3,150,586**	**2,146,815**
Amounts due from non-financial sector entities		
Loans and advances	19,176,989	18,047,445
Unlisted debt financial assets	305,928	568,024
Purchased receivables	1,751,320	1,830,937
Realized guarantees	24,941	481
Other receivables	10,442	20,481
Total gross amount	**21,269,620**	**20,467,368**
Provision for expected credit losses	(688,332)	(665,169)
Total net amount	**20,581,288**	**19,802,199**
Total net amounts due from customers	**23,731,874**	**21,949,014**

The gross value of receivables as at 31 December 2019 does not include contractual interest of PLN 311,351 thousand (at the end of 2018: PLN 411,529 thousand) accrued from the time the exposure is classified in Stage 3. This presentation had no influence on total net value of receivables in Stage 3, because the increase in the value of receivables in Stage 3 by this amount, in accordance with Transition Resource Group for Impairment of Financial Instruments would also result in the growth of loan provisions by the same amount.

PLN'000	31.12.2019	31.12.2018
Gross total value including contract interest in Stage 3	24,733,773	23,027,103
Impairment provision including contract interest in Stage 3	(1,001,899)	(1,078,089)
Net total value	**23,731,874**	**21,949,014**

In amounts due from customers presented on the line Unlisted debt financial assets are securitization assets covered by the Bank. Until now, the Bank has acted as investor and acquired the senior tranches in three transactions. The assets purchased by the Bank are not traded on the market. The Bank intends to maintain investments until the maturity date. The main risk of securitization transactions is credit risk. The Bank's maximum exposure to loss from involvement in these entities is equal to their carrying gross value, as at 31 December 2019 in the of amount PLN 1,765,711 thousand (31 December 2018: PLN 1,156,233 thousand). The carrying value of assets relating in Bank participation in unconsolidated structured entities as at 31 December 2018 in the amount of PLN 1,765,016 thousand (31 December 2018: PLN 1,155,554 thousand).

Movement in provision for expected credit losses - amounts due from customers presents as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses - amounts due from customers				
Provision for expected credit losses as at 1 January 2019	**(56,110)**	**(74,776)**	**(535,674)**	**(666,560)**
Transfer to Stage 1	(14,461)	14,050	411	-
Transfer to Stage 2	7,241	(7,991)	750	-
Transfer to Stage 3	1,735	26,164	(27,899)	-
(Creation)/Releases in the period though the income statement	10,209	(37,459)	(186,780)	(214,030)
Net changes due to modification derecognition	-	-	(2,080)	(2,080)
Decrease in provision due to provision	-	-	66,901	66,901
Decrease in provision in connection with the sale of receivables	-	-	124,839	124,839
Foreign exchange and other movements	(2)	60	324	382
Provision for expected credit losses as at 31 December 2019	**(51,388)**	**(79,952)**	**(559,208)**	**(690,548)**

* *As at 31 December 2019, the Group did not identify POCI assets (purchased or originated credit-impaired assets).*

PLN'000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses as at 31 December 2017	**-**	**-**	**-**	**(587,783)**
Impact of adopting IFRS 9	-	-	-	(86,124)
Reclassification	-	-	-	5,178
Provision for expected credit losses as at 1 January 2018	**(54,767)**	**(76,847)**	**(537,115)**	**(668,729)**
Transfer to Stage 1	(1,460)	1,460	-	-
Transfer to Stage 2	1,040	(1,040)	-	-
Transfer to Stage 3	-	270	(270)	-
(Creation)/Releases in the period though the income statement	(697)	1,569	(75,971)	(75,099)
Decrease in provision due to provision	-	-	57,158	57,158
Decrease in provision in connection with the sale of receivables	-	-	21,292	21,292
Foreign exchange and other movements	(226)	(188)	(768)	(1,182)
Provision for expected credit losses as at 31 December 2018	**(56,110)**	**(74,776)**	**(535,674)**	**(666,560)**

* *As at 31 December 2018, the Group did not identify POCI assets (purchased or originated credit-impaired assets).*

The closing balance of impairment recognized on loans and advances to customers consisted of:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from customers measured at amortized cost				
Gross amounts due from customers as at 1 January 2019	**20,246,975**	**1,642,110**	**726,489**	**22,615,574**
Transfer to Stage 1	391,316	(390,363)	(953)	(0)
Transfer to Stage 2	(1,370,217)	1,371,454	(1,237)	-
Transfer to Stage 3	(124,927)	(251,136)	376,063	-
Purchased/paid receivables	2,340,988	(60,927)	(45,606)	2,234,455
Recognized receivables	-	-	(66,813)	(66,813)
Disposed receivables	-	-	(153,886)	(153,886)
Other movements	(259,015)	44,405	7,703	(206,907)
Gross amounts due from customers as at 31 December 2019	**21,225,120**	**2,355,543**	**841,760**	**24,422,422**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amounts due from customers measured at amortized cost				
Gross amounts due from customers as at 1 January 2018	**17,978,350**	**1,715,751**	**742,715**	**20,436,816**
Transfer to Stage 1	361,300	(358,736)	(2,564)	-
Transfer to Stage 2	(495,485)	497,527	(2,042)	-
Transfer to Stage 3	(76,263)	(69,223)	145,486	-
Purchased/paid receivables	2,378,466	(149,595)	(51,815)	2,177,056
Recognized receivables	-	-	(57,158)	(57,158)
Disposed receivables	-	-	(42,375)	(42,375)
Other movements	100,607	6,386	(5,758)	101,235
Gross amounts due from customers as at 31 December 2018	**20,246,975**	**1,642,110**	**726,489**	**22,615,574**

The gross value of amounts due from customers does not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including such interest on the gross carrying amount is presented above.

For amounts due from customers which changed Stages during the period, transfers are presented as the change between the Stage as of 1 January 2019 or at the moment of initial recognition and as of 31 December 2019.

23. Tangible fixed assets

Accounting policy:

Tangible fixed assets are stated at historical cost minus accumulated depreciation or amortization and impairment losses. The historical cost of an item of property and equipment includes any directly attributable costs of purchasing and bringing the asset into use.

Subsequent expenditure relating to an item of property and equipment is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the Group and the cost of the asset can be measured reliably. Any other expenditure, e.g. repairs and maintenance, is recognized as an expense when incurred.

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2019.

Illustrative annual depreciation and amortization rates applied by the Group are presented in the table below:	
Buildings and structures	1.5%-4.5%
Motor vehicles	14.0%-34.0%
Computers	25.0%
Office equipment	20.0%
Other tangible fixed assets	7.0%-34.0%
Leasehold improvements - compliant with lease agreement period	

At each balance sheet date, the residual values of non-current assets and their useful lives are reviewed and the depreciation and amortization schedule is adjusted where appropriate.

Assets with original cost below PLN 3,500 are fully depreciated on a one-off basis when brought into use. The total cost of other tangible fixed assets depreciated on a one-off basis is not material to the financial statements.

Assets in the course of construction are stated at the total of costs directly attributable to construction, assembly or improvement in progress less impairment provision.

Tangible fixed assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an item of property and equipment is written down to its recoverable amount if the carrying amount exceeds the recoverable amount. The recoverable amount of an item of property and equipment is the higher of its fair value less costs of sale and value in use.

The carrying amounts are reviewed at each balance sheet date to determine whether there is any evidence of impairment. If so, the asset's recoverable amount is estimated.

Revaluation impairment allowances are recognized if the book value of an asset or cash-generating unit exceeds the recoverable amount. Revaluation impairment allowances are recognized in profit or loss.

In the case of a cash-generating unit, revaluation impairment allowances first reduce the goodwill allocated to such cash-generating units (group of units) and then proportionally reduce the carrying value of other assets in the unit (group of units).

The recoverable amount in the case of assets other than financial assets is higher fair value less selling costs and value in use. For value in use calculation, the estimation of future cash flows is discounted to their present value using the discount rate before taxation, which represents present market expectations regarding money value and specific risk regarding an asset. For assets that are not generating independent cash flows, the recoverable amount is estimated for the cash-generating unit, the asset owner.

The revaluation provision for impairment is reversed if the estimations for the recoverable amount have changed.

The revaluation write-off for impairment can be reversed only to the level by which the book value of the asset does not exceed the depreciation decreased book value that would be estimated if the impairment write-off was not recognized.

Tangible fixed assets from the date of initial application of IFRS 16 include the assets of the right of use of the assets. Details are presented in note 42.

Financial information:

Movements of tangible fixed assets in 2019

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 31 December 2018	**586,735**	**96**	**24,652**	**236,743**	**50,327**	**898,553**
Impact of adopting IFRS 16	**93,380**	**-**	**-**	**-**	**-**	**93,380**
As at 1 January 2019	**680,115**	**96**	**24,652**	**236,743**	**50,327**	**991,933**
Increases:						
Purchases	(4)	-	3,162	6,439	21,434	31,031
Other increases	9,198	-	-	79	-	9,277
Decreases:						
Disposals	-	-	(1,295)	-	-	(1,295)
Liquidation	(6,911)	-	-	(36,185)	-	(43,096)
Other decreases	-	(94)	(110)	(278)	(7,658)	(8,140)
Transfers	32,723	-	-	15,745	(48,471)	(3)
As at 31 December 2019	**715,121**	**2**	**26,409**	**222,543**	**15,632**	**979,707**
Depreciation						
As at 31 December 2018	**312,009**	**96**	**2,876**	**219,311**	**-**	**534,292**
Impact of adopting IFRS 16	**(52,584)**	**-**	**-**	**-**	**-**	**(52,584)**
As at 1 January 2019	**259,425**	**96**	**2,876**	**219,311**	**-**	**481,708**
Increases:						
Amortization charge for the period	28,329	-	3,195	9,937	-	41,461
Other increases	-	-	-	72	-	72
Decreases:						
Disposals	-	-	(314)	-	-	(314)
Liquidation	(6,430)	-	-	(36,257)	-	(42,687)
Other decreases	-	(94)	(69)	(123)	-	(286)
As at 31 December 2019	**281,324**	**2**	**5,688**	**192,940**	**-**	**479,954**

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Carrying amount						
As at 31 December 2018	**274,726**	**-**	**21,776**	**17,432**	**50,327**	**364,261**
Impact of adopting IFRS 16	**145,964**	**-**	**-**	**-**	**-**	**145,964**
As at 1 January 2019	420,690	-	21,776	17,432	50,327	510,225
As at 31 December 2019	**433,797**	**-**	**20,721**	**29,603**	**15,632**	**499,753**

Movements of tangible fixed assets in 2018

PLN'000	Land and buildings	Machines and equipment	Vehicles	Other	Under construction	Total
Gross amount						
As at 1 January 2018	**572,186**	**96**	**11,401**	**257,439**	**70,640**	**911,762**
Increases:						
Purchases	-	-	13,334	1,367	3,112	17,813
Other increases	-	-	-	254	-	254
Decreases:						
Disposals	-	-	(83)	(1,805)	-	(1,888)
Liquidation	(7,037)	-	-	(21,572)	-	(28,609)
Other decreases	(3)	-	-	(80)	(696)	(779)
Transfers	21,589	-	-	1,140	(22,729)	-
As at 31 December 2018	**586,735**	**96**	**24,652**	**236,743**	**50,327**	**898,553**
Depreciation						
As at 1 January 2018	**302,140**	**96**	**827**	**231,924**	**-**	**534,987**
Increases:						
Amortization change for the period	16,212	-	2,079	10,468	-	28,759
Other increases	-	-	-	253	-	253
Decreases:						
Disposals	-	-	(30)	(1,805)	-	(1,835)
Liquidation	(6,343)	-	-	(21,445)	-	(27,788)
Other decreases	-	-	-	(84)	-	(84)
As at 31 December 2018	**312,009**	**96**	**2,876**	**219,311**	**-**	**534,292**
Carrying amount						
As at 1 January 2018	270,046	-	10,574	25,515	70,640	376,775
As at 31 December 2018	**274,726**	**-**	**21,776**	**17,432**	**50,327**	**364,261**

24. Intangible assets

Accounting policy:

Intangible assets are stated at historical cost minus accumulated depreciation or amortization and impairment losses. The historical cost of an item of intangibles includes any directly attributable costs of purchasing and bringing the asset into use.

Subsequent expenditure relating to an item of intangibles is added to the carrying amount of the asset or recognized as a separate asset (where appropriate) only when it is probable that future economic benefits will flow to the Group and the cost of the asset can be measured reliably. Any other expenditure, e.g. repairs and maintenance, is recognized as an expense when incurred.

Depreciation and amortization are calculated using the straight-line method over the expected useful life of an asset on the basis of rates that are approved in the depreciation and amortization plan for 2019.

Illustrative annual depreciation and amortization rates applied by the Group are presented in the table below:	
Computer software and licenses (except the main operating systems, which are depreciated at the rate of 10% and 20%)	34.0%
Other intangible fixed assets	20.0%

At each balance sheet date, the residual values of non-current assets and their useful lives are reviewed and the depreciation and amortization schedule is adjusted where appropriate.

Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of an item of property and equipment or intangible asset is written down to its recoverable amount if the carrying amount exceeds the recoverable amount. The recoverable amount of an item of intangible assets is the higher of its fair value less costs of sale and value in use.

Revaluation impairment allowances are recognized if the book value of an asset or of the cash-generating unit exceeds the recoverable amount. Revaluation impairment allowances are recognized in profit or loss.

In the case of a cash-generating unit, revaluation impairment allowances first reduce the goodwill allocated to such cash-generating units (group of units) and then proportionally reduce the carrying value of other assets in the unit (group of units).

The recoverable amount is higher fair value less selling costs and value in use. For value in use calculation, the estimation of future cash flows is discounted to their present value using the discount rate before taxation, which represents present market expectations regarding money value and specific risk regarding an asset. For assets that are not generating independent cash flows, the recoverable amount is estimated for the cash-generating unit, the asset owner.

The revaluation provision for impairment, excluding goodwill, is reversed if the estimations for the recoverable amount have changed.

The revaluation write-off for impairment for other assets can be reversed only to the level by which the book value of the asset do not exceed the depreciation decreased book value that would be estimated if the impairment write-off was not recognized.

Financial information:

Movements of intangible assets in 2019

PLN'000	Goodwill	Patents, licenses, etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2019	**1,245,976**	**2,318**	**474,053**	**-**	**64,365**	**1,786,712**
Increases:	-	-	-	-	-	-
Purchases	-	229	616	-	69,160	70,005
Decreases:	-	-	-	-	-	-
Liquidation	-	-	-	-	-	-
Other decreases	-	-	-	-	(622)	(622)
Transfers	-	-	68,569	-	(68,569)	-
As at 31 December 2019	**1,245,976**	**2,547**	**543,238**	**-**	**64,334**	**1,856,095**
Depreciation						
As at 1 January 2019	**-**	**1,648**	**366,270**	**-**	**-**	**367,918**
Increases:						
Amortization charge for the period	-	148	44,890	-	-	45,038
Decreases:						
Liquidation	-	-	-	-	-	-
As at 31 December 2019	**-**	**1,796**	**411,160**	**-**	**-**	**412,956**
Carrying amount						
As at 1 January 2018	1,245,976	670	107,783	-	64,365	1,418,794
As at 31 December 2019	**1,245,976**	**751**	**132,078**	**-**	**64,334**	**1,443,139**

Movements of intangible assets in 2018

PLN'000	Goodwill	Patents, licenses, etc.	Software	Other intangible assets	Prepayments	Total
Gross amount						
As at 1 January 2018	**1,245,976**	**2,576**	**445,867**	**18,519**	**19,826**	**1,732,764**
Increases:						
Purchases	-	477	1,580	-	107,256	109,313
Decreases:						
Liquidation	-	-	(35,804)	-	-	(35,804)
Other decreases	-	-	-	-	(307)	(307)
Provision	-	(735)	-	(18,519)		(19,254)
Transfers	-	-	62,410	-	(62,410)	-
As at 31 December 2018	**1,245,976**	**3,053**	**474,053**	**-**	**64,365**	**1,786,712**
Depreciation						
As at 1 January 2018	**-**	**2,302**	**359,530**	**18,519**	**-**	**380,351**
Increases:						
Amortization charge for the period	-	263	42,362	-	-	42,625
Decreases:						
Liquidation	-	-	(35,804)	-	-	(35,804)
Provision	-	(735)	-	(18,519)	-	(19,254)
As at 31 December 2018	**-**	**2,565**	**366,088**	**-**	**-**	**367,918**
Carrying amount						
As at 1 January 2018	1,245,976	274	86,337	-	19,826	1,352,413
As at 31 December 2018	**1,245,976**	**488**	**107,965**	**-**	**64,365**	**1,418,794**

In 2018, the Group analyzed intangible assets in terms of their use and in connection with the fact that they do not expect the impact of economic benefits in the future, made a listing of other intangible assets and concessions, patents, licenses and similar values.

As at 31 December 2019, goodwill includes the amount of PLN 1,243,645 thousand arising from the merger of Bank Handlowy w Warszawie S.A. and Citibank (Poland) S.A. as at 28 February 2001 and the amount of PLN 2,331 thousand as a result of the purchase of an organized part of the enterprise of ABN AMRO Bank (Poland) S.A. as at 1 March 2005.

25. Impairment test for goodwill

In the consolidated financial statements of the Group, goodwill represents the difference between the cost of the acquisition and the fair value of the Group's interest in identifiable assets, liabilities and contingent liabilities acquired at the business combination date. Goodwill is included in intangible assets. Goodwill is stated at cost minus any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized, but is tested annually for impairment independently of objective evidence of impairment. The revaluation write-off for impairment for goodwill cannot be reversed.

Goodwill resulting from takeovers that occurred before 31 March 2004, i.e. the effective date of IFRS 3 ("Business Combinations"), was calculated in accordance with the previous accounting policies, as the difference between the cost of acquisition of an entity and the net asset value of the acquired entity at the acquisition date.

For the purpose of carrying out impairment tests, goodwill has been allocated to two cash-generating units: the Institutional Bank and Consumer Bank. Assignment was made on the basis of discounted cash flows models on the basis of the strategy before the merge. After fusion, reallocation of goodwill was conducted on the basis of the assets' relative values transferred to another center comparing to the assets held in the center given. For both sectors, the value in use exceeds the carrying value, therefore no goodwill impairment was recognized.

The allocation of goodwill to cash-generating units is presented in the table below.

Book value of goodwill allocated to unit

PLN'000	31.12.2019	31.12.2018
Corporate Bank	851,206	851,206
Consumer Bank	394,770	394,770
	1,245,976	**1,245,976**

The basis of valuation of the recoverable amount for a unit is the value in use, assessed on the basis of the financial plan. The plan is based on rational assumptions about future facts that reflect management assessment of future economic conditions and expected results of the Group. The plan is periodically updated and approved by the Bank's Supervisory Board. The board accepted a 3-year period for the process of financial planning.

The discount rate is assessed on the basis of the capital assets pricing model (CAPM) using a beta coefficient for the banking sector, a risk premium and Treasury bond yield curves. In 2019, the discount rate amounted to 8.80% (8.80% at the end of 2018).

Extrapolation of cash flows which exceed the period covered by the financial plan has been based on growth rates reflecting the long-term NBP inflation target that amounted to 2.5 pp as at 31 December 2019.

The Bank's Management Board believes that reasonable and probable changes in the key assumptions adopted in the valuation of the recoverable amounts for cash-generating units would not cause their book value to exceed their recoverable amount.

26. Deferred income tax asset and liabilities

Accounting policy:

A deferred tax provision and asset are calculated using the carrying value method by computing temporary differences between the carrying value of assets and liabilities in the statement of financial position and the tax base of assets and liabilities. In the statement of financial position, the Group discloses the deferred tax asset net of deferred tax provisions after compensation, when there is a legal title to set such a compensation and when the provision and asset refer to the same taxpayer.

Deferred tax assets are recognized only to the extent that it is probable that a tax benefit will be realized in the future.

Financial information:

PLN'000	31.12.2019	31.12.2018
Deferred income tax asset	710,452	546,233
Deferred income tax liability	472,387	342,026
Deferred income tax net asset	**238,065**	**204,207**

Positive and negative taxable and deductible temporary differences are presented below:

Deferred tax asset is attributable to the following:

PLN'000	31.12.2019	31.12.2018
Interest accrued and other expense	8,045	10,755
Revaluation impairment provision	80,537	81,383
Unrealized premium from securities	94,818	81,285
Negative valuation of derivative financial instruments	407,396	286,037
Negative valuation of securities held-for-trading	3,753	280
Income collected in advance	31,617	30,700
Valuation of shares	-	-
Commissions	3,092	5,877
Debt and equity securities measured at fair value through other comprehensive income	-	-
Staff expenses and other costs due to pay	46,966	45,883
Leasing IFRS16	29,736	-
Other	4,492	4,033
Deferred tax asset	**710,452**	**546,233**

Deferred tax liability is attributable to the following:

PLN'000	31.12.2019	31.12.2018
Interest accrued (income)	53,054	40,067
Positive valuation of derivative financial instruments	329,533	246,146
Unrealized securities discount	1,052	2,312
Income to receive	4,882	2,748
Positive valuation of securities held-for-trading	180	722
Debt and equity securities measured at fair value through other comprehensive income	26,164	26,464
Investment relief	9,517	10,453
Valuations of shares	7,941	6,661
Leasing IFRS16	29,481	-
Other	10,583	6,453
Deferred tax liability	**472,387**	**342,026**
Net deferred income tax asset	**238,065**	**204,207**

Movement in temporary differences during the year 2019

The movement in temporary differences relating to deferred tax asset:

PLN'000	As at 1 January 2019	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2019
Interest accrued and other expense	10,755	(2,709)	-	8,046
Revaluation impairment provision	81,383	(845)	-	80,538
Unrealized premium from securities	81,285	13,533	-	94,818
Negative valuation of derivative financial instruments	286,037	121,358	-	407,395
Negative valuation of securities held-for-trading	280	3,472	-	3,752
Income collected in advance	30,700	917	-	31,617
Valuation of shares	-	-	-	-
Commissions	5,877	(2,785)	-	3,092
Debt and equity securities measured at fair value through other comprehensive income	-	-	-	-
Staff expenses and other costs due to pay	45,883	1,079	4	46,966
Leasing IFRS16	-	29,736	-	29,736
Other	4,033	459	-	4,492
	546,233	**164,215**	**4**	**710,452**

The movement in temporary differences relating to the deferred tax provision:

PLN'000	As at 1 January 2019	Change in consolidation method	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2019
Interest accrued (income)	40,067	-	12,987	-	53,054
Positive valuation of derivative financial instruments	246,146	-	83,387	-	329,533
Unrealized securities discount	2,312	-	(1,260)	-	1,052
Income to receive	2,748	-	2,134	-	4,882
Positive valuation of securities held-for-trading	722	-	(542)	-	180
Debt and equity securities measured at fair value through other comprehensive income	26,464	-	(5,580)	5,280	26,164
Investment relief	10,453	-	(936)	-	9,517
Valuations of shares	6,661	(1,926)	3,206	-	7,941
Leasing IFRS16	-	-	29,481	-	29,481
Other	6,453	-	3,190	940	10,583
	342,026	**(1,926)**	**126,067**	**6,220**	**472,387**
Change in net deferred income tax assets	**204,207**	**1,926**	**38,148**	**(6,216)**	**238,065**

Movement in temporary differences during the year 2018

The movement in temporary differences relating to deferred tax assets:

PLN'000	As at 31 December 2017	Impact of adopting IFRS 9	As at 1 January 2018	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2018
Interest accrued and other expense	10,059	-	10,059	696	-	10,755
Revaluation impairment provision	48,321	33,037	81,358	25	-	81,383
Unrealized premium from securities	58,436	-	58,436	22,849	-	81,285
Negative valuation of derivative financial instruments	164,999	-	164,999	121,038	-	286,037
Negative valuation of securities held-for-trading	688	-	688	(408)	-	280
Income collected in advance	29,480	-	29,480	1,220	-	30,700
Valuation of shares	779	(3,052)	(2,273)	(2,462)	-	(4,735)
Commissions	6,137	-	6,137	(260)	-	5,877
Debt and equity securities measured at fair value through other comprehensive income	2,138	-	2,138	812	(3,924)	(974)
Staff expenses and other costs due to be paid	45,663	-	45,663	(445)	665	45,883
Other	4,701	-	4,701	(668)	-	4,033
	371,401	**29,985**	**401,386**	**142,397**	**(3,259)**	**540,524**

The movement in temporary differences relating to the deferred tax provision:

PLN'000	As at 31 December 2017	Impact of adopting IFRS 9	As at 1 January 2018	Adjustments recognized in income	Adjustments recognized in equity	As at 31 December 2018
Interest accrued (income)	37,828	(1,310)	36,518	3,549	-	40,067
Positive valuation of derivative financial instruments	115,419	-	115,419	130,727	-	246,146
Unrealized securities discount	7,097	-	7,097	(4,785)	-	2,312
Income to receive	3,243	-	3,243	(495)	-	2,748
Positive valuation of securities held-for-trading	568	-	568	154	-	722
Debt and equity securities measured at fair value through other comprehensive income	8,695	-	8,695	(4,161)	21,930	26,464
Investment relief	11,401	-	11,401	(948)	-	10,453
Valuations of shares	1,151	-	4,203	2,458	-	6,661
Other	7,178	-	7,178	(1,015)	290	6,453
	192,580	**1,742**	**194,322**	**125,484**	**22,220**	**342,026**
			-			**-**
Change in net deferred income tax assets	**175,904**	**31,295**	**207,199**	**18,561**	**(21,553)**	**204,207**

27.Other assets

PLN'000	31.12.2019	31.12.2018
Interbank settlements	2,997	2,981
Settlements related to securities trade	55	-
Settlements related to brokerage activity	18,607	34,217
Income to receive	53,850	53,170
Staff loans out of the Social Fund	16,306	17,427
Sundry debtors	68,218	106,198
Prepayments	6,546	8,925
Other assets, total	**166,579**	**222,918**
Including financial assets*	106,183	160,823

** Financial assets include all the positions "Other assets", except the positions "Income to receive" and "Prepayments".*

28. Amounts due to banks

Accounting policy:

Classification and measurement of amounts due to banks are described in note 2.1 "Financial assets and liabilities – classification and measurement".

Financial information:

PLN'000	31.12.2019	31.12.2018
Current accounts	1,457,233	912,995
Term deposits	156,425	162,737
Loans and advances received	-	1,326
Liabilities due to sold securities under repurchase agreements	214,135	115,208
Other liabilities	297,702	209,967
margin deposits	297,669	208,901
Total amounts due to banks	**2,125,495**	**1,402,233**

Movements in loans received:

PLN'000	2019	2018
As at the beginning of the period	**1,326**	**36,467**
Increase (due to):		
drawing of loans	-	-
interest on loans	345	246
FX differences	1	549
Decrease (due to):		
repayment of loans	(1,669)	(35,866)
interest repayment	(3)	(70)
FX differences	-	-
As at the end of the period	**-**	**1,326**

29. Amounts due to customers

Accounting policy:

Classification and measurement of amounts due to customers are described in note 2.1 "Financial assets and liabilities – classification and measurement".

Financial information:

PLN'000	31.12.2019	31.12.2018
Deposits from financial sector entities		
Current accounts	797,540	704,512
Term deposits	3,759,106	6,335,488
	4,556,646	**7,040,000**
Deposits from non-financial sector entities		
Current accounts, including:	27,714,669	24,987,518
institutional customers	13,990,381	11,930,693
individual customers	10,335,509	9,380,065
public sector units	3,388,779	3,676,760
Term deposits, including:	7,248,176	6,069,930
institutional customers	4,055,101	3,476,957
individual customers	3,126,422	2,523,267
public sector units	66,653	69,706
	34,962,845	**31,057,448**
Total deposits	**39,519,491**	**38,097,448**
Other liabilities		
Liabilities due to sold securities under repurchase agreements		
Other liabilities, including:	268,311	236,897
liabilities due to deposits	159,986	121,416
margin deposits	43,929	66,583
Total other liabilities	**268,311**	**236,897**
Total amounts due to customers	**39,787,802**	**38,334,345**

30. Provisions

Accounting policy:

A provision is recognized in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and also if it is probable that the discharge of this obligation will result in an outflow of economic benefits, and the provision amount can be reliably estimated.

A restructuring provision is recorded when the following conditions have been met: (i) the Group has a detailed and formalized restructuring plan; (ii) the restructuring has already begun or has been publicly announced; (iii) the provision amount can be reliably estimated. The restructuring provision does not include future operating expenses.

Financial information:

PLN'000	31.12.2019	31.12.2018
Litigation	3,214	3,221
Granted financial and guarantee liabilities*	61,703	26,481
Workforce restructuring	-	-
Restructuring of the branch network	282	282
Provisions, total	**65,199**	**29,984**

The movement in provisions is as follows:

PLN'000	2019	2018
As at 1 January	**29,984**	**18,300**
Provisions for:		
Litigation	3,221	3,154
Granted financial and guarantee commitments	26,481	12,789
Workforce restructuring	-	429
Restructuring of the branch network	282	1,928
Impact of adopting IFRS 9	-	22,886
Granted financial and guarantee commitments	-	22,886
Increases:		
Charges to provisions in the period:	72,373	34,169
Litigation	2,314	359
granted financial and guarantee commitments	68,808	33,810
Workforce restructuring	1,251	-
Other, including	67	261
Granted financial and guarantee commitments	67	261
Decreases:		
Release of provisions in the period	(35,577)	(45,073)
Litigation	(1,924)	(194)
granted financial and guarantee commitments	(33,653)	(43,265)
employment restructuring	-	(429)
restructuring of the branch network	-	(1,185)
Provisions used in the period, including:	(1,648)	(559)
Litigation	(397)	(98)
restructuring of the branch network	(1,251)	(461)
As at 31 December	**65,199**	**29,984**
Including:		
For litigation proceeding	3,214	3,221
For granted off-balance-sheet commitments and guarantees	61,703	26,481
For employment restructuring	-	-
For branch network restructuring	282	282

* *Additional information about provisions for litigation and granted financial and guarantee commitments are in Note 39.*

31. Other liabilities

Accounting policy:

The Bank records accruals and prepayments of expenses primarily in relation to the Bank's overhead expenses in reporting periods to which they relate. Accruals and prepayments are presented as 'Other liabilities' in the statement of financial position.

Within the range of liabilities to provision of providing services on time, the Bank uses a method of income on the time proportion in the time of providing services. According to the bank, this method reflects the procedure of providing services.

Within the area of methods, input data and assumptions adopted to estimate variable remuneration, the Bank uses an approach involving the most likely values in accordance with the remuneration received for achievement of the objectives whereas within the range of remuneration reimbursements in insurance mediation, statistical methods are used, and provision is presented as accrual. The Bank addresses all issues setting the level of income subject to identified variables (remuneration under specified objectives, expected reimbursements, all discounts).

For the remuneration for mediation in distribution of insurance products, in particular with the insurance connected with the Bank's credit product, the model of relative fair value is used. According to this model, using the fair value of the credit product and the sales services of the insurance product, the Bank separates remuneration being part of interest income and remuneration for provided services connected with the distribution and operation of these products.

Lease liabilities are measured in accordance with note 2.2.

Provisions due to employee benefits, including provision for retirement payments that are part of a defined benefit plan, are described in detail in note 46.

Financial information:

PLN'000	31.12.2019	31.12.2018
Staff benefits	34,452	35,459
Interbank settlements	189,986	120,783
Inter-branch settlements	914	1,197
Settlements related to securities trading	20	284
Settlements related to brokerage activity	71,765	61,885
Settlements with Tax Office and National Insurance (ZUS)	23,934	26,328
Liabilities due to leasing assets	143,270	-
Sundry creditors	225,194	295,702
Accruals:	275,146	242,908
Provision for employee payments	85,292	83,930
Provision for employee retirement	68,325	58,340
IT services and bank operations support	55,784	36,145
Consultancy services and business support	7,359	5,774
Other**	58,386	58,719
Deferred income	21,862	21,177
Other liabilities, total	**986,543**	**805,723**
Including financial liabilities*	940,747	758,218

* *Financial liabilities include all the positions "Other liabilities", except the positions "Settlements with Tax Office and National Insurance (ZUS)" and "Deferred income".*

** *The item includes a provision for potential commission returns under the bancassurance model.*

32. Financial assets and liabilities by contractual maturity

As at 31 December 2019

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	**17**	**1,168,278**	**756,263**	**278**	**176,459**	**235,278**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	18	3,881,815	1,000,136	-	91,534	2,623,958	166,187
Financial assets measured at fair value through other comprehensive income							
Debt financial assets measured at fair value through other comprehensive income	19	15,484,578	-	-	1,289,153	11,422,752	2,772,673
Amounts due from customers (gross)							
Amounts due from financial sector entities	22	3,152,802	866,157	-	141,645	2,145,000	-
Amounts due from non-financial sector entities	22	21,269,620	7,344,510	1,314,465	2,564,481	8,123,589	1,922,575
Amounts due to banks	**28**	**2,125,495**	**2,108,386**	**2,000**	**15,007**	**45**	**57**
Amounts due to customers							
Amounts due to financial sector entities	29	4,597,741	4,595,732	310	1,676	-	23
Amounts due to non-financial sector entities	29	35,190,061	32,633,125	1,233,492	1,289,776	33,615	53

As at 31 December 2018

PLN'000	Note	Total	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years
Amounts due from banks (gross)	**17**	**1,337,887**	**812,646**	**-**	**296,245**	**228,996**	**-**
Financial assets held-for-trading							
Debt securities held-for-trading	18	931,172	32,546	-	17,948	648,758	231,920
Financial assets measured at fair value through other comprehensive income							
Debt financial assets measured at fair value through other comprehensive income	19	14,241,363	121,044	-	-	11,499,980	2,620,339
Amounts due from customers (gross)							
Amounts due from financial sector entities	22	2,148,206	498,115	-	1,550,091	100,000	-
Amounts due from non-financial sector entities	22	20,467,368	7,704,493	1,492,378	2,510,333	6,886,074	1,874,090
Amounts due to banks	**28**	**1,402,233**	**1,384,456**	**2,683**	**15,000**	**43**	**51**
Amounts due to customers							
Amounts due to financial sector entities	29	7,103,501	7,100,962	446	2,072	-	21
Amounts due to non-financial sector entities	29	31,230,844	29,720,688	1,054,054	434,847	21,202	53

33. Capital and reserves

Capital and reserves are accounted in nominal values except for Reserve for revaluation of financial assets measured at fair value through other comprehensive income, which includes a deferred taxation effect.

Share capital

Series/ issue	Type of shares	Type of preference	Type of limitation	Number of shares	Par value of series/issue [PLN'000]	Method of issue payment	Date of registration	Eligibility for dividends (from date)
A	bearer	none	-	65,000,000	260,000	paid in	27.03.97	01.01.97
B	bearer	none	-	1,120,000	4,480	paid in	27.10.98	01.01.97
B	bearer	none	-	1,557,500	6,230	paid in	25.06.99	01.01.97
B	bearer	none	-	2,240,000	8,960	paid in	16.11.99	01.01.97
B	bearer	none	-	17,648,500	70,594	paid in	24.05.02	01.01.97
B	bearer	none	-	5,434,000	21,736	paid in	16.06.03	01.01.97
C	bearer	none	-	37,659,600	150,638	transfer of Citibank (Poland) assets to the Bank	28.02.01	01.01.00
				130,659,600	**522,638**			

The par value of 1 share amounts to PLN 4.00

As at 31 December 2019, the Parent entity's share capital amounted to PLN 522,638,400 divided into 130,659,600 common bearer shares with a nominal value of PLN 4 each, which has not changed since 31 December 2018.

The Parent entity has not issued preferred shares.

Both in 2019 and 2018, there was no increase in the share capital by shares issuance.

Principal shareholders

The following table presents the shareholders who, as at 31 December 2019 and 31 December 2018, held at least 5% of the total number of votes at the General Meeting or at least 5% of the Parent entity's share capital:

	Value of shares (PLN'000)	Number of shares	% shares	Number of votes at GM	% votes at GM
Citibank Overseas Investment Corporation, USA	391,979	97,994,700	75.0	97,994,700	75.0
Other shareholders	130,659	32,664,900	25.0	32,664,900	25.0
	522,638	**130,659,600**	**100.0**	**130,659,600**	**100.0**

During 2019 and the period from the publication of the previous interim quarterly report for Q3 2019 until the day of the publication of this annual consolidated financial statement for 2019, the structure of major shareholdings of the Bank has not changed.

Supplementary capital

As at 31 December 2019, supplementary capital was PLN 3,003,290 thousand (31 December 2018: PLN 3,003,290 thousand). Supplementary capital is designated for offsetting financial losses or for other purposes including payment of dividends to the shareholders. The General Shareholders' Meeting of the Bank decides on the utilization of supplementary capital, but a portion of its balance amounting to one third of the total share capital may be used exclusively for offsetting losses shown in the financial statements.

The supplementary capital includes the amount of PLN 2,485,534 thousand constituting the excess of the fair value of the issued shares over their nominal value in connection with the business combination of the Bank and Citibank (Poland) S.A., which took place on 28 February 2001.

Revaluation reserve

PLN'000	31.12.2019	31.12.2018
Revaluation of financial assets measured at fair value through other comprehensive income	114,893	84,372

The revaluation reserve is not distributed. As at the day of derecognition of all or part of the financial assets measured at fair value through other comprehensive income from the statement of financial position, retained earnings that were previously presented in the other comprehensive and accumulated income in "Revaluation reserve" are reclassified to the income statement.

Other reserves

PLN'000	31.12.2019	31.12.2018
Reserve capital	2,334,622	2,347,028
General risk reserve	540,200	540,200
Net actuarial losses on defined benefit program valuation	(11,937)	(7,910)
Foreign currency translation adjustment	4,473	4,520
Other reserves, total	**2,867,358**	**2,883,838**

On 5 June 2019 the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. adopted a resolution on distribution of the net profit for 2018, deciding to appropriate the amount of PLN 1,172 thousand for reserve capital.

Reserve capital

Reserve capital is created from the annual distribution of profits or from other sources, independently of the supplementary capital.

Reserve capital is designated for offsetting financial position losses or for other purposes, including payment of dividends to shareholders. The General Shareholders' Meeting of the Bank makes decisions on utilization of reserve capital.

General risk reserve

The general risk reserve is recorded out of net profit against unidentified risk arising from banking activities. The General Shareholders' Meeting of the Bank makes decisions on utilization of the general risk reserve subject to applicable regulations.

Dividends

Dividends are recognized as liabilities on the date at which the General Meeting of the Bank has approved the appropriation of earnings.

Dividends paid for 2018

At the meeting on 5 June 2019, the Ordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. (hereinafter WZ) adopted a resolution on distribution of the net profit for 2018. The WZ resolved to appropriate the amount of PLN 488,666,904.00 to the dividend payment, which means that the dividend per one ordinary share is PLN 3.74. The number of shares covered by the dividend is 130,659,600.

Declared dividends

The Management Board has not concluded its analysis to be able to provide a recommendation regarding dividends from the appropriation of the 2019 profit.

34. Repurchase and reverse repurchase agreements

The Group enters into purchase and sale transactions under agreements to resell and repurchase the same financial assets, so-called sell-buy-back and buy-sell-back respectively, as well as repo and reverse repo transactions in securities. Securities sold under repurchase agreements continue to be shown as the Group's assets and the Group discloses liabilities resulting from the repurchase clause. In the case of securities purchased under agreements to resell, securities are presented in the statement of financial position as loans and advances. Any differences between sale/purchase prices and repurchase/resale prices are recognized respectively as interest income and expense using the effective interest rate method. In the case of sale of the securities previously purchased in the reverse repo transaction, the Group recognizes liabilities due to the short sale of securities. These liabilities are evaluated at fair value.

Repurchase agreements

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

As at 31 December 2019, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities held-for-trading	212,648	214,135	up to a week	214,151

** including interest*

As at 31 December 2018, assets sold under repurchase agreements were as follows:

PLN'000	Fair value of underlying assets	Carrying amount of corresponding liabilities*	Repurchase dates	Repurchase price
Debt securities held-for-trading	113,972	115,208	up to a week	115,224

** including interest*

In repo transactions, all gains and losses on the assets held are on the Group's side.

As at 31 December 2019 and 31 December 2018, assets sold through repo cannot be further traded.

In 2019, the total interest expense on repurchase agreements was PLN 7,514 thousand (in 2018: PLN 8,592 thousand).

Reverse repurchase agreements

Reverse repurchase agreements are entered into as a facility to provide funding to customers.

As at 31 December 2019, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	214,129	211,731	Up to 1 week	214,140
	175,495	216,490	Up to 1 year	176,458
	233,712	238,356	Up to 3 years	235,278
Amounts due from other financial sector entities	30,217	30,198	Up to 1 week	30,219
	653,553	**696,775**		**656,095**

* *including interest*

As at 31 December 2018, assets purchased subject to agreements to resell were as follows:

PLN'000	Carrying amount of receivable*	Fair value of assets held as collateral	Resale date	Resale price
Amounts due from banks	115,203	114,155	Up to 1 week	115,214
	284,064	338,962	Up to 1 year	286,245
	227,282	238,833	Up to 3 years	228,996
Amounts due from other financial sector entities	182,613	183,090	Up to 1 week	182,627
	809,162	**875,040**		**813,082**

* *including interest*

As at 31 December 2019 and 31 December 2018, the Group held the option to pledge or sell the assets acquired through reverse repo.

In 2019, the total interest income on reverse repurchase agreements was PLN 8,695 thousand (in 2018: PLN 9,908 thousand).

As at 31 December 2019, the liabilities due to short sale of securities purchased in reverse repo transactions amounted to PLN 248,406 thousand (as at 31 December 2018: PLN 351,323 thousand).

35. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and presented in the statement of financial position on a net basis when there is a legally enforceable right to offset and their settlement is intended to take place on a net basis or to realize the asset and settle the liability simultaneously.

The Group does not offset financial assets and liabilities. Therefore, in line with requirements of IFRS 7, disclosures provided below relate only to financial assets and liabilities resulting from derivative contracts, settled by a central counterparty (CCP) – KDPW_CCP S.A. or concluded under master agreements such as ISDA, the Master Agreement recommended by the Polish Banks' Union and other master agreements, under which, due to certain breaches of the contract provisions, the contract may be terminated and settled in the net amount of receivables and liabilities, where such offsetting has been recognized as legally effective.

The table below presents the fair values of derivatives (from the trading portfolio and designated as hedging instruments) as well as executable collateral for timed transactions and derivative framework deals enabling lawful compensation in defined situations.

PLN'000	31.12.2019		31.12.2018	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Fair value of derivatives	2,311,662	2,435,599	1,846,788	1,822,170
The effect of offsetting	(786,882)	(786,882)	(564,111)	(564,111)
Valuation of derivatives (net) presented in the statement of financial position	**1,524,780**	**1,648,717**	**1,282,677**	**1,258,059**
Value of collateral received/placed	(302,195)	(479,391)	(198,711)	(240,288)
Assets and liabilities subject to offsetting under the master agreement	**1,222,585**	**1,169,326**	**1,083,966**	**1,017,771**
Maximum amount of potential offset	(1,043,761)	(1,043,761)	(975,365)	(975,365)
Assets and liabilities subject to offsetting under the master agreement considering the maximum amount of potential offset	**178,824**	**125,565**	**108,601**	**42,406**

36. Hedge accounting

The Group hedges against the risk of change in the fair value of fixed interest rate debt securities available for sale. The hedged risk results from changes in interest rates.

