

REPORT

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

for the period from the date of the Annual General Meeting of Shareholders in 2019
to the date of the Annual General Meeting of Shareholders in 2020

1. Members of the Supervisory Board

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

Mr. Andrzej Olechowski	Chairman of the Board	entire reporting period
Mr. Frank Mannion	Vice Chairman of the Board	entire reporting period
Mr. Shirish Apte	Member of the Board	entire reporting period
Mr. Igor Chalupiec	Member of the Board	entire reporting period
Ms. Jenny Grey	Member of the Board	entire reporting period
Mr. Marek Kapuściński	Member of the Board	entire reporting period
Mr. Marc Luet	Member of the Board	until 27 June 2019
Ms. Anna Rulkiewicz	Member of the Board	entire reporting period
Mr. Anand Selvakesari	Member of the Board	until 23 September 2019
Ms. Barbara Smalska	Member of the Board	entire reporting period
Mr. Stanisław Sołtysiński	Member of the Board	entire reporting period
Mr. Zdenek Turek	Member of the Board	from 24 September 2019
Mr. Stephen R. Volk	Member of the Board	entire reporting period

1.2. Independent Members of the Supervisory Board

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

Mr. Igor Chalupiec	Member of the Board
Mr. Marek Kapuściński	Member of the Board
Ms. Anna Rulkiewicz	Member of the Board
Ms. Barbara Smalska	Member of the Board

1.3. Evaluation of the composition of the Supervisory Board

The Supervisory Board wants to emphasize that, during the entire reporting period, it was composed of persons demonstrating the extensive knowledge of law, economics, banking, management and finance. Members of the Supervisory Board have adequate knowledge, skills and experience and their qualifications ensure due performance of its tasks resulting from applicable laws and regulations. Therefore, the composition of the Bank's Supervisory Board accommodates a broad range of competencies required to govern all material areas of the Bank's activity.

The structure of the Board, including its committees, is designed so that the Board and its committees could make the most of the expertise of its Members contributing to the accomplishment of goals and objectives assigned to the Supervisory Board.

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

1.4.1. Audit Committee

Ms. Barbara Smalska	Chairperson of the Committee	from 25 September 2019
Mr. Frank Mannion	Vice Chairman of the Committee	entire reporting period
Mr. Shirish Apte	Member of the Committee	entire reporting period
Mr. Igor Chalupiec	Member of the Committee	entire reporting period

Mr. Marek Kapuściński	Member of the Committee	entire reporting period
Ms. Anna Rulkiewicz	Member of the Committee	from 25 September 2019

The Supervisory Board considers the following persons to be members of the Audit Committee of the Supervisory Board of Bank Handlowy w Warszawie S.A. having knowledge and skills in accounting and audit of financial accounts:

- 1) Ms Barbara Smalska due to her professional experience: Ms Smalska was a Vice President of the Management Board of Alior Bank S.A., held various managerial positions in PZU Group and was also on supervisory boards of various insurance companies.
- 2) Mr. Shirish Apte due to the following: (I) education – he earned a diploma of Chartered Accountant from the Institute of Chartered Accountants in England and Wales and a bachelor's degree in commerce. Mr. Shirish Apte also has an MBA from London Business School; (ii) professional experience;
- 3) Mr. Frank Mannion due to the following: (i) education – he graduated from the National University of Ireland in Galway, earning a degree in commerce. He has also earned the title of Chartered Accountant; (ii) professional experience;
- 4) Mr. Igor Chalupiec due to the following: (i) education – he is a graduate of the Foreign Trade Department of the Warsaw School of Economics (SGH) and of Faculty of Law and Administration of the University of Warsaw; (ii) professional experience.
- 5) Ms. Anna Rulkiewicz due to the following: (i) education – completed the Stanford Executive Program at the Stanford University's Graduate School of Business; (ii) professional experience.

The following members of the Audit Committee are independent within the meaning of Article 129(3) of the Act of 11 May 2017 on auditors, audit firms and public supervision: Mr. Igor Chalupiec, Mr. Marek Kapuściński, Ms. Anna Rulkiewicz and Ms. Barbara Smalska.

1.4.2. Nomination and Remuneration Committee

Mr. Andrzej Olechowski	Chairman of the Committee	entire reporting period
Ms. Jenny Grey	Vice Chairperson of the Committee	entire reporting period
Mr. Marc Luet	Member of the Committee	until 27 June 2019
Mr. Stanisław Sołtysiński	Member of the Committee	entire reporting period
Mr. Zdenek Turek	Member of the Committee	from 25 September 2019

