REPORT
on the activities of the Supervisory Board of Bank Handlowy w Warszawie S.A.

for the period from the date of the Annual General Meeting of Shareholders in 2018
to the date of the Annual General Meeting of Shareholders in 2019

1. Members of the Supervisory Board

1.1. In the reporting period, the Supervisory Board was composed of:

- Mr. Andrzej Olechowski, Chairman of the Board, entire reporting period
- Mr. Frank Mannion, Vice Chairman of the Board, entire reporting period
- Mr. Shirish Apte, Member of the Board, entire reporting period
- Mr. Marek Belka, Member of the Board, entire reporting period
- Mr. Grzegorz Bielicki, Member of the Board, entire reporting period
- Mr. Igor Chalupec, Member of the Board, entire reporting period
- Ms. Jenny Grey, Member of the Board, entire reporting period
- Mr. Marek Kapuściński, Member of the Board, entire reporting period
- Mr. Marc Luet, Member of the Board, entire reporting period
- Mr. Anand Selvakesari, Member of the Board, entire reporting period
- Mr. Stanisław Sołtysiński, Member of the Board, entire reporting period
- Mr. Stephen R. Volk, Member of the Board, entire reporting period

1.2. Independent Members of the Supervisory Board

In the opinion of the Supervisory Board, the Independent Members of the Supervisory Board within the meaning of the Articles of Association of the Bank are as follows:

- Mr. Andrzej Olechowski, Chairman of the Board
- Mr. Shirish Apte, Member of the Board
- Mr. Marek Belka, Member of the Board
- Mr. Grzegorz Bielicki, Member of the Board
- Mr. Igor Chalupec, Member of the Board
- Mr. Marek Kapuściński, Member of the Board
- Mr. Stanisław Sołtysiński, Member of the Board

1.3. Evaluation of the composition of the Supervisory Board

Assessment of suitability and independence.

The Supervisory Board wants to emphasize that, during the entire reporting period, it was composed of persons demonstrating the extensive knowledge of law, economics, banking, management and finance. Members of the Supervisory Board have practical knowledge acquired as managers in international economic institutions. Members of the Supervisory Board have adequate knowledge, skills and experience. In the Supervisory Board’s opinion, the expertise of its Members ensures due performance of its tasks resulting from applicable laws and regulations and the composition of the Bank's Supervisory Board accommodates a broad range of competencies required to govern all material areas of the Bank's activity. The structure of the Board, including its committees, is designed so that the Board and its committees could make the most of the expertise of its Members contributing to the accomplishment of goals and objectives assigned to the Supervisory Board.

1.4. During the reporting period, the Committees of the Supervisory Board were composed of:

1.4.1. Audit Committee

- Mr. Grzegorz Bielicki, Chairman of the Committee, entire reporting period
The Supervisory Board considers the following persons to be members of the Audit Committee of the Supervisory Board of Bank Handlowy w Warszawie S.A. having knowledge and skills in accounting and audit of financial accounts:

1) Mr. Shirish Apte due to the following: (i) education - he earned a diploma of Chartered Accountant from the Institute of Chartered Accountants in England and Wales and a bachelor's degree in commerce. Mr. Shirish Apte also has an MBA from London Business School; (ii) professional experience;

2) Mr. Frank Mannion due to the following: (i) education - he graduated from the National University of Ireland in Galway, earning a degree in commerce. He has also earned the title of Chartered Accountant; (ii) professional experience;

3) Mr. Grzegorz Bielecki due to the following: (i) education - He has a master's degree in economics obtained at the Foreign Trade Department of the Warsaw School of Economics; (ii) professional experience;

4) Mr. Igor Chalupec due to the following: (i) education – he is a graduate of the Foreign Trade Department of the Warsaw School of Economics (SGH) and of Faculty of Law and Administration of the University of Warsaw; (ii) professional experience.

The following members of the Audit Committee are independent within the meaning of Article 129(3) of the Act of May 11, 2017 on auditors, audit firms and public supervision: Mr. Grzegorz Bielicki, Mr. Igor Chalupec and Mr. Marek Kapuściński.