The Group used the option of IFRS 9 to continue the hedge accounting standard in accordance with IAS 39 instead of regulations pointed in IFRS 9.

IRS is the hedging instrument swapping the fixed interest rate for a variable interest rate.

The gain or loss on the hedged item attributable to the hedged risk is recognized in the result on hedge accounting in the income statement. The remainder of the change in the fair value valuation of debt securities available for sale is recognized in other comprehensive income. Interest income on debt securities is recognized in net interest income.

Changes in the fair value of derivative instruments designated and qualifying as fair value hedges are recognized in the result on hedge accounting in the income statement. Interest income and interest expenses related to the interest measurement component of derivatives concluded as hedging instruments under fair value hedges are presented in the interest result in the position interest income/expense on derivatives in hedge accounting.

As at 31 December 2019, the Group had an active hedging relationship that originated in 2019. Details are presented below.

PLN'000	Notional value	Balance value		Listing in the statement of financial position	Change in fair value used to take hold of hedge ineffectiveness
		Assets	Liabilities		
Hedge accounting of fair value					
Interest rate risk					
IRS Transactions	1,688,000	-	19,226	Hedging derivatives	(3,828)

Details of the hedged items are presented in the table below.

PLN'000	Balance value		Cumulative amount of hedging fair value in balance value of heged item corrections	Listing in the statement of financial position	Change in fair value used to take hold of hedge ineffectiveness
	Assets	Liabilities			
Hedge accounting of fair value					
Interest rate risk					
Treasury bonds	1,833,308	-	-	Debt investment securities measured at fair value through other comprehensive income	334

Cumulated amounts of adjustments related to fair value hedges included in the statement of financial position for all hedged items, with respect for which adjustments for gains and losses on fair value hedging have ceased, amounted to PLN 23,949 thousand as at 31 December 2019 (31 December 2018: PLN 39,399 thousand).

Information regarding hedge effectiveness is presented below.

PLN'000	Hedge ineffectiveness recognized in income statement	Listing in the statement of financial position
Hedge accounting of fair value		
Interest rate risk	(3,494)	Hedge accounting result

37. Fair value information

Fair value of financial assets and liabilities

Fair value is a price that would be received for selling an asset or paid for transferring the liability in a transaction carried out in the conditions between market participants at the measurement date.

The summary below provides a statement of financial position (by category) and fair value information for each category of financial assets and liabilities.

As at 31 December 2019

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/ liabilities	Total carrying value	Fair value*	Fair value disclosure**
Financial assets								
Cash and balances with Central Bank	16	-	3,736,706	-	-	3,736,706	-	3,736,706
Amounts due from banks measured at amortized cost	17	-	1,165,684	-	-	1,165,684	-	1,165,682
Financial assets held-for-trading measured at fair value	18	5,446,511	-	-	-	5,446,511	5,446,511	-
Debt investment financial assets measured at fair value through other comprehensive income	19	-	-	15,484,578	-	15,484,578	15,484,578	-
Equity and other instruments measured at fair value through income statement	21	-	-	-	62,638	62,638	62,638	-
Amounts due from customers measured at amortized cost	22	-	23,731,874	-	-	23,731,874	-	23,661,886
		5,446,511	**28,634,264**	**15,484,578**	**62,638**	**49,627,991**	**20,993,727**	**28,564,274**
Financial liabilities								
Amounts due to banks	28	-	-	-	2,125,495	2,125,495	-	2,125,592
Financial liabilities held-for-trading	18	1,877,898	-	-	-	1,877,898	1,877,898	-
Amounts due to customers	29	-	-	-	39,787,802	39,787,802	-	39,781,867
		1,877,898	**-**	**-**	**41,913,297**	**43,791,195**	**1,877,898**	**41,907,459**

* *Fair value of assets and liabilities that are recognized and measured in the statement of financial position at fair value.*

** *Fair value of assets and liabilities that are not recognized and measured in the statement of financial position at fair value, but for which fair value is additionally disclosed in accordance with the requirements of IFRS 7.*

As at 31 December 2018

PLN'000	Note	Held-for-trading	Loans, advances and other receivables	Available-for-sale	Other financial assets/ liabilities	Total carrying value	Fair value*	Fair value disclosure**
Financial assets								
Cash and balances with Central Bank	16	-	7,272,193	-	-	7,272,193	-	7,272,193
Amounts due from banks measured at amortized cost	17	-	1,333,977	-	-	1,333,977	-	1,333,896
Financial assets held-for-trading measured at fair value	18	2,237,076	-	-	-	2,237,076	2,237,076	-
Debt investment financial assets measured at fair value through other comprehensive income	19	-	-	14,241,363	-	14,241,363	14,241,363	-
Equity and other instruments measured at fair value through income statement	21	-	-	48,768	-	48,768	48,768	-
Amounts due from customers measured at amortized cost	22	-	21,949,014		-	21,949,014	-	21,897,248
		2,237,076	**30,555,184**	**14,290,131**	**-**	**47,082,391**	**16,527,207**	**30,503,337**
Financial liabilities								
Amounts due to banks	28	-	-	-	1,402,233	1,402,233	-	1,402,326
Financial liabilities held-for-trading	18	1,609,382	-	-	-	1,609,382	1,609,382	-
Amounts due to customers	29	-	-	-	38,334,345	38,334,345	-	38,332,779
		1,609,382	**-**	**-**	**39,736,578**	**41,345,960**	**1,609,382**	**39,735,105**

* *Fair value of assets and liabilities that are recognized and measured in the statement of financial position at fair value.*

** *Fair value of assets and liabilities that are not recognized and measured in the statement of financial position at fair value, but for which fair value is additionally disclosed in accordance with the requirements of IFRS 7.*

Depending on the method of determining fair value, individual financial assets or liabilities are classified into the following categories:

- Level I: financial assets/liabilities valued directly on the basis of prices from an active market where the regular quotations and turnover are available.

  The active market includes stock and brokerage quotes and quotes in systems as pricing services, such as Reuters and Bloomberg, which represent the actual market transactions concluded on market conditions. Level I mainly includes securities held-for-trading or available-for-sale.
- Level II: financial assets/liabilities valued on the basis of models based on input data from the active market and presented in Reuters and Bloomberg systems; depending on financial instruments, the following specific valuation techniques are used:
  - listed market prices for a given instrument or listed market prices for an alternative instrument;
  - fair value of interest rate swaps and forward foreign exchange contracts is calculated as the current value of future cash flows based on the market yield curves and current NBP fixing exchange rate in case of foreign currency instruments;
  - other techniques, such as yield curves based on alternative prices for a given financial instrument.
- Level III: financial assets/liabilities valued on the basis of valuation techniques using relevant parameters not market-based.

In 2019, the Group did not make any changes in the classification of financial instruments (presented by the fair value method in the consolidated statement of financial position) to categories of fair value assignment (Level I, Level II, Level III).

The tables below present carrying amounts of financial instruments presented in the consolidated statement of financial position measured at fair value, arranged according to the above categories:

As at 31 December 2019

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	18	2,921,813	2,524,698	-	5,446,511
derivatives		-	1,524,780	-	1,524,780
debt securities		2,881,897	999,918	-	3,881,815
equity instruments		39,916	-	-	39,916
Debt investment financial assets measured at fair value through other comprehensive income	20	15,484,578	-	-	15,484,578
Equity and other instruments measured at fair value through income statement	21	1,108	-	61,530	62,638
Financial liabilities					
Financial liabilities held-for-trading	18	248,406	1,629,492	-	1,877,898
short sale of securities		248,406	-	-	248,406
derivatives		-	1,629,492	-	1,629,492
Hedging derivatives		**-**	**19,226**	**-**	**19,226**

As at 31 December 2018

PLN'000	Note	Level I	Level II	Level III	Total
Financial assets					
Financial assets held-for-trading	18	955,120	1,281,956	-	2,237,076
derivatives		722	1,281,955	-	1,282,677
debt securities		931,171	1	-	931,172
equity instruments		23,227	-	-	23,227
Debt investment financial assets measured at fair value through other comprehensive income	19	14,241,363	-	-	14,241,363
Equity and other instruments measured at fair value through income statement	21	1,027	-	47,741	48,768
Financial liabilities					
Financial liabilities held-for-trading	19	351,323	1,258,059	-	1,609,382
short sale of securities		351,323	-	-	351,323
derivatives		-	1,258,059	-	1,258,059

On 31 December 2019, the amount of financial assets classified to Level III includes the share of PLN 41,324 thousand in Visa Inc. and the share of PLN 20,206 thousand in other minority shareholdings (as at 31 December 2018, PLN 28,520 thousand and PLN 19,221 thousand, respectively).

The fair value valuation method takes into account the value of shares of Visa Inc. as well as corrections resulting from legal cases (actual and potential) a party to which may be Visa or the Bank. Minority shareholdings in partnerships of Biuro informacji Kredytowej S.A. and Krajowa Izba Rozliczeniowa S.A. were measured at fair value based on book value of net assets based on financial statements of partnerships.

According to the Bank's strategy, presented equity investments will be gradually reduced except for selected strategic investments in "infrastructure companies" that provide services to the financial sector. Particular entities will be sold at the most suitable time under market conditions.

Changes in financial assets and liabilities measured at a fair value that was defined by using relevant parameters that are not market-based are presented below:

PLN'000	01.01.-31.12.2019 Equity and other investments measured at fair value through income statement
As at 1 January 2019	**47,741**
Sales	(600)
Revaluation	14,389
As at 31 December 2019	**61,530**

PLN'000	01.01.-31.12.2018 Equity and other investments measured at fair value through income statement
As at 31 December 2017	**23,062**
Reclassification/ Impact of adopting IFRS 9	18,186
As at 1 January 2018	41,248
Revaluation	6,493
As at 31 December 2018	**47,741**

In 2019 and 2018, the Group did not make any transfers between levels of financial instruments fair value according to the methods of estimation of fair value.

Fair value measurement

In the case of short-term financial assets and liabilities, it is assumed that their carrying amount is practically equal to their fair value. In the case of other instruments, the following methods and assumptions have been adopted.

Amounts due from customers and banks

The carrying amount of loans is presented at amortized cost less impairment. The fair value of loans and advances is calculated as the discounted value of expected future principal payments and takes into account fluctuations in market interest rates as well as changes in margins during the financial period. Changes in margins on loans are based on concluded transactions. It is assumed that loans and advances will be paid on the contractual date. In the case of loans for which repayment dates are not fixed (e.g. overdrafts), the fair value is the repayment that would be required if the amount were due on the balance sheet date.

The methods of valuation mentioned above are classified to the third level of the fair value financial hierarchy: assets valued on the basis of valuation techniques using relevant parameters not market-based.

Amounts due to banks and customers

In the case of on-demand deposits, as well as deposits without a pre-determined maturity date, the fair value is the amount that would be paid out if demanded on the balance date. The fair value of fixed maturity deposits is estimated on the basis of cash flows discounted with current interest rates taking into account current margins in a similar way as adopted for the valuation of loans.

For overnight placements, the fair value is equal to their carrying amount. For fixed interest rate placements, the fair value is assessed on the basis of discounted cash flows using current money market interest rates for receivables with similar credit risk, time to maturity, and currency.

As described above, the models used to determine the fair value of assets and liabilities to banks and customers, recognized in the consolidated statement of financial position at amortized cost, involve valuation techniques based on non-market parameters. Therefore, the Group classifies the valuation of financial instruments for the purpose of disclosure to the third level of the fair value hierarchy. For all other financial instruments not at fair value, the Group believes that the fair value generally approximates the carrying value.

38. Derecognition of financial assets

In accordance with the amendments to IAS 1 "Presentation of financial statement", which result from adopting IFRS 9, the Bank is obligated to disclose net gain/(loss) on derecognition of financial assets. In the Group, this value consisted of gain on debt investment financial assets measured at fair value through other comprehensive income and amounted to PLN 97,969 thousand (PLN 112,631 thousand in 2018).

That gain resulted from the sale of debt investment financial assets measured at fair value through other comprehensive income, according to the description in note 2, section "Recognition, derecognition and insignificant modifications". In the separate income statement, such gain is presented in the item net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income (before the IFRS 9 application in item "Net gain on debt investment securities available-for-sale").

Due to the specific activity of the Bank, changes in debt investment financial assets measured at fair value through other comprehensive income are presented in operating activities in the cash flow statement.

39. Contingent liabilities and litigation proceedings

Information on pending proceedings

In 2019, there were no proceedings regarding the Bank's receivables or liabilities, the value of which would be significant, pending in court, before a public administration authority or an arbitration authority.

- In January 2019, the Bank became aware of the filing of lawsuits by two previous agents, Rigall Arteria Management spółka z ograniczoną odpowiedzialnością sp. k. with registered office in Warsaw and Rotsa Sales Direct Sp. z o.o. with registered office in Katowice. The lawsuits concerned claims related to agency agreements which in the past merged agents with the Bank.

  On 27 May 2019, the Bank received a statement of claim submitted by Rigall Arteria Management spółka z ograniczoną odpowiedzialnością sp. k. for the payment of PLN 386,139,808.89 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 50,017,463.89, including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014. The Court has referred the matter to mediation proceedings, which have not resulted in a mutual agreement, so the Bank filed a response to the statement of claim on 20 February 2020.

  On 10 February 2020, the Bank received a statement of claim submitted by Rotsa Sales Direct sp. z o.o. for the payment of PLN 419,712.468.48 along with statutory interest for delay from the date of filing the claim to the payment date and the amount of PLN 33,047,245.20 including statutory interest for delay from the date of filing the claim to the date of payment. The statement of claim refers to the agency agreement, which covered intermediary services for the Bank's products and services, primarily in the segment of consumer banking, and was terminated in 2014. The deadline to respond to the statement of claim is 11 May 2020.

  In the Bank's opinion, the amount of claims filed by the companies is not justified. The Bank's position is confirmed by legally binding resolutions of legal actions taken by the companies against the Bank, which are beneficial for the Bank.

- As at 31 December 2019, the Bank was, among others, a party to 19 court proceedings associated directly with derivative transactions that have not been legally terminated: in 12 proceedings the Bank acted as a defendant and in 7 as a plaintiff. The claims and allegations in the individual cases against the Bank have various legal bases. The subject of the dispute refers mainly to the validity of the derivative transactions and clients' liabilities demanded by the Bank with respect to those derivative transactions, as well as potential claims regarding potential invalidation of such demands by court decisions. Clients try to prevent the Bank from seeking claims resulting from derivative transactions; they dispute their liabilities toward the Bank, question the validity of the agreements and, in some cases, demand payment from the Bank.

- The Bank was a party to proceedings initiated by the President of the Office of Competition and Consumer Protection (UOKiK) against Visa and Europay payment system operators and banks – issuers of Visa cards and Europay/Eurocard/Mastercard cards. The Bank was one of the addressees of the President of UOKiK's decision in the case. The proceedings concerned alleged practices limiting competition on the payment card market in Poland consisting in the fixing of interchange fees for transactions made with Visa and Europay/Eurocard/Mastercard cards, as well as limiting access to the market for operators who do not belong to the unions of card issuers, against whom the proceedings were initiated. The President of UOKiK's decision was the subject of legal analyses in appeal proceedings. On 22 April 2010, the Appeal Court overturned the verdict of the Court of Competition and Consumer Protection (SOKiK) and referred the case back to the court of first instance. On 21 November 2013 SOKiK gave a judgment, under which a penalty imposed on the Bank was modified and set in the amount of PLN 1,775,720. On 6 October 2015 the Appeal Court modified the verdict of the Competition and Consumer Protection Court and denied all appeals from the decision of the President of the Competition and Consumer Protection Office, including the changes in fine amounts that were imposed upon banks. As a result, the fine in the amount of PLN 10,228,470 that was originally imposed upon the Bank has been reinstated. As the Bank submitted an extraordinary appeal on 25 October 2017, the Supreme Court has overturned the Appeal Court's verdict and the case has been returned to the Appeal Court for a second review. The appeal proceedings have begun again. In the first quarter of 2018, the Bank received reimbursement of the fine which was recognized in the profit and loss. In 2019, the case was not resolved.

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

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

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

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

- As of 30 December 2019, the Group is being sued in 15 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 124,000 and in 14 cases concerning a credit indexed to CHF for the total amount of PLN 1,914 thousand (most of the cases are in the first instance).

In accordance with applicable regulations, the Bank recognizes impairment losses for receivables subject to legal proceedings.

In the case of legal proceedings involving the risk of cash outflow as a result of meeting the Bank's commitments, the appropriate provisions are created. The value of provisions for disputes as at 31 December 2019 is PLN 3,214 thousand (PLN 3,221 thousand as at 31 December 2018).

In 2019, there were no significant settlements on account of court cases which ended with a final judgment.

Commitments due to granted and received financial and guarantee liabilities

The amount of financial and guarantee commitments granted and received, by product category, is as follows:

PLN '000	State as at	
	31.12.2019	31.12.2018
Contingent liabilities and guarantees granted		
Letters of credit	182,326	137,669
Guarantees granted	2,273,926	2,589,013
Credit lines granted	12,935,767	14,023,057
Underwriting other issuers' securities issues	49,935	47,587
	15,441,954	**16,797,326**

PLN '000	31.12.2019	31.12.2018
Letters of credit		
Import letters of credit issued	174,555	137,669
Export letters of credit confirmed	7,771	-
	182,326	**137,669**

Guarantees issued include credit principal repayment guarantees, other repayment guarantees, advance repayment guarantees, performance guarantees, tender guarantees, and bill of exchange guarantees.

The provisions for expected credit losses for contingent liabilities and guarantees granted by the Group are established. As at 31 December 2019 the amount of provisions of granted contingent liabilities and guarantees was PLN 61,703 thousand (31 December 2018: PLN 26,481 thousand).

Movement in provision for expected credit losses – contingent liabilities and guarantees granted presented as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses – contingent liabilities and guarantees granted				
Provision for expected credit losses as at 1 January 2019	**14,083**	**10,318**	**2,080**	**26,481**
Transfer to Stage 1	2,645	(2,645)	-	-
Transfer to Stage 2	(900)	900	-	-
Transfer to Stage 3	(358)	(3,869)	4,227	-
(Creation)/Releases in the period though the income statement	(3,737)	9,048	29,844	35,155
Foreign exchange and other movements	86	16	(35)	67
Provision for expected credit losses as at 31 December 2019	**11,819**	**13,768**	**36,116**	**61,703**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Provision for expected credit losses - contingent liabilities and guarantees granted				
Provision for expected credit losses as at 31 December 2017	**-**	**-**	**-**	**12,789**
Impact of adopting IFRS 9	-	-	-	22,886
Provision for expected credit losses as at 1 January 2018	**19,061**	**10,837**	**5,777**	**35,675**
Transfer to Stage 1	149	(149)	-	-
Transfer to Stage 2	(278)	278	-	-
Transfer to Stage 3	-	-	-	-
(Creation)/Releases in the period though the income statement	(5,086)	(676)	(3,693)	(9,455)
Foreign exchange and other movements	237	28	(4)	261
Provision for expected credit losses as at 31 December 2018	**14,083**	**10,318**	**2,080**	**26,481**

Movements in contingent liabilities granted that contribute to movements in provision for expected credit losses are presented as follows:

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amount of contingent liabilities granted				
Gross amount of contingent liabilities granted as at 1 January 2019	**15,259,354**	**1,505,583**	**32,389**	**16,797,326**
Transfer to Stage 1	56,114	(56,101)	(13)	-
Transfer to Stage 2	(485,353)	485,448	(95)	-
Transfer to Stage 3	(12)	(62,337)	62,349	-
Increase/Decrease	(1,365,079)	78,985	(25,167)	(1,311,261)
Other movements	45,049	(88,580)	(583)	(44,113)
Gross amount of contingent liabilities granted as at 31 December 2019	**13,510,074**	**1,862,998**	**68,881**	**15,441,952**

PLN'000	Stage 1	Stage 2	Stage 3	Total
Gross amount of contingent liabilities granted				
Gross amount of contingent liabilities granted as at 1 January 2018	**15,283,408**	**1,495,682**	**37,392**	**16,816,482**
Transfer to Stage 1	28,287	(28,287)	-	-
Transfer to Stage 2	(548,835)	548,835	-	-
Transfer to Stage 3	-	(156,025)	156,025	-
Increase/Decrease	408,281	(343,928)	(161,049)	(96,696)
Other movements	88,212	(10,694)	22	77,540
Gross amount of contingent liabilities granted as at 31 December 2018	**15,259,354**	**1,505,582**	**32,390**	**16,797,326**

PLN'000	31.12.2019	31.12.2018
Financial and guarantees liabilities received		
Finance	-	-
Guarantees	20,106,687	19,278,757
	20,106,687	**19,278,757**

40. Assets pledged as collateral

Assets are pledged as collateral of the following liabilities:

PLN'000	31.12.2019	31.12.2018
Collateral liabilities		
Amounts due to banks		
securities sale and repurchase agreements	214,135	115,208
credit received	-	1,668
	214,135	**116,876**

Details of the carrying amounts of assets pledged as collateral are as follows:

PLN'000	31.12.2019	31.12.2018
Assets pledged		
Debt securities held-for-trading	212,648	88,806
Debt investment financial assets measured at fair value through other comprehensive income	165,084	170,908
Financial assets measured at amortized cost (reverse repo)	-	25,166
Amounts due from banks		
Settlements related to operations in derivative instruments and stock market trading	99,001	118,364
Amounts due from customers		
Stock market trading guarantee funds and settlements	647,490	362,807
	1,124,223	**766,051**

As at 31 December 2019, the debt securities measured at fair value through other comprehensive income presented in the table constituted a reserve against the funds guaranteed to the Bank Guarantee Fund in the amount of PLN 165,084 thousand (31 December 2018: PLN 168,106 thousand, the collateral against loan received in the amount of PLN 2,802 thousand)

Debt securities held-for-trading as at 31 December 2019 constitute collateral of the Bank's obligations under securities sold with a repurchase agreement.

Financial assets measured at amortized cost constitute collateral of the Bank's obligations under securities sold with a repurchase agreement.

For more details on assets covering the Bank's obligations under repo transactions, see note 34.

Other assets disclosed above secure settlement of derivatives transactions and stock market transactions. The terms and conditions of the transactions executed to date are standard and typical for such dealings.

41. Custodian activities

The Bank offers both custodian services connected with securities accounts for foreign institutional investors and custodian services for Polish financial institutions, including pension, investment and equity insurance funds. As at 31 December 2019, the Bank maintained over 14.5 thousand securities accounts (31 December 2018: approx. 14.3 thousand accounts).

42. Leases

Leases where the Group is the lessee

The Group leases office space and has the right of perpetual usufruct of land:

PLN'000	2019		
	Rights to perpetual usufruct	Real estate and other	Total
ROU - Opening	82,188	63,776	145,964
ROU - Added	-	9,198	9,198
ROU - Amortization	1,104	12,131	13,235
ROU - Closing	**81,084**	**60,843**	**141,926**
Liability Balance as at reporting date	**82,028**	**61,241**	**143,270**

PLN'000	2019		
	Rights to perpetual usufruct	Real estate and other	Total
Lease Cost	4,539	13,032	17,571
Depreciation of right-of-use Assets	1,104	12,131	13,235
Interest on Lease Liabilities	3,435	901	4,336
Reporting Exceptions Cost Short-term Leases	-	591	591
Reporting Exceptions Cost Low-value Leases	-	2,216	2,216
Variable Lease Cost	-	6,749	6,749
Total Lease Cost	**4,539**	**22,587**	**27,127**

In the profit and loss account, the depreciation of the right to use assets is included in the depreciation tangible fixed and intangible assets, interest costs on lease liabilities – in interest costs, and the costs of short-term contracts, leasing low-value assets and leasing variables – in general administrative expenses.

PLN'000	2019		
	Rights to perpetual usufruct	Real estate and other	Total
Cash Flows - Total	3,595	3,001	6,596
Cash Flows - Interest	3,435	901	4,336
Cash Flows - Principle Repayment	160	2,100	2,260
Weighted-average Remaining Lease Term (in years)	73.70	7.00	61.40
Weighted-average Incremental Borrowing Rate	4.3%	1.5%	3.8%
Total lease costs	**3,595**	**3,001**	**6,596**

In the statement of cash flows, interest flows are recognized in cash flows from operating activities, while the equity component is included in cash flows from financing activities.

Analysis of maturity dates of leasing liabilities

PLN'000	2019		
	Rights to perpetual usufruct	Real estate and other	Total
2019	-	8,068	8,068
2020	3,595	9,700	13,294
2021	3,595	9,523	13,118
2022	3,595	8,557	12,152
2023	3,595	7,867	11,462
2024	3,595	6,576	10,171
Thereafter	247,125	14,549	261,675

Bank as lessor

Irrevocable lease payments

in PLN thousand	31.12.2019	31.12.2018
Under 1 year	-	41
1 - 5 years	5,437	6,976
Above 5 years	-	-
	5,437	**7,017**
Total annual amounts for agreements for undefined term	**6,207**	**5,780**

43. Additional information to the statement of cash flows

Cash is cash in hand, nostro current account in Central Bank and receivables on current balances in banks.

Cash

PLN'000	31.12.2019	31.12.2018
Cash-related items:		
Cash in hand	436,216	422,064
Nostro current account in Central Bank	3,300,490	6,850,088
Current accounts in other banks (nostro, overdrafts on loro accounts)	60,155	202,826
	3,796,861	**7,474,978**

44. Transactions with key management personnel

PLN'000	31.12.2019		31.12.2018	
	Members of the Management Board	Members of the Supervisory Board	Members of the Management Board	Members of the Supervisory Board
Loans granted	**127**	**65**	**165**	**-**
Deposits				
Current accounts	10,776	30,731	8,969	2,307
Term deposits	10,563	6,411	7,695	380
	21,339	**37,142**	**16,664**	**2,687**

As at 31 December 2019 and 31 December 2018, no loans or guarantees were granted to members of the Management Board or the Supervisory Board.

All transactions of the Group with members of the Management Board and the Supervisory Board are at arm's length.

Within the scope of the work relationship, among contracts of employment between the Bank and Members of the Management Board, only in one case of one Management Board Member does the contract includes a provision on financial compensation in the case of its termination upon notice.

A separate non-competition agreement conducted with the Bank applies to each member of the Bank's Management Board. According to its provisions, in case of termination of employment in the Bank, within 12 months (in the case of one member of the Management Board – of 6 months) from the date of employment termination, the member of the Management Board is obligated to refrain from competitive activities against the Bank. Due to limitations mentioned above, the Bank will be obliged to pay compensation to the member of the Management Board.

Staff expenses for current and former members of the Management Board are presented in note 10.

45. Related parties

The Bank is a member of Citigroup Inc. The Bank's parent company is Citibank Overseas Investment Corporation with headquarters in New Castle, USA. Citibank Overseas Investment Corporation is a subsidiary of Citibank N.A. with headquarters in New York, USA, whereas the ultimate parent is Citigroup Inc.

In the normal course of business activities, Group entities enter into transactions with related parties, in particular with entities of Citigroup Inc.

Transactions with related parties resulting from the current Group's activities mainly include loans, deposits, guarantees and derivatives transactions.

Apart from the transactions described in this section, in the presented period neither the Bank nor the Bank's subsidiaries conducted any transactions with related entities, which would be individually or jointly significant. No transaction with related entities was concluded on terms other than market terms.

Transactions with Citigroup Inc. entities

The receivables and liabilities toward Citigroup Inc. entities are as follows:

PLN'000	31.12.2019	31.12.2018
Receivables, including:	18,863	172,180
Placements	-	-
Liabilities, including:	1,427,631	780,029
Deposits*	384,825	218,934
Balance-sheet valuation of derivative transactions:		
Assets held for trading	500 799	449 183
Liabilities held-for-trading	285 043	379 293
Liabilities due to hedging derivatives	-	-
Contingent liabilities granted	429,279	439,748
Contingent liabilities received	62,529	34,834
Contingent transactions in derivative instruments (nominal value), including:	55,289,382	57,380,600
Interest rate instruments	34,658,882	28,293,455
Interest rate swaps (IRS)	4,980,928	6,740,216
Currency - interest rate swaps (CIRS)	28,707,666	20,561,934
Interest rate options	970,288	963,107
Futures contracts	-	28,198
Currency instruments	20,395,332	28,881,240
FX forward/spot	1,706,373	605,006
FX swap	15,457,340	26,994,552
Foreign exchange options	3,231,619	1,281,682
Securities transactions	17,581	101,504
Securities purchased pending delivery	10,872	48,266
Securities sold pending delivery	6,709	53,238
Commodity transactions	217,587	104,401
Swaps	217,587	104,401
Options	-	-

** including deposits from parent company in the amount of PLN 12 thousand (31 December 2018: PLN 9 thousand)*

PLN'000	2019	2018
Interest and commission income*	32,136	35,734
Interest and commission expense*	52,855	30,061
General administrative expenses	173,046	169,775
Other operating income	6,626	7,092

** including interest and commission income in the amount of PLN 1,139 thousand (2018: PLN 1,505 thousand) and interest and commission expense in the amount of PLN 2 thousand (2018: PLN 2 thousand) refer to the parent company.*

The Group incurs costs and receives income on derivative transactions with Citigroup Inc. entities to hedge the Bank's position in market risk. These derivative transactions are opposite (back-to-back) to derivative transactions with other Group clients or close the proprietary position of the Group. The net carrying amount of financial derivative transactions with related entities as at 31 December 2019 amounted to PLN 215,756 thousand (as at 31 December 2018: PLN 69,890 thousand). The Bank runs a compression of derivative transaction portfolios periodically. It is one of the risk mitigation techniques recommended by "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 the implementing regulations (EMIR Regulation). In accordance with the EMIR Regulations, this in particular applies to the portfolios exceeding 500 derivative transactions.

Furthermore, the Group incurs costs and receives income from agreements concluded between Citigroup Inc. entities and the Group for the mutual provision of services.

The costs arising and accrued (including VAT, reflected in the Group's costs) under concluded agreements in 2019 and 2018 mainly related to the cost of services provided to the Group for the maintenance of the banking IT systems and advisory support and are included in general administrative expenses; income was mainly related to the provision of data processing services by the Group to such entities and is presented in other operating income.

In 2019, the capitalization of investments regarding functionality modification of Retail Banking IT systems took place. Total payments for Citigroup Inc. entities amounted to PLN 55,708 thousand (in 2018: PLN 32,912 thousand).

46. Employee benefits

Employee benefits are divided into the following categories:

- short-term benefits, which include salaries, awards, bonuses, social insurance contributions, paid leave and benefits in kind (such as medical care, company apartments, company cars and other free or subsidized benefits).

  Depending on their individual compensation category, employees may receive an award from the incentive fund, a bonus under the bonus scheme applicable in a given area or a discretionary annual bonus under the internal employee compensation regulations. Bonuses and awards are granted after completion of the period for which the employee's performance is evaluated. The costs of short-term benefits are expensed in the income statement in the period to which they relate. At the end of a given reporting period, if there is a balance payable which equals the expected undiscounted value of short-term benefits for that period, the Group will record it as an accrued expense;
- Long-term employee benefits

  Under its compensation scheme, the Group guarantees its employees retirement and pension allowances, constituting defined benefit plans. Their amount depends on years worked in the Bank, falling directly before gaining rights to payment. For the future payments of retirement and pension allowances there is a reserve made, shown in "Liabilities" in "Other liabilities" and in "Activities costs and general and administrative expenses" of the profit and loss account in part resulting from costs of current employment and time. Part of the provision resulting from a change of actuarial assumptions (economics and demographic) taken to valuation is shown in other total income.
- Employee Pension Plan

  The Group conducts for its employees the Employee Pension Plan ("PPE", "Plan"), registered by the Supervisory Authority under number ZM RPPE 178/02/12/19. Collective agreement is based on records of payment of employee contributions to the investment fund by the employer. The Plan is conducted and managed by Esaliens TFI S.A. (previously Legg Mason TFI S.A.).

  The Group's pension plan is a defined contribution program in accordance with IAS 19. The Group pays contributions for its staff to a separate organization and, after they are paid, has no other payment liabilities. Premiums are shown as employee benefit expenses in the period they concern.

  The basic contribution paid by the employer is defined as a percentage of salary of the Plan member. The basic contribution rate amounts to 7%. The additional contribution - voluntary, is paid by the employee - the Plan participant. The basic contribution is the income of the Program participant, from whom he is obliged to pay personal income tax (articles 12 and 13 of the Act on the income tax from individuals of 26 July 1991, Official Journal from 2019, item 1387 with amendments).

  Payments from the Plan are paid after the participant's or entitled person's motion and under conditions specified in the program.

  The Plan participant may quit the Plan. The employer stops charging and paying basic and additional contributions for the Plan participant, and the funds that have accumulated on the Plan participant's registers are left there till the time of payment, transfer payment, transfer or refund.
- other long-term employee benefits - jubilee and other long service awards and deferred cash awards granted to the Management Board and people, whose professional operating has a significant impact on the Bank's risk profile. From 1 January 2015, employees with long-term work-experience (10, 20, 30 years, etc.) are entitled to rewards in kind.
- employee equity benefits - in the form of phantom shares of Bank Handlowy w Warszawie S.A. and also in the form of common stock under stock award programs based on shares of Citigroup common stock in the form of deferred stock (capital accumulation plan - CAP). In 2019, there were no employees rewarded as part of the stock award programs based on Citigroup shares. In accordance with IFRS 2 "Share-based payment", all the programs functioning in the Group are deemed to be cash-settled programs. A provision is created for future payments is shown in the "consolidated statement of financial position" and "General administrative expenses" in the income statement. The costs of the program are determined on the basis of the Bank's shares price or Citigroup share price. According to IFRS, the fair value is measured at grant date and, subsequently, at each reporting date until the final settlement. Total expenses recorded in a given period are based on the fair value deferred shares at the reporting date times the part of the rights that were deemed acquired in that period. Detailed information concerning the employee equity benefits are presented further in this note.

Provisions/accruals for the above employee benefits are as follows:

PLN'000	31.12.2019	31.12.2018
Provision for remuneration	58,977	56,281
Previsions for unused leave	11,951	12,194
Provision for employee retirement and pension benefits	68,325	58,340
Provision for employee equity compensation	14,364	15,456
Provision for workforce restructuring	-	-
	153,617	**142,271**

The provision for retirement and pension benefits is created individually on the basis of an actuarial valuation performed periodically by an external independent actuary. The valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all retirement and pension benefits expected to be paid in the future. The Group performed a reassessment of its estimates as at 31 December 2019, on the basis of calculation conducted by an independent external actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. The discount rate was set at 2.00% and wage growth rate at 2.3%.

Change in provisions/accruals for employee retirement allowances and jubilee payments:

PLN'000	2019	2018
As at 1 January	**58,340**	**51,768**
Increases (due to):	11,544	9,473
Actuarial profit/loss on revaluation	4,972	3,507
Including those resulting from:		
Change of economic assumptions	6,555	4,615
Change of demographic assumptions	-	93
Experience adjustment	(1,583)	(1,201)
Remuneration cost	4,822	4,106
Interest cost	1,750	1,860
Past employment cost	-	-
Decreases (due to):	(1,557)	(2,901)
Provisions utilization	(1,557)	(2,901)
As at 31 December	**68,327**	**58,340**

Analysis of sensitivity for significant actuarial assumptions

PLN'000	2019	2018
Central value	68,327	58,340
Decrease of growth salary to 1 p.p.	60,211	51,403
Increase of growth salary to 1 p.p.	77,840	66,488
Decrease of rotation by 10%	71,454	61,111
Increase of rotation by 10%	65,455	55,804
Decrease of discount rate by 0.5 p.p., including:	70,738	61,911
Falling to benefits paid within 1 year	4,517	3,952
Increase of discount rate by 0.5 p.p., including:	66,310	54,765
Falling to benefits paid within 1 year	4,513	3,946

More information about defined benefit programs in the Bank's financial report can be found in note 2.

In 2019, the Group's expenses in respect of premiums for the Employee Pension Plan amounted to PLN 24,503 thousand (in 2018: PLN 23,757 thousand).

Employment in the Group:

FTEs	2019	2018
Average employment during the year	3,161	3,413
Employment at the end of the year	3,071	3,276

Description and principles of employee stock benefit schemes

Under the employee stock benefit program, the phantom shares of Bank Handlowy w Warszawie S.A. and awards in the form of Citigroup stock (the so-called Capital Accumulation Program, or CAP) are offered to selected employees.

Within the framework of the CAP, eligible employees receive so-called "deferred shares" of Citigroup. "Deferred shares" within the framework of the CAP are granted at the NYSE average closing price as at the 5 days prior to the grant date. "Deferred shares" give the right to equivalents of dividends, but without voting rights, and must not be sold prior to their conversion into stocks. "Deferred shares" are converted into stocks after the end of a period that is determined in the Program Rules. As a general rule, the employee has a right to options revoked at the moment of employment termination in the Citigroup, provided the termination of said contract "Capital Accumulation Program – Prospectus" for granted options. Deferred shares granted in previous years will be transferred partially in the amount of 25% every year for the next four years, starting from the first anniversary of the option to acquire.

In 2019, no employees were rewarded as part of this program.

The employee share program is subject to internal controls in the Compensation and Benefits Unit.As of 22 December 2017, the Bank implemented the employee remuneration Policy of Bank Handlowy w Warszawie S.A., replacing the prior policy for the remuneration of key persons in Bank Handlowy w Warszawie S.A.

According to the above-mentioned policy, the Management Board of the Bank and other managerial staff having

a significant influence on the Bank's risk profile receive variable remuneration in relation to individual performance and the Bank's financial results.

A portion of the Variable Remuneration awarded conditionally in 2019 for persons covered by the Policy will be paid in tranches during the next 3.5 or 6 years for the President of the Management Board.

Variable Remuneration – Phantom shares	
Transaction as per IFRS EU	Share-based payments transactions settled in cash in accordance with IFRS 2
Phantom Shares grant date	16 January 2017 15 January 2018 14 January 2019
Number of Phantom Shares granted	The number of shares was set on grant date
Date of maturity	• Phantom Shares for the President of the Management Board – in 2017 - at least 6, 18, 30 and 42 months after grant date – in 2018 and 2019 - at least 12, 24, 36, 48, 60, 72 • Phantom Shares granted in 2016-2018 for other employees - at least 6, 18, 30, 42 months after grant date
Vesting date	• Phantom Shares for the President of the Management Board – in 2017 - at least 6, 12, 24 and 36 months after grant date – in 2018 and 2019 - at least 12, 24, 36, 48, 60 • Phantom Shares granted in 2017-2019 for other employees - at least 6, 12, 24, 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Group in • 2017: in relation to the award from 2017-2020 • 2018: – For the President of the Management Board in relation to the award from 2018-2023 – For other employees in relation to the award from 2018-2021 • 2019: – For the President of the Management Board in relation to the award from 2019-2024 – For other employees in relation to the award from 2019-2022
Program settlement	At the settlement date, the participants will get an amount of cash being the product of the phantom shares held by a participant and the arithmetic mean of the lowest and highest prices of shares of the Bank notified on WSE at the maturity date. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above-mentioned Bank Management, the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank results, individual performance and employment status and will relate to the vesting period of each tranche.

Another component of Variable Remuneration granted according to the Policy is the Deferred Cash Award.

Transaction as per IFRS EU	Other long-term employee benefits in accordance with IAS 19
Grant date of the Deferred Cash Award	16 January 2017 15 January 2018 15 January 2019
Granted amount	The amount was settled on the Deferred Cash Award grant date
Date of maturity	• Deferred Cash Award for the President of the Management Board – in 2017 - at least 18, 30, 42 months after grant date – in 2018 and 2019 - at least 18, 30, 42, 54, 66 • Deferred Cash Award granted in 2017-2019 for other employees - at least 18, 30, 42 months after grant date
Vesting date	• Deferred Cash Award for the President of the Management Board – in 2017 - at least 12, 24 and 36 months after grant date – in 2018 and 2019 - at least 12, 24, 36, 48, 60 • Deferred Cash Award granted in 2017-2019 for other employees - at least 12, 24 and 36 months after grant date
Terms and conditions for acquiring rights to the award	Satisfying the conditions on the Bank's results, individual performance of the employee and employment in the Group in • 2017: in relation to the award from 2017-2020 • 2018: – For the President of the Management Board in relation to the award from 2019-2024 – For other employees in relation to the award from 2018-2021 • 2019: – For the President of the Management Board in relation to the award from 2019-2024 – For other employees in relation to the award from 2019-2022
Program settlement	At the settlement date, the participants will get an amount of Deferred Cash tranche with interest counted for the deferral period till the payment date. The interest rate was approved by the Resolution of the Supervisory Board in January 2017, 2018 and 2019. Acquisition of rights to every tranche will be confirmed by a decision of the Supervisory Board of the Bank in relation to the Management Board and by a decision of the Management Board in relation to other employees covered by the Policy. According to a decision of the above-mentioned Bank's management, the amount of payment may be partially or fully reduced according to conditions given in the Policy. These terms and conditions relate to Bank results, individual performance and employment status and will relate to the vesting period of each tranche.

Assumptions of valuation of the employee equity benefit schemes

The fair value of particular awards and the assumptions used in their measurement is shown below:

CAP Program	Grant date	Exercise price/stock price at grant date [USD]	Number of eligible employees	Number of options/shares
1	16.02.2016	37.05	1	201

Phantom Shares Program	Grant Date	Exercise price/stock price at grant date [PLN]	Number of eligible employees	Number of options/shares
1	16.01.2017	77.31	42	15,954
2	15.01.2018	83.02	41	37,685
3	14.01.2019	69.10	41	64,082

	CAP Program	Phantom Shares Program
Period to acquire the title (in years)	25% after each of the following years	40% after 0.5 a year and 20% after 3 subsequent years, 40% after a year and 12% after 5 subsequent years or 60% after 0.5 a year and 13.33% after 3 subsequent years, 60% after a year and 8% after 5 subsequent years
Expected average life cycle of the instrument	At the time of rights acquisition	At the time of rights acquisition
Probability of premature termination of employment (annual staff turnover for awarded employees)	0.00%	8.30%
Fair value of one instrument* (in USD)	77.92 (USD)	52.20 (PLN)

** Varies depending on the date of exercise.*

The number and weighted-average price of shares (CAP Program) are presented below:

	31.12.2019		31.12.2018	
	Number	Weighted-average share price [USD]	Number	Weighted-average share price [USD]
At the beginning of the period	651	42.05	2,482	46.69
Allocated in the period	-	-	-	-
Executed/redeemed/expired in the period	450	-	1,831	-
At the end of the period	201	37.05	651	42.05

The number and weighted-average price of Phantom Shares are presented below:

	31.12.2019		31.12.2018	
	Number	Weighted-average share price [PLN]	Number	Weighted-average share price [PLN]
At the beginning of the period	112,754	79.42	110,631	80.19
Allocated in the period	127,171	69.10	115,643	83.02
Executed in the period	120,391	54.61	111,950	71.55
Redeemed/expired in the period	1,813	-	1,570	-
At the end of the period	117,721	74.67	112,754	79.42

On 31 December 2019, the book value of liabilities from the phantom share and CAP programs amounted to PLN 13,989 thousand (31 December 2018: PLN 25,635 thousand). The costs recognized in this respect in 2019 amounted to PLN 4,530 thousand (in 2018: PLN 8,809 thousand including the costs of CAP programs).

