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REPORT ON ACTIVITIES OF BANK HANDLOWY W WARSZAWIE S.A. AND THE CAPITAL GROUP OF BANK HANDLOWY W WARSZAWIE S.A. IN THE FIRST HALF OF 2020

AUGUST 2020

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I. Introduction

1. Characteristics of the Capital Group of Bank Handlowy w Warszawie S.A.

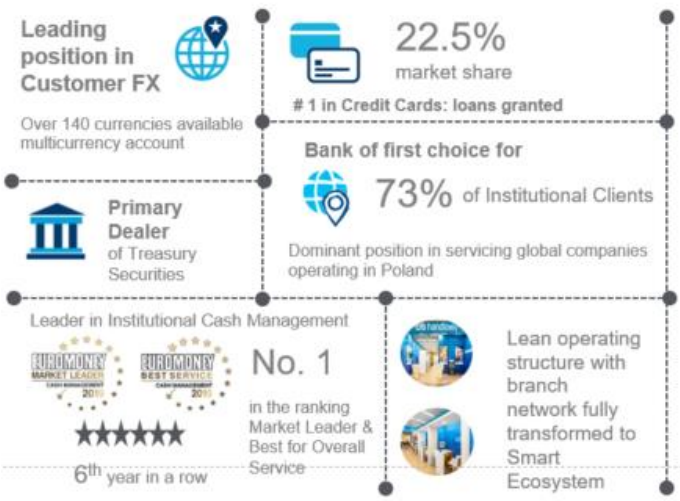
Bank Handlowy w Warszawie S.A. (further "Bank" or "Citi Handlowy") is strategically focused on its defined target market comprising the areas of Institutional Banking and Consumer Banking.

In the institutional client segment, Citi Handlowy focuses on maintaining its leading position among the banks which service international corporations and the largest domestic companies. Enterprises from the SME sector (Small and Medium Enterprises) are another group of clients that are important to the Group. Focusing on acquiring new clients while actively expanding relations with existing clients in selected sectors as well as providing support to clients planning international expansion (the Emerging Market Champions initiative) are keys to further building the Group's market position. The goal of the Group is to be the Strategic Partner for Polish companies and to actively support the expansion of Poland's industry. This is clear from the range of products offered by the Bank in which foreign exchange transactions and products related to trade finance and guarantees occupy an important place. Additionally, the Bank strives to maintain its status as one of the safest places for institutional clients to deposit their savings, providing many useful modern solutions related to operating accounts and the day-to-day management of corporate finances.

The Bank's stable capital position as well as its outstanding network of international contacts are also appreciated by individual consumers. The Bank uses this competitive advantage to strengthen its leading position in the affluent banking segment – Citigold and continues to develop unique offering for the most affluent clients – Citigold Private Client. In the consumer segment, the Bank focuses on investment products and its unique ways of rewarding those clients who decide to use the Bank's online wealth management products. The Bank's international connections enable it to expand the range of products offered to consumers by providing them with a unique global banking experience.

The Bank also stresses the importance of other groups of consumers, and especially so-called aspiring clients for whom the Bank is developing the special Citi Priority range of products. Citi Handlowy enhances the package solutions offered to this segment, tightening the clients' deposit relations with the Bank and at the same time addressing their need for loans.

Moreover, Citi Handlowy is the unquestioned leader of the credit card market, since it offers products from the global Citi product range, which are accepted all over the world and offer exceptional value for the client, e.g. in the form of loyalty programs. The Bank's objective will be also to increase the market share of unsecured loan products by meeting the credit needs of the growing number of clients with a competitive offering of cash loans or hire purchase products as well as innovative, fast processes. In order to increase the share of remote channels in product acquisition, the Bank continues to develop advanced tools using biometric technology in the areas that include granting cash loans, applying for credit cards and opening personal accounts. As a result, the Bank has become the only bank in Poland that offers retail clients three main solutions that are contactless and secure and significantly reduce the time required to start using them.



The Bank's brokerage house (Dom Maklerski Banku Handlowego S.A., further DMBH) is among the most active participants of the Polish capital market and a leading player in terms of share in Warsaw Stock Exchange turnover.

Bank's competitive position

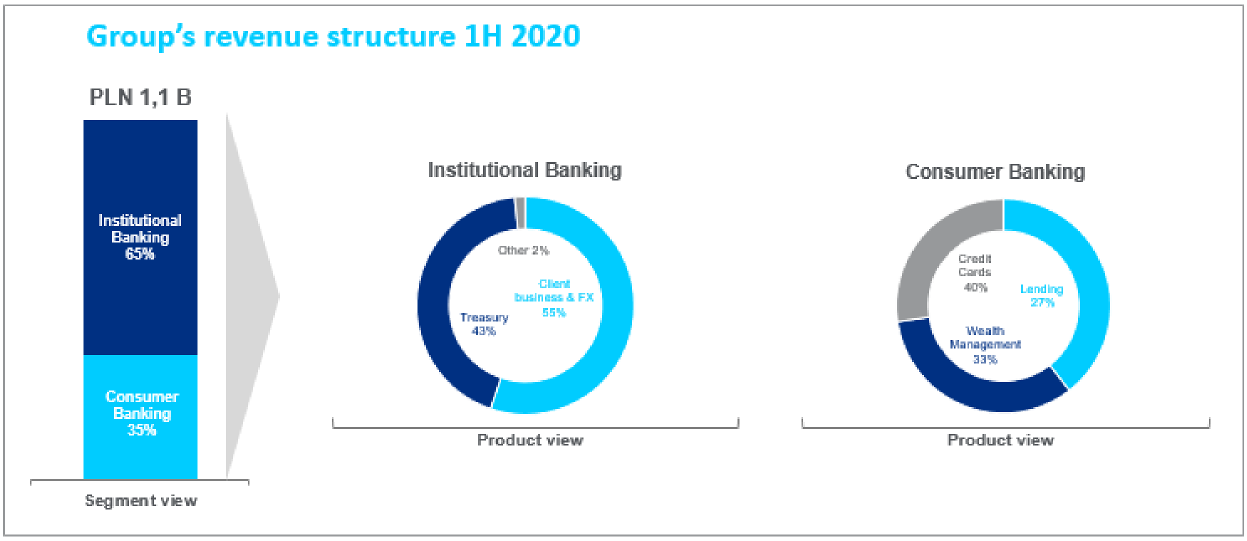
The Bank belongs to the group of 10 largest banks in Poland in terms of balance sheet total and it holds a special strong competitive position in institutional client banking and, specifically in:

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

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

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

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



2. Major achievements in the first half of 2020 include:

- **In the Institutional Banking:**
  - Supporting clients' liquidity – increase in the Bank's lending activity by 9% YoY, while amounts due from corporate clients to the banking sector remained flat;
  - The Bank confirmed its leading position in the Corporate Clients segment (the largest Polish entrepreneurs), the assets of which grew by 40% YoY and their share in the Bank's total asset structure increased by 8 percentage points;
  - Consistent growth of current account transaction volumes +49% YoY, while in this category the banking sector grew 3% less than the Bank;
  - Leading position among Treasury Securities Dealers confirmed with an over threefold increase of the net gain on debt investment financial assets in the first half of 2020 compared to the corresponding period of the previous year;
  - As a result of the above activity, quarterly core revenues (a sum of net interest income and net fee and commission income) of the Institutional Banking segment have seen consistent growth for six quarters in a row.
- **Further development of tools promoting safe contact with the Bank:**
  - As the only one on the market the Bank offers remotely three products for retail clients: a credit card, a cash loan and a current account based on a biometrics technology ("selfie"):
    - Every second credit card is sold via remote channels;
    - 72% of cash loans for new customers is made was made via remote channels as of the end of the first half of 2020 (increase by 16 percentage points compared to the corresponding period of the previous year);
  - Adding new functionalities to the transactional system for institutional clients – CitiDirect BE, promoting self-service solution, electronic document flow and integration with clients' ERP systems.
- **Development of the Bank's retail offer aimed at acquiring new customers:**
  - Entering into a new partnership with a leading corporate client, whose sales model is based on a large portfolio of retail clients – OBI. Following the example of the partnership with BP, this is an effective customer acquisition strategy – about 7 out of 10 new credit cards sold are BP Motokarta credit cards;
  - Increase of the client base in the strategic target groups: CitiPrivateClient +21% YoY, CitiGold +25% YoY and CitiPriority +29% YoY.
- **Revenue of the Group** in the first half of 2020 remained flat despite a demanding market environment while the banking sector's revenue dropped by 4% YoY;

- **Operating costs** (excluding depreciation) **under control**, excluding one-offs [1] dropped slightly by 1% YoY in the first half of 2020. On the other hand, depreciation grew significantly due to **investments in the clients space**: acquisition based on biometrics, new tools for retail clients in the area of Wealth Management and FX offering;
- **Strong capital base much above the regulatory requirement[2]** – TCR of 20%. At the same time **liquidity remains at a record-high level** of 51% (Loans/Deposits ratio);
- **Once again the Bank demonstrated its high social responsibility** through e-volunteering projects as part of which volunteers made 750 face masks as part of the Warsaw Sews Masks for Healthcare Workers initiative, donated 49 computers supporting children from orphanages in their remote learning, provided e-lessons for children and teenagers being under the care of the Street Children Friends Society (Towarzystwo Przyjaciół Dzieci Ulicy), collection of gifts for children spending their summer vacations in the city.

3. Strategy of the Capital Group of Bank Handlowy w Warszawie S.A.

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

Institutional Banking	Consumer Banking
Foreign exchange– coherent offer for companies seeking for a global financial partner	**Strategic partnerships –** building the scale of business that will allow for both growing the customer base and building additional credit volumes through access to new groups of customers
Global companies – maintaining a leading position	**Affluent customers –**growing the affluent customer base (Citi Private Client, Citigold, Citi Private Client) thanks to continuous enlargement of product offer, launch of extended advisory services and regular updates of our offer of structured products and investment
New economy companies – providing full services in the field of complex banking solutions (for example cash management products	**Customer Experience –** using modern contextual banking development tools
Transformational transactions – for the largest corporate clients, also with involvement of private equity funds (e.g. LBO, IPO or M&A transactions)	**Credit cards –** keeping a leading position

Client security – in terms of both high liquidity, secure capital level and in cyber-security	**Organizational culture –** simplifying processes and promoting cooperation and diversity	**Increase in shareholder value**

4. Awards and honors

In the first half of 2020, the Bank, DMBH and the Leopold Kronenberg Foundation at Citi Handlowy received a number of prestigious titles and awards:

- **Citi Simplicity Credit Card is a five-time winner of the "Golden Banker" ranking**. Cash Loan takes the second place in its category. The jury of the "Golden Banker" ranking found the Citi Simplicity Credit Card the best on the market for the fifth consecutive year – Citi Handlowy's credit card ranked first in its category in the prestigious assessment. The ranking also distinguished the Cash Loan from Citi Handlowy, which came in second.
- **Dom Maklerski Banku Handlowego (Brokerage House of Bank Handlowy)** was awarded by Warsaw Stock Exchange for **the highest share of a local Stock Exchange Member in session trading in shares on the WSE's Main Market in 2019.** Brokerage House was also **awarded by KDPW for top quality securities registers tailored to scale of operations.**
- **Triumph of private banking of Citi Handlowy in this year's survey by Euromoney.** Euromoney, the prestigious British magazine, named Citi Handlowy the "Best Private Banking Services Overall Poland" in its annual survey investigating the quality of the private banking offer. Citi Handlowy triumphs as the winner of this year's ranking and

[1] Pandemics-related one-offs in operating expenses amounted to ca. PLN 5 million in the first half of 2020

[2] The regulatory requirement for the Group's TCR is 10.77%

takes the 1st place in as many as 9 surveyed categories of services: Mega HNM (>$250M), UHNW (>$30mln-$250mln), HNW ($5mln-$30mln), Super Affluent ($1mln-$5mln) as well as in the scope of Capital Markets and Advisory, Family Office Services and International Clients and Research, and Asset Allocation Advice. The bank also ranked second in the Next Generation and Innovative or Emerging Technology Adoption categories.

- **Citi Handlowy with two Golden Arrow awards.** The “Stay at home with Citi Specials” campaign of Citi Handlowy and the Simplicity Card video campaign using Google Director’s mix won Golden Arrow awards. In this contest, organized for 14 years, awards go to campaigns that represent best practices in using marketing tools, and breakthrough solutions are promoted. The jury composed of the marketing sector’s representatives chooses projects that will constitute a point of reference for the whole sector.
- **Diversity & Inclusion Rating:** Citi Handlowy (together with Citibank Europe plc) entered the 2st edition of the Diversity & Inclusion Rating. This is a new initiative of the Responsible Business Forum and Deloitte, aimed at measuring advancement level of a company in terms of building a diverse, inclusive and ethical organization. This tool, created on the basis of Polish and international experience and methodologies, is designed to measure the progress of a company in the process of building an inclusive organisation. The second edition of the rating included 6 companies which demonstrated the highest level of diversity management.
- Citi Handlowy keeps the title of **“Super Ethical Company”**, granted in the competition organized by the *Puls Biznesu* magazine. Only eight other companies have been granted a right to use this title. The contest is to reward brands for which ethical conduct is a key and indispensable element of their presence in the market. From the first edition of the contest, Citi Handlowy has been ranked among its winners, i.e. companies that are the most proactive in building and reinforcing an organizational culture founded on ethics and values using the most comprehensive and systemic approach in the process.
- In the ranking of the **Forbes** magazine, Citi Handlowy once again received **5 stars** for private banking, in which the Bank emphasizes the global nature of its offer, dedicated to clients engaged in business activity all over the world.
- This year’s **edition of the report prepared by the Responsible Business Forum features not less than 18 CSR initiatives of Citi in Poland.** The “Responsible Business in Poland. Good Practices” publication is the only elaboration of this kind which sums up the most important CSR initiatives in Poland. This year’s edition of the Responsible Business Forum’s report includes such practices of Citi in Poland as the Professor Aleksander Gieysztor Award, Pride Network Poland or the #CitiVolunteers for Progress Competence-Development Volunteering Program and IT for SHE. The report covers 1 practice in the scope of corporate governance, 3 in the scope human rights, 4 in the scope of work, 1 in the scope of environment and 9 in the scope of local community involvement and development.
- **TOP 50 ranking of Wprost magazine** – Citi Handlowy took the 13th place in the general ranking and the 2nd place among banks in the ranking of the best companies-employers in Poland during the pandemic.
- In the **Responsible Companies Ranking 2020**, organized by Gazeta Prawna, Citi Handlowy was ranked 12th in the overall classification, and 5th in its sector. The ranking covers mature companies, active in the area of CSR

II. Market conditions of functioning of Poland’s banking sector

1. Macroeconomic conditions and the situation in money and foreign exchange markets

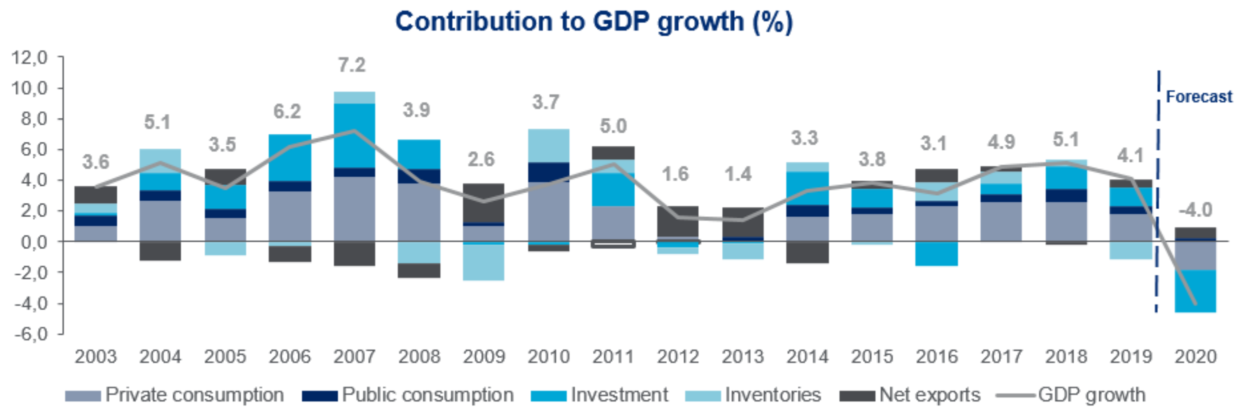
External environment

The first half of this year was marked by deteriorating prospects of global growth in connection with COVID-19 pandemic. The first two months saw relatively high activity in the global economy. However, the unprecedented scale of expansion of the SARS-CoV-2 virus to more and more countries forced the World Health Organisation (WHO) to officially declare the state of pandemic on 11 March 2020. And this translated into restrictions imposed on mobility and a synchronized lockdown of leading economies in the world. In consequence, optimism plummeted among both consumers and businesses and sentiment indices reached all-time lows. The growth outlook also deteriorates as a result of the trade conflict between the United States and China and the official exit of the Great Britain from the European Union with a transition period by the end of 2020. Economic forecasts for the world were successively downgraded, which reflected a recession significantly deeper than the downturn during the great financial crisis of 2008-2009. Many countries launched large fiscal stimulation programs to support business and to protect labor markets. Simultaneously, the rapid deterioration in economic outlook triggered a fast and resolute response of central banks. The U.S. central bank (“Fed”) reduced interest rates near to zero (Fed Funds rate dropped from 1.75% as at the end of 2019 to 0-0.25%) and started a range of initiatives to support various segments of the financial market, for example asset purchase programs. In turn, the European Central Bank (“ECG”) also commenced a new asset purchase program (“PEPP” – Pandemic Emergency Purchase Program) and strengthened its existing initiatives. As a result, between mid-March and mid-July 2020, the balance sheet of the Fed increased by USD 2.6 trillion to nearly USD 7 trillion and the balance sheet of the ECB rose by EUR 1.6 trillion to EUR 6.3 trillion and, at the same time, the commenced programs are expected to be continued. In 2020, global GDP should drop 3.5% YoY, after a 2.6% increase in 2019, while in 2021 the economy is expected to recover at a rate of 5.5% y/y. Lifting the restrictions and returning to the level of economic activity from before the crisis can take a lot of time and will depend on the incidence curve, the development of the pandemic in the world and the time until a vaccine finally becomes available, but also on the permanence of changes in consumer behaviors and the readiness of companies to invest. Despite significant social mobility restrictions, the incidence rate in the world is record high and it is reasonable to assume that the uncertainty connected with COVID-19 will affect economic outlooks in the quarters to come.

The global recession led to a deep decline in stock prices in March 2020 but the indexes bounced back soon after the fiscal programs and activities of central banks were initiated. And a weaker outlook, interest rate cuts and bonds purchases by central banks supported the main debt markets. In the first half of 2020, yields on both German and U.S. Treasury bonds reached record low levels.

Gross Domestic Product

In the first half of 2020, the economy slowed down significantly as compared to 2019 and it is likely that for Poland's economy the entire year 2020 will be the worst annual period in about last 30 years in terms of GDP growth. Even if the beginning of 2020 saw a quite good performance of the economy, the pandemic outbreak froze Poland's economy too. Consecutive restrictions on social mobility brought economic activity to sudden stop. This situation is reflected in data published by the Statistics Poland (central statistical office, "GUS") for April, showing that industrial output shrank by about 24% YoY, retail sales by about 22% YoY, exports and imports of goods by about 30% YoY and exports and imports of services by about 35-40% YoY. The next months were the time of step-by-step recovery as restrictions were gradually lifted. The industrial and retail sectors were outperformed by the construction industry, however its outlook is weaker in the months to come due to a significant decline in the number of both new building permits and building project starts. However, it was the services sector that took the hardest hit. Therefore, after slowdown to 2% in the first quarter of 2020, from 3.2% in the fourth quarter of 2019, GDP decreased in the second quarter of this year by as much as 8.2% YoY. GDP dropped by 8.9% QoQ (adjusted for seasonal factors) versus a decline of 11.9% QoQ (-14.4% YoY) in the entire European Union. GDP is likely to have declined significantly in the second quarter. Next quarters will probably bring a gradual recovery in the economy, however the entire year can be a time of deep recession for Poland's economy (Citi Handlowy forecast: -4%, market consensus based on Reuters: -3.8%) with consumption down by about 3.2% and capital expenditures down by about 13% YoY. Although we expect GDP growth by 4.7% in 2021, it will take a long time before GDP is back to the level from before the pandemic, i.e. fourth quarter of 2019 – in the most likely scenario only in the second half of 2021.



Source: Chief Statistical Office, Citi Handlowy forecasts

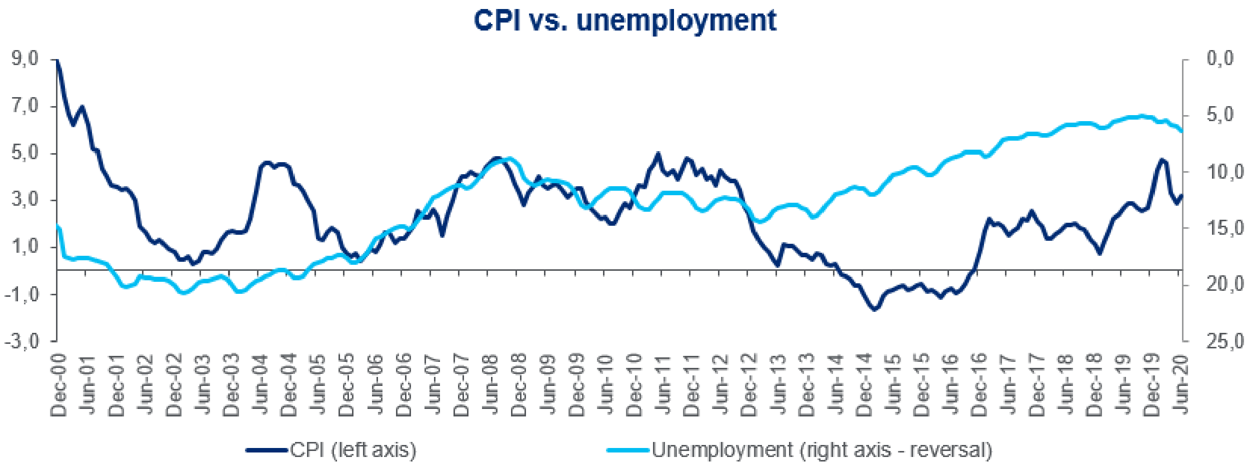
Labour market

The economic crisis led to deterioration in the labor market in the first half of 2020. In the beginning of the year, favorable trends were continued in the domestic labor market and in March the registered unemployment rate fell to 5.4% and the BAEL unemployment rate went down to about 3% – one of the lowest levels in the entire European Union. However, the lockdown resulted in significant decline in sentiment and disrupted operations of business, which adversely affected demand for labor. In order to mitigate the negative impact of economic activity on the labor market, the government launched solutions, as part of so called anti-crisis shields, for example aid to support wages and a possibility to get non-refundable subventions from the Polish Development Fund if the employment level is maintained. In the second quarter of 2020, the growth of salaries and wages slowed down rapidly to 2.2% from 7% in the first quarter. This slowdown was a result of both lower demand for labor and reduction in working hours. It is likely that pay raises will stabilize on a low level in the next quarters and years. Simultaneously, companies started lay-offs leading to a decline in aggregate employment by 3.3% YoY, as compared to growth by 2.6% in December 2019. As a result of the assistance programs, the growth of the unemployment rate was lower than expected in the light of the scale of the economic shock. The registered unemployment rate increased to 6.1% in June and is likely to rise further towards the end of the year up to 9%. When the labor market situation improves, the unemployment rate should start going down, however this is expected to happen only in next year.

Inflation

The growth of prices of consumer goods and services accelerated to 3.8% YoY in the first half of 2020 from 2.8% YoY in the second half of 2019. Inflation had been on the rise since the beginning of 2019, fueled by rising food prices and net inflation resulting from long-lasting demand pressure. In the first quarter of 2020, inflation increased to 4.5%, among other things due to growing energy prices, which means that it exceeded the upper limit of the inflation target band, i.e. 2.5%, with allowed deviation by 1 percentage point, determined by the National Bank of Poland ("NBP"). However, the second quarter of 2020 saw CPI inflation clearly slowing down to 3.1%, first of all in the wake of declining fuel prices, after the oil price breakdown throughout the global markets, and as a result of a lower increase in food prices. In the months to come, inflation is expected to decline gradually to reach a level below the NBP inflation target in 2021, mainly as a result of negative demand shock caused by the pandemic.

