# GETIN HOLDING S.A.
# CAPITAL GROUP

## REPORT ON OPERATIONS OF THE CAPITAL GROUP AND ISSUER
## FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

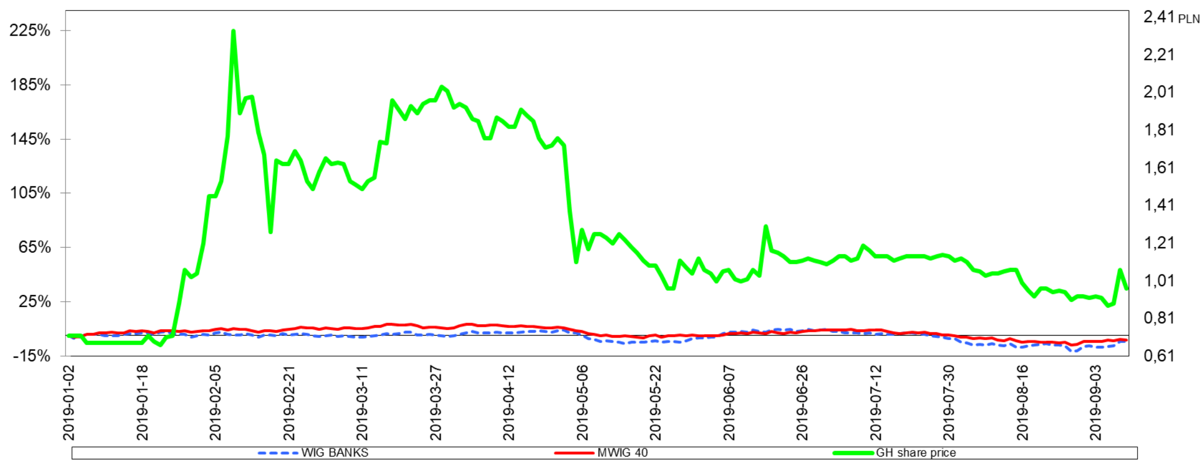
Wrocław, dated 23 September 2019

# 1. Operations of the Issuer and Getin Holding Capital Group in H1 2019

## a. The main successes and failures of Getin Holding Capital Group in H1 2019

### Stock price

Getin Holding S.A. stock price and its % change vs WIG BANKI & MWIG40 % changes




Responding to the substantial reduction of the Issuer's stock price, in Q3 2018 the Management Board of Getin Holding S.A. decided to initiate the process of the Company's stock reverse split. The reverse stock split was registered in the National Court Register on 17.12.2018, and it was technically effected – by virtue of the decision of the National Depository for Securities – on 18.01.2019, when the Issuer effected the reverse split of 759,069,368 shares listed in the regulated market at the 4:1 ratio.

Presently 189,767,342 Issuer's shares with the nominal value of PLN 4.00 each are listed in the stock exchange market.

### Continuously improving performance in foreign markets

In H1 2019, the Issuer carried on pursuing the strategy aimed at the Group's business growth and at achieving high return rate from investment in its subsidiaries. The Company was engaged in long-term projects and creating the management style in controlled units in order to ensure:

- asset appreciation;
- efficient use of their potential;
- business structure optimisation, among others by their diversification; and
- secure investment.

In H1 2019, nearly all foreign markets saw substantially better performance than in the corresponding period in 2018.

In the discussed period, most foreign segments generated growth by several dozen percent, both in the balance sheet and profit account items. The positive tendencies in the operations of subsidiary companies are reflected also in key performance indicators.

The foreign operations are reported in detail in section 2 hereof.

**Polish market**

The situation of the Group in Poland was affected among others by the events related to:

- the distribution of GetBack S.A. bonds in which Idea Bank S.A. (Poland) was engaged;
- impairment write-offs made by Idea Bank S.A. (Poland) that were charged both to the consolidated results and capitals of Idea Bank Group (Poland) and the Issuer's stand-alone and consolidated financial statements for 2018;
- the voluntary recovery process initiated by Idea Bank (Poland) due to its failure to satisfy capital requirements, and
- the reaction of the Bank Guarantee Fund and the Polish Financial Supervision Authority (KNF) in the context of the operations of Idea Bank (Poland).

The Polish segment situation is reported in detail in section 2 hereof.

**Loan agreement with Getin Noble Bank S.A.**

On 14.12.2018, the Issuer rescheduled the conditions of servicing its debt owed to Getin Noble Bank S.A. that resulted from purchasing stock in Idea Bank S.A. (Poland). The Issuer concluded with Getin Noble Bank S.A. a non-revolving working credit facility agreement for PLN 114.3 million with a 5-year repayment period. The funds were disbursed in Q1 2019. The Issuer used the loaned funds to repay all its liabilities owed to Getin Noble Bank (Poland) for purchasing shares in Idea Bank (Poland). The new debt repayment schedule was adapted to the Company's financial standing. At the same time the Issuer annexed the working credit facility agreement (26.08.2015) for PLN 25 million extending the repayment deadline till the end of 2023.

To secure the said debt on 13.02.2019 the Issuer concluded with Getin Noble Bank S.A. a pledge agreement on the Issuer's 49% interest in Carcade sp. z o. o. (Russia) to secure the repayment of the both said loans repayment. The pledge became effective as at 21.02.2019. The loaned funds were disbursed on 27.02.2019, and the Issuer paid the price for the interest acquired in Idea Bank S.A.