47.Risk management

Risk management organization structure and process

The Group's activities involve analysis, assessment, approval and management of all kinds of risks associated with its business, arising from the applied business strategy. Such a risk management process is performed at different units and levels of the organization and covers, among others: credit risk (including counterparty credit risk, residual risk of accepted collateral and concentration risk), liquidity risk, market risk, and operational risk.

The concept of risk management, taking into account shared responsibility, is organized at three independent levels (three levels of risk reduction, interchangeably "three lines of defense"):

- Level 1 i.e. organizational units responsible for business activities resulting in risk-taking and for risk management in the Group's operational activity, as well as risk identification and reporting to the second line of defense,
- Level 2 i.e. risk management in organizational units, independently of risk management at the first Level, and compliance; organizational unit or employees responsible for establishing standards for the risk management in the scope of risk identification, measurement or estimation, mitigation, control, monitoring and reporting and for overseeing the control mechanisms applied by other organizational units to mitigate the risk – organizational units in the Risk Management Sector, Compliance Department, Financial Division Legal Division; Human Resources Division,
- Level 3 i.e. Internal Audit, which provides an independent assessment of risk management processes and internal control system.

In the risk management area, the Supervisory Board of the Bank resolves upon:

- approving a strategy of the Group's activity and the rules of prudent and stable risk management, including operational risk strategy;
- approving a general level of the Group's risk appetite within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP);
- approving the fundamental organizational structure of the Group, determined by the Bank's Management Board and matched to the size and the profile of incurred risks.

In addition, the Supervisory Board supervises the compliance of the Group's policy related to risk-taking with the Group's strategy and financial plan and performs the duties resulting from the above-mentioned strategies, regulations or other documents approved by the Supervisory Board.

The Management Board of the Bank, by way of a resolution:

- approves the organizational structure of the Group, with well-defined, transparent and consistent roles and responsibilities adequate for the size and risk profile, ensuring that the functions of risk measurement, monitoring and control are independent from risk-taking activities;
- defines the Group's Risk's Profile by determining significant types of risk, while providing implementation of processes to manage them and/or allocation of interior equity;
- establishes the principles of prudent and stable risk management which constitute, together with the ICAAP Document, the risk management strategy, including operational risk strategy;
- approves the acceptable risk level ("Overall risk appetite"), within the document summarizing the process of assessing and internal capital allocation in subsequent years (ICAAP).

The Management Board of the Bank nominates an independent Member of the Management Board responsible for the Risk Management Sector (Chief Risk Officer) reporting directly to the President of the Management Board and responsible for the management and control of credit risk, market risk, and operational risk, including:

- introducing a risk management system in the Group as well as risk identification, measurement, control and reporting methods;
- developing the risk management policy and developing risk assessment and control systems;
- making credit decisions in compliance with the principles resulting from credit procedures as well as documents determining the Group's credit policy;
- ensuring the proper safety level of the credit portfolio;
- managing the problem loans portfolio (including collections and debt restructurings).

Additionally responsible for:

- compiling, implementing and updating regulations, strategy and procedure in term of risk management, internal control and valuation of internal capital;
- review of the valuation process and maintaining internal capital and regulation of remuneration components.

Processes for managing credit, market and operational risks are implemented in the Group based upon written policies and principles of identification, valuation, monitoring and risk control accepted by the Management Board or appropriately nominated Committees,

The following Committees operate in the risk management area:

- Assets and Liabilities Management Committee (ALCO);
- Risk and Capital Management Committee (RCMC), including Model Risk Commission and Consumer Group (GCB) Risk Commission;
- New Products Committee.

The Member of the Management Board responsible for the Risk Management Sector presents the organizational structure of the Risk Management Sector to the Management Board of the Bank, taking into account the specificity of credit, market, liquidity and operational risk management in the respective customer segments. For this purpose, organizational units have been set up within the Risk Management Sector that are responsible for:

- managing credit risk of the Corporate Bank;
- managing credit risk of the Commercial Bank;
- managing credit risk of the Consumer Bank;
- managing impaired receivables;
- managing market risk, including interest rate risk in the banking book;
- managing liquidity risk;
- managing operational risk;
- managing the equity process and model risk;
- model validation;
- supporting risk management in the above areas, including in control functions;
- the process of comprehensive and continuous assessment of credit risk (Fundamental Credit Risk Assessment).

Risk and Business managers are responsible for developing and implementing risk management policies and practices in their respective business units, overseeing risks in the business units, and responding to the needs and issues of the business units.

Risk management in the Group is supported by a range of IT systems in the following areas:

- obligor and exposure credit risk assessment;

- credit, market and operational risk measurement, reporting and monitoring;
- monitoring and reporting of collateral;
- calculation and reporting of expected credit losses.

Significant Risks

The Group manages all significant risks arising from the implementation of its business strategy. In the process of significant risks identification in 2019, the Management Board considered the following type of risk as significant:

- Credit risk and counterparty risk,
- Liquidity risk,
- Market risk,
- Operational risk,
  - Compliance risk.

The Group monitors all the above types of risk. Due to portfolio characteristics, this chapter presents principles related to management of credit risk (including counterparty risk and concentration), operational risk, liquidity risk, market risk in the trading book and interest rate risk in the banking book.

Credit risk, including counterparty credit risk, results from credit exposure or other exposures related to concluding and clearing below listed transactions, and is defined as the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations.

Credit risk arises in many of the Group's business activities, hereinafter "products," including:

- Loans and advances;
- FX and derivatives transactions;
- Securities transactions;
- Financing and handling of settlements, including trade (domestic and foreign);
- Transactions in which the Group acts as an intermediary on behalf of its clients or other third parties.

The framework described in the "Credit Risk" section of this document covers different types of exposure, as defined in relevant Credit Policies of the Group.

Additionally, within the risk management system, the Group also applies credit risk mitigation rules (including by accepting collateral, thus mitigating the inherent **residual risk**) and manages **concentration risk**, taking into account material concentration risk factors.

Liquidity risk is the risk that the Group may be unable to meet a financial commitment to a customer, creditor, or investor when due. Liquidity risk is measured in accordance with the applicable law, in particular with the Banking Act, under standards set by the regulator (regulatory liquidity measures) and with internal measures which support liquidity risk management.

Market risk is the risk to profits due to changes in interest rates, foreign exchange rates, commodity prices, and their volatilities. Market risk arises in non-trading portfolios, as well as in trading portfolios. Market risk is measured in accordance with established standards to ensure consistency across businesses and the ability to aggregate risk.

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events. It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk.

Credit risk

The main objective in the field of credit risk management is to support the long-term plan for the stable development of the credit portfolio while maintaining its proper quality. Credit risk is minimized through the Group's regulations and implemented controls.

Principles of the Credit Risk Management Policy

The Risk Management unit is responsible for establishing the principles of the Credit Policy for the Corporate Bank, the Credit Policy for the Commercial Bank and credit policies for the Consumer Bank as well as approving other policies, programs and procedures, monitoring credit risk management performance, providing ongoing assessment of the credit risk of the portfolio and approving individually significant credit risk limits. The rules for approving risk are matched with the strategy of the Group, generally accepted risk level, credit portfolio performance and internal control results.

For corporate and commercial clients as well as investment banking activities across the organization, the credit process is based on a range of fundamental policies, including:

- Joint business and independent risk management responsibility for the quality of the credit portfolio and process as well as for credit loss;
- Adherence to portfolio guidelines to ensure diversification and maintain risk/capital alignment;
- Introduction of a credit authority system assuming that credit authority can be given to authorized, trained and experienced staff based upon their professional experience and tested qualifications concerning the risk assessment and making credit decisions;
- A minimum of two authorized credit approvers with delegated credit authority required for all significant exposures;
- Dependence of approval level from the risk taken – exposures with higher risk (including size and risk assessment) require approval at a higher decision-making level;
- Diverse risk rating standards, adequate to every obligor and exposure, including remedial actions;
- Risk rating of every obligor and exposure in a consistent rating process using risk rating models and scorecards (scoring);
- Periodic monitoring of customers' business results and identification of negative changes in their standing which require immediate reclassification of exposure or remedial actions;
- Exceptions to Credit Policies are approved at higher levels within the organization to ensure control over risk policy implementation by higher level managers in accordance with the Group's internal normative acts and generally applicable laws and regulations issued by the appropriate regulators.

In the Consumer Bank (GCB), the Management Board of the Group has approved credit policies for each credit product offered.

Credit risk in this area is managed by means of:

- detailed credit policies which define the credit scoring rules;
- a system for allocation of credit authority and independent supervision of the quality of credit analyst performance;
- a system for monitoring the quality of IT tools supporting credit scoring;
- a system for risk measurement and control of credit portfolios including: a detailed management information system covering the quality of the credit portfolio and debt collection, identification of impaired exposures, monitoring of delinquencies, monitoring of benchmarks, etc. internal limits of credit portfolio parameters approved by the Management Board;
- debt collection policy rules approved by the Management Board as well as a fraud prevention policy and a credit and debit card transaction authorization policy;
- credit portfolio quality reports to the GCB Risk Commission, the Risk and Capital Management Committee and the

Supervisory Board's Risk and Capital Committee;

- stress testing rules;
- monitoring the performance of scoring models and measurement and identification of impaired exposures;
- checking the behavior of Group customers in the Credit Information Bureau (BIK);
- collateral valuation policy for mortgage-secured credits offered by GCB.

Each portfolio has stress testing performed at least on an annual basis.

Credit risk assessment and rating

The Group maintains consistent risk ratings methodology across the corporate and commercial credit portfolio, which facilitates comparison of credit exposure across all lines of business, geographic regions and products.

Obligor Risk Rating and Obligor Limit Rating are elements of the assessment of credit risk associated with granted products. Obligor Risk Ratings reflect an estimated probability of default for an obligor within 1 year and are derived primarily through the use of statistical models, external rating agencies, or scoring models.

The Obligor Limit Rating (OLR), as a measure of medium to long-term risk of the obligor, is subject to assessment in terms of qualitative factors including: cyclicality, of sector, management quality, client's business strategy, influence of vulnerability to the regulatory environment on the client, transparency and quality of control processes.

Facility Risk Ratings are assigned using the obligor risk rating and facility-level characteristics such as collateral, thus decreasing the potential loss on a facility in case of default. As a result, the Facility Risk Rating reflects a potential expected loss given default.

Credit Risk is measured at a number of levels, including:

- At a facility level, which may include one or more contracts, disposals or transactions;
- At an obligor level, if there are multiple facilities approved for an obligor where the risk associated with an obligor default can be assessed jointly;
- At a group level, considering the group structure of connected clients;
- At a portfolio level where the Portfolio Risk Rating is calculated as the average rating of individual facility exposure ratings weighted against the size of exposure.

For ICG and CCB customer credit exposures, the Group uses scoring models of various levels of complexity i.e. depending on the size of the customer's portfolio and the industry in question.

For retail credit exposures, the Group uses scoring models developed on the basis of the history of behavior of the Group's customers. Such models analyze the behavior of customers in the Credit Information Bureau, own data as well as customer demographics. The quality of performance of scoring models is reviewed on an ongoing basis and monitored annually. As a result, modifications are made in the model or the credit policy.

Credit risk in the retail credit portfolio is measured based on dedicated scoring models and reporting techniques including an analysis of ratios for new customers and existing portfolios with and without impairment.

The effectiveness of scoring models used in risk assessment processes is monitored regularly with population stability reports, KS (Kolmogorov-Smirnov) test reports and portfolio quality reports (delinquency and loss ratios). Each scoring model is validated annually.

Credit risk monitoring

Risk management units, supported by business units responsible for cooperation with customers, are responsible for monitoring the probability of obligor default.

Credit risk exposure is monitored and managed at two levels: (a) customer level, and (b) portfolio level.

Exposure monitoring and management at a customer level includes periodic control reports, an early warning system and periodic reviews of the customer's standing.

Monitoring of portfolio performance and identification of portfolio trends include regular management reports and control reports which also support active response to negative signals or trends.

In addition to management information reports analysis, risk managers and business representatives take part in regular round tables regarding the portfolio in order to review business pipelines and discuss credit issues.

In GCB, monitoring covers scoring models, impairment measurements, delinquencies, the effectiveness of debt collection, internal limits, customer behavior checks with BIK, benchmarks, etc.

Risk mitigation

Credit risk mitigation within the set risk appetite is an ongoing and key element of the Group's risk management processes. It is achieved as described below:

- Customer selection and credit confirmation:
  - Target market and customer selection criteria are determined;
  - Maximum credit exposure against the obligor is determined through obligor limits related to customer risk ratings and/or through risk acceptance criteria;
  - Limits are established and monitored in order to mitigate exposure concentration risk;
  - Robust credit due diligence standards are established and maintained;
  - Credit process standards are established in order to ensure a consistent approach to each segment;
  - Credit documentation standards are applied;
- Collateral is used in order to minimize the risk and manage residual risk:
  - Establishing acceptable collaterals and their classification with respect to possible recovery in case of execution;
  - Setting collaterals in the appropriate legal form (documentation standards);
  - Expected collateral structure or credit value in relation to collateral value is determined;
  - The value of collateral on property and equipment is determined by dedicated specialty functions within the Group using external valuation where required;
- Monitoring and early warning system:
  - Periodic monitoring of credit exposures and an early warning system are used;
  - Regular inspection of the portfolio ensuring identification of adverse tendencies and concentrations;
  - Active portfolio management includes implementation of necessary modifications to the credit strategy based on portfolio reviews or stress testing.

Policy of collateral acceptance

Apart from general rules of credit risk mitigation, the Group has defined specific Corporate and Consumer rules of accepting, assessing, establishing and monitoring various types of collateral, including mortgages, guarantees and similar forms of support as well as pledges on fixed assets and assignment of receivables (jointly: "collateral"). These rules serve to minimize the residual risk associated with collateral.

An additional element limiting this risk is that in financing companies and individuals who pursue business activity revenues from the customer's ongoing business are the key element of creditworthiness assessment of potential borrowers and the primary source of repayment of debt to the Group.

In order to diversify risks associated with collateral, the Group accepts various types of collateral:

- In the Consumer Bank, the most common type of collateral is residential real estate;
- In the Corporate and Commercial Bank, the following types of collateral are mainly accepted:
  - Guarantees;
  - Cash;
  - Securities;
  - Receivables;
  - Inventory;
  - Real estate;
  - Equipment and machines (including vehicles).

Detailed procedures outlining the types of collateral acceptable to the Group and the rules of their establishment and valuation as well as the creation of a special risk unit responsible for the collateral management process allow for the development of appropriate standards for this process, including:

- criteria for acceptance and valuation of collateral;
- documentation standards;
- rules and frequency of collateral value monitoring and updating (including inspections).

In addition, Corporate Banking credit regulations set parameters such as:

- the structure of collateral required for different types of credit receivables;
- the relationship of loan value to collateral value for each type of collateral;
- the desirable structure of different types of collateral in the credit portfolio.

The Group periodically checks whether the current structure of the collateral portfolio in Corporate Banking is compatible with objectives and whether the value of the collateral is sufficient.

Within the Corporate Bank, the expected ratio of loan value to collateral value is determined in each case in a credit decision. This ratio is also subject to periodic inspection/monitoring.

The principal type of collateral in GCB is an entry in the land and mortgage register for mortgage-secured loans. The Group also uses bridge insurance to mitigate the risk of the borrower's default between the time of disbursement of a loan and the time of making an entry in the land and mortgage register. The value of collateral is measured each time on the basis of an expert valuation of real estate commissioned by the Group. Expert valuations are reviewed by an independent valuation division according to valuation guidelines for real estate used as collateral of real estate loans for individuals who are GCB customers. The quality of the division's performance is monitored.

Concentration in credit risk

In order to prevent adverse events resulting from excessive concentration, the Group reduces the concentration risk by setting limits airing from law and concentration standards adopted internally, in order to ensure adequate diversification of risk in the portfolio. The Group establishes General and specific limits to mitigate the risk of credit concentration, adequate to the approved risk appetite in the Group as well as business strategy

In its credit risk management, the Group takes into account in particular the risk arising from:

- exposure to single entities (including taking into account the effect of exposure to a single clearing house – KDPW CCP on the level of concentration risk exposure, particularly in the event of a potential inability to meet the obligations of the clearing house), or entities related capitally or economically (counterparty concentration risk),
- exposure to the same industry, economic sector, similar type of activity or trading similar goods (industry concentration risk),
- exposure to the same geographical region, as well as individual countries (risk of geographical concentration),
- exposure to entities belonging to the Capital Group of the Bank,
- exposure to counterparties in derivative transactions,
- used credit risk mitigation techniques (exposures secured by the same type of collateral), including due to large indirect credit exposures such as a single issuer (collateral concentration risk),
- specific features of Group products/portfolio and exposure tenor,
- individual products, markets or currencies.

General concentration limits are approved by the Management Board and monitored according to relevant Policy rules, primarily by the Risk and Capital Management Committee. Credit Risk and Business managers define (where appropriate) detailed internal concentration limits, control and reporting frequency and rules of approval for excesses and corrective action plans. Exceeding of established limits is reported, depending on the specific requirements of the Policy, to the approval of appropriate persons, the Risk and Capital Management Committee and the Bank Management Board together with corrective action plans.

In hedge concentration, in accordance with the S Recommendation, appropriate limits of commitments hedged with a mortgage are settled and controlled.

Obligor exposure concentration risk

The Group limits the concentration of its exposure to a single customer or a group of customers with common ownership and/or organization. As at 31 December 2019, the Group's exposure in bank portfolio transactions with groups of customers whose aggregate exposure exceeded 10% of the Group's equity (as defined below in this report) amounted to PLN 9,286,610 thousand, i.e. 189 % of equity (31 December 2018: PLN 8,792,580 thousand, i.e. 177%). In 2019 and 2018, the Group complied with the provisions on limits of concentration of exposure.

Concentration of exposure to the top non-banking borrowers of the Group:

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

* *Excluding investment in shares and other securities.*

** *The Group is understood as a capital group consisting of entities in relation to which the Capital Group of Bank Handlowy w Warszawie S.A. has exposures.*

The limits of the Group's maximal exposure are determined in the Grouping Law Bill from 29 August 1997 and 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 and amending Regulation (EU) No 648/2012 (Regulation No 575/2013). When keeping conditions determined in Regulation 575/2013, it is allowed for the Group to maintain an overdraft of liabilities over limits determined in paragraph 71 of the Grouping Law Bill only in the case of liabilities resulting from operations rated in the trade portfolio. Own funds for determining limits of exposure purposes were determined according to Regulation No 575/2013.

As at 31 December 2019, the Group did not have an exposure to one entity exceeding the statutory exposure concentration limits.

Concentration of exposure in individual industries*

Given that there is a large diversity of customers representing individual industries, the table below shows aggregate data for the Group's gross exposure to the industrial sectors.

Sector of the economy according to NACE*	31.12.2019		31.12.2018	
	PLN'000	%	PLN'000	%
Wholesale trade, except of motor vehicles	4,672,631	17.45%	4,695,369	17.48%
Financial service activities, excluding insurance and pension funds	3,912,715	14.62%	3,385,386	12.61%
Production and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,919,053	7.17%	2,760,531	10.28%
Activities of head offices; consulting related to the management	1,499,261	5.60%	1,028,293	3.83%
Retail trade, except of motor vehicles	1,141,985	4.27%	1,065,354	3.97%
Production of food products	1,134,162	4.24%	673,491	2.51%
Manufacture of fabricated metal products, except machinery and equipment	946,640	3.54%	1,084,312	4.04%
Mining of metal ores	937,344	3.50%	893,827	3.33%
Production of electrical equipment	906,495	3.39%	929,839	3.46%
Production and processing of coke and refined petroleum products	759,755	2.84%	862,454	3.21%
Top "10" industries total	**17,830,041**	**66.60%**	**17,378,856**	**64.71%**
Other industries	**8,941,245**	**33.40%**	**9,475,804**	**35.29%**
Total	**26,771,286**	**100.00%**	**26,854,660**	**100.00%**

* *Gross balance-sheet and off-balance-sheet exposure to institutional customers (including Groups), based on NACE Revision 2 (The Statistical Classification of Economic Activities in the European Community).*

Gross amounts due from customers and Groups by type of business

PLN'000	31.12.2019	31.12.2018
Gross amounts due from economic entities and Groups		
Financial	4,116,998	3,610,978
Production	4,956,141	4,282,171
Services	4,512,671	4,795,159
Other	4,106,024	3,730,135
	17,691,835	**16,418,443**
Gross amounts due from individual customers	**7,706,947**	**7,535,018**
(see Note 17, 22)	**25,398,781**	**23,953,461**

The gross amounts due do not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in note 22.

Determination of Expected Credit Loss

The Group makes impairments for expected credit losses, for all financial assets, according to developed internal rules and methodologies for calculating impairments. Expected credit loss impairments as per IFRS 9 are established with exposure classification into one of the 3 Stages:

- Stage 1: Credit exposures that have not had a significant increase in credit risk since initial recognition
  - For these assets, 12-month ECLs are recognized (representing the portion of lifetime expected credit losses that result from default events that are possible within 12 months after the reporting date),
- Stage 2: Credit exposures that have experienced a significant increase in credit risk since initial recognition, but for which the exposure is not yet defaulted
  - For these assets, lifetime ECLs are recognized,
- Stage 3: Credit exposures with credit loss that has already been suffered on the assets
  - For these assets, ECL is established as for defaulted assets.

Assignment of the exposure to the Stage takes place depending on the approach to management over the client (individual vs. group approach), taking into account the wide range of information obtained as part of standard risk management processes (including the Early Warning process) regarding both current and future events, including macroeconomic factors and the number of days past due.

The Group aggregates financial instruments in order to measure expected credit losses in terms of product in the area of Retail Banking and on a segmented basis for a homogeneous portfolio of micro-enterprises with a minimal share in total amounts due from the Group.

Payments overdue for more than 30 days for financial assets are taken into account by the Group in identifying the occurrence of a significant increase in credit risk. In the case of credit exposures from the Retail Banking area, the overdue criterion of over 30 days is a direct trigger for identifying a significant increase in credit risk. For credit exposures in the area of institutional banking, the criterion of being overdue by more than 30 days is taken into account when assessing the potential occurrence of a significant increase in credit risk, while these are factors supporting the assessment and have an indirect character.

The Group identified overdue payments of financial assets for more than 30 days and the capability of this measure to identify significant increase in credit risk. The results of analysis indicated that extended review of customer exposure as part of periodic credit processes and, in these results, the internal classification is a more adequate measure in relation to days overdue. The process of overriding Stages for the institutional banking portfolio also confirmed this assumption. Analysis of 30 days overdue payments indicated a lack of correlation with the above-mentioned credit risk because of arrears on non-credit products in particular.

The Group applies the general principle that creditor default occurs when one or both of the following events occur:

a) a delay in the debtor's repayment of any material loan obligations to the Group of 90 days or more,

b) it is unlikely that the debtor can fulfill their credit obligations toward the Group fully without the institution having to undertake activities such as collateral execution.

In order to assess if there has been an increase in credit risk, the Group periodically, as per its internal classification process and ongoing monitoring process, analyses changes in the risk of default by comparing the current assessment of default with the assessment of default in the initial recognition.

Assessment of change in the risk of default for a given credit exposure is conducted during an internal classification and monitoring process and includes:

- Qualitative indicators (including Early Warning System),
- Quantitative information (including, among others, the risk rating of the debtor),
- Occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession on financial conditions that the lender would not otherwise consider (assuming that those changes do not imply deterioration in future payment flows).

In order to assess whether there was a significant increase in credit risk for the Retail Banking portfolio, the Group periodically, as part of the analysis process, changes the default risk for a given credit exposure, compares the current assessment of default risk for the credit exposure with the risk of default assessment performed at the time of initial recognition. In addition, quality-based premises are included in the current length of the credit product overdue period, any soft restructuring activities carried out and the fact that information about the probability of default is not available.

The expected loss, which is the basis for determining the level of the provision, is determined throughout the lifetime of the exposure. In the case of installment exposures, this is the period to the contractual maturity date. For revolving exposures, the contractual maturity is not specified, replaced by the so-called behavioral maturity resulting from the empirical estimation of the life of the credit product.

Provision for expected credit losses are calculated on the basis of statistical models for groups of assets combined in portfolios with common credit risk features. In the financial statements, the Group adjusts the value of credit exposures to the amount of impairment losses on expected credit losses.

In the area of institutional banking, the main sources of parameters included in the methodology of expected credit losses ("ECL") are the results of internal customer assessment processes and the results of loan models.

- The rate of impairment is derived from the client's rating determined based on internal rating models. The ECL methodology describes the process of applying existing migration ratings, expected in a given macroeconomic scenario, to migration schedules. In this way, in the following forecast periods, the probability of migration to a given rating range is obtained.
- The value of the LGD parameter results directly from the dedicated model for impaired clients.
- The exposure value for subsequent forecast periods is based on available repayment schedules as well as (for renewable products) on the expected change in exposure described by the value of the CCF parameter. The basis for estimating this parameter were internal data on amounts used by customers before the Group identified impairment of value.
- Assignment to a stage is based on the customer assessment process used in the Group to manage the client. This process includes both quantitative factors (e.g. customer rating) and a number of qualitative factors (e.g. Early Warning Signals).
- The maturity dates adopted by the Group result directly from agreements with customers and periods in which the Group is exposed to possible risks.

In the area of Retail Banking, the basis of parameters included in the ECL methodology are the existing internal models of the client's creditworthiness assessment in the Group, information about the stage of debt collection proceedings and information from the Group's data warehouse.

- The rate of impairment is the submission of a number of models of customer creditworthiness assessment, connected to each other by a process called integration logic. The macroeconomic ECL methodology transforms the results of integration logic so that the result reflects the expected changes in the economy. The parameters thus obtained are then applied to the loss vectors during the life of the product, estimated on the basis of historically observed loss rates.
- Recovery value vectors are the result of the analysis of the amount of historically collected receivables for homogeneous populations. The populations were segmented against similar features such as product type, time from write-down, exposure value to be repaid or historically observed repayments.
- The value of the EAD parameter is based on installment products on the expected repayment schedules generated based on the length of the contract and the interest rate on the product. For renewable products, EAD is based on the internally estimated CCF vector, which reflects changes in the exposure volume expected in subsequent periods.

In the retail area, except for the 30 days criterion of arrears and forborne categories, the Group applies the quantitative criterion to analyze the change in the PD level since the exposure was created. In accordance with the standard, the Group does not use a fixed threshold above which an increase in risk would automatically be considered significant. This results from the fact that the same increase of PD in absolute terms would be more significant for exposures with lower initial risk than for those with higher initial risk. Therefore, the bank uses a dedicated model whose purpose is to set a threshold above which the increase in risk will be considered significant. In order to determine relative growth, the Group uses a variable being the quotient of the probability of default on the current reporting date and the contingent probability calculated for the same period at the time of initial recognition. A threshold is defined as the cut-off point, where the probability of a default event occurring when the value of an explanatory variable increases is maximized.

At each balance sheet date, the Group assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets.

A financial asset or a group of financial assets loses their value and an impairment loss is incurred only when there is objective evidence of impairment resulting from one or more events taking place after the initial recognition of the asset (event causing the loss) and the event (or events) causing a loss has an impact on the expected future cash flows resulting from a financial asset or a group of financial assets whose reliable estimation is possible.

In the institutional banking area, materialization of credit exposure value loss takes place if there is objective evidence of impairment, which can be a result of, among others, the following events:

- Significant financial difficulties of the client, which are described in detail in ICG/CCB/Micro Credit Procedures;
- Reduction of the client credit rating by an External Credit Assessment Institution accepted by the Bank;
- Breach of contract conditions, e.g. delay in interest or principal payments;
- Occurrence of economic or legal reasons related to the borrower's financial difficulties and granting to the borrower a concession on financial conditions that the lender would not otherwise consider, granting permission for emergency restructuring of credit exposure, if it might result in decreasing financial requirements, reduction of financial liabilities by redeeming a significant part of the principal, interest or, where applicable, fees or deferring their repayment or payment (forborne exposure);
- High likelihood of bankruptcy of the client or obtaining information about the opening of bankruptcy proceedings, appearance by the debtor for declaration of bankruptcy or for similar protection or putting the debtor in bankruptcy or granting him similar protection if it would allow him to avoid or delay repayment of credit obligations;
- Request of the Group to initiate enforcement proceedings against the client;
- Severe domestic or local economic conditions that may be related to the default of exposures;
- Delay in payment equal to 90 days or more;

and other events that may have an impact on estimated future cash flows from the financial asset that can be reliably estimated.

Objective evidence of impairment of a financial asset or a group of assets in the Retail Banking area includes the fulfillment of even one of the following conditions by any of the customer's exposures:

- occurrence of delays in the repayment of principal and interest, the minimum amount to be paid, commission or exceeding the permitted limit. For the purpose of recognizing impairment, it is assumed that the delay in repayment is equal to or exceeds 90 days at the moment of calculating the write-down (regardless of the amount of exposure and the amount of overdue);
- granting modifications to the terms of the agreement (restructuring), as a result of which the current value of cash flows falls below the book value before the modification;
- termination of the contract for reasons other than a delay in the repayment of mortgage products;
- occurrence of qualitative circumstances:
  - death,
  - bankruptcy,
  - permanent disability or serious illness,
  - fraud,
  - obtaining information about client initiation of bankruptcy proceedings or announcement of bankruptcy by the client,
  - impairment or threat of collateral impairment,
  - client presence in custody or prison,
  - partial capital write-off,
  - agreement termination,
  - the Group's request to initiate enforcement proceedings against the client.

In the case of clients who do not meet the restructuring criteria, and in particular, for which the legal path has been implemented (bankruptcy, enforcement, court dispute) without the prospects of returning the repayment formula from the client's core operations, the debt collection process is carried out and the receivables are written off. The main goal of this process is to maximize the amount of outstanding exposures recovered by the Group. In the debt collection process, the Group will develop a cooperation formula with the client, in the course of which the Group's activity is not limited only to legal actions, but also, if possible, ongoing cooperation. In the event that the repayment of the exposure is jeopardized due to the poor financial standing of the debtor or by the transfer of assets beyond the scope of recovery, the exposures can be sold in exceptional cases.

The Group has established and applies a quarantine period for exposures that cease to be classified as Stage 3 assets.

In the area of institutional banking, a change in status may take place when there are no arrears to the Bank within a minimum period of 6 months and the principal amount and related additional claims under the contract are recoverable in full.

The main premise for changing the status from impairment to no impairment is complete recovery of creditworthiness.

In the retail area, the quarantine mechanism consists in maintaining the customer in the status of impairment for the next 9 months from the disappearance of all indications of impairment.

The Group uses the macroeconomic scenarios including explanatory variables in models used to measure impairment. Scenarios are prepared by the Chief Economist of the Group at least once a quarter in a three-year horizon with a division into quarters (based on a scenario with 60% weight and positive and negative variation from a scenario with 20% weight).

In the area of institutional banking, the Group divides the loan portfolio into industries in terms of their sensitivity to macroeconomic conditions, identified macroeconomic variables that best explain the historical changes in credit quality and analyzes the dependence on macroeconomic factors using statistical methods. Finally, the Bank Group has built a model for each of the established industry sensitivity classes, allowing for the dependence of the coefficient determining the level of client migration between ratings from these factors.

Macroeconomic scenarios in the area of institutional banking include the following variables:

- annual amendment of WIG20 index,
- unemployment rate,
- inflation,
- PKB,
- unemployment rate "BAEL",
- WIBOR 3M rate.

However Retail Banking uses three variables in modeling expected credit losses:

- unemployment rate,
- unemployment rate "BAEL",
- annual amendment of WIG index.

In the area of Retail Banking, at the level of homogeneous product portfolios, the Group, using statistical methods, built equations making the level of annual loss rates dependent on macroeconomic factors. The models allow for dynamic shaping of the provision for impairment losses depending on the expected changes in the economy.

Scenarios and macroeconomic variables are updated on a quarterly basis.

As part of the assessment of the adequacy of the methodology used to determine impairment and provision, the Group regularly, at least annually, carries out an analysis to verify to which extent the revaluation provisions were reflected in actual losses. In addition, the models used for determining reserves are subject to evaluation by an independent Model Validation Office.

The Group analyses the sensitivity of expected credit losses in terms of methods and assumptions of the model of expected credit losses, in particular sensitivity to macroeconomic forecasts. The changes in expected credit losses for unimpaired exposures presented in the table below have been determined as the

[1] *Below risk level corresponding to internal 7- rating (i.e. to CCC- for Standard & Poors, Caa3 Moody's)*

difference between the expected credit losses calculated for a specific macroeconomic scenario and the expected credit losses calculated taking into account all macroeconomic scenarios weighted by the probability of their realization.

Change of expected credit losses for Stage 1 and 2 assuming 100% scenario weight as at 31.12.2019	Optimistic scenario	Pessimistic scenario
Consumer Banking	(1,166)	1,246
Institutional Banking	(2,967)	3,575
	(4,133)	**4,821**

The Group recognizes and manages counterparty credit risk in transactions in financial instruments based on internal limits for pre-settlement and settlement engagement. The exposures also include credit ratings.

The table below presents the maximum exposure of the Group to credit risk

PLN'000	Note	31.12.2018 r.	31.12.2017 r.
Gross receivables due from the Central Bank	16	3,300,490	6,850,129
Gross receivables due from banks	17	1,168,278	1,337,887
Gross receivables due from institutional customers**		16,714,183	15,080,556
Gross receivables due from individual customers***		7,706,947	7,535,018
Debt securities held-for-trading	18	3,881,815	931,172
Derivative instruments	18	1,524,780	1,282,677
Debt investment financial assets measured at fair value though other comprehensive income****	19	15,484,578	14,241,363
Other financial assets	27	106,183	160,823
Contingent liabilities granted	39	15,441,954	16,797,326
		65,330,500	**64,216,951**

* *As at 31 December 2019, the value of collateral diminishing the maximum exposure to credit risk for receivables from institutional clients amounted to PLN 3,289,249 thousand (31 December 2018: PLN 2,708,768 thousand).*

** *As at 31 December 2019, the value of collateral to reduce the maximum exposure to credit risk for receivables from individual clients amounted to PLN 1,922,434 thousand. PLN (31 December 2018: PLN 1,676,541 thousand).*

The gross amounts due do not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in note 23.

Modification of financial assets

The impact on value of financial assets, whose cash flows resulting from the contract were modified, but not discontinued recognition, as at 31 December 2019 amounted to PLN 44 thousand and net modification loss in 2019 amounted PLN 207 thousand.

The tables below present the portfolio grouped by receivables from customers with established impairment and receivables without impairment. The tables also present the details of impairment provision.

In line with the approach to credit risk management, a managed portfolio is distinguished based on individual classification (individually assessed receivables) and on the basis of portfolio classification (portfolio-based receivables).

Exposures without impairment are classified based on internal risk ratings from 1 to 7, where risk category 1 is the best rating.

Ratings assessed individually with identified impairment are assigned internal risk ratings from 8 to 10.

The internal risk ratings are received in the complex credit assessment process, which consists of rating models and methodologies, additional corrections resulting among others from the acquired support and security, and all the defined processes used in order to obtain risk ratings.

The risk rating defines the probability of a breach of contract by the debtor within a 1-year period. Ratings from 1 to 4- inclusive are treated as the equivalent of ratings at investments levels of external credit rating agencies, which implies that they indicate a low or medium level of credit risk. Ratings below 4- indicate increased credit risk, wherein the rating 7 means high credit risk and low ability to service debt obligations, even in favorable macroeconomic conditions.

Commitment due to customers in terms of credit risk:

PLN'000	31.12.2019				Total including interest accrued for exposure at Stage 3
	Receivables from institutional customers	Receivables from individual customers	Receivables from banks	Total	
Impaired receivables (Stage 3)					
Gross amount	**526,651**	**315,109**	**-**	**841,760**	**1,150,930**
Provision for expected credit losses	(316,380)	(242,829)	-	(559,209)	(868,379)
Net amount	**210,271**	**72,280**	**-**	**282,551**	**282,551**
Not impaired receivables (Stage 2)					
By risk rating					
Risk rating 1-4-	209,328		3	209,331	209,331
Risk rating +5-6-	1,062,988	-	-	1,062,988	1,062,993
Risk rating +7 and greater	103,981	-	-	103,981	103,981
By delinquency					
No delinquency	-	836,264	-	836,264	836,264
1-30 days	-	102,726	-	102,726	102,726
31-90 days	-	40,256	-	40,256	40,256
Gross amount	**1,376,297**	**979,246**	**3**	**2,355,545**	**2,355,550**
Provision for expected credit losses	(18,896)	(61,054)	0)	(79,950)	(79,954)
Net amount	**1,357,401**	**918,192**	**3**	**2,275,595**	**2,275,595**
Unimpaired receivables (Stage 1)					
By risk rating					
Risk rating 1-4-	11,955,828	-	751,707	12,707,535	12,707,543
Risk rating +5-6-	2,856,700	433	416,556	3,273,690	3,150,531
By delinquency					
No delinquency	-	6,248,508	13	6,248,521	6,248,521
1-30 days	-	163,650	-	163,650	163,650
31-90 days	-	-	-	-	-
Gross amount	**14,812,528**	**6,412,591**	**1,168,276**	**22,393,396**	**22,270,245**
Provision for expected credit losses	(28,174)	(23,216)	(2,594)	(53,984)	(53,991)
Net amount	**14,784,355**	**6,389,375**	**1,165,682**	**22,339,412**	**22,216,254**
Total gross value	**16,715,476**	**7,706,947**	**1,168,279**	**25,588,527**	**25,776,725**
Provision for expected credit losses	(363,450)	(327,099)	(2,594)	(690,969)	(1,002,325)
Total net value	**16,352,026**	**7,379,848**	**1,165,685**	**24,897,559**	**24,774,400**

The gross amounts due do not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in note 23.

The structure of the portfolio of exposures to banks and clients from the point of view of credit risk as at 31 December 2018:

PLN'000	31.12.2018 Receivables from institutional customers	Receivables from individual customers	Receivables from banks
Impaired receivables (Stage 3)			
Gross amount	**348,039**	**378,450**	**-**
Impairment provision	(244,189)	(291,485)	-
Net amount	**103,850**	**86,965**	**-**
Unimpaired receivables (Stage 2)			
By risk rating			
Risk rating 1-4-	56,158	-	2
Risk rating +5-6-	632,681	-	-
Risk rating +7 and greater	143,279	-	-
By delinquency			
No delinquency	-	657,366	-
1-30 days	-	105,640	-
31-90 days	-	46,976	-
Gross amount	**832,118**	**809,982**	**2**
Impairment provision	(16,387)	(58,389)	-
Net amount	**815,731**	**751,593**	**2**
Not impaired receivables (Stage 1)			
By risk rating			
Risk rating 1-4-	11,576,050	-	822,928
Risk rating +5-6-	2,324,349	-	514,957
By delinquency			
No delinquency	-	6,140,959	-
1-30 days	-	205,627	-
31-90 days	-	-	-
Gross amount	**13,900,399**	**6,346,586**	**1,337,885**
Impairment provision	(28,882)	(27,228)	(3,910)
Net amount	**13,871,517**	**6,319,358**	**1,333,975**
Total gross value	**15,080,556**	**7,535,018**	**1,337,887**
Impairment provision	**(289,458)**	**(377,102)**	**(3,910)**
Total net value	**14,791,098**	**7,157,916**	**1,333,977**

Structure of derivatives in terms of credit risk:

PLN '000	31.12.2019			31.12.2018		
	Transactions with institutional customers	Transactions with individual customers	Transactions with banks	Transactions with institutional customers	Transactions with individual customers	Transactions with banks
Derivatives by risk rating						
Risk rating 1-4-	863,566	8,894	587,849	579,490	5,006	676,910
Risk rating+5-6-	40,085	-	24,320	7,178	-	14,088
Risk rating +7 and greater	67	-	-	5	-	-
Total	**903,718**	**8,894**	**612,169**	**586,673**	**5,006**	**690,998**

The classification of exposures in the portfolio of debt securities held-for-trading and portfolio of debt securities measured at fair value through other comprehensive income by Fitch ratings agency is presented below:

PLN'000	31.12.2019		31.12.2018	
	Debt securities held-for-trading*	Debt securities measured at fair value though the income statement*	Debt securities held-for-trading	Debt securities available-for-sale
Issuer rating by Fitch agency				
A (including: from A- to AAA)	3,881,815	15,484,578	931,172	14,241,363
Total	**3,881,815**	**15,484,578**	**931,172**	**14,241,363**

Structure of granted contingent liabilities with respect to credit risk as at 31 December 2019:

PLN'000	31.12.2019		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Contingent liabilities granted (Stage3)	**67,574**	**1,306**	**-**
by risk rating			
Risk rating +7 and greater	67,574	-	-
Contingent liabilities granted (Stage 2)	**639,821**	**1,219,855**	**3,323**
by risk rating			
Risk rating 1-4-	132,895	-	-
Risk rating +5-6-	426,514	-	3,323
Risk rating +7 and greater	80,412	-	-
Contingent liabilities granted (Stage 1)	**8,177,658**	**4,964,158**	**368,259**
by risk rating			
Risk rating 1-4-	6,828,244	-	364,951
Risk rating +5-6-	1,349,414	-	3,308
Total	**8,885,053**	**6,185,319**	**371,582**

Structure of granted contingent liabilities with respect to credit risk as at 31 December 2018:

PLN'000	31.12.2018		
	Liabilities due to institutional customers	Liabilities due to individual customers	Liabilities due to banks
Contingent liabilities granted (Stage3)	**30,988**	**1,401**	**-**
by risk rating			
Risk rating +7 and greater	30,988	-	-
Contingent liabilities granted (Stage 2)	**410,128**	**1,095,455**	**-**
by risk rating			
Risk rating 1-4-	17,754	-	-
Risk rating+5-6-	380,297	-	-
Risk rating +7and greater	12,077	-	-
Contingent liabilities granted (Stage 1)	**10,004,762**	**4,798,669**	**455,923**
by risk rating			
Risk rating 1-4-	8,424,766	-	449,124
Risk rating+5-6-	1,579,996	-	6,799
Total	**10,445,878**	**5,895,525**	**455,923**

"Forbearance" practices

Forborne exposures are identified in the Group within credit risk management. The Bank takes into account "forborne" exposures according to the reporting requirements under the EBA Technical Standards EBA/ITS/2013/03.

The Group considers as "forborne" exposures situations in which the Group grants a debtor experiencing financial difficulties preferential financing conditions (i.e. on non-market conditions), which would not have been considered in a different situation. Preferential financing conditions are considered situations in which for example the yield of the modified facility is lower than the contractual yield prior to the restructuring and/or the yield on the modified loan is below a market yield for the relevant tenor and credit risk.