In response to economic crisis, the Monetary Policy Council ("MPC") reduced the reference rate from 1.5% to 0.1% between March and May. At the same time, the MPC reduced the reserve requirements from 3.5% to 0.5% and the NBP commenced an asset purchase program. As part of its structural open market operations, the central bank has purchased bonds amounting to about PLN 105 billion (approx. 4.6% of GDP) since mid-March 2020. It is likely that the Monetary Policy Council will keep the interest rates unchanged for a long time and the central bank will continue its bonds purchase program.



Source: National Bank of Poland, Central Statistical Office, own calculations

2. Money and foreign exchange markets

The unusual stabilization of the Polish currency in 2019 ended with the outbreak of global crisis and in the first half of 2020 zloty depreciation occurred both to euro and dollar. This zloty depreciation was coupled with an abrupt increase in risk aversion and monetary policy loosening by the MPC. The growth of risk aversion indicators adversely affect currencies of emerging countries, however zloty depreciation was relatively moderate and comparable to changes recorded for Central Europe currencies. This zloty depreciation was also significantly lower than the decline during the financial crisis in 2008-2009. The factors that probably limited the scale of zloty depreciation include a relatively high rate of growth, high diversification of the economy, absence of significant structural imbalances, surplus in current trade turnovers and inflow of EU funds. Risk appetite in international markets started to improve gradually as consecutive fiscal stimulation packages and monetary easing were implemented by central banks in the USA, Europe and many countries affected by the crisis. The zloty started appreciating in mid-May, when risk aversion indexes declined and the euro appreciated to the U.S. dollar. The EUR/PLN rate increased from 4.26 as at the end of December 2019 to 4.44 as at the end of June and the USD/PLN from 3.79 to 3.95 in the same period.

Monetary market rates dropped in the first half of 2020 in the wake of declining NBP interest rates. The WIBOR 3M rate was 0.25% at end of June, as compared with 1.71% at the end of 2019. NBP interest rate cuts affected more the short end of the swap curve and the bond yield curve, which became steeper as a result. In turn, despite the purchase of bonds by the NBP, a deteriorating fiscal outlook led to an increase in credit spreads, higher for long-term bonds. The yield of 2-year bonds declined by 132 bps, to 0.17% as at the end of June 2020 from 1.49% as at the end of 2019. The yield of 10-year bonds declined by 75 bps, to 1.39% as at the end of June 2020 from 2.13% as at the end of 2019.

3. Capital market

The first half of 2020 had two faces in global financial markets. The key event that was shaping the feelings in the first three months was COVID-19 outbreak. The dramatic growth of the number of infected persons forced the governments to declare a state of emergency and to initiate activities to reduce social mobility. After the lockdown was introduced, economies faced a possible global recession, which led to a mass withdrawal of investors from higher-risk assets. Plummeting prices, especially in stock and corporate bond markets, forced central banks and governments to launch large-scale stimulation plans, as well as programs to ensure liquidity in the economy. Those mass actions met with an enthusiastic reaction of capital markets. In effect, the next months saw a significant recovery in equity markets. Very high optimism was visible in particular in the United States, where the second quarter of 2020 turned out to be the best quarter since the fourth quarter of 1998.

Despite a clear recovery in the recent months, the Polish stock market was not able to fully make up for the losses suffered in the first quarter of 2020. The broadest WIG index declined by 14.3% as compared to end of 2019. The key factor was a decline in the prices of the large cap companies (with the WIG20 index going down 18.2%). Supply pressure also affected medium cap companies, with their index, mWIG40, declining by 11.3%. Those stocks were significantly outperformed by small cap companies (with the sWIG80 index rising 11.4% in the first half of the year), supported by a higher activity of Polish individual investors.

Among the sector subindexes, the gaming companies were the leader again with their WIG-Games index going up nearly 65%. Dynamic growth in the construction (+20.9%) and IT (+20.6%) sector also should be noted. The deterioration in the economic environment as a result of COVID-19 pandemic and interest rate cuts adversely affected the prices of banks (WIG-Banki decreased by 38.6% in the first half of 2020). Clothing companies also suffered a deep decline in stock prices (-34.3%).

In the first half of 2020, the public offering market practically came to a halt. The main market saw only one issue (for PLN 24.2 million), while in the same period of the previous year shares of companies were introduced on the WSE (in public offerings totaling PLN 45.2 million). Year to date, 10 companies have been delisted on the WSE and as at the end of June the number of companies listed on the main market declined to 440.

The total market value of all companies listed at the WSE amounted to PLN 865,6 billion (domestic companies accounted for 55% of the capitalization) and was lower by 22% as compared to the end of 2019 and by 25% YoY.

Warsaw Stock Exchange (WSE) Equity Indices as of June 30, 2020

Index	30.06.2020 (1)	31.12.2019 (2)	Change (%) (1)/(2)	30.06.2019 (3)	Change (%) (1)/(3)
WIG	49,569.17	57,832.88	(14.3%)	60,187.43	(17.6)%
WIG-PL	50,648.82	59,064.17	(14.2%)	61,462.31	(17.6)%
WIG-div	911.88	1,051.08	(13.2%)	1,053.47	(13.4)%
WIG20	1,758.82	2,150.09	(18.2%)	2,327.67	(24.4)%
WIG20TR	3,205.90	3,914.45	(18.1%)	4,132.41	(22.4)%
WIG30	2,023.71	2,472.20	(18.1%)	2,675.56	(24.4)%
mWIG40	3,468.48	3,908.20	(11.3%)	4,082.45	(15.0)%
sWIG80	13,411.95	12,044.34	11.4%	11,821.16	13.5 %
Sector sub-indices					
WIG-Banks	4,157.20	6,768.39	(38.6%)	7,908.32	(47.4)%
WIG-Construction	2,754.02	2,278.75	20.9%	2,092.92	31.6 %
WIG-Chemicals	8,067.33	8,390.97	(3.9%)	10,645.19	(24.2)%
WIG- Energy	1,958.16	1,961.62	(0.2%)	2,239.32	(12.6)%
WIG-Games	30,951.13	18,765.23	64.9%	15,276.11	102.6 %
WIG- Mining	2,894.00	3,089.84	(6.3%)	3,580.94	(19.2)%
WIG-IT	3,419.23	2,834.29	20.6%	2,396.24	42.7 %
WIG-Medicines	4,865.52	5,197.43	(6.4%)	5,410.86	(10.1)%
WIG-Media	5,042.77	5,375.11	(6.2%)	5,312.94	(5.1)%
WIG-Motorisation	3,388.79	3,521.67	(3.8%)	3,695.27	(8.3)%
WIG- Developers	2,119.03	2,460.44	(13.9%)	2,245.46	(5.6)%
WIG-Clothing	3,719.69	5,665.06	(34.3%)	5,716.38	(34.9)%
WIG- Fuel	5,087.79	6,489.03	(21.6%)	6,745.59	(24.6)%
WIG- Food	3,048.24	3,126.05	(2.5%)	3,293.69	(7.5)%
WIG-Telecoms	802.32	873.56	(8.2%)	873.44	(8.1)%

Source: WSE, Dom Maklerski Banku Handlowego S.A. ("DMBH")

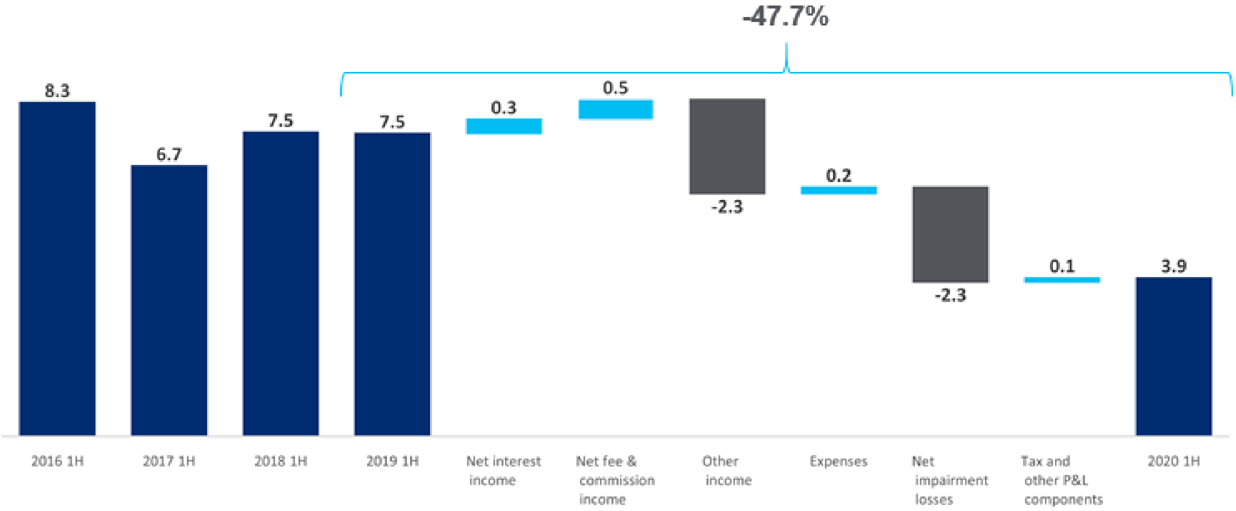
Equity, bond and derivatives trading volumes on WSE in the first half of 2020

	1st half of 2020 (1)	2nd half of 2019 (2)	Change (%) (1)/(2)	1st half of 2019 (3)	Change (%) (1)/(3)
Equity (PLN million)*	268,546	191,256	40.4%	199,277	34.8%
Bonds (PLN million)	1,524	1,692	(9.9%)	1,486	2.6%
Futures ('000 contracts)	11,325	7,080	60.0%	6,376	77.6%
Options ('000 contracts)	364	262	39.2%	242	50.6%

** figures excluding calls*
Source: WSE, DMBH

4. Banking sector

Net profit of the banking sector (PLN billion)

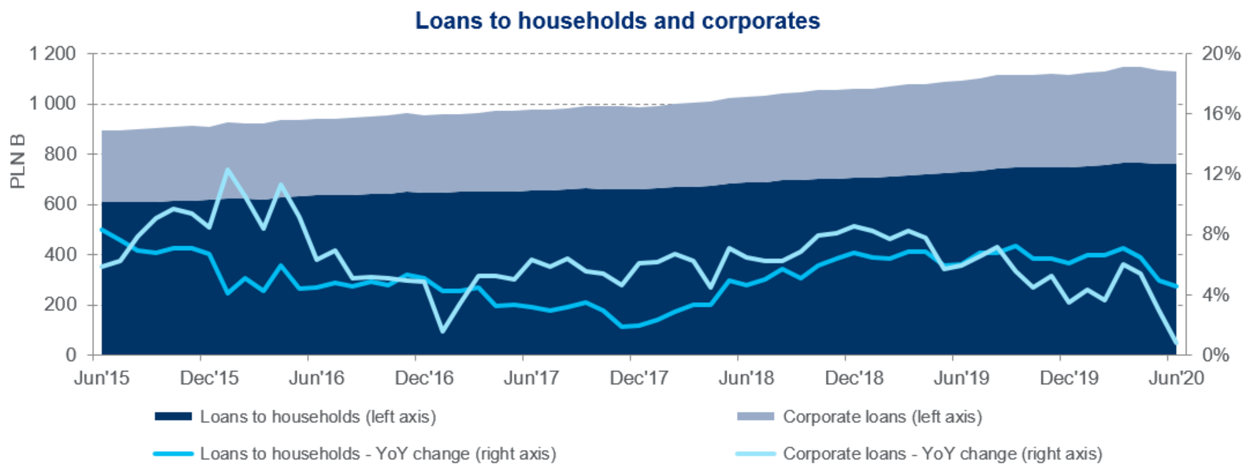


Source: NBP, own calculations

Financial results

According to the data published by the National Bank of Poland, in the first half of 2020 the banking sector generated a net profit of PLN 3.9 billion, down by -47.7% (PLN 3.6 billion) compared to the corresponding period of the previous year. Despite three interest rate cuts, having an impact mainly on the sector's revenue in the second quarter of 2020, banks reported an increase in net interest income by 1.4% YoY (PLN 0.3 billion). Also, net fee and commission income for the first six months of 2020 was higher than in 2019 by 7.5% YoY (PLN 0.5 billion). A significant decrease was noted in other income (-44.6% YoY, PLN 2.3 billion), which was partially caused by the inclusion of part of provisions for the reimbursement of upfront fees on early repaid consumer loans and legal risk provisions related to mortgages in foreign currencies in other operating costs by some banks, as well as some one-off events impacting the banks' results. A large number of banking sector entities took steps to reduce expenses (including employment and branch network optimization, which was partially a result of the sector consolidation), as a result of which total expenses of banks dropped by 0.8% YoY (PLN 0.2 billion) despite a slight depreciation growth (by 3.4% YoY), BFG charges paid in the first half of 2020 and the bank levy. The above-mentioned legal risks as well as the deterioration of the macroeconomic environment of banks in connection with the pandemics forced banks to significantly increase their reserves and provisions for credit-losses. As a consequence this burden to the banking sector increased by 46.2% YoY, or PLN 2.3 billion. A significantly lower operating profit translated into a decrease in CIT paid by banks by 16.1% (PLN 0.4 billion). The cost to income ratio of the banking sector worsened by 2 pp to 53%.

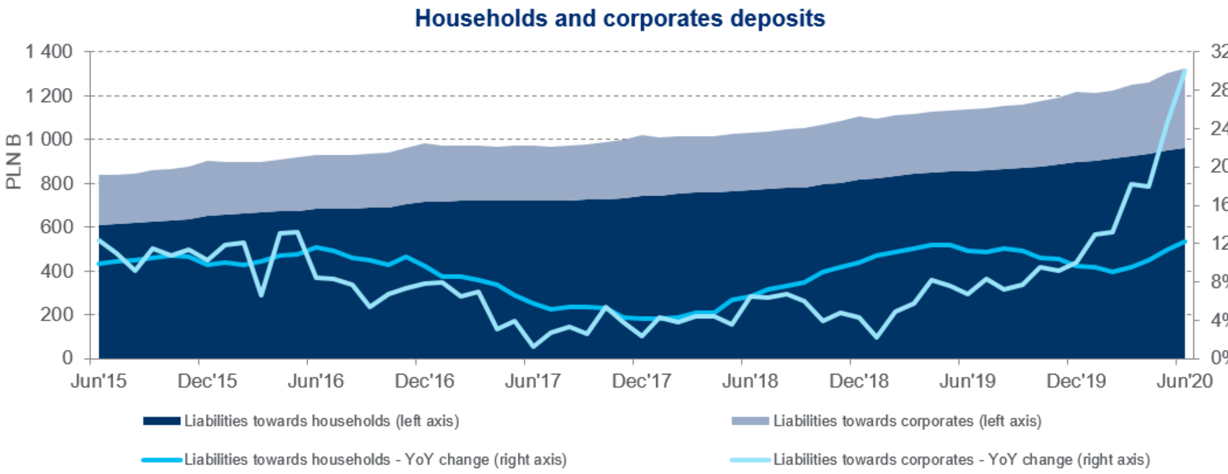
The loan portfolio quality data as at the end of 2020 show the first symptoms of worsening of the financial situation of bank clients due to the pandemics. Although NPL for the non-financial sector grew by only 0.1 pp to 6.9%, but on the QoQ basis, which better shows the impact of COVID, it was as much as 0.3 pp. A stronger worsening of the situation was observed among corporate clients (+0.4 pp QoQ to 8.7%), both large companies and SMEs. The quality of the mortgage portfolio of individual clients remains at the level of 2.4%, while NPL grew the most in the area of consumer loans (+0.7 pp QoQ to 11.4%).



Source: NBP, own calculations

In the first half of 2020, the growth rate of loans to the non-financial sector decreased from 4.6% YoY (PLN 54 billion) as at December 2019 to 3.2% YoY (PLN 38 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 +3.5% YoY, PLN 12 billion at the end of 2019 to +0.8% YoY, PLN 3 billion, as at the end of June 2020). The slowdown affected both current loans (-6.8% YoY PLN 10.1 billion), while investment loans rose 7.1% YoY, i.e. PLN 11.3 billion and real property loans increased 3.6% YoY, i.e. PLN 2.3 billion. However, growth in those areas was fueled to a significant extent by loans denominated in foreign currencies, where Polish zloty depreciation to main currencies was a key contributor. The dynamics of long-term loans (over 5 years) hit the level of +6.6% YoY, PLN 11.5 billion, loans with maturities from 1 to 5 years oscillated around zero (+0.2% YoY, PLN 241 million), while loans up to 1 year and other current receivables decreased by -13.1% YoY, i.e. PLN 11.9 billion. As at the end of the first half of 2020, the receivables of the banking sector from companies slightly exceeded PLN 365 billion.

In the retail client segment, the lockdown of the economy and higher social distance resulted, first of all, in a breakdown of demand for consumer loans. The volume of household consumer loans increased by only 1.8% YoY, i.e. PLN 3.5 billion. Deep declines were recorded in investment loans (-11.1% YoY, i.e. PLN 3.3 billion) and current loans to sole proprietors and individual farmers (-5.9% YoY, i.e. PLN 3.2 billion). And the growth of housing loans accelerated from +6.6% YoY, i.e. PLN 27.5 billion, as at the end of 2019 to +8.5% YoY, i.e. PLN 36.1 billion, as at the end of the first half of 2020, which was also an effect of depreciation of the Polish zloty to the Swiss franc. The whole household mortgage portfolio reached nearly PLN 481 billion as at 30 June 2020, of which PLN-denominated loans amounted to PLN 357 billion (74%). As regards maturities, the dynamics of growth in credit volumes was higher than at the end of 2019 only in the area of long-term loans (over 5 years) (+7.1% YoY, PLN 42.3 billion), while the dynamics of loans up to 1 year fell to -17.7% YoY, PLN 9.2 billion, and loans from 1 to 5 years to -1.4% YoY, PLN 1.1 billion. The household loan portfolio reached a total of PLN 762 billion.



Source: NBP, own calculations

Despite three interest rate cuts (in total by 140 bps, to 0.1%), which directly led to a decline in interest rate offered by banks, the volume of deposits of the non-financial sector posted record growth by 19.7% YoY, to PLN 256 billion. A significant part of the new funds was deposited by non-financial companies, which was partly connected with the state aid granted under consecutive anti-crisis shield programs. The volume of deposits of businesses rose by 30.1% YoY, i.e. PLN 84.4 billion, with a discernible shift of funds from time deposits (-22.6% YoY, i.e. PLN 19.9 billion) to current deposits (+54.1% YoY, i.e. PLN 104.3 billion). Deposits increased considerably also in the household segment (+12.2% YoY, i.e. PLN 104.8 billion). Also this segment saw an outflow of time deposits (-15.4% YoY, i.e. PLN 46 billion) to current deposits (+27.1% YoY, i.e. PLN 151.0 billion). Such a high increase in deposits with a simultaneous low or moderate demand for loans contributed to a significant increase in liquidity in the banking sector – the loan-to-deposit ratio declined to a record low level of 81%.

Towards the end of the year, the economy will be still struggling against the outcomes of COVID-19 pandemic and increased social distance, which means that the current trends will not necessarily be reversed soon, even in the case of a V-shaped recovery. In particular, no immediate improvement should be expected in the corporate loan area, taking into account high cash reserves and macroeconomic situation, which is unfavorable to new investments. This outlook is also reinforced by a fear of significant deterioration in quality of the loan portfolio in the sectors that are affected most severely by COVID-19 and the resulting more stringent lending policy. Despite the fact that interest rates are near zero, the banking sector should not fear a rapid outflow of deposits in the light of clients' aversion to alternative, more risky investments.

5. Factors that will affect the Group's operations in the future

Trends in the Polish and global economy in 2020

The most crucial risk factor both in 2020 and next years is the trend and potential escalation of COVID-19 pandemic and the return of lockdown in main economies throughout the world. Such a scenario is likely to mean that Poland's economy will be shut down again too, which would lead, indirectly, to a decline in trade with main partners. The economic problems could be more difficult as many countries have fewer options of both fiscal and monetary response now. And this in turn could cause more bankruptcies of companies, a significant increase in unemployment and tensions in the financial sector and public finance.

Another adverse factor for the markets is the risk that the United States can expand its protectionist initiatives and other countries will respond with their own. The escalation of geopolitical tensions between the U.S. and China could also have negative consequences. New barriers to trade could reduce demand also for Polish products and adversely affect growth in Poland.

The Brexit process, still not regulated, may spur uncertainty in financial markets and anxiety about the future situation of European economies. Despite the negotiations to prepare the agreement regulating the future relationships between the Great Britain and the European Union are still pending, the transitory period ends on 31 December 2020, which means that the exit of the UK from the EU without any agreement cannot be ruled out.

Impact of the coronavirus COVID-19 pandemic on the operations of the Capital Group

The announcement of the COVID-19 coronavirus pandemic state in Poland in March 2020 had a significant impact on the Group's operations. On the one hand, the environment in which the Group started to operate has changed under the influence of unprecedented actions taken by public institutions and regulators, on the other hand, there has been a change in the behavior and habits of customers, both institutional and retail.

Operating activity

The Group focused on ensuring the safety of its employees and ensuring the continuity of customer service by maintaining operational efficiency. Approximately 80% of employees remained in remote work, which, due to the scale of the Group's operations, forced the adaptation of the Bank's IT infrastructure and investment improving security.

To support more than 1,300 employees potentially most vulnerable to the pandemic crisis, the group provided one-off benefits to employees who came to offices during times of restricted mobility. The Group carried out regular communication with employees through the weekly COVID News, the newsletter "Take care of yourself during Covid-19", organization of virtual meetings of the employees with the President of the Bank's Management Board and senior managers.

The group introduced plan to return to the office, including employees division into two groups and introducing a weekly shift system, as well as developed rules and implemented a solutions for safe stay in the office (hygiene measures, defining the maximum number of people in common areas, etc.). At the time of drawing up the Group's financial statements, no specific date of return to the offices of all employees had been agreed.

In addition, the Bank focused on continuing a high quality of customer service despite the increased use of remote channels by customers in the initial phase of a pandemic in the new remote work environment. In the case of retail customer service, the Bank recorded an increase in the number of CitiGold customer phone calls by 9% in March 2020 compared to the annual average in 2019. At the same time, the NPS result for CitiPhone amounted to 58% and was the highest since 2017. In the second quarter of 2020, the situation normalized and the number of phone calls decreased by 10% compared to the first quarter of 2020.

Financial activity

On March 17, April 8 and May 28, 2020, the Monetary Policy Council decided to reduce interest rates (including the reference rate by 140 basis points in total), which negatively affect the Group's net interest income. According to the current report No. 18/2020 published on June 8, 2020, the Group estimates that the interest rate reductions will have a negative impact in the range of PLN 150 – 180 million on the Group's net interest income in 2020.

Due to the continuing economic uncertainty, reflected in the depth of the recession, its duration and the amount of the expected recovery, which has a direct impact on the business of the Group's customers, the Group decided to create an additional provision for expected credit losses dedicated to the effects of the COVID-19 epidemic in the amount of 137 PLN million in the first half of 2020 (PLN 114 million for Institutional Banking, PLN 23 million for Consumer Banking). Nevertheless, the main measures of credit risk (NPL - non-performing loans ratio, coverage ratio) have remained stable compared to the pre-pandemic periods.

The Group's capital ratios remain well above the regulatory minimum. The capital adequacy ratio amounted to 20.0% at the end of the first half of 2020 and is 9.23 percentage points above the regulator's expectations. The capital adequacy ratio increased by 2.8 percentage points compared to the end of 2019, mainly due to the retention of the profit for 2019. Retention of the entire profit generated in 2019 was in line with the expectations of the Polish Financial Supervision Authority.