1.4.3. Strategy and Management Committee

Mr. Zdenek Turek	Chairman	from 25 September 2019
Mr. Stanisław Sołtysiński	Vice Chairman of the Committee	entire reporting period
Mr. Shirish Apte	Member of the Committee	entire reporting period
Mr. Igor Chalupiec	Member of the Committee	entire reporting period
Ms. Jenny Grey	Member of the Committee	entire reporting period
Mr. Marek Kapuściński	Member of the Committee	entire reporting period
Mr. Gonzalo Luchetti	Member of the Committee	from 25 September 2019
Mr. Frank Mannion	Member of the Committee	entire reporting period
Mr. Marc Luet	Member of the Committee	until 27 June 2019
Mr. Andrzej Olechowski	Member of the Committee	entire reporting period
Ms. Anna Rulkiewicz	Member of the Committee	from 25 September 2019
Mr. Anand Selvakesari	Member of the Committee	until 23 September 2019

Ms. Barbara Smalska	Member of the Committee	from 25 September 2019
Mr. Stephen R. Volk	Member of the Committee	entire reporting period

1.4.4. Risk and Capital Committee

Mr. Frank Mannion	Chairman of the Committee	entire reporting period
Mr. Igor Chalupec	Vice Chairman of the Committee	entire reporting period
Mr. Marek Kapuściński	Member of the Committee	entire reporting period
Mr. Gonzalo Luchetti	Member of the Committee	from 25 September 2019
Mr. Marc Luet	Member of the Committee	until 27 June 2019
Mr. Andrzej Olechowski	Member of the Committee	entire reporting period
Mr. Anand Selvakesari	Member of the Committee	until 23 September 2019
Ms. Barbara Smalska	Member of the Committee	from 25 September 2019
Zdenek Turek	Member of the Committee	from 25 September 2019
Mr. Stephen R. Volk	Member of the Committee	entire reporting period

1.5. Meetings of the Supervisory Board and its Committees

In the reporting period, the Supervisory Board held five meetings, and its Committees: Audit Committee – 3, Risk and Capital Committee – 3, Nomination and Remuneration Committee – 5, Strategy and Management Committee – 2.

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

The economic growth rate in Poland decreased from 5.1% in 2018 to approximately 4.0% in 2019. The main growth contributor in 2019 was still domestic demand, however its pace declined from 5.3% in 2018 to 3.8% in 2019. Private consumption was fuelled by good labor market conditions (unemployment rate decreased from 5.8% to 5.2%) and increased transfers to households.

On the other hand, the growth of consumer goods and services prices was surprisingly disappointing. They rose 2.3% in 2019, as compared to an increase of 1.7% in 2018, with inflation visibly accelerating during the year from 0.7% in January to 3.4% in December.

Poland's good macroeconomic results translated into positive performance of the banking sector. In 2019, the net profit of the banking sector significantly improved from prior year, i.e. by 12.5%. The key driver of that growth of its net profit was an improvement in interest income, supported by rising volumes of consumer loans. On the other hand, the banking sector was exposed to increasing operating expenses in the wake of higher fees to the Bank Guarantee Fund and higher bank levy, as well as higher net impairment charges and provisions.

Operating revenues of the Bank amounted to PLN 2,190 million in 2019 and were higher by PLN 41 million (or 1.9%) as compared to 2018. This increase occurred for both net interest income and net fee and commission income, reflecting higher transactional volumes realized by clients of the Bank. Higher client activity was observed in segments in which the Bank is the leader: transactional & custody services and credit cards.

In 2019, general administrative expenses and depreciation & amortization amounted to PLN 1.19 billion and increased by PLN 34 million (i.e. 3%) from 2018. Excluding the fees to the resolution fund of the Bank Guarantee Fund, operating expenses declined by 1% year over year. With respect to its cost management strategy, the Bank was focused, on one hand, on the digitization

and automation of processes, including by commercialization of the electronic platform for document exchange with clients. On the other hand, the Bank continued its investments in areas where the prospective growth of its client business is most promising. In 2019, as the first bank in Poland, Citi Handlowy launched an entirely remote and automated credit process for new retail clients based on biometric solutions.

In 2019, net credit losses increased by PLN 174 million from 2018, as a result of extraordinary events in the Commercial Banking segment. On the other hand, the risk indicators of the Bank were still better than in the entire banking sector. The non-performing loan (NPL) ratio of the Bank was 3.3% as at the end of 2019, as compared to 5.9% in the banking sector.

For the Bank, it was another year of sustainable growth of lending. In the institutional client area, the growth rate was 10%, considerably above the market, which confirms the Bank's position as the leader of corporate banking in Poland. The key driver was securitization transactions, where the Bank's share was 80% and where the Bank is an unchallenged leader in that prospective market segment. In Consumer Bank, volumes rose by 3%. As far as the acquisition of new retail volumes is concerned, those efforts were mainly conducted via electronic channels, e.g. in the acquisition of new cash loans.

In the year 2019, the Bank earned a net profit of PLN 485.1 million, i.e. 26% lower versus prior year. An important factor behind the decline was extraordinary items connected with higher net impairment write-offs in the Commercial Bank segment and higher contributions to the resolution fund of the Bank Guarantee Fund.