The extent to which the financing conditions are changed is determined individually for each debtor in question. In particular, these activities include:

- receipt of assets;
- granting a new or restructured facility in partial or full satisfaction of a facility;
- modification of the terms of the existing facility, including rescheduling of future payments (e.g. extension of financing tenor), change of interest rate or methods of repayment, reduction of the amount to be repaid (principal or accrued interest).

The process of assigning "forborne" status for exposures is closely related to the credit risk management process, including the impairment recognition process for exposures.

In terms of institutional clients the Group recognizes "forborne" status for exposures with identified impairment, which entails the need to write off some of the receivables.

In terms of retail exposure, "forborne" status may refer to both exposures from the impaired portfolio as well as from the portfolio without any impairment. The Group treats exposures as unimpaired where restructuring activities were carried out but the change in financing conditions did not imply any worsening of future payment streams. In such cases, the change to "forborne" status is not evidence of an exposure's impairment.

The Group assumes that exposures will remain in "forborne" status until they are entirely paid off.

Exposures with modified conditions according to forbearance rules (forborne exposures) are subject to regulatory and internal reporting.

Exposure values in the "forborne" status:

PLN'000	31.12.2019	31.12.2018
Receivables without recognized impairment	23,580,662	21,889,085
Receivables without recognized impairment (Stage 1), including	21,225,119	20,246,985
non-financial sector entities	18,072,331	18,098,779
Institutional customers	11,659,740	11,752,193
Individual customers	6,412,591	6,346,586
Receivables without recognized impairment (Stage 2), including:	2,355,543	1,642,100
non-financial sector entities	2,355,529	1,642,100
Institutional customers	1,376,283	832,118
Individual customers	979,246	809,982
Receivables with recognized impairment (Stage 3), including:	841,760	726,489
non-financial sector entities	841,760	726,489
Institutional customers, including:	526,651	348,039
"forborne"	169,297	78,281
Individual customers, including:	315,109	378,450
"forborne"	19,195	19,791
Total gross amount, including:	**24,422,422**	**22,615,574**
non-financial sector entities	21,269,620	20,467,368
Institutional customers, including:	13,562,674	12,932,350
"forborne"	169,297	78,281
Individual customers, including:	7,706,946	7,535,018
"forborne"	19,195	19,791
Provision for expected credit losses	**(690,548)**	**(666,560)**
On "forborne" receivables	(76,363)	(59,555)
Total net amounts due from customers, including:	**23,731,874**	**21,949,014**
"forborne" receivables	112,129	38,517

The gross amounts due do not include contractual interest accrued from the moment the exposure is classified in Stage 3. The impact of including this interest on the gross carrying amount is presented in note 23.

Liquidity risk

Processes and organization of liquidity risk management

Liquidity risk is defined as the risk that the Group may not be able to meet its financial commitments to customers or counterparties when due.

The objective of liquidity risk management is to ensure that the Group can meet all commitments to customers when due and to secure the liquidity necessary to clear all money market transactions when due.

Liquidity risk management is based on:

- Applicable law, in particular on the Banking Law;
- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable risk management of the Group as well as general risk levels approved by the Supervisory Board of the Bank;

taking into account the best market practice.

The ultimate responsibility for ensuring that the Group operates under approved liquidity risk limits lies within the Management Board of the Bank, and ongoing market risk management is performed by the:

- Member of the Management Board responsible for the Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit;
- Persons delegated to risk management in the Group's entities.

Liquidity management

The objective of liquidity risk management is to ensure that the Bank and Group entities have adequate access to liquidity in order to meet their financial obligations when due, including under extreme but probable stress conditions.

The Group analyses and manages liquidity risk in several time horizons while distinguishing current, short-, mid- and long-term liquidity, to which appropriate risk measurement methods and limits apply. The adopted measures and limits aim to limit the excessive concentration in terms of the balance-sheet structure and sources of financing.

Long-term liquidity management is the responsibility of ALCO and as such it is reflected in the Group's strategy. It is based on the monitoring of balance-sheet structural ratios and on long-term regulatory liquidity measures and includes the analysis of liquidity gaps, the ability to acquire in the future sufficient funding sources as well as funding costs in light of overall business profitability.

Mid-term liquidity management, in the one-year time horizon, is the responsibility of ALCO and is based on the annual Funding and Liquidity Plan which defines the size of internal limits taking into account the business plans for changes in assets and liabilities that are being prepared by business units of the Group as part of the financial plans for the next budget year.

Short-term liquidity management, in the three-month time horizon, is the responsibility of the Financial Markets and Corporate Banking Sector and is performed based on short-term regulatory liquidity measures as well as internal limits. In addition, the Group analyses liquidity under stress scenarios, assuming the lack of liquidity gaps in all tenors up to three months as a necessary condition.

Current liquidity management is the responsibility of the Financial Markets and Corporate Banking Sector and comprises the management of the balances on the Group's nostro accounts and especially the mandatory reserve account with NBP while applying available money market products and central bank facilitates.

Liquidity management with accordance to "Risk management principals" in Group entities is a responsibility that belongs to their Management Boards. ALCO is the supervisor of the Group's entities liquidity supervision.

In 2018, the Group has not implemented any significant changes in liquidity risk management processes, procedures, systems and policies.

Funding and Liquidity Plan

The Head of the Financial Markets and Corporate Banking Sector is responsible for preparing an annual Group Funding and Liquidity Plan ("Plan") for the Group and obtaining ALCO's approval for the Plan. The Plan addresses all funding or liquidity issues resulting from business plans, especially in the customer deposits and loans area, as defined in annual budgets of particular business entities, as well as any material changes in regulatory requirements and market dynamics.

Liquidity risk management tools

The Group measures and manages liquidity risk by applying both external regulatory measures and additional internal liquidity measures.

Supervisory liquidity measures

Supervisory liquidity measures M1-M4 and LCR were as follows:

	31.12.2019	31.12.2018	Zmiana
M1 - Short-term liquidity gap (PLN)	9,126,042	6,517,776	2,608,266
M2 - Short-term liquidity ratio	1.26	1.18	0.08
M3 - Coverage of illiquid assets with regulatory capital	4.98	6.08	(1.10)
M4 - Coverage of illiquid assets and assets of limited liquidity with regulatory capital and stable external funds	1.58	1.44	0.14
LCR*	163%	168%	(5%)

Internal liquidity risk management tools

In addition to the regulatory liquidity measures, the Bank Group applies a range of liquidity risk management tools including:

- Gap analysis –MAR/S2;
- Stress scenarios;
- Liquidity ratios;
- Market Triggers;
- Significant Funding Sources;
- Contingency Funding Plan.

Stress scenarios

Stress tests are intended to quantify the potential impact of an event on the Group's balance sheet and cumulative gap over a twelve-month period, and to ascertain what incremental funding may be required under any of the defined scenarios. The scenarios are proposed by the Bank's Financial Markets and Corporate Banking Sector and Market Risk and approved by ALCO.

The Group conducts stress tests monthly. The scenarios assume material changes in the underlying funding parameters, i.e.:

- Concentration event;
- Highly Stressed Market Disruption ("S2") – serious disruptions of financial markets;
- Local market event.

Contingency Funding Plan

The Financial Markets and Corporate Banking Sector is responsible for the preparation and annual update of the Contingency Funding Plan, which defines the Bank's action plan in case of a contingency, specifically in cases assumed in liquidity stress scenarios and described in the annual Funding and Liquidity Plan. The Contingency Funding Plan is approved by ALCO.

The Contingency Funding Plan defines:

- Circumstances/symptoms of contingency events;
- Responsibilities for executing the action plan;
- Sources of liquidity, and in particular the principles for maintaining a liquid assets portfolio to be used in the case of a liquidity contingency;
- Rules for asset disposal and balance-sheet restructuring;
- Procedures for restoring customer confidence.

The levels of the cumulative liquidity gap in stress conditions and the level of liquid assets as at 31 December 2019 and 31 December 2018 are presented below.

The cumulative liquidity gap as at 31 December 2019 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	20,760,753	391,612	778,774	235,278	29,819,109
Liabilities	8,169,834	4,479,486	19,091	-	39,317,115
Balance-sheet gap in the period	**12,590,919**	**(4,087,874)**	**759,683**	**235,278**	**(9,498,006)**
Conditional derivative transactions - inflows	22,718,553	5,726,397	14,890,210	12,000,485	16,165,204
Conditional derivative transactions - outflows	22,792,316	5,752,159	14,908,722	11,913,776	16,189,238
Off-balance-sheet gap in the period	**(73,763)**	**(25,762)**	**(18,512)**	**86,709**	**(24,034)**
Potential utilization of credit lines granted	566,316	477,866	415,396	-	(1,459,578)
Cumulative gap	**11,950,840**	**7,359,338**	**7,685,113**	**8,007,100**	**(55,362)**

The cumulative liquidity gap as at 31 December 2018 in real terms:

PLN'000	Up to 1 month	More than 1 to 3 months	More than 3 months to 1 year	More than 1 year to 2 years	More than 2 years
Assets	21,150,966	424,855	928,484	-	26,800,409
Liabilities	9,027,056	4,859,475	20,028	-	35,398,155
Balance-sheet gap in the period	12,123,910	(4,434,620)	908,456	-	(8,597,746)
Conditional derivative transactions - inflows	22,005,560	9,318,244	10,587,062	7,196,021	17,354,183
Conditional derivative transactions - outflows	21,989,606	9,329,708	10,812,157	7,219,383	17,308,085
Off-balance-sheet gap in the period	15,954	(11,464)	(225,095)	(23,362)	46,098
Potential utilization of credit lines granted	693,802	861,242	591,621	-	(2,146,665)
Cumulative gap	11,446,062	6,138,736	6,230,476	6,207,114	(197,869)

Liquid assets and the cumulative liquidity gap up to 1 year:

PLN'000	31.12.2019	31.12.2018	Change
Liquid assets, including:	22,875,757	22,229,407	646,350
nostro account in NBP and stable part of cash	3,509,364	7,056,872	(3,547,508)
debt securities held-for-trading	3,881,815	931,172	2,950,643
debt financial assets measured at fair value through other comprehensive income*	15,484,578	14,241,363	1,243,215
Cumulative liquidity gap up to 1 year	7,685,113	6,230,476	1,454,637
Coverage of the gap with liquid assets	Positive gap	Positive gap	

Financial liabilities of the Group, by contractual maturity, are presented below. Presented amounts do not include the impact of the effective rate on the interest payable.

As at 31 December 2019

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	28	**2,125,495**	**2,108,386**	**2,000**	**15,007**	**45**	**57**
Financial liabilities held-for-trading							
Short positions in financial assets	18	248,406	248,406	-	-	-	-
Amounts due to customers, including:	29	**39,787,807**	**37,228,862**	**1,233,802**	**1,291,452**	**33,615**	**76**
Deposits from financial sector entities	29	4,556,646	4,554,687	260	1,676	-	23
Deposits from non-financial sector entities	29	34,962,850	32,531,925	1,172,136	1,234,324	24,412	53
Other liabilities	29	268,311	142,250	61,406	55,452	9,203	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	18	1,974,225	41,303	35,685	99,783	1,077,118	720,336
Hedging derivatives		**19,226**	**-**	**-**	**-**	**19,226**	**-**
Unused credit lines liabilities	39	**12,935,767**	**11,620,970**	**-**	**236,039**	**870,275**	**208,483**
Guarantee lines	39	**2,321,513**	**2,321,513**	**-**	**-**	**-**	**-**
		59,412,439	**53,569,440**	**1,271,487**	**1,642,281**	**2,000,279**	**928,952**
Derivatives settled on a gross basis							
Inflows		72,862,917	23,340,936	6,612,768	15,187,355	19,967,407	7,754,451
Outflows		72,760,656	23,414,973	6,643,496	15,055,276	19,883,352	7,763,559
		102,261	**(74,037)**	**(30,728)**	**132,079**	**84,055**	**(9,108)**

As at 31 December 2018

PLN'000	Note	Total	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Amounts due to banks	28	**1,402,233**	**1,384,456**	**2,683**	**15,000**	**43**	**51**
Financial liabilities held-for-trading							
Short positions in financial assets	18	348,130	348,130	-	-	-	-
Amounts due to customers, including:	29	**38,334,345**	**36,821,651**	**1,054,500**	**436,919**	**21,202**	**74**
Deposits from financial sector entities	29	7,040,000	7,037,511	396	2,072	-	21
Deposits from non-financial sector entities	29	31,057,448	29,633,784	1,040,283	363,370	19,959	53
Other liabilities	29	236,897	150,356	13,821	71,477	1,243	-
Financial liabilities held-for-trading							
Derivative financial instruments (settled on a net basis)	18	1,404,897	31,043	36,410	55,593	864,397	417,454
Unused credit lines liabilities	39	**14,023,057**	**11,133,577**	**7,008**	**578,036**	**2,132,056**	**172,380**
Guarantee lines	39	**2,636,600**	**2,636,600**	**-**	**-**	**-**	**-**
		58,149,263	**52,355,457**	**1,100,601**	**1,085,548**	**3,017,698**	**589,959**
Derivatives settled on a gross basis							
Inflows		65,735,761	22,003,732	9,558,726	10,313,851	15,521,711	8,337,741
Outflows		65,529,703	21,987,856	9,546,774	10,300,415	15,373,789	8,320,869
		206,058	**15,876**	**11,952**	**13,436**	**147,922**	**16,872**

Market risk

The processes and organization of market risk management

Market risk is the risk of a negative impact on the Group's earnings and equity resulting from changes in market interest rates, foreign exchange rates, equity and commodity prices, as well as all volatilities of these rates and prices.

The objective of market risk management is to ensure that the extent of risk accepted within the Group corresponds to a level that is acceptable to shareholders and banking supervision authorities and to ensure that all exposures to market risk are properly reflected in the calculated risk measures, communicated to relevant persons and bodies responsible for the management of the Group. The adopted market risk measures and limits aim to prevent excessive concentration of exposure to a single risk factor or a group of related risk factors, as well as to determine the overall maximum level of risk taken in the trading or banking book. Market risk management in the Group is based on:

- Requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority;
- Rules of prudent and stable risk management of the Bank as well as general risk levels approved by the Supervisory Board of the Bank;

taking into account best market practice.

The ultimate responsibility for ensuring that the Group operates under approved market risk exposure limits lies within the Management Board of the Bank, and ongoing market risk management is performed by the:

- Member of the Management Board responsible for the Risk Management Sector;
- Assets and Liabilities Management Committee (ALCO);
- Head of the Market Risk unit;
- Heads of risk-taking business units;
- Persons delegated to risk management in Group entities.

Market risk management

Scope of risk

Market risk management applies to all portfolios generating income exposed to the negative impact of market factors including interest rates, foreign exchange rates, equity prices, commodity prices and the parameters of their volatility. Two types of portfolios have been defined for the purpose of market risk management: trading portfolios and bank portfolios.

The trading portfolios include transactions in financial instruments (balance-sheet and off-balance-sheet instruments) expected to generate income owing to a change in market parameters over a short period. The trading portfolios include balance-sheet items such as debt securities held-for-trading, i.e. debt securities acquired to be further traded and meeting predefined liquidity criteria, as well as all derivative instrument positions broken down into portfolios acquired purely for trading and transactions executed in order to provide an economic hedge for bank portfolio positions. The trading portfolios are valued directly at market prices or using market pricing-based valuation models. Trading portfolio operations are performed by the Bank's Financial Markets and Corporate Banking Sector in respect of interest rate risk portfolios and FX risk portfolios. The trading portfolio also includes options, manly foreign exchange options and interest rate and optional structures being a reflection of the economic nature and risk resulting from products offered to customers of the Group. In this area, the Group concludes transactions in a way which ensures concurrent (at each time and immediate) conclusion of an opposite transaction with the same parameters and, as a consequence, the option portfolio does not generate open exposition of market risk. The only item related to the conclusion of option transactions which is reflected in market risk measurement, and in particular in foreign exchange risk, is the premium paid/received in a foreign currency.

The bank portfolios include all other balance-sheet and off-balance-sheet positions not assigned to any of the trading portfolios. The transactions are executed to realize a profit over the entire contracted transaction period. The Group's Financial Markets and Corporate Banking Sector takes over the interest rate risk positions held in the bank portfolios of all other organizational units of the Group. The mechanism of transferring the interest rate risk positions is based on the transfer price system.

Measurement of the pricing risk of the bank portfolios

The Group typically uses the following methods for measuring the risk of bank portfolios:

- Interest rate gap analysis;
- Value-at-Close and Total Return methods;
- Interest Rate Exposure (IRE); and
- Stress testing.

Interest rate gap analysis uses the schedule of maturities or revaluations of balance-sheet positions and of derivative instruments used in hedge accounting or qualified as economic hedges for the purpose of establishing the differences between positions whose maturity or interest rate revaluation fall within a given time range.

The general rule in the interest rate gap analysis is that of classifying transactions to respective bank portfolio position revaluation bands by the contracted or assumed transaction interest rate revaluation dates.

It is assumed that:

- transactions with a fixed interest rate (such as term deposits, interbank deposits, portfolio of debt securities available-for-sale with a fixed interest rate, granted loans both repaid in full at maturity and repaid in installments) are classified into appropriate revaluation bands in accordance with their maturity dates;
- transactions with a floating interest rate, updated at a regular frequency (primarily loans granted with interest set based on a specific market/base rate such as, e.g. WIBOR 1M) are classified into appropriate revaluation bands in accordance with the nearest interest rate revaluation date;
- transactions with an administrated floating interest rate (i.e. any changes in the interest rate and its revaluation date are the sole decision of the Group) or undefined maturity or interest rate revaluation date are classified into appropriate revaluation bands in accordance with historically observed or expert assessed shifts in the moment and scale of change in the interest rate of given positions in relation to change in the market interest rates (model of minimizing product margin variability). This group of transactions/balance-sheet positions includes among others: current accounts, card loans, overdraft facilities. Additionally, early loan repayments are taken into account based on analysis of actual repayments made by customers before the due date and product interest rate revaluation profiles are set on that basis. This pertains particularly to installment loans;
- transactions that are insensitive to changes in interest rates, including cash, fixed assets, equity, other assets/liabilities, are classified into the longest revaluation band;
- transactions executed directly by the Financial Markets and Corporate Banking Sector for the purpose of management of interest rate risk and liquidity risk (Financial Markets and Corporate Banking Sector own portfolio) are always classified into appropriate revaluation bands in accordance with the contracted dates.

The Value-at-Close method is an estimation of the economic or "fair" value of positions, equivalent to the market valuation of the trading portfolio. Total return on a portfolio is the sum total of the changes in the value of closing the interest rate gap, accrued interest and gains/losses on the sale of assets or cancelling of obligations.

The Interest Rate Exposure (IRE) method is used to estimate the potential impact of a specific parallel shift in the interest rate curves on interest income from the bank portfolio before tax which can be earned in a specific period of time. This is a prospective indicator, equivalent to Factor Sensitivity of trading portfolios. An assumption is made that under standard conditions interest rate shifts are identical for every currency and stand at 100 basis points upwards. IRE measures are calculated separately for positions in each currency in the time horizon of 10 years; however, for the purpose of current monitoring and limiting of interest rate risk positions in bank portfolios, the Group normally applies IRE measures with one-year and five-year time horizons.

The table below presents the IRE measures for the Group as at 31 December 2019 and 31 December 2018. The list has been broken down into the main currencies, i.e. PLN, USD and EUR, which jointly account for over 90% of the Group's balance-sheet.

PLN'000	31.12.2019		31.12.2018	
	IRE 12M	IRE 5L	IRE 12M	IRE 5L
PLN	27,103	78,293	10,444	87,021
USD	15,045	19,732	16,798	31,102
EUR	9,980	9,134	(3,103)	1,973

Stress tests measure the potential impact of material changes in the level or directionality of interest rate curves on open interest positions in the bank portfolio.

The Group runs stress tests of predefined interest rate movement scenarios, which represent combinations of market factor movements defined as large moves and stress moves occurring both in Poland and abroad. Values of the assumed market factor movements are revised at least once a year and adjusted as appropriate to changes in the market conditions of the Group's operation.

Activities relating to securities available-for-sale are the responsibility of the Assets and Liabilities Management Department within the Professional Markets Division. Three basic goals of activities in the portfolio of securities available-for-sale have been defined as follows:

- management of liquidity;
- hedging against the risk transferred to the Financial Markets and Corporate Banking Sector from other organizational units of the Bank or Group entities;
- opening of own interest rate risk positions on the Group's books by the Financial Markets and Corporate Banking Sector.

In order to avoid excessive fluctuations in the Group's capital funds, caused by the revaluation of assets held-for-sale, the maximum limits of DV01 (Dollar Value of 1 basis point), which determines the potential change in the value of risk positions on a given interest rate curve at a specific nodal point (which brings together all the cash flows in a given time horizon), caused by a shift in the market interest rate by 1 basis point upwards, are established for this kind of portfolio. The limits also concern the open positions in derivatives (i.e. interest rate swap transactions), carried out to hedge the fair value of the portfolio.

Hedge accounting program

In addition to the general rules limiting market risk, in particular, interest rate risk, the Group has defined rules for the application of fair value hedge accounting. The main risk, which is hedged under hedge accounting, is the risk of changes in interest rates resulting from holding a portfolio of securities measured at fair value through other comprehensive income with fixed interest rates. At the end of each month when the hedging relation occurred, the Group evaluates the effectiveness of the hedging instrument used by analyzing the changes in the fair value of the hedged and hedging instrument in respect of the risk being hedged.

The hedged item was part of a portfolio of securities measured at fair value through other comprehensive income at a fixed interest rate, denominated in PLN and EUR. In all cases, the hedging instrument was the interest rate swap (IRS), which converts the fixed interest rate on a variable. Gains and losses arising from revaluation at fair value of the hedging instrument and changes in the fair value of the hedged items are reflected – in part resulting from hedged risk – in the profit and loss item "Net income from hedge accounting".

The table below presents the risk measured with DV01 for the portfolio of securities available-for-sale, including the economic collateral, broken down by currency:

PLN'000	31.12.2019			Total in the period 01.01.2019 - 31.12.2019		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(3,182)	(3,489)	307	(3,089)	(2,528)	(3,412)
USD	(159)	(159)	-	(109)	-	(186)
EUR	(357)	(357)	-	(439)	(311)	(533)

PLN'000	31.12.2018			Total in the period 01.01.2018 - 31.12.2018		
	Total	Securities	IRS	Average	Maximum	Minimum
PLN	(2,538)	(2,538)	-	(2,471)	(1,461)	(3,032)
USD	-	-	-	(14)	-	(18)
EUR	(316)	(316)	-	(392)	(316)	(450)

The Group's activities involving investments in debt securities available-for-sale were also one of the main factors influencing changes in the level of mismatch risk in revaluation periods as expressed by the IRE measure.

Measurement of the market risk of the trading portfolios

The following methods are applicable in measuring the risk of trading portfolios:

- Factor Sensitivity;
- Value at Risk (VaR); and
- Stress testing.

Factor Sensitivity measures the change in the value of positions in an underlying instrument in the case of a specific change in a market risk factor (e.g. change of the interest rate by 1 basis point at a given point on the interest rate curve, change of the currency exchange rate or share price by 1%).

In the case of interest rates, the applicable sensitivity measure is DV01.

In the case of exchange rate (FX) risk, the Factor Sensitivity value is equal to the value of the FX position in a given currency.

In the case of positions held in equities, the Factor Sensitivity value is equal to the net value of the positions held in the respective instruments (shares, indices, participation units).

Value at Risk (VaR) is the integrated measure of the market risk of trading portfolios which combines the impact of positions in respective risk factors and accounts for the effect of correlation between the fluctuations of different factors. VaR is applied for the purpose of measuring the potential decrease in the value of a position or portfolio under normal market conditions, at a specific confidence level and within a specific time period. In the case of positions opened in the Group's trading portfolio, VaR is calculated at a 99% confidence level and a one-day holding period.

DV01 as well as VaR for the trading portfolio are calculated net of the economic hedge of the portfolio of securities available-for-sale, i.e. net of derivative instruments intended to hedge the fair value of the portfolio. Exposures to the risk of such transactions are mitigated through the application of relevant risk measurement methods and by bank portfolio risk limits.

Each day, the Group runs stress tests on the assumption that the risk factors change by more than expected in the Value at Risk scenario and ignoring the historical correlations of these factors.

The Group keeps records of exposures of the bank portfolios to market risk in over 20 currencies both for currency positions and exposures to interest rate risks. These exposures are only significant for a few currencies. For a large group of currencies, the exposures are the consequence of a gap between transactions executed on the customer's orders and closing transactions with other wholesale market counterparties. Significant exposures to market risk are opened for PLN, currencies of well-developed markets (predominantly USD and EUR with a lesser focus on GBP, CHF and JPY) and Central European currencies.

The values of significant exposures to the interest rate risk of the trading portfolios risk in terms of DV01 in 2019 are presented in the table below:

PLN'000	31.12.2019	31.12.2018	In the period 1.01.2019 – 31.12.2019		
			Average	Maximum	Minimum
PLN	(54)	671	249	974	(568)
EUR	(13)	100	(23)	105	(161)
USD	144	54	48	157	(37)

Average exposures to interest rate risk in the local currency in 2019 were lower compared to the level from the previous year and amounted to PLN 350 thousand. Average exposure to the interest rate risk in EUR was slightly lower than in 2018 (DV01 amounted to PLN 67 thousand, compared to PLN 70 thousand in the previous year). Average exposure in USD was lower than in 2018 (DV01 amounted to PLN 50 thousand, compared to PLN 68 thousand in 2018). The maximum exposure in PLN of the biggest exposures accepted by the Treasury Division was PLN 974 thousand compared to PLN 1.106 thousand in 2018 and the position in EUR amounted to PLN 105 thousand compared to PLN 168 thousand in the previous year.

The Financial Markets and Corporate Banking Sector, which trades in financial instruments within the Group, continued its strategy of very active management of exposures to FX risk and interest rate risk by adjusting the volume and direction of such exposures depending on changing market conditions, which is reflected in the range of volatility of these exposures (the minimum and maximum values in the table above).

The table below presents the levels of risk measured by VaR (net of economic hedges of the portfolio of securities available-for-sale) broken down by FX risk and interest rate risk position in 2019:

PLN'000	31.12.2019	31.12.2018	In the period 1.01.2019- 31.12.2019		
			Average	Maximum	Minimum
Currency risk	69	174	577	2,829	56
Interest rate risk	5,947	6,889	8,219	11,950	4,831
Spread risk	3,040	2,612	4,757	9,697	2,545
Total risk	**6,678**	**7,334**	**9,695**	**13,775**	**5,861**

The overall average level of the market risk of the trading portfolios was 25% higher in 2019 than the average level in 2018, representing an increase by over PLN 1.900 thousand, mainly as a result of higher exposures to credit spread changes. The maximum price risk level was PLN 13,775 thousand, compared to PLN 15,043 thousand in 2018.

Equity instruments risk

Dom Maklerski Banku Handlowego S.A. ("DMBH") is the Group's key company trading in equity instruments. In its core business, DMBH has been authorized to accept pricing risk in the trading portfolio of shares, or rights to shares, traded or likely to be traded on the Warsaw Stock Exchange ("WSE"), or BondSpot, WIG20 index futures and Indexed Participation Units, as well as shares of companies dual-listed on the WSE which are traded on international stock exchanges. The pricing risk of DMBH's portfolios of instruments is managed by means of volume limits applicable to specific types of financial instruments and concentration warning thresholds applicable to instruments of specific issuers. Moreover, DMBH uses warning thresholds of potential loss under stress scenarios and the cumulative realized loss on the trading portfolio.

The Group's FX exposure

The table below presents the Group's FX exposure by main currencies:

31.12.2019

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	4,338,630	5,529,553	21,386,884	20,185,257	10,704
USD	1,642,699	5,122,036	20,863,504	17,393,833	(9,666)
GBP	17,279	389,976	742,199	371,438	(1,936)
CHF	468,768	227,731	2,029,207	2,274,823	(4,579)
Other currencies	96,855	201,225	2,173,226	2,064,715	4,141
	6,564,231	**11,470,521**	**47,195,020**	**42,290,066**	**(1,336)**

* *at present value which is the sum of discounted future cash flows*

31.12.2018

PLN'000	Balance-sheet transactions		Contingent derivative transactions*		Net position
	Assets	Liabilities	Assets	Liabilities	
EUR	4,624,242	4,575,132	15,661,387	15,672,613	37,884
USD	1,530,263	3,765,163	22,219,596	19,954,563	30,133
GBP	12,554	445,558	894,004	461,895	(895)
CHF	607,154	215,197	2,352,073	2,748,500	(4,470)
Other currencies	88,205	234,376	2,046,088	1,892,725	7,192
	6,862,418	**9,235,426**	**43,173,148**	**40,730,296**	**69,844**

* *at present value which is the sum of discounted future cash flows*

Operational risk

Strategic goals and assumptions of the operational risk management system

The strategic objective of operational risk management is to ensure a consistent and effective approach to identification, assessment, mitigation, control, monitoring and reporting of these risks, as well as the effective reduction of the level of exposure to operational risk, and consequently reduction of the amount of operational risk events and their severity (low level of tolerance policy for operating losses).

Operational risk management is also aimed at the full integration of these risk management processes into business decision-making processes (i.e. business strategy is supported by an operational risk assessment, and the business is assessed on the basis of pre-determined indicators of control and operational risk).

While organizing the operational risk management process, the Group takes into account business strategy, the Group's risk profile, the macroeconomic environment, available capital and liquidity resources and regulatory requirements (in particular Recommendation M) that constitute a framework for the preparation of the operational risk control and management system in the Group.

The Management Board and subsidiary Management Boards are responsible for the development, implementation and operation of proper operational risk management through the introduction of appropriate internal regulations, ensure consistency between the operational risk management system and Group' Strategy, as well as its proper functioning within the organization through an analysis of information that allow to assess whether the system is adequate for the operational risk profile. If needed, the operational risk management system is reinforced through implementation of crucial improvements.

Operational risk management in the Group is built in a way that ensures proper risk management at every stage, i.e. identification, assessment/measurement, mitigation, control, monitoring and reporting.

The implementation of the strategy by the Management Board shall be assessed by the Supervisory Board, assisted by the Audit Committee and Risk and Capital Management Committee based on synthetic reports submitted by the Management Board with a frequency correlated to committee meetings, determining the scale and types of operational risk that the Bank is exposed to, methods of operational risk management, probability of risk occurrence, assessment of potential negative impact of operational risk management methods, as well as the results of operational risk profile and operational risk appetite monitoring. If necessary, after evaluation, the Supervisory Board may request entire or partial revision of the internal control system.

Operational risk definition

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, or technical systems, or from external events.

It includes reputation and franchise risks associated with operational risk events and business practices or market conduct. It also includes legal risk and compliance risk.

Operational Risk does not cover strategic risks or the risk of loss resulting solely from authorized judgments made with respect to taking credit, market, liquidity or insurance risk.

The definition of Operational Risk covers: Compliance risk, Technological risk, Outsourcing risk, Misappropriation risk, Money Laundering risk, Information Security risk, External or internal events risk (Continuity of Business), Tax and Accounting risk, Product risk, Legal risk, Model risk, Staffing risk, Concentration risk, Conduct risk.

As part of operational risk, the following difficult to measure risks, which were identified as significant, are identified: compliance risk, model risk, outsourcing risk and information security risk (including cyber risk).

Rules of operational risk identification

Each Group's Business Unit identifies all significant operational risks related to its processes. This includes identification by the Group's Management of significant risks associated with all processes, products, human factors, systems and compliance with applicable laws, regulatory administrative actions, the Group's internal regulations and the Group's strategy, also taking into consideration risk associated with dependence on other entities in the Group.

As part of operational risk identification processes, the Group's organizational units and the Independent Control and Operational Risk Department use regular analysis of information generated using tools of operational risk management (e.g. risk appetite, target risk profile, KRI, data loss and operational risk incidents, issues and corrective actions, self-assessment process, risk maps, key projects, risk areas concentration and areas of increasing risk exposure level of risk, scenario analysis, stress testing, changes in processes and products, operational risk attestations, information from internal and external reviews and audits, information reported to the Commissions and Committees).

Operational Risk Profile

Operational Risk Profile is understood as the scale and structure of exposure to operational risk, defining the level of exposure to operational risk, expressed in selected structural measures (e.g. types of operational risk events, types of business lines, significant processes) and scale measures (e.g. assessed potential loss). The Group defines its operational risk profile based on operational loss data and information gathered through utilized operational risk management tools.

The target operational risk profile, facilitating identification of concentration risk, was established with consideration of the scale and structure of operational risk, accepted appetite/tolerance for operational risk, analysis of historical data and utilizing tools applied for operational risk management. Established indicators are monitored for particular operational risk categories and the main areas of the Group's activity.

Measurement and assessment

In the process of risk estimation, the Group applies differentiated methods of risk measurement and assessment. Risk assessment is the determination of the probability of occurrence and scale of potential future operational losses. The Group applies quantitative and quantitative methods for the purpose of risk assessment (e.g. appetite for risk, capital requirements, the target risk profile, KRI, data loss and operational risk events, issues and corrective actions, the process of self-assessment, risk map, key projects, concentration risk areas and increasing the risk level, scenario analysis, stress tests, changes in processes and products, operational risk attestations, information from internal and external reviews and audits, information reported to the Commissions and Committees). Risk assessment analyses involve internal and external threats. Proper operational risk assessment enables adequate determination of the risk profile and adequate risk management.

The assessed capital requirement for operational risk covers all risk categories included by the Group in the operational risk definition.

Risk tolerance framework, risk control and mitigation

The Group sets tolerance levels for each operational risk category and business area within a determined risk appetite. Exceedance of established tolerance thresholds for a particular operational risk category requires undertaking corrective actions in line with the decision of the Risk and Capital Management Committee.

The Risk and Capital Management Committee or Management Boards of subsidiaries can decide on the following treatment of identified risks by:

- accepting (conscious avoidance of activities aimed at mitigation of probability and results of an event, including ensuring funds to cover potential losses);
- mitigation (mainly by adequate definition of processes, products, systems, procedures and implementation of control mechanisms);
- transfer (movement of part or the entire risk related to a particular threat to an external party, in particular by outsourcing activity to an external services provider or relying on insurance);
- avoidance of activities leading to risk exposure.

The key aspects of processes of risk identification, self-assessment, measurement, monitoring and reporting are unified and generally accepted in all organizational units of the Group. Risk mitigation processes are determined for each entity, and may be different for individual units.

Control is a process designed to mitigate cause(s), reduce the probability of an event occurring and/or minimize the severity of an effect. Risk mitigation measures also include risk transfer mechanisms (outsourcing, insurance). Risk mitigation measures include internal controls as well as risk transfer mechanisms, i.e. transfer of part or the entire risk related to a given threat to an external entity, in particular by outsourcing or insurance. The Group regularly assesses and monitors the proper functioning of risk transfer mechanisms.

Monitoring and reporting

The Risk and Capital Management Committee and Operational Risk, Control and Compliance Committees are responsible for ongoing monitoring of operational risk. The quality and effectiveness of operational risk management processes (including the self-assessment process) in the respective organizational units of the Capital Group are subject to inspections and assessment carried out by internal audit.

Within the framework of consolidated oversight, operational risk data of the Group and its subsidiaries is presented to Commissions and Committees that support the Management and Supervisory Board in the operational risk management process.

The Supervisory Board supervises and assesses the adequacy and effectiveness of operational risk management. The Supervisory Board is supported by Committees of the Supervisory Board – the Audit Committee, Risk and Capital Committee and Remuneration Committee.

Based on synthetic operational risk reports, presented periodically by the Management Board at least twice a year and prepared based on data resulting from operational risk monitoring covering the scale and types of operational risk the Group is exposed to, the probability of its occurrence, the scope of its potential negative impact, operational risk management principles and the operational risk profile and risk concentration areas, the Supervisory Board, supported by the Audit Committee and Risk and Capital Committee, monitors the effectiveness of internal control and risk management (in particular in relation to principles of operational risk management) and the Supervisory Board shall review the implementation by the Management of the strategy of operational risk management

Assumptions of internal control of operational risk

Within the Management Board, one of its members – Risk Management Sector Head – supervises the Independent Control and Operational Risk Department.

The Management Board is supported by the Operational Risk, Control and Compliance Committees and the Risk and Capital Management Committee.

Each Business Unit must establish an appropriate system of controls that are commensurate with the level of operational risk and other risks being managed, including proper documentation of the control procedures and appropriate staff training. Each Business Unit must evaluate the risks that are unacceptable or outside of the Business Unit's risk appetite/tolerance and determine the appropriate actions for their mitigation or transfer.

Settings of control standards, as well as monitoring of operational risk for key risk categories, are supported by specialized organizational units.

Additionally, periodic assessment of the adequacy and effectiveness of controls covers monitoring and testing of the adequacy and effectiveness of the key control mechanisms (Managers Control Assessment), vertical monitoring, at a frequency commensurate with the underlying risk and frequency of the control, and independent review by internal audit. In the case of identification of a deficiency or an area of unacceptable risk, the management of the Business Unit is responsible for formulating a corrective action plan to resolve these deficiencies. Completion of corrective actions falls under independent monitoring and control. Arrangement and execution of effective operational risk management in the Group's subsidiaries rests with Management Boards. The Management Boards of those subsidiaries assure adequacy of organizational structures and implementation of processes and procedures aligned with undertaken operational risk. Supervisory Boards of subsidiaries maintain surveillance over the operational risk management system and assess its effectiveness and adequacy. Cohesion of operational risk management standards is provided by relevant units in subsidiaries, supported by the Bank's operational risk management unit. The effectiveness of operational risk management in Bank subsidiaries and the Bank itself is audited and assessed against consistent criteria.

The Audit Department (IA-Internal Audit) is responsible for independent assessment of the effectiveness of operational risk management processes and assessment of the adequacy and effectiveness of the operational risk management system, as well as for its regular review. The results of internal and external audits are considered in the management information system, the process of decision-making with regard to risk management and management of the Group.

Equity management

According to the Banking Act, banks in Poland are obliged to maintain equity at a level adequate for their specific business risks.

The Group's equity amounted to PLN 7,081,072 thousand as at 31 December 2019 (as at 31 December 2018: PLN 7,056,750 thousand). Regulatory capital, which included increases and decreases required by the Polish Financial Supervision Authority (KNF), amounted to PLN 5,126,181 thousand (as at 31 December 2018: PLN 4,970,103 thousand) Such a capital level is considered sufficient for conducting business activity. The capital level is regularly monitored by using the capital adequacy ratio.

In 2008, the Group launched the process of estimating internal capital. The Group identified significant risks and assessed the capital required for coverage of these risks.

The Bank determines a policy of future dividend payments to shareholders as part of the capital management process. The dividend policy depends on a number of factors including the

Bank's profits, the Bank's expectations concerning future financial results, the level of capital requirements, as well as tax, regulatory and legal issues.

Financial data necessary to calculate the Group's capital adequacy ratio is presented in the table below:

Capital adequacy ratio*

On 22 July 2019 the Polish Financial Supervisory Authority (KNF) finished its inspection concluding with a recommendation related to contract netting requirement in accordance with art 296 of CRR. KNF stated it is required to obtain an adequate KNF approval of the netting arrangement however during the inspection KNF also did not oppose to the netting process itself.

In 4Q 2019 the Bank acquired the KNF approval in relation to the most significant netting arrangement. The Bank will file other arrangements in order for KNF to approve them as compliant with art 296 of CRR. The estimated impact on TCR of netting arrangements that are not accounted for in capital adequacy ratio, due to lack of KNF approval, is 0.4 p.p.

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

* *Total capital 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 and amending Regulation (EU) No 648/2012.*

Both in 2019 and 2018, there was a single concentration limit breach that was immediately reduced and KNF was notified.

48. Subsequent events

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

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

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

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

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

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

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

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

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

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

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

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

Signatures of Management Board Members

25.03.2020	Sławomir S. Sikora	President of the Management Board	
Date	Name	Position/function	Signature

25.03.2020	Natalia Bożek	Vice-President of the Management Board	
Date	Name	Position/function	Signature

25.03.2020	Maciej Kropidłowski	Vice-President of the Management Board	
Date	Name	Position/function	Signature

25.03.2020	Barbara Sobala	Vice-President of the Management Board	
Date	Name	Position/function	Signature

25.03.2020	James Foley	Member of the Management Board	
Date	Name	Position/function	Signature

25.03.2020	Katarzyna Majewska	Member of the Management Board	
Date	Name	Position/function	Signature

Report on activities of Bank Handlowy w Warszawie S.A. and the capital group of Bank Handlowy w Warszawie S.A. in 2019

March 2020

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

CONTENTS

I. Introduction

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

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

In the institutional client segment, Citi Handlowy focuses on fostering its leading position among banks which provide services to international corporations and the largest local companies. The 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 existing clients from selected industries, as well as support for clients who seek business opportunities abroad (the Emerging Market Champions initiative) are the key to building the Group's market position.

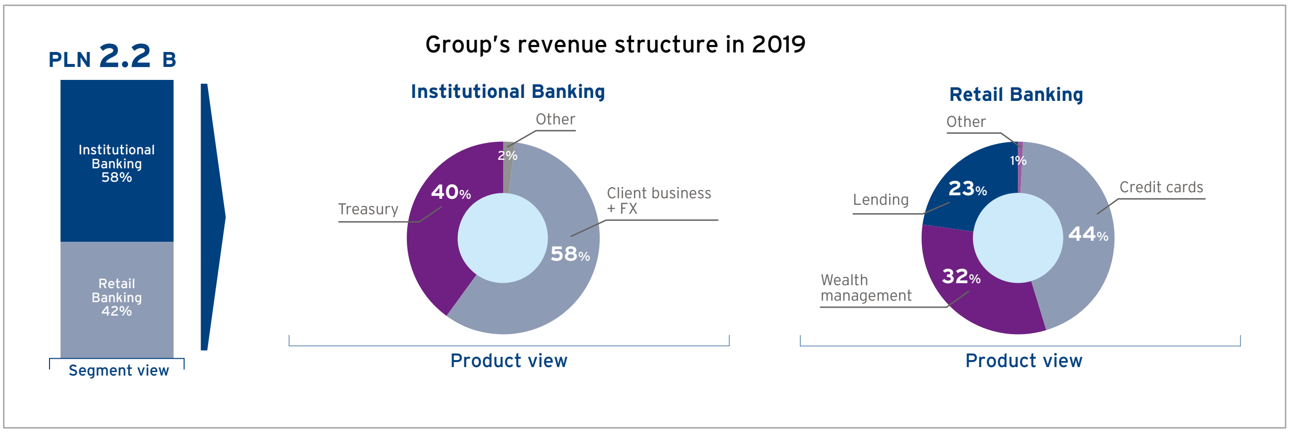
The Group's objective is to play the role of Strategic Partner to Polish enterprises that actively support the expansion of Polish industry. This is tangibly reflected in the Bank's product offer with foreign exchange transactions and products associated with trade finance and secure trade transactions being an important and inextricable part. Furthermore, the Bank strives to maintain the status of one of the safest venues 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 banking for high net worth clients. To this aim, 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, are also 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 the Citi global product range, accepted worldwide and providing exceptional value to the client, such as, among other rewards, loyalty reward schemes. The Bank aims to further strengthen 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 installment product offer as well as innovative and agile processes.