Business activity

In the face of unprecedented situation caused by COVID-19 pandemic in Poland's and global markets, the Bank focused on providing support to its clients in the areas of Institutional and Consumer Banking. The main activities of the Bank were aimed at supporting liquidity of its clients, focusing on promotion and development of tools for safe contacts with the Bank and investing in the secure use of those tools.

In order to support the liquidity of enterprises and preserve jobs, the Bank implemented solutions under the Anti-Crisis Shield Program of the Polish Development Fund, which were available to customers from the very beginning of its operation. The micro, small, medium and large enterprises can apply for a subsidy through the electronic banking systems - Citibank Online or CitiDirect BE. At the same time, the Bank implemented a de minimis guarantee and guarantees from the Liquidity Guarantee Fund of Bank Gospodarstwa Krajowego as additional support for enterprises. The Bank, in cooperation with other banks as a part of the Polish Bank Association, made available a solution consisting in the introduction of a temporary deferral of loan installments repayments up to 3 months for institutional clients or 6 months for retail clients.

The Bank also developed electronic access channels to its solutions and products. For Institutional Banking customers, a qualified electronic signature has been implemented for all documentation (including banking account agreements, other product agreements as well as inquiries and forms). In addition, new functionalities were implemented in the online banking system - CitiDirect BE, such as: MobilePASS (access to the system using dynamic passwords generated on a smartphone), CitiDirect BE Mobile (managing daily payments directly from a smartphone or tablet), CitiDirect BE Administrator (managing other users access), eForms (electronic documentation exchange platform). Thanks to the above solutions and amenities, the number of customers using the CitiDirect system amounted to 4,350 at the end of the first half of 2020, and the Bank processed over 15 million of transactions via electronic channels. In turn, for Consumer Banking customers the Bank additionally improved the security of using electronic banking by adding a mobile authorization service - Citi Mobile Token, and carried out a dedicated educational campaign to promote safe methods of communicating the Bank via electronic banking.

Due to the restrictions introduced to counteract the spread of the coronavirus, the behavior and activity of customers have changed. In the case of transaction parameters on retail credit cards, the structure of expenses and the volume of expenses has changed. In March 2020, after the introduction of the epidemic in Poland, the Bank recorded a decrease in card spending by 17% YoY. It was mainly due to the fact that the credit card has a large overrepresentation of travel expenses (e.g. hotel reservations, airline tickets purchase, etc.). On the other hand, the category related to grocery shopping recorded an increase. After the gradual recovery of the Polish economy in May 2020, the Bank recorded increase in domestic spending made with the card, in May +23% compared to April, in June +16% compared to May. There has also been a gradual improvement in spending on clothes and groceries since the beginning of June.

Legal and regulatory risks

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

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

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

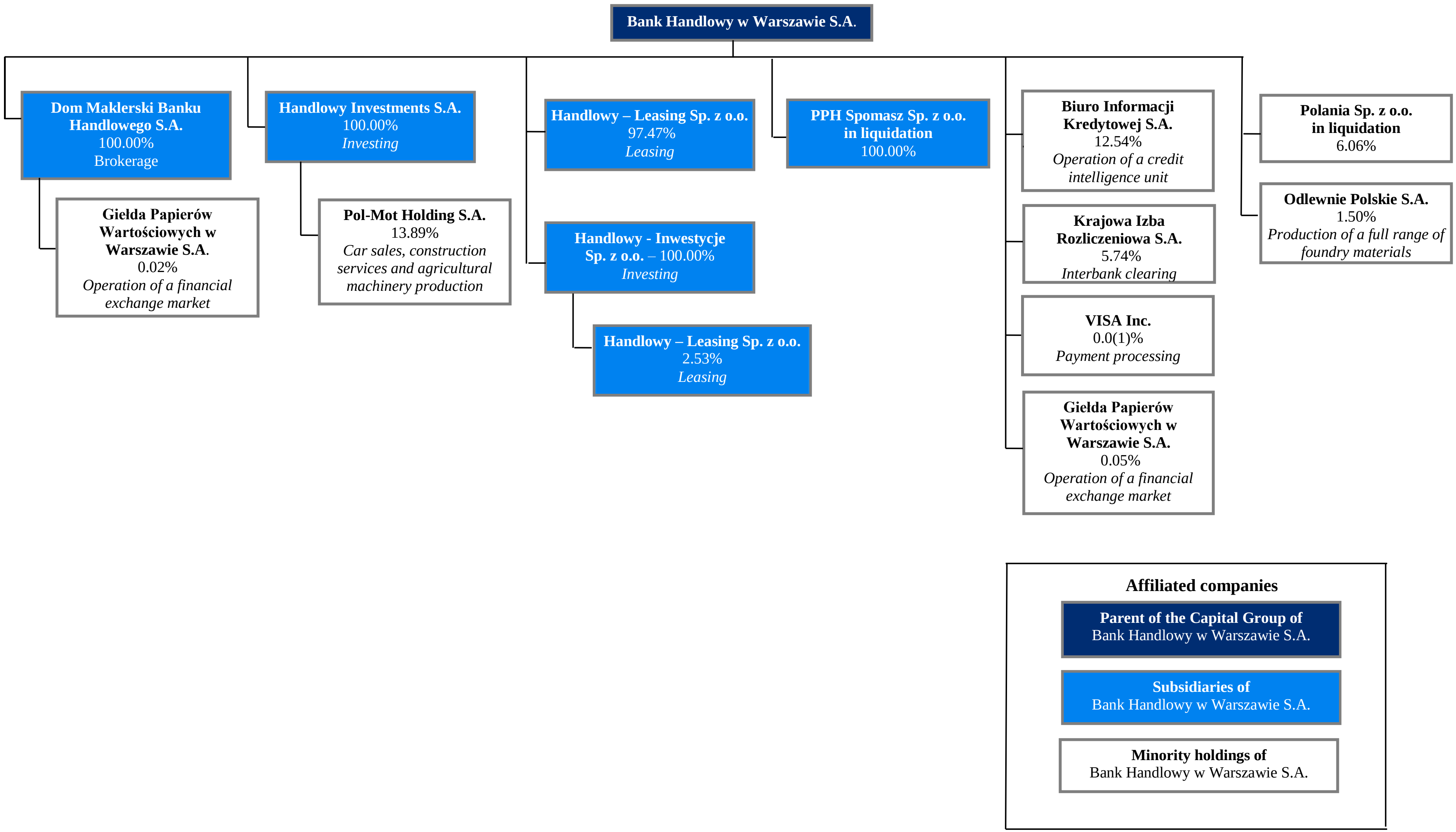
The Group is monitoring the risk of claims for the return of a part of commission. The Group, based on internal and external legal analysis, previous court rulings in the this case and the number of court cases received by the Group, did not create provisions for potential commission returns for customers who repaid consumer loans early as of the first half of 2020.

As of June 30, 2020, the Group is sued in 99 cases concerning the return of a part of commission for granting a consumer credit for the total amount of PLN 521,315 and in 18 cases concerning a credit indexed to CHF for the total amount of PLN 2,789,940 (most of the cases are in the first instance).

The above 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 structure of the Capital Group of Bank Handlowy w Warszawie S.A. ("Bank") as of June 30, 2020; the Bank's share interest in each specified.


Bank Handlowy w Warszawie S.A.
Dom Maklerski Banku Handlowego S.A. 100.00% Brokerage
Giełda Papierów Wartościowych w Warszawie S.A. 0.02% Operation of a financial exchange market
Handlowy Investments S.A. 100.00% Investing
Pol-Mot Holding S.A. 13.89% Car sales, construction services and agricultural machinery production
Handlowy – Leasing Sp. z o.o. 97.47% Leasing
Handlowy - Inwestycje Sp. z o.o. – 100.00% Investing
Handlowy – Leasing Sp. z o.o. 2.53% Leasing
PPH Spomasz Sp. z o.o. in liquidation 100.00%
Biuro Informacji Kredytowej S.A. 12.54% Operation of a credit intelligence unit
Krajowa Izba Rozliczeniowa S.A. 5.74% Interbank clearing
VISA Inc. 0.0(1)% Payment processing
Giełda Papierów Wartościowych w Warszawie S.A. 0.05% Operation of a financial exchange market
Polania Sp. z o.o. in liquidation 6.06%
Odlewnie Polskie S.A. 1.50% Production of a full range of foundry materials
Affiliated companies
Parent of the Capital Group of Bank Handlowy w Warszawie S.A.
Subsidiaries of Bank Handlowy w Warszawie S.A.
Minority holdings of Bank Handlowy w Warszawie S.A.

IV. The organizational structure of the Capital Group of Bank Handlowy w Warszawie S.A.

The Capital Group of Bank Handlowy w Warszawie S.A. ("Group") consists of a parent company and subsidiaries:

BANK HANDLOWY W WARSZAWIE S.A. GROUP ENTITIES FULLY CONSOLIDATED

Entity	Core business	Capital relationship	% of authorized capital held	Accounting method	Equity (PLN '000) 30 Jun 2020
Bank Handlowy w Warszawie S.A.*	Banking	parent	-	-	7,400,277
Dom Maklerski Banku Handlowego S.A. ("DMBH")	Brokerage activities	subsidiary	100.00%	full consolidation	103,109
Handlowy - Leasing Sp. z o.o.	Leasing activities	subsidiary	100.00%**	full consolidation	21,158
Handlowy Investments S.A.	Investing activity	subsidiary	100.00%	full consolidation	4,833
PPH Spomasz Sp. z o.o. w likwidacji	Ceased operations	subsidiary	100.00%	full consolidation	Entity under liquidation
Handlowy-Inwestycje Sp. z o.o.	Investing activity	subsidiary	100.00%	equity valuation	10,747

** Equity of Bank Handlowy w Warszawie S.A. as per statement of financial position of the Bank for the first half of 2020*
*** Including indirect participations*

Changes in Group's structure

In the first half of 2020 there was no change in the structure of Group's entities comparing to the end of 2019.

In March 2020, the Bank signed with DMBH a conditional agreement of sale of the enterprise of DMBH to the Bank, on condition that the Bank obtains the approval to extend the brokerage license. That agreement covers the transfer of the brokerage activities carried out by DMBH to the Bank by way of transfer to the Bank of all assets and liabilities of DMBH via sale of the enterprise, including the assets necessary to run the brokerage activities of DMBH and the other assets and liabilities making up its enterprise. The merger process is expected to be finalized after the process is completed under the Polish Financial Supervision Authority.

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

1. Summary financial data of the Group

PLN million	30 Jun 2020	31 Dec 2019
Total assets	60,892.9	51,978.,5
Total equity	7,455.3	7,074.7
Amounts due from customers*	23,431.4	23,731.9
Customer deposits*	45,611.8	39,519.5
Net profit**	115.7	192.6
Total capital ratio	20.0%	17.2%

** Amounts due from and deposits of non-banking entities of the financial sector, entities of the non-financial sector, including the public sector.*
*** Net profit for the first half of adequately 2020 and 2019.*

2. Financial result of the Group for the first half of 2020

The following financial results are presented on the basis of the abridged semi-annual financial statement of the Group for the period of the first 6 months of the year ended June 30, 2020.

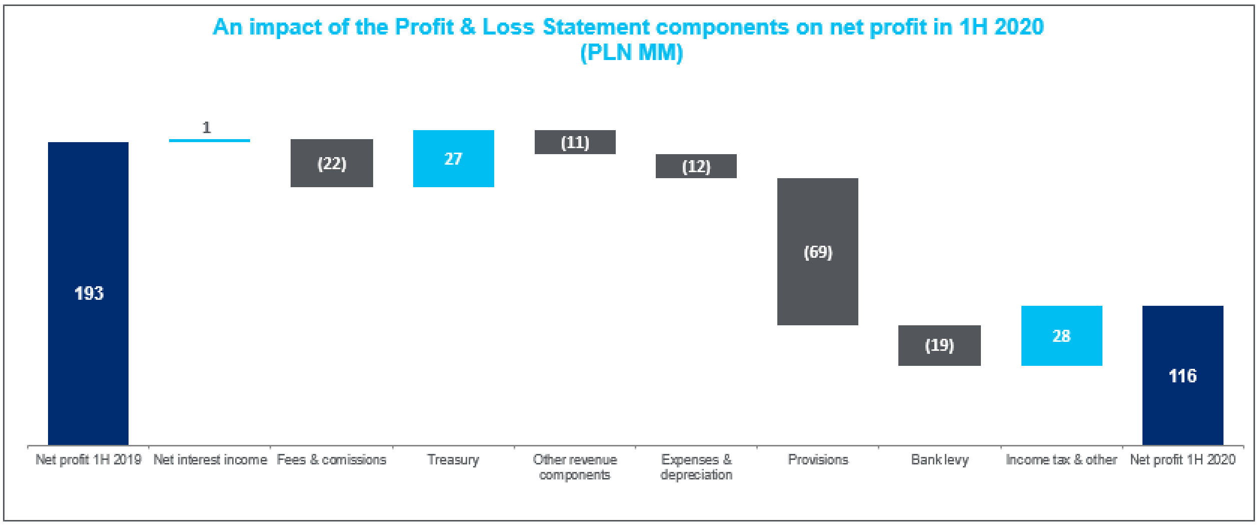
2.1 Income statement

In the first half of 2020 the Group delivered a consolidated profit before tax of PLN 167.5 million compared to PLN 273.2 million in the first half of 2019 (PLN -105.7 million or 38.7%). The consolidated net profit of the Group amounted to PLN 115.7 million compared to PLN 192.6 million a year ago.

Selected income statement items

	1st half of		Change	
PLN'000	2020	2019	PLN'000	%
Net interest income	567,062	565,701	1,361	0.2%

	1st half of		Change	
PLN'000	**2020**	**2019**	**PLN'000**	**%**
Net fee and commission income	264,770	287,146	(22,376)	(7.8%)
Dividend income	11,428	9,860	1,568	15.9%
Net income on trading financial instruments and revaluation	94,342	187,642	(93,300)	(49.7%)
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	174,201	54,147	120,054	221.7%
Net gain/(loss) on equity and other instruments measured at fair value through income statement	4,145	13,199	(9,054)	(68.6%)
Net gain/loss on hedge accounting	(1,463)	(758)	(705)	93.0%
Net other operating income	(4,312)	(1,328)	(2,984)	224.7%
Total income	**1,110,173**	**1,115,609**	**(5,436)**	**(0.5%)**
General administrative expenses and depreciation:	(675,197)	(663,425)	(11,772)	1.8%
General administrative expenses	(621,172)	(620,845)	(327)	0.1%
Depreciation and amortization	(54,025)	(42,580)	(11,445)	26.9%
Profit on sale of non-financial assets	(394)	(31)	(363)	1 171.0%
Provision for expected credit losses on financial assets and provisions for off–balance sheet commitments	(203,499)	(134,762)	(68,737)	51.0%
Share in net profits/losses of entities valued at equity method	0	0	0	-
Tax on some financial institutions	(63,602)	(44,205)	(19,397)	43.9%
Profit before tax	**167,481**	**273,186**	**(105,705)**	**(38.7%)**
Income tax expense	(51,818)	(80,560)	28,742	(35.7%)
Net profit	**115,663**	**192,626**	**(76,963)**	**(40.0%)**



The main determinants of the Group's financial result in the first half of 2020 were the following:

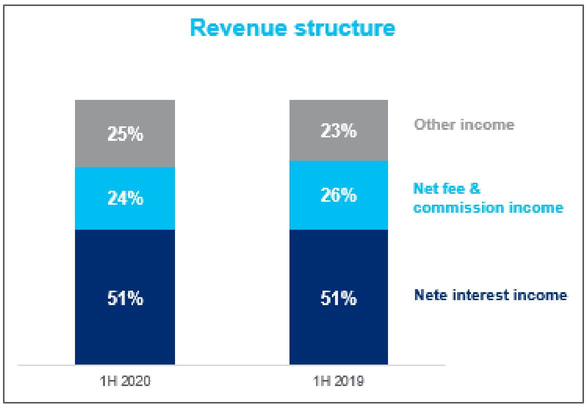
- Core revenue drop (a sum of net interest income and net fee and commission income) by 2.5% compared to the first half of 2019, due to a decrease in net fee and commission income in the Consumer Banking segment. The decrease in the net fee and commission income was due to two factors: a one-off event in the first half of 2019 (booking of a commission income of PLN 12.1 million in connection with the sale of 100% share in Bimmer Sp. z.o.o. – insurance agent) and a lower fee and commission income on payment and credit cards due to lower customer activity caused by the declaration of the state of COVID-19 pandemics in Poland.
- Increase in other operating income (i.e. non-interest and non-commission income) by 5.9% due to higher treasury result mainly as a result of higher realization of gains from the sale of investment debt financial assets.
- Increase in operating expenses (including depreciation) by 1.8% compared to the first half of 2019 due to depreciation increase.
- Increase in provisions for expected credit losses compared to the first half of 2019 mainly due to higher provisions in the Institutional Banking segment (see 2.1.3 – Result on expected credit losses on financial assets).

2.1.1 Revenues

Net interest income was the most important source of revenue of the Group in the first half of 2020 (51% of total revenue). It amounted to PLN 567.1 million, slightly up compared to the corresponding period of the previous year (PLN 565.7 million).

Interest income in the first half of 2020 declined by PLN 51.8 million (or 7.5%) to PLN 637.9 million. Interest on amounts due from customers, which were the main source of interest income, amounted to PLN 422.9 million, down by PLN 56.7 million (or

11.8%) compared to the first half of 2019. It was mainly due to the interest rate cut by the Monetary Policy Council (including the benchmark interest rate cuts by 140 bps taking place in March, April and May). The above cuts had the biggest impact on the Consumer Banking segment (mainly unsecured assets) due to the reduction of the interest rate cap cut by 280 bps (to 7.2% from 10%).



As a result of the above interest rate cuts, the Group adjusted its base of interest expenses paid on deposits which in the first half of 2020 fell by PLN 53.2 million (or 42.9%) to PLN 70.9 million. Interest expenses on amounts due to clients (from the financial and non-financial sectors) constituting the main source of interest expenses, reached the level of PLN 60.7 million, down by PLN 18.7 million (or 23.6%) compared to the first half of 2019, which was due to lowering of the average interest on clients' deposits in the Institutional Banking segment. The biggest nominal interest expenses decline was reported in the case of amounts due to banks (by PLN 35.5 million, or 85.6% compared to the first half of 2019).

Net fee and commission income in the first half of 2020 amounted to PLN 264.8 million compared to PLN 287.1 million in the corresponding period of 2019 – down by PLN 22.4 million (or 7.8%), and was visible in the Consumer Banking segment due to the COVID-19 pandemics declaration. Lower customer activity had a negative impact on fee and commission income from payment and credit cards, which fell by PLN 20.9 million (or 32.5%). At the same time in the first half of 2019 a one-off gain from the sale of shares in the insurance intermediary company in the amount of PLN 12.1 million was recognized. On the other hand, higher net fee and commission income was reported in the Institutional Banking segment in loans (loan volumes grew by 9% YoY), brokerage activity (the number of brokerage accounts increased by 9% YoY and client activity picked up) and custody services.

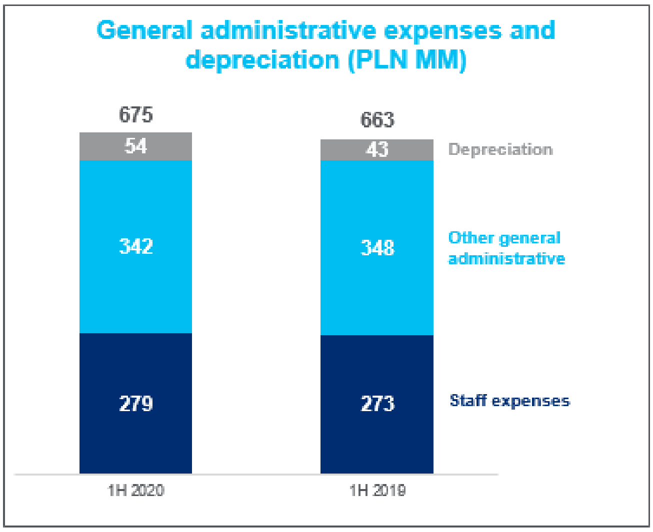
Net income on trade financial instruments and revaluation in the first half of 2020 amounted to PLN 94.3 million compared to PLN 187.6 million in the corresponding period of 2019 – down by PLN 93.3 million (or 49.7%), mainly as a result of the deterioration of the result on the Bank's proprietary management. The client result on FX transactions remained stable.

Net income on investment debt financial assets measured at fair value through other comprehensive income in the first half of 2020 amounted to PLN 174.2 million, significantly up by PLN 120.0 million compared to the corresponding period of the previous year as a result of benefiting from favorable Polish debt market conditions.

Other income amounted to PLN 9.8 million compared to PLN 21.0 million in the first half of 2019, mainly due to lower **net gain on equity investments** in connection with lower valuation of shares of the companies the Bank has share in.

2.1.2 Expenses

In the first half of 2020 the Group's general administrative and depreciation expenses amounted to PLN 675.2 million vs. PLN 663.4 million in the corresponding period of the previous year, slightly up by PLN 11.8 million (or 1.8%)



The increase was generally due to higher depreciation in connection with the implementation of new solutions and enhancement of existing solutions in individual customer service. The solutions are aimed to increase sales capacity of the Bank in remote channels and include, first of all, the use of biometrics technology for account opening, cash loan applications and credit card acquisition. At the same time the Bank implemented solutions ensuring permanent and consistent dialogue with clients through personalizing its offer based on individual customer needs (contextual banking) in the area of investment products and FX transactions. Also, some costs were born to enhance the Bank's platforms to meet the regulatory requirements, among others, in the area of AML.

As of the end of the first half of 2020 staff expenses amounted to PLN 278.9 million, up slightly by PLN 5.8 million (or 2.1%) compared to the corresponding period in the previous year. The main driver of growth were higher staff expenses related to the payment of one-off benefits for the Group's employees who, potentially, were the most severely impacted by the effects of the pandemics. The above increase in staff expenses was offset by lower administrative costs (mainly lower marketing costs).

Employment within the Group

FTEs	1st half of 2020	1st half of 2019	Change	
			FTEs	%
Average no. of jobs in the period	3,046	3,205	159	(5.0%)

No. of jobs at the end of the period	3,009	3,142	133	(4.2%)

In the first half of 2020, average employment in the Group amounted to 3,046 FTEs, i.e. decreased by 5.0% compared to the first half of 2019. As at June 30, 2020, employment in the Group amounted to 3,009 FTEs, of which 1,676 in Consumer Banking, 713 in Institutional Banking and 620 in support units. As compared with the same period last year, the number of FTEs at the end of the period decreased by 133 (i.e. 4.2%).

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

Net impairment and provisions

PLN'000	1st half of		Change	
	2020	2019	PLN'000	%
Net impairment allowances for receivables, including	(179,875)	(131,366)	(48,509)	36.9%
Net impairment allowances for financial assets – Stage 1	(35,390)	945	(36,335)	-3,845.0%
Net impairment allowances for financial assets – Stage 2	(65,322)	(11,795)	(53,527)	453.8%
Net impairment allowances for financial assets – Stage 3	(79,163)	(120,516)	41,353	-34.3%
Net provisions for granted financial and guarantee commitments	(20,678)	(1,852)	(18,826)	1,016.5%
Net impairment allowances for equity investments	-	-	(96)	-
Net impairment allowances for debt investment financial assets measured at fair value through other comprehensive income	(2,946)	(1,544)	(1,402)	90.8%
Provision for expected credit losses on financial assets and provisions for off-balance sheet commitments	**(203,499)**	**(134,762)**	**(68,833)**	**51.0%**

In the first half of 2020 the provision for expected credit losses on financial assets amounted to PLN -203.5 million compared to PLN 134.8 million in the first half of 2019 due to the creation of an additional impairment provision of ca. PLN 137 million dedicated to the impact of the COVID-19 pandemics (Institutional Banking – PLN 114 million, Consumer Banking – PLN 23 million). The reason for this is the update of the macroeconomic projections – in the base scenario the Group assumes that Poland's economy will shrink by 4% YoY in 2020. At the same time in the case of Institutional Banking, the Group updated its obligor risk ratings and in the Consumer Banking segment the Group noted a change in customer behavior which increases the probability of default.