**b. Description of factors and risks common for the Issuer’s Capital Group that in the Issuer’s opinion will affect the Capital Group's performance in at least next half year**

The Issuer forecasts that in the subsequent periods the following factors will affect the Issuer's and the Group's consolidated results:

- the market situation (global and local); macroeconomic indicators in economies (where the Group is or will be investing) that affect return on investment; hardly predictable fluctuations in economic markets;
- the Group companies adaptability of the risk management mechanisms to existing market trends;
- the unique nature of the business activity of Getin Holding S.A.; the parent company, as a business incubator is exposed to risk related to starting up new business;
- the liquidity risk inherent in investment debt instruments and loans; potentially insufficient funds to pay liabilities or insufficient marketability of assets to raise funds or no loan capacity to get funds to pay debt;
- the Issuer's ability to apply consistent policy to prevent cash flow crisis;
- the portfolio concentration, the majority interest in Idea Bank (Poland) as the lion share of the Issuer's portfolio;
- care applied by the Issuer in ensuring diversified investments and matching stable financing;

- the reputation risk; the impact of potential loss of reliability in one area on other markets, investment valuation or potential capital raising in local markets;
- the regulation risk related to the failure to satisfy capital requirements by Idea Bank (Poland) Group, initiating proceedings by the Polish Financial Supervision Authority (KNF) and possible implementation of the Resolution Plan.

**c. Description of unusual factors and events that considerably affected Getin Holding Group's financial results**

Besides those specified herein, in H1 2019 there occurred no other factors or events of unusual nature that had a material impact on the financial results generated by Getin Holding Group in the period.

**d. Seasonality or business cycles of the Group's operations in H1 2019**

Getin Holding S.A. Capital Group does not identify seasonality or business cycles in its operations.

**e. The consequences of the changes to the Capital Group structure**

Acting at the company liquidator's motion (filed on 27.11.2018), on 22.01.2019 the District Court for Wrocław-Fabryczna in Wrocław decided to strike Getin Investment sp. z o. o. in liquidation from the National Court Register. On 05.02.2019 the court's decision became effective.

Besides those specified herein, in H1 2019 there were no other changes or their consequences in Getin Holding S.A. Group.

# 2. Business operations of Getin Holding Capital Group by territorial segments, in H1 2019

## 2.1 Sector of banking services in Poland

The segment of banking services provided by the Issuer's Capital Group in Poland is represented among others by the following companies:

- Idea Bank S.A. – bank for small and medium-sized companies that offers a wide range of loans and deposits;
- Idea Money S.A. – operates in factoring and debt recovery markets;
- Idea Getin Leasing S.A. – specializes in lease of vehicles and machinery (an associated company).

Idea Bank Group (Poland) addresses its products to small and medium-sized enterprises, as well as to sole proprietors.

Idea Bank S.A. Group (Poland) focuses on providing the following services:

- issuing loans and credit facilities;
- granting bank guarantees;
- taking deposits;
- financial agency and counselling;
- leasing;
- factoring.

Idea Bank S.A. (Poland) provides for the current entrepreneurs needs for financing for business activity and investments – the offered products reflect current trends in the corporate loans market. Another goal of Idea Bank (Poland) is to support resourceful individuals starting with business.

The bank's products were distributed through traditional network of branches, through the complex Internet platform and mobile banking, as well as through money brokers.

## a. Presentation of the segment's financial result for H1 2019

Segment's result:

| | kPLN | | % Change |
|---|---|---|---|
| | H1 2019 | H1 2018 | |
| Net interest income | 264 093 | 303 156 | -12,9% |
| Interest income | 541 812 | 525 052 | 3,2% |
| Interes expense | (277 719) | (221 896) | 25,2% |
| Net fee and comission income | 53 513 | (162 316) | - |
| Fee and commission income | 94 549 | 158 016 | -40,2% |
| Fee and commission expense | (41 036) | (320 332) | -87,2% |
| Net operating income | (49 327) | (160 324) | -69,2% |
| Net impairment losses | (164 005) | (158 854) | 3,2% |
| Administrative expenses | (210 016) | (225 893) | -7,0% |
| Share in net profit (loss) of associates | 3 393 | 11 632 | -70,8% |
| Income tax | 23 927 | 24 185 | -1,1% |
| **Net profit (loss) on continued operations** | **(78 422)** | **(368 414)** | **-78,7%** |
| **Net profit (loss) on discontinued operations** | **(1 422)** | **(7 491)** | **-81,0%** |
| **Net profit (loss)** | **(79 844)** | **(375 905)** | **-78,8%** |

Selected balance sheet data:

| | kPLN | | % Change |
|---|---|---|---|
| | 30.06.2019 | 31.12.2018 | |
| Balance sheet total | 20 555 148 | 20 471 580 | 0,4% |
| Credit and leasing receivables | 15 607 202 | 16 283 267 | -4,2% |
| Deposits | 18 197 996 | 17 082 836 | 6,5% |