The total capital ratio (TCR) of the Bank was 17.0%, i.e. significantly above the regulatory levels. The Supervisory Board believes that the level of capitals maintained by the Bank is sufficient to ensure its financial security, as well as the security of deposits entrusted to it, and to stimulate its further growth.

Since in 2020 both global and Polish economy may be affected by various risks, such as international trade restrictions, sluggish global economic growth and higher volatility in financial markets, the Supervisory Board will continue its close cooperation with the Management Board to monitor the impact of those risk factors on the situation of the Bank. Simultaneously, the Supervisory Board will monitor developments in the area of FX-denominated mortgage loans and its effect on Poland's banking sector.

Taking into consideration the financial results achieved, the safe position of the Bank, the stable capital and liquidity ratios and the consistent and coherent strategy of the Bank, the Supervisory Board's assessment of the activities of the Bank in 2019 is positive. Simultaneously, the Supervisory Board is convinced that both already started and planned initiatives will contribute to an increase in shareholder value by allowing the Bank to achieve optimal financial results and market position despite a challenging market environment.

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

3.1. Corporate social responsibility of the Bank

The Bank is an institution which, since the beginning of its 150-year history, has considered social and environmental aspects in its decisions and specified direction of its activity. The Bank lends its attentive ear to expectations of its business and social partners. In 1877, just a few years after it was established, Bank Handlowy vigorously opposed speculations, considering them ethically dubious. Thus, it changed the banking market at that time. Such an approach is embedded in the DNA of the Bank and is applied consistently.

The bank has identified areas of activities that are of crucial importance from the perspective of the social and natural environment and which make the foundation of the corporate social responsibility strategy for its activities. They include activities related to investments and products, safe and accessible banking services, limitation of negative environmental impacts, concern for people creating the institution, development of communities, and responsible management.

The Bank's ambition is to remain, in the long term, the leader in social responsibility among banking institutions in Poland. This commitment is appreciated by continuously placing the Bank in the Respect Index ranking organized by Giełda Papierów Wartościowych w Warszawie S.A. Since 2018 the Bank has been included in the Super Ethical Companies index of the *Puls Biznesu* daily. For many years, to a significant extent in reliance on the activity of the established corporate foundation (The Kronenberg Foundation at Citi Handlowy), the Bank has been an undisputed leader in social involvement and employee volunteering.

The Foundation's strategic objective is to create a positive social and economic change and to inspire activities in the following areas:

- Financial education and Poles' digital competencies – to increase Poles' financial security and to protect their data on the net.
- Entrepreneurship and leadership – to increase the so-called disfavored groups' or underrepresented groups', such as women, migrants, persons with disabilities, share in business.
- Employee volunteering – to evoke positive changes in local communities and to develop the sense of social responsibility among the Founder's employees as well as its business partners and clients.
- Heritage – to inspire business to create changes by telling the story of Leopold Kronenberg and of Bank Handlowy, and to promote best practices regarding the protection of the Polish cultural heritage.

In 2019, among many other initiatives, the Foundation carried out, together with the THINK! Foundation, the 11th edition of the "Poles' Attitudes towards Finance" survey. The Foundation also conducted, jointly with the SoDA Organization of IT Employers, a survey of Polish software houses, as the first such project in Poland, focused on the rapidly growing IT sector. Also in 2019, the Foundation took part in the IT for SHE program, run by the "Prospects" ("Perspektywy") Educational Foundation. IT for SHE is a coalition of international companies present on the Polish market and having a clear technological component in their activity.

The Foundation has joined programs financed by Citi Foundation: Business in Women's Hands (Network of Entrepreneurial Women), which supports women in business; Hello Entrepreneurship (Ashoka), which helps migrants develop their business competences; "Savings Week" (Think) educational program; and Shesnnovation, dedicated to female researchers from technical universities (Perspektywy).

The Foundation also followed up activities in the scope of protection of cultural heritage, the most important of which is the annual Professor Aleksander Gieysztor Award. The competition was held under the honorable patronage of Mr. Andrzej Duda, the President of the Republic of Poland. The winner of the 21st edition of the Professor Aleksander Gieysztor Award was Professor Jerzy Limon, for the initiation and creation of the Shakespeare Theatre in Gdańsk.

Within the framework of the Employee Volunteering Program, volunteers completed over 200 social projects for nearly 46,000 beneficiaries. Thus, since its kickoff, Citi employees in Poland have been involved in the program as many as 29,500 times, working more than 160,000 hours. They managed to help over 369,000 people across the whole country. In

2019, the Foundation was also vigorously developing volunteering activities to promote competence build-up via the "Citi Volunteers for Development" mentoring program for entrepreneurs, start-ups and students.