2.1.4 Tax on certain financial institutions

The total charge to the income statement of Bank Handlowy w Warszawie S.A. Capital Group due to the tax on certain financial institutions for the first half of 2020 amounted to PLN 63.6 million compared to PLN 44.2 million in the first half of 2019, primarily due to higher amounts due from customers by 6% YoY and valuation of derivative instruments in the reporting period.

2.1.5 Ratio analysis

Selected financial ratios

	1st half of 2020	1st half of 2019
Return on equity (ROE) *	5.9%	7.8%
Return on assets (ROA) **	0.7%	1.0%
Cost/Income (C/I)	61%	59%
Loans/Deposits	51%	60%
Loans/Total assets	38%	43%
Net interest income to total revenue	51%	51%
Net fee and commission income to total revenue	24%	26%

** 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.*

2.2 Consolidated statement of financial position

As of June 30, 2020, total assets of the Group stood at PLN 60.9 billion, up by 17.2% compared to the end of 2019.

Consolidated statement of financial position

PLN'000	As of		Change	
	30 Jun 2020	31 Dec 2019	PLN'000	%
ASSETS				
Cash and balances with the Central Bank	2,217,908	3,736,706	(1,518,798)	(40.6%)

PLN'000	As of		Change	
	30 Jun 2020	31 Dec 2019	PLN'000	%
Amounts due from banks	812,505	1,165,684	(353,179)	(30.3%)
Financial assets held-for-trading	6,687,115	5,446,511	1,240,604	22.8%
Hedging derivatives	678	-	678	0.0%
Debt financial assets measured at fair value through other comprehensive income	25,262,575	15,484,578	9,777,997	63.1%
Equity and other investments measured at fair value though the income statement	66,782	62,638	4,144	6.6%
Amounts due from customers	23,431,417	23,731,874	(300,457)	(1.3%)
Tangible fixed assets	485,720	499,753	(14,033)	(2.8%)
Intangible assets	1,456,636	1,443,139	13,497	0.9%
Current income tax receivables	0	3,016	(3,016)	(100.0%)
Deferred tax asset	247,649	238,065	9,584	4.0%
Other assets	217,740	166,579	51,161	30.7%
Non-current assets held for sale	6,163	-	-	-
Total assets	**60,892,888**	**51,978,543**	**8,914,345**	**17.2%**
LIABILITIES				
Amounts due to banks	2,514,776	2,125,495	389,281	18.3%
Financial liabilities held-for-trading	3,585,491	1,877,898	1,707,593	90.9%
Hedging derivatives	52,868	19,226	33,642	175.0%
Amounts due to customers	45,888,443	39,787,802	6,100,641	15.3%
Provisions	85,778	65,199	20,579	31.6%
Current income tax liabilities	29,798	41,725	(11,927)	(28.6%)
Other liabilities	1,280,479	986,543	293,936	29.8%
Total liabilities	**53,437,633**	**44,903,888**	**8,533,745**	**19.0%**
EQUITY				
Ordinary shares	522,638	522,638	0	0.0%
Share premium	3,002,265	3,003,290	(1,025)	0.0%
Revaluation reserve	379,593	114,893	264,700	230.4%
Other reserves	2,795,005	2 867,358	(72,353)	(2.5%)
Retained earnings	755,754	566,476	189,278	33.4%
Total equity	**7,455,255**	**7,074,655**	**380,600**	**5.4%**
Liabilities and equity	**60,892,888**	**51,978,543**	**8,914,345**	**17.2%**

2.2.1 Assets

Customer net receivables

PLN '000	As of		Change	
	30 Jun 2020	31 Dec 2019	PLN '000	%
Receivables from financial sector entities	**4,018,070**	**3,150,586**	**867,484**	**27.5%**
Receivables from non-financial sector entities, including:	**19,413,347**	**20,581,288**	**(1,167,941)**	**(5.7%)**
Institutional customers*	12,203,952	13,201,441	(997,489)	(7.6%)
Individual customers, including:	7,209,395	7,379,847	(170,452)	(2.3%)
Unsecured receivables	5,175,792	5,490,546	(314,754)	(5.7%)
Mortgage loans	2,033,603	1,889,301	144,302	7.6%
Total net customer receivables	**23,431,417**	**23,731,874**	**(300,457)**	**(1.3%)**

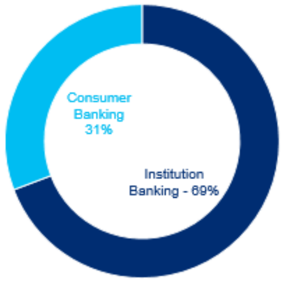
**Institutional clients include enterprises, public sector, public and private companies, cooperatives, individual enterprises, non-commercial institutions operating for households.*

In the first half of 2020 total net amounts due from customers amounted to PLN 23.4 billion, slightly down by PLN 300.5 million (or 1.3%) compared to the end of 2019.

The net value of loans in the Institutional Banking segment, being a sum of amounts due from financial sector entities and non-financial sector entities – institutional clients, amounted to PLN 16.2 billion, down by PLN 130 million (or 0.8%) compared to the end of 2019.

The net volume of loans made to individual customers declined compared to the end of December 2019 by PLN 171 million (or 2.3%) and amounted to PLN 7.2 billion. The drop in the loan volumes was caused by lower amounts due from customers in respect of credit cards, partially offset by mortgage loans growth.

Customer net receivables structure 1H 2020



Gross receivables to customers

PLN'000	As of		Change	
	30 Jun 2020	31 Dec 2019	PLN'000	%
Receivables in PLN	20,890,142	21,375,045	(484,903)	(2.3%)
Receivables in foreign currency	3,397,035	3,047,377	349,658	11.5%
Total	**24,287,177**	**24,422,422**	**(135,245)**	**(0.6%)**

Loans to customers by portfolio with/without recognized credit losses

PLN'000	As of		Change	
	30 Jun 2020	31 Dec 2019	PLN'000	%
Loans without recognized impairment (Stage 1), including:	**20,347,259**	**21,225,119**	**(877,860)**	**(4.1%)**
institutional entities	4,022,414	3,152,788	869,626	27.6%
non-financial sector entities	16,324,845	18,072,331	(1,747,486)	(9.7%)
institutional clients*	9,908,225	11,659,740	(1,751,515)	(15.0%)
individual customers	6,416,620	6,412,591	4,029	0.1%
Loans without recognized impairment (Stage 2), including:	**3,042,825**	**2,355,543**	**687,282**	**29.2%**
non-financial sector entities	3,042,803	2,355,529	687,274	29.2%
institutional clients*	2,220,360	1,376,283	844,077	61.3%
individual customers	822,443	979,246	(156,803)	(16.0%)
Loans with recognized impairment (Stage 3), including:	**887,053**	**831,720**	**55,333**	**6.7%**
non-financial sector entities	887,053	831,720	55,333	6.7%
institutional clients*	527,492	516,611	10,881	2.1%
individual customers	359,561	315,109	44,452	14.1%
Amounts due from matured transactions in derivative instruments (Stage 3)	**10,040**	**10,040**	**0**	**0.0%**
Total gross loans to customers, including:	**24,287,177**	**24,422,422**	**(135,245)**	**(0.6%)**
non-financial sector entities	20,254,701	21,259,580	(1,004,879)	(4.7%)
institutional clients*	12,656,077	13,552,634	(896,557)	(6.6%)
individual customers	7,598,624	7,706,946	(108,322)	(1.4%)
Provision for expected credit losses, including:	**(855,760)**	**(690,548)**	**(165,212)**	**23.9%**
Amounts due from matured transactions in derivative instruments	(4,116)	(4,241)	125	(2.9%)
Total net amounts due from customers	**23,431,417**	**23,731,874**	**(300,457)**	**(1.3%)**
Impairment provisions coverage ratio**	**71.3%**	**66.7%**		
institutional clients*	66.0%	60.4%		
individual customers	79.2%	77.1%		
Non-performing loans ratio (NPL)	**3.7%**	**3.4%**		

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

*** In accordance with Transition Resource Group for Impairment of Financial Instruments the value of receivables in Stage 3 shall be presented increased by accrued contract interest in total amount of PLN 272,522 thousand (as the end of 2019 PLN 311,351 thousand).*

In the first half of 2020 the provision coverage ratio for impaired loans increased by 4.6 pp compared to the end of 2019 and amounted to 71.3%, mainly due to higher provisions for expected credit losses in the Institutional Banking segment.

Debt securities portfolio

PLN'000	As of		Change	
	30 Jun 2020	31 Dec 2019	PLN'000	%
Treasury bonds, including:	24,269,207	17,662,234	6,606,973	37.4%
Bonds hedged in the fair value hedge accounting	12,259,817	1,833,308	10,426,509	568.7%
Bonds issued by financial institutions	1,200,777	704,241	496,536	70.5%
Bonds and notes issued by Central Bank	2,999,980	999,917	2,000,063	200.0%
Debt securities, total	**28,469,964**	**19,366,393**	**9,103,571**	**47.0%**

The debt securities portfolio increased as of the end of the first half of 2020 by PLN 9.1 billion (or 47.0%), primarily due to the increased position in treasury bonds and NBP monetary bills.

2.2.2 Liabilities

Liabilities due to customers

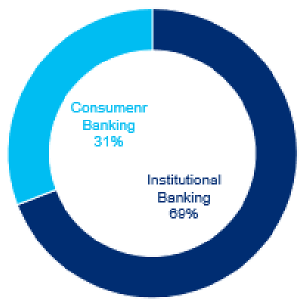
PLN'000	As of		Change	
	30 Jun 2020	31 Dec 2019	PLN'000	%
Deposits from financial sector entities	**5,814,887**	**4,556,646**	**1,258,241**	**27.6%**
Deposits of non-financial sector entities, including:	**39,796,956**	**34,962,845**	**4,834,111**	**13.8%**
non-financial companies	21,704,008	17,859,634	3,844,374	21.5%
non-commercial institutions	208,977	185,848	23,129	12.4%
individual customers	14,254,845	13,461,931	792,914	5.9%
public sector units	3,629,126	3,455,432	173,694	5.0%
Other liabilities	**276,600**	**268,311**	**8,289**	**3.1%**
Liabilities towards customers, total	**45,888,443**	**39,787,802**	**6,100,641**	**15.3%**
Deposits of financial and non-financial sector entities, including:				
in PLN	33,837,152	29,313,004	4,524,148	15.4%
in foreign currency	11,774,691	10,206,487	1,568,204	15.4%
Deposits from financial and non-financial sector entities, total	**45,611,843**	**39,519,491**	**6,092,352**	**15.4%**

In the first half of 2020 amounts due to customers constituted the dominant source of financing of the Group's activity and constituted 75.4% of the Group's liabilities and equity. Total amounts due to customers as of the end of June 2020 amounted to PLN 45.9 billion, up by PLN 6.1 billion (or 15.3%) compared to the end of 2019, which was due to higher current account balances by PLN 7.1 billion (or 24.8%) partially offset by a decline in term deposits by PLN 1.0 billion (or 8.9%).

The deposit volumes in the Institutional Banking segment amounted to PLN 31.4 billion, up by PLN 5.3 billion (or 20.3%) compared to the end of 2019, thanks to the focus on current accounts from non-financial sector economic entities.

The deposit volumes in the Consumer Banking segment amounted to PLN 14.3 billion, compared to the end of December 2019 – up by PLN 0.8 billion (or 5.9%) as a consequence of the increase in the number of clients in the strategic client segments (CPC, Citigold, Citi Priority) by 4%.

Liabilities due to customers structure 1H 2020



2.3 Contingent liabilities

As at June 30, 2020, exposure from contingent liabilities granted by the Group amounted to PLN 16.9 billion, up by PLN 1.5 billion (or 9.7%) compared to the end of 2019. Promised loan commitments represent the largest share in total contingent liabilities granted (i.e. 85%). Promised loan commitments consist of committed but currently unutilized credit lines and unutilized overdraft facilities and credit card limits.

Contingent off-balance sheet liabilities granted

PLN'000	As of		Change	
	30 Jun 2020	31 Dec 2019	PLN'000	%
Guarantees	2,234,430	2,273,926	(39,496)	(1.7%)
Import letters of credit issued	173,960	174,555	(595)	(0.3%)

PLN'000	As of		Change	
	30 Jun 2020	31 Dec 2019	PLN'000	%
Export letters of credit confirmed	580	7,771	(7,191)	(92.5%)
Credit commitments	14,473,720	12,935,767	1,537,953	11.9%
Other	53,299	49,935	3,364	6.7%
Total	**16,935,989**	**15,441,954**	**1,494,035**	**9.7%**
Provisions for contingent liabilities granted	82,634	61,703	20,931	33.9%
Provisions coverage ratio	0.49%	0.40%		

As at 30 June 2020, the total value of accounts or assets of the Bank's borrowers pledged as collateral stood at PLN 4,944 million, compared to PLN 5,212 million on 31 December 2019.

2.4 Equity and total capital ratio

As compared to the end of 2019 the value of equity of the Group as of the end of the first half of 2020 increased by PLN 380.6 million (or 5.4%) mainly due to retention of entire net profit for 2019 (i.e. PLN 478.8 million) in accordance with position of the Polish Financial Supervision Authority.

Equity

	As of		Change	
PLN'000	30 Jun 2020	31 Dec 2019	PLN'000	%
Ordinary shares	522,638	522,638	0	0.0%
Share premium	3,002,265	3,003,290	(1,025)	0.0%
Revaluation reserve	379,593	114,893	264,700	230.4%
Other reserves	2,795,005	2 867,358	(72,353)	(2.5%)
Retained earnings	755,754	566,476	189,278	33.4%
Total equity	**7,455,255**	**7,074,655**	**380,600**	**5.4%**

The equity level is fully sufficient to ensure the financial security of the company and the security of funds deposited in the Bank as well as it fully supports growth opportunities of the Group.

Total capital ratio

As at the end of the first half of 2020 the total capital ratio (TCR) amounted to 20%, compared to 17.2% as at the end of 2019, and the growth was due to the fact that the Bank's own funds were increased by undivided profit for 2019.

In the first half of 2020, as well as in 2019 the Group fulfilled all capital adequacy requirements. The capital adequacy level of the Group in the first half of 2020 remained at a safe level, i.e. 923 basis points above the regulatory thresholds.

The Bank's capital ratio values take account of:

- The minimum capital adequacy requirement set out in the Capital Requirement Regulation (CRR): a total capital ratio of 8% and a Tier 1 capital ratio of 6%
- The combined buffer requirement – 2.77% on a consolidated basis, consisting of:
  - conservation capital buffer – 2.5%
  - O-SII capital buffer – 0.25%
  - systemic risk buffer – 0.00%
  - countercyclical capital buffer – 0.02%

As at the end of 2019 the systemic buffer was 2.84% on a consolidated basis. Due to the extraordinary social and economic situation caused by the COVID-19 pandemics, the requirement was lifted by way of the Regulation of the Minister of Finance effective March 19, 2020.

2.5 Earnings forecast for 2020

The Bank as the parent entity did not publish earnings forecast for 2020.

VI. Activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2020

1. Support for clients during COVID-19 pandemic

In the face of unprecedented situation caused by COVID-19 pandemic in Poland's and global markets, the Bank focused on providing support to its clients in the areas of Institutional and Consumer Banking. The main activities of the Bank were aimed at supporting liquidity of its clients, focusing on promotion and development of tools for safe contacts with the Bank and investing in the secure use of those tools.

The key solutions implemented in connection with the pandemic:

Institutional Banking

Credit support

- **Anti-Crisis Shield Program** of the Polish Development Fund;
- Implementation of new product for clients – **Liquidity Guarantee Fund** of the Bank Guarantee Fund;
- **Company financing** to purchase of RT-PCR three-stage genetic tests used for diagnosis of COVID-19 infections. With the financing obtained from Citi Handlowy, the company was able to **deliver more orders**, and in consequence, to support Sanitary and Epidemiological Stations with performing **more numer of tests**;
- **Temporary deferral of loan instalments** - to postpone three principal or principal & interest instalments. As at 30 June 2020u, 98% of applications submitted by the clients were accepted.

Internet Banking

- Development of new functionalities in the online banking system - CitiDirect BE:
  - **MobilePass:** access to the system using dynamic passwords generated on a smartphone,
  - **CitiDirect BE Mobile:** management of everyday payments directly from a smartphone or tablet,
  - **Administrator CitiDirect BE:** management of entitlements of other users,
  - **eWnioski**: (eApplications) electronic document exchange platform;
- **Qualified electronic signature** for all documentation;
- Consistent **education of clients** in terms of safe use of electronic banking channels.

Consumer Banking

Banking from home

- Promotion of **Citibank Online internet banking** as the main tool for performing ongoing banking operations;
- Adding new tool **Citi Mobile Token** for online transaction autorization;
- Dedicated **educational campaigns** on the use of internet banking.

Credit support

- Temporary **deferral of loan instalments** for up to 6 months (initiative of the Polish Bank Association);
- Temporary **deferral of contract performance** due to loss of job or other source of income (under the Act of June 19, 2020).

Online shopping

- **Management of credit and debit cards** in internet banking (incl. activation) and **change of transaction limits** for online payments;
- **Online payments by fast transfer** from funds on the current account or from a credit card account;
- A unique rebate program and special offers for the Bank's customers – **Citi Specials**.

Secutity

- **Increasing the limit** to PLN 100 for contactless card payments without the need to enter a PIN code;
- Dedicated **educational campaigns** on the safe use of online banking: https://www.online.citibank.pl/en/safety.html

2. Institutional Bank

2.1 Segment results summary

PLN'000	1st half of 2020	1st half of 2019	Change	
			PLN'000	%
Net interest income	302,783	248,955	53,828	21.6%
Net fee and commission income	165,239	148,827	16,412	11.0%
Dividend income	1,186	1,262	(76)	(6.0%)
Net income on trading financial instruments and revaluation	77,932	174,103	(96,171)	(55.2%)
Net gain/(loss) on debt investment financial assets measured at fair value through other comprehensive income	174,201	54,147	120,054	221.7%
Net gain/(loss) on equity and other instruments measured at fair value through income statement	4,145	12,274	(8,129)	(66.2%)
Net gain/(loss) on hedge accounting	(1,463)	(758)	(705)	93.0%
Net other operating income	1,462	5,812	(4,350)	(74.8%)
Total income	**725,485**	**644,622**	**80,863**	**12.5%**
General administrative expenses and depreciation	(322,137)	(320,886)	(1,251)	0.4%

PLN'000	1st half of 2020	1st half of 2019	Change	
			PLN'000	%
Profit on sale of other assets	(160)	1	(161)	-
Provisions for expected credit losses on financial assets and provisions for off–balance sheet commitments	(137,963)	(81,995)	(55,968)	68.3%
Share in net profits/(losses) of entities valued at equity method	-	-	-	-
Tax on some financial institutions	(50,862)	(32,264)	(18,598)	57.6%
Profit before tax	**214,363**	**209,478**	**4,885**	**2.3%**
Cost/Income	**44%**	**50%**		

The key highlights that impacted the gross profit of the Institutional Banking segment in the first half of 2020 when compared to the corresponding period of 2019 were as follows:

- Net interest income growth by PLN 53.8 million YoY due to lower interest expenses mainly in interbank and financial institutions space;
- Net fee and commission income up by PLN 16.4 million YoY, primarily due to higher business volumes in brokerage activity and custody services;
- Slight increase in operating expenses by PLN 1.3 million YoY due to higher technology expenses (investments in the area of new solutions for clients and supporting remote work of the Group's employees);
- Provisions for expected credit losses increase by PLN 56.0 million YoY as a result of the estimation of the impact of COVID-19 on Poland's economy. For that purpose the Bank revised its macroeconomic projections according to which Poland's economy is expected to shrink by 4% YoY in 2020 and additionally it reviewed its internal obligor ratings. The estimated impact of COVID-19 on Institutional Banking amounted to PLN 114 million.

2.2 Institutional Bank and the Capital Markets

2.2.1 Institutional Bank

At the end of the first half of 2020 there were 5,600 institutional customers (including strategic, global and corporate banking customers) i.e. the same level as at the end of the first half of 2019. Within the framework of commercial banking (small and medium-sized enterprises, large companies and the public sector), the Group served 3,000 clients at the end of the first half of 2020, i.e. a decrease of 5% compared to the end of the first half of 2019, when the number of clients was almost 3,200.

The table below presents balances of assets and liabilities in the particular segments according to the management reporting format.

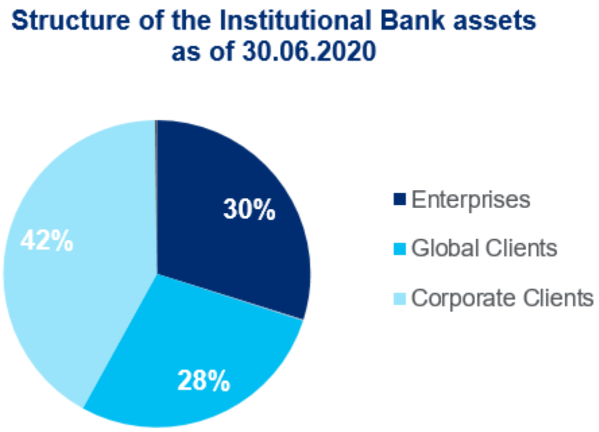
Assets

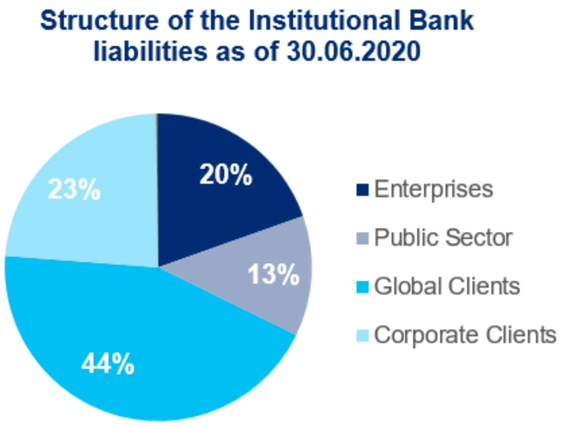
PLN million	30 Jun 2020	31 Dec 2019	30 Jun 2019	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises, including:	4,357	4,664	5,156	(307)	(7%)	(799)	(15%)
SMEs	1,476	1,442	1,598	34	2%	(122)	(8%)
Large enterprises	2,881	3,222	3,558	(341)	(11%)	(677)	(19%)
Public Sector	17	25	96	(8)	(32%)	(79)	(82%)
Global Clients	4,098	4,755	4,102	(657)	(14%)	(4)	(0%)
Corporate Clients	6,099	6,162	4,687	(63)	(1%)	1 412	30%
Other	30			30	-	30	-
Total Corporate Bank	**14,600**	**15,606**	**14,041**	**(1 006)**	**(6%)**	**559**	**4%**

Liabilities

PLN million	30 Jun 2020	31 Dec 2019	30 Jun 2019	Change (1)/(2)		Change (1)/(3)	
	(1)	(2)	(3)	in PLN	%	in PLN	%
Enterprises, including:	5,864	4,783	3,950	1,081	23%	1,914	48%
SMEs	3 ,453	2,593	2,316	860	33%	1,137	49%
Large enterprises	2,411	2,190	1,633	221	10%	778	48%
Public Sector	3,791	3,658	2,544	133	4%	1,247	49%
Global Clients	13,150	10,887	9,227	2,263	21%	3,923	43%
Corporate Clients	7,056	5,888	7,648	1,168	20%	(592)	(8%)
Other*	65	65	75	(0)	(0%)	(10)	(13%)
Total Corporate Bank	**29,926**	**25,282**	**23,443**	**4,644**	**18%**	**6,483**	**28%**

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





<u>Key transactions and successes of the Corporate and Commercial Bank in the first half of 2020:</u>

1. The Bank granted new long-term financing in the amount of PLN 1.6 billion (20% YoY) acting as:
   - Lender and the Bank of the Lead Arranger and Book Runner – the Bank co-arranged the syndication process and signed a syndicated loan agreement with a client from the power sector, with the total commitment of the Bank amounting to PLN 350 million;
   - Lender and Mandated Lead Arranger, participated in a syndicated loan agreement with a client from the television and telecommunication sector, with the total commitment of the Bank amounting to PLN 350 million. The participation of the Bank in the transaction confirms its strong position in Poland and its commitment to provide support to its strategic clients in pursuit of their goals
   - Lender under a syndicated loan agreement with a client from the television and telecommunications sector, with the total commitment of the Bank amounting to PLN 340 million;
2. Moreover, implementing the strategy of supporting its clients, the Bank concluded also:
   - Overdraft and revolving facility agreements for a total amount of PLN 391 million;
   - Supplier finance, guarantee and letter of credit agreements for PLN 162 million;
3. The Bank increased its share in banking services and transactional banking after winning 10 mandates for comprehensive banking services or services enhancing cooperation of the Bank with clients, including
   - servicing of one of the global and largest online stores in the area of foreign exchange and funds management and granting financing for PLN 270. The Bank will be the main banking partner of the company;
   - establishing cooperation with a company from the digital sector which offers car rides arranged using a mobile application;
   - implementing a supplier finance program under a new Green Label solution with Split Payment option for a leading company from the food sector with full H2H integration with the financial system of the client;
4. Client acquisition: in the Commercial Bank segment the Bank attracted 112 new clients in the first half of 2020, including 21 Large Companies, 90 Small and Medium-Sized Companies and 1 Public Sector entity. In the strategic and global client segments, the Bank established 15 new client relationships.