Key financial performance indicators*:

| | Financial performance indicator | Value of the ratio as at Q2 2019 | Value of the ratio as at Q2 2018 | Change | Method for calculating the ratio |
|---|---|---|---|---|---|
| 1 | ROA<br>Return on assets | -0,78% | -3,17% | 2,39 p.p. | (Net profit / [(Total assets at the end of the current period + Total assets at the end of the previous year)/2])*(4/2) |
| 2 | ROE<br>Return on equity | -68,01% | -34,88% | -33,13 p.p. | (Net profit / [( Total equity at the end of the current period + Total equity at the end of the previous year)/2])*(4/2) |
| 3 | NIM<br>Net interest margin | 2,69% | 2,78% | -0,09 p.p. | (Net interest income / [(Total interest-earning assets at the end of the current period + Total interest-earning assets at the end of the previous year)/2])*(4/2) |
| 4 | COF<br>Cost of financing | 2,79% | 2,10% | 0,69 p.p. | (Interest expenses / [(Total interest-bearing liabilities at the end of the current period + Total interest-bearing liabilities at the end of the previous year)/2])*(4/2) |
| 5 | COR<br>Cost of risk | 2,06% | 1,86% | 0,19 p.p. | (Net impairment result on loans, advances and leasing receivables / [( Total receivables from loans, advances, leasing at the end of the current period + Total receivables from loans, advances and leasing at the end of the previous year)/2])*(4/2) |
| 6 | C/I<br>Cost-to-income ratio | 78,28% | -1159,38% | 1237,66 p.p. | General administrative expenses / net operating income |

* items 1 - 2 in the table include Tax Care S.A. items 3 - 6 - continued operations

In H1 2019, Idea Bank (Poland) Group was implementing a recovery programme that assumed thorough business model and scale changes, such as – among others – layoffs. The recovery activities implemented in the sector aim at improving profitability and redirecting business operations to the growth path. The restructuring allowed Idea Bank Group to generate a positive financial result in H1 2019.

The net interest income generated by Idea Bank (Poland) group in H1 2019 totalled PLN 264.1 million being 12.9% lower than the net interest income generated in the corresponding period in 2018. The decline was caused by higher costs of financing that the bank had to incur to rebuild its deposits base.

The net commission and fee income in the Polish segment totalled PLN 53.5 million (compared to PLN 162.3 million loss in the previous year).

In H1 2019, Idea Bank S.A. Group (Poland) recorded a financial result of PLN -79.8 million compared to PLN -375.9 million in the corresponding period in the previous year.

The financial result for the reported period was affected by such factors as, among others, the contribution of PLN 22.1 million to the mandatory bank restructuring fund and making provisions for layoffs and restructuring of branches of PLN 9.2 million and PLN 25.9 million, respectively.

The segment of banking services in Poland is deeply cutting its operating costs, also by the reorganisation of its outlets network. As a consequence, the operating costs fell by 7.0 % compared to the corresponding period in 2018.

The segment's loan portfolio in H1 2019 diminished by 4.2% to PLN 15.6 billion, whereas the deposit portfolio increased by 6.5% (to PLN 18.2 billion). The balance sheet total of Idea Bank (Poland) as at the end of the reported period was PLN 20.6 billion.

The TCR for Idea Bank Group calculated in accordance with the binding CRR/CRD IV regulations as at 30.06.2019 stood at 2.11%, and the Tier 1 equity ratio – at 1.06%.

Since H2 2018 the capital adequacy ratios had been below the minimum values recommended by the Polish Financial Supervision Authority (KNF), both for stand-alone and consolidated balance sheets. As a result of the loss incurred in 2018, the bank's and its group's capital ratios fell below the requirements specified in Art. 92 of the CRR Regulation.

**b. The main successes and failures of the segment companies in H1 2019**

In 2018, Idea Bank S.A. Group (Poland) had to make provisions and write-offs for receivables and other assets. Most of the adjustments were one-off events and were related to the operations of Idea Bank Group (Poland) in the previous years. As a result of the loss incurred in 2018, in 2019 the bank's and the group's capital ratios fell below relevant regulatory requirements.

In H1 2019, became visible the first results of the recovery activities aiming at stabilizing the situation in Idea Bank Group. They are complex in nature and focus on developing a strategy that will help to rebuilding the capital ratios and profitability.

On 15.05.2019, the Polish Financial Supervision Authority (KNF) appointed the Bank Guarantee Fund as the administrator. The decision was to support and monitor the voluntary recovery procedure implemented by the bank.

As the result of the decision issued on 31.05.2019 by the Polish Financial Supervision Authority (KNF) that refused to agree for the merger with Getin Noble Bank S.A., the bank focused on the voluntary recovery process and on looking for an investor for the bank. The bank had developed and presented to the KNF the recovery strategy based on considerable reduction of its business scale and cutting down operational costs (including 750 layoffs).

In the meantime, in H1 2019, the bank initiated the process of rebuilding its sales network (to a new more cost-effective format) that is presently very advanced and ultimately is to contribute to substantial reduction of the organisational costs.

In H1 2019, the following material events occurred in Idea Bank Capital Group:

- on 17.01.2019, the Management Boards of Idea Bank and Getin Noble Bank S.A. agreed and signed a merger plan; on 31.05.2019 however the bank received the Polish Financial Supervision Authority's (KNF) decision that refused to consent for the merger;
- on 01.02.2019, the Management Board of the bank decided on admitting selected private equity funds to the due diligence process;
- on 18.03.2019, the bank notified the Polish Financial Supervision Authority (KNF) and the Bank Guarantee Fund on the risk of failure to comply with the capital requirements due to the methodological faults in the applied model; the models and procedures were promptly adjusted, and based on the new calculations provisions and impairment write-offs of PLN 407 million were made;
- on 08.05.2019, EuroRating sp. z o. o. lowered the bank's rating from B+ to CCC (the negative outlook remained unchanged), and on 05.06.2019, from CCC to CC;
- on 15.05.2019, in order to improve the bank's standing, the Polish Financial Supervision Authority (KNF) appointed the Bank Guarantee Fund as the bank's administrator;
- on 19.06.2019, due to the necessity of restructuring the operating costs the Management Board of the bank resolved to initiate the consultation procedure for massive layoffs that will result in the employment contract termination with no more than 750 bank employees, by 31.12.2019;
- on 28.06.2019, the Annual General Meeting of Shareholders resolved not to grant the vote of acceptance confirming discharge of duties to some of the former members of the Management Board of Idea Bank (Poland), and the Bank Guarantee Fund appealed against some of the other resolutions on granting the vote of acceptance adopted by the AGM.