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

3.2. Sponsoring

In 2019, the Bank and the Foundation supported numerous nation-wide and international conferences and events. One of them was the 9th edition of the European Forum for New Ideas (EFNI) in Sopot – a leading conference in Central and Eastern Europe, attended by more than 1,200 representatives of the world of science, business and politics. During the conference, the laureates of the 6th edition of the Emerging Market Champions Competition were honored. Citi Handlowy was also a partner of the 9th European Financial Congress in Sopot, an annual meeting of representatives of the European financial sector, the world of politics and economic experts. The main topic of the 9th edition of the Congress was the slogan "How to Live in Uncertain Times".

As part of its cooperation with the American Chamber of Commerce, Citi Handlowy was a partner of the AmCham Diner organized during the European Economic Congress in Katowice, the Economic Forum in Krynica and the Congress 590 in Rzeszów. Representatives of Citi Handlowy participated in all those events and in numerous discussion panels.

In May 2019, Citi Handlowy announced cooperation with the Polish Paralympic Committee. The cooperation is an element of Citi's global initiative to support the paralympic movement and efforts to change the social perception of disabilities. In Poland, Citi also supports, as part of the global Team Citi project, two outstanding sportspersons – Natalia Partyka, a four-time Paralympic female champion in table tennis, and Maciej Lepiato, a two-time Paralympic champion and a four-time World Champion for the disabled in high jump.

Acting as an organization supporting the paralympic movement in Poland, Citi Handlowy was the Main Sponsor of the Final Gala of the 1st. Athlete of the Year 2019 Competition of the Polish Paralympic Committee. The event during which the winner of the Competition was announced and the statuette named after Sir Ludwig Guttmann was awarded for the first time in history, was held in December at the headquarters of the Polish Olympic Committee in Warsaw.

One of many activities through which Citi Handlowy supported persons with disabilities and was involved in building a society that accepts diversity, was Citi Handlowy's participation in the largest charity business run in Poland Poland Business Run. Relay races are organized in 9 cities all over Poland to support young people after amputations, to give them a chance for a better life. Citi Handlowy was the sponsor of the Warsaw edition of that event – Warsaw Business Run.

In 2019, the Bank also supported the development of sports in Poland under the Live Well at Citi program, combining such elements as: volunteering, assistance to local communities and promoting a healthy lifestyle. It was also a partner of the Polish Golf Union, and a sponsor of the Ironman Poland Tour – triathlon races in Warsaw and Gdynia.

For the third consecutive year, Citi Handlowy continued cooperation with the international city bike operator Nextbike. As part of that cooperation, from March to November 2019, bikers could rent over 6 thousand city bikes available in Warsaw, Łódź, Wrocław, Poznań, Katowice, including Górnośląski Okręg Przemysłowy (Upper Silesian Industrial Region) and – for the first time – in Trójmieście (Tricity). The bikes were used as a carrier for a campaign promoting the Bank's products and services. In 2019, the bikes with Citi Handlowy branding were rented almost 12.5 million times. The Warsaw bikers could use an extended functionality of Citi Handlowy Bikes, a banking and biking application for bike renting, with

which they can also find out how biking improves the quality of air in the city. The Citi Handlowy Bikes application was downloaded almost 50 thousand times. In 2019, the bikers could for the first time – thanks to cooperation between Citi Handlowy and jakdojade.pl – find and mark a route by bike in Warsaw.

The year 2019 was another year of joint activities of Citi Handlowy and Live Nation, a leader in the field of concerts and "live" events organization. The Bank offered holders of Citi Handlowy cards access to exclusive pre-sales of tickets for concerts organized throughout Poland. Clients of the Bank were the first in line to buy tickets for concerts of Madonna, Sting, Bon Jovi, Pink, Rod Stewart, Ariana Grande or Guns'n'Roses. The strategic cooperation with Live Nation will be continued in 2020.

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

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

The Supervisory Board is required to assess the functioning of the remuneration policy at Bank Handlowy w Warszawie S.A based on § 28 point 3 of the Principles of Corporate Governance for Supervised Institutions of the Polish Financial Supervisory Authority, dated 22 July 2014 and effective from 1 January 2015.

In 2019, all remuneration-related issues in Bank Handlowy w Warszawie S.A. (the "Bank") were governed by the *Remuneration policy for employees of Bank Handlowy w Warszawie S.A.* ("Remuneration Policy") of 22 December 2017, as subsequently amended. The Remuneration Policy covers various remuneration procedures and rules applicable in the Bank and sets out the principles for remunerating all employees of the Bank, including, in particular, Key Persons, persons whose professional activities have a material impact on the risk profile of the Bank, employees involved in sales of the Bank's products and services and persons employed in control functions. The Remuneration Policy implements requirements regarding the structuring of the remuneration principles in banks provided for in the provisions of law, the Rules of Corporate Governance for Supervised Institutions adopted by the Polish Financial Supervision Authority ("Rules of Corporate Governance"), the Code of Best Practice for WSE Listed Companies 2016 and recommendations of the Polish Financial Supervision Authority applicable to the banking sector, and takes into account the Guidelines of the European Banking Authority on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013, the Guidelines of the European Banking Authority on remuneration policies and practices related to the sale and provision of retail banking products and services and the Guidelines of European Securities and Markets Authority on remuneration policies and practices (MiFID).