### 1.4.2. Nomination and Remuneration Committee

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<tr>
<th>Name</th>
<th>Position</th>
<th>Reporting Period</th>
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<tr>
<td>Mr. Andrzej Olechowski</td>
<td>Chairman of the Committee</td>
<td>entire reporting period</td>
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<tr>
<td>Ms. Jenny Grey</td>
<td>Vice Chairman of the Committee</td>
<td>entire reporting period</td>
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<tr>
<td>Mr. Marc Luet</td>
<td>Member of the Committee</td>
<td>entire reporting period</td>
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<tr>
<td>Mr. Stanislaw Sołtysiński</td>
<td>Member of the Committee</td>
<td>entire reporting period</td>
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### 1.4.3. Strategy and Management Committee

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<tr>
<td>Mr. Marek Belka</td>
<td>Chairman of the Committee</td>
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<td>Mr. Mirosław Gryszka</td>
<td>Member of the Committee</td>
<td>entire reporting period</td>
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<td>Mr. Marek Kapuściński</td>
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<td>Mr. Stephen R. Volk</td>
<td>Member of the Committee</td>
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1.4.4. Risk and Capital Committee

Mr. Frank Mannion  Chairman of the Committee  entire reporting period
Mr. Igor Chalupec  Vice Chairman of the Committee  entire reporting period
Mr. Marek Belka  Member of the Committee  entire reporting period
Mr. Marek Kapuściński  Member of the Committee  entire reporting period
Mr. Marc Luet  Member of the Committee  entire reporting period
Mr. Andrzej Olechowski  Member of the Committee  entire reporting period
Mr. Anand Selvakesari  Member of the Committee  entire reporting period
Mr. Stephen R. Volk  Member of the Committee  entire reporting period

1.5. Meetings of the Supervisory Board and its Committees

In the reporting period, the Supervisory Board held five meetings, and its Committees: Audit Committee – 3, Risk and Capital Committee – 3, Remuneration Committee – 4, Strategy and Management Committee – 2.

2. ASSESSMENT OF THE FINANCIAL RESULTS AND GENERAL CONDITION OF THE COMPANY

The economic growth rate in Poland grew to approximately 5.0% in 2018 from 4.6% in 2017. Such growth was mainly driven by a revival in investments, which rose to 7.5% from 3.4% year-on-year, following inflows of EU funds, and was reflected in construction output growing at a faster rate. On the other hand, a slight slowdown was reported in private consumption falling from 4.8% to 4.6% in 2018, propped up by increased salaries in the enterprise sector with falling unemployment.

In 2018, the net profit of the banking sector rose by 7.5%, to PLN 14.7 billion, as compared to PLN 13.6 billion in 2017. Improved net interest income added most to the increased net profit. Higher interest revenues fueled by higher credit volumes bolstered such net interest income. The largest growth rate in 2018 was visible mainly in loans to retail clients (mortgage and consumer loans). On the other hand, growth in net interest income was partially compensated by a lower net commission income and higher operating expenses mainly due to higher personnel costs.

The Bank earned a net profit of PLN 653.1 million, i.e. 22% higher versus prior year. The high profitability of the Bank and its safe and stable capital position are the main areas where the Bank surpassed its competitors. The key factors affecting the financial result in 2018 include an increase in operating revenues, supported by consistent cost discipline and positive net impairment charges for financial assets.

Operating revenues amounted to PLN 2,149 million in 2018 and were higher by PLN 105 million (or 5.1%) as compared with 2017. The above increase was propelled first and utmost by a higher result from treasury operations, attained thanks to, among other factors, growing volumes of foreign exchange transactions, partially offset by a lower result from the interbank market operations.

In 2018, rising credit volumes from clients contributed to an increase in the Bank’s net interest income by PLN 26 million, namely it grew by 2.4%, as compared to 2017. At the same time, as compared to 2017, the net commission income dropped by PLN 14 million, namely by 2.6% as a consequence of a downturn on the domestic equity market and an increased risk aversion on the part of customers.

In 2018, as in the prior year, the Bank strived to maintain cost discipline. On the one hand, automation and digitalization allowed the Bank to slash costs of support and maintenance processes and on the other hand, the Bank invested in sales of products by, among other efforts, increasing expenses on advertisement and marketing.
In 2018, net impairment losses on financial assets were reduced by PLN 36 million against 2017, mainly as a result of the stabilization of a loan portfolio and the repayment of several loan exposures in institutional banking.

For the Bank, it was another year of sustainable growth of lending. In the Institutional Clients Group (ICG), the growth rate reached 13%, i.e. above the GDP growth rate in 2018, and in the Global Consumer Banking (GCG) business the volumes increased by 5%. As far as the acquisition of new retail volumes is concerned, those efforts were mainly conducted via electronic channels, e.g. in the acquisition of new cash loans.

As at the end of 2018, shareholders’ equity was practically unchanged versus the end of the previous year. The Supervisory Board believes that the level of capitals maintained by the Bank is sufficient to ensure its financial security, as well as the security of deposits entrusted to it, and to stimulate its further growth.