2.2.2 Activity and business achievements of the Treasury Division

- Thanks to its commitment and professional approach, the Bank is still a leader in the Treasury BondSpot market.
- In the first half of 2020, the Bank was active in the market of debt securities and syndicated loans, through its participation in the following transactions:

- An issue of 4-year bonds for PLN 500 million for European Investment Bank;
- Participation as one of the lenders in syndicated financing for a company from the electricity and energy sector;
- The Bank was taking up BGK bonds issued for the Anti-COVID-19 Fund.

- In the COVID-19 situation, which mounts new challenges to business clients, the Bank is fully aware how important it is to have in place effective plans that allow its clients keep their businesses going and financially viable. The Bank is motivated and determined to support its business clients in these hard times, while taking care of security of both its clients and employees.
- The solutions that the Bank offers to it's clients include:
  - **CitiFX Pulse** - electronic foreign exchange platform which makes it possible to conclude transactions remotely and safely and ensures access to the most recent data, analyses and economic forecasts.
  - **Puls Rynku FX -** a mobile application which, in addition to currency alerts, quotations, forecasts, etc., also distributes special reports prepared by analysts of Citi Handlowy that present, *inter alia*, the impact of COVID-19 on the situation in the markets in Poland and the world.
- The Bank also arranged for its clients:
  - a special teleconference titled "**Economy in the times of pandemic: activities of governments and central banks**," with participation of the Chief Economist of the Bank and FX market experts.
  - an online videoconference titled **"Crisis like never before"** that covered the economic outlook for Poland for the next years, potential consequences of the pandemic, EU aid programs to revive Poland's economy and monetary and fiscal policy.

2.2.3 Transaction services

Citi Handlowy is a leading provider of transactional banking services. The prestigious Euromoney magazine has declared the Citi Handlowy transactional banking services the best in Poland, for the sixth consecutive year. This award is granted on the basis of assessments of clients, who yet again chose the leader of the financial sector.

Electronic banking

Despite the lasting epidemiological situation, works were continued to offer new functionalities to clients:

- API functionality – ERP systems of a leading suppliers in Poland were enhanced by the CitiConnect API functionality, which enables full integration with the Bank and real-time access to bank accounts without signing in to the electronic banking system. With CitiConnect API, payments can be sent directly from the ERP system of the supplier, without using any bank interfaces. This reduces time to execute orders and their initiation is much easier. This approach is in line with the trends outlining the future standards of use of banking services.
- CitiDirect BE – the Bank worked on commercialization of a mobile application with a biometric authentication function and mechanisms for management of entitlements of CitiDirect BE users by authorized system administrators. Works were continued to offer clients new system functionalities in the second half of 2020.

In the first half of 2020, the Bank processed over 15 million transactions via electronic channels. In that time, the CitiDirect BE online banking system was used by more than 4,350 clients.

International fund transfers

At the same time, the strategy implemented to promote development of products in the area of foreign funds transfers led to an increase in the volume of transfers by 9% as compared to the same period in 2019.

Trade finance products

In the first half of 2020, the Supplier Finance Program was continued vigorously. In addition, comprehensive solutions offered by the Bank for split payments in trade finance transactions attract new and new companies that want to use an option to receive payments for their invoices before the payment date. Especially during COVID-19 pandemic, the Supplier Finance Programs of the Bank turned out to be an attractive way to get fast financing and, in consequence, to achieve immediate improvement in liquidity of Polish companies.

The Trade Finance Department expanded the electronic channels available for communication with clients by an option to file applications relating to security deposits (used as security of bank guarantees) in an electronic form: as an attachment to an application for a guarantee sent via Citi Trade Portal and as an attachment to an email message sent by the client.

2.2.4 Custody services

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 at 30 June 2020, the Bank maintained over 15 thousand of securities accounts and collective accounts.

In the reporting period, the Bank was the depository for open-end pension funds: Aviva OFE Aviva Santander, Nationale - Nederlanden OFE (Open Pension Funds), voluntary pension funds: Nationale - Nederlanden DFE, Generali DFE and 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) TFI S.A. and Skarbiec TFI S.A.

Moreover, the Bank was servicing an investment funds and pension funds operating under the Employee Capital Plans programme: PKO Emerytura SFIO, Santander PPK SFIO, Aviva SFIO PPK, Esaliens PPK SFIO, Nationale - Nederlanden DFE Nasze Jutro.

In the reporting period, the Bank did not discern any significant adverse impact of COVID-19 situation on its custody and depositary activities. In the second quarter of 2020, the number of transactions settled in securities trade increased and the value of registered securities declined. It was also visible that behaviors of issuers was changing as they more frequently offered shareholders possibilities to participate in and vote at General Shareholders Meetings of public companies via electronic channels.

2.2.5 Brokerage activities

The Group pursues brokerage activity on the capital market via the Dom Maklerski Banku Handlowego S.A. (brokerage house)

As at the end of the first half of 2020, DMBH was the market maker for 66 companies listed on the Warsaw Stock Exchange (of which all companies from the WIG20 index), i.e. 15% of the shares listed in its main equity market.

In the first half of 2020, DMBH was the intermediary in in-session transactions accounting for 4.8% of equity turnover in the secondary market. The value of the in-session transactions concluded via DMBH in the equity market on the WSE was PLN 12.5 billion. In the first half of 2020, DMBH was ranked eighth in terms of session turnovers on the WSE Main Market and fourth as a local WSE member.

The number of investment accounts maintained by DMBH was 14.6 thousand as at the end of the first half of 2020, and increased by 8.9% in comparison to the same period of 2019. The number of accounts rose as a result of very high interest in the investment advice offer and service among individual investors.

In 2020 DMBH was awarded for the highest share of a local Stock Exchange Member in session trading in shares on the WSE’s Main Market in 2019 and was also awarded by KDPW for top quality securities registers tailored to scale of operations.

Proposed legislation is monitored and assessed by DMBH on an ongoing basis. The current activities of the company are fully in line with initiatives started in the sector. Over the last months, DMBH carried out stable, and from time to time even intensified, activities to continuously respond to the needs of its clients.

At present, it is impossible to quantify the impact of the ongoing pandemic and the above stabilization packages on the financial situation and business activities of DMBH and the entire financial sector. Nonetheless, the liquidity and capital situation of DMBH remains very good. However, its management cannot rule out that a declining trend in the economy arising from the pandemic may adversely affect the investing activity of both individual and institutional clients, which can have an impact on the financial results of the company. DMBH believes that such situation should not deteriorate its capital ratios and should not reduce DMBH's ability to meet its liabilities, and the level of own funds, after having considered the effects of the above events, should enable DMBH to continue its business strategy and ensure that the risks deemed important for DMBH's activities are covered.

DMBH has in place and is implementing appropriate plans and infrastructural and organizational solutions to ensure continuity of business and performance of critical functions. The epidemiological situation is monitored and its impact on various dimensions of DMBH's activities is assessed on an ongoing basis and DMBH cooperates with regulators to maintain the stability of the financial sector.

Summarized financial data as of June 30, 2020

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2020	Total equity 30 Jun 2020	Net financial result for the period of 1 Jan – 30 Jun 2020
		%	PLN’000	PLN’000	PLN’000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	548,011	103,109	5,552

Summarized financial data as of June 30, 2019

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2019	Total equity 30 Jun 2019	Net financial result for the period of 1 Jan – 30 Jun 2019
		%	PLN’000	PLN’000	PLN’000
Dom Maklerski Banku Handlowego S.A.	Warsaw	100.00	598,851	98,195	631

2.2.5 Leasing activities

Leasing products continue to be offered by the Bank and are made available as part of the “open architecture”, i.e. the Bank’s partnership with organizations from outside its Group.

Summary financial data as of June 30, 2020

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2020	Total equity 30 Jun 2020	Net financial result for the period of 1 Jan – 30 Jun 2020
		%	PLN'000	PLN'000	PLN'000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00*	21,768	21,158	(246)

* direct share of the Bank - 97.47%, indirect share of the Bank through its subsidiary Handlowy - Inwestycje Sp. z o.o. - 2.53%

Summary financial data as of June 30, 2019

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2019	Total equity 30 Jun 2019	Net financial result for the period of 1 Jan – 30 Jun 2019
		%	PLN'000	PLN'000	PLN'000
Handlowy-Leasing Sp. z o.o.	Warsaw	100.00*	22,075	21,676	(230)

* direct share of the Bank - 97.47%, indirect share of the Bank through its subsidiary Handlowy - Inwestycje Sp. z o.o. - 2.53%

3. Consumer Bank

3.1 Segment results summary

PLN'000	1st half of 2020	1st half of 2019	Change	
			PLN'000	%
Net interest income	264,279	316,746	(52,467)	(16.6%)
Net fee and commission income	99,531	138,319	(38,788)	(28.0%)
Dividend income	10,242	8,598	1,644	19.1%
Net income on trading financial instruments and revaluation	16,410	13,539	2,871	21.2%
Net gain/(loss) on equity and other instruments measured at fair value through income statement	-	925	(925)	(100.0%)
Net other operating income	(5,774)	(7,140)	1,366	(19.1%)
Total income	**384,688**	**470,987**	**(86,299)**	**(18.3%)**
General administrative expenses and depreciation	(353,060)	(342,539)	(10,521)	3.1%
Profit on sale of other assets	(234)	(32)	(202)	631.3%
Provisions for expected credit losses on financial assets and provisions for off–balance sheet commitments	(65,536)	(52,767)	(12,769)	24.2%
Tax on some financial institutions	(12,740)	(11,941)	(799)	6.7%
Profit before tax	(46,882)	**63,708**	(110,590)	-
Cost/Income	**92%**	**73%**		

The key highlights that impacted the gross profit of the Consumer Banking segment in the first half of 2020 compared to the corresponding period of 2019 were as follows:

- decrease in net interest income as a result of reduction of interest rates by the Monetary Policy Council (including the reference rate drop by 140 basis points in March, April and May). This reduction had the greatest impact on unsecured receivables, as the maximum interest rate was reduced by 280 basis points (from 10% to 7.2%). Interest expenses dropped as a result of interest rates on deposits reduction despite a significant increase in the deposit balances (+15% YoY). The credit products balance remained at a similar level.
- due to the COVID-19 pandemic announcement, the Bank recorded a decrease in customer activity, which had a negative impact, in particular in terms of foreign payments, on fees and commissions for payment and credit cards. At the same time, in the first half of 2019, Bank recognized a one-off income from the sale of shares in the company from insurance industry in the amount of PLN 12.1 million.
- increase in operating expenses mainly due to depreciation (technological investments made in previous periods).

3.2 Selected business data

'000	1st half of 2020	1st half of 2019	Change	
Number of individual customers	661.9	683.3	(21.4)	(3.1%)
Number of current accounts, including:	454.0	459.6	(5.6)	(1.2%)
Number of savings accounts	138.1	139.1	(1.0)	(0.7%)
Number of credit cards, including:	632.9	667.3	(34.4)	(5.2%)

'000	1st half of 2020	1st half of 2019	Change	
Number of debit cards, including:	234.1	242.6	(8.5)	(3.5%)

Receivables from individual clients – management view

PLN '000	30.06. 2020 (1)	31.12.2019 (2)	30.06.2019 (3)	Change YTD		Change YoY	
				PLN '000	%	PLN '000	%
Unsecured receivables, including:	5,175,792	5,490,546	5,490,199	(314,754)	(6.0%)	(314,407)	(5.7%)
Credit cards	2,512,481	2,766,068	2,723,018	(253,586)	(9.8%)	(210,537)	(7.7%)
Cash loans	2,615,110	2,675,032	2,718,812	(59,923)	(2.3%)	(103,702)	(3.8%)
Other unsecured receivables	48,201	49,446	48,369	(1,245)	(2.7%)	(168)	(0.3%)
Mortgage loans	2,033,603	1,889,301	1,753,168	144,302	7.4%	280,435	16.0%
Total net individual clients' receivables	**7,209,395**	**7,379,847**	**7,243,367**	**(170,452)**	**(2.4%)**	**(33,972)**	**(0.5%)**

3.3 Business highlights

Banking accounts

Awards & honors

Euromoney, the prestigious British magazine, named Citi Handlowy the "**Best Private Banking Services Overall Poland"** in its annual survey investigating the quality of the private banking offer. Citi Handlowy dominated this year ranking and took **the first place in as many as nine out of sixteen surveyed categories.** In the annual Euromoney ranking, banks from the top world finance select the best, in their opinion, competitors. The rankings signed with the Euromoney brand enjoy international recognition and are considered to be a reliable barometer of the condition of the industry and a reliable certificate of quality obtained from clients.

In addition, *Forbes* awarded Citi Handlowy **the maximum number of stars, i.e. five, in its private banking ranking for the fifth time in a row**, thus confirming top quality of the Bank's proposal for the most wealthy persons in Poland.

Current accounts

The total balance in accounts during the first half of 2020 increased, in comparison to the end of the first half of 2019, by over 29% and exceeded PLN **8.3 billion**. The number of personal accounts at the end of June 2020 reached the level of 454 thousand, of which 252 thousand were accounts in PLN, and 202 thousand – accounts maintained in foreign currencies.

Savings accounts

The number of savings accounts as at the end of the first half of 2020 was 138 thousand, their total balance exceeded PLN 3.5 billion, as compared to 139 thousand savings accounts with the total balance exceeding PLN 2.9 billion in the prior year period.

Changes to the ranges to the products offered

- In the first quarter, **ApplePay** (mobile payment application) was launched and in May the Bank implemented **Citibank Global Wallet**, in which the system recognizes the currency of a card transaction and charges the relevant currency account, provided that the client has sufficient funds. With this solution, clients of the Bank, when paying by debit cards for foreign currency shopping, can avoid currency conversion costs
- the Bank made also possible for its clients to **remotely open personal accounts** with the use of biometrics, and specifically a photo of the face, commonly called a "selfie". In order to open an account, no application needs to be installed, no courier visit, video verification or telephone call is required and the **whole process takes up to 15 minutes**.
- After the three interest rate cuts implemented by the Monetary Policy Council, the interest rates on funds in savings and time deposit accounts were trimmed down. In June 2020, the Bank advised its clients of planned changes in its Table of Fees and Commissions. The main changes include new rules of calculation of fees for Priority accounts, higher fees for CitiPhone and a new fee for newly-

opened EUR accounts.

Credit cards

As at the end of the first half of 2020, the number of credit cards was 632.900.

The credit cards portfolio amounted to PLN 2.5 billion as at the end of the first half of 2020, which means that the Bank was **still the leader in the credit card market, in terms of the credits** granted on the credit cards, with a market share of 22.5%, according to data as at the end of June 2020.

A high level of activation and transactions was maintained for newly-acquired clients. In the first half of 2020, the acquisition structure of credit cards was dominated by the Citi Simplicity card, with a share in acquisition leveling at 75%. **For the fifth consecutive year the "Golden Banker" ranked the Citi Simplicity Credit Card the best on the Polish market.**

In February 2020, a new product was launched in the credit card market – developed by Citi Handlowy in cooperation with BP, its partner and a leader in the fuel market. **BP Moto-Karta** includes a very attractive proposal for the start and a moneyback option up to PLN 720 over three years. **In the first five months, nearly 4,000 cards were sold**.

Cash loans and hire purchase products associated with credit card accounts

The balance of unsecured loans (cash loans and limits to credit cards) amounted to PLN 2.6 billion as at the end of the second quarter of 2020, i.e. it declined by 4% versus the same period in the previous year (the cash loan balance rose by 1%).

The sales of the above loans totaled PLN 497 million in the second quarter of 2020 and was lower by 18% as compared to the same period in the previous year. The sales level was impacted by the state of epidemic declared in March 2020, leading to a deep decline in demand for loans.

Mortgage products

In the first half of 2020, the Bank was still selling mortgage loans via its own sales channels and credit agencies, rolling out its sales also in the online channel. The offer of mortgage loans was continuously directed primarily to selected client segments, that is, Citigold Private Client, CitiGold and Citi Priority.

The sales of mortgage products in the first half of 2020 reached the value of **PLN 251 million**, which represented a growth by PLN 48 million, or by 23%, in comparison to the same period of 2019. As at the end of that period, the mortgage portfolio amounted to PLN 2.0 billion, i.e. by 16% more than in the first half of 2019.

Investment and insurance products

As at the end of the first half of 2020, 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 3.3% lower as compared to the same period in 2019.

This decline applied primarily to structured bonds and insurance capital funds. In the structured product segment, the Bank completed 5 subscriptions for PLN denominated structured bonds in the first half of 2020.

During the first half of 2020, the Bank continued the development of offering insurance products in the various sales channels (online, telephone, branch-based). It focused its offer on the affluent clients of the Citigold and Citigold Private Client segments.

3.4 Development of distribution channels

3.4.1 Direct acquisition

In the first half of 2020, the Universal Bankers retail distribution channel continued its new client acquisition strategy while focusing on three basic credit products: credit cards, Citi Priority accounts and cash loans.

Mobile sales force carries out its activities throughout Poland from local branches situated in 6 cities. 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.

4.4.2. Branch network

Citigold and Smart Branches

In the area of branch network, the Bank continues its client-reaching strategy that is based on different types and formats of points of contact, aligned with a target client group. The acquisition and service of clients from the Citigold Private Client ("CPC") and Citigold segment are carried out by Personal Assistants in CPC and Citigold Centers, situated in the 8 largest cities in Poland. Simultaneously, the Bank maintains the Smart branches, dedicated to acquisition of clients in locations that are the most frequently visited by them. One of the Bank's priorities is to be where its clients are. To this end, the Bank is still developing remote service processes via CitiBank Online and its mobile application. As a result, it can offer its clients more and more transactions without the need to visit a physical branch.

In the first half of 2020, the Bank was focusing on keeping its branches fully operational and on maintaining access to the whole range of services in its outlets despite COVID-19. In response to a higher risk of infection and administrative restrictions imposed on shopping centers and private persons, the Bank was taking various steps necessary to protect employees, clients and representatives of contractors having contact with its outlets. In all locations, the Bank immediately modified the rules of functioning on the basis of new operating procedures. Every branch was equipped with hygiene products and materials that protect both clients and personnel. Rigorous activities were consistent with Citigroup recommendations worked out in other markets and met, and often exceeded, local governmental requirements.

All activities in the Branch Network were supported by effective and consistent communication addressed to clients, both locally in branches and via electronic channels – websites of the Bank, Citibank Online transactional system and the Facebook profile of the Bank.

Both Gold and Smart outlets focus on acquisition of new clients. The main objective is to promote and sell banking products to individual and SME clients. Branches ensure comprehensive top quality services in a secure environment.

Number of branches and other points of sale / touch points at the end of the period

	30.06.2020 (1)	31.12.2019 (2)	30.06.2019 (3)	Change (1)/(2)	Change (1)/(3)
Number of branches*:	**19**	**21**	**22**	**(2)**	**(3)**
HUB Gold	9	9	8	0	1
Smart HUB Gold	0	0	1	0	(1)
Investment Center	0	1	1	(1)	(1)
Smart branch	9	10	11	(1)	(2)
Corporate branch	1	1	1	0	0

3.4.3 Internet and telephone banking

Internet Banking

The online platform of the Bank for retail clients is built in a responsive technology, i.e. it aligns itself with a device used by the client. Modern design was inspired by comments of clients and extended functionality makes other channels unnecessary. One of the improvements is for credit card holders, which can manage their card limit, convert transactions into installments or buy insurance products by themselves. In addition, an investment profile can be created and updated in accordance with the MIFID II regulation. The Bank also launched a transactional module for investment funds. As Directive PSD2 came into force, also new functionalities were made available on the website in line with the strong customer authentication requirements.

The number of active users of Citibank Online, i.e. those who logged in to the online or mobile banking service via a browser or the Citi Mobile application at least once in every 90-day period, was 388,000 as at the end of the second quarter of 2020. The share of active Citibank Online users in the entire client portfolio of the Bank was 60.2% as at the end of June 2020, i.e. it increased by 1.03 p.p. YoY.

At the same time, digital users accounted for 82% of all transactionally active clients at the end of the second quarter of 2020, which is 1.02 p.p. increase as compared to the second quarter of 2019.

In the second quarter of 2020, the share of the credit cards sold via the online channel was about 57% of the whole credit card acquisition at the Bank, i.e. increase by 17 p.p. YoY.

Mobile Banking

Responsive technology gives the client access to all functionalities in Citibank Online on any device they may use. In addition, clients have access to the mobile application which features such functions as free Push notifications, which keep the client updated on the changes on the account or card, and login activation with the use of a fingerprint or face recognition, which makes access to the application easier. Also a new module dedicated to Citi credit card holders was launched and the application for personal account holders was updated. The clients shall profit from the simplified and intuitive navigation, new graphic design and mobile authorization service - Citi Mobile Token.

As at the end of the second quarter of 2020, the number of active users of mobile banking, i.e. those who used mobile banking at least once in every 90-day period via the application or Citibank online in responsive technology, amounted to 226,000, i.e. increased by 10% as compared to the end of the second quarter of 2019.

The share of active users of mobile banking in the retail client portfolio of the Bank was 35%, i.e. increased by 4.2 p.p. as compared to the same period in 2019.

Social media

In the first half of 2020, the Bank actively used social media communication, i.e. Facebook, Twitter and LinkedIn. The Instagram platform and Messenger were also used – the former as an advertising channel and the latter as an information channel for clients. The activities were carried out in three areas – Usage/Brand building, Acquisition, Information. In a month, the Bank was able to reach to over 1.2 million users on Facebook. The average commitment ratio for persons who had contact with our materials on Facebook was 14%.

During the lockdown caused by COVID-19, the role of Acquisition became limited, however the use in the area of Information increased thank to proactive communication of activities of the Bank. In the new reality, the Bank was promoting social distancing and encouraging clients to use remote communication channels. The main communication tool is video materials. Audiovisual content accounts for over 75% of all public content (more than 10 messages a month).

Social media were used for promotion of online events for clients of the Bank: “Cooking with Karol Okrasa”, “Family cooking with Michel Moran” or “Succession webinar”.

Current communication covers special offerings that are part of the Citi Specials program, proposals for the Gold segment, new technology solutions, for example Account via Selfie, but also CSR or Digital Security education.

The Credit Card Lottery was a vital and regular element of communication. With appealing, short animations, the Bank was encouraging card holders to register and use their cards, which made them eligible to join the lottery.

The Social Media channels receive an average of 700 queries per month, both from the existing and potential clients of the Bank.