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



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

Founded in 1870, Bank Handlowy w Warszawie S.A. is the oldest commercial bank in Poland today and one of the oldest continuously operating banks in Europe. After 150 years on 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 S.A. offers a broad and modern range of products and services of corporate, investment and retail banking. Affiliation with Citi, a leading global financial institution, ensures that clients of Citi Handlowy have access to financial services in more than 100 countries. For more information, please visit **www.citibank.pl/poland/homepage/polish/historia.htm.**

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

3. Major developments in 2019

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

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

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

4.1 General development objectives of the Group

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

- a coherent offer for companies seeking a global financial partner (specifically in foreign exchange products),
- maintaining its leading position in the segment of global companies,
- providing full services to dynamically growing companies in a new economy, seeking complex banking solutions (for example cash management products),
- participating in transformational transactions carried out by the largest corporate clients, also with involvement of private equity funds (e.g. LBO, IPO or M&A transactions).
- building the scale of business by pursuing strategic partnerships that will allow for both growing the customer base and building additional credit volumes through access to new, yet untapped groups of customers,
- digitalization and simplification of the new customer acquisition process, i.e. the use of state-of-the-art technological solutions (such as biometrics and AI).
- growing the wealthy customer base (Citigold, Citi Private Client) thanks to continuous enlargement of the product offer, launch of extended advisory services and regular updates of our offer of structured products and investment funds.
- enhancing Customer Experience, using modern contextual banking development tools,
- maintaining a leading position in credit cards,
- client security (in terms of high liquidity, secure capital level and cybersecurity),
- changing the organizational culture to simplify and streamline processes and to promote cooperation and diversity,
- increase in value for investors.

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

- increase in FX volumes by 9% YoY among Institutional Banking customers;
- a new personalized offer for companies from the software development industry (the so-called new economy), including automation of FX hedging transactions;
- double-digit growth in global customer assets (+ 26% YoY at the end of 2019);
- The Bank participated in the largest transactions on the corporate banking market in Poland in 2019: arranging consortium agreements of PLN 3.8 billion for a client from the e-Commerce industry and PLN 1.8 billion for a client from the retail industry and conducting two securitization transactions in the amounts of PLN 1.2 billion and PLN 2.5 billion;
- implementation of the first online credit process on the market for new clients using biometrics;
- an increase in the number of retail clients in strategic segments: Citi Private Client (CPC) + 57% YoY, Citigold + 30% YoY and Citi Priority + 29% YoY;
- new solutions based on AI/Machine Learning (Recommendation Engine, Shopping Queen) promoting an increase in contact efficiency with clients and informing clients about benefits under the Citi Special and PricelessSpecial partner programs in real time;

- implementation of the new CitiMobile application (offering, among others, the possibility of dividing a credit card transaction into installments, all card benefits in one place, changing and setting a PIN);
- the Bank's capital security remained at a high level: high quality of assets and capital, capital adequacy ratio (TCR) at 17.2%, i.e. 3.6 pp above regulatory capital thresholds;
- continuation of automation processes at the Bank: as part of the "Paperless" project, paper consumption dropped by 26% YoY;
- in accordance with the Management Board's announcement, the Bank paid out 75% in profits for the year 2018 in the form of dividends.

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

The Bank's competitive position

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

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

In Consumer Banking, the Bank retains its strong market position:

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

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

4.2 Institutional Banking

In the Institutional Banking segment, the Bank is a leading provider of services to international corporations and the largest local companies. The segment strategy envisages initiatives to increase revenues from client operations. The most important initiatives in that area include a change of attitude to cooperation with fast growing companies of the new economy. These are businesses which want to grow beyond any limits and search for more complex banking solutions. The Bank offers such clients multi-product solutions which can meet their expectations (for example in the area of capital markets, debt instruments or international cash management) and is ready to provide appropriate financing. The Bank is able to identify such companies at an early stage of development and offer them appropriate solutions, also on the basis of its global nature and know-how derived from many markets in the world. In addition, the Group discerns a significant potential to increase its revenues by participating in transformational transactions carried out by the largest corporate clients, also with involvement from 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 a global upward trend in the capital markets, we are now in a period of temporary decline. The introduction of Employee Capital Plans (PPK) should positively affect Poland's capital market in the long run, but is also a chance to increase the activity level in the institutional client segment (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 DMBH operations. DMBH implements technology projects aimed at further automation and improvement of processes which ensure the cost effective service of local and international institutional clients that are interested in algorithmic trading and high-volume transactions.

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

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

4.4 Consumer banking

In 2020, the Bank will continue its strategy with regard to client segmentation and business model. According to its plans, the Bank will expand its products and services so that it can provide the highest value possible in the target segments. The Bank will also continue the strategy of digitization of its products and services, by offering innovating and tailored solutions to its clients.

The Bank will strive to strengthen its leading position in the area of banking for the affluent client segment. To this aim, the Bank will continue to develop its offer for Citigold Private Client (CPC) and Citigold clients. The Bank is going to increase the portfolio of clients from those segments by proactive acquisition and reinforcement of relationships with existing clients. Clients from the CPC and Citigold segments will have at their disposal a network of 9 modern, fully renovated financial service centers located in 8 major Polish cities. They will meet their financial and investment needs with the help of dedicated, professional personal advisers. The Bank wants to enhance the product range for those clients, both in the traditional channel served by relationship managers and on electronic platforms. The Bank will review and update benefits offered to clients to ensure they represent the best response to their changing needs. For those client groups, the Bank will also continue cooperation with other Citi companies throughout the world in order to provide top-quality services in the area of global banking.

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

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

Moreover, the Bank will strive to strengthen its position of a leader in credit cards with access to products from the Citi global range, accepted worldwide and providing exceptional value to clients, such as the CitiSpecials Program. In 2020, the Bank will also continue a strategic partnership program. The Bank wants to use strategic partnerships to raise the value created for clients and, thereby to considerably increase its acquisition of new clients.

In 2020, the Bank will also aim at strengthening its market share in non-secured credit products by satisfying lending needs and increasing the number of clients relying on its competitive cash loan or installment product offer. These strategic partnerships and development of the personal account offer will allow us to better implement this goal, owing to better possibilities to sell cash loans in addition to already purchased banking products.

The Bank intends to continue its strategy in the area of retail branches, which will be concentrated in the largest cities throughout Poland. Simultaneously, the Bank will continue investing in its electronic platforms as its main client service channel and a more and more important source of new clients. In 2020, the Bank will develop the remote customer acquisition process, introduced in 2019, which allows for identity verification based on facial biometrics, extending it to new products (current account) and channels. The Bank will also strive to implement digital solutions using the benefits of PSD2.

The Bank will continue initiatives to automate banking operations with the aim of optimizing costs and improving client experiences thanks to shorter and simplified processes.

5. Awards and honors

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

- The Bank was named once again the **Leader of Treasury BondSpot Poland Market** regarding turnover on the bond spot market. In turn, Dom Maklerski Banku Handlowego (Brokerage House of Bank Handlowy) was awarded for the highest share of a local Stock Exchange Member in session trading in shares on the WSE's Main Market.
- On the 25th anniversary of Krajowy Depozyt Papierów Wartościowych (the Central Securities Depository of Poland), Citi Handlowy was awarded **a special prize by KDPW for active support and taking intensive measures on the Polish post-trading services market**. For years, Citi Handlowy has been the largest custody bank in Poland, the leader in terms of retained clients assets with KDPW and one of the leaders in terms of turnover on the WSE.
- **Transactional banking** (TTS) at Citi Handlowy for yet another year in a row took first place in a prestigious ranking of **Euromoney** magazine, winning the "Market Leader" and "Best for Overall Service" titles. For six years, Citi Handlowy has been an unquestionable leader in Treasury and Trade Solutions on the Polish market.
- The prestigious British financial magazine **Euromoney** once again distinguished Citi Handlowy in its yearly market survey of **private banking and Wealth Management**. Citi Handlowy was distinguished in three categories: *Asset Management, Family Office Services and Advisory services and analysis regarding asset allocation*.
- **Citi Handlowy's Private Banking** was also recognized by **Forbes magazine**, which in its prestigious ranking once again granted **five stars to Citi Handlowy's Private Banking**. Citi Handlowy focuses on emphasizing the global nature of its offer, especially addressed to clients doing business all over the world. This trend was very well-supported by its original offer for business related to e-commerce, and a clear strengthening of the investment offer based on investment advice. Citigold Private Clients can use, inter alia, an investment platform with a multitude of domestic and foreign investment funds and the wealth management service via Citi Private Bank in London.
- **The Citibank World Elite Mastercard Ultime** black credit card made it to the podium of the **best prestigious cards ranking organized by Forbes** yet again. The Ultimate black card was designed and dedicated to high net worth clients – the package of extra services offers, among others, insurance worth millions of euros, lifestyle manager assistance and access to elite sites.
- Yet again, the jury of the prestigious "**Golden Banker**" ranking recognized Citi Simplicity Credit Card as the best card on the market. Citi Handlowy received its fourth consecutive Golden Banker statue in the Credit Card category of the ranking "Golden Banker 2019", organized by "Puls Biznesu" and Bankier.pl. For four years, the credit card of Citi Handlowy has had no competition in its category.
- Citi Handlowy (together with Citibank Europe plc) entered the 1st edition of the **Diversity & Inclusion Rating**. This is a new initiative of the Responsible Business Forum and Deloitte, aimed at measuring the advancement level of a company in terms of building a diverse, inclusive and ethical organization. The first edition of the rating included 5 companies which demonstrated the highest level of diversity management.
- Citi Handlowy employees involved in Citi Pride Poland received (together with representatives from Citibank Europe plc), the title of the LGBT+ Employee Network of the year in the competition **LGBT+ Diamonds 2019 Polish Business Awards** for taking measures to support LGBT+ persons in the organization. This is another distinction for activities promoting the building of a work place which supports diversity as a proxy for Citi's organizational culture.
- The Bank was ranked 4 in the category Banking financial and insurance sector in **the Responsible Companies Ranking 2019**. This is a ranking of the largest companies operating in Poland, who are assessed for their corporate social responsibility management (CSR). The ranking enables companies to credibly assess their involvement in addressing issues related to sustainable development and it is a precious educational tool.
- For two years, Citi Handlowy has been a member of the **Super Ethical Company Forum**. This prestigious group includes companies which are named "Ethical Company" consecutively over a period of three years. As a Super Ethical Company, Citi Handlowy shares its experience, transfers its best practices, promotes an ethical approach to business and inspires changes. Since the first edition of the competition, Citi Handlowy has been recognized for the most complex and systemic involvement in building and fostering an organizational culture based on ethics and values.
- By the end of 2019, the Bank was included in the **RESPECT Index**, the first index of socially responsible companies in Central and Eastern Europe, initiated by the Warsaw Stock Exchange. The Bank is one of the few listed companies awarded continuously since the inception of the index in 2009. Since 3 September 2019, the Warsaw Stock Exchange has published a new index, **WIG-ESG**, embracing large companies traded on the WSE as part of the WIG20 and mWIG40 indexes and replacing the RESPECT Index since January 2020. The Bank is among the companies qualified for the WIG-ESG Index.

II. Poland's economy in 2019

1. Main macroeconomic trends

External environment

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

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

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

Gross Domestic Product

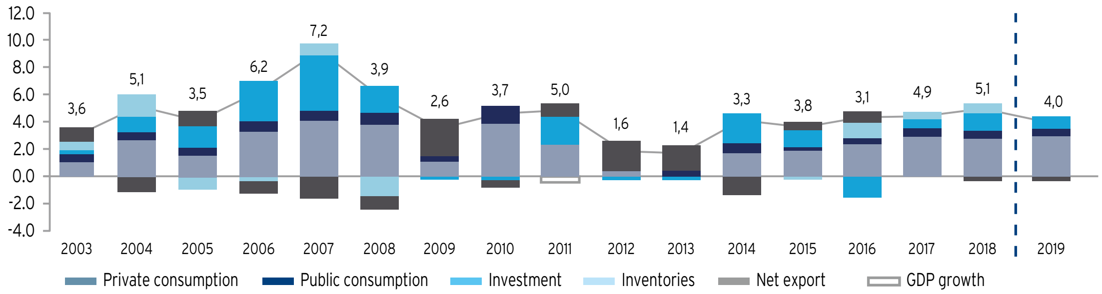
Poland's Gross Domestic Product slowed down in 2019 to about 4.0%, compared to 5.1% in 2018. Economic growth became healthier in the first half of the year but the third quarter was the first flop for eleven quarters and in the fourth quarter the slowdown was already much deeper at about 3%. Growth in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

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

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

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

Contribution to GDP growth (%)



Source: Chief Statistical Office, Citi Handlowy forecasts

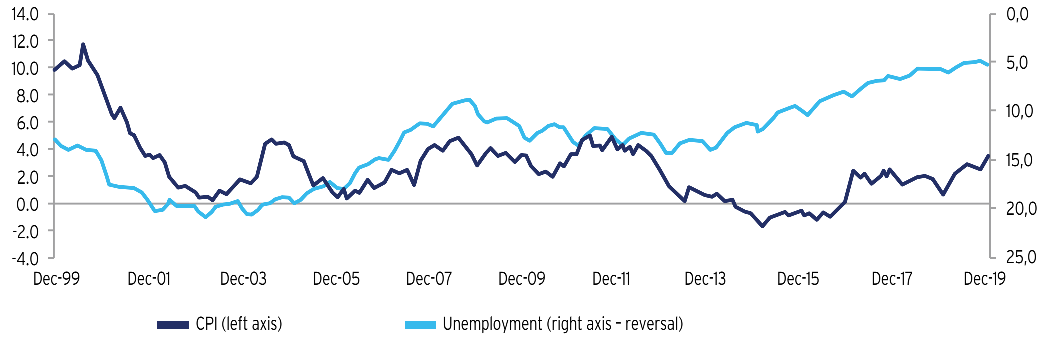
Inflation

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

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

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

CPI vs. unemployment



Source: NBP, GUS, Citi Handlowy.

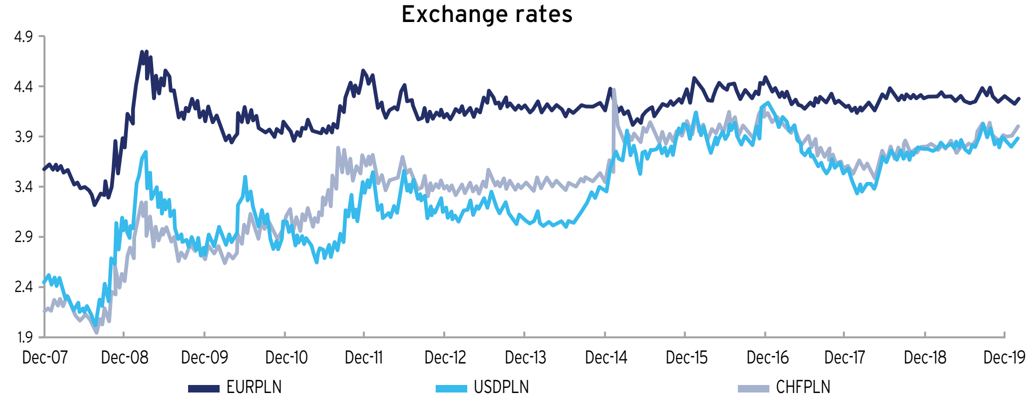
2. Money and forex markets

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

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

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

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



Sources: Reuters, Citi Handlowy.

3. Capital market

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

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

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

The aggregate capitalization of all the entities traded on the WSE main floor shrank by 5% YoY to PLN 1.104 billion (including PLN 550 billion from the capitalization of domestic companies).

Stock market indices, as at 31 December 2019

Index	2019	Change (%)	2018	Change (%)	2017
WIG	57,832.88	0.2%	57,690.50	(9.5%)	63,746.20
WIG-PL	59,064.17	0.3%	58,889.85	(9.7%)	65,183.78
WIG-div	1,051.08	(1.7%)	1,069.63	(11.9%)	1,213.88
WIG20	2,150.09	(5.6%)	2,276.63	(7.5%)	2,461.21
WIG20TR	3,914.45	(2.6%)	4,018.80	(5.4%)	4,248.89
WIG30	2,472.20	(4.2%)	2,581.52	(8.6%)	2,825.27
mWIG40	3,908.20	0.0%	3,909.37	(19.3%)	4,847.27
sWIG80	12,044.34	13.9%	10,571.10	(27.6%)	14,595.76
Sector sub-indices					
WIG-Banks	6,768.39	(9.2%)	7,453.65	(12.1%)	8,481.97
WIG- Construction	2,278.75	19.0%	1,915.00	(32.1%)	2,819.16
WIG-Chemicals	8,390.97	(10.3%)	9,350.86	(38.9%)	15,297.93
WIG-Energy	1,961.62	(18.6%)	2,410.68	(19.4%)	2,990.57
WIG-Games	18,765.23	87.7%	10,000.00	-	-
WIG-Mining	3,089.84	(9.7%)	3,423.39	(22.1%)	4,394.93
WIG-IT	2,834.29	42.3%	1,991.93	(2.4%)	2,041.80
WIG-Medicines	5,197.43	1.8%	5,105.98	(12.4%)	5,827.07

Index	2019	Change (%)	2018	Change (%)	2017
WIG-Media	5,375.11	19.1%	4,513.06	(5.8%)	4,791.34
WIG-Automotive	3,521.67	(0.5%)	3,540.98	(31.6%)	5,174.38
WIG-Developers	2,460.44	28.7%	1,911.66	(13.0%)	2,198.05
WIG-Odzież	5,665.06	(5.9%)	6,021.68	(19.8%)	7,506.99
WIG-Oil & Gas	6,489.03	(18.9%)	7,998.16	12.0%	7,140.43
WIG-Food	3,126.05	(7.6%)	3,383.22	(6.7%)	3,627.59
WIG-Telecom	873.56	40.9%	619.93	(16.8%)	745.44

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

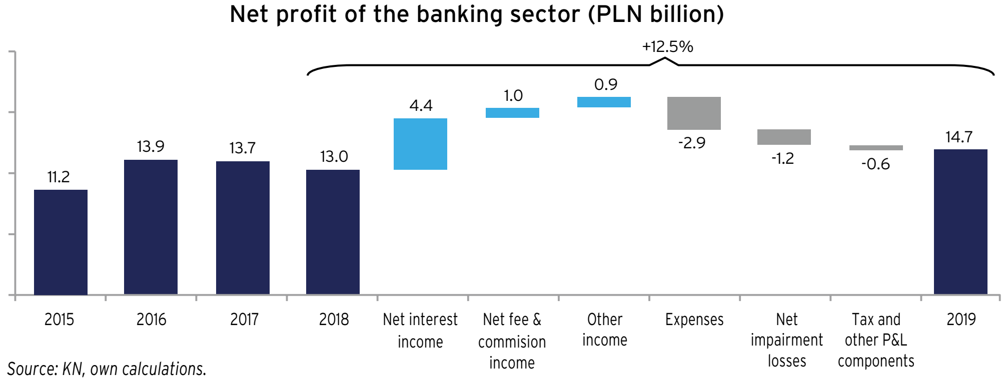
Value of trading in shares and bonds, volume of trading in derivatives on WSE, as at 31 December 2019

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

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

** including session and block transactions.*

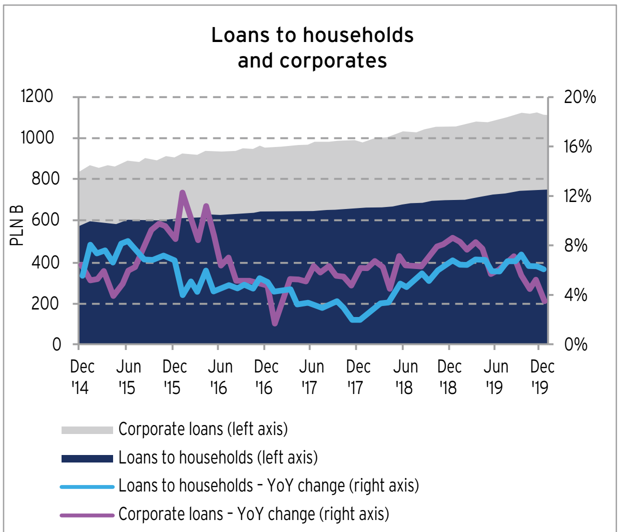
4. Banking sector



Source: KN, own calculations.

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

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

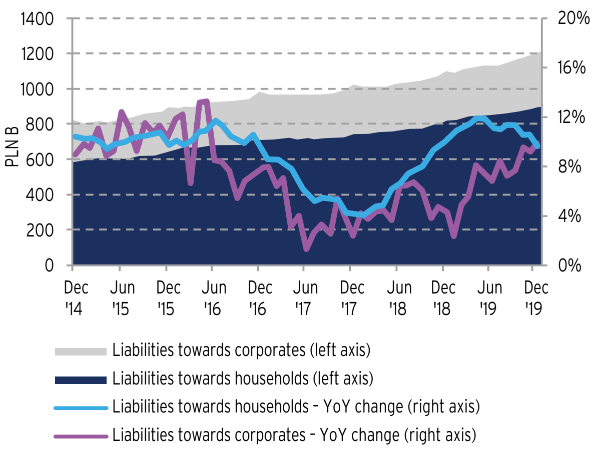


Sources: NBP, own calculations.

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

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

Households and corporate deposits



Sources: NBP, own calculations.

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

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

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

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

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

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

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

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

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

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

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

At the time of publication of the annual report, it is impossible to quantify the impact of the ongoing pandemic and the above-mentioned stabilization packages on the financial situation and business activities of the Group and the entire banking sector.

Nevertheless, the Group's liquidity and capital position remain good. Emerging legislative proposals are subject to constant monitoring and assessment by the Group.

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

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

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

The process of preparing for the new financial framework of the European Union against the background of Brexit and changing priorities of the Union may lead to a reduction in EU funds allocated to Poland for 2021-2027.

If high growth of pay and low unemployment continue, with a simultaneous potential surge of oil prices, the unit labor cost is likely to increase, followed by a decline in the profitability of companies. In addition, Polish companies are likely to postpone new investment projects due to 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 business sector.

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

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

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

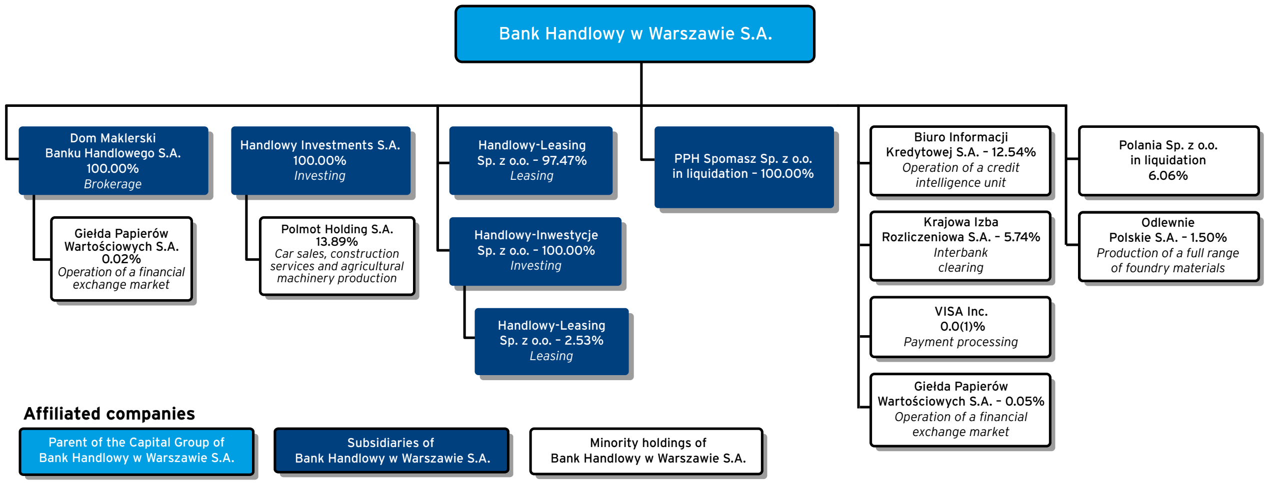
The Group is monitoring the risk of claims for the return of a part of commission. The Group, based on internal and external legal analysis, previous court rulings in this case and the number of court cases received by the Group, did not create provisions for potential commission returns for customers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

As of 30 December 2019, the Group is being sued in 15 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 124,000 and in 14 cases concerning a credit indexed to CHF for a total amount of PLN 1,914,000 (most of the cases are in the first instance).

These factors may affect the financial performance of the Group in the future.

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

The organizational chart below depicts the corporate entities which jointly formed the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as at 31 December 2019; the Bank's share interest in each is specified.



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

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

GROUP ENTITIES FULLY CONSOLIDATED

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

* *Equity of Bank Handlowy w Warszawie S.A. as per the statement of the financial position of the Bank for 2019.*

** *Including indirect participations.*

*** *Pre-audit data.*

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

1. Summary financial data of the Bank and Group

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

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

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

2. Financial results of the Bank and Group in 2019

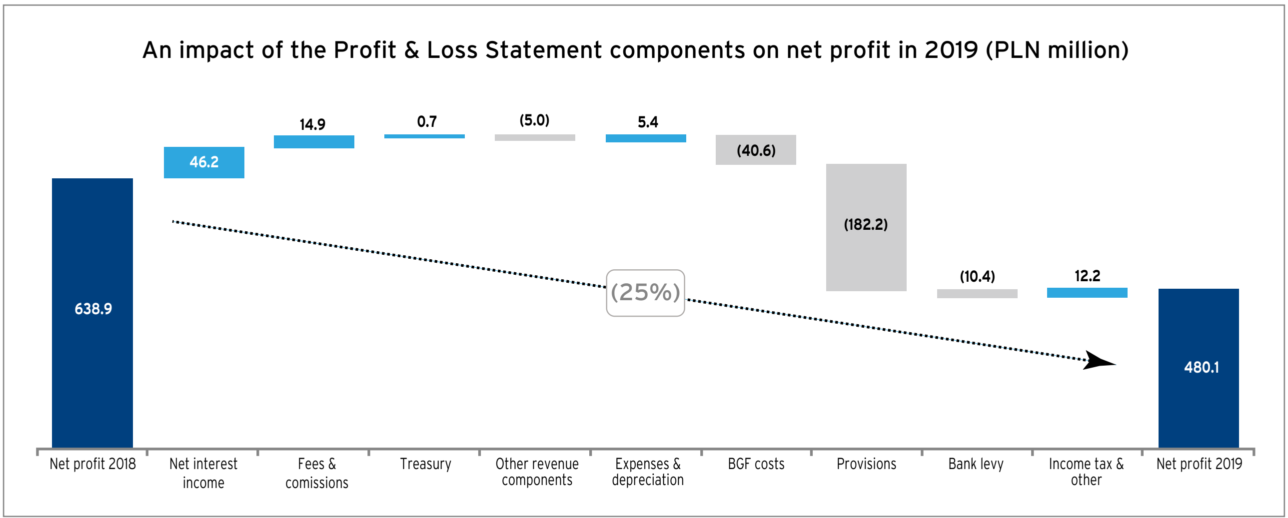
2.1 Income statement

In 2019, the Group posted a preliminary net profit of PLN 480.1 million, down by PLN 158.7 million (or 24.8%) versus the net profit for 2018. The decrease in net profit was primarily due to the extraordinary items associated with higher net write-offs in the Institutional Banking segment and a higher contribution to the Bank Guarantee Fund's obligatory Resolution Fund.

Selected income statement items

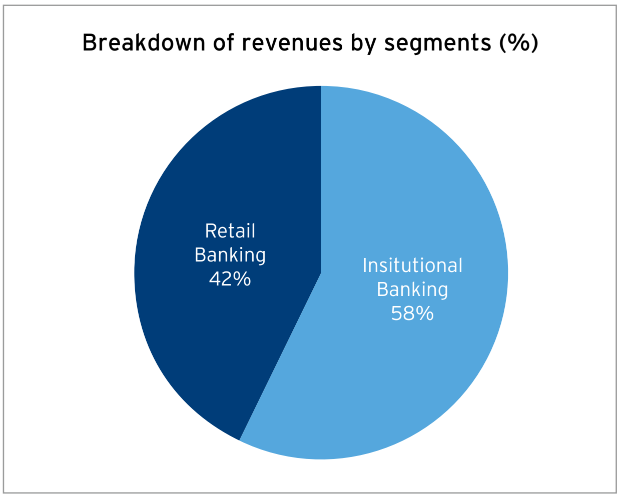
PLN'000	Bank		Capital Group			
	2019	2018	2019	2018	Change	
					PLN'000	%
Net interest income	1,151,729	1,105,079	1,153,727	1,107,574	46,153	4.2%
Net fee and commission income	544,047	527,291	564,876	549,948	14,928	2.7%
Dividend income	10,949	23,778	11.080	9,533	1,547	16.2%
Net income on trading financial instruments and revaluation	375,458	361,546	379,525	364,204	15,321	4.2%
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income[a]	97,969	112,631	97,969	112,631	(14,662)	(13.0%)
Net gain/(loss) on equity and other instruments measured at fair value through income statement[b]	17,366	6,276	17,392	6,522	10,870	166.7%
Net gain on hedge accounting	(3,493)	3,682	(3,493)	3,682	(7,175)	(194.9%)
Net other operating income	(4,019)	8,801	(4,322)	5,901	(10,223)	(173.2%)
Total income	**2,190,006**	**2,149,084**	**2,216,754**	**2,159,995**	**56,759**	**2.6%**
Overheads and general administrative expenses and depreciation, including:	(1,189,843)	(1,155,065)	(1,214,768)	(1,179,631)	(35,137)	3.0%
Overheads and general administrative expenses	(1,104,050)	(1,084,387)	(1,128,269)	(1,108,247)	(20,022)	1.8%
Depreciation/amortization of tangible and intangible fixed assets	(85,793)	(70,678)	(86,499)	(71,384)	(15,115)	21.2%
Profit/loss on sale of other assets	(354)	(834)	(354)	(813)	459	(56.5%)
Net impairment on financial assets and provisions for off-balance-sheet commitments[c]	(245,898)	(63,562)	(245,898)	(63,511)	(182,207)	286.9%
Share in net profits of entities valued at equity method	-	-	-	(22)	22	(100.0%)
Tax on some financial institutions	(97,722)	(87,350)	(97,722)	(87,350)	(10,372)	11.9%
Profit before tax	**656,189**	**842,273**	**658,192**	**828,668**	**(170,476)**	**(20.6%)**
Income tax expense	(177,387)	(189,154)	(178,068)	(189,816)	11,748	(6.2%)
Net profit	**478,802**	**653,119**	**480,124**	**638,852**	**(158,728)**	**(24.8%)**

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



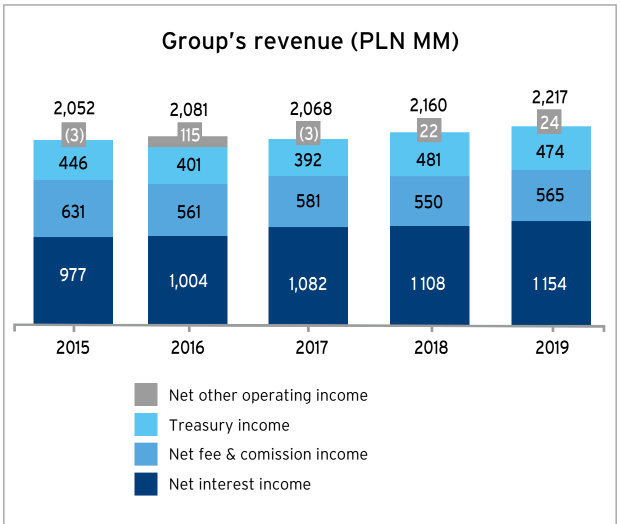
The following factors contributed to a change in net profit for 2019 compared to 2018:

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



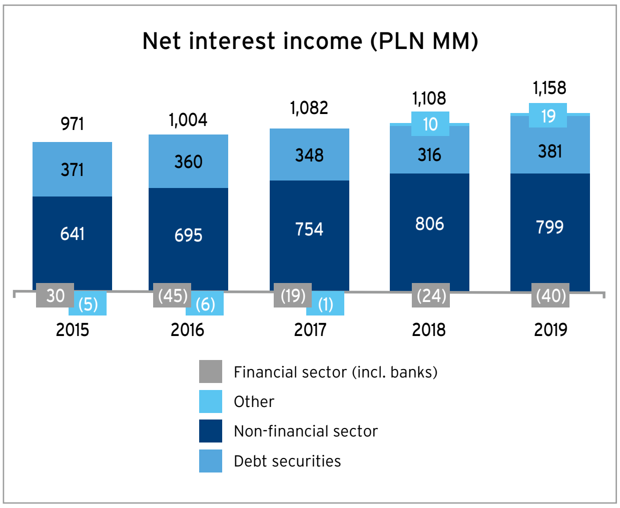
2.1.1 Revenue

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



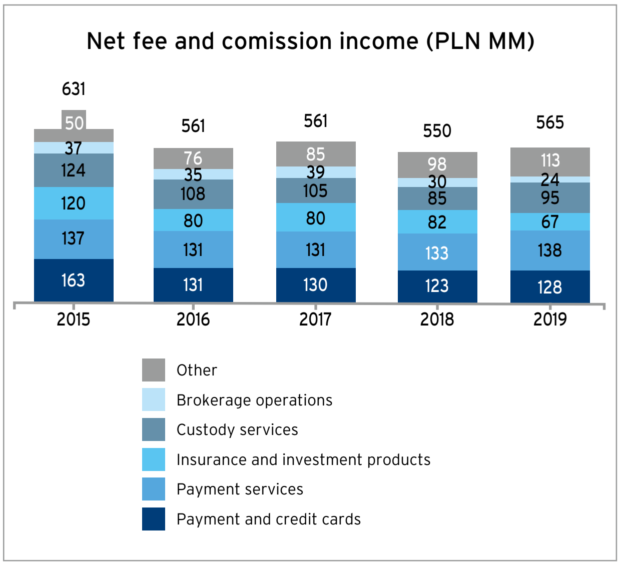
The operating result generated by the Group in 2019 was shaped in particular by:

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



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

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



- Net fee and commission income of PLN 564.9 million versus PLN 549.9 million in 2018 – up by PLN 14.9 million (or 2.7%). The biggest change was observed in the "Other" item, which was impacted by the profit from the sale of the company held by the Bank. At the same time, the Group reported positive dynamics in its core operations – transaction banking, custody operations, payment and credit cards due to higher transaction volumes. The above increases were partially offset by a decline in net fee and commission income on insurance and investment products as well as brokerage operations due to lower trading activity at the Warsaw Stock Exchange by 6% YoY and a negative mood among individual customers on the capital market.
- Other operating income (i.e. non-interest and non-commission income) of PLN 498.2 million compared to PLN 502.5 million in 2018. The slight decrease in other operating income was mainly due to a lower net gain on debt investment financial assets measured at fair value through other comprehensive income and on hedge accounting.

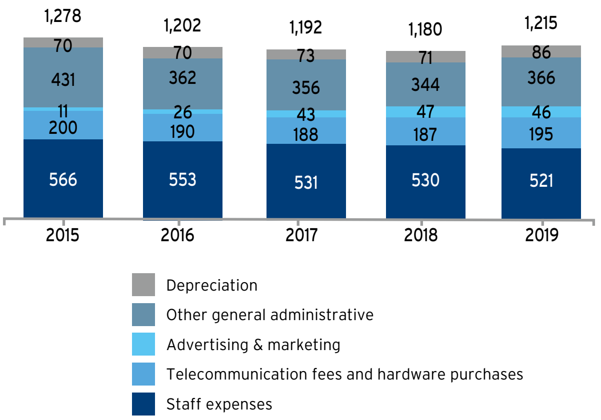
2.1.2 Expenses

General expenses & depreciation

PLN'000	Bank		Capital Group			
	2019	2018	2019	2018	Change	
					PLN'000	%
Personnel costs	**504,228**	**514,222**	**520,548**	**529,500**	**(8,952)**	**(1.7%)**
General administrative expenses, including:	**599,822**	**570,165**	**607,721**	**578,747**	**28,974**	**5.0%**
Telecommunication fees and IT hardware	190,164	182,095	195,449	187,339	8,110	4.3%
Building maintenance and rent	53,198	64,043	53.366	64,208	(10,842)	(16.9%)
Costs of external services, including advisory, audit, consulting services	49,479	54,592	50,159	55,169	(5,010)	(9.1%)
Total overheads	**1,104,050**	**1,084,387**	**1,128,269**	**1,108,247**	**20,022**	**1.8%**
Depreciation	85,793	70,678	86,499	71,384	15,115	21.2%
Total general expenses and depreciation	**1,189,843**	**1,155,065**	**1,214,768**	**1,179,631**	**35,137**	**3.0%**

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

General administrative expenses and depreciation (PLN MM)



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

In 2019 rental and maintenance costs were reduced as a result of the introduction of IFRS 16. On the other hand, depreciation grew in connection with the implementation of IFRS 16. More details concerning implementation are presented in consolidated and stand-alone financial statements.

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

Net impairment and provisions

PLN'000	Bank		Capital Group			
	2019	2018	2019	2018	Change	
					PLN'000	%
Net impairment allowances for receivables, including	(210,397)	(74,035)	(210,397)	(74,035)	(136,362)	184.2%
Net impairment allowances for financial assets - Stage 1	11,629	(2,006)	11,629	(2,006)	13,635	(679.7%)
Net impairment allowances for financial assets - Stage 2	(37,459)	1,569	(37,459)	1,569	(39,028)	(2,487.4%)
Net impairment allowances for financial assets - Stage 3	(184,567)	(73,598)	(184,567)	(73,598)	(110,969)	150.8%
Net provisions for granted financial and guarantee commitments	(35,155)	9,455	(35,155)	9,455	(44 610)	(471.8%)
Net impairment allowances for equity investments	(180)	(51)	-	-	-	
Net impairment allowances for debt investment financial assets measured at fair value through other comprehensive income	(166)	1,069	(166)	1 069	(1,235)	(115.5%)
Net impairment on financial assets	**(245,898)**	**(63,562)**	**(245,718)**	**(63,511)**	**(182,207)**	**286.9%**

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

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

2.1.4 Ratio analysis

The Group's efficiency ratios

	2019	2018
Return on equity (ROE)*	7.2%	10.0%
Return on assets (ROA)**	0.9%	1.4%
Net interest margin (NIM)***	2.3%	2.4%
Margin on interest-bearing assets	2.5%	2.6%
Earnings per share in PLN	3.67	4.89
Cost/income****	55%	55%
Non-financial sector loans to non-financial sector deposits	60%	58%
Non-financial sector loans to total assets	46%	45%
Net interest income to total revenue	52%	51%
Net fee and commission income to total revenue	25%	25%

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

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

*** *Net interest income to average total assets calculated on a quarterly basis;*

**** *Overheads, general administrative expenses, depreciation and amortization to operating income.*

The Bank's efficiency ratios

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

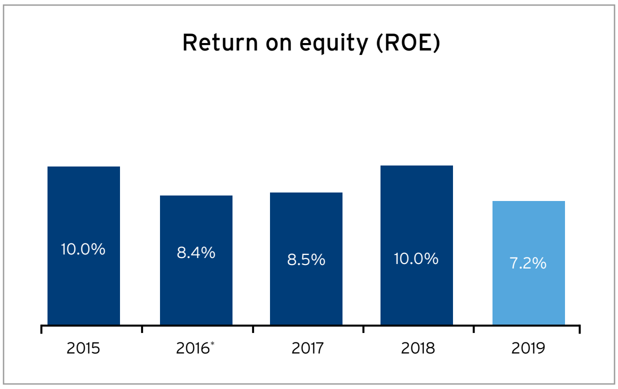
* *Net profit to average equity (including net profit for the current year) calculated on a quarterly basis*

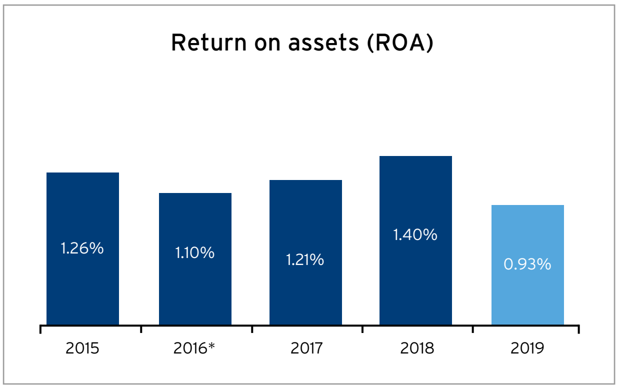
** *Net profit to average total assets calculated on a quarterly basis*

*** *Net interest income to average total assets calculated on a quarterly basis*

**** *Overheads, general administrative expenses, depreciation and amortization to operating income*

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





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

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

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

2.2 Consolidated statement of financial position

As at 31 December 2019, the Group's balance sheet total amounted to PLN 51,978.5 million and was 5.4% higher than at the end of 2018.

Consolidated statement of financial position

PLN'000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	thousand PLN	%
Assets						
Cash and balances with central bank	3,736,706	7,272,193	3,736,706	7,272,193	(3,535,487)	(48.6%)
Receivables from banks	1,165,625	1,333,816	1,165,684	1,333,977	(168,293)	(12.6%)
Financial assets held for trading	5,406,595	2,213,849	5,446,511	2,237,076	3,209,435	143.5%
Debt financial assets measured at fair value through other comprehensive income[d]	15,484,578	14,241,363	15,484,578	14,241,363	1,243,215	8.7%
Equity investments valued at equity method	-	-	-	10,399	(10,399)	(100.0%)
Equity and other instruments measured at fair value through income statement[e]	168,250	154,586	62,638	48,768	13,870	28.4%
Receivables from customers	23,608,775	21,853,349	23,731,874	21,949,014	1,782,860	8.1%
Property and equipment	498,799	363,002	499,753	364,261	135,492	37.2%
Intangible assets	1,441,953	1,417,506	1,443,139	1,418,794	24,345	1.7%
Receivables due to current income tax	-	-	3,016	1,744	1,272	72.9%
Asset due to deferred income tax	237,338	205,165	238,065	204,207	33,858	16.6%
Other assets	149,093	187,195	166,579	222,918	(56,339)	(25.3%)
Total assets	**51,897,712**	**49,242,024**	**51,978,543**	**49,304,714**	**2,673,829**	**5.4%**
LIABILITIES						
Liabilities towards banks	2,125,383	1,402,124	2,125,495	1,402,233	723,262	51.6%
Financial liabilities held for trading	1,867,900	1,606,189	1,877,898	1,609,382	268,516	16.7%
Hedging derivatives	19,226	-	19,226	-	19,226	-
Liabilities towards customers	39,849,772	38,395,885	39,787,802	38,334,345	1,453,457	3.8%
Provisions	65,199	29,984	65,199	29,984	35,215	117.4%
Current income tax liabilities	41,725	66,297	41,725	66,297	(24,572)	(37.1%)
Other liabilities	904,804	734,493	986,543	805,723	180,820	22.4%
Total liabilities	**44,874,009**	**42,234,972**	**44,903,888**	**42 247 964**	**2 657 429**	**6.3%**
EQUITY						
Issued capital	522,638	522,638	522,638	522,638	-	-
Supplementary capital	2,944,585	2,944,585	3,003,290	3,003,290	-	-
Revaluation reserve	114,893	84,372	114,893	84,372	30,521	36.2%
Other reserves	2,874,289	2,877,122	2,867,358	2,883,838	(16,480)	(0.6%)
Retained earnings	567,298	578,335	566,476	562,612	3,864	0.7%
Total equity	**7,023,703**	**7,007,052**	**7,074,655**	**7,056,750**	**24,322**	**0.3%**
Total liabilities and equity	**51,897,712**	**49,242,024**	**51,978,543**	**49,304,714**	**2,673,829**	**5.4%**

2.1.5 Assets

Gross receivables from clients

PLN'000	Bank		Capital Group			
	As at		As at		Change	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	tys. zł	%
Non-banking financial entities	3,030,136	2,052,764	3,152,802	2,148,206	1,004,596	46.8%
Non-financial sector entities	13,529,251	12,879,266	13,531,425	12,881,440	649,985	5.0%
Individuals	7,706,513	7,534,795	7,706,946	7,535,018	171,928	2.3%
Public entities	30,793	50,907	30,793	50,907	(20,114)	(39.5%)
Other non-financial sector entities	456	3	456	3	453	15,100.0%
Total gross receivables from clients	**24,297,149**	**22,517,735**	**24,422,422**	**22,615,574**	**1,806,848**	**8.0%**

Net receivables from clients

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

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

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

Debt securities portfolio of the Bank

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

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

2.1.6 Liabilities

Liabilities towards customers

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

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

In 2019, amounts due to customers were the dominant source of financing of the Group's activity and accounted for 76.5% of the Group's liabilities and own funds. Total amounts due to customers as of the end of 2019 amounted to PLN 39.8 billion, up by PLN 1.5 billion (or 3.8%) compared to the end of 2018. The main driver of growth was deposits of non-financial sector clients, which grew by PLN 3.9 billion versus 2018. The biggest growth was reported mainly in current accounts of both Institutional and Consumer Banking clients, which was a result of a consistent strategy to focus on these accounts.