As of December 31, 2018, the capital adequacy ratio of the Bank was 16.5%. The high level of the capital adequacy ratio achieved by the Bank confirms its financial security and strong capital base.

Considering that in 2019, in both global and Polish economy such risks may appear as: sluggish global economic growth, the pace of monetary tightening by main central banks in the world, and growing pay pressure in Poland - the Supervisory Board will continue its close cooperation with the Management Board to monitor the impact of those risk factors on the situation of the Bank.

Taking into consideration the financial results achieved, the safe position of the Bank, the stable capital and liquidity ratios and the consistent and coherent strategy of the Bank, the Supervisory Board’s assessment of the activities of the Bank in 2018 is positive. Simultaneously, the Supervisory Board is convinced that both already started and planned initiatives will contribute to an increase in shareholder value by allowing the Bank to achieve optimal financial results and market position despite a challenging market environment.

3. ASSESSMENT OF RATIONALITY OF THE BANK’S POLICY IN THE AREA OF CORPORATE SOCIAL RESPONSIBILITY AND SPONSORING

3.1. Corporate social responsibility of the Bank

The Bank is an institution which, since the beginning of its nearly 150-year history, has considered social and environmental aspects in its decisions, and which follows the expectations of both its business and social partners. There is no trust without responsibility. And long-term development and success are not possible without trust. The Bank would not have its 150 year history if not for the Bank’s sense of responsibility for environment. The very approach changed depending on historical situations and current needs but the Bank always was, is and will be the citizen of communities, in which it operates and with the help of which it builds its success.

In regard to the requirement to approach comprehensively the issue of corporate social responsibility management, the Bank identified business activities which were of key importance from the point of view of social and community environments (taking into consideration the specifics of a conducted activity). They include activities related to investments and products, secure accessible banking services, reduction of environmental impacts, concern for people, development of communities, and responsible management.

Furthermore, the Bank's ambition is to remain, in the long term, the leader in social responsibility among banking institutions in Poland. This commitment is appreciated by placing continuously the Bank in the Respect Index ranking organized by Giełda Papierów Wartościowych w Warszawie S.A. In addition, in 2018, the Bank was awarded the title “Super Ethical Company” in a competition organized by Puls Biznesu. For many years, to a significant extent in reliance on the activity of the established corporate foundation (The
In 2018, the Foundation carried out programs related to entrepreneurship and financial education. As every year, “Poles’ Attitudes Towards Saving” survey was conducted. For eleven years now, the survey has been appreciated by both media and opinion leaders and it is perceived as the most reliable and authoritative survey of its kind in Poland. The Foundation is also organizing the competition for the Emerging Market Champions Citi Handlowy Award – the purpose of the competition is to promote enterprises which with success roll out their activity abroad. Another systemically relevant program of the Foundation is IT for She, an undertaking implemented in a coalition with seven international technological companies. The project supports the career development of young women in IT. In 2018, 35 charges benefited from the mentors’ specialist knowledge. 120 IT female specialists from all over Poland took part in technological workshops and energetic networking during Women in Tech Camp. A volunteering campaign, in which 80 talented female IT students taught new technologies at primary schools in little towns from July to September, benefited 2000 children. On 27 and 28 November 2018, also Women in Tech Summit was organized - the largest event for women in technologies in that part of the world. Moreover, the Foundation was involved in programs funded by Citi Foundation, such as, for instance, Business in Women’s Hands. It is the initiative implemented together with the Foundation for Female Entrepreneurship addressed to 50 women who want to start their own company.

The Foundation also followed up activities in the scope of protection of cultural heritage, the most important of which is the annual Professor Aleksander Gieysztor Award. Its aim is to support persons or institutions rendering great service to the protection of Polish cultural heritage both in Poland and abroad. The 20th edition of the Award was won by bishop Waldemar Pytel for more than 30 years of his efforts to save, revitalize and restore the splendor of the Lutheran block of streets along with the Church of Peace in Świdnica – the UNESCO World Heritage Site. Thanks to the extraordinary determination of bishop Waldemar Pytel, Świdnica is an authentic place of dialogue between cultures and nations today.

In 2018, the Foundation coordinated Employee Volunteering Program. As in the previous years, the key project was the Citi’s Global Community Day, which celebrated its thirteenth anniversary. Its participants included volunteers from Citi and Bank Handlowy, their families and friends. The volunteers carried out 207 social projects for almost 38,000 beneficiaries. Other activities within the frames of the employee volunteering are: integration trips involving volunteering, the action “Become Santa’s Helper” and individual volunteering. Since its kickoff (2005), Citi employees in Poland have been involved in the program as many as 27 400 times, working more than 147 000 hours. Thanks to their commitment, over 325 000 persons across the whole country received aid.