4. Changes in information technology

In the first half of 2020, a strategic goal of the Bank in the area of IT technology was to continue increasing the competitiveness of the Bank by providing top quality products and services with the extensive use of innovative solutions, digitization and automation and concurrently with cost optimization. In accordance with prevailing market trends, the technology of the Bank is based, to a large extent, on centralized services and outsourcing. The services centralization processes enable the Bank to generate savings, improve quality, standardize processes and ensure a high level of control and information security. The Technology Division of the Bank focused its activities on the development and implementation of solutions which promote an electronic distribution the channels based on the most advanced online and mobile solutions. Projects to implement products that support the COVID-19 anti-crisis shield were also continued.

IT processes of the Bank are executed in accordance with international standards, which was confirmed, in the first quarter of 2020, by the positive outcome of recertification/supervisory audits of compliance with ISO 20000 (Information technology – service management), ISO 27001 (information security management) and ISO 22301 (business continuity management).

The most crucial modifications and improvements implemented in the first half of 2020 included:

- **in institutional banking:**
  - **implementation of solutions that increase the level of digitization for communication between the Bank and its clients –** new solutions will be implemented to increase the digitization of communication between clients and the Bank. As a result of new changes, more and more clients can use digital channels to submit and download documents to/from the Bank. The Bank expects that those changes will increase the level of digitization of communication and reduce the volume of non-digital documents exchanged with its clients;
  - **Implementation of a system supporting treasury processes at the Bank** – the new solution will ensure increased level of process automation in the management of the Bank’s treasury activities and digitalization of services for corporate clients;
  - **implementation of solutions in the area of robotization of operating processes at the Bank** - implementation of a platform for robotization of operating processes to increase the efficiency and correctness of back-office processes at the Bank. The Bank expects that process automation will reduce the manual burden on its employees in operating processes;
  - **implementation of the governmental PFR Anti-Crisis Shield,** which is to help companies maintain their financial liquidity during COVID-19 pandemic The funds in the Anti-Crisis Shield program are administered by the Polish Development Fund (PFR). Companies may receive a subvention, which can be redeemed up to 75%. The role of a bank is to implement a solution that enables its business clients to process documents required to obtain PFR support and enables the bank to exercise indirect control of an applicant, and to implement a process for subvention repayment administration;
- **in consumer banking:**
  - **launch of ApplePay as a new mobile payment system for credit and debit Mastercards issued by Citi Handlowy.** The payment system allows those clients of the Bank which use a mobile Apple device to make payments conveniently and safely without using a physical payment card. After a card is registered in Apple Wallet, its holder may pay with an Apple phone or watch. It is another tool of that kind for clients of the Bank, after the implementation of Google Pay

- **implementation of a new credit cards for clients in cooperation with BP: Citibank-BP Motocard.** For this new credit card, its holder does not have to pay the annual fee and, in addition, will receive a fuel refund up to PLN 240 a year. The card is also issued as ID in the PAYBACK program and, in addition to benefits connected with fuel refund, it also gives access to seasonal special offerings at BP filling stations;

- **in the scope of adaptation of systems of the Bank to ensure their compliance with regulatory requirements:**
  - completion of regulatory changes implementation due to adapt IT systems of the Bank to the requirements of the AML regulations (anti-money laundering and combating of terrorist financing);
  - adaptation of IT systems of the Bank to an enhanced and more automatic process of transaction monitoring within the framework of anti-money laundering activities; The Bank expects that this new solution will reduce the manual burden on its employees in operating processes;
  - analysis and implementation of regulatory requirements tied to designation of the Bank as key services operator within the meaning of the Act on the National Cybersecurity System;

- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - continued implementation of improvements to increase the security of use of the CitiBank Online platform, including the implementation of additional authentication mechanisms at the server level to secure the systems against possible attacks and manipulation of data of defined customers of the client;
  - introduction of improvements in mobile banking for retail clients to minimize the exposure of applications to the risk of fraudulent transactions and to control versions of certificates, requirements related to a secure runtime environment as well as pinning a device and application to a specific user;
  - extension of existing and addition of new solutions in the data leakage prevention (Data Leakage prevention systems), which have significantly mitigated the risks connected with data leaks;
  - Adaptation of ICT infrastructure of the Bank (remote access, WANs, telephony, desktop) to enable effective remote work to the extent required during the pandemic.

Technology units proactively develop and improve their portfolios of services to fully meet both current and future business needs of the Bank. They propose and deliver to their business partners optimal technology solutions used to build competitive advantage. Technology units actively support initiatives which enable a broader use of information technologies that automate processes at the Bank and increase the services digitization level.

Pending and not completed initiatives and modifications of systems which will affect the operations of the Bank in the near future are presented below:

- **in institutional banking:**
  - **implementation of systems which support activities of the Financial Markets and Corporate Banking Sector in the area of derivative instruments** – implementation of the new platform is carried out to use more advanced product solutions offered in Citi group of companies and to execute the strategy of consolidation of product solutions; as a result of that implementation the Bank expects a higher effectiveness and automation of processing of derivative instruments;
  - **implementation of solutions for robotization of operating processes of the Bank** – implementation of further robotization of business processes due to increase the effectiveness of back-office processes used by the Bank; as a result of that implementation the Bank expects an increase in effectiveness and automation of back-office processes;
  - **implementation of various new solutions in the CitiDirect electronic banking system,** including new services for the purpose of monitoring of status of domestic and international payments, a GPI service and an enhanced application of biometrics. As a result of that implementations, the Bank expects an increase in the level of digitization of its services and a higher satisfaction of clients with electronic banking services;

- **in consumer banking:**
  - **addition of a functionality for remote account opening –** using biometric tools and mobile phones of clients;
  - **addition of a functionality that will streamline payments in foreign currencies made with the use of Citi Handlowy debit cards**;
  - continued **automation and digitization of sales processes (straight through processing) in the area of consumer banking products –** for credit card, cash loan and account-related processes**;**
  - **continued improvement of the online and mobile banking platform** (addition of a new functionality and products) in order to increase the client satisfaction level, revenues and security;

- **in the scope of adaptation of systems of the Bank to ensure their compliance with regulatory requirements:**
  - further adaptation of IT systems of the Bank to an enhanced scope of transaction monitoring within the framework of anti-money laundering activities;

- **in the area of information and communication technology infrastructure of the Bank and information security:**
  - implementation of additional new-generation security solutions in banking systems;
  - migration of the telephone system to Cisco voice solutions, including the application of the “Softphone first” rule and increase of mobility, optimization of the voice recording and contact center services and Autodialer system.

5. Equity investments of the Group

Equity investments of the Bank are divided into the strategic investment portfolio and the portfolio of investments intended for sale. In the first half of 2020, the Bank continued to pursue its earlier equity investment policy. The Bank managed the strategic investment portfolio in order to maximize profits in the long term, increase its market share, stimulate development of the Bank’s relations and expand the Bank’s offering; the Bank managed the divestment portfolio in order to optimize gains on equity transactions and minimize the risk inherent in such transactions.

5.1 Strategic investment portfolio

This portfolio includes companies running a business in the financial sector which contribute to the Bank’s product offering, bring prestige to the Bank’s operations and strengthen its competitive position in the Polish financial services market.

Strategic holdings also include infrastructure providers operating for the benefit of the financial sector. The Bank holds minority interest in such companies but they are of strategic importance to the Bank in view of their operations as well as their cooperation with the Bank.

The Bank intends to retain its strategic holdings in infrastructure providers and play an active role in defining the strategic directions of their development by exercising its right of vote. The overall aim of the Bank when exercising corporate governance over such companies is to maintain their development without affecting their business operations, which is taken advantage of by the Bank as well as other financial market participants.

5.2 Portfolio of investments intended for sale

Divestment holdings are entities in which the Bank’s investment is not strategic. They include entities held directly and indirectly by the Bank, as well as special purpose vehicles used by the Bank to execute equity transactions. Some of these holdings are restructured exposures which originate from debt-to-equity conversion performed by the Bank.

The strategic aims for the Bank with regard to such companies is to gradually reduce the Group commitment. The assumption is that individual participations will be sold whenever market conditions are most favorable. The portfolio of companies intended for sale includes equity investments without a predetermined rate of return. The Bank is not planning any new equity investments which would be sold later. The portfolio of companies intended for sale might be increased with additional exposure taken over by the Bank as part of debt for capital swaps or acquired in the course of operating activities.

5.3 Special-purpose investment vehicles

As at 30 June 2020, the Group included two investment vehicles through which the Bank runs capital transactions. The activity of the companies was financed with the partner’s returnable contributions to capital and with their net profits.

As the Bank continues to pursue a strategy of restricting the activity run through special-purpose investment vehicles, it is expected that further investment vehicles will be gradually sold or liquidated.

According to information available as at the date of preparation of the financial statements, the main financial data of the companies in question as at 30 June 2020 were as follows:

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2020	Total equity 30 Jun 2020	Net financial result for the period of 1 Jan – 30 Jun 2020
		%	PLN ‘000	PLN ‘000	PLN ‘000
Handlowy - Inwestycje Sp. z o.o.	Warsaw	100.00	10,754	10,747	(32)
Handlowy Investments S.A.	Luxemburg	100.00	4,968	4,833	(226)

Company	Headquarter	% of authorized capital held by the Bank	Total assets 30 Jun 2019	Total equity 30 Jun 2019	Net financial result for the period of 1 Jan – 30 Jun 2019
		%	PLN ‘000	PLN ‘000	PLN ‘000
Handlowy - Inwestycje Sp. z o.o.	Warsaw	100.00	10,862	10,815	2
Handlowy Investments S.A.	Luxemburg	100.00	17,203	17,134	(1)

VII. Key risk factors relating to the operations of the Capital Group of Bank Handlowy w Warszawie S.A.

1. Regulatory risk

Legal acts	The essence of the regulated issue
EBA loan moratoria guidelines / Guidelines on COVID-19 loan moratoria measures reporting and disclosure	• Date: 2020 • The guidelines implement broad measures, such as legislative moratoria (so called "loan vacation") for repayments of loans and public guarantees in EU Member States, in order to support operational and liquidity challenges faced by borrowers. The guidelines are to eliminate gaps in data connected with such measures in order to ensure an appropriate understanding of the risk profile of institutions and the quality of assets on their balance sheets, both for supervisory authorities and the public.
Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014.	• Date: 01 January 2018 • This regulation implements, among other things, a common framework which is to ensure accuracy and integrity of indices used in the EU as benchmarks in financial instruments and financial contracts, as well as the protection of consumers and investors. • The regulation also applies to entities which provide benchmarks or input data for a benchmark and to supervised entities which use benchmarks in financial contracts and financial instruments.
Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MIFID II"), Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 ("MIFIR") and other EU regulations and the related amendment to the Act of 29 July 2005 on trading in financial instruments and certain other laws and secondary regulations	• Date: 3 January 2018 (EU regulations) and 21 October 2018 (local regulations) • The primary objective of MIFID II and MIFIR is to strengthen the protection of clients which use investment services and to increase the transparency of functioning of financial markets, and • To ensure an increase in the competitiveness and efficiency of financial markets in Poland and the European Union.
Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories and executive regulations to the above regulation issued by the European Commission ("EMIR").	• The implementation of EMIR has been progressing in stages since 2012. In 2019, 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 30 November 2016 amending the payment services act and certain other acts, implementing Directive 2014/92/EU of the European Parliament and of the	• Date: 08 August 2018 • The most important changes included: ➢ access to the main account, i.e. the need to ensure that consumers have access to a charge-free main payment accounts and to basis payments services connected with that account,

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")	➢ 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 in respect of shareholders identification) • The most important changes included: ➢ the change of the definition and rules of public offerings (adaptation to the EU regulations) ➢ the introduction of a public offering as a rule, ➢ of new obligations for entities keeping securities accounts regarding shareholders identification, disclosures to the shareholders and facilitating the execution of shareholders' rights (effective 3 September 2020).
The Act of 4 October 2018 on employee capital plans	• Date: 01 January 2019 • introduction of the long-term saving program for employees that would operate in the form of investment funds and voluntary retirement funds for which the Bank could act as depositary • 1 July 2019 - 1st stage of the introduction of Employee Capital Plans - entities hiring at least 250 persons
The Act of 9 August 2019 Amending the Goods and Services Tax Act and Certain Other Acts	• Date: 01 November 2019 • The Act imposes on the entrepreneurs who pay invoices containing at least one item enumerated in Appendix 15 to the Tax on Goods and Services Act and the value of invoice exceeds PLN 15 000, the obligation to apply a split payment mechanism. Furthermore, funds gathered on the account are to cover liabilities under VAT, PIT, CIT taxes, excise duties, customs duties, and amounts contributed to the social security scheme maintained by ZUS (the Social Insurance Institution). •
The Act of 19 July 2019 on the amendment of certain acts to reduce payment backlogs	• Date: 01 January 2020 • The fundamental aim of the act is to further limit late payments due to counterparties, taking into special consideration micro, small and mid-size entrepreneurs. The so-called large entrepreneurs will not be allowed to agree with smaller entrepreneurs payment dates going beyond 60 days.
The Act of 12 April 2019 Amending the Goods and Services Tax Act and Certain Other Acts	• Date: 01 September 2019 • The Act requires that entrepreneurs screen an entity's account a given taxpayer is to credit with payment, against the list of VAT payers (the so-called white list). Any payment onto any account which is not listed entails tax consequences. In accordance with the provisions of the Act, negative consequences to the entrepreneur who has credited an account that is not displayed on the white list are enforceable beginning from 1 January 2020.
Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No. 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges.	• Date: 15 December 2019 • The Regulation induces equality of charges on cross-border payment transactions in EUR with corresponding charges on national payment transactions in PLN (the equality of charges rule). Effective 19 April 2020, the transparency rule will be in force which induces the obligation to inform customers by payment services providers before a payment transaction is delivered, of the range of charges related to currency conversion and extra fees resulting therefrom.
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 of settling an earlier repayment of a consumer loan, as envisaged in the said Directive, necessitated a review at the Bank of its existing practice regarding consumer loans.

Regulation of the Minister of Health of 13 March 2020 on the declaration of the state of epidemiological threat in the territory of the Republic of Poland (Journal of laws item 433; revoked on 20 March 2020) Regulation of the Minister of Health of 20 March 2020 on the declaration of the state of epidemic in the territory of the Republic of Poland (Journal of Laws item 491 as amended). Regulation of the Council of Ministers of 31 March 2020 on the implementation of certain restrictions, obligations and prohibitions in connection with the state of epidemic (Journal of Laws item 566, as amended), and subsequent Regulations that replaced it (of 10 April 2020, Journal of Laws item 658 as amended, of 19 April 2020, Journal of Laws item 697 as amended, of 02 May 2020, Journal of Laws item 792 as amended, of 16 May 2020, Journal of Laws item 878 as amended, of 29 May 2020, Journal of Laws item 964 as amended, of 19 June 2020, Journal of Laws item 1066 as amended).	• Announcement date: 14 March 2020, 20 March 2020, 31 March 2020, 10 April 2020, 19 April 2020, 2 May 2020, 16 May 2020, 29 May 2020, 19 June 2020. • Those regulations have implemented various restrictions and prohibitions. As at 30 June 2020, prohibitions and obligations were in force in the following areas: ➢ Restrictions on certain ways of movement and an obligation to undergo quarantine and diagnostic tests for SARS-CoV-2; ➢ Restrictions on the functioning of certain institutions or work establishments, temporary restrictions on certain business activities and an obligation to carry out certain sanitary activities; The restrictions that are most important for the Bank include: obligation to provide clients and employed persons, irrespective of the basis of employment, disposable hand gloves or hand disinfectants, obligation to carry out, during opening hours, at least every hour, disinfection of cash registers or service desks, obligation to keep a distance of at least 1.5 meters between work stations unless it is impossible due to the nature of activities carried out in a given work establishment and such establishment ensure personal protective equipment connected with combating the pandemic; ➢ Ban on shows and other gatherings ➢ Obligation to make available real property, premises and land in accordance with the counter-pandemic plans; ➢ Obligation to relocate as prescribed and obligation to use preventive measures. For the Bank, the most important measures include: duty to cover nose and mouth, including in work establishments and public buildings used for the purposes of provision of banking services – imposed on persons who directly serve clients during such activities.
The Act of 02 March 2020 on Specific Solutions related to the Prevention, Counteraction and Combating of the COVID-19, Other Infectious Diseases and Related Emergencies (Journal of Laws item 374 as amended, “Special Act”) Secondary regulations issued under the Special Act, in particular the Regulation of the Council of Ministers of 10 April 2020 on the extension of the period in which an additional care benefit may be received in order to prevent COVID-19 (Journal of Laws item 656), and subsequent Regulations that replaced it (of 24 April 2020, Journal of Laws item 748 of 30 April 2020, Journal of Laws item 790 of 14 May 2020, Journal of Laws item 855 of 25 June 2020, Journal of Laws item 1108 of 10 July 2020, Journal of Laws item 1231)	• Announcement date: 07 March 2020 • The Special Act has introduced new obligations and rights of employers and employees and has been amended many times (see below in sections describing the consecutive versions of the Anti-Crisis Shield); • Remote work: an employer has a right to order an employee to work remotely for a specified time in order to counteract COVID-19; • Additional care benefit in connection with school and pre-school lockdown: an additional care benefit has been introduced for eligible persons released from the obligation to work due to the need to take a personal care of a child – in the event that the nursery, children's club, pre-school or school attended by the child is closed due to COVID-19. This benefit does not reduce the maximum benefit period specified in the Act on social insurance monetary benefits in the event of illness and motherhood. At present (as at 15 July 2002), the benefit period is extended to 26 July 2020. • Amendments to many legal acts and regulations, including the Act on the State Sanitary Inspection: the Chief Sanitary Inspector or a state regional sanitary inspection acting upon authorization granted by the Chief Sanitary Inspector has powers, for example to issue decisions imposing various duties on employers or recommendations and guidelines how to proceed when performing tasks.
Shield 1.0: the Act of 31 March 2020 on amendments to the Act on specific solutions related to the prevention, counteraction and combating COVID-19 and other infectious diseases and crisis situations caused by them and some other acts	• Announcement date: 31 March 2020 • Amendments to various legal acts and regulations, including changes in court procedures; changes in time-barring rules provided by administrative law provisions (including a change in deadlines for proceedings initiated by the Polish Financial Supervision Authority (KNF)); a possibility to change statutory time limits by a regulation, and a reduction of maximum non-interest costs of consumer credit; • Amendments to the Code of Commercial Companies: a default possibility to participate in meetings of the management board and supervisory board of a limited liability company or joint-stock company via remote communication

	channels and to pass resolutions of the management board and supervisory board in writing or via remote communication channels. Similarly, a possibility was introduced for shareholders to participate in general meetings also via electronic communication measures unless the Articles of Association or By-laws of the company provide otherwise; • Changes in conditions or dates of repayment of loans: in the event that the state of epidemic threat or state of epidemic is declared, a bank may change contractual conditions or repayments dates for a loan granted under the Banking Law to a microbusiness or small or medium-sized company if: (1) the loan was granted before 8 march 2020 and (2) such change is reasonable in the light of the financial and economic situation of the business as assessed by the bank not sooner than on 30 September 2019. In any case, a modification of financing terms should be agreed between the bank and the borrower, provided that the change will not deteriorate the situation of the borrower; • Employer support: a possibility to apply for assistance to protect jobs, to reduce salaries and wages of employees covered by downtime, to obtain co-financing of salaries and wages and to reduce working hours, and introduction of flexible rules of initial and control examinations and temporary suspension of periodic examinations.
Shield 2.0: the Act of 16 April 2020 on special support instruments in connection with the spreading of SARS-CoV-2 virus	• Announcement date: 17 April 2020 • Amendments to various legal acts and regulations, including in particular changes in deadlines of submission of a request to declare a debtor's bankruptcy; time barring rules applicable to trials and court proceedings; changes in effects of failure to appear in court; changes in the rules of service; • It was clarified that the supervisory board of a limited liability company or joint-stock company may pass resolutions in writing or via remote communication channels also in matters for which secret ballot is obligatory under the Articles of Association or By-laws provided that none of the members of the supervisory board raises any objection (Articles 222 § 41 and 388 § 31 of the Code of Commercial Companies); • Admission of electronic subscription to shares; • Initial work health and safety training may be carried out via electronic communication means and the deadlines for periodic work health and safety training have been extended.
Shield 3.0: the Act of 14 May 2020 on amendments to certain Acts of Parliament with respect to protective activities in connection with the spreading of SARS-CoV-2 virus	• Announcement date: 15 May 2020 • Changes in the Civil Code relating to the agreement on transfer of ownership to secure claims (anti-usury regulations) and changes in the Code of Civil Procedure concerning real property auctions; changes in the Penal Code to penalize usury acts; • Changes in the Code of Commercial Companies, in particular a provision that shares certificates delivered by a company will expire by the operation of law on 1 March 2021. On the same date, the entries in the share register, and for a non-public company whose general meeting has passed a resolution to register its shares in the securities depository – entries made to register its shares on securities accounts, will become legally effective. A date by which the first call must be issued for shareholders has also been changed to 30 September 2020. The application, as appropriate, of provisions concerning registered shares to the exercise and transfer of rights from bearer shares for which documents have been submitted to the company has been extended to 1 March 2021; • So called "court unfreezing" – time barring has been reinstated for court cases except deadlines for the Polish Financial Supervision Authority to initiate activities, including supervisory activities, deadlines for processing matters and deadlines for issuance of decisions or procedures to finalize proceedings in a case or to file an objection unless the Polish Financial Supervisory Authority issues a decision that ends the case; • The amount exempt from deductions from an employee's pay has been increased if the employee's pay was reduced or a family member of the employee lost the source of income. The deduction-free amounts will be increased by 25% for every family member without income supported by the employee.