After the balance sheet date the following material events occurred in Idea Bank Capital Group:

- on 16.07.2019, the bank was notified of initiating by the Polish Financial Supervision Authority (KNF) administrative proceedings concerning among others breaching the banking law provisions by the bank;
- on 30.07.2019, Tax Care S.A. performing the obligations of the bankruptcy law filed for bankruptcy; it was part of the recovery activities pursued by Idea Bank Group (Idea Bank Group recognized that it had lost control over the company and disposed of it); on 14.08.2019, an application to initiate the restructuring proceedings in Tax Care S.A. was filed;
- on 01.08.2019, the Office for Competition and Consumer Protection issued a decision in the proceedings against the bank, whereby it stated that the bank had used practices that breached collective interests of consumers, i.e. insemination of false or misleading information about GetBack bonds (the decision is a partial one, in the remaining part of it the bank may be imposed with a penalty amounting to 10% of its turnover for the year preceding the year when the penalty is

imposed, for each breach; presently the Office for Competition and Consumer Protection is investigating the remaining charges, and the bank provides all information and materials required by the authority);

- on 16.08.2019, the bank was notified that the Financial Supervision Authority had initiated administrative proceedings as a consequence of the bank's failure to satisfy the minimum capital requirements (if the authority finds that the bank actually failed to satisfy those requirements the authority may impose a penalty amounting to 10% of the income reported in the last audited financial report, and in case when there is no such a financial report, a penalty amounting to 10% of income forecast on the basis of the economic and financial standing of the bank);
- on 16.09.2019, the Management Board of the bank decided to admit to the due diligence process a private equity fund, that had participated in the restricted due diligence, interested in the acquisition of the bank.

Therefore the subsequent activities will aim at:

- finding an investor, and
- getting the Polish Financial Supervision Authority's (KNF) approval for the bank's further operations in spite of the failure to comply with capital requirements before the bank's new investor recapitalizes the bank.

A more detailed description of the endeavours taken by the authorities of the bank and its standpoint concerning threats and risks is included in the periodic report of Idea Bank S.A. Capital Group for H1 2019.

**c. List of factors and risks that in the Issuer's opinion will affect performance of the segment companies in at least one quarter to come**

In the Issuer's opinion, the following factors will affect the performance of the banking segment in Poland in the subsequent periods:

- raising capital by issuing shares;
- the reputation risk, specifically the risk related to the situation around GetBack S.A., filing by Tax Care S.A. for voluntary reorganisation, and appealing by the Bank Guarantee Fund the resolutions concerning granting the vote of acceptance to part of the bank's authorities for discharging their duties, adopted by the Annual General Meeting of the bank;
- initiating by the Polish Financial Supervision Authority (KNF) administrative proceedings concerning possibility of imposing supervisory measures, namely limiting the bank's business operations;
- the economic, political and legal situation in Poland;
- potential downturn in the European markets;
- clients credit standing;
- clients readiness to invest;
- the liquidity risk;
- potential threat of withdrawing deposits by clints;
- the regulation risk resulting from the failure to satisfy capital requirements and initiating proceedings by the Polish Financial Supervision Authority (KNF) and possible implementation of the Resolution Plan;
- the clients credit risk and the risk of credit scoring adjustment;
- the FX risk;
- the interest rate risk (including the risk of mismatched revaluation terms, base risk, clients options risk, yield curve risk);
- the risk related to the loan portfolio quality;

- the operational risk, including human error related risk;
- the major engagement concentration risk;
- the capital model adequacy risk;
- the floating interest rate risk;
- the compliance risk;
- model risk;
- the risk of investments in subsidiaries;
- the risk related to derivatives.

**d. The consequences of the changes to the segment structure**

In H1 2019, the following changes in the segment structure took place:

- on 30.04.2019, Open Finance S.A. effected the reverse stock split at the 6:1 ratio;
- on 04.03.2019, the District Court for the capital city of Warsaw registered the name change from Idea Box S.A. to Idea Box Alternatywna Spółka Inwestycyjna S.A.;
- On 26.04.2019, Idea Money S.A. sold all its shares in the associated company MuSE Finance Ltd.;
- On 28.06.2019, Idea Money S.A. signed a conditional agreement to sell all its shares in the associated company Idea 24/7, the conditions precedent provided in the agreement were satisfied in July 2019.

## 2.2 Segment of banking services in Ukraine

The segment of banking of the Issuer's Capital Group in Ukraine is represented mainly by:

- Idea Bank S.A. (Ukraine) that offers banking products and services addressed to individual clients;
- Gwarant Legal Support sp. z o.o.;
- New Finance Service sp. z o. o. that purchases, trades and collects debt, and is money and insurance broker.

Idea Bank (Ukraine) offers retail products and services to individual clients. The main products offered by the bank comprise cash loans, credit and debit cards, deposits, and current accounts. Idea Bank (Ukraine) offers a complex range of services for individual clients while continuing the development of complex Internet banking services.

Idea Bank (Ukraine) provides also services to corporate clients, such as loans, credit facilities, deposits and cash and settlement services.