Full description of its activities is available in the Bank’s Annual Report and on the website www.kronenberg.org.pl.

3.2. Sponsoring

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

As part of its cooperation with the American Chamber of Commerce, the Bank was a partner of the AmCham Diner organized during the European Economic Congress in Katowice, the Economic Forum in Krynica and the Congress 590 in Rzeszów. Representatives of the Bank participated in many panel discussions during all those events. Citi Handlowy was a sponsor of the Polish edition of Graham Allison’s Destined for War: Can America and China Escape Thucydides’s Trap? This book, written by a renowned historian from Harvard University and
a practitioner in the field of international relations, is an insightful analysis of possible scenarios of future competition between the United States and China.

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

In 2018, the Bank established cooperation with Live Nation, leading organizer of concerts and live events. The Bank offered holders of Citi Handlowy cards access to exclusive pre-sales of tickets for concerts organized throughout Poland. The strategic cooperation with Live Nation will be continued in 2019.

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

The Supervisory Board positively assesses the involvement of the Bank in the area of corporate social responsibility and sponsorship of important economic events.

4. THE ASSESSMENT OF FUNCTIONING OF REMUNERATION POLICY AT BANK HANDLOWY W WARSZAWIE S.A.

The obligation of the Supervisory Board to assess the functioning of the remuneration policy at Bank Handlowy w Warszawie S.A. results from § 28 (3) of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority (KNF) on July 22, 2014 and effective from January 1, 2015.

In 2018, issues related to remuneration at the Bank were addressed in the Bank Handlowy w Warszawie S.A. Employee Remuneration Policy approved by a resolution of the Bank’s Supervisory Board of 22 December 2017 (“Remuneration Policy”). The Remuneration Policy covers processes and rules applied at the Bank with relation to the remuneration of all employees, including in particular, key staff, persons whose professional activity significantly influences the risk profile of the Bank, employees involved in the sale of the Bank’s products and services, and employees holding control functions. The Remuneration Policy implements the provisions concerning the development of remuneration rules at banks, included in the provisions of law, the Principles of Corporate Governance for Supervised Institutions adopted by the Polish Financial Supervision Authority (“Principles of Corporate Governance”), Best Practice of GPW Listed Companies 2016, recommendations of the Polish Financial Supervision Authority concerning the banking sector and takes into consideration the EBA Guidelines on Sound Remuneration Policy, referred to in Article 74 (3) and Article 75 (2) of Directive 2013/36/EU, and the disclosure of information in accordance with Article 450 of the Regulation (EU) no. 575/2013, EBA Guidelines concerning remuneration policies and practices related to the provision and sales of consumer banking products and services, ESMA Guidelines on remuneration policies and practices (MiFID).

The Remuneration Policy is assessed as follows.

1) In accordance with the requirements, the Remuneration Policy applies to all employees at the Bank and defines a group of Key Persons designated in the Principles of Corporate Governance.
2) The Remuneration Policy properly and adequately defines rules of remuneration of employees at the Bank, including Key Persons, and the form, structure and method of determining them. The rules of remuneration applicable to Members of the Supervisory Board are regulated by way of resolutions of the General Meeting of Shareholders of the Bank.

3) The method of implementing the Remuneration Policy and the supervision exercised over the Remuneration Policy ensure that the structure of remuneration of employees at the Bank, including Key Persons, supports the long-term stability of the Bank and is in conformity with the strategy, goals and objectives, values and long-term interests of the Bank, specifically such as sustainable growth, and allows for eliminating any potential adverse impact of remuneration systems on adequate risk management.

4) The Bank properly implemented all the rules applicable to fixed remuneration included in the Remuneration Policy. In particular, the Bank diversifies amounts paid to employees, including Key Persons, as their fixed remuneration taking into consideration their professional experience, requirements concerning competences and functions in the management process of the Bank.

5) The Bank ensures appropriate remuneration for internal audit employees and compliance employees so that highly qualified specialists could be hired and retained in those units. The Audit Committee of the Supervisory Board approved the analysis of remuneration for the Audit and Compliance employees at Bank Handlowy w Warszawie S.A.

6) The Bank uses the Remuneration Policy, in addition to other measures, to promote reasonable and effective risk management and to prevent risk taking going beyond an acceptable level. Consequently, the remuneration system based on financial and non-financial performance which is used by the Bank does not reward excessive risk taking in decision making. In particular, the remuneration of each of the Members of the Management Board is determined to promote the prudent management of the Bank and on the basis of financial and non-financial performance without rewarding inappropriate decisions taken by employees.