The assessment of functioning of the Remuneration Policy is as follows:

- 1) According to the requirements, the Remuneration Policy covers all employees of the Bank and defines the population of Key Persons indicated in the Rules of Corporate Governance.
- 2) The Remuneration Policy properly sets out general principles for employees of the Bank, including Key Persons, in terms of the form, structure and manner of determination of their remuneration. Detailed rules of remunerating Members of the Supervisory Board are regulated by resolutions adopted by the General Meeting of Shareholders of the Bank.
- 3) The implementation of the Remuneration Policy by the Bank and the governance of the Remuneration Policy ensure that the structure of remuneration of all employees, including Key Persons, helps ensure a long-term stability of the Bank and is aligned with the Bank's strategy,

objectives, values and long-term interests, such as the sustainable growth of the Bank, and is also aimed at eliminating the potential negative impact of the remuneration systems on risk management.

- 4) The Bank properly implemented all the guidelines relating to the construction of fixed remuneration that are provided in the Remuneration Policy. In particular, the Bank differentiates the level of fixed remuneration of employees, including Key Persons, primarily based on professional experience, required competences and the role in the management process in the Bank.
- 5) The Bank ensures the appropriate level of remuneration of employees of internal audit and compliance units in order to ensure that highly qualified and experienced specialists are hired and retained at those organizational units. The compensation level of Internal Audit and Compliance employees was examined and positively assessed during a review conducted by the Audit Committee.
- 6) Through the Remuneration Policy, the Bank promotes sound and effective risk management and does not encourage risk-taking in excess of the tolerable risk level. To this effect, remuneration schemes that are based on financial and non-financial results do not reward excessive risk in decision making. In particular, the remuneration of members of the Management Board is determined in a way that promotes the prudent management of the Bank, is based on financial and non-financial results and does not reward failure.
- 7) In the process of setting and approving the budget for annual awards and awards from the incentive fund for 2019 for the Bank's employees, including the Key Persons, the Bank properly verified whether the Bank has a sound and strong capital base that justifies the grant of variable remuneration at the proposed level and if it does not reduce the Bank's ability to increase its capital base, and if it is sustainable according to the financial standing of the Bank.
- 8) The detailed rules applicable to variable remuneration awarded to employees whose professional activities have a material impact on the risk profile of the Bank ("Identified Staff"), including the Key Persons, are set out in the *Remuneration policy for persons whose professional activities have a material impact on the risk profile of Bank Handlowy w Warszawie S.A.* ("Remuneration Policy for Identified Staff"). Those rules were properly applied when variable remuneration was granted to the Identified Staff, including the Key Persons, in January 2020 (awards for 2019 Performance Year).
 - a) The Bank has a Nomination and Remuneration Committee of the Supervisory Board, the role of which is to provide recommendations and opinions on the levels and conditions of variable remuneration of employees covered by the Remuneration Policy for Identified Staff. It gives its opinion on the changes to the Remuneration Policy for Identified Staff, including the amounts and components of remuneration, taking into account a cautious and stable risk, capital and liquidity management, and paying special attention to long-term interests of the Bank and the interests of the Bank's shareholders and investors. The Nomination and Remuneration Committee of the Supervisory Board held six meetings during 2019.
 - b) The level of the variable remuneration for 2019 was based on the assessment of both financial and non-financial criteria, including the cost of the Bank's risk, the cost of capital, and liquidity risk in the long-term perspective. The variable remuneration set out that way was granted to Key Persons on 14 January 2020. Immediate cash award is paid out no later than in the month directly following the month in which it has been granted. Short-term phantom share awards are subject to 6 or 12 months retention period and are paid out after the retention period ends. Deferred variable remuneration is divided into three or five tranches, which may vest respectively over the years 2021-2023 or 2021-2025. Tranches of a deferred cash award and a long-term phantom award (provided they are vested) are paid out 6 or 12 months after the retention period ends.