The following factors, among others, will affect the financial and organizational situation of the Group of Bank Handlowy w Warszawie S.A. in the second half of 2020:

Legal acts	The essence of the regulated issue
Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication	• Date: 14 September 2019 • This regulation sets out the requirements that must be met by providers of payment services in order to implement security measures which enable them, among other things, to use a strong customer authentication procedure and associated security measures and also to determine common and secure open standards of communication between account servicing payment service providers, payment initiation service providers, account information service providers, payers, payees and other payment service providers in relation to the provision and use of payment services.
The Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Code and certain other acts	• Date: 01 January 2019 • The Act implements new regulations arising from the need to implement in the Polish legal system the provisions of Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements. • Obligation to report tax schemes to the Director of the National Tax Administration. • Quick access of the tax administration to information on potentially aggressive planning or abuses connected with tax planning as well as on promoters and users of tax schemes. • Discouraging the preparation and use by taxpayer and their advisers of arrangements which may represent tax avoidance. • Identification of gaps in tax regulations and improvement of the quality of the tax system
Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories and executive regulations to the above regulation issued by the European Commission ("EMIR").	• The implementation of EMIR has been progressing in stages since 2012. In 2020, subsequent stages of implementation in connection with EMIR will be carried out, in particular those related to the widening of the group of entities obliged to use initial margins for derivative transactions. • EMIR imposes on undertakings which are financial and non-financial counterparties, as defined in the Regulation, numerous obligations connected with the conclusion of derivative transactions, and in particular transactions concluded on the OTC market (e.g. obligations to report derivative transactions, to have derivative transactions settled by a central counterparty (CCP), to confirm transactions, to reconcile, and to secure exposures arising from transactions).
Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014.	• This regulation implements, among other things, a common framework which is to ensure accuracy and integrity of indices used in the EU as benchmarks in financial instruments and financial contracts, as well as the protection of consumers and investors. • The regulation also applies to entities which provide benchmarks or input data for a benchmark and to supervised entities which use benchmarks in financial contracts and financial instruments.
Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 ("MIFID II"), Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 ("MIFIR") and other EU regulations and the related Act of 1 March 2018 amending the Act of 29 July 2005 on trading in financial instruments and certain other acts	• The primary objective of MIFID II, MIFIR is to strengthen the protection of clients which use investment services and to increase the transparency of functioning of financial markets, and to ensure an increase in the competitiveness and efficiency of financial markets in Poland and the European Union. • In 2020, it is anticipated that other obligations will enter into force resulting from MiFID II and EMIR regulations, including, specifically obligations arising from subordinating derivative instruments to the regime of the so-called systematic internalizers.
The Act of 30 August 2019 amending the Code of Commercial Companies and certain other acts	• Date: 01 March 2021 (with exceptions) • The most important changes included: ➢ The obligatory dematerialization of all shares

	➢ Registration of shares in the register of shareholders kept by an authorized entity
The Act of 16 October 2019 amending the Act on Public Offering and Terms of Introduction of Financial Instruments to an Organized Trading System and on Public Companies and some other acts	• Date: 3 September 2020 in respect of shareholders identification • The most important changes included: ➢ of new obligations for entities keeping securities accounts regarding shareholders identification, disclosures to the shareholders and facilitating the execution of shareholders' rights (effective 3 September 2020).
The Regulation (EU) 2015/2356 of the European Parliament and of the Council of 25 November 2015 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 transaction (Repo), ➢ securities loans or loans for goods granted and securities loans or loans for goods taken, ➢ buy-sell back transaction or sell-buy back transaction, ➢ margin lending transaction.
Draft Act amending certain acts in connection with the transfer of funds from open-end pension funds to individual pension accounts	• Date: According to the draft, the act is to enter into force on 1 June 2020 while the significant provisions of the draft are to be implemented in November 2020 and in 2021. The work on the Act were not finalized. By a resolution of 13 March 2020, the Senate rejected the bill in its entirety and the Sejm (lower house) has not worked on the bill since it was rejected by the Senate. As the planned effective date (1 June 2020) passed it can be expected that the effective date will be changed and the bill will be proceeded by the Sejm.. • The draft provides for the liquidation of open-end pension funds (OFE) and voluntary pension funds (DFE) by converting them into specialized open-end investment funds and by transferring funds of OFE and DFE members to individual pension accounts of the members kept with such funds. • The draft also provides for the collection of a conversion fee in the amount of 15% of funds gathered in OFE unless an OFE member submits a declaration in which the member declares that he or she joins Zakład Ubezpieczeń Społecznych (the Social Insurance Institution) and in that case, no such fee will be collected. • The draft changes may affect services provided by a depositary to OFE and DFE and they necessitate adaptations to the draft provisions.
The Act of 4 October 2018 on employee capital plans	• Introduction of the long-term saving program for employees that would operate in the form of investment funds and voluntary retirement funds for which the Bank could act as depositary. • 1 January 2020 - 2nd stage of the introduction of Employee Capital Plans - entities hiring at least 50 persons • 1 July 2020 - 3rd stage of the introduction of Employee Capital Plans - entities hiring at least 20 persons
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	• Further obligations taking effect as of 13 September 2020 to discipline the clearing of transactions in specified financial instruments so that transaction clearings can be more efficient and seamless, specifically transactions settled by central securities depositories.
Legal acts pertaining to the relation between the United Kingdom of Great Britain and Northern Ireland and the European Union, including Poland, in the context of the United Kingdom leaving the European Union.	• In connection with the pending process of exit of the United Kingdom of Great Britain and Northern Ireland from the European Union, it is likely that in the second half of 2020 the European Union and/or Poland will sign/pass legal acts regulating the relationships between the UK and EU and particular Members States that may affect the activities of the Bank, in particular with respect to the further use by the Bank of services provided by vendors from the UK, execution of financial instrument transactions with counterparties from the UK and the use of services provided by central counterparties (CCP) domiciled in the UK.

New WIBID and WIBOR Reference Rate documentation of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange)	• On 6 December 2019, GPW Benchmark S.A. decided to amend the Code of Conduct for WIBID and WIBOR Fixing Participants. The amended Code of Conduct will become effective as of 04 February 2020. This draft documentation is to ensure compliance with the requirements of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014.
The Act of 31 July 2019 on amending certain acts to reduce regulatory burdens	• The amendment of the Civil Code takes effect as of 1 June 2020 whereby protective measures will apply to consumers regarding, among other things, abusive clauses in respect of natural persons concluding an agreement (with, for instance, the Bank) directly connected to that person's business activity if and when it infers from its provisions that the agreement is not of professional nature to that person.
Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No. 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges.	• Date: 15 December 2019 • The Regulation induces equality of charges on cross-border payment transactions in EUR with corresponding charges on national payment transactions in PLN (the equality of charges rule). Effective 19 April 2020, the transparency rule will be in force which induces the obligation to inform customers by payment services providers before a payment transaction is delivered, of the range of charges related to currency conversion and extra fees resulting therefrom.
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 position of the UOKiK (Office of Competition and Consumer Protection) clearly shows how the conclusions from the judgement should be taken into account in activities of lenders. • The expected response is a proportionate, i.e. in accordance with so called straight-line method, return of part of the commission on early repaid consumer loans. • As revealed in an official communiqué published on the UOKiK's websites, the majority of banks have promised to use practice in lined with the UOKiK's expectations.
Shield 4.0: the Act of 19 June 2020 on subsidization of interest on bank loans granted to entities affected by COVID-19 and simplified arrangement approval proceedings due to COVID-19	• Date: 23 June 2020 • Upon a consumer's request, a bank must defer the agreement if the borrower lost job or another main source of income after 13 March 2020 (so called loan vacation). Such deferral may cover a consumer credit agreement, a mortgage agreement and a credit agreement within the meaning of Article 69 of the Banking Law – if the borrower is a consumer and the agreement was signed before 13 March 2020 and the loan term ends after 6 months after that date. During deferral (which may not be longer than 3 months), the borrower does not have to make payments under the agreement, except for the related insurance charges. Interest does not accrue and no fees are collected, except those specified in the confirmation of deferral; • Among other things, the Act provides for the introduction of a new solution – simplified restructuring procedure (chapter 6 of the Act); • It sets out the rules of interest subventions for bank loans granted under agreements signed by 31 December 2020 to businesses in a difficult financial situation resulting from adverse economic outcomes of COVID-19 – credit agreement with subvention may be signed by 31 December 2020; • The rules of remote work have been clarified, the employer may unilaterally order its employees to use outstanding holiday, severance pay, indemnity and other monetary benefits in connection with termination of an employment contract have been reduced, the employer's obligations connected with the establishment or functioning of the Company Social Benefit Fund, primary contributions and payment of holiday benefits may be suspended, subventions may also be obtained for salaries and wages of employees not covered by a downtime, and the rules of applying for assistance for employers have been clarified.
EBA Guidelines on outsourcing:	• Date: 31 December 2020. • The Guidelines lay down consistent rules for internal governance and management of risk associated with the entrusting of certain activities by financial institutions to

	external providers (outsourcing), including outsourcing of services with the use of cloud processing.
Recommendation S on good practices for management of credit exposures secured with mortgages	• Date: 30 June 2021 • Recommendation S as amended provides, among other things, for an obligation to add to product ranges of banks fixed-rate loans with an option to convert a variable-rate loan to a fixed-rate loan. In addition, the amended Recommendation S implements provisions related to loans with an option under which a liability to a bank arising from a credit exposure secured with a mortgage on a residential property may be waived if the borrower assigns to the bank the ownership titles to the property financed with that loan, which is called the "key for debt" option. The draft also includes a possibility to consecutively inform client groups of the possibility to convert the loan if the bank foresees that it will not be able to process all the expected applications.
ESMA guidelines on the MiFID II compliance function.	• Date: 2020. • The guidelines replace the ESMA guidelines issued in 2012 and include updates that improve transparency and increase consistency in the implementation of and supervision over new requirements for the compliance function under MiFID II. Although the objectives of the compliance function and the key rules creating the basis of regulatory requirements have not changed, the obligations have been additionally reinforced, enhanced and clarified under MiFID II. The guidelines will make the existing standards more useful by providing additional explanations of issues such as new obligations in connection with product management requirements under MiFID II, and in particular by describing in detail the reporting obligations of the compliance function. The guidelines are addressed to investment firms and credit institutions that provide services and carry out investment activities, investment firms and credit institutions that sell or advise clients on structured deposits, companies that manage UCITS and third party managers of alternative investment funds (AIF) when providing services and carrying out investment activities in accordance with the UCITS and AIF Directive.
Recommendation R on principles of credit risk management and recognition of expected credit losses (project)	• Date: 2020/2021 (draft) • Recommendation is addressed to banks and is a set of principles and guidelines regarding credit risk management and recognition of expected credit losses. The amendment to Recommendation R is the result of the entry into force on January 1, 2018 of the new International Financial Reporting Standard - IFRS 9 Financial Instruments. The purpose of Recommendation R is to show banks a set of good practices in credit risk management, classification of credit exposures and estimation of expected credit losses in accordance with the accounting policy adopted and binding in the bank.
Amendment to Recommendation G concerning interest rate risk management at banks (draft)	• Date: 2020/2021 • The planned amendment to Recommendation G is to adjust its requirements to changing regulations applicable to market risk and interest rate risk throughout the world, and in particular guidelines issued by the European Banking Authority (EBA). After the new EBA guidelines come into force and the CRD IV/CRR package is revised, the regulatory environment for interest rate risk will be defined. It will mainly consist of the CRR with accompanying technical standards, the above EBA guidelines and the Regulations 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.
Recommendation Z on internal governance at banks EBA and ESMA's guidelines on suitability assessment for management body members and key function holders EBA guidelines on internal governance	• Date: 2020. • Recommendation Z will provide a set of good practices in the area of internal governance. In particular, the document will refer to such issues as general principles of internal governance at a bank, organizational structure, roles and responsibilities, the composition and functioning of the supervisory board, the management board, and senior management, a bank's code of conduct (ethics) and conflict of interests, rules of remuneration at a bank, risk management and internal controls, information systems and communication, the introduction of new products at a bank, a dividend policy, an outsourcing policy, business continuity and the transparency and integrity of management system at a bank. Recommendation Z is being prepared taking into account guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA).

2. Risk management principles

The Group carries out risk management by implementing cohesive rules, controls and tools through the Group, taking into account supervisory requirements and best market practices.

The risk management system used in the Group, which is based on the shared responsibility concept, is arranged on three independent levels (“three lines of defense”):

- Level 1, i.e. organizational units responsible for the activity which results in taking risks and responsible for risk management in the Bank’s operational activity, as well as for risk identification and reporting to the second-line units;
- Level 2, i.e. risk management at organizational units, regardless of the first-line risk management, and the activity of the compliance unit – units or persons responsible for setting risk management standards in identifying, measuring or assessing, limiting, controlling, monitoring and reporting and for supervising controls applied by other organizational units of the Bank to mitigate risk – organizational units of the Risk Management Sector, Compliance Department, Finance Management Sector, Legal Division, Human Resources Division;
- Level 3, i.e. Internal Audit units which ensure independent assessment of both risk management processes and internal control system.

When organizing its risk management processes, the Group takes into account its risk profile, strategic and business objectives, available capital and liquidity resources, macroeconomic environment and regulatory requirements – these factors make up the framework of the risk control and management system.

Risk management processes are implemented on the basis of documented policies and rules relating to identification, measurement, mitigation, control, monitoring and reporting of risks to which the Group is exposed, approved by the Management Board, authorized persons in accordance with the rules of issuance of legislative acts at the Bank or duly established Committees, including:

- Assets and Liabilities Committee (ALCO);
- Risk and Capital Management Committee, which includes the Models Commission and the Consumer Bank Risk Commission;
- New Products Committee;
- Business Risk, Control System and Compliance Committee.

The risks connected with activities of the Group are mitigated by a system of limits arising from risk appetite and the management information system used by the Bank enables it to monitor risk levels by providing management with portfolio information on a regular basis.

The Group carries out the management of all significant risk families arising from the execution of its business strategy. As part of the process initiated in 2020 to identify key risk families, the Management Board of the Bank concluded the following were significant for the purposes of risk management and the internal capital estimation and maintenance process:

- credit risk;
- counterparty credit risk;
- market risk in the trading book;
- interest rate risk in the banking book;
- liquidity risk;
- operational risk;
- compliance risk.

Credit risk

Definition	• Risk of a client’s failure to perform their liabilities. • Risk of the counterparty’s failure to perform their liabilities arising from a transaction, before or on the date of its final settlement.
Risk management strategy	• The primary objective of credit risk management is to support the long-term plan of stable growth of the credit portfolio, while maintaining appropriate quality. The credit process is based on a number of fundamental principles, such as: – Business and independent risk management units share responsibility for quality of the credit portfolio and credit process and for any credit losses; – Conduct must be in compliance with the guidelines on the portfolio structure to ensure its diversification and to keep balance between risk and capital; – A system of credit-related authorizations must be implemented which assumes that special authorization to make credit decisions may only be granted to properly trained and experienced employees of risk management units, taking into account their track record and risk assessment skills and abilities; – Acceptance level must depend on assumed risk – higher-risk exposures (defined taking into account both amount and level of risk) require higher-level approval; – Diversified and adequate risk assessment standards must be used for each borrower and each commitment, including as part of corrective actions;

	– A consistent rating process is required, which is based, *inter alia*, on results produced by rating or scoring models; – Periodic, regular monitoring of results of a client's activities and identification of adverse changes in their situation which require immediate activities to classify receivable or corrective actions are necessary; – External environment must be monitored to ensure early detection of economic threats which may adversely affect particular portfolios; – The credit policy rules must be complied with and, in special cases, approval of exceptions to the Credit Policy is required at higher organizational levels in order to ensure control of implementation of its principles in compliance with internal regulations applicable at the Bank, generally applicable laws and regulations and regulations issued by competent regulators.
Risk measurement	• Risk measurement is carried out using: rating models, scoring models and scorecards at the level of a client and provision models for portfolio risk assessment and an integrated ICAAP process, both at aggregate level and by business line.
Monitoring	• Credit risk exposures are monitored and managed at two levels: client level and portfolio level. Tools used to monitor the current creditworthiness of a borrower include: – annual comprehensive review of limits, exposures, financial situation of and cooperation with borrowers, – reports generated in the Early Warning process, – periodic financial reviews of borrowers, – periodic reviews of negatively classified credit exposures, – periodic visits to clients, – reports on ongoing contacts of employees of business units/bankers with clients, – analysis and assessment of external information (rating reports, analytical reports, press, sector sources, etc.), – internal classification system. • Portfolio-level monitoring – monitoring of utilization of risk concentration limits in the credit portfolio on the basis of appropriate reports, – regular periodic reviews of the credit portfolio, – "ad hoc" portfolio reviews due to sudden important external information, – monitoring of indicators determined for the retail exposure portfolio. • The monitoring of portfolio performance and the identification of trends in the portfolio are carried out using regular management information and control reports taking into account, *inter alia*, analysis of pace of changes in value and segmentation (sectors) of the credit portfolio, client risk (rating), quality of credit exposure collateral and exposures affected by non-performance, departures from applicable risk acceptance rules and limit utilization level. • The package of control reports for each portfolio is prepared on a regular basis and delivered to unit heads responsible for the client segment in question, the Risk and Capital Management Committee and the Management Board of the Bank.

Market risk

Definition	• Market risk is the risk that the financial result and equity of the Bank may be adversely affected by a change in: – market interest rates; – currency rates; – stock prices; – commodity prices; and – any parameters of volatility of such rates and prices.
Risk management strategy	• Market risk management is to ensure that the amount of risk accepted in the Group is consistent with the level acceptable for the shareholders and banking supervision authorities and to ensure that all market risk exposures are adequately reflected in calculated risk measures notified to relevant managers and governing bodies. • Adopted market risk measures and limits should prevent excessive concentrations of exposures to a single risk factor or a group of related risk factors and should enable determination of the maximum level of the risk accepted in the trading book or the banking book. • Market risk management at the Bank is based on: – applicable Polish laws and regulations, in particular the Banking Act, – applicable EU regulations, in particular the 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 (CRR); – requirements of Polish and EU regulatory institutions and especially resolutions of the Polish Financial Supervision Authority (KNF),

	– principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market. • Market risk management covers all portfolios that generate incomes which are exposed to an adverse impact of market factors, such as interest rates, currency rates, stock prices, commodity prices and parameters of volatility of those factors. In market risk management, two portfolio types are distinguished: trading portfolios and banking portfolios. • Trading portfolios include transactions in financial instruments (on- and off-balance sheet ones) the purpose of which is to earn income connected with a change of market parameters in a short period. Trading portfolios cover on-balance sheet items, such as debt securities, categorized as held for trading, i.e. purchased for trading purposes and meeting specified liquidity criteria, and any positions in derivative instruments, provided that in this case portfolios are divided into those acquired for purely trading purposes and those created as hedging against the risk of positions included in a banking portfolio (so-called economic hedge). Valuation of trading portfolios is carried out either directly on the basis of market prices or by using valuation models that make use of price parameters quoted in the market. Activities on trading portfolios are carried out by the Interbank Transaction Division in the Financial Markets and Corporate Banking Sector for those portfolios which cover interest rate risk and currency risk. Trading portfolios also include options, including currency option transactions, interest rate options and option structures, which reflect the economic nature and risk arising from products offered to clients of the Bank. The operations of the Bank in that area are carried out so that they ensure the simultaneous (each time and immediate) conclusion of a counter transaction having the same parameters, as a result of which the option transaction portfolio generates no open market risk exposure. The only factor connected with the conclusion of option transactions which is taken into account in measurement of market risk, and specifically currency risk, is the amount of the premium paid/received in the foreign currency.
Risk measurement	• The following risk measurement methods are applied to trading portfolios: factor sensitivity (DV01) method, value at risk (VaR) method and stress tests. • Sensitivity factors measure the change in the value of the position in a given underlying instrument in the case of a specified change of the market risk factor (for example a change of the interest rate in a given point on the interest rate curve by 1 basis point or a change of the currency rate or stock price by 1%). – For interest rates, the sensitivity measure is DV01; – For currency risk the sensitivity factor is equal in value to the position in a given currency; – For positions in equity securities, the sensitivity factor is equal in value to the net position in a given instrument (stocks, index, participation unit). • The integrated measure of market risk for trading portfolios, which combines the impact of the positions in particular risk factors and takes into account the correlation effect between volatilities of individual factors, is value at risk (VaR). VaR is used to estimate the potential decline in value of a position or portfolio in normal market conditions, for a fixed confidence level and in a specified period. For positions opened in a trading portfolio of the Bank, VaR is calculated using the 99% confidence level and one-day holding period. • Both DV01 and VaR for a trading portfolio are calculated as net amounts without any economic hedging of the portfolio of securities available for sale, i.e. excluding any derivative instruments which are to secure the fair value of the portfolio. The risk exposure of such transaction is controlled by using appropriate risk measurement methods and mitigated with risk limits adopted for banking portfolios. • On a daily basis, the analysis of stress test scenarios is carried out, while assuming risk factor changes higher than those adopted for VaR measurement and ignoring any observed historical correlations between those factors. • The Bank has market risk exposures of trading portfolios in more than twenty currencies, both for currency positions and exposures to interest rate risk, but only exposures to a few currencies are significant. For a large group of currencies, exposures arise from the imperfect match of the transactions concluded upon the client's order and the counter transactions with other counterparties from wholesale markets. Significant exposures to market risk are opened for PLN, developed market currencies (mainly USD and EUR and less frequently GBP, CHF or JPY) and even currencies from Central European countries.
Monitoring	• The Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers, on a regular basis, with reports on portfolio sensitivity, value at risk (VAR), securities positions, stress test results for market risk, allocation of capital requirements relating to market risk and utilization of Trading MAT and Trading Stop Loss limits (warning thresholds). • In addition, market risk analyses are presented systematically to the following committees: the Assets and Liabilities Committee and the Risk and Capital Committee of the Supervisory Board.

Interest rate risk for the banking book

Definition	• Interest rate risk for the banking book is the risk of an adverse impact of interest rate changes on the interest income and capital of the Group. • Interest rate risk may occur if assets and liabilities (including capital and derivative instruments that meet the requirements of hedge accounting) have different maturity dates or if their interest rates change on different dates or their interest rates are connected with different interest rate curves (basis risk), or if they include options.
Risk management strategy	• Interest rate risk management is to minimize the risk connected with the possibility of occurrence of adverse changes in market interest rates and with a negative impact of those changes on the net interest rate and, subsequently, financial result of the Group. • Market risk management at the Bank is based on: the requirements of Polish and European regulatory institutions, and especially resolutions of the Polish Financial Supervision Authority (KNF) and the EBA; and the principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank, taking into account best practices applied in the market. • Interest rate risk management is carried out both at strategic and operational level. Division into particular risk management levels depends on the nature and type of decisions made by particular decision-making fora at the Bank which affect the profile and level of interest rate risk. – The strategic risk management perspective belongs to the decision-making competencies of the Assets and Liabilities Committee (ALCO) of the Bank, which manages the interest rate risk by setting risk limits for bank portfolios and performing monthly reviews of exposures and the result on portfolio management. – The operational management of interest rate risk is carried out by the Asset and Liability Management Department, which is authorized to open risk positions within the framework of adopted limits.
Risk measurement	• The following risk measurement methods apply to banking portfolios: interest rate gap analysis, method based on costs of closure of open interest positions (Value-at-Close) / total return on portfolio (Total Return), method based on interest income exposed to risk (Interest Rate Exposure, IRE) and stress tests. • The interest rate gap analysis uses the schedule of maturity or revaluation of on-balance sheet positions and derivatives recognized using hedge accounting or categorized as economic hedge in order to determine differences between positions whose maturity date or interest rate update date is in the subject time interval. • As a general rule applied in the interest rate gap analysis, transactions are allocated to particular bands of revaluation of positions in banking portfolios on the basis of contractual or assumed dates of change of transaction interest rates. • The Value-at-Close method determines the economic or “fair” value of positions, corresponding to market valuation of a trading portfolio. Total return on a portfolio is the sum of changes of value-at-close, accrued interest and gains/losses on sale of assets or cancellation of liabilities. • The Interest Rate Exposure (IRE) method is used for measurement of the potential impact of a pre-determined parallel shift of interest rate yields on pre-tax interest income on the banking book which may be earned in a specified time interval. This is a prospective measure. In addition, it is assumed that in standard conditions interest rate moves are identical for each currency and equal to 100 basis points up. The IRE measure is calculated separately for the position in each currency over a 10-year time horizon, provided, however, that 1-year and 5-year IRE measures are mainly used for the purposes of day-to-day monitoring and limitation of interest rate risk positions for banking portfolios. • Stress tests measure a potential impact of significant changes in the level or shape of interest rate yields on the positions opened in a banking portfolio. • The Bank carries out stress tests for pre-defined scenarios of movements of interest rates, which are combinations of moves of market factors, both defined as significant changes (large move) and crisis changes (stress move), which occur both in Poland and abroad. The extent of assumed shifts of market factors are reviewed at least annually and adjusted as appropriate to changes in the market conditions in which the Bank operates. • The Bank calculates also change to capital value as the result of fluctuations of interest rates for the individual currencies, under scenarios consistent with requirements of the CRR. • The Asset and Liability Management Department in the Interbank Transaction Division carries out activities relating to securities available for sale. Three key objectives have been adopted for activities relating to the portfolio of securities available for sale: carrying out financial liquidity management, hedging against the risk taken over by the Interbank Transaction Division from other organizational units of the Bank and opening own interest rate risk positions in portfolios of the Bank by the Interbank Transaction Division. • In order to avoid excessive fluctuations of capital funds of the Bank, caused by revaluation of assets held for sale, maximum limits are set for the DV01 (Dollar Value of 1 basis point) position, which determines the potential change in the value of risk position for a given interest rate curve on a specified nodal point (to which all cash flows in a given period are brought) caused by a shift of the market interest rate by 1 basis point up for such portfolios. Limits also

	cover open derivative instrument positions (for example interest rate swaps) established to hedge the fair value of a portfolio.
Monitoring	• The Market Risk Department and a dedicated reporting unit in the Risk Management Sector provide the relevant executives and managers with reports on portfolio sensitivity, securities positions, stress test results for interest rate risk of the banking book. • In addition, market risk analyses are presented systematically to the following committees: the Assets and Liabilities Committee and the Risk and Capital Committee of the Supervisory Board.