7) While designing and approving the funds allocated to variable remuneration of the Bank's employees for 2018, including Key Staff, the Bank performed their respective verification. It confirmed that the Bank had an appropriate and solid capital base which justified the proposed value of variable remuneration and that it did not limit the Bank’s ability to increase its capital base and that it was justified by the financial situation of the Bank.

8) The detailed rules applicable to variable remuneration granted to persons having a significant impact on the risk profile of the Bank ("Authorized Persons"), including Key Persons, are regulated by the "Remuneration Policy for Persons whose Professional Activity Significantly Influences the Risk Profile of Bank Handlowy w Warszawie S.A." ("Authorized Persons Remuneration Policy"). Those rules were properly applied to grant the Authorized Persons, including Key Persons, variable remuneration in January 2019 (variable remuneration for their work in 2018), i.e.:

a) the Nomination and Remuneration Committee of the Bank’s Supervisory Board recommends and justifies the amounts and conditions of variable remuneration for persons covered by the Authorized Persons Remuneration Policy. It also expresses an opinion on the amendments to the Authorized Persons Remuneration Policy, including the amounts of components of remuneration, following the rules of prudent and stable management of risk, capital and liquidity and with special care of long-term interests of the Bank and its shareholders, investors and stakeholders. In 2018, the Nomination and Remuneration Committee of the Supervisory Board held five meetings.

b) The level of variable remuneration for work in 2018 was determined on the basis of financial and non-financial criteria, taking into account the costs of risk, costs of capital and liquidity risk of the Bank in the long-term run. Such defined variable remuneration was granted on 14 January 2019. It was divided into a non-deferred part and a deferred
part. In turn, the deferred variable remuneration was split into a short-term part, which may be vested in employees after 6 or 12 months of deferment period, and a long-term part, which is divided into three or five instalments payable, which may be vested in employees, respectively, in 2020-2022 or 2020-2024;

c) In 2018, in respect of three Authorized Persons, the Bank’s Management Board, after obtaining a positive opinion from the Nomination and Remuneration Committee of the Supervisory Board, decided to deprive them of the right to deferred variable remuneration which had been granted conditionally to those Authorized Persons during their employment relationship and to which they had not obtained entitlements before the work contract termination date. The decision was made in accordance with the provisions of the Authorized Persons Remuneration Policy concerning the termination of work contracts under terms and conditions of obtaining the right to deferred variable remuneration. The resulting adjustment in the amount of deferred variable remuneration was not linked to the Bank’s performance or individual performance.

9) The Remuneration Policy adopted at the Bank ensures an appropriate method for remuneration of employees involved in the sales of the Bank’s products and services, which encourages them to act in an honest, impartial, transparent and professional way, taking into consideration the rights and interests of all Clients of the Bank in the short, medium and long term.

10) In 2018, the Bank correctly analyzed the roles and responsibilities of their employees in the context of the key types of risks managed by the Bank and the quantitative and qualitative criteria described in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile and, on that basis, determined the list of persons whose professional activity has a material impact on the risk profile of the Bank and, thus, should be subject to the Authorized Persons Remuneration Policy. In 2018, the list of staff covered by the Authorized Persons Remuneration Policy included 83 persons.

The Supervisory Board positively assesses functioning of the Remuneration Policy applied at the Bank.

5. SUPERVISORY BOARD’S ASSESSMENT OF CONFORMITY WITH DISCLOSURE REQUIREMENTS CONCERNING THE APPLICATION OF THE CORPORATE GOVERNANCE PRINCIPLES, SET OUT IN THE WARSAW STOCK EXCHANGE RULES AND IN THE REGULATIONS CONCERNING CURRENT AND PERIODIC DISCLOSURES PROVIDED BY ISSUERS OF SECURITIES

5.1. The Supervisory Board’s assessment of conformity with disclosure requirements concerning the application of the Corporate Governance Principles set out in the rules of the Warsaw Stock Exchange

The required statement of compliance with the principles of corporate governance prescribed by the “Best Practice for GPW Listed Companies 2016” is reported by publishing the “Statement of Bank Handlowy w Warszawie S.A. on its application of corporate governance rules” within the frames of the “Report on the operations of Bank Handlowy w Warszawie S.A. in 2018”. In this way, the bank fulfills the obligation resulting from the Rules of Giełda Papierów Wartościowych w Warszawie S.A. (The Warsaw Stock Exchange Rules) which involves submitting annual report on application of the corporate governance principles in a company. Bank’s statement includes among others information which principles and recommendations of the “Best Practice for GPW Listed Companies 2016” were not applied by the Bank in 2018 along with explanations.