The bank channels its sale through the network of its branches, the Internet and through partner banks (agents), as well as through New Finance Services sp. z o. o.

Besides debt recovery and debt servicing New Finance Services sp. z o. o. offers also loans in partner banks and insurance agency services (through its own points of sale).

## a. Presentation of the segment's financial result for H1 2019

Segment's result:

| | kPLN | | % Change | kUAH | | % Change |
|---|---|---|---|---|---|---|
| | H1 2019 | H1 2018 | | H1 2019 | H1 2018 | |
| Net interest income | 94 875 | 66 075 | 43,6% | 671 681 | 498 930 | 34,6% |
| Interest income | 128 614 | 91 333 | 40,8% | 910 542 | 689 653 | 32,0% |
| Interes expense | (33 739) | (25 258) | 33,6% | (238 860) | (190 722) | 25,2% |
| Net fee and comission income | 36 212 | 17 719 | 104,4% | 256 368 | 133 796 | 91,6% |
| Fee and commission income | 41 117 | 20 797 | 97,7% | 291 094 | 157 038 | 85,4% |
| Fee and commission expense | (4 905) | (3 078) | 59,4% | (34 726) | (23 242) | 49,4% |
| Net operating income | 3 408 | 7 092 | -51,9% | 24 127 | 53 551 | -54,9% |
| Net impairment losses | (41 241) | (24 397) | 69,0% | (291 972) | (184 221) | 58,5% |
| Administrative expenses | (38 820) | (32 317) | 20,1% | (274 832) | (244 025) | 12,6% |
| Income tax | (9 933) | (6 290) | 57,9% | (70 322) | (47 496) | 48,1% |
| **Net profit (loss)** | **44 501** | **27 882** | **59,6%** | **315 051** | **210 536** | **49,6%** |

Selected balance sheet data:

| | kPLN | | % Change | kUAH | | % Change |
|---|---|---|---|---|---|---|
| | 30.06.2019 | 31.12.2018 | | 30.06.2019 | 31.12.2018 | |
| Balance sheet total | 734 681 | 594 830 | 23,5% | 5 148 430 | 4 383 419 | 17,5% |
| Loans and advances | 555 334 | 457 015 | 21,5% | 3 891 619 | 3 367 833 | 15,6% |
| Deposits | 571 253 | 444 387 | 28,5% | 4 003 174 | 3 274 775 | 22,2% |

Key financial performance indicators:

| | Financial performance indicator | Value of the ratio as at Q2 2019 | Value of the ratio as at Q2 2018 | Change | Method for calculating the ratio |
|---|---|---|---|---|---|
| 1 | ROA<br>Return on assets | 13,39% | 10,75% | 2,64 p.p. | (Net profit / [(Total assets at the end of the current period + Total assets at the end of the previous year)/2])*(4/2) |
| 2 | ROE<br>Return on equity | 86,16% | 97,48% | -11,32 p.p. | (Net profit / [( Total equity at the end of the current period + Total equity at the end of the previous year)/2])*(4/2) |
| 3 | NIM<br>Net interest margin | 30,59% | 27,37% | 3,22 p.p. | (Net interest income / [(Total interest-earning assets at the end of the current period + Total interest-earning assets at the end of the previous year)/2])*(4/2) |
| 4 | COF<br>Cost of financing | 12,63% | 11,35% | 1,28 p.p. | (Interest expenses / [(Total interest-bearing liabilities at the end of the current period + Total interest-bearing liabilities at the end of the previous year)/2])*(4/2) |
| 5 | COR<br>Cost of risk | 16,30% | 12,33% | 3,96 p.p. | (Net impairment result on loans, advances and leasing receivables / [( Total receivables from loans, advances, leasing at the end of the current period + Total receivables from loans, advances and leasing at the end of the previous year)/2])*(4/2) |
| 6 | C/I<br>Cost-to-income ratio | 28,86% | 35,56% | -6,69 p.p. | General administrative expenses / net operating income |

In the first six months of 2019, the Group was expanding the scale of its operations in Ukraine and improving its profitability. In H1 2019, the sales volume in the Ukrainian sector increased by 24.5% to PLN 272 million, compared to PLN 218.5 million in the corresponding period in the previous year. The sector recorded a substantial growth in both the net commission and fee income (by 104.4%) and the net interest income (by 43.65) that totalled PLN 36.2 million and PLN 94.9 million, respectively. The reported period saw also a substantial growth in operational income by 48% to PLN 134.5 million.

The net result generated by the Ukrainian segment in H1 2019 totalled PLN 44.5 million and it was 59.6% higher than in H1 2018.

The good economic situation in the Ukrainian market translated to the increase of the segment's balance sheet total by 23.5% compared to the balance sheet total reported at the end of 2018.

The net interest margin (NIM) generated since the beginning of the year at the end of H1 2019 was 30.6% (vs 27.4% at the end of H1 2018), with the cost of financing (COF) of 12.7% (vs 11.4% at the end of the corresponding period). The cost of risk rate (COR) in the reported period was 16.3%. The C/I ratio was 28.9%, that is 35.6% lower than in the previous year.

The following factors affected the financial result for the reported period:

- increased sales volume;
- high NIM;
- tight control of administrative expenses.

**b. The main successes and failures of the segment companies in H1 2019**

Idea Bank (Ukraine) remains one of the leaders in the segment of cash loans in the Ukrainian banking market; it is among 10 top banks operating in this area. Furthermore, the bank is among the most stable and effective banks operating in the Ukrainian market. With the ROE of 86.16% Idea Bank (Ukraine) is one of the leaders in the Ukrainian banking system.