- c) In 2019, the Management Board of the Bank, based on a positive opinion of the Nomination and Remuneration Committee of the Supervisory Board, decided that five Identified Staff had lost the right to deferred variable remuneration, which was granted conditionally to those Identified Staff in the course of their employment relationships and which was unvested before the date of termination of their employment contracts. This decision was made in accordance with the provisions of the Remuneration Policy for Identified Staff regarding the termination of employment contracts under the conditions for acquisition of rights to deferred variable remuneration. Such an adjustment of deferred variable remuneration was connected neither with the Bank's nor with the individual's results.
- 9) The Remuneration Policy adopted by the Bank sets out the proper remuneration rules for employees involved in sales of the Bank's products and services that encourage them to act honestly, fairly, transparently and professionally, taking account of the rights and interests of all of the Bank's clients, in the short, mid and long term.
- 10) In 2019, the Bank properly analyzed the roles and responsibilities of its employees in relation to key manageable risks in the Bank, as well as quantitative and qualitative criteria described in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile, and on that basis prepared the list of employees who has a material impact on the risk profile of the Bank and, therefore, should be the subject to the provisions of the Remuneration Policy for Identified Staff. In 2019, the list of employees covered by the Remuneration Policy for Identified Staff included 90 persons.

The Supervisory Board's assessment of the functioning of the Remuneration Policy applied in the Bank is positive.

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

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

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

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

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

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

The Supervisory Board states that the information obligations resulting from the Regulation of the Minister of Finance of 29 March 2018 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent (Journal of Laws of 2018, item 757) were correctly performed by the Bank in the reporting period.

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

The primary objective of the internal control system is to support the decision-making processes that are to ensure the effectiveness and efficiency of the Bank's operations, the reliability of its financial reporting and the compliance of the Bank's activities with applicable laws and internal regulations and the compliance with risk management rules in the Bank. The internal control system consists of a control function, a compliance unit and an internal audit unit.

The internal control system and the risk management system in place at the Bank are organized in three independent levels:

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

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

The Audit Department submits, on a regular basis, but at least annually, to the Supervisory Board and Management Board, its reports on any identified irregularities and deficiencies, as well as recommendations formulated after internal audits, and activities initiated to rectify such irregularities and to implement such recommendations. The head of the Audit Department is invited to participate in all meetings of the Management Board and Supervisory Board.

The Audit Committee's powers and duties include oversight over financial reporting, internal control, risk management and internal & external audits. The Committee submits annual reports on its activities to the Supervisory Board.

The Supervisory Board has established a permanent Risk and Capital Committee. The tasks of the Committee include supervising the risk management system used by the Bank and recommending an assessment of its effectiveness, which is ultimately given by the Supervisory Board. The Committee submits annual reports on its activities to the Supervisory Board. The powers of the Committee in the scope of supervision over the risk management system include, without limitation, verifications of compliance of the Bank's policy in the scope of assumed risks

with the strategy and financial plan of the Bank, verifications and recommendations to the Supervisory Board in respect of risk management system assessment, the overall risk level of the Bank, and reviews of periodic reports on the types and amounts of risks connected with the Bank's activities.

The Supervisory Board monitored any identified irregularities, including those identified by units responsible for vertical monitoring and for coordination of the control function matrix.

In accordance with the "Internal Control Rules of Bank Handlowy w Warszawie S.A.," the Supervisory Board conducted an annual assessment of adequacy and effectiveness of the internal control system, including adequacy and effectiveness of the control function, the compliance unit and the internal audit unit. The Supervisory Board assessed the internal control system as adequate and effective. The assessment was made taking into account management information, reports from the self-assessment process, reports on the control environment submitted by Internal Audit in the Audit Department Report submitted to the Audit Committee of Bank Handlowy w Warszawie S.A., in the information confirming that – as at the end of 2019 – the comprehensive MCA assessment was at the Tier 4 level, and the Audit assessment was "needs improvement," as well as recommendations of the Audit Committee.

Simultaneously, taking into consideration recommendations of the Risk and Capital Committee, the Supervisory Board assessed the risk management system as effective and adequate to the scale and complexity of activities of the Bank. That assessment was made taking into account management information that covered quantitative and qualitative criteria of management of particular risk categories. The Supervisory Board reviewed and raised no objections to the assessment of effectiveness of the risk management policies implemented by the Bank, and covered by management information reports.

The Bank has implemented procedures of anonymous notification by employees of infringements of law and policies and ethical standards applied at the Bank. The Bank introduced the process of reporting infringements to the Supervisory Board (Chairman of the Supervisory Board) when they concern a member of the Management Board, and of presenting information on significant ethical matters to the Supervisory Board. The Supervisory Board assesses, at least annually, the adequacy and effectiveness of the procedure for anonymous reporting of irregularities by employees. At the meeting held on 25 March 2020, on the basis of the information provided by the Member of the Management Board appointed to accept anonymous notifications, on the basis of the Report of the Compliance Department concerning the operation of the Procedure of Anonymous Notification by Employees of Infringements of Law in 2019, and on the basis of a positive recommendation of the Audit Committee of the Supervisory Board, the Supervisory Board assessed positively the adequacy and effectiveness of the procedure of anonymous notification of infringements of law in 2019.