In connection with the Bank’s accepting the corporate governance principles prescribed in the “Best Practice of GPW Listed Companies 2016”, on 11 March 2016, the Bank submitted to Giełda Papierów Wartościowych w Warszawie S.A. a report (EBI Report no. 1/2016)
concerning refusal to apply certain specific principles included in the set “Best Practice of GPW Listed Companies 2016” along with explanations, fulfilling the obligation resulting from § 29(3) of the Rules of Giełda Papierów Wartościowych w Warszawie S.A.

Taking the foregoing into account, in the opinion of the Supervisory Board in the period covered by the evaluation the Bank correctly met its information obligations related to application of the corporate governance principles prescribed in the Rules of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange).

5.2. Assessment of fulfilment by the Bank of its information obligations related to current and periodic information provided by issuers of securities

The Supervisory Board states that the information obligations resulting from 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 (Journal of Laws of 2018, item 757) were correctly performed by the Bank in the reporting period.

6. ASSESSMENT OF THE INTERNAL CONTROL SYSTEM AND THE RISK MANAGEMENT SYSTEM THAT COVERS RISKS SIGNIFICANT TO THE BANK

In accordance with its Articles of Association, the Bank has in place an internal control system that monitors if the Bank’s activities are lawful and correct and if its financial statements and disclosures are accurate.

The primary objective of the internal control system is to support the decision-making processes that are to ensure the effectiveness and efficiency of the Bank’s operations, the reliability of its financial reporting and the compliance of the Bank’s activities with applicable laws and internal regulations and the compliance with risk management rules in the Bank. The internal control system encompasses control mechanisms, risk control mechanisms, non-compliance risk management and internal audit activities integrated with individual processes.

The internal control system in place at the Bank is organized in three independent levels:

− Level 1 – organizational units responsible for the activity which results in taking risks and for risk management in the Bank’s operational activity, as well as for risk identification and reporting to the second-line units,

− Level 2 – risk management at organizational units, regardless of the first-line risk management, and the activity of the compliance unit; units or persons responsible for setting risk management standards in identifying, measuring or assessing, limiting, controlling, monitoring, reporting and 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 – internal audit unit, responsible for an independent assessment of the risk management and internal control systems – Audit Department.

The Audit Department is supervised by the Supervisory Board via the Audit Committee composed of its Members. Organizationally, the Audit Department reports to the President of the Bank’s Management Board.

The Audit Department submits, on a regular basis, but at least annually, to the Supervisory Board and Management Board, its reports on any identified irregularities and deficiencies, as well as recommendations formulated after internal audits, and activities initiated to rectify such irregularities and to implement such recommendations. The head of the Audit Department is invited to participate in all meetings of the Management Board and Supervisory Board.
The Audit Committee’s powers and duties include oversight over financial reporting, internal control, risk management and internal & external audits. The Committee submits annual reports on its activities to the Supervisory Board.

The Supervisory Board has established a permanent Risk and Capital Committee. The Committee has been entrusted with tasks in the scope of oversight over the risk management system used by the Bank and of assessment of its effectiveness. The Committee submits annual reports on its activities to the Supervisory Board. The powers of the Committee in the scope of supervision over the risk management system include, without limitation, verifications of compliance of the Bank’s policy in the scope of assumed risks with the strategy and financial plan of the Bank, verifications and recommendations to the Supervisory Board in respect of the overall risk level of the Bank, and reviews of periodic reports on the types and amounts of risks connected with the Bank’s activities.

In accordance with the “Principles of Operation of the Internal Control System” adopted in 2017 as part of the adaptation of the Bank to the requirements of revised Recommendation H, the Supervisory Board monitored identified significant and critical irregularities, including those identified by units responsible for vertical monitoring and coordination of the control function matrix, and the Supervisory Board assessed internal control system assessment criteria.

The Supervisory Board assesses the internal control environment at the Bank as adequate and effective. At the same time, the Supervisory Board confirms its positive assessment of risk management and compliance risk management systems used by the Bank and activities of the Bank’s Internal Audit function. This assessment covers all the key controls, including especially the internal controls over financial reporting and the operational controls.