2.1.7 Source and use of funds

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

2.2 Equity and the capital adequacy ratio

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

Group equity*

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

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

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

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

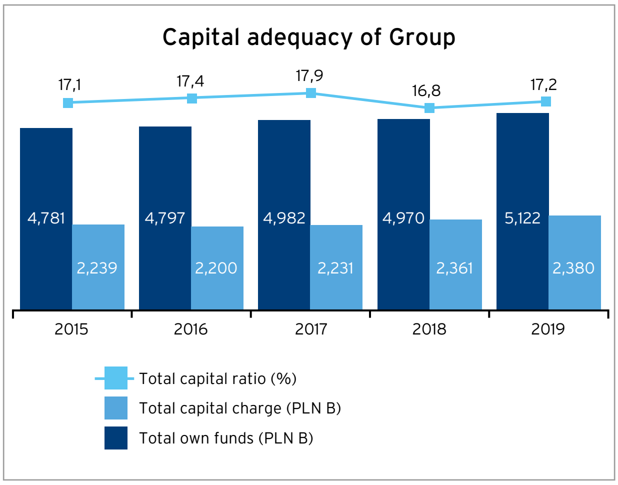
Capital adequacy ratio*

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

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

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

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



2015-2017 - Capital Adequacy Ratio was calculated according to the rules specified in the Regulation of the European Parliament and of the Council (EU) no 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No. 648/2012 („CRR").

The level of the required Capital ratios encompasses:

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

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

The increase of the capital adequacy ratio in 2019 was caused by an increase in the requirement for credit risk due to the increase in amounts due from customers.

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

1. Lending and other risk exposures

1.1 Lending

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

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

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

Gross loans to customers of the Group

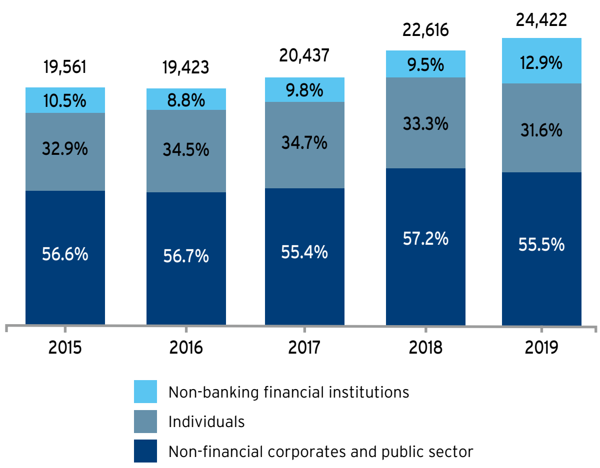
PLN'000	As at		Change	
	31.12.2019	31.12.2018	PLN'000	%
Loans in PLN	21,375,045	19,146,512	2,228,533	11.6%
Loans in foreign currency	3,047,377	3,469,062	(421,685)	(12.2%)
Total	**24,422,422**	**22,615,574**	**1,806,848**	**8.0%**
Loans to non-financial sector entities	21,269,620	20,467,368	802,252	3.9%
Loans to financial sector entities	3,152,802	2,148,206	1,004,596	46.8%
Total	**24,422,422**	**22,615,574**	**1,806,848**	**8.0%**
Non-bank financial entities	3,152,802	2,148,206	1,004,596	46.8%
Non-financial sector entities	13,531,425	12,881,440	649,985	5.0%
Individuals	7,706,946	7,535,018	171,928	2.3%
Public sector entities	30,793	50,907	(20,114)	(39.5%)
Non-commercial institutions	456	3	453	15,100.0%
Total	**24,422,422**	**22,615,574**	**1,806,848**	**8.0%**

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

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

Customer gross loans (PLN MM)



Concentration of exposure to customers of the Group

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

* *Net of equity and other securities exposures .*

Concentration of exposure in individual industries of the Group*

Sector of the economy according to the NACE*	31.12.2019		31.12.2018	
	PLN'000	%	PLN'000	%
Wholesale trade, except of motor vehicles	4,672,631	17.45%	4,695,369	17.48%
Financial service activities, excluding insurance and pension funds	3,912,715	14.62%	3,385,386	12.61%
Production and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,919,053	7.17%	2,760,531	10.28%
Activities of head offices; consulting related to management	1,499,261	5.60%	1,028,293	3.83%
Retail trade, except of motor vehicles	1,141,985	4.27%	1,065,354	3.97%
Production of food products	1,134,162	4.24%	673,491	2.51%
Manufacture of fabricated metal products, except machinery and equipment	946,640	3.54%	1,084,312	4.04%
Mining of metal ores	937,344	3.50%	893,827	3.33%
Production of electrical equipment	906,495	3.39%	929,839	3.46%
Production and processing of coke and refined petroleum products	759,755	2.84%	862,454	3.21%
10 business sectors	**17,830,041**	**66.6%**	**17,378,856**	**64.71%**
Other sectors	**8,941,245**	**33.4%**	**9,475,804**	**35.29%**
Total	**26,771,286**	**100.0%**	**26,854,660**	**100.00%**

* *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 unimpaired exposures. Significant exposures from the impaired portfolio are assessed individually and for exposures which are not individually significant, the impairment assessment is carried out using collective (group) analysis.

Loans to customers per portfolio without recognized credit losses vs. portfolio with recognized credit losses

PLN'000	As of		Change	
	31.12.2019	31.12.2018	PLN'000	%
Loans without recognized impairment (Stage 1), including:	**21,225,119**	**20,246,985**	**978,134**	**4.8%**
financial institutions	3,152,788	2,148,206	1,004,582	46.8%
non-financial sector entities	18,072,331	18,098,779	(26,448)	(0.1%)
institutional clients*	11,659,740	11,752,193	(92,453)	(0.8%)
individual customers	6,412,591	6,346,586	66,005	1.0%
Loans without recognized impairment (Stage 2), including:	**2,355,543**	**1,642,100**	**713,443**	**43.4%**
financial institutions	14	-	14	0.0%
non-financial sector entities	2,355,529	1,642,100	713,429	43.4%
institutional clients*	1,376,283	832,118	544,165	65.4%
individual customers	979,246	809,982	169,264	20.9%
Loans with recognized impairment (Stage 3), including:	**831,720**	**669,671**	**162,049**	**24.2%**
financial institutions	-	-	-	0.0%
non-financial sector entities	831,720	669,671	162,049	24.2%
institutional clients*	516,611	291,221	225,390	77.4%
individual customers	315,109	378,450	(63,341)	(16.7%)
Amounts due from matured transactions in derivative instruments (Stage 3)	**10,040**	**56,818**	**(46,778)**	**(82.3%)**
Total gross loans to customers, including:	**24,422,422**	**22,615,574**	**1,806,848**	**8.0%**
financial institutions	3,152,802	2,148,206	1,004,596	46.8%
non-financial sector entities	21,259,580	20,410,550	849,030	4.2%
institutional clients*	13,552,634	12,875,532	677,102	5.3%
individual customers	7,706,946	7,535,018	171,928	2.3%
Impairment, including:	**(690,548)**	**(666,560)**	**(23,988)**	**3.6%**
Amounts due from matured transactions in derivative instruments	(4,241)	(50,859)	46,618	(91.7%)
Total net amounts due from customers	**23,731,874**	**21,949,014**	**1,782,860**	**8.1%**
Impairment provisions coverage ratio	**66.7%**	**72.4%**		
institutional clients*	60.4%	66.4%		
individual customers	77.1%	77.0%		
Non-performing loans ratio (NPL)	**3.4%**	**3.0%**		

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

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

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

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

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

Impairment due to financial assets value loss

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

1.3 Contingent commitments

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

Contingent liabilities granted

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

Total value of security established on accounts or assets of borrowers of the Bank was PLN 5.212 million as at 31 December 2019, compared to PLN 4.385 million as at 31 December 2018.

2. External funding

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

Group funding from banks

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

Group funding from customers

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

3. Interest rates

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

As at 31 December 2019

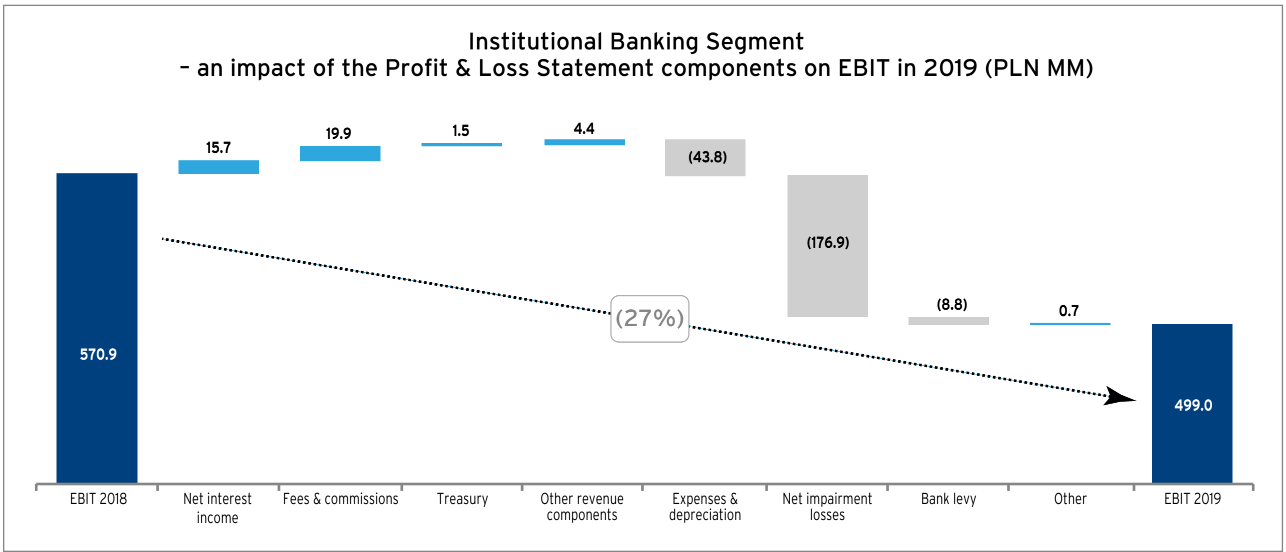
in %	Institutional Bank			Consumer Bank		
	PLN	EUR	USD	PLN	EUR	USD
ASSETS						
Receivables from banks and customers						
fixed term	3.06	0.90	3.53	7.41	4.00	-
Debt securities	1.91	0.17	2.68	-	-	-
LIABILITIES						
Liabilities towards banks and customers						
fixed term	0.96	0.003	1.84	1.01	0.10	1.62

As at 31 December 2018

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

4. Institutional Banking Segment

4.1 Summary of segment results



In 2019, the pre-tax profit of the Institutional Banking segment declined by PLN 187.3 million, i.e. 27.3%. The following factors affected the pre-tax profit of the Institutional Banking segment in 2019 compared to the previous year:

- Net interest income of PLN 515.0 million versus PLN 499.3 million in 2018 – an increase by PLN 15.7 million, was mainly due to an increase in interest income on debt securities, because of their lower volume;
- Net commission income of PLN 303.4 million, as compared to PLN 283.5 million in 2018, in particular due to an improvement in net commission income from transactional and custody activities, as a result of higher business volumes;
- Result on financial instruments held for trading and revaluation in the amount of PLN 351.9 million, as compared to PLN 335.7 million in 2018, resulting from a higher result on client operations – increase in FX transactions volumes by 9% YoY, and result on investment debt financial assets recognized at fair value through other comprehensive income in the amount of PLN 98.0 million, as compared to PLN 112.6 million in 2018, i.e. a decline by PLN 14.7 million;
- Other revenues – growth of PLN 4.4 million compared to 2018, mainly because of an increase in equity investments, due to positive valuation of shares in non-subsidiaries;
- General and administrative expenses and depreciation of PLN 552.9 million versus PLN 509.1 million in 2018 – an increase by PLN 43.8 million in connection with an increase in fees for the resolution fund under the Bank Guarantee Fund;
- An increase in net impairment charges (creation of net charges of PLN 168.3 million in 2019 as compared to reversal of net impairment charges of PLN 8.6 million in 2018), mainly affected by extraordinary items related to higher net impairment charges in the Institutional Banking segment.

4.2 Institutional Banking

In the area of Institutional Banking, the Group provides comprehensive financial services to the largest Polish companies and strategic companies with a large potential for growth, as well as the largest financial institutions and companies from the public sector.

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

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

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

Assets

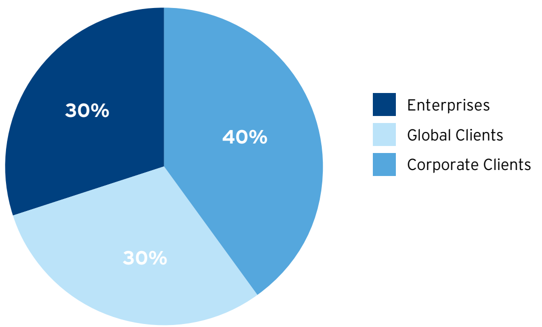
PLN million	31.12.2019	31.12.2018	Change	
			PLN million	%
Enterprises, including:	4,664	4,774	(110)	(2%)
SMEs	1,442	1,582	(140)	(9%)
Large enterprises	3,222	3,192	30	1%
Public Sector	25	50	(25)	(50%)
Global Clients	4,755	3,782	973	26%
Corporate Clients	6,162	5,592	570	10%
Total Institutional Banking	**15,606**	**14,198**	**1,408**	**10%**

Liabilities

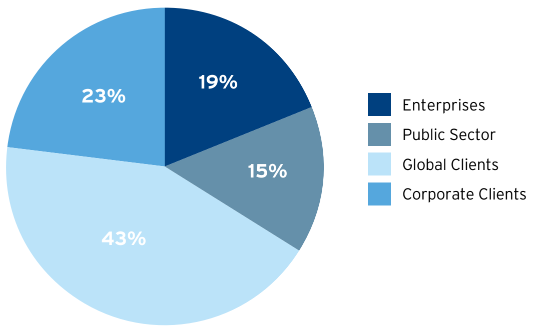
PLN million	31.12.2019	31.12.2018	Change	
			PLN million	%
Enterprises, including:	4,783	4,376	407	9%
SMEs	2,593	2,209	384	17%
Large enterprises	2,190	2,167	23	1%
Public Sector	3,658	4,083	(425)	(10%)
Global Clients	10,887	8,484	2,403	28%
Corporate Clients	5,888	8,645	(2,757)	(32%)
Other*	65	69	(3)	(5%)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

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

Structure of the Institutional Bank assets as of 31.12.2019



Structure of the Institutional Bank liabilities as of 31.12.2019



Key transactions and achievements in Institutional Banking in 2019:

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

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

• In addition, in 2019 the Bank, as part of consistent implementation of its strategy to support its clients, also signed and implemented:
  - 66 long-term loan agreements with the Bank's involvement amounting to PLN 491 million;
  - 5 short-term loan agreements, 59 overdraft agreements, 21 revolving and multi-purpose facility agreements and 14 trade loan agreements for a total amount of PLN 768 million;
  - 6 commitments, 3 guarantees and 3 letters of credit for a total amount of PLN 302 million;
  - 3 Supplier Financing Programs with a new Split Payment option (Green Label Project) for international companies performing in Poland.
• In the course of implementation of its acquisition strategy and thanks to support provided by its global network and also thanks to a set of its unique technology solutions, the Bank won in 2019:
  - 13 mandates for comprehensive banking services or to enhance existing relationships of the Bank with its clients.
• In 2019, the Bank was focused on:
  - Further promoting e-Commerce solutions provided by the Bank through participation in the conference "e-Commerce Development", dedicated to e-Commerce trends (from technology to payment);
  - Support for the newest digital trends and challenges through participation in the conference "New technologies and company development in the global market" and the second edition of the conference "EMEA Digital Leaders Summit 2019" held in Amsterdam;
  - Further supporting its clients during their preparations for implementation of the Act introducing the VAT Split Payment mechanism through organization of Split Payment workshops;
• Client acquisition: in the Commercial Bank segment, the Bank attracted 287 new clients in 2019, including 46 Large Companies, 239 Small and Medium-Sized Companies and 2 Public Sector entities. In the strategic and global client segments, the Bank established 33 new client relationships.

4.3 Treasury Division Operations

In 2019, the Bank remained among the leaders in terms of turnover in the spot market. In the beginning of this year, it was awarded the title of Spot Market Leader of Treasury BondSpot Poland for 2018.

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

The Bank continues to develop electronic channels for sales of FX instruments ("eSolution"). The Bank is developing solutions that can connect financial systems of Clients (ERPs) with systems of the Bank. Such solutions enable Clients to increase their operation efficiency by offering instant and automatic access to FX products of the Bank and create a shared data exchange platform.

In 2019, the Bank was active in the market of debt securities and syndicated loans through its participation in the following transactions:

• Conducting the market issue of 5- and 10-year bonds for a total amount of PLN 2 billion for KGHM Polska Miedź S.A.;
• Two issues of 6- and 5-year bonds for the European Investment Bank for a total amount of PLN 1.8 billion;
• An issue of 4-year bonds for PLN 3.85 billion for Bank Gospodarstwa Krajowego;
• Participation as one of the lenders in syndicated financing for a company from the e-Commerce sector;
• Participation as the lead organizer, lender and credit agent in syndicated financing for a company from the pharmaceutical sector;
• Participation as the lead organizer and lender in syndicated financing for a company from the medical sector;
• Participation as one of the borrowers in syndicated financing for a company from the mining metallurgical sector.

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

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

4.4 Transactional banking

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

At present, the transactional banking product range includes:

• Electronic banking;
• Deposits and current accounts;
• Liquidity management products;
• Cross-border (international) transfers;
• Card products;
• Payments and receivables: Direct Debit, SpeedCollect;
• Cash products;

- EU-funding advisory services;
- Trade finance products.

Electronic banking

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

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

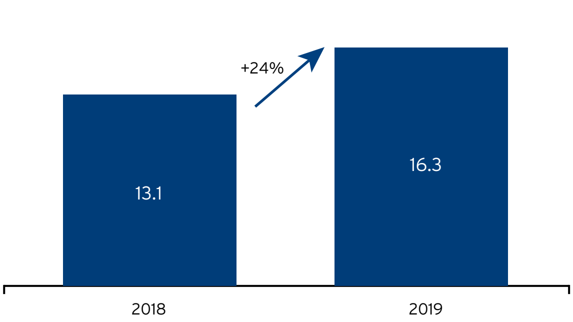
In 2019, the Bank processed approximately 50 million transactions via electronic channels. Presence in the market for advanced e-banking services is a key element of the current strategy, created to provide increasingly convenient solutions to clients.

Deposits and current accounts

One of the most important elements of the Bank's strategy is concentration on the acquisition and maintenance of operating accounts. In 2019, the average level of balances on current accounts of institutional clients increased by 24% from 2018 to PLN 16.3 billion.

A current account gives access to all Citi Handlowy products. 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)



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 the Chinese yuan, Mexican peso, Indian rupee or Brazilian real). This is a unique solution on the Polish market.

Card products

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

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

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

Payment and receivables processing: Direct Debit and SpeedCollect

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

- **Direct debit**

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

- **SpeedCollect**

  SpeedCollect is a service for automated booking of receivables, dedicated to creditors – recipients of mass payments. The virtual account functionality makes it possible to include in the account number some details considered important by creditors, such as the contractor number or the number of the creditor's sales unit that settles its proceeds. The volume of SpeedCollect transactions processed by Citi Handlowy is continuously at a very high level in that market segment. In 2019, the Bank recorded a 2% increase in the number of clients using this solution compared to 2018.

Trade finance products

The trade finance proposal of Citi Handlowy covers various solutions, such as letters of credit, bank guarantees, collection, trade credit, a supplier and distributor financing program and factoring. In 2019, the Bank continued to develop its offer in Vendor

Financing Programs. A solution offered by the Bank allowed global clients to adapt their settlement and payment structures to legislative amendments in effect from 2019 concerning a split payment mechanism. Since the fourth quarter of 2019, Citi Handlowy corporate clients have enjoyed access to global solutions for financing supply chains, designed to meet local legal and tax requirements. Thus, the Bank is still a leader among providers of supply chain financing.

In the last quarter of 2018, e-guarantees accounted for nearly 20% of the total volume of guarantees issued by the Bank. In the last quarter 2019, that figure was almost 65%. The increasingly advanced digitization of services offered to the Bank's clients resulted in, among others, the automation of the system for issuing guarantee and standby letters of credit by enabling the creation of applications and requests using data imported directly from accounting and financial systems. Another result of the digital transformation is the implementation of an electronic system for introducing amendments to agreements between the Bank and clients. Presently, one in three agreements is uploaded to that channel of communication.

4.4.1 Custody and depositary services

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

The Bank provides custody services for domestic and foreign institutional investors and services of a custodian bank for domestic pension and investment funds. For many years, Citi Handlowy has been a leader in the Polish market of depository banks.

As part of its statutory activities, under a license issued by the Polish Securities and Exchange Commission (at present, the Polish Financial Supervisory Authority (KNF)), the Bank maintains securities accounts, settles securities transactions, processes dividend and interest payments, provides valuations of asset portfolios, delivers individual reports and arranges representation at general meetings of shareholders of listed companies. The Bank keeps collective accounts for authorized foreign entities. In addition, the Bank provides services consisting in maintenance of registers of foreign securities, under which it acts as an intermediary in settlements of transactions executed by domestic clients in foreign markets.

The Bank also provides services as an 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 of 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 an *ICSD – International Central Securities Depository*) and covers the management of securities accounts and collective accounts of such entities.

In 2019, the Bank maintained its leading position in the market of securities transaction settlements carried out for remote members of the Warsaw Stock Exchange and BondSpot. In addition, the Bank was still the leader in settlements of transactions concluded by foreign institutional clients on the Treasury BondSpot Poland debt securities electronic platform, managed by BondSpot S.A.

As at 31 December 2019, the Bank maintained over 14,500 securities accounts.

Simultaneously, the Bank acted as a depositary for two open-end pension funds: Aviva OFE Aviva Santander, Nationale - Nederlanden OFE, two voluntary pension funds: Nationale - Nederlanden DFE, Generali DFE, and the Employee Pension Fund Orange Polska.

The Bank was also the depository of investment funds managed by the following Investment Fund Companies: Santander TFI S.A., PKO TFI S.A., Esaliens TFI S.A., Aviva Investors Poland TFI S.A. Templeton Asset Management (Poland) and Skarbiec TFI S.A.

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

At the same time, the Bank continued its activities to help refine legal regulations applicable to the securities market. A representative of the Bank was the Chairman of the Steering Committee of the Council of Depository Banks at the Polish Bank Association ("Council") for the fifth consecutive term of office. In the reporting period, the Council was involved in activities to improve contractual standards and recommended good practices relating to performance of the function of an investment fund depositary in line with the requirements of AIFMD and UCITS V (EU Directives).

The Council proactively participated in efforts to provide opinions on other draft regulations affecting activities of domestic custodian banks. With the use of its own resources, experience and competences, employees of the Bank, in cooperation with the Polish Financial Supervision Authority, KDPW, KDPW_CCP and the Warsaw Stock Exchange, participated in consultations on the implementation of new solutions in the Polish capital market as part of work conducting by working groups established by the Council, and in projects carried out by market working groups.

4.5 Brokerage Activity

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

As at the end of 2019, DMBH was the market maker for 64 companies listed on the Warsaw Stock Exchange (20 of which from the WIG20 index), i.e. 14.3% of the shares listed in its main equity market.

In 2019, DMBH was the intermediary in in-session transactions accounting for 7.5% of equity turnover in the secondary market. The value of the in-session transactions concluded via DMBH in the equity market on the WSE was PLN 29 billion and declined by 10% compared to last year, with decline in turnovers on the WSE by 6%. The structure of in-session turnovers continues to change – the share of turnovers on the client's account in total turnovers declined and the share of turnovers on DMBH's own account in total turnovers increased. In 2019, DMBH became the vice-leader of session trading on the WSE Main Market and, as a local Exchange Member, has the highest share in session trading – similarly to 2018.

The number of investment accounts and registers for foreign markets maintained by DMBH was 13,800 at the end of 2019 and slightly decreased compared to the previous year, due to systematic closure of inactive accounts.

Summary financial data as at 31 December 2019*

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

* *pre-audit data*

4.6 Leasing

Leasing products are still offered by the Group as part of so-called "open architecture", which is a partnership cooperation with entities that are not part of the Bank Group.

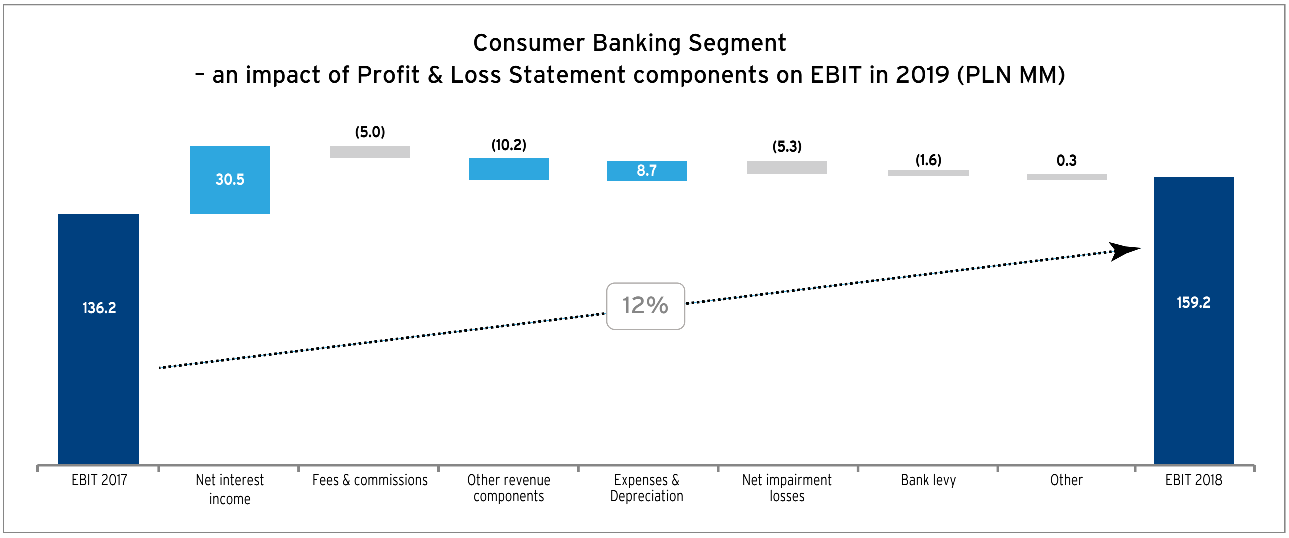
Summary financial data as at 31 December 2019*

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

* *pre-audit data.*

5. Consumer Banking Segment

5.1 Summary of the segment results



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

- an increase in net interest income as a result of higher credit volumes (+3% YoY), partially offset by higher interest expenses resulting from the significant growth of deposits (+13% YoY), also due to an attractive promotional offer applied as an acquisition tool to attract new affluent clients (an increase in the number of active clients in the segments Citi Private Client and Citigold by 31% YoY);
- a decline in the net fee and commission income, primarily on sales of investment products as a result of worsened market sentiment;
- a decrease in operating costs, thanks to savings generated by initiatives implemented to optimize the cost basis, partially reinvested in marketing and technology;
- higher negative impairments of PLN 77.5 million compared to PLN 72.1 million in 2018. The slight change was due to the behavior of the loan portfolio and a new exposure.

5.2 Selected business data

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

5.3 Key business achievements

Bank accounts

Current accounts

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

Savings accounts

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

Changes in the offering

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

- Citigold from PLN 300,000 to PLN 400,000,
- Citigold Private Client from PLN 3 million to PLN 4 million.

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

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

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

In 2020, the Bank will continue its strategy focus on increasing the client portfolio and balances in selected segments, with particular emphasis on the digitization of the acquisition process.

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

Credit cards

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

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

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

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

Credit products

Cash loans and installment products on credit card accounts

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

Mortgage products

At the end of 2019, the mortgage loan portfolio amounted to PLN 1.9 billion, i.e. an increase of 15% from the end of 2018. In 2019, sales of mortgage products amounted to PLN 461 million, i.e. 29% higher than sales results recorded in 2018.

Investment and insurance products

Investment products

As at the end of 2019, the funds under management as part of investment products (including investment insurance products, without dual currency investments) acquired by retail clients via the Bank were 8% higher than the same period in 2018. This was most likely due to growth in the group of investment funds.

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

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

Insurance products

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

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

6. Development of distribution channels

6.1 Direct acquisition

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

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

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

6.2 Branch network

Citigold and Citigold Private Client outlets

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

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

In January 2019, the Hub Gold branch in Katowice was relocated. As a result, clients enjoyed a modern service space with an entirely refreshed format, in close proximity to its previous location.

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

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

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

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

Number of branches (at the end of period)

	31.12.2019	31.12.2018	Change
Number of branches (at the end of period):	**21**	**23**	**(2)**
- HUB Gold	9	7	2
- Smart Hub Gold	0	2	(2)
- Investment Center	1	1	-
- Smart Branches	10	12	(2)
- Corporation Branches	1	1	-
Other POS:			
Smart Mini	0	3	(3)

6.3 Internet and telephone banking

Online banking

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

The number of active users of Citibank Online, i.e. those who logged into the online or mobile banking service via a browser or the Citi Mobile application at least once during every 90-day period, was 397,000 as at the end of fourth quarter 2019. The share of active Citibank Online users in the entire client portfolio of the Bank was 60.2% as at the end of the fourth quarter of 2019, i.e. it increased by 1 p.p compared to the fourth quarter of 2018.

At the same time, at the end of the fourth quarter of 2019, digital users accounted for 81.7% of all transactionally active clients, which means an increase by 0.7 p.p. compared to the fourth quarter of 2018.

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

Mobile Banking

Responsive technology gives the client access to all Citibank Online functionalities on any device they use. In addition, clients have access to the mobile application which features such functions as free Push notifications, which keep the client apprised of changes on the account or card, and login activation with the use of a fingerprint or facial recognition, which makes access to the application even easier and is highly appreciated by clients. A new module of the application was activated especially for Citi credit cardholders and the application was upgraded for private account holders. Clients now enjoy access to, among other functionalities, simplified and intuitive navigation, a new layout and a mobile authorization service – Citi Mobile Token. The mobile application was also upgraded from the point of view of strong customer authentication requirements.

At the end of the fourth quarter of 2019, the number of active users of mobile banking, i.e. those who used mobile banking at least once during every 90-day period via the application or Citibank Online in responsive technology, exceeded 218,000, i.e. an increase of about 5.1% compared to the fourth quarter of 2018.

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

Social media

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

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

7. Changes in IT technologies

In 2019, a strategic goal of the Bank in the area of IT technology was to continue increasing the competitiveness of the Bank by providing top-quality products and services with the extensive use of innovative solutions, digitization and automation and concurrently with cost optimization. In accordance with prevailing market trends, the Bank technology is based, to a large extent, on centralized services and outsourcing. Service centralization processes enable the Bank to generate savings, improve quality, standardize processes and ensure a high level of control and information security. As the promotion of electronic distribution channels and the decision to link banking products with the most advanced technologies, including online and mobile solutions, are vital components of the Bank's strategy, the Technology Division of the Bank focused its activities on the development and implementation of solutions which support those business objectives.

IT processes of the Bank are executed in accordance with international standards, which was confirmed, in the first quarter of 2019, by the positive outcome of recertification/supervision audits of compliance with ISO 20000 (Information technology – service management), ISO 27001 (information security management) and ISO22301 (business continuity management).

The most crucial modifications and improvements implemented in 2019 included:

- **in Institutional Banking:**
  - **implementation of solutions that increase the level of digitization for communication between the Bank and its clients** – new solutions will be implemented to increase the digitization of communication between clients and the Bank. As a result of new changes, more and more clients can use digital channels to submit and download documents to/from the Bank. The Bank expects that those changes will increase the level of digitization of communication and reduce the volume of non-digital documents exchanged with its clients;
  - **implementation of a system supporting treasury processes at the Bank** – new solutions ensure and increase in the level of automation processes with respect to managing the Bank's treasury activities and digitalization of corporate client services;
  - **implementation of the EMV solution for prepaid cards** – extending the functionality of the prepaid card to include the new EMV solution in order to deliver new products (Paypass) and to increase the security of the card product;
- **in Consumer Banking:**
  - **a new design for the Citi Mobile mobile application** and new functionalities. The development of mobile banking is a key facet of the Bank's strategy and, as part of modifications to the application introduced in 2019, the main goal was to develop, among others, a range of functionalities regarding credit card services (such as the division of a transaction into installments); a new tool was added for mobile transaction authorization (Citi Mobile Token), and a new clear layout was designed with intuitive navigation;
  - introduction of a modern **remote biometric verification service** as part of the credit approval process, enabling clients to apply for a loan completely remotely using smart phone scans.
  - **launch of the application for automatic verification of bank statements for clients applying for credit products**

– the Bank expects that this new application will not only significantly accelerate the credit process, thanks to automated verification of the authenticity of bank statements supplied by clients, but will also reduce the risk of credit fraud by reducing the possibility of forged statements;

- **migration of the Autodialer application** (controlling telephone calls in the area of collection and telesales) **to a newer ICT environment** – which limited the risk of unavailability of an application that brings the Bank significant financial benefits;

- **in the scope of adaptation of Bank systems to ensure their compliance with regulatory requirements:**
  - implementation of regulatory changes to adapt IT systems of the Bank to the requirements of **PSD2** regulation (including implementation of Strong Customer Authentication);
  - implementation of further regulatory changes to adapt IT systems of the Bank to the requirements of the AML regulations (anti-money laundering and combating of terrorist financing);
  - analysis and implementation of regulatory requirements tied to designation of the Bank as a key services operator within the meaning of the Act on the National Cybersecurity System;
- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - continued implementation of improvements to increase the security of the CitiBank Online platform, including the implementation of additional authentication mechanisms at the server level to secure the system against possible attacks and data manipulation of certain customer-users;
  - introduction of improvements in mobile banking for retail clients to minimize the exposure of applications to the risk of fraudulent transactions and to control versions of certificates, requirements related to a secure runtime environment as well as pinning a device and application to a specific user;
  - extension of existing and addition of new solutions in data leakage prevention (Data Leakage prevention systems);

Technology units proactively develop and improve their service portfolios 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 Bank processes and increase the services digitization level.

Pending and unfinalized system initiatives and modifications which will affect Bank operations in the near future are presented below:

- **in Institutional Banking:**
  - **implementation of systems which support activities of the Financial Markets and Corporate Banking Sector in the area of derivative instruments** – implementation of the new platform is carried out to use more advanced product solutions offered in Citi group companies and to execute the consolidation strategy for product solutions; as a result of that implementation, the Bank expects higher effectiveness and processing automation for derivative instruments;
  - **implementation of solutions for robotization of Bank operating processes** – the platform for robotization of business processes is being implemented to increase the effectiveness of back-office processes used by the Bank; as a result of that implementation, the Bank expects an increase in the effectiveness and automation of back-office processes;
- **in Consumer Banking:**
  - **adding a payment service via Apple Pay** for Mastercard debit and credit cards;
  - continued **automation and digitization of sales processes (straight through processing) in the area of Consumer Banking products** – for credit card, cash loan and account-related processes;
  - **continued improvement of the online and mobile banking platform** (addition of new functionalities and products) in order to increase client satisfaction, revenues and security;
  - **launch of a new marketing platform** to automate distribution of materials during advertising campaigns;
- **within the scope of Bank system adaptation to ensure their compliance with regulatory requirements:**
  - further adaptation of IT systems of the Bank to an enhanced scope of transaction monitoring within the framework of anti-money laundering activities;
- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - implementation of additional new-generation security solutions in banking systems;
  - migration of telephone systems to Cisco voice solutions together with the application of the "Softphone first" principle and increasing mobility, optimization of the environment of voice recording, contact center and Autodialer services;

8. Equity investments

Bank investments are divided between the portfolio of strategic companies and the portfolio of companies held for sale. In 2019, the Bank continued its existing investment policy. 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 risk in the areas arising from those transactions.

8.1 Strategic portfolio

The 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.

The strategic portfolio also includes infrastructural companies which operate for the financial sector. The Bank holds a 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 so-called infrastructural companies, the Bank will retain its share and participate proactively in decision-making to determine strategic paths for development within the framework of options the Bank may pursue given 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 client expectations, the Bank may consider 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 strategic. 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 is not planning any new investments that would be held for sale in the future. The portfolio of companies which are held for sale may be enlarged by adding new companies taken over in the course of debt-to-equity conversions or as a result of takeover/enforcement of a pledge established on shares during the lending process or other processes aimed at securing or enforcing receivables of the Bank, and by investments which the Bank may take over in the course of its operations. Investment resulting from restructuring activities will be sold in accordance with the restructuring plan created individually for each company.

Special purpose investment vehicles companies

As at 31 December 2019, the Group included two special purpose investment vehicles. Their activities were financed with reverse capital shareholder contributions 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 these special purpose vehicles will be gradually sold or liquidated.

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

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	PLN'000
Handlowy - Inwestycje Sp. z o.o.	Warszawa	100.00	10,820	10,780	(33)
Handlowy Investments S.A.*	Luksemburg	100.00	4,903	4,824	(212)

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

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

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

1.1 Regulatory and legal risks

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

Legal acts/regulations	Effective date and summary of new requirements
Recommendation L on the role of statutory auditors in the process of supervision over banks	• Date: March 2019 • Changes include a new model of cooperation between auditors and the supervisory authority and changes in the selection process for auditors and audit firms by banks. As regards collaboration between entities involved in a financial statements audit process at banks, the amended Recommendation L's aim is to work out a relationship close to a partnership and free of hierarchy, however the Recommendation sets out in detail duties and obligations regarding taking and maintaining proper and correct records and information exchange. Recommendation effective date: 31 March 2019.
EBA's Guidelines on the Management of Interest Rate Risk Arising from Non-trading Activities	• Date: June 2019 • The EBA published the Guidelines on the Management of Interest Rate Risk Arising from Non-trading Activities with a view to defining supervisory expectations as to such risk. The Guidelines were prepared on the basis of their earlier release of 22 May 2015 and take into consideration supervisory expectations and practices, including standards concerning interest rate risk in the banking book published by the Basel Committee in April 2016 (BCBS standards). The revised guidelines contain in particular requirements concerning the definition of strategies for IRRBB risk, including risk appetite and manners of risk mitigation, the definition of IRRBB management framework (the definition of policies, processes and controls) and the delegation of responsibility in this regard, the performance of proper assessment of new products and activities for the needs of IRRBB. These guidelines are both the first milestone and a bridge to the implementation of the IRRBB requirements reflected in CRD V/CRR II, the banking reforms package commenced in November 2016.
Recommendation B on the mitigation of banks' investment risk	• Date: December 2019 • The aim of the amended Recommendation B is to guide the banks through good practices regarding selected facets of investment risk management (analyses, identification, management, supervision, measurement, monitoring and reporting), except for loans and credits, derivative instruments, cooperative banks' contributions to an affiliating bank's capital and involvement on the part of protection scheme participants in protection scheme instruments. The Recommendation underlines the role of the management board and supervisory board as well as defines regulatory expectations to such bodies regarding risk management and mitigation for investments made at a bank, contains provisions concerning investment risk counteracting and mitigation, investment risk monitoring and reporting, and addresses regulatory expectations as to the organizational structure at a bank in the context of investments made at the bank, including the Investment Policy Committee. The Recommendation is applicable to investments made on own account and stipulates, among other obligations, the duty to proclaim and adopt an investment strategy and policy at banks.
Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) - ("GDPR"). and the Act of 21 February 2019 amending certain Acts in connection with the assurance of the GDPR application ("the Act")	• Date: 25 May 2018, 4 May 2019 (Act) • This regulation is binding on all entities which carry out the processing of personal data in connection with their business activities. The regulation introduces numerous changes and significantly enhances the responsibilities of personal data controllers and processors. The new provisions are also intended to equip natural persons and supervisory authorities with effective tools for responding to infringements of the Regulation. The most important changes include: - New and enhanced rights of data owners: "right to be forgotten" (for persons who want their personal data to be deleted), the right to data portability and a strengthened right of a citizen to access and view their data. Data subjects will also have a stronger right to object to processing of their personal data. - Certain limitations have been introduced with respect to profiling, including an obligation to obtain consent to profiling before the collection of personal data is started, a strict obligation to inform data subjects about profiling and the necessity to accept the lack of consent to profiling. - The GDPR implements new or supplemented rules under which consent to the processing of personal data is to be obtained from data subjects. The GDPR also determines numerous types of information which must be taken into account when communicating the method of personal data processing to data subjects. • Data controllers must notify the competent supervisory authority, within 72 hours of detection, of breaches which may pose a risk to rights and freedoms of persons whose data have been breached. • In addition, the Act proclaimed new data processing rules for the needs of assessing consumer creditworthiness.
Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/	• Date: 1 January 2018 • This regulation implements, among other things, a common framework which is to ensure accuracy and integrity of indices used in the EU as benchmarks in financial instruments and financial contracts, as well as the protection of consumers and investors. • The regulation also applies to entities which provide benchmarks or input data for a benchmark and to supervised entities which use benchmarks in financial contracts and financial instruments.
Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MIFID II"), Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 ("MIFIR") and other EU regulations and the related amendment to the Act of 29 July 2005 on trading in financial instruments and certain other laws and secondary regulations	• Date: 3 January 2018 (EU regulations) and 21 October 2018 (local regulations) • The primary objective of MIFID II and MIFIR is to strengthen the protection of clients which use investment services and to increase the transparent functioning of financial markets, and • To ensure an increase in the competitiveness and efficiency of financial markets in Poland and the European Union.

Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories and executive regulations to the above regulation issued by the European Commission ("EMIR").	• The implementation of EMIR has been progressing in stages since 2012. In 2018, subsequent stages of implementation in connection with EMIR were carried out, in particular those related to the widening of the group of entities obliged to use initial margins for derivative transactions. • EMIR imposes on undertakings which are financial and non-financial counterparties, as defined in the Regulation, numerous obligations connected with the conclusion of derivative transactions, and in particular transactions concluded on the OTC market (e.g. obligations to report derivative transactions, to have derivative transactions settled by a central counterparty (CCP), to confirm transactions, to reconcile, and to secure exposures arising from transactions).
Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC	• Date: 21 July 2019 • The most important amendments concerned the change of the definition and rules of public offerings
The Act of 15 December 2017 on insurance distribution	• Date: 1 October 2018 • The Act sets out new regulations arising from the need to implement Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 into the Polish legal system. • The Act lays down the principles of execution of activities to distribute personal and property insurance products and to distribute reinsurance products.
The Act of 30 November 2016 amending the payment services act and certain other acts, implementing Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features ("PAD")	• Date: 8 August 2018 • The most important changes included: - access to the main account, i.e. the need to ensure that consumers have access to charge-free main payment accounts and to basic payments services connected with that account, - statutory principles applicable to transfers of payments accounts, - disclosure obligations related to fees.
The Act of 16 October 2019 amending the Act on Public Offering and Terms of Introduction of Financial Instruments to an Organized Trading System and on Public Companies and some other acts	• Date: 30 November 2019 (3 September 2020 with respect to shareholder identification) • The most important changes included: - the change of the definition and rules of public offerings (adaptation to EU regulations) - the introduction of a public offering as a rule, - of new obligations for entities keeping securities accounts regarding shareholders identification, disclosures to the shareholders and facilitating the execution of shareholders' rights (effective 3 September 2020).
The Act of 4 October 2018 on employee capital plans	• Date: 1 January 2019 • introduction of the long-term saving program for employees that would operate in the form of investment funds and voluntary retirement funds for which the Bank could act as depositary • 1 July 2019 – 1st stage of the introduction of Employee Capital Plans – entities that employ at least 250 persons
The Act of 9 August 2019 Amending the Goods and Services Tax Act and Certain Other Acts	• Date: 1 November 2019 • The Act imposes on entrepreneurs who pay invoices containing at least one item enumerated in Appendix 15 to the Tax on Goods and Services Act with a value of more than PLN 15,000 the obligation to apply a split payment mechanism. Furthermore, funds gathered on the account are to cover liabilities under VAT, PIT, CIT taxes, excise duties, customs duties, and amounts contributed to the social security scheme maintained by ZUS (the Social Insurance Institution). • In connection with sanction imposing mechanisms envisaged in the Act in respect of some of the banking products, it ensues from the regulation that business and operational processes must be modified although a bank is not a direct buyer of goods or services subject to a split payment mechanism.
The Act of 12 April 2019 Amending the Goods and Services Tax Act and Certain Other Acts	• Date: 1 September 2019 • The Act requires that entrepreneurs verify on the list of VAT taxpayers (so-called white list) the account of the entity to which a given taxpayer makes payments. Any payment onto any account which is not listed entails tax consequences. In accordance with the provisions of the Act, negative consequences to the entrepreneur who has credited an account that is not displayed on the white list are enforceable beginning from 1 January 2020. • The Act does not refer directly to payments made for banks and in principle, no accounts of the so-called own operations are to be placed on the white list, which may entail a risk on the part of counterparties.
The Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Code and certain other acts	• Date: 1 January 2019 • The Act introduced a range of changes concerning specifically the scope of duties on the part of taxpayers by imposing, inter alia, more stringent requirements concerning a possible use of exemptions or preferential rates in relation to paid out interest, dividends and other revenues subject to a withholding tax. In addition, along with the implementation to the national legal system of the provisions of Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements, an obligation was introduced to identify and report incidents recognized as tax schemes. Also more extensive and detailed responsibilities were introduced for document transactions with related parties. The Act also put further strain on taxpayers for tax law violations, by making the sanctions more severe and by setting new categories of sanctions.
The ruling of the Court of Justice of the European Union of 11 September 2019 on the interpretation of Article 16.1 of the Directive of the European Parliament and of the Council 2008/48/EC of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC, concerning the settlement of cost of borrowing in the case of an earlier repayment.	• Announcement date: 11 September 2019 • The Directive was implemented in Poland by way of the Consumer Credit Act of 12 May 2011. The publication of the ruling setting out conditions for early repayment of a consumer loan, as envisaged in the said Directive, necessitated a review at the Bank of its existing practice regarding consumer loans.

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

Legal acts/regulations	Effective date and summary of new requirements
Recommendation R on principles of credit risk management and recognition of expected credit losses (project)	• Date: 2020/2021 (draft) • Recommendation R is addressed to banks and is a set of principles and guidelines regarding credit risk management and recognition of expected credit losses. The amendment to Recommendation R is the result of the entry into force on 1 January 2018 of the new International Financial Reporting Standard – IFRS 9 Financial Instruments. The purpose of Recommendation R is to show banks a set of good practices in credit risk management, classification of credit exposures and estimation of expected credit losses in accordance with the accounting policy adopted and binding in the bank.
Recommendation S on good practices for management of credit exposures secured with mortgages	• Date: 2019 • Recommendation S as amended provides, among other things, for an obligation to add fixed-rate loans with an option to convert a variable-rate loan to a fixed-rate loan to product ranges of banks. In addition, the amended Recommendation S implements provisions related to loans with an option under which a liability to a bank arising from a credit exposure secured with a mortgage on a residential property may be waived if the borrower assigns to the bank the ownership titles to the property financed with that loan, which is called the "key for debt" option. The draft also includes a possibility to consecutively inform client groups of the possibility to convert the loan if the bank foresees that it will not be able to process all the expected applications.
Recommendation Z on internal governance at banks EBA and ESMA guidelines on suitability assessment for management body members and key function holders EBA guidelines on internal governance	• Date: 2019. • Recommendation Z will provide a set of good practices in the area of internal governance. In particular, the document will refer to such issues as general principles of internal governance at a bank, organizational structure, roles and responsibilities, the composition and functioning of the supervisory board, the management board, and senior management, a bank's code of conduct (ethics) and conflict of interests, rules of remuneration at a bank, risk management and internal controls, information systems and communication, the introduction of new products at a bank, a dividend policy, an outsourcing policy, business continuity and management system transparency and integrity at a bank. Recommendation Z is being prepared taking into account guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA).
Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication	• Date: 14 September 2019 • This regulation sets out the requirements that must be met by providers of payment services in order to implement security measures which enable them, among others, 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: 1 January 2019 • The Act implements new regulations arising from the need to implement in the Polish legal system the provisions of Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements. • Obligation to report tax schemes to the Director of the National Tax Administration. • Quick access of the tax administration to information on potentially aggressive planning or abuses connected with tax planning as well as on promoters and users of tax schemes. • Discouraging the preparation and use by taxpayer and their advisers of arrangements which may represent tax avoidance. • Identification of gaps in tax regulations and improvement of the quality of the tax system
Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories and executive regulations to the above regulation issued by the European Commission ("EMIR").	• The implementation of EMIR has been progressing in stages since 2012. In 2020, subsequent stages of implementation in connection with EMIR will be carried out, in particular those related to the widening of the group of entities obliged to use initial margins for derivative transactions. • EMIR imposes on undertakings which are financial and non-financial counterparties, as defined in the Regulation, numerous obligations connected with the conclusion of derivative transactions, and in particular transactions concluded on the OTC market (e.g. obligations to report derivative transactions, to have derivative transactions settled by a central counterparty (CCP), to confirm transactions, to reconcile, and to secure exposures arising from transactions).
The Act of 9 November 2018 amending certain acts in connection with the strengthening of supervision over the financial market and of the protection of investors in that market	• Date: 1 January 2019 • Strengthening protection for investors on the capital market. • Introducing the mandatory dematerialization of certain financial instruments (including bonds and covered bonds). Due date: 1 July 2019 • Implementing the role of issue agent, which may be performed exclusively by investment firms or custodian banks. The obligations of the issue agent will include verification whether the issuer of financial instruments meets the relevant legal requirements. Due date: 1 July 2019 • Giving the President of the Office of Competition and Consumer Protection a right to fine persons responsible for adding so-called abusive clauses to contracts with customers. • Extending, to 12 months, the period during which the Polish Financial Supervision Authority may audit supervised institutions (previously: 6 months). – Giving the Polish Financial Supervision Authority a right to order a bank to take over another bank whose capital has fallen below the applicable legal thresholds.
Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014.	• This regulation implements, among other things, a common framework intended to ensure accuracy and integrity of indices used in the EU as benchmarks in financial instruments and financial contracts, as well as the protection of consumers and investors. • The regulation also applies to entities which provide benchmarks or input data for a benchmark and to supervised entities which use benchmarks in financial contracts and financial instruments.

Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MIFID II"), Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 ("MIFIR") and other EU regulations and the related Act of 1 March 2018 amending the Act of 29 July 2005 on trading in financial instruments and certain other acts	• The primary objective of MIFID II and MIFIR is to strengthen the protection of clients which use investment services, increase the transparent functioning of financial markets, and ensure an increase in the competitiveness and efficiency of financial markets in Poland and the European Union. • In 2020, it is anticipated that other obligations will enter into force resulting from MIFID II and EMIR regulations, including in particular obligations arising from subordinating derivative instruments to the regime of the so-called systematic internalizers.
The Act of 30 August 2019 amending the Code of Commercial Companies and certain other acts	• Date: 1 January 2021 (with exceptions) • The most important changes included: - The obligatory dematerialization of all shares - Registration of shares in the register of shareholders kept by an authorized entity
The Act of 16 October 2019 amending the Act on Public Offering and Terms of Introduction of Financial Instruments to an Organized Trading System and on Public Companies and some other acts	• Date: 3 September 2020 in respect of shareholders identification • The most important changes included: - new obligations for entities keeping securities accounts regarding shareholder identification, disclosures to shareholders and facilitating the execution of shareholders' rights (effective 3 September 2020).
Regulation (EU) 2015/2356 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse, and amending Regulation (EU) No 648/2012	• Date: 11 April 2020 • The Regulation imposes the obligation to report detailed information concerning securities financing transactions as well as information concerning all changes in such transactions or termination thereof, to a transaction repository. Securities financing transactions are understood as: - repurchase transactions (Repo), - securities loans or loans for goods granted and securities loans or loans for goods taken, - buy-sell back transactions or sell-buy back transactions, - margin lending transactions
Draft Act amending certain acts in connection with the transfer of funds from open-end pension funds to individual pension accounts	• Date: According to the draft, the act is to enter into force on 1 June 2020 while the significant provisions of the draft are to be implemented in November 2020 and in 2021. • The draft provides for the liquidation of open-end pension funds (OFE) and voluntary pension funds (DFE) by converting them into specialized open-end investment funds and by transferring funds of OFE and DFE members to individual pension accounts of the members kept with such funds. • The draft also provides for the collection of a conversion fee in the amount of 15% of funds gathered in OFE unless an OFE member submits a declaration of adherence to Zakład Ubezpieczeń Społecznych (the Social Insurance Institution) and in that case, no such fee will be collected. • The draft changes may affect services provided by a depositary to OFE and DFE and they necessitate adaptations to the draft provisions.
The Act of 4 October 2018 on employee capital plans	• Introduction of the long-term saving program for employees that would operate in the form of investment funds and voluntary retirement funds for which the Bank could act as depositary. • 1 January 2020 - 2nd stage of the introduction of Employee Capital Plans - entities hiring at least 50 persons • 1 July 2020 - 3rd stage of the introduction of Employee Capital Plans - entities hiring at least 20 persons
Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directive 98/26/EC and Regulation (EU) 236/2012	Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and Regulation (EU) No 236/2012
Legal acts regarding the relationship between the United Kingdom of Great Britain and Northern Ireland and the European Union, including Poland, in view of the United Kingdom's withdrawal from the European Union	Legal acts pertaining to the relationship between the United Kingdom of Great Britain and Northern Ireland and the European Union, including Poland, in the context of the United Kingdom leaving the European Union.
New WIBID and WIBOR Reference Rate documentation of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)	• On 6 December 2019, GPW Benchmark S.A. decided to amend the Code of Conduct for WIBID and WIBOR Fixing Participants. The amended Code of Conduct will become effective on 4 February 2020. This draft documentation is to ensure compliance with the requirements of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014.
The Act of 31 July 2019 on amending certain acts to reduce regulatory burdens	• The amendment of the Civil Code takes effect on 1 June 2020 whereby protective measures will apply to consumers regarding, among other things, abusive clauses in respect of natural persons concluding an agreement (with, for instance, the Bank) directly connected to that person's business activity if and when it infers from its provisions that the agreement is not of a professional nature to that person.
The Act of 19 July 2019 on the amendment of certain acts to reduce payment backlogs	• Date: 1 January 2020 • The fundamental aim of the act is to further limit late payments due to counterparties, taking into special consideration micro, small and mid-size entrepreneurs. The so-called large entrepreneurs will not be allowed to agree with smaller entrepreneurs payment deadlines of more than 60 days.
Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No. 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges.	• Date: 15 December 2019 • The Regulation imposes charge equality on cross-border payment transactions in EUR with corresponding charges on national payment transactions in PLN (the equality of charges rule). Effective 19 April 2020, the transparency rule will introduce the obligation for payment services providers to inform customers before a payment transaction is delivered of the range of charges related to currency conversion and extra fees resulting therefrom.

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

2.1 Risk management principles

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

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

- Level 1, i.e. organizational units responsible for the activity which results in taking risks and responsible for risk management in the Bank's operational activity, as well as for risk identification and reporting to the second-line units,
- Level 2, i.e. risk management at organizational units, regardless of 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 the 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 the:

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

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

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

Liquidity risk	
Definition	• Liquidity risk is the risk of inability to perform financial liabilities to a client, lender or investor by their due dates as a result of a mismatch between financial flows.
Risk management strategy	• The overriding goal of liquidity risk management is to ensure that the Bank and other companies from the Group have access to liquid funds sufficient to meet their financial liabilities when due (also in the event of probable extreme crisis situations). • Liquidity risk management is based on: - applicable laws and regulations, in particular the Banking Act; - requirements of Polish regulatory institutions and especially resolutions of the Polish Financial Supervision Authority (KNF); - principles of prudent and stable risk management at the Group and general risk level accepted by the Supervisory Board of the Bank; - taking into account best practices applied in the market. • The Group analyses and manages liquidity risk in different time horizons and, to this end, distinguishes between current, short-term, medium-term and long-term liquidity and applies adequate risk measurement and limitation methods. The adopted measures and limits are designed to limit excessive concentrations with respect to the assumed structure of the balance sheet or sources of funding. • The management of long-term liquidity is a task of the Assets & Liabilities Committee (ALCO) and is covered by the strategy of the Bank. It is carried out on the basis of monitoring of structural relations of the balance sheet and on the basis of regulatory long-term liquidity measures, and covers the liquidity gap analysis and the possibilities of obtaining sufficient financing sources in the future, as well as the analysis of funding costs in the context of the impact on the profitability of business operations. • The management of medium-term liquidity, within the 1-year time horizon, is a task of the Assets & Liabilities Committee and is carried out on the basis of annual financing plans, which determine the levels of internal limits, plans prepared by business units of the Bank concerning changes in assets and liabilities, elaborated within the framework of financial plans for the next budget year. • The management of short-term liquidity, within the 3-month time horizon, is a task of the Financial Markets Sector and Corporate Banking Sector, and is carried out on the basis of both regulatory measures of short-term liquidity and internal limits. The Bank also analyses the liquidity level in emergency situations, assuming, as a must, that there will be no negative gap in all time brackets in a 12-month time horizon. • Current liquidity management is a task of the Financial Markets and Corporate Banking Sector and is carried out on the basis of nostro accounts of the Bank, including in particular the mandatory reserve account with the National Bank of Poland, using available products offered by the money market and the central bank.
Risk measurement	• Liquidity risk measurement is carried out using external supervisory measures (M3-M4, LCR/NSFR and additional liquidity monitoring indicators – ALMM) and additional measures and tools developed internally: - gap analysis - MAR/S2 - crisis/stress scenarios, - structural liquidity ratios, - market warning signals, - significant sources of financing, - emergency financing plan, - intra-day liquidity management process, - short-term liquidity gap - M1, - short-term liquidity ratio - M2.

Monitoring	• Liquidity risk monitoring and management are carried out using: supervisory liquidity risk limits determined by the Office of the Polish Financial Supervision Authority and internal prudential limits and thresholds determined for liquidity risk by the Asset and Liability Committee (ALCO): – limits for the S2 Report – for pre-determined currencies and time ranges; – warning thresholds for structural liquidity ratios; – warning threshold for tests of stress scenarios. • On a regular basis, the Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers with reports on the liquidity position, stress test results for liquidity risk and allocation of capital requirements relating to liquidity risk. • In addition, liquidity risk analyses are presented systematically to the following committees: the Asset and Liability Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

	Market risk
Definition	• Market risk is the risk that the financial result and equity of the Bank may be adversely affected by a change in: – market interest rates; – currency rates; – stock prices; – commodity prices; and – any parameters of volatility of such rates and prices.
Risk management strategy	• Market risk management is intended to ensure that the amount of risk accepted in the Group is consistent with the level that is acceptable for shareholders and banking supervision authorities and to ensure that all market risk exposures are adequately reflected in calculated risk measures notified to relevant managers and governing bodies. • Adopted market risk measures and limits should prevent excessive concentrations of exposures to a single risk factor or a group of related risk factors and should enable determination of the maximum level of risk accepted in the trading book or banking book. • Market risk management at the Bank is based on: the requirements of Polish regulatory institutions, and especially resolutions of the Polish Financial Supervision Authority (KNF); and the principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market. • Market risk management covers all portfolios that generate incomes which are exposed to the adverse impact of market factors, such as interest rates, currency rates, stock prices, commodity prices and parameters of volatility in those factors. In market risk management, two portfolio types are distinguished: trading portfolios and banking portfolios. • Trading portfolios include transactions in financial instruments (on- and off-balance sheet types) 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: the factor sensitivity (DV01) method, value at risk (VaR) method and stress tests. • Sensitivity factors measure the change in the value of the position in a given underlying instrument in the case of a specified change of the market risk factor (for example, a change of the interest rate in a given point on the interest rate curve by 1 basis point or a change of the currency rate or stock price by 1%). – For interest rates, the sensitivity measure is DV01; – For currency risk, the sensitivity factor is equal in value to the position in a given currency; – For positions in equity securities, the sensitivity factor is equal in value to the net position in a given instrument (stocks, index, participation unit). • The integrated measure of market risk for trading portfolios, which combines the impact of the positions in particular risk factors and takes into account the correlation effect between volatilities of individual factors, is value at risk (VaR). VaR is used to estimate the potential decline in value of a position or portfolio in normal market conditions, for a fixed confidence level and in a specified period. For positions opened in a trading portfolio of the Bank, VaR is calculated using the 99% confidence level and one-day holding period. • Both DV01 and VaR for a trading portfolio are calculated as net amounts without any economic hedging of the portfolio of securities available-for-sale, i.e. excluding any derivative instruments which are to secure the fair value of the portfolio. The risk exposure of such transactions is controlled by using appropriate risk measurement methods and mitigated with risk limits adopted for banking portfolios. • On a daily basis, the analysis of stress test scenarios is carried out, while assuming risk factor changes higher than those adopted for VaR measurement and ignoring any observed historical correlations between those factors. • The Bank has market risk exposures of trading portfolios in more than twenty currencies, both for currency positions and exposures to interest rate risk, but only exposures to a few currencies are significant. For a large group of currencies, exposures arise from the imperfect match of the transactions concluded as ordered by the client and counter transactions with other counterparties from wholesale markets. Significant exposures to market risk are opened for PLN, developed market currencies (mainly USD and EUR and less frequently GBP, CHF or JPY) and even currencies from Central European countries.
Monitoring	• The Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers, on a regular basis, with reports on portfolio sensitivity, value at risk (VaR), securities positions, stress test results for market risk, allocation of capital requirements relating to market risk and utilization of Trading MAT and Trading Stop Loss limits (warning thresholds). • In addition, market risk analyses are presented systematically to the following committees: the Asset and Liability Committee, the Risk and Capital Management Committee and the Risk and Capital Committee of the Supervisory Board.

Interest rate risk for the banking book	
Definition	• Interest rate risk for the banking book is the risk of an adverse impact of interest rate changes on the interest income and capital of the Group. • Interest rate risk may occur if assets and liabilities (including capital and derivative instruments that meet the requirements of hedge accounting) have different maturity dates or if their interest rates change on different dates or their interest rates are connected with different interest rate curves (basis risk), or if they include options.
Risk management strategy	• Interest rate risk management is designed 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, the financial result of the Group. • Market risk management at the Bank is based on: the requirements of Polish and European regulatory institutions, and especially resolutions of the Polish Financial Supervision Authority (KNF) and the EBA; and the principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market. • Interest rate risk management is carried out both at a strategic and operational level. Division into particular risk management levels depends on the nature and type of decisions made by particular decision-making fora at the Bank which affect the profile and level of interest rate risk. – The strategic risk management perspective is covered by the decision-making powers of the Asset and Liability Committee (ALCO) of the Bank. ALCO carries out interest rate management by setting risk limits for banking portfolios and by conducting monthly reviews of exposures and results of management of those portfolios. – The operational management of interest rate risk is carried out by the Asset and Liability Management Department, which is authorized to open risk positions within the framework of adopted limits.
Risk measurement	• The following risk measurement methods apply to banking portfolios: interest rate gap analysis, method based on costs of closure of open interest positions (Value-at-Close)/total return on portfolio (Total Return), a method based on interest income exposed to risk (Interest Rate Exposure, IRE) and stress tests. • The interest rate gap analysis uses the schedule of maturity or revaluation of on-balance sheet positions and derivatives recognized using hedge accounting or categorized as economic hedges in order to determine differences between positions whose maturity date or interest rate update date is in a given time interval. • As a general rule applied in the interest rate gap analysis, transactions are allocated to particular bands of revaluation of positions in banking portfolios on the basis of contractual or assumed dates of change of transaction interest rates. • The Value-at-Close method determines the economic or "fair" value of positions, corresponding to market valuation of a trading portfolio. Total return on a portfolio is the sum of changes of value-at-close, accrued interest and gains/losses on sale of assets or cancellation of liabilities. • The Interest Rate Exposure (IRE) method is used to measure the potential impact of a pre-determined parallel shift of interest rate yields on pre-tax interest income on the banking book (NIR – net interest revenues) which may be earned in a specified time interval. IRE is the difference between the NIR base plan and the NIR in an interest rate shock scenario (nap +100 basic points, +200 basic points, -100 basic points -200 basic points). In addition, it is assumed that in standard conditions interest rate moves are identical for each currency and equal to 100 basis points up. The IRE measurement is calculated separately for the position in each currency over a 10-year time horizon, provided, however, that 1-year and 5-year IRE measurements are mainly used for the purposes of day-to-day monitoring and limitation of interest rate risk positions for banking portfolios. • Stress tests measure the potential impact of significant changes in the level or shape of interest rate yields on the positions opened in a banking portfolio. • The Bank carries out stress tests for pre-defined scenarios of movements in interest rates, which are combinations of shifting market factors, both defined as significant changes (large move) and crisis changes (stress move), which occur both in Poland and abroad. The extent of assumed shifts of market factors are reviewed at least annually and adjusted as appropriate to changes in the market conditions in which the Bank operates. In addition, the Bank regularly calculates, on a monthly basis, the impact of supervisory interest rate shocks on the economic value of EVE capital. If the decrease in EVE is greater than 15% of the institution's Tier 1 capital in any of the six scenarios, the Bank informs the competent supervisory authority of this fact. • The Asset and Liability Management Department in the Interbank Transaction Division carries out activities relating to securities available-for-sale. Three key objectives have been adopted for activities relating to the portfolio of securities available-for-sale: carrying out financial liquidity management, hedging against the risk assumed by the Interbank Transaction Division from other organizational units of the Bank and opening own interest rate risk positions in portfolios of the Bank by the Interbank Transaction Division. • In order to avoid excessive fluctuations of capital funds of the Bank, caused by revaluation of assets held for sale, maximum limits are set for the DV01 (Dollar Value of 1 basis point) position, which determines the potential change in the value of the 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 and stress test results for interest rate risk of the banking book. • In addition, market risk analyses are presented systematically to the following committees: the Asset and Liability Committee and the Risk and Capital Committee of the Supervisory Board.

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

Operational risk	
Definition	• Operational risk should be understood as the possibility of loss as a result of application of inappropriate or defective internal processes, human factors or technological systems, or as a result of external events. – Operational risk covers technology risk, outsourcing risk, fraud risk, money laundering risk, information security risk, external event (business continuity) risk, tax and accounting risk, product risk, legal risk, model risk, HR risk, concentration risk, conduct risk and reputational risk, connected with operational risk events, business and market practices, as well as operational risk embedded in other risks (for example credit, counterparty, liquidity or compliance risk); – Operational risk excludes strategic risk and the risk of potential losses resulting from decisions connected with taking credit, market, liquidity or insurance risks.
Risk management strategy	• Operational risk management is intended 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, as a consequence, reduction in the number of operational risk events and the severity of their outcomes. – Operational risk management is also meant to ensure the full integration of processes used for the management of that risk with the processes used for decision-making purposes. – When organizing the operational risk management process, the Group takes into account the business strategy, risk profile of the Group, macroeconomic environment, available capital and liquidity resources and regulatory requirements, which make up the framework of preparation of the system used to control and manage operational risk at the Group.
Risk measurement	• In the risk assessment process, the Group uses combinations of various risk measurement or estimation methods. – Risk assessment determines 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 processes, risk maps, key projects, risk concentration areas and rising-risk areas, scenario analysis, stress tests, changes in processes and products, operational risk attestation, information from internal and external reviews and audits and information reported to Commissions and Committees). – Such assessment also includes an analysis of both internal and external threats. A correct assessment of operational risk enables the Group to properly determine and manage the risk profile.
Monitoring	• Ongoing operational risk monitoring is the responsibility of the Risk and Capital Management Committee and the Commissions which support it. – Quality of the operational risk management process (including the self-assessment process) in particular units of the Group is checked and assessed by the Internal Audit function. – As part of consolidated supervision, operational risk data relating to the Bank and subsidiaries are presented to Commissions and Committees that support the Management Board and Supervisory Board of the Bank in the operational risk management process. – The Supervisory Board oversees the operational risk management system and assesses its adequacy and effectiveness. The Supervisory Board is supported by its committees: the Audit Committee, Risk and Capital Committee and Remuneration Committee. – On the basis of synthetic reports which present the scale and types of operational risk to which the Group is exposed, risk concentration areas, operational risk management methods, probability of occurrence of operational risk events, assessment of potential adverse impact of 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 necessary.

VIII. The Bank's community initiatives and cultural sponsorship

The full scope of information on the Bank's implementation of 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 ending 31 December 2019. The statements were prepared on the basis of the requirements set out in the Accounting Act of 29 September 1994 (i.e. OJ.L. of 2019 item 351 as amended), which imposes the reporting obligation.

1. Corporate Social Responsibility (CSR)

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

Bank activities with regard to Corporate Social Responsibility (CSR) cover the workplace 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 out investments to support local communities implemented for public good in such fields as financial education, promotion of entrepreneurship, local development and protection of cultural heritage. The Bank's mission in this scope has been implemented through the Kronenberg Foundation at Citi Handlowy, established in 1996. Public recognition for the social commitment of the Bank is confirmed by various independent rankings. In 2019, Citi Handlowy appeared in the first edition of the **Diversity & Inclusion Rating**. This is a new initiative of the Responsible Business Forum and Deloitte, aimed at measuring the advancement level of a company in terms of building a diverse, inclusive and ethical organization. The first edition of the rating included 5 companies which demonstrated the highest level of diversity management. Since 2018, the Bank has been included in the Super Ethical Companies list as part of the competition organized by Puls Biznesu in cooperation with PwC. The Super Ethical Company title is granted to entities granted the title of "Ethical Company" at least three times in a row. In order to receive this award, a company has to meet the highest standards in the area of corporate governance, reputation and leadership, fraud risk management, irregularity reporting, 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 greatest ambition. A strategic goal is to attain such a level of client satisfaction that naturally translates into unwavering loyalty to the Bank. Therefore, a range of activities is taken on the basis of surveys and feedback from clients, which are designed to enhance and elevate the quality of our customer service standards and product offer on an ongoing basis. Following changing client expectations, one such activity 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 modern Smart Banking Ecosystem allows the client to conclude financial transactions, pay in/withdraw cash from fx ATMs, obtain a credit card and learn about special rebates for Citi Handlowy cardholders on an interactive screen.

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 the results of such analyses and proposed enhancements are discussed at a monthly meeting with the Bank's management. Thanks to its disciplined approach, the Bank received excellent marks in 2019 in each of the key NPS indicators and, in particular, the Bank retained its leading position in the credit card segment.

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

The Bank promotes the idea of high level of customer satisfaction not only through NPS tests. In 2019, we systematized the new approach to searching, recording and changing the customer experience in relations with the Bank. Selected units not only analyze client complaints, but also search for information on customer experience in NPS forms, comments posted on social media or among 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 customer satisfaction. Every employee at the Bank is involved in building a new organizational culture, first and foremost for the good of the client, and in delivering more and more revamped solutions. The growth of customer satisfaction is among the Bank's key goals for 2020.

Communication with clients

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

Client complaints and enquiries

Information on the possible channels for 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 into the electronic banking system – Citibank Online **www.citibankonline.pl/**
- Sending a letter to the Bank's address or in person at a Bank Branch
- Sending an email to the address: **listybh@citi.com** or – in case of escalation – to the Customer Advocate: **rzecznik.klienta@citi.com**
- Contact via CitiPhone: 22 362 2484

The Bank informs of a possibility to resolve disputes amicably 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 complaints filed by Citigold and Citigold Private Clients is one working day, whereas for clients from other segments that figure is 4 working days.

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

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

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

Client Advocate

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

Client education

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

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

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

The Foundation also implements its tasks through a program of surveys, under which it investigates, inter alia, Polish attitudes towards saving and various aspects of the activity of Polish companies abroad. The Foundation is also investigating innovative market trends – in 2019 the dynamically growing segment of Polish software houses was surveyed.

In addition, the Bank develops its Internet sites to include the most important educational materials concerning transaction security, use of products and mobile access.

Gaining assurance that clients understand the mechanism of a product and know how to use it in the most suitable way is also of importance to the Bank. For this purpose, the Bank created a Most Frequently Asked Questions section on its website. Educational materials are also prepared for clients on learning how to manage their credit and credit history, observe current credit repayment dates and why this 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 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 the products and services offered to clients are 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 information confidentiality, 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 and general provisions on security). Out of concern for the issue of security, the Bank applies the best standards and uses such information only for justified reasons related to the performance of business operations, 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 talent who share the values of the Bank:

Shared goal	One team in pursuit of 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 capable of meeting even the most difficult challenges.

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

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

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

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

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

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

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

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

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

Employee satisfaction survey

The Bank enables its staff to express their opinions freely by conducting an employee satisfaction survey called Voice of the 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 supervisors and co-workers, participation decision-making, balance between professional and private life, diversity, and values and ethical principles followed by the Bank.

In the first step of the process, 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 dialog with employees by deciding to carry out a Puls VOE survey three times a year. In 2019, the Bank conducted a survey with the participation of 2,400 employees.

Dialog 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 optimal opportunities to develop employee 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 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 suspicions or information related to 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 a mailbox. Reports can also be submitted anonymously.

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

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

Employee Volunteering Program

In the Bank, the largest Polish employee volunteering program is coordinated by the Kronenberg Foundation at Citi Handlowy. It is designed with the aim of developing social commitment among the Bank's existing and former employees. 250 volunteering projects were implemented in 2019 and benefited nearly 50,000 recipients. Volunteers – Bank employees, partners and client representatives took part in volunteering actions 4,500 times. They supported, among others: local communities, educational care centers, social organizations, self-government facilities and animal shelters. The most important initiative in the previous year was the 14th edition of Citi Global Community Day. Every year, as part of this project, Bank employees together with their families and friends try to identify the needs of their closest communities. In 2019, Citi volunteers conducted 209 social projects for over 46,000 recipients, as part of Citi Global Community Day. The activities undertaken by the volunteers included renovation and construction works at social care homes and senior homes as well as cleaning works at animal shelters and in forest areas (including Kampinos Forest). The diversity and number of delivered projects shows that social commitment on the part of the Bank's employees is being fostered and developed, for the benefit of a growing number of recipients – which is also confirmed by the statistics.

In 2019, other key projects were continued, such as the seasonal "Become Santa's Helper" campaign, integration trips for volunteering employees and blood donations.

In order to continue good practices in competency volunteering, the #CitiVolunteers for Progress program has been launched. This initiative benefits the development of Citi volunteers-employees by giving them a chance to prove themselves in a new environment while influencing the professionalization of startups and NGOs.

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

- Citi Mentoring aimed at involving Citi Handlowy experts in mentoring programs for startups, conducted under projects co-financed by Citi Foundation (mentoring for micro entrepreneurs, startups, women interested in growing their own businesses, female IT and technology students and immigrants dreaming of setting up their own businesses).
- Citi Skills Marathon for non-governmental organizations – volunteering days organized to use Citi employee skills to support NGOs and startups in pursuit of their missions and goals.

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

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

1.3 Reduced environmental footprint

Environment protection is one of the fundamental principles pursued at the Bank. The Bank is committed to conducting its activity in accordance with sustainable development principles. In 2007, a Comprehensive Environment Management Plan was adopted following 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 the 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 the most efficient management of utilities, in particular energy, minimizing 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 results from the Bank's activities, such as consumption of resources (water, energy, paper), waste production and air pollution. The second has an indirect nature and results from services rendered by the Bank and the environmental practice of bank vendors.

As part of the integrated System (SZŚiE), the impact of particular Bank locations 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. From 2012 – 2019, the Bank implemented various energy-saving technology projects. These included upgrades of heating, ventilation and air conditioning systems (the ecological Free Cooling technology was installed in cooling systems in three buildings). On an ongoing basis, the Bank is switching to energy-saving lighting systems, upgrading lifts or installing new equipment with energy recovery systems and improving the thermoinsulation efficiency of its buildings by replacing windows or elevations. In addition, the Bank invests in state-of-the art BMS (Building Management System) infrastructure, used for optimizing 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, such as water and 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 paper towels. The Bank takes care of the environment by arranging greenery around its buildings, while paying attention to the viability of planted trees and putting out nesting boxes for birds and bats. In its five main locations, the Bank has built bicycle shelters and self-service bicycle repair stations for employees, thus encouraging them to ride a bicycle more frequently.

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

Personnel education

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

Indirect impact

Indirect environmental aspects arise in connection with activities but are beyond the full control of the Bank. In cooperation with vendors, the Bank applies 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 do not buy from or sign agreements with companies that may be linked to illegal resource acquisition (illegal tree cutting).

1.4 Local community involvement and development

The Kronenberg Foundation at Citi Handlowy has been acting for entrepreneurship and financial education, cultural legacy and employee volunteering for years, while remaining 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's operation is cultural heritage protection. As a result of the Foundation's efforts under its program to recover 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. Moreover, 172 items from the silver collection were recovered. The Professor Aleksander Gieysztor Award was granted to 20 persons and institutions for their outstanding achievements in the protection of Polish cultural heritage.

Programs organized by the Kronenberg Foundation at Citi Handlowy

- **The Emerging Market Champions Citi Handlowy Award** – the purpose of the competition is to promote enterprises which are successfully in rolling out their activity abroad. The project includes surveys, which are a tool for diagnosing the conditions for doing business in Poland and the global potential of our domestic companies. On 26 September 2019, during the plenary session "Poland in the Puzzle of Great Superpowers. Rivalry between China and the United States from the perspective of Poland and the EU", organized as part of the European Forum for New Ideas in Sopot, an award ceremony was organized to honor the winners of the 6th edition of the contest. The "Emerging Market Champion" title in the category "Polish foreign investments" was granted to Polfarma Group and the winner in the category "Foreign investments in Poland" was Adampol S.A. In the e-Commerce category, the winner was ZnanyLekarz sp. z o.o. Over the course of the project, the 5th edition of the survey was carried out – this time the dynamic growth of the Polish software house segment was analyzed.
- **IT for SHE** - is an innovative combination of solutions in the field of mentoring, networking, inspiration and skill development, which support the development of female careers in IT. As part of the project, a coalition of international companies present on the Polish market and having a clear technological component in their activity operates. Program components include an IT training camp for 135 girls, a mentoring program at top technology companies for 35 participants, a volunteering campaign in the countryside and small towns to promote computer programming education and, as the final stage of the project, the Women in Tech Summit, a two-day international conference attended by over 6,000 guests.
- **The Professor Aleksander Gieysztor Award**: this is the most prestigious award granted annually for outstanding achievements in the protection of Polish cultural heritage to institutions or private individuals. The 20th edition was won by Bishop Waldemar Pytel for the more than 30 years he has worked to save, revitalize and restore the splendor of the Lutheran block and Church of Peace in Świdnica – a UNESCO World Heritage Site. Thanks to the extraordinary determination of Bishop Waldemar Pytel, Świdnica is an authentic place of dialog between cultures and nations.
- **Recovering works of art**: a program aimed at recovering cultural objects lost by Poland during and as a result of the Second World War.
- **Roots**: a program under which the Foundation promotes the history of the Bank, as well as the lives and achievements of its founders, the Kronenberg family. Since 2014, digital archives containing over 31,000 pages of scanned documents and iconographic materials concerning the Bank and the Kronenberg family's activity have been available. The materials are used for promotional campaigns, as well as occasions of importance to the Bank and Leopold Kronenberg.
- **Employee Volunteering Program at Citi Handlowy**: a program designed with the aim of developing social commitment among the Bank's existing and former employees.
- **Donations Program**: a grant-based competition by means of which the Kronenberg Foundation at Citi Handlowy supports the most valuable projects implemented by non-profit institutions in the area of education and local development. Three grants were awarded in 2019.

Programs implemented with the support of the Citi Foundation

- **Savings Week (TDO)**: a 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. The project consists of surveys on "Polish attitudes toward finance" (13th edition), an 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 high school students. It is being carried out in cooperation with the Junior Achievement Foundation. The aim of the project is to impart knowledge regarding widely understood entrepreneurship to students and help them develop skills and competences in that area through incorporation and management of an enterprise in the form of a general partnership. In 2019, more than 2,000 students from 220 schools participated in the program.
- **Business in Women's Hands**: a 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 start a business. The goal of the program is to establish a female company cluster operating in the territory of the Warsaw agglomeration. In 2019, the 6th edition of the program was launched and will end in mid-2020.
- **Microentrepreneur of the Year** – a competition organized in 2019 by the Association Inicjatywa Firm Rodzinnych (Family Business Initiative) with support from 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 examples of effective economic action. Contest participants compete for the main prize – the title Microentrepreneur of the Year – and category awards, depending on the age of the company. The youngest businesses are eligible to compete in the START category, companies with some experience in the PROGRESS category and mature companies in the SENIOR category.
- **Hello Entrepreneurship** – a pilot program to support social entrepreneurship among immigrants, male and female, in Poland, implemented in cooperation with the Ashoka Polska Foundation. The mission of the project is to use immigrant talent and hard work to develop jointly Poland's prosperity and social and economic success. Upon presenting their initiative as part of the program, participants receive support over a period of three months as needed to make their ideas deliverable. Some examples of such support include: assistance in designing a business model, promotional support, facilitating contacts with investors and other companies. More than 50 entrepreneurs proposed their ideas in the first edition of the project, kicked off in the autumn of 2019. The purpose of the program is to establish 10 social enterprises by May 2020.
- **Shesnnovation Academy** – a pilot project to encourage women to launch startups in STEM fields. The program is conducted in cooperation with the "Prospects" ("Perspektywy") Educational Foundation. According to the 2018 report prepared by Startup Poland, only 26% of Polish startups have a woman among their founders. The project is addressed to female students, PhD students and graduates of technical and science faculties as well as to any other women who want to establish their own tech startup. It comprises a range of supporting tools which allow the participants to build necessary competencies, both business and soft competencies, so their dreams of starting a business can come true. The program also provides individual mentoring support from experienced female managers, female owners of technological companies, who are successful on the market, and female representatives of the world of science. More than 100 female entrepreneurs participated in the project and its purpose is to establish 10 technological startups by May 2020.

2. Cultural patronage and sponsorship

In 2019, the Bank and the Foundation supported numerous nationwide and international conferences and events. One of them was the 9th edition **of the European Forum for New ideas in Sopot**, one of the largest conferences in Central and Eastern Europe with over 1,200 representatives from the world of science, business and politics. During the conference, the laureates of the 6th edition of the Emerging Market Champions Competition were honored.

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

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

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

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

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

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

For the third consecutive year, Citi Handlowy continued cooperation with the international city bike operator Nextbike. As part of that cooperation, from March to November 2019, bikers were able to rent over 6,000 city bikes available in Warsaw, Łódź, Wrocław, Poznań and Katowice, including in Górnośląski Okręg Przemysłowy (the Upper Silesian Industrial Region) and – for the first time in Trójmieście (the Tricity). The bikes were used as a carrier for a campaign promoting the Bank's products and services. In 2019, bikes bearing the Citi Handlowy logo were rented almost 12.5 million times. Warsaw cyclists enjoyed a version of the banking and biking application **Citi Handlowy Bikes** with expanded functionalities for bike rentals – providing information, for example, about how biking reduced the city's air pollution. The Citi Handlowy Bikes application was downloaded almost 50,000 times. In 2019, the bikers were able to find and mark cycling routes in Warsaw for the first time thanks to cooperation between Citi Handlowy and jakdojade.pl.

The year 2019 was another year of joint activities by Citi Handlowy and **Live Nation**, a leader in the field of concerts and "live" events organization. The Bank offered Citi Handlowy cardholders 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 by Madonna, Sting, Bon Jovi, Pink, Rod Stewart, Ariana Grande and Guns'n'Roses. Strategic cooperation with Live Nation will continue in 2020.

IX. Investor information

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

1.1 Shareholders

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

Citigroup Inc. → 100% → Citicorp → 100% → Citibank, N.A. → 100% → Citibank Overseas Investment Corporation → 75% → Bank Handlowy w Warszawie S.A.