Idea Bank (Ukraine) is systematically implementing new solutions in the online banking that will reinforce its position and allow for offering new products to the present and prospective clients.

The bank complies with all normative requirements imposed by the National Bank of Ukraine and is effectively implementing risk management system organisation guidelines.

In H1 2019, Idea Bank (Ukraine) paid out dividends amounting to UAH 169.6 million.

**c. List of factors and risks that in the Issuer's opinion will affect performance of the segment companies in at least one quarter to come**

The growth strategy of Idea Bank (Ukraine) aims at maintaining its highly efficient business model and enhancing its stability. To implement the strategy Idea Bank (Ukraine) continues to:

- boost its sales efficiency, specifically through online sale channels;
- improve the quality of the customer service;
- optimise business processes;
- further enhance the risk management process.

Idea Bank (Ukraine) is developing its modern digital banking platform that allows for comprehensive online service.

From the perspective of the subsequent periods, the bank is planning to keep the position of one of the leaders in the sector of retail loans, while keeping low operating costs and high return on equity.

Idea Bank (Ukraine) finances all its investments solely with own funds ensuring implementation of investment and operating plans in 2019.

Due to big competition and limited market for debt recovery services, in Q2 2019 90% of debt recovery services provided by New Finance Services sp. z o. o. were transferred to Idea Bank (Ukraine). In the subsequent periods New Finance Service is planning to develop its operations in selling loans offered by partner banks and to sell insurance for loan agreements.

Material factors that still determine the segment's performance in the subsequent period inlcude among others the political situation, specifically the public mood in the east part of Ukraine and the risk of the conflict escalation. The 2019 elections and the process of forming the new Supreme Council of Ukraine cause insecurity in the macroeconomic situation (specifically the hryvnia exchange rate or the balance of payments). The geopolitical situation of Ukraine increases the liquidity risk and the risk of the outflow of bank deposits. It also affects chances of getting a loan from the International Monetary Fund.

Other material factors that contribute to the performance of the Ukrainian sector include interbank interest rates for loans and deposits, as well as interest rates established by the Ukrainian Central Bank, and the overall level of liquidity of the Ukrainian banking system.

The banking sector in Ukraine is expecting a decision concerning maximum interest rates that may translate to its performance in the subsequent periods.

The operations of Idea Bank (Ukraine) may also be affected by growing business competition in the banking sector of cash loans, specifically from major banks.

The segment companies, like other banks from the Issuer’s Capital Group, are exposed to such risk factors, as the credit risk, cash flow disruptions or loss of financial liquidity of their clients.

Other factors include changes in the court practice and possible changes in debt recovery regulations.

**d. The consequences of the changes to the segment structure**

On 15.03.2019, the merger of New Finance Service sp. z o. o. and Seret Invest sp. z o. o. was registered.

On 03.07.2019, there was initiated the process of reorganisation of Idea Leasing sp. z o. o. (Ukraine) and its merger with Gwarant Legal Support sp. z o. o., and on 12.09.2019 process was formally finalized. The procedure is waiting to be registered in the court register.

## 2.3 Segment of banking services in Belarus

The segment of banking services of the Issuer’s Capital Group in Belarus is represented by:

- Idea Bank S.A. (Belarus), a universal bank that offers financial services to retail clients, comprehensive services to companies while specializing in cash loans, loans to SMEs and credit cards),
- Idea Broker sp. z o.o. – insurance broker,
- Idea Finance sp. z o.o. – money broker.

Idea Bank S.A. (Belarus) is a universal financial institution that focuses on providing services to retail clients and small and medium-sized enterprises.

The bank is methodically developing its loan products addressed to individual clients, while being one of the leaders of the retail banking sector in Belarus. The bank is successful in enhancing its market position in the segment of credit cards expanding its transactional banking services in cooperation with international payment institutions in the local market.

The services offered by Idea Bank S.A. (Belarus) are supplemented by a wide range of services addressed to business.

Presently, the company's main goal is to expand the area of the Internet banking services.

## a. Presentation of the segment's financial result for H1 2019

Segment's result:

| | kPLN | | % Change | kBYN | | % Change |
|---|---|---|---|---|---|---|
| | H1 2019 | H1 2018 | | H1 2019 | H1 2018 | |
| Net interest income | 20 807 | 21 517 | -3,3% | 11 541 | 12 167 | -5,1% |
| Interest income | 41 825 | 37 417 | 11,8% | 23 199 | 21 158 | 9,6% |
| Interes expense | (21 018) | (15 900) | 32,2% | (11 658) | (8 991) | 29,7% |
| Net fee and comission income | 6 716 | 6 517 | 3,1% | 3 725 | 3 685 | 1,1% |
| Fee and commission income | 12 536 | 11 327 | 10,7% | 6 953 | 6 405 | 8,6% |
| Fee and commission expense | (5 820) | (4 810) | 21,0% | (3 228) | (2 720) | 18,7% |
| Net operating income | 16 419 | 13 808 | 18,9% | 9 107 | 7 808 | 16,6% |
| Net impairment losses | (2 100) | (1 940) | 8,2% | (1 165) | (1 097) | 6,2% |
| Administrative expenses | (30 354) | (32 971) | -7,9% | (16 836) | (18 644) | -9,7% |
| Income tax | (3 457) | (2 860) | 20,9% | (1 917) | (1 617) | 18,6% |
| **Net profit (loss)** | **8 031** | **4 071** | **97,3%** | **4 454** | **2 302** | **93,5%** |