Liquidity risk

Definition	• Liquidity risk is the risk of inability to perform financial liabilities to a client, lender or investor by their due dates as a result of mismatch between financial flows.
Risk management strategy	• The overriding goal of liquidity risk management is to ensure that the Bank and other companies from the Group have access to liquid funds sufficient to meet their financial liabilities when due (also in the event of probable extreme crisis situations). • Liquidity risk management is based on: – applicable Polish laws and regulations, in particular the Banking Act; – applicable EU regulations, in particular the 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 (CRR); – requirements of Polish and EU regulatory institutions and especially resolutions of the Polish Financial Supervision Authority (KNF); – principles of prudent and stable risk management at the Group and the general risk level accepted by the Supervisory Board of the Bank; – taking into account best practices applied in the market. • The Group analyzes and manages liquidity risk in different time horizons and, to this end, distinguishes between current, short-term, medium-term and long-term liquidity and applies adequate risk measurement and limitation methods. The adopted measures and limits are to limit excessive concentrations with respect to the assumed structure of the balance sheet or sources of funding. • The management of long-term liquidity is a task of Assets & Liabilities Committee (ALCO) and is covered by the strategy of the Bank. It is carried out on the basis of monitoring of structural relations of the balance sheet and on the basis of regulatory long-term liquidity measures, and covers the liquidity gap analysis and the possibilities of obtaining sufficient financing sources in the future, as well as the analysis of funding costs in the context of the impact on the profitability of business operations. • The management of medium-term liquidity, within the 1-year time horizon, is a task of Assets & Liabilities Committee and is carried out on the basis of annual financing plans, which determine the levels of internal limits, plans prepared by business units of the Bank concerning changes in assets and liabilities, elaborated within the framework of financial plans for the next budget year. • The management of short-term liquidity, within the 3-month time horizon, is a task of the Financial Markets Sector and Corporate Banking Sector, and is carried out on the basis of both regulatory measures of short-term liquidity and internal limits. The Bank also analyzes the liquidity level in emergency situations, assuming, as a must, that there will be no negative gap in all time brackets in a 12-month time horizon. • Current liquidity management is a task of the Financial Markets and Corporate Banking Sector and is carried out on the basis of nostro accounts of the Bank, including in particular the mandatory reserve account with the National Bank of Poland, using available products offered by the money market and the central bank.
Risk measurement	• Liquidity risk measurement is carried out by using external supervisory measures (M3-M4, LCR/NSFR and additional liquidity monitoring indicators – ALMM) and additional measures and tools developed internally: – gap analysis – MAR/S2, – crisis/stress scenarios, – structural liquidity ratios, – market warning signals, – significant sources of financing, – emergency financing plan, – intra-day liquidity management process, – short-term liquidity gap – M1, – short-term liquidity ratio – M2.
Monitoring	• Liquidity risk monitoring and management are carried out using: supervisory liquidity risk limits determined by the Office of the Polish Financial Supervision Authority and internal prudential limits and thresholds determined for liquidity risk by the Assets and Liabilities 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 Assets and Liabilities Committee and the Risk and Capital Committee of the Supervisory Board.

Operational risk and compliance risk

Definition	– Operational risk should be understood as a possibility of loss as a result of application of inappropriate or defective internal processes, human factors or technological systems, or as a result of external events. – Operational risk covers technology risk, outsourcing risk, fraud risk, money laundering risk, information security risk, business continuity risk, external and internal event risk, tax and accounting risk, product risk, legal risk, model risk, HR risk, concentration risk, conduct risk and reputation 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. – Compliance risk should be understood as a risk of negative consequences of non-compliance with the law, supervisory regulations, internal normative acts of the Bank and practices and standards available on the market.
Risk management strategy	• Operational risk management is to ensure a consistent and effective approach to identification, assessment, mitigation, control, monitoring and reporting of that risk and effective reduction in exposure to operational risk and, in consequence, reduction in the number of operational risk events and the severity of their outcomes. – Operational risk management is also to ensure the full integration of processes used for the management of that risk with the processes used for decision making purposes. – When organizing the operational risk management process the Group takes into account the business strategy, risk profile of the Group, macroeconomic environment, available capital and liquidity resources and regulatory requirements, which make up the framework of preparation of the system used to control and manage operational risk at the Group. • Management of compliance risk takes place as part of the Internal Control System. Management of compliance risk includes the following elements: identification, assessment, control, monitoring of the size and profile of compliance risk, reporting.
Risk measurement	• In the risk assessment process, the Group uses combinations of various risk measurement or estimation methods. – Risk assessment is to determine the probability of occurrence and the amount of future losses attributable to operational risk. To this end both quantitative and qualitative indicators are used (such as risk appetite, capital requirements, target risk profile, KRIs, data about losses and operational risk events, control issues and corrective actions, self-assessment process, risk map, key projects, risk concentration areas and rising-risk areas, scenario analysis, stress tests, changes in processes and products, operational risk attestation, information from internal and external reviews and audits and information reported to Commissions and Committees). – Such assessment also includes an analysis of both internal and external threats. A correct assessment of operational risk enables the Group to properly determine and manage the risk profile.

Monitoring	• The ongoing monitoring of operating risk is the responsibility of the Operating Risk Committee, the Control and Compliance System, the Risk and Capital Management Committee, the New Products Committee, the Bonus Committee and the various Commissions supporting the Committees. – Quality of the operational risk management process (including the self-assessment process) in particular units of the Group is checked and assessed by the Internal Audit function. – As part of consolidated supervision, operational risk data relating to the Bank and subsidiaries are presented to Commissions and Committees that support the Management Board and Supervisory Board of the Bank in the operational risk management process. – The Supervisory Board oversees the operational risk management system and assesses its adequacy and effectiveness. The Supervisory Board is supported by its committees: Audit Committee, Risk and Capital Committee and Remuneration Committee. – On the basis of synthetic reports which present the scale and types of operational risk to which the Group is exposed, risk concentration areas, operational risk management methods, probability of occurrence of operational risk events, assessment of potential adverse impact of the operational risk management methods, results of operational risk profile monitoring and operational risk appetite, submitted by the Management Board at least semi-annually, the Supervisory Board, supported by the Audit Committee and the Risk and Capital Committee, assesses the implementation of the assumptions of the strategy by the Management Board (including with respect to the operational risk management principles) and may order a review of the strategy if it deems it necessary.

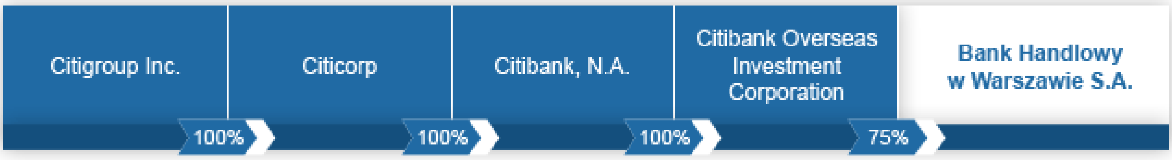
VIII. Investor information

1. The Bank's shareholding structure and performance of its shares on the WSE

1.1 Shareholders

The only shareholder of the Bank that holds at least 5% of share capital and of total voting rights at the General Meeting of Shareholders is Citibank Overseas Investment Corporation (COIC), a company belonging to the Citi Group and focused on its foreign investments. COIC is at the same time the strategic majority shareholder of the Bank. In the first half of 2020, the number of shares held by COIC as well as its stake in share capital and in total voting rights at the General Meeting of Shareholders remained unchanged and amounted to 97,994,700 and 75%, respectively.

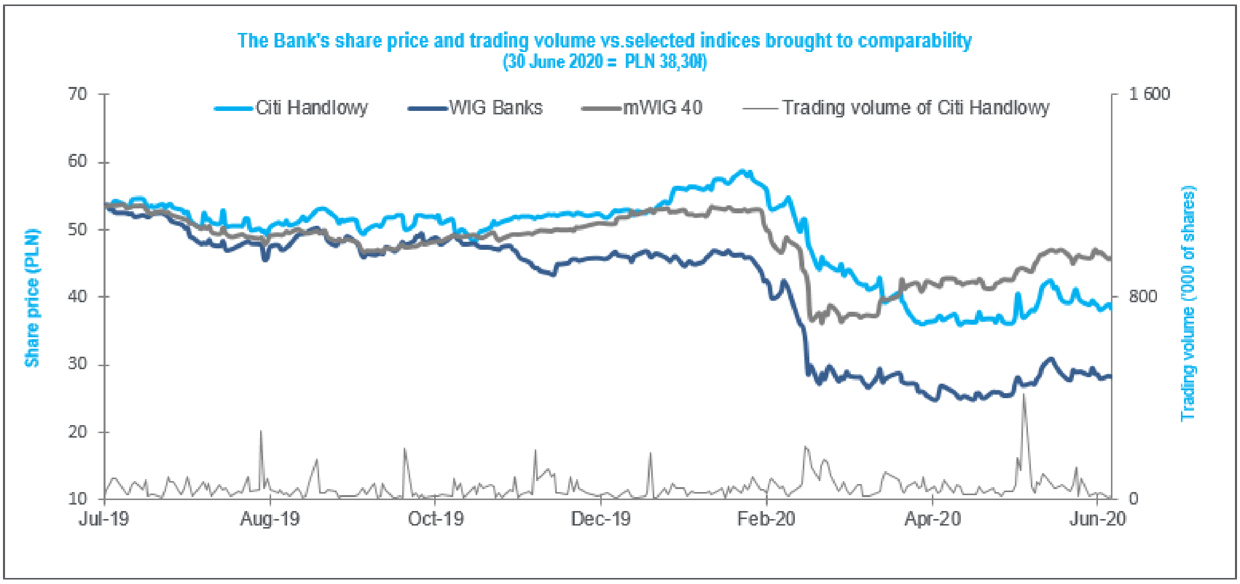
The position of Bank Handlowy w Warszawie S.A. within the Citi Group structure is shown in the diagram below:



The remaining shares (32,664,900 shares representing 25% of the share capital) are free floating, which means that they are publicly traded and listed on the Warsaw Stock Exchange (WSE).

1.2 Performance of the Bank's shares on the WSE

The Bank's share price was PLN 38.30 at the end of the first half of 2020, an decrease of 28.4% within the last 12 months (i.e. compared to the closing price of PLN 53.70 as at 28 June 2019). During the same time, the mWIG 40 index recorded a year-on-year decrease by 15.0%, while the WIG-Banks index dropped by 47.4% YoY.



The Bank's highest share price since the end of the first half of 2019 was reached on February 17, 2020 and amounted to PLN 58.70 while the lowest level was achieved on May 6, 2020 and amounted to PLN 35.90. The average share price of the Bank in the last 12 months was PLN 48.74 and the average daily turnover in the Bank's shares was approximately 2,278,000 shares.

As at the end of June 2020, the Bank's capitalization was PLN 5.0 billion (compared to PLN 6.8 billion as at 30 December 2019 and PLN 7.0 billion as at end of the first half of 2019). As at the end of June 2020, stock exchange ratios were as follows: P/E (price/earnings) – 12.4 (compared to 13.9 as at 30 December 2019 and 16.5 as at the end of the first half of the previous year), P/B (price/book) – 0.7 (compared to 1.0 as at 30 December 2019 and 1.0 as at the end of June 2019).

The current consensus on the expected results of the Group is available on the Citi Handlowy's website at: http://www.citibank.pl/poland/homepage/english/consensus.htm

2. Dividend

On 4 June 2020, the Annual General Meeting of the Bank decided to leave the entire net profit of the Bank for the year 2019 undivided.

The above proposal is in line with the recommendation of the Polish Financial Supervision Authority expressed in its letter dated March 26, 2020, according to which the PFSA expects banks to retain all their net profits from previous years due to the state of pandemic declared in Poland and possible further negative economic consequences of this state, as well as their expected impact on the banking sector

The table below presents the history of dividend payments since 1997 when the Bank was floated on the Warsaw Stock Exchange.

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
1997	130,000,000	6.21	1.40	22.5%
1998	93,000,000	3.24	1.00	30.8%
1999	186,000,000	5.08	2.00	39.4%
2000	130,659,600	1.57	1.00	63.8%
2001	163,324,500	1.25	1.25	99.8%
2002	241,720,260	1.86	1.85	99.6%
2003	241,720,260	1.86	1.85	99.7%
2004	1,563,995,412	3.17	11.97	*)
2005	470,374,560	4.51	3.60	79.8%
2006	535,704,360	4.75	4.10	86.4%
2007	620,633,100	6.19	4.75	76.8%
2008**	-	4.94	-	-
2009	492,586,692	4.02	3.77	94.0%
2010	747,372,912	5.72	5.72	99.9%
2011	360,620,496	5.52	2.76	50.0%
2012	756,519,084	7.72	5.79	75.0%
2013	934,216,140	7.15	7.15	99.9%
2014	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%

Financial year	Dividend (PLN)	Earnings per share (PLN)	Dividend per share (PLN)	Dividend payout ratio
2018	488,666,904	5.00	3.74	74.82%
2019***	-	3.66	-	-

** Dividend-pay-out ratio for 2004 - 100% plus prior year profits.*
*** On June 18, 2009, the Bank's Ordinary General Meeting decided to pay no dividend for 2008 following the recommendation of the Polish Financial Supervision Authority (KNF) for the whole banking sector.*
**** On June 4, 2020, the Bank's Ordinary General Meeting decided to pay no dividend for 2019 following the recommendation of the Polish Financial Supervision Authority (KNF) for the whole banking sector.*

3. Rating

As of end of the first half of 2020, the Bank had full ratings awarded by Fitch Ratings ("Fitch").

On April 27, 2020 Fitch revised its outlook under the Bank's long-term rating ("Long-term IDR") from "Stable" to "Negative". The outlook revision results from an analysis carried out by Fitch, which shows that the economic fallout resulting from the coronavirus outbreak pose a medium-term risk to the Bank's ratings. The revision of outlook of Citigroup Inc. – a parent company of the Bank from "Stable" to "Negative" also impacted on the above decision.

At the same time, in Fitch's opinion, due to the COVID-19 pandemic, the financial and business conditions in Poland have deteriorated. On March 30, 2020, as a result of the revision of the outlook of the operating environment of banks from "Stable" to "Negative", Fitch revised the outlook for the Polish banking sector from "Stable" to "Negative", maintaining the rating for this sector at "bbb +" .

At the same time, Fitch has affirmed the Bank's long-term rating ("Long-term IDR") at "A-" and Viability rating at "a-".

The Viability rating reflects an exceptionally low-risk business model and good capitalization together with high levels of liquidity. The Viability rating is one notch higher than the rating for the Polish banking sector.

The full current rating of the Bank assigned by Fitch is as follows:

Long-term entity ranking *Long-term rating outlook*	A- *negative*
Short-term entity ranking	F1
Viability rating*	a-
Support rating	1
National long-term rating	AA+ (pol)
National short-term rating	F1+ (pol)

** Viability rating is the view of the intrinsic creditworthiness of an institution, independent of external factors.*

4. Investor relations

Investor relations, which ensure information to existing and prospective investors, capital market analysts and rating agencies, are an integral element of the Bank's information policy, the purpose of which is to cater for information needs of all persons and institutions interested in corporate information. In terms of investor relations, the main information policy tools are:

- regular contacts with investors and analysts in the form of conference calls and meetings, also at the Bank's premises, attended by members of the Bank's Management Board;
- support of the Press Office during quarterly press conferences for the media held after the publication of interim reports;
- publishing on the website current information on the Bank and its projects, and all current and interim reports. The website also enables contacts with the Investor Relations Office which has a broad knowledge of the Bank and its Group of Companies.

IX. Corporate governance rules in the Group

1. Best practice at the Bank

Corporate Governance Principles applied in the Group of the Bank are described in the Report of the Management Board on the activities in 2019.

2. Governing bodies of the Bank

2.1 Changes in the composition of the Management Board and Supervisory Board during the first half of 2020

2.1.1 Changes in the composition of the Management Board during the first half of 2020

In the first half of 2020, the Bank's Management Board consisted of:

Sławomir S. Sikora	President of the Bank's Management Board
Natalia Bożek	Vice-President of the Bank's Management Board
Dennis Hussey	Vice-President of the Bank's Management Board (from April 1, 2020)
Maciej Kropidłowski	Vice-President of the Bank's Management Board
David Mouille	Vice-President of the Bank's Management Board (to January 31, 2020)
Barbara Sobala	Vice-President of the Bank's Management Board
James Foley	Member of the Bank's Management Board
Katarzyna Majewska	Member of the Bank's Management Board

2.1.2 Changes in the composition of the Supervisory Board during the first half of 2020

During the first half of 2020 the Supervisory Board of the Bank consisted of:

Andrzej Olechowski	Chair of the Supervisory Board
Frank Mannion	Deputy Chair of the Supervisory Board
Shirish Apte	Member of the Supervisory Board
Igor Chalupec	Member of the Supervisory Board
Jenny Grey	Member of the Supervisory Board
Marek Kapuściński	Member of the Supervisory Board
Gonzalo Luchetti	Member of the Supervisory Board
Anna Rulkiewicz	Member of the Supervisory Board
Barbara Smalska	Member of the Supervisory Board
Stanisław Sołtysiński	Member of the Supervisory Board
Zdenek Turek	Member of the Supervisory Board
Stephen Volk	Member of the Supervisory Board

2.2 Rules of appointing and dismissing members of the Management Board

The Management Board consists of five to nine members. Each member of the Bank's Management Board is appointed by the Supervisory Board for an individual term of office of three years. At least half of the members of the Management Board should be of Polish nationality. The term of appointment of a Management Board member expires:

- on the day of the General Meeting of Shareholders approving the Management Report on the activities of the Bank and financial report for the full past year of the term of office of the Management Board member;
- upon death of the Management Board member;
- upon dismissal of the Management Board member;
- upon resignation of the Management Board member, submitted in writing to the Chair of the Supervisory Board.

2.3 Rights of the Management Board members

The Management Board makes decisions in matters concerning the Bank by way of resolutions, provided that decisions in such matters are not reserved for other governing bodies of the Bank by law or the Articles of Association.

By way of resolutions, the Management Board:

1) defines the Bank's strategy;
2) establishes and abolishes the committees supporting the work of the Bank and defines their mandates;
3) decides the Management Board's bylaws and submits them to the Supervisory Board for approval;
4) decides the rules of handling special purpose funds created from net profit and submits them to the Supervisory Board for approval;
5) decides on the date of payment of dividend within the time limits defined by the General Meeting of Shareholders;
6) appoints holders of general commercial power of attorney, attorneys and attorneys with powers of substitution;
7) decides in matters defined in Management Board bylaws;
8) makes decisions on matters brought by the President, Vice-President or Member of the Management Board;
9) passes a resolution on the Bank's annual financial plan, accepts investment plans and reports of implementation of such plans;
10) accepts reports on the Bank's operations and financial reports;
11) formulates decisions regarding distribution of profit or coverage of losses;
12) approves the Bank's human resources policy, credit policy and legal principles of its operations;
13) approves the rules of the Bank's equity management;
14) approves the employment structure;
15) establishes the basic structure of the Bank's organization, appoints and dismisses Heads of Sectors, appoints and dismisses Heads of Divisions, and makes decisions on their competences;

16) establishes the audit plan at the Bank and accepts audit reports;
17) resolves other issues which, according to the Articles of Association, are submitted to the Supervisory Board or the General Meeting of Shareholders;
18) makes decisions on contracting liabilities or disposing of assets, when the total value of such liabilities or assets in relation to a single entity exceeds 5% of the Bank's own funds, or appoints authorized persons to make such decisions; however, in matters within the powers of Committees appointed by the Bank the decisions are made after consulting the relevant Committee.

The acquisition and transfer of ownership or the right of perpetual usufruct of a real estate property or a share in those rights by the Bank shall not require a resolution by the General Meeting. Decisions in these matters shall be taken independently by the Management Board of the Bank by way of resolution. However, in matters including acquisition and transfer of ownership or the right of perpetual usufruct of a real estate property or a share in those rights by the Bank, if the value of those rights in the individual case does not exceed PLN 500,000.00 and the acquisition or transfer is connected with the Bank's seeking collection of debts resulting from banking operations, such acquisition or transfer can be made also without the resolution of the Management Board.

The Bank's Management Board designs, implements, and ensures the operation of, the Bank's management system as well as designs, implements and updates written strategies and procedures, and undertakes actions relating to the system of risk management, internal controls and internal capital assessment as well as reviews of the internal capital assessment and maintenance processes.

3. Other principles

3.1 Information on owners of securities with special control rights towards the Bank

All shares issued by the Bank are common bearer shares and have no special control rights related to them.

3.2 Limitations regarding transfer of ownership of the Bank's shares or exercising the voting rights relating to the Bank's shares

Beside limitations stipulated by the Banking Law (Article 25 et seq.), the Bank's Articles of Association put no limitations with regard to transfer of Bank's shares.

X. Other information on the Bank's governing bodies and management principles

1. Information on the total number of the shares of the Bank held by Management Board or Supervisory Board members

According to the information available to the Bank as the parent company, the Bank's shares are held by the following members of the Management Board and Supervisory Board of the Bank:

Name	Function	Number of shares as at the day of submitting this consolidated semi-annual report for the first half of 2020	Number of shares as at the day of submitting the previous quarterly interim report for Q1 of 2020
Andrzej Olechowski	Chairman of the Supervisory Board	2,200	2,200
Total		**2,200**	**2,200**

Members of the Management Board and Supervisory Board of the Bank do not have any Bank share options.

2. Information on any agreements between the Bank and the Management Board members that provide for compensation in case of resignation or dismissal of such members without a valid reason, or when such dismissal is a result of a merger or acquisition of the Bank

Among all employment contracts between the Bank and the members of the Management Board of the Bank, there is only one contract with a member of the Management Board that provides for financial compensation in the case of termination with prior notice or for reasons specified in Article 53 of the Labour Code.

Each member of the Management Board of the Bank has signed a separate non-competition agreement with the Bank. In accordance with this agreement, if the employment relationship with the Bank is terminated, the member of the Management Board is obliged to refrain from undertaking any competitive activities in a period of 12 months (or 6 months in the case of one of the Management Board members). On account of this restriction, the Bank will be obliged to pay compensation to a terminated member of the Management Board.

XI. Statement of the Bank's Management Board

Accuracy and fairness of the statements presented

To the best knowledge of the Management Board of the Bank, composed as at the date of preparation of the financial statements of: Mr. Sławomir S. Sikora – President, Ms. Natalia Bożek – Vice President, Mr. Maciej Kropidłowski – Vice President, Mr. Dennis Hussey - Vice President, Ms. Barbara Sobala – Vice President, Mr James Foley – Member and Mrs.

Katarzyna Majewska – Member, the semi-annual financial data and comparative data presented in the “Interim Condensed Stand-alone Financial Statements of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2020” and the “Interim Condensed Consolidated Financial Statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the six-month period ended 30 June 2019” were prepared in accordance with the applicable accounting principles and give a true, fair and clear picture of the assets and the financial standing of the Bank and the Group as well as the financial result of the Bank and the Group. The “Report on activities of the Capital Group of Bank Handlowy w Warszawie S.A. in the first half of 2020”, contained in the semi-annual consolidated report, gives a true picture of developments, achievements and situation (and describes major risk) of the Group in the first half of 2020.

Other information required by the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as equivalent to information required by the law of a non-Member State (Journal of Laws [Dz. U.] of 2018 item 757, as amended) was provided in the Condensed Interim Consolidated Financial Statements of the Bank's Group of Companies.

24.08.2020	Sławomir S. Sikora	The President of Management Board
....	....	....
Date	Name	Position/Function
24.08.2020	Natalia Bożek	Vice-president of Management Board
....	....	....
Date	Name	Position/Function
24.08.2020	Maciej Kropidłowski	Vice-president of Management Board
....	....	....
Date	Name	Position/Function
24.08.2020	Dennis Hussey	Vice-president of Management Board
....	....	....
Date	Name	Position/Function
24.08.2020	Barbara Sobala	Vice-president of Management Board
....	....	....
Date	Name	Position/Function
24.08.2020	James Foley	Member of Management Board
....	....	....
Date	Name	Position/Function
24.08.2020	Katarzyna Majewska	Member of Management Board
....	....	....
Date	Name	Position/Function