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

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

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

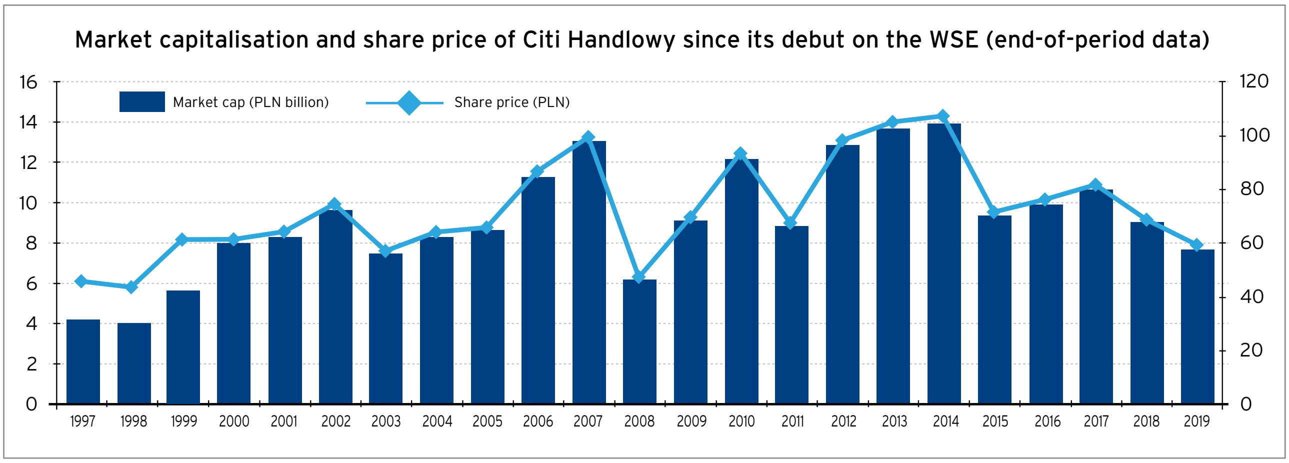
Shareholder	31.12.2019		31.12.2018	
	Number of shares and votes in GSM	% of total number of shares and votes in GSM	Number of shares and votes in GSM	% of total number of shares and votes in GSM
Nationale Nederlanden OFE	5,789,721	4.43%	4,516,944	3.46%
Aviva OFE Aviva BZ WBK	4,121,313	3.15%	4,124,227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

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

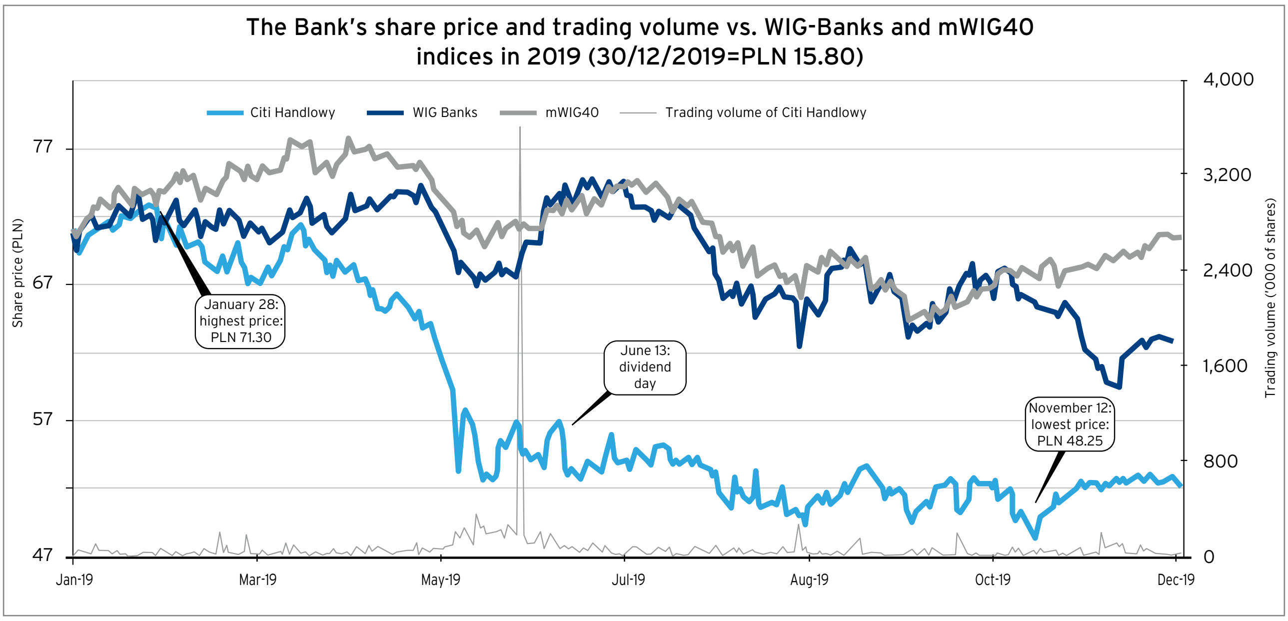
1.2 Performance of the Bank's shares on the WSE

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

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



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



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

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

2. Dividends

As at the date of publication of this report, the Management Board of the Bank has not completed the analysis allowing for submission of recommendations on the payment of dividends for 2019. According to the adopted Group Strategy for 2019-2021 and the position of the Polish Financial Supervision Authority ("KNF") regarding the assumptions of the dividend policy of commercial banks in the medium-term perspective of 14 March 2018, the Bank has formulated a directional proposal for the distribution of the Bank's profit for the years 2018-2021. The proposal assumes that the Bank will continue to allocate most of its profits to dividend payments, and this amount has been set at a level no lower than 75% of the Bank's profit, taking into account the PFSA's position regarding the dividend policy of banks

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

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

Financial year	Dividend (PLN)	EPS (PLN)	Dividend per share (PLN)	Dividend pay-out ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	377.6%*
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008	-	4.94	-	-**
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%
2014	970,800,828	7.43	7.43	99.9%
2015	611,486,928	4.75	4.68	98.6%
2016	591,887,988	4.62	4.53	98.0%
2017	537,010,956	4.11	4.11	100.0%
2018	488,666,904	5.00	3.74	74.8%

* *Dividend payout ratio for 2004 - 100% plus prior year profits.*

** *On 18 June 2009, the Bank's Ordinary General Meeting decided to pay no dividends for 2008.*

3. Rating

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

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

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

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

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

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

4. Investor relations

Investor relations, which provide existing and prospective investors, capital market analysts and rating agencies with necessary information, are an integral component of the information policy of the Bank, which is designed 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 analysts during conference calls and meetings, also at Bank headquarters, with the participation of members of the Bank's Management Board;
- support by the Press Office during quarterly press conferences for the media, held after the 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 Bank Shareholders.

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

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

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

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

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

a) Principle VI.Z.2 relating to determination of the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability, which should be no less than two years;
b) Recommendation IV.R.1 which requires that an ordinary general meeting should be held by the Bank in 2019 as soon as possible after the publication of the 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, 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 programs based on a financial instrument, i.e. phantom shares, are in compliance with the best practice for the financial sector and the requirements set out in the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, the remuneration policy and the detailed method of estimation of internal capital at banks and in the Banking Law, which implement CRD III and CRD IV. Those regulations include requirements that are slightly different from those set out in the "Best Practice of GPW Listed Companies 2016". The incentive programs of the Bank, which are based on the above regulations, reflect the specific nature of the banking sector and are meant 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 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 defined remuneration policy, the Bank will consider a modification of the incentive schemes which are based on a financial instrument.

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

Ad (c) During the Annual General Meeting held on 5 June 2019, Recommendation IV.R.2. Item 2) and item 3) of the BPLC was not applied. When assessing the possibility to apply this recommendation, the Bank took into account the legal and organizational & technical risks connected with providing 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. Current technological solutions 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, the inability to ensure that 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 factors beyond the Bank's control, including those caused, for example, by regional problems with particular components of the public Internet network.

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

The Polish Financial Supervision Authority, in a resolution of 22 July 2014, issued a document entitled Principles of Corporate Governance for Supervised Institutions ("Principles"), which came in force on 1 January 2015. The Principles are available on the official website of the Polish Financial Supervision Authority:

https://www.knf.gov.pl/knf/pl/komponenty/img/knf_140904_Zasady_ladu_korporacyjnego_22072014_38575.pdf

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

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

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

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

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

On 21 March 2019, the Supervisory Board of Bank Handlowy w Warszawie S.A. became familiar with the "2018 Report – Assessment of Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A." prepared by the Compliance Department and containing an independent assessment of the application of the Principles of Corporate Governance for Supervised Institutions.

On the basis of the above Report of the Compliance Department containing an independent assessment of the application of the "Principles of Corporate Governance for Supervised Institutions" and taking into consideration a positive recommendation issued by the Audit Committee of the Supervisory Board, the Supervisory Board assessed independently that in 2018 the Bank applied the rules resulting from the Principles of Corporate Governance for Supervised Institutions, except for the excluded principles.

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

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

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

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

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

2) Article 8.4 (electronic General Meeting) – currently available IT solutions do not guarantee secure and efficient electronic conditions for holding a General Meeting. However, the Management Board does see the importance of this form of shareholder 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 English. 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 the main features of internal control and risk management systems implemented in the Bank with respect to the process of preparation of financial statements and consolidated financial statements

Financial statements of the Bank are prepared by the Financial Reporting, Control and Tax Department, which is a separate organizational unit in the structure of the Finance Management Sector that 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 preparing financial statements is covered by an internal control system, which is designed 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, verifying the compliance of those Bank activities 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 an 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 from 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 correct 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 the results of completed audits and periodically, and at least once a year, provides the Supervisory Board with a summary report on identified irregularities and conclusions arising from the completed internal audits, as well as 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 during which issues related to the functioning of internal control systems at the Bank are to be discussed.

4. Significant shareholdings

One shareholder that 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 securities

No restrictions on the transfer of ownership of 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: the 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 the 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 for 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 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 for 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 given 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 decisions; however in case of matters within the powers of Committees established at the Company, such decisions must first be 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 Heads 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 for 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 a 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 for which that member is responsible for managing;
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 convene 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 shareholder 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 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 prior consent of all the present shareholders who submitted the request, with 80% of General Meeting votes in favor. Requests on these 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 adopted by the Company, immediately after opening 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 proxy before or during the General Meeting.

The rules for shareholder 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 may 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 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 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 a 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 Shareholder rights and their exercise methods

Company 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 Bank 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 no 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.

A shareholder who voted against a resolution of the General Meeting, and after its adoption, requested that his/her dissension be recorded, a shareholder who was unreasonably not allowed to participate in the General Meeting, and 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). Share 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 share cancellation without compensation and the method of decreasing the share capital.

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

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

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

11.1 Management Board

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

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

Member of The Management Board	Scope of responsibility
Sławomir S. Sikora President of the Management Board	The President of the Management Board is responsible for: • managing the work of the Management Board, including appointing from among the members of the Management Board a person to replace the President of the Management Board, during his absence, and determining the procedure of substitution for members of the Management Board who are absent; • calling and chairing meetings of the Management Board; • presenting the position of the Management Board to other bodies of the Bank, central and local government and the general public; • submitting motions to the Supervisory Board concerning appointments and dismissals of Vice Presidents and other Members of the Management Board and determining their remuneration; • issuing internal regulations applicable to activities of the Bank and potentially authorizing other Members of the Management Board or other employees to issue such regulations; • deciding how internal audit results are to be used and notifying such decision to the audited entity; • exercising other authorizations resulting from appropriate rules adopted by the Supervisory Board; • supervising the formulation and implementation of the strategy of the Bank; • being the officer to which the Internal Audit Department is subordinated; • supervising the risk of non-compliance of the Bank with respect to the law, internal regulations and market standards; • supervising human resources policy; • activities to control how the Bank is perceived; • ensuring the consistent organizational structure of the Bank; • supervising activities to ensure appropriate corporate governance; • supervising legal services; • supervising the area of security at the Bank with respect to protection of persons and property; and ensuring the implementation of risk management principles in supervised divisions and units outside the organizational structure of a division with respect to operational risk connected with their activities.
Natalia Bożek Vice President of the Management Board	Supervising the areas of accounting and financial reporting, including financial control; Responsible for: • management accounting; • bookkeeping; • preparation of accounting policies; • coordination of activities connected with implementation at the Bank of requirements resulting from laws and regulations, as well as resolutions and recommendations of the financial supervision authority, with respect to capital adequacy; and ensuring the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.
Maciej Kropidłowski Vice President of the Management Board	Responsible for: • financial market operations, including money market transactions as well as FX market, securities and derivative transactions; • activities related to securitization; • activities related to organizing financing for investment plans, mergers and acquisitions in the scope of: - syndicated loans; - bridge financing; - debt securities; - project finance; - off-balance-sheet financing; • custody activities; • ongoing cooperation with and supervision over the corporate bank and commercial bank, including supervision over services provided to clients from the financial institution sector; and ensuring the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.
David Mouillé Vice President of the Management Board	Responsible for Consumer Banking, including the quality standard of banking services in supervised organizational units and ensuring that principles of their business-related operational risk management are implemented in such supervised organizational units.
Barbara Sobala Vice President of the Management Board	Supervises management of risks significant to activities of the bank and is responsible for the risk management system including: • the credit policy of the Bank; • the quality of the Bank's credit portfolio; • credit risk; • market risk; • operational risk; • coordination of activities connected with implementation at the Bank of requirements resulting from risk management regulations, including recommendations issued by supervisory authorities. • supervision of risk management at the second level by employees in specially appointed positions or organizational units; • providing the Bank's Management Board and Supervisory Board with comprehensive information on risk. Responsible for adjustments of the organizational structure of the Bank to the amount and profile of risks to which the Bank is exposed. She accepts anonymous reports of infringements of law or procedures and ethical standards applicable at the Bank, and is also responsible for the ongoing functioning of the anonymous infringement reporting procedures, including for reporting to the Supervisory Board, at least semiannually, any substantial ethical issues arising at the Bank.

James Foley Member of the Management Board	Responsible for global transaction services, including for: • finance management products; • trade finance products; • cash products; • liquidity management products; • supervision of EU programs Also responsible for supervision within the internal functional relationship over services for the public sector. He ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.
Katarzyna Majewska Member of the Management Board	Responsible for the following activities of the Bank: operations and technology, real estate management, administration. She ensures the implementation of risk management principles in supervised organizational units with respect to operational risk connected with their activities.

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

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

The Management Board operates on the basis of generally applicable laws, the Articles of Association and Management Board Regulations. The Management Board Regulations define the scope and mode of operations of the Management Board as well as the procedure for adopting resolutions.

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

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

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

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

Management Board members have an obligation to attend Management Board meetings. An anticipated absence by 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: the Director of the Corporate Services Office or his designee, the Director of the Compliance Unit, the Head of the Legal Division, the Director of the Audit Department.

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

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

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

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

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

1) the agenda;
2) the 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) the 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) the deadline for implementation of the resolution.

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

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

1) immediately upon compilation but no later than 120 (one hundred and twenty) days after the end of each accounting year, individual and consolidated annual financial statements prepared in accordance with

International Accounting Standards and International Financial Reporting Standards, audited by the Company's auditor;

2) immediately upon compilation but in any case no later than before the end of each year, a draft annual plan for the next accounting year;
3) other periodic information and reports, in accordance with a resolution of the Supervisory Board;

4) immediately, other available financial data related to Company operations and its financial condition, as well as the operations and financial condition of Company subsidiaries, which a member of the Supervisory Board may reasonably request.

11.2 Supervisory Board

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

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

Member of Supervisory Board	Professional experience
Andrzej Olechowski Chairman of the Supervisory Board	Mr. Andrzej Olechowski is a member of the Board of Directors of Euronet, of the Supervisory Board of Play Communications S.A., of the advisory committee of Macquarie European Infrastructure Funds and a member of the Board of Trustees of 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 known as the Trilateral Commission. He is an author of publications on international economic and political relations. In 1991-1996 and 1998-2000, he served as a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A as its chairman. He was re-appointed to the Supervisory Board on 25 June 2003. Since 23 July 2012, he has served as the Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Frank Mannion Deputy Chairman of the Supervisory Board	Mr. Frank Mannion currently serves as the Citi Chief Financial Officer for Europe, Middle East and Africa (EMEA). Within his new function, which he assumed in January 2011, he is responsible for a group of over 1,000 employees throughout the Region. Mr. Mannion began his professional career in Ireland, and then moved to London, where he worked for PricewaterhouseCoopers. He started working at Citi in 1989 in a planning and analysis team in the UK. During his career, he has held many financial positions, including Technology Finance Manager and the Head of Product Control at CMB EMEA. In 2008, he became Citi Regional Franchise Controller for Europe, Middle East and Africa (EMEA), where he was responsible for a group of over 800 employees in various areas. Previously, he managed the areas of Product Control, Controllers and Regulatory Reporting as CMB EMEA Regional Controller. Mannion graduated from the National University of Ireland in Galway, earning a degree in commerce. He has also earned the title of Chartered Accountant. Since 28 June 2010, he has served as a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Shirish Apte Member of the Supervisory Board	Mr. Shirish Apte served as Co-Chairman of Citi Asia-Pacific Banking. In 2009-2011, he served as CEO at Citi Asia Pacific, with responsibility for South Asia covering countries such as: Australia, New Zealand, India and member countries of the Association of Southeast Asian Nations (ASEAN). He was a member of the Citi Executive Committee and Operating Committee. Mr. 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. Apte moved from India to London in 1993, where he took the position of Senior Risk Manager for the CEEMEA Region. Then, he served as Head of Corporate Finance and Investment Bank in the CEEMEA Region, which included India. Mr. Apte earned a diploma as a Chartered Accountant from the Institute of Chartered Accountants in England and Wales and a bachelor's degree in commerce. Mr. Apte also has an MBA from the London Business School. Since 25 June 2003, he has served as a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Igor Chalupec Member of the Supervisory Board	Mr. Igor Chalupec is a manager, financier and the 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 S.A. (UniCredit Group). Founder and CEO of Centralny Dom Maklerski Pekao S.A. (in 1991-1995), the largest brokerage company in Poland; long-time member of the Warsaw Stock Exchange (from 1995 to 2003). Mr. Chalupec serves on the Supervisory Board of Budimex S.A. (Ferrovial Agroman Group), since 2007, he has also been a member of the Polish Business Council, the Program Board of the Economic Forum (Polish Economic Forum in Krynica), the Executive Club Program Council, a member of the Council of the Institute of Public Affairs Foundation, a member of the Main Board of the Polish Institute of Directors, a member of the Lesław A. Paga Award Committee, Vice President of the Polish Bridge Association, a 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. Chalupec has won numerous awards and distinctions, including: Manager Award (2012), Lesław A. Paga Award (2007), VECTOR (2006) and HERMER awards (1996). Since 18 June 2009, he has served as a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Jenny Grey Member of the Supervisory Board	In February 2016, Ms. Jenny Gray assumed the position of Citi HR Head for the EMEA Region. Previously, from October 2012, Ms. Gray served as Head of Public Relations for the EMEA Region and was responsible for protecting and strengthening Citi's reputation in the EMEA Region. Her responsibilities included media relations, internal and external communications, brand and community development. Ms. 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 throughout the government sector. In previous years, she worked in the public sector where she served as Director of Communications and Social Marketing, including in the National Health Service and on the Audit Committee. She was also Corporate and International Director at Cancer Research UK, the largest charity foundation in the United Kingdom, where she set up the first unit responsible for public policy and support. Ms. Gray began her professional career in advertising and then became a public relations consultant specializing in reputation and crisis management. She has advised many international clients, including corporations such as McDonald's, Toyota, BP and Allied Domecq. She earned a Master's Degree in Social Psychology from the London School of Economics and earned degrees with honors in English and English literature from Durham University. Since 21 June 2016, she has served as a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A.

Marek Kapuściński Member of the 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 was associated with Procter & Gamble for 25 years till September 2016. He is the co-creator of the company's success on the Polish and Central European market, including numerous standards for the functioning of the Polish market since the time of transformation. They encompass standards for the cosmetics industry, business ethics, social responsibility, and 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 Central European 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 startups and donates for the development of young Polish culture and art. Since 29 September 2016, he has served as a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Gonzalo Luchetti Member of the Supervisory Board	Mr. Gonzalo Luchetti is the incumbent head of Citi Consumer Banking in Asia and EMEA. In his role, Mr. Luchetti supervises all Consumer Banking operations, including deposits, Wealth Management, bancassurance, small business, credit cards, individual client loans and mortgage loans. Earlier, in 2015, he acted as the Consumer Banking Head in Asia and helped lead a significant transformation of the business by calibrating its distribution network, expanding the scale of activity of selected entities and digitization of the business model. Before coming to Asia, he worked in New York as the Global Head of Wealth Management and Insurance. He was in charge of global distribution of Citigold and Citigold Private Client products, investment and insurance products as well as of the Global International Personal Bank. In his role, he was responsible for global relations with asset management companies and insurance companies. Moreover, in 2009 he was in charge of International Personal Banking in the US. Mr. Luchetti joined Citi in 2006 as the Citi Head for Private Banking Strategy in Latin America, where he managed activities related to growth strategy, the search for sources of gains, client segmentation and boosting sales productivity. Then, in 2007 he also became CFO of that business. Before joining Citi, he worked at JP Morgan Chase in Business Optimization for the International Financial Services division. Beforehand, he worked for Bain & Company as a management consultant in the San Francisco and London offices. Mr. Luchetti holds an MBA from Standford University's Graduate School of Business and a BA in Computer Sciences from the Technological Institute of Buenos Aires. He holds FINRA US Securities Registration Series 7, 63, 24 and 65 licenses. Since 24 September 2019, he has served as a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Anna Rulkiewicz Member of the Supervisory Board	Since 2007, Ms. Anna Rulkiewicz has been the President of the Management Board of the LUX MED Group, which she joined in 2002 as a Member of the Management Board and Sales and Marketing Director. Since the end of 2011, she has also performed duties of the Managing Director of LMG Försäkrings AB, whose branch operates in Poland under the business name LUX MED Ubezpieczenia (Insurance). Since 2011, Ms. Rulkiewicz has been the President of Private Medicine Employers (Pracodawcy Medycyny Prywatnej) and since 2016 she has been the Vice President of Employers of Poland (Pracodawcy RP). Ms. Rulkiewicz gained professional experience by, among others, managing the Sales and Marketing Department at Credit Suisse Life & Pensions Towarzystwo Ubezpieczeń na Życie S.A. and at Powszechne Towarzystwo Emerytalne (General Pension Company)/Winterthur in the years 2001-2002, where she supervised the departments of internal and external sales, group insurance, marketing and communication. In the years 1998-2001, Ms. Rulkiewicz worked for Zurich Towarzystwo Ubezpieczeń na Życie S.A. and Zurich Powszechne Towarzystwo Emerytalne S.A. In her capacity as the Group Insurance and Training Director, she was responsible for, i.a. the group insurance segment, including development of services, the recruitment system and training management. After becoming the Corporate Client Segment Head and being appointed a member of the Management Board of Zurich Towarzystwo Ubezpieczeń na Życie S.A., she was responsible for the Small Business and Corporate Client Segment. From 1995-1998, she worked for Commercial Union Towarzystwo Ubezpieczeń na Życie S.A., where she was responsible, among others, for developing sales of group and individual insurance under bancassurance. Ms. Rulkiewicz is a graduate of Nicolaus Copernicus University in Toruń (Uniwersytet Mikołaja Kopernika w Toruniu), where in 1994 she was awarded a Master's degree. Ms. Rulkiewicz is also a graduate of the University of Hamburg. In 1998, she completed postgraduate studies at the Polish and French Institute of Insurance (Polsko-Francuski Instytut Ubezpieczeń) and a range of training courses in, among other fields, management, sales, communication, and marketing organized under the certified insurance industry program LIMRA "Marketing Strategies for Executive Advancement" (LIMRA Executive Development Group). In 2018, she also completed the Stanford Executive Program at the Stanford University's Graduate School of Business. From 2013-2017, Ms. Rulkiewicz was also a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A., and was again appointed to the Supervisory Board on 5 June 2019.
Barbara Smalska Member of the Supervisory Board	In 2015-2017, Ms. Barbara Smalska held the function of the Vice President of the Management Board of Alior Bank S.A., responsible for strategy, mergers (specifically for legal and operational integration with separated operations of Bank BPH S.A. and for merger-related synergies), remote channels (online sales and online and mobile banking development), and for other development and IT projects. Since 2008, she has worked for PZU Group: as the Director of the Product Management Office (2008-2010) and the Managing Director for Mass Market (2010-2012); she was in charge of various aspects of PZU Group's individual client and SME segment management, notably she has been responsible for product management, marketing and sales, and for analytical CRM. From 2013-2014, as a member of the PZU S.A. and PZU Życie S.A. Management Board, she was responsible for PZU Group's individual client and SME segment as a whole. As the Chairperson, and then as an independent member of Link4 TU S.A.'s Supervisory Board (2014-2016), she was in charge of supervising the process of incorporating Link4 into PZU Group. Ms. Smalska also joined PTE PZU S.A.'s Supervisory Board (2013-2014). Ms. Smalska began her professional career in 2002 at the Boston Consulting Group's Warsaw Office. As Associate, Senior Associate, and Consultant in the years 2002-2006, she was involved in many projects conducted for financial and telecommunications sectors in Poland and in Central and Eastern Europe in, among other fields, business strategy, operational model, sales network organization and activation, cost reorganization and optimization. From 2006-2008, as the Project Leader and next as a Principal, she managed strategic projects for the largest Polish banks, insurance companies and telecom companies, mainly in business strategy and distribution strategy in the retail client segment. Ms. Smalska is a graduate of the University of Warsaw (Uniwersytet Warszawski), where in 1997 she was awarded a Master's degree in physics and in 2001 a PhD in high energy experimental physics. Since 5 June 2019, she has served as a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A.

Stanisław Sołtysiński Member of the Supervisory Board	Mr. Stanisław Sołtysiński is a 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 the "Sołtysiński, Kawecki i Szlęzak" Doradcy Prawni law firm. Professor Sołtysiński has been a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A. since 26 March 1997, and its Chairman between 30 June 2000 and 20 June 2012. Since 21 June 2012, he has served as a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A.
Zdenek Turek Member of the Supervisory Board	Mr. Zdenek Turek currently oversees all Citi's businesses in Europe. He is the Cluster Head for Europe and CEO of Citibank Europe, plc. He is based in Dublin, where Citi provides a broad range of services in corporate and investment banking, transaction services, as well as securities and capital markets products across the WE region, one of Citi's largest markets globally. Prior to that, Mr. Turek was the CEO for Eastern and Central Europe and the Citi Country Officer in Russia based in Moscow. Citi's business in the region covered 8 CEE countries. From 2005 to 2008, Mr. Turek was Citi Country Officer for South Africa and managed the Region of Africa (as Division Head for Africa), covering 16 countries in the region where Citi has its business. From 2002-2005, Mr. Turek was the Citi Country Officer for Hungary and also oversaw the Region of Central Europe covering five countries (Hungary, the Czech Republic, Romania, Slovakia and Bulgaria). Mr. Turek joined Citi in 1991 in Prague, where he held a number of Banking and Corporate Finance management roles before being promoted to Citi Country Officer in Romania in 1998. Prior to joining Citi, Mr. Turek worked at the Foreign Exchange Department of the Central Bank of Czechoslovakia, focusing mainly on Export/Import and Services sectors (1986-1990). He then joined A.I.C., an Austrian-owned management consulting company, as Deputy Head of the Representative Office in Prague, where he was responsible for corporate advisory in restructuring and financial recovery of industrial enterprises. Mr. Turek graduated with an MA in Finance and Banking from the University of Economics, Prague, in 1986. He further studied at the Wharton School of the University of Pennsylvania, where he completed an Advanced Management Development Program in 1997. In 2010, he graduated from the Executive MBA program at INSEAD Business School. From 2012-2016, Mr. Turek was a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A., and was again appointed to the Board on 24 September 2019.
Stephen R. Volk Member of the Supervisory Board	Mr. Stephen R. Volk is the Vice Chairman of Citigroup Inc., responsible for matters related to both senior-level management and investment banking. He is a member of the Citigroup Executive Committee. Mr. Volk has been associated with Citigroup since September 2004. Until then, he served as Chairman of Credit Suisse First Boston, where he worked closely with the President of the Management Board on strategic management and key customer issues. He joined Credit Suisse First Boston in August 2001, moving from Shearman & Sterling, a New York law firm, where he was a Senior Partner since 1991. While at Shearman & Sterling, Mr. Volk was a legal counsel to numerous corporations, including Citicorp. Among the many areas in which Mr. Volk's firm advised Citicorp was also the restructuring of Citicorp's Latin American debt portfolio. Significant transactions in which Mr. Volk played a key role include mergers of Glaxo and SmithKlein, Viacom-Paramount, Viacom-CBS and Vivendi-Universal-NBC. He joined Shearman & Sterling in 1960, after graduating from Dartmouth College and Harvard Law School, becoming a partner in 1968. Mr. Volk is a Director at Continental Grain Company, and also a former Director at Consolidated Edison, Inc. and Trizec Hahn Properties. He is also a member of the Council on Foreign Relations, the Harvard Law School Dean's Advisory Board and a member of the American Bar Foundation. Since 20 November 2009, he has served as a Member of the Supervisory Board of Bank Handlowy w Warszawie S.A.

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

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

The Supervisory Board operates on the basis of generally applicable laws, the Articles of Association and 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 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 the Bank's operations,
20) approval of the regulations for the compliance unit and 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 annual reporting by the compliance unit on the fulfillment of its tasks to the Bank's Management Board and 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, authority which may be assigned, by a resolution, to the Audit Committee,
32) authorization for every cooperation on audits between the Audit Department with the corresponding unit at the parent entity, 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 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 no more than three months, in the capacity of those Management Board members who have been recalled, have submitted their 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 the 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 proposals as to profit distribution. The Supervisory Board submits that document to the General Meeting for approval.

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

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

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

1) authorization for the Company to enter into any significant agreement with a shareholder holding at least 5% of the total number of votes in the Company or an entity related to the Company;
2) selection of an auditing company to audit or review the Company's financial statements.

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

The Supervisory Board adopts resolutions in an open vote, with the exception of appointment and recall, by secret ballot, of the President of the Management Board, and appointment and recall, by secret ballot, of Vice Presidents and other members of the Company Management Board. The 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 and the 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 the 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 include the:

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 for such a committee.

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

Audit Committee

The Audit Committee is composed of the following members:

1) Barbara Smalska – Chairman of the Committee;
2) Frank Mannion – Vice Chairman of the Committee;
3) Shirish Apte – Member of the Committee;
4) Igor Chalupec – Member of the Committee;
5) Marek Kapuściński – Member of the Committee;
6) Anna Rulkiewicz – Member of the Committee;

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

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

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

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

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

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

1) Barbara Smalska – has practical professional experience gained over many years at managerial positions in the PZU Group, including: Vice President of the Management Board of Alior Bank S.A., as Chairperson, and previously as an independent member of the Supervisory Board of Link4 TU S.A., as a Member of the Supervisory Board of PTE PZU S.A., as a Member of the Management Board of PZU S.A. and PZU Życie S.A. and recently as a Principal at the Boston Consulting Group's Warsaw offices,
2) Frank Mannion – graduated from the National University of Ireland in Galway, earning a degree in commerce. He also has the title of Chartered Accountant;
3) Shirish Apte earned a diploma as a Chartered Accountant from the Institute of Chartered Accountants in England and Wales and a bachelor's degree in commerce. Mr. Apte also has an MBA from the London Business School.
4) Anna Rulkiewicz – completed the Stanford Executive Program at the Stanford University's Graduate School of Business.

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

1) Barbara Smalska – due to her practical professional experience gained over many years at managerial positions in the PZU Group, including: Vice President of the Management Board of Alior Bank S.A., as Chairperson, and previously as an independent member of the Supervisory Board of Link4 TU S.A., as a Member of the Supervisory Board of PTE PZU S.A., as a Member of the Management Board of PZU S.A. and PZU Życie S.A. and recently as a Principal at the Boston Consulting Group's Warsaw offices,
2) Frank Mannion – due to his education, the title of Chartered Accountant and professional experience which includes many years of service at managerial positions in Citi;
3) Shirish Apte – due to his education, a diploma as a chartered accountant obtained at the Institute of Chartered Accountants in England and Wales, and professional experience which includes many years of service at managerial positions in Citi;
4) Igor Chalupec – due to his education and professional experience, including service in the capacity of Vice President of the Management Board of Bank Pekao S.A.
5) Anna Rulkiewicz – due to her educational training and practical professional experience gained over many years at managerial positions at the Lux Med Group, where she began as a Member of the Management Board, Sales and Marketing Director, and in 2007 after her appointment as the President of the LUX MED Group, and at her position as the Managing Director of LMG Försäkrings AB, whose branch operates in Poland under the name LUX MED Ubezpieczenia (insurance), and President of the Management Board of the Association of Private Medicine Employers (Związek Pracodawców Medycyny Prywatnej).

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

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

The Audit Committee meets:

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

The Audit Committee may also meet:

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

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

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

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

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

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

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

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is composed of:

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

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

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

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

1) review and monitor the remuneration policies adopted at the Bank and support the Bank authorities in supervising, shaping and implementing those policies, their validity and 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. A Committee member who is unable to attend a meeting should notify the Committee Secretary seven days before the fixed date of the meeting. The Committee may make use of external experts. In case of cooperation with an external expert, the Committee shall review the appointment of such experts. A meeting of the Committee or an appropriate part of a meeting is attended by persons invited by the Chairman of the Committee and especially persons who are to present particular matters.

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

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

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

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

Risk and Capital Committee

The Risk and Capital Committee is composed of:

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

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

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

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

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

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

A notice convening a meeting, setting out the agenda and materials for the meeting, is sent to members of the Committee by the Committee Secretary who is the Secretary of the Supervisory Board. The 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 an 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 – a company belonging to the Bank's capital group

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

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

Three CG Rules are not applied by DMBH:

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

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

13. Diversity Policy

In its operations, Bank Handlowy w Warszawie S.A. applies solutions based on diversity which is the hallmark of Citi's corporate culture and 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 are applied at three levels:

- For 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.
- For teams – the Bank strives to ensure an atmosphere of respect in which diverse teams utilize a wide range of perspectives, skills, experiences and approaches.
- For 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 focuses on the careers and development of female employees who manage vital organizational units in Citi Handlowy. In 2019, the proportion of women to men employed in the recruitment process increased, reaching 58% of women to 42% of men, compared to 54% of women and 46% of men employed in 2018.

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

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

The Bank's business variety and specific needs determine directions and requirements concerning the professional knowledge necessary to preserve the best quality services for internal and external clients alike.

The Bank ensures support for employee initiatives and commitment to others and to our organization. This support is demonstrated by the organizations which bring Bank employees together in different types of activities. The two largest and longest operating initiatives in Citi Handlowy are CitiClub and CitiWomen. Citi Parents, Citi Disability and Citi Pride also operate in the Bank.

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

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

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

Out of concern for the well-being of its employees, Citi Handlowy provides a wide range of additional benefits, which represent one of the richest offers on the market.

The Bank strives to be a company which attracts 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 practiced, where employees treat each other with respect and dignity, and can 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 with respect to discrimination, unequal treatment, harassment and actions which can bring about the proper organizational climate for fostering the fair play principle at the workplace (primary prevention).

A dialog 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 employee inboxes in the internal "Puls CitiHandlowy" newsletter.

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 direct questions to the hosting Member of the Management Board and invited guests.

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

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

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

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

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

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

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

1. Information regarding the remuneration policy

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

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

The Group's philosophy of remunerating people covered by the "Authorized Persons Remuneration Policy" assumes differentiation of the remuneration of individual employees based on financial or non-financial criteria, such as risk-taking and compliance with regulations, in order to reflect their input and to complement effective risk control mechanisms by limiting incentives to take unreasonable risks on behalf of the Group and its operations, and by rewarding a thoughtful balance between risks and returns. According to that philosophy, the variable remuneration of people covered by the "Authorized Persons Remuneration Policy" depends on both short-term and long-term assessment of individual performance and financial results of the Bank or DMBH or the relevant organizational unit, respectively, while the persons serving in control roles are not evaluated for the performance of their supervised units. Work performance assessment in the Bank or DMBH 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 of deferred variable remuneration must be approved each time by the Supervisory Board – in relation to the Management Board and by the Management Board – in relation to other employees.

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

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

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

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

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

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

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

Equity awards granted in 2019 include deferred cash prizes 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, also granted in previous years.

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

(1) *Employed from 1 July 2015*

(2) *Employed from 1 February 2019*

(3) *Employed from 11 January 2016*

(4) *Employed from 31 March 2018*

(5) *Employed until 31 March 2018*

(6) *Employed until 19 February 2018*

(7) *Employed until 22 June 2015*

(8) *Employed until 31 July 2015*

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

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

(1) Employed from 1 July 2015

(2) Employed from 11 January 2016

(3) Employed from 31 March 2018

(4) Employed until 31 March 2018

(5) Employed until 31 January 2015

(6) Employed until 28 February 2011

(7) Employed until 22 June 2015

The remuneration paid and due in 2019 to persons managing subsidiaries amounted to PLN 3,116 thousand (in 2018: PLN 3,061 thousand). Persons supervising subsidiaries did not collect any remuneration for their services in 2019 and 2018.

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

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

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

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

As at 31 December 2019 and 31 December 2019, 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 the 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 for a period of 12 months (6 months in the case of one of the Management Board Members) following termination of the employment agreement with the Bank and that the Bank will pay relevant compensation to the Management Board Member.

5. Management policy

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

XII. Information on pending court proceedings

In 2019, there were no proceedings with significant value regarding receivables or liabilities of the Bank or its subsidiary pending in court, or before a public administration authority or arbitration authority. A detailed description of pending court proceedings is provided in Note 39 to the Annual Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ending 31 December 2019.

XIII. Agreements concluded with the registered audit company

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

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

In order to meet the requirements of 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:

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

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

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

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

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

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

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

XIV. Subsequent events

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

XV. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

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

Other information required by the Regulation of the Minister of Finance of 29 March 2018 on current and periodical reporting by issuers of securities and on the conditions under which the legally required information originating in a non-member state can be deemed equivalent thereof (Journal of Laws of 2018 item 757, as amended), in particular transactions with related companies and guarantees and sureties granted, are included in the Annual Consolidated Financial Statements of the Capital Group of the Bank.

Signatures of Management Board Members

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

Assessment of the Supervisory Board with justification concerning the Management's Report on Activities and Financial Statements for 2019

The Supervisory Board of Bank Handlowy w Warszawie S.A. (further referred to as "Supervisory Board") on the basis of Article 382 §3 of the commercial code with § 70.1.14 as well as § 71.1.12 of the "Ordinance of the Minister of Finance of 29 March 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by non-Member states as equivalent", positively assessed the documents:

1. the Annual financial statements of Bank Handlowy w Warszawie S.A. for the year ending 31 December 2019
2. the Annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the year ending 31 December 2019
3. the Management's Report on Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the year 2019 including a Report on the Activities of Bank Handlowy w Warszawie S.A.

as consistent with the books and documents as well as with the factual status.

The opinion of the Supervisory Board was based on the content of the aforementioned reports presented by the Management Board of Bank Handlowy w Warszawie S.A., reports of the independent auditor from the audit of standalone and consolidated financial statements as well as the recommendation of the Audit Committee.

Audit of the financial statements was conducted by KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, with its seat in Warsaw, which was elected by the Supervisory Board to conduct the audit of standalone financial statements of Bank Handlowy w Warszawie S.A. and consolidated financial statements of the Group of Bank Handlowy w Warszawie S.A. for the year ending 31 December 2019.

According to the statutory auditor's opinion, both standalone and consolidated financial statements give a true and fair view of the financial results and operations of the Bank and the Bank Group as of 31 December 2019, as well as the financial results of activities and cash flows for the year ending on that date and were prepared in accordance with the International Financial Reporting Standards endorsed by the European Union and relevant accounting policies. Moreover, standalone and consolidated financial statements are compliant, in all material aspects, with the form and content of applicable laws and the Statute of Bank Handlowy w Warszawie S.A.

Additionally, in the opinion of the independent auditor, the Management Board's Report on Activities of the Group of Bank Handlowy w Warszawie S.A. for 2019, prepared together with the Report on Activities of Bank Handlowy w Warszawie S.A, were prepared, in all material aspects, in accordance with applicable laws and are consistent with information included in the consolidated financial statements.

On behalf of the Supervisory Board

Andrzej Olechowski, PhD

Chairman of the Supervisory Board of Bank Handlowy w Warszawie S.A.

Warsaw, 25 March 2020

The Supervisory Board's Resolution, in connection with § 70.1.8 and § 71.1.8 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent

The Supervisory Board, in connection with § 70.1.8 and § 71.1.8 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent, with due consideration of the Audit Committee's assessment included in the Audit Committee's report on its activities during 2019, hereby resolves as follows:

a) The provisions regarding the appointment, composition and operation of the Audit Committee of the Bank's Supervisory Board have been complied with, including those regarding the fulfillment of independence criteria and the requirements as to knowledge and skills in the field of finance, accounting or audit of financial statements by its members;

b) The Audit Committee of the Bank's Supervisory Board has fulfilled the audit committee tasks as provided for in the applicable regulations.

On behalf of the Supervisory Board

Andrzej Olechowski, PhD

Chairman of the Supervisory Board of Bank Handlowy w Warszawie SA

Warsaw, 25 March 2020

Information of the Management Board of Bank Handlowy w Warszawie SA on the selection of the audit firm to audit annual financial statements of the Bank and the Capital Group of the Bank

The Management Board of Bank Handlowy w Warszawie SA, in connection with § 70.1.7 and § 71.1.7 of the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent, the Supervisory Board of Bank Handlowy w Warszawie S.A. (hereinafter referred to as the Supervisory Board), based on the Resolution of the Supervisory Board of 25 March 2020 on the selection of the audit firm to audit annual financial statements of the Bank and the Capital Group of the Bank, hereby resolves as follows:

a) The selection of KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as an audit firm to audit annual financial statements of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. for 2019, was duly carried out in compliance with the regulations, including those governing the audit firm selection and selection procedure;

b) KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa and the members of the audit team have satisfied the conditions to issue an impartial and independent report from the audit of annual financial statements in accordance with the applicable regulations, auditing standards and principles of professional ethics;

c) The binding regulations on rotation of the audit firm and key auditor as well as mandatory breaks in audit engagements have been complied with;

d) Bank Handlowy w Warszawie S.A. has the audit firm selection policy and the policy regarding the provision of additional non-audit services for Bank Handlowy w Warszawie S.A. by the audit firm, its affiliate or member of the audit firm's network, including any services that are conditionally exempted from the ban on provision by the audit firm;

Signatures of Management Board Members

25.03.2020	Sławomir S. Sikora	President of the Management Board	
Date	Name	Position/function	Signature

25.03.2020	Natalia Bożek	Vice-President of the Management Board	
Date	Name	Position/function	Signature

25.03.2020	Maciej Kropidłowski	Vice-President of the Management Board	
Date	Name	Position/function	Signature

25.03.2020	Barbara Sobala	Vice-President of the Management Board	
Date	Name	Position/function	Signature

25.03.2020	James Foley	Member of the Management Board	
Date	Name	Position/function	Signature

25.03.2020	Katarzyna Majewska	Member of the Management Board	
Date	Name	Position/function	Signature