In 2017, in the process of the adaptation of the Bank to the Regulation of the Minister of Development and Finance of 6 March 2017 on risk management and internal control, remuneration policy and specific method of estimating internal capital”, the Bank developed and implemented the procedure for anonymous reporting by employees of infringements of law and internal procedures and ethical standards applicable at the Bank. As part of the implementation, the Bank introduced the process of reporting infringements to the Supervisory Board (Chairman of the Supervisory Board) when they concern a member of the Management Board, and of presenting information on significant ethical matters to the Supervisory Board. The Supervisory Board assesses, at least annually, the adequacy and effectiveness of the procedure for anonymous reporting by employees of infringements – the first assessment (due to the implementation in 2017) was performed in 2019 – for the entire period of its functioning (May 2017 - December 2018).

On the basis of the information provided by the Member of the Management Board appointed to accept anonymous notifications, the Report of the Compliance Department concerning the operation of the anonymous notifications procedure for employees' notifications of breaches in the time period from May 2017 to December 2018, and on the basis of a recommendation of the Audit Committee of the Supervisory Board, the Supervisory Board assessed positively the adequacy and effectiveness of the procedure of employees' anonymous notifications of breaches.

7. ASSESSMENT OF ACTIVITIES OF THE SUPERVISORY BOARD

7.1. Corporate Governance

As part of the implementation for application, in 2014 by the Management Board and Supervisory Board of the Bank and, next, in 2015 by the General Meeting of Shareholders, of the document Principles of Corporate Governance for Supervised Institutions, issued by the Polish Financial Supervision Authority (KNF), the Supervisory Board read, at its meeting on March 21, 2019 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 including an independent assessment of 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 resolution was adopted unanimously.

The Bank sustained its decision not to apply three principles:

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

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

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

7.2. Settlements between the Bank and Citigroup

In the reporting period, the Supervisory Board’s business included issues related to the outsourcing of actual operation in the area of banking outsourcing. Such supervision covered payments resulting from agreements for the provision of operational support, production support and IT application development services to the Bank. Furthermore, at the meeting held on 07 December 2018, the Supervisory Board approved the fee resulting from the contract for consulting and advisory services.

7.3. Amendments to the Articles of Association and the Regulations of the Bank

On May 7, 2018, the Supervisory Board, by means of the Resolution No. 1/VI/0/2018, approved the draft resolution of the General Meeting of Shareholders concerning amendments in the Articles of Association of the Bank with respect to powers of the Supervisory Board in connection with adaptation of the Articles of Association to the requirements of stemming from the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed manner for estimation of internal capital at banks and in connection with the implementation at the Bank of the recommendations contained in Recommendation H of the Polish Financial Supervision Authority (KNF) dated 25 April 2017, regarding the system of internal control at banks.

At the meeting of the Supervisory Board held on 30 May 2018, amendments were made in the Regulations of the Supervisory Board and in the Regulations of the Nomination and Remuneration Committee, and amendments to the Regulations of the Bank’s Management Board were approved, to consolidate the documents with, among other things, the new provisions concerning the operation of nomination committees at banks.

7.4. Miscellaneous

As part of its authority, the Supervisory Board considered reports from the Supervision Officer concerning the operation of the Bank’s system for the supervision of custody business compliance. Furthermore, in the reporting period, the Supervisory Board handled
issues concerning the acquisition of the right to Deferred Variable Remuneration by members of the Bank's Management Board. The Supervisory Board analyzed cyclical reports from the Bank's Management Board on the implementation of the bancassurance policy.

By resolution No. 1/I/O/2018 of 26 July 2018, the Supervisory Board approved the "Recovery Plan for the Capital Group of Bank Handlowy w Warszawie S.A."

On 22 August 2018, the Bank’s Supervisory Board acknowledged Condensed Interim Financial Statements of Bank Handlowy w Warszawie S.A. and of Bank Handlowy w Warszawie S.A. Capital Group for 6 months ending 30 June 2018 together with a statutory auditor’s opinion.

On 21 September 2018, the Supervisory Board acknowledged the information containing an outline of material notifications of breaches regarding ethical standards in the time period from January to June 2018.

At the meeting held on 4 October 2018, the Supervisory Board accepted the information concerning the implementation of "Risk management policy for a retail credit exposures portfolio (secured and not secured by mortgage)" and the information concerning the "Report on the level of concentration risk and use of the limits".

By resolution No. 2/II/O/2018 of 13 September 2018, the Supervisory Board approved the document "General Organizational Structure of Bank Handlowy w Warszawie S.A."