Selected balance sheet data:

| | kPLN | | % Change | kBYN | | % Change |
|---|---|---|---|---|---|---|
| | 30.06.2019 | 31.12.2018 | | 30.06.2019 | 31.12.2018 | |
| Balance sheet total | 852 583 | 789 815 | 7,9% | 463 058 | 448 376 | 3,3% |
| Loans and advances | 571 368 | 518 845 | 10,1% | 310 324 | 294 547 | 5,4% |
| Deposits | 667 343 | 588 320 | 13,4% | 362 450 | 333 988 | 8,5% |

Key financial performance indicators:

| | Financial performance indicator | Value of the ratio as at Q2 2019 | Value of the ratio as at Q2 2018 | Change | Method for calculating the ratio |
|---|---|---|---|---|---|
| 1 | ROA<br>Return on assets | 1,96% | 1,17% | 0,78 p.p. | (Net profit / [(Total assets at the end of the current period + Total assets at the end of the previous year)/2])*(4/2) |
| 2 | ROE<br>Return on equity | 10,40% | 5,81% | 4,59 p.p. | (Net profit / [( Total equity at the end of the current period + Total equity at the end of the previous year)/2])*(4/2) |
| 3 | NIM<br>Net interest margin | 5,52% | 6,91% | -1,39 p.p. | (Net interest income / [(Total interest-earning assets at the end of the current period + Total interest-earning assets at the end of the previous year)/2])*(4/2) |
| 4 | COF<br>Cost of financing | 6,36% | 5,81% | 0,55 p.p. | (Interest expenses / [(Total interest-bearing liabilities at the end of the current period + Total interest-bearing liabilities at the end of the previous year)/2])*(4/2) |
| 5 | COR<br>Cost of risk | 0,77% | 0,90% | -0,13 p.p. | (Net impairment result on loans, advances and leasing receivables / [( Total receivables from loans, advances, leasing at the end of the current period + Total receivables from loans, advances and leasing at the end of the previous year)/2])*(4/2) |
| 6 | C/I<br>Cost-to-income ratio | 69,08% | 78,80% | -9,72 p.p. | General administrative expenses / net operating income |

In H1 2019, the Belarus based Group companies managed to boost their profitability. The main factors that contributed to the success included the change of the business model oriented to the digitalisation of the bank processes and investment in sales channels, while reducing costs related to the traditional sales network. The net income generated by the Belarusian segment in the reported period totalled PLN 8.03 million, which means a growth by 97.3% compared to H1 2018.

In the reported period the bank's sales volume reached PLN 248.6 million, growing by 6.4% y/o/y. In H1 2019, Idea Bank (Belarus) recorded an 11.8% increase in the interest income, however at growing also costs of financing (6.4% vs 5.8%) and the diminishing commission income (5.5% vs 6.9%), which was caused by new changes in regulations. The net interest profit for H1 2019 totalled PLN 20.8 million, which means a fall by 3.3%.

The net commission and fee income generated by the segment in the reported period totalled PLN 6.7 million, being 3.1% higher than in the corresponding period in 2018.

The operating costs in Belarus fell by 7.9% compared to the corresponding period, to PLN 30.4 million. It was possible as a result of changing the business model in the bank.

In H1 2019, the segment's loans portfolio increased to PLN 571.4 million, which means a growth by 10.1% compared to the end of 2018, whereas the deposits portfolio increased to PLN 667.3 million, by 13.4%.

The cost of risk (COR) as at 30.06.2019 stood at 0.8%, which means that it was 0.13 p.p. lower than in the previous year.

**b. The main successes and failures of the segment companies in H1 2019.**

Idea Bank (Belarus) is in the process of transforming its business model from traditional to online banking. The bank is reorganising its sales network by reducing the number of branches while intensifying development of the Internet banking functionalities. As at 30.06.2019, the traditional sales network included 59 branches (compared to 75 branches on 30.06.2018). The demand for remote services and mobile banking supports the implementation of the online banking solutions.

The expansion of the new sales channels is expected to enhance the portfolio of foreign currency loans, as well as the number of current accounts and savings deposited by the SME sector.

In H1 2019, Idea Bank (Belarus) continued to offer its services in the consumer finance area. The services in this area are addressed predominantly to clients of online shops that appreciate quick verification procedure and credit decision. The process (including the client's identification and personal data verification) is carried out online and does not require any paperwork. The bank also offers online standard loans and credit cards, with limited formalities and visits at the bank's branch.

In H1 2019, the ‘online-bank’ strategy followed by Idea Bank (Belarus) allowed for increasing the sales of loans and deposits through online channels. The present share of online deposits in the overall sales of deposits is 52.2% compared to 26.9% in the corresponding period in the previous year, and the share of online loans in the overall sales of loans is 24.9% compared to 12.2%.

In H1 2019, the bank expanded its base of consumer finance partner agreements. Presently, the bank offers services through 212 cooperating entities, compared to 24 partners as at the end of 2018.

The good economic situation allowed Idea Bank (Belarus) to pay out in H1 2019 dividends amounting to nearly BYN 16 million.