7. ASSESSMENT OF ACTIVITIES OF THE SUPERVISORY BOARD

7.1. Corporate Governance

As part of the implementation for application, in 2014 by the Management Board and Supervisory Board of the Bank and, next, in 2015 by the General Meeting of Shareholders, of the document Principles of Corporate Governance for Supervised Institutions, issued by the Polish Financial Supervision Authority (KNF), the Supervisory Board read, at its meeting on 25 March 2020 the "2019 Report – Assessment of Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A.", prepared by the Compliance Department and including an independent assessment of application of the "Principles of Corporate Governance for Supervised Institutions".

On the basis of the above Report of the Compliance Department containing an independent assessment of the application of the "Principles of Corporate Governance for Supervised Institutions" and taking into consideration a positive recommendation issued by the Audit

Committee of the Supervisory Board, the Supervisory Board assessed independently and confirmed that in 2019 the Bank applied the rules resulting from the Principles of Corporate Governance for Supervised Institutions, with the exception of those principles that the Bank decided not to apply.

The Bank sustained its decision not to apply three principles:

- 1) Article 11.2 (transactions with related parties) – this principle shall not be used with respect to contracts tied to day-to-day operations, in particular to contracts tied to liquidity, due to the nature of transactions and the number of contracts being concluded.
- 2) Article 8.4 (electronic General Meeting) – currently available IT solutions do not guarantee a secure and efficient electronic form of holding a General Meeting. However, the Management Board does see the importance of such form of shareholders' participation in the Bank's General Meeting, and therefore a decision on that matter shall be made before each General Meeting;
- 3) Article 16.1 (meetings of the Management Board of the Bank held in the Polish language) – meetings of the Management Board attended by foreigners, and especially foreigners who are members of the Management Board and do not speak Polish, are held in the English language. Simultaneously, motions submitted to the Management Board of the Bank, all materials and minutes of meetings of the Board are drafted and kept in Polish.

7.2. Settlements between the Bank and Citigroup

In the reporting period, the Supervisory Board's business included issues related to the outsourcing of actual operation in the area of banking outsourcing. Such supervision covered payments resulting from agreements for the provision of operational support, production support and IT application development services to the Bank. Furthermore, at the meeting held on 14 December 2019, the Supervisory Board approved the fee resulting from the contract for consulting and advisory services provided by Citi to the Bank.

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

On 9 May 2019, the Supervisory Board, by Resolution No. 2/VI/O/2019, positively assessed draft Resolution No. 28/2019 of the Annual General Meeting of the Bank concerning an amendment to the Articles of Association by modifying its § 40 related to the rules of functioning of the internal control system of the Bank. This amendment was made to adjust the Articles of Association to the requirements stemming from the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed manner for estimation of internal capital at banks and in connection with the implementation at the Bank of the recommendations contained in Recommendation H of the Polish Financial Supervision Authority (KNF) dated 25 April 2017 concerning the internal control systems of banks.

On 26 August 2019, by Resolution No. 1/III/O/2019, the Supervisory Board positively assessed the matters and draft resolutions that would be covered by resolutions of the Extraordinary General Meeting of Shareholders of the Bank to be held on 24 September 2019, including draft Resolution No. 6 on amendments to the Articles of Association by adding points 24) and 25) in § 5 item 4 in order to ensure that the business objects of the Bank are in accordance with the Act of 19 August 2011 on payment services, amended by the Act of 10 May 2018 on amendments to the Act on payment services and certain other Acts.

On 20 March 2019, by Resolution No. 5/V/O/2019, the Supervisory Board amended the Rules of the Audit Committee in order to adapt that document to Regulation L for banks concerning the role of statutory auditors in the process of supervision over banks and credit & savings unions (SKOKs) after Regulation L was amended in December 2018.

7.4. Miscellaneous

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

By resolution No. 1/II/O/2019 of 29 July 2019, the Supervisory Board approved the "Recovery Plan for Bank Handlowy w Warszawie S.A. Group".

On 26 August 2019, the Supervisory Board adopted Resolution No. 1/III/O/2019 on calling an Extraordinary General Meeting of Shareholders of Bank Handlowy w Warszawie S.A. to be held on 24 September 2019.

At its meeting on 25 September 2019, the Supervisory Board approved the "Internal Audit Report for the period between 1 April 2019 and 30 June 2019," the "Rules of Control of the Internal Audit Department" and amendments to the "Internal Control Rules". Furthermore, the Supervisory Board was presented a report on the progress of implementation of the "Risk management policy for (unsecured and mortgage secured) retail credit exposures." After that, the Supervisory Board approved a report on the "Condensed consolidated interim financial statements of Bank Handlowy w Warszawie S.A. Group for the period of 6 month ended 30 June 2019," the "Condensed stand-alone interim financial statements of Bank Handlowy w Warszawie S.A. for the period of 6 months ended 30 June 2019," the "Report on activities of Bank Handlowy w Warszawie S.A. Group in the first half of 2019," and the "Information on the capital adequacy of Bank Handlowy w Warszawie S.A. Group as at 30 June 2019."