At the next meeting held on December 7, 2018, the Supervisory Board adopted a resolution concerning amendments to the "Remuneration Policy for Persons whose Professional Activity Significantly Influences the Risk Profile of Bank Handlowy w Warszawie S.A." As the next item on the agenda, the Supervisory Board accepted the updated "Group Recovery Plan for Bank Handlowy w Warszawie S.A. Group. Further on, the information on a quarterly report concerning the level of risk incurred by the Bank on retail credit exposures (secured and not secured by mortgage) was acknowledged. Furthermore, the Supervisory Board adopted the resolution concerning the selection of an auditor to audit and review financial statements. The Supervisory Board also adopted a resolution on approval of the "Audit Plan of Bank Handlowy w Warszawie S.A. for 2019", and granted its consent to cooperation of the Bank with auditors from its parent company, which are to contribute their expertise. The Supervisory Board approved the amended "Audit Regulations of the Audit Department". As the next item on the agenda, the Supervisory Board adopted acknowledged the information on the preliminary Financial Plan of the Bank for 2019. Next, the Supervisory Board adopted a resolution concerning the approval of Bank Handlowy w Warszawie S.A.’s Strategy for the Years 2019-2021 and a resolution concerning the adoption of Bank Handlowy w Warszawie S.A.’s Technological Strategy for the Years 2019-2021. Also at that meeting, the Supervisory Board adopted resolutions concerning the composition of the Bank’s Management Board and of the Audit Department's management.


At the meeting held on 21 March 2019, the Supervisory Board approved amendments to the "Policy determining the principles of cooperation of Bank Handlowy w Warszawie S.A. with the Parent Company". Later at the meeting, the Supervisory Board discussed issues related to the implementation of the Audit Department's Strategy for the Years 2014-2018 and adopted a resolution on a new long-term Strategy for the Audit Department for the years 2019-2021. The Supervisory Board of the Bank also acknowledged the information on the final Financial Plan for the Bank’s Group on a consolidated basis for 2018. As regards other items in the agenda, the Supervisory Board set the Bank's acceptable risk level in 2019,
approved a document concerning an internal capital adequacy assessment process and acknowledged the information on capital budgeting results, including stress tests results.

8. ASSESSMENT OF THE FINANCIAL STATEMENTS OF THE BANK

At the meeting held on 21 March 2019, the Bank’s Supervisory Board, acting in accordance with the provisions of Article 382.3 of the Code of Commercial Companies and in accordance with the provisions of Article 70.1(14) and Article 71.1(12) of the Regulation of the Finance Minister of 29 March 2018 regarding 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, assessed positively:

1) annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ending 31 December 2018,

2) annual stand-alone financial statements of Bank Handlowy w Warszawie S.A. for the financial year ending 31 December 2018,

3) report of the Management Board of Bank Handlowy w Warszawie S.A. on the activity of the Capital Group of Bank Handlowy w Warszawie S.A. in 2018 prepared together with the report of the Management Board of Bank Handlowy w Warszawie S.A. on the activity of Bank Handlowy w Warszawie S.A. together with the Non-Financial Report of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ending 31 December 2018

with respect to their compliance with accounting records, documents and the actual status;

The assessment of the Supervisory Board was made on the basis of contents of financial accounts presented by the Management Board of Bank Handlowy w Warszawie S.A., a statutory auditor’s reports from the audit of stand-alone financial statements and consolidated financial statements, and recommendations of the Audit Committee of the Supervisory Board.

The financial statements were audited by an audit firm KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw. In the statutory auditor’s opinion, both stand-alone financial statements and consolidated financial statements of Bank Handlowy w Warszawie S.A. and of Bank Handlowy w Warszawie S.A. Capital Group, present a fair and clear view of the economic and financial situation as of 31 December 2018, financial performance, and cash flows for the financial year ended that day and they were prepared in accordance with International Financial Reporting Standards adopted by the European Union and in accordance with the adopted accounting principles (policy). In addition, stand-alone financial statements and consolidated financial statements comply, in all material aspects, as to their form and content, with applicable legal provisions and with the Articles of Association of Bank Handlowy w Warszawie S.A.

In the statutory auditor’s opinion, also the Report of the Management Board of Bank Handlowy w Warszawie S.A. on the Activity of Bank Handlowy w Warszawie S.A. Capital Group in 2018 prepared together with the Report of the Management Board of Bank Handlowy w Warszawie S.A. on the Activity of Bank Handlowy w Warszawie S.A., was prepared in all material aspects in accordance with legal provisions and it complies with the information contained in the consolidated financial statements.

The Supervisory Board positively assessed the recommendation concerning the distribution of profits for the financial year 2018, submitted by the Management Board.

Taking the above into consideration, the Supervisory Board finds that in the reporting period it accomplished its goals, assigned to it under applicable laws and regulations.

This report was examined and accepted by way of resolution on March 21, 2019 in order to submit it to the Annual General Meeting of Shareholders of the Bank.