On 9 October 2019, the Supervisory Board acknowledged the information that no material notifications of breaches regarding ethical standards had been made between January and June 2019.

At the meeting held on 04 December 2019, the Supervisory Board approved a package of amendments to the "Policy of remuneration of employees of Bank Handlowy w Warszawie S.A." and related regulations. In addition, the Supervisory Board approved the "Internal Audit Report for the period between 1 July 2019 and 30 September 2019" and the "Plan of audits at Bank Handlowy w Warszawie S.A. for 2020". After that, the Supervisory Board accepted changes in the "Internal Control Rules" and acknowledged the information on the quarterly report on the level of risk incurred by the Bank in connection with (unsecured and mortgage backed) retail credit exposures.

By Resolution No. 2/VI/O/2020 of 27 February 2020, the Supervisory Board approved the annual "Report on performance of compliance activities and on management of non-compliance risk at Bank Handlowy w Warszawie S.A. in 2019."

By resolution No. 3/VII/O/2020 of 26 February 2020, the Supervisory Board approved the "Annual Plan of the Bank's Operations Compliance in 2020".

On 26 February 2020, the Supervisory Board acknowledged a report on the process of sales of OTC derivative instruments by the Financial Markets and Corporate Banking Sector and the issuance and distribution of financial instruments and forward transactions treated as a payment method.

At the meeting held on 25 March 2020, the Supervisory Board acknowledged the information concerning assessment of effectiveness and adequacy of the risk management system, taking into account the implementation of selected risk management policies. After that, the Supervisory Board accepted the overall acceptable risk level (overall risk appetite) for 2020 and changes in the document "Rules of prudent and stable management of risk at Bank Handlowy w Warszawie S.A. Group". In addition, the Supervisory Board accepted the

“Internal Audit Report for 2019” and the report on the implementation of the “Internal Audit Strategy in 2019”. The Supervisory Board also adopted a resolution concerning the assessment of application by the Bank of the rules set out in the document “Principles of Corporate Governance for Supervised Institutions” issued by the Polish Financial Supervision Authority and was presented information on the final Financial Plan for the Bank’s Group on a consolidated basis for 2020.

8. ASSESSMENT OF THE FINANCIAL STATEMENTS OF THE BANK

At the meeting held on 25 March 2020, the Bank’s Supervisory Board, acting in accordance with the provisions of Article 382.3 of the Code of Commercial Companies and in accordance with the provisions of Article 70.1(14) and Article 71.1(12) of the Regulation of the Finance Minister of 29 March 2018 regarding current and periodic information provided by issuers of securities and the conditions for recognizing the information required by legal regulations of a non-member state as equivalent, assessed positively:

- 1) annual consolidated financial statements of the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ending 31 December 2019,
- 2) annual stand-alone financial statements of Bank Handlowy w Warszawie S.A. for the financial year ending 31 December 2019,
- 3) report of the Management Board of Bank Handlowy w Warszawie S.A. on the activity of the Capital Group of Bank Handlowy w Warszawie S.A. in 2019 prepared together with the report of the Management Board of Bank Handlowy w Warszawie S.A. on the activity of Bank Handlowy w Warszawie S.A. together with the Non-Financial Report of Bank Handlowy w Warszawie S.A. and the Capital Group of Bank Handlowy w Warszawie S.A. for the financial year ending 31 December 2019

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

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

The financial statements were audited by an audit firm KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw. In the statutory auditor's opinion, both stand-alone financial statements and consolidated financial statements of Bank Handlowy w Warszawie S.A. and of Bank Handlowy w Warszawie S.A. Capital Group, present a fair and clear view of the economic and financial situation as of 31 December 2019, financial performance, and cash flows for the financial year ended that day and they were prepared in accordance with International Financial Reporting Standards adopted by the European Union and in accordance with the adopted accounting principles (policy). In addition, stand-alone financial statements and consolidated financial statements comply, in all material aspects, as to their form and content, with applicable legal provisions and with the Articles of Association of Bank Handlowy w Warszawie S.A.

In the statutory auditor's opinion, also the Report of the Management Board of Bank Handlowy w Warszawie S.A. on the Activity of Bank Handlowy w Warszawie S.A. Capital Group in 2019 prepared together with the Report of the Management Board of Bank Handlowy w Warszawie S.A. on the Activity of Bank Handlowy w Warszawie S.A., was prepared in all material aspects in accordance with legal provisions and it complies with the information contained in the consolidated financial statements.

The Supervisory Board positively assessed the recommendation concerning the distribution of profits for the financial year 2019, submitted by the Management Board.

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

This report was examined and accepted by way of resolution on 30 April 2020 in order to submit it to the Annual General Meeting of Shareholders of the Bank.