**c. List of factors and risks that in the Issuer's opinion will affect performance of the segment companies in at least one quarter to come**

In the Issuer's opinion, the following factors will affect the performance of the banking segment in Belarus in the subsequent periods:

- the negative trend in interest rates and the net interest margin after the National Bank of Belarus imposed new limits (the estimated standard risk indicators);
- the liquidity deficit in the local currency in the banking system (affecting the cost of funds in rouble);
- the GDP low dynamics;
- meagre foreign currencies reserves,
- high external debt compared to GDP;
- the rouble devaluation;
- the increased liquidity and credit risk;
- the credit risk, risk that clients will lose financial liquidity;
- the limits for maximum loan burden for individual debtors imposed by the National Bank of Belarus – reduced the effective demand for bank's products;
- lifting the restrictions concerning granting loans to clients with overdue debt;
- high dependency of the Belarusian economy on the economic situation in the Russian markets (e.g. possible further sanctions on the Russian Federation).

**d. The consequences of the changes to the segment structure**

In H1 2019, no changes in the segment structure took place.

## 2.4 Segment of lease and financial services in Russia

The segment of lease and financial services of the Issuer's Capital Group in Russia is represented by:

- Carcade Group comprising:
  - Carcade sp. z o.o. – car lease company;
  - Centr Karawto sp. z o.o. – supports Carcade sp. z o.o. by selling post-lease cars; and
  - Carcade Services sp. z o.o. – provides leasing-related legal, tax and accounting advisory services and broker services, supplementing services offered by Carcade sp. z o.o., as well as
- Assets Service Finance that services the portfolio of overdue receivables.

Carcade sp. z o.o. is one of the major Russian lease companies specializing in lease of cars and light commercial vehicles to small and medium-sized companies. With the increased sales, Carcade sp. z o.o. is one of leading lease companies operating in the Russian Federation.

Centr Karawto sp. z o.o. an Carcade Service sp. z o.o. provide auxiliary services to Carcade sp. z o.o. business. The former one is engaged in increasing the post-lease car sales efficiency, while the latter provides leasing-related tax and accounting consultancy services and is an insurance broker for Carcade sp. z o.o. On 14.08.2019, the companies formally initiated the merger process.

Assets Service Finance sp. z o. o. used to focus on debt recovery services in the Russian Federation servicing the portfolio of overdue receivables. Having analysed the investment in Assets Services Finance and upon verification of the current strategy for the company, in Q1 2019 decided to write off 100% of the investment, which was charged to the previous period. The company liquidation process was officially registered on 09.07.2019, hence it was formally initiated.

## a. Presentation of the segment's financial result for H1 2019

Segment's result:

| | kPLN | | % Change | kRUB | | % Change |
|---|---|---|---|---|---|---|
| | H1 2019 | H1 2018 | | H1 2019 | H1 2018 | |
| Net interest income | 32 653 | 28 403 | 15,0% | 557 853 | 480 999 | 16,0% |
| Interest income | 79 459 | 63 237 | 25,7% | 1 357 500 | 1 070 906 | 26,8% |
| Interes expense | (46 806) | (34 834) | 34,4% | (799 647) | (589 907) | 35,6% |
| Net fee and comission income | 11 979 | 11 118 | 7,7% | 204 653 | 188 281 | 8,7% |
| Fee and commission income | 11 979 | 11 118 | 7,7% | 204 653 | 188 281 | 8,7% |
| Fee and commission expense | - | - | - | - | - | - |
| Net operating income | 22 912 | 21 354 | 7,3% | 391 435 | 361 626 | 8,2% |
| Net impairment losses | (7 794) | (7 088) | 10,0% | (133 155) | (120 034) | 10,9% |
| Administrative expenses | (46 721) | (43 904) | 6,4% | (798 195) | (743 506) | 7,4% |
| Share in net profit (loss) of associates | 1 578 | 1 209 | 30,5% | 26 959 | 20 474 | 31,7% |
| Income tax | (3 899) | (2 585) | 50,8% | (66 612) | (43 776) | 52,2% |
| **Net profit (loss)** | **10 708** | **8 507** | **25,9%** | **182 938** | **144 064** | **27,0%** |

Selected balance sheet data:

| | kPLN | | % Change | kRUB | | % Change |
|---|---|---|---|---|---|---|
| | 30.06.2019 | 31.12.2018 | | 30.06.2019 | 31.12.2018 | |
| Balance sheet total | 1 182 920 | 1 014 100 | 16,6% | 19 981 757 | 18 744 917 | 6,6% |
| Finance lease receivables | 1 015 360 | 848 750 | 19,6% | 17 151 351 | 15 688 540 | 9,3% |

Key financial performance indicators:

| | Financial performance indicator | Value of the ratio as at Q2 2019 | Value of the ratio as at Q2 2018 | Change | Method for calculating the ratio |
|---|---|---|---|---|---|
| 1 | ROA<br>Return on assets | 1,95% | 2,00% | -0,05 p.p. | (Net profit / [(Total assets at the end of the current period + Total assets at the end of the previous year)/2])*(4/2) |
| 2 | ROE<br>Return on equity | 10,86% | 8,75% | 2,10 p.p. | (Net profit / [( Total equity at the end of the current period + Total equity at the end of the previous year)/2])*(4/2) |
| 3 | NIM<br>Net interest margin | 6,69% | 7,71% | -1,01 p.p. | (Net interest income / [(Total interest-earning assets at the end of the current period + Total interest-earning assets at the end of the previous year)/2])*(4/2) |
| 4 | COF<br>Cost of financing | 11,36% | 12,03% | -0,67 p.p. | (Interest expenses / [(Total interest-bearing liabilities at the end of the current period + Total interest-bearing liabilities at the end of the previous year)/2])*(4/2) |
| 5 | COR<br>Cost of risk | 1,67% | 2,04% | -0,37 p.p. | (Net impairment result on loans, advances and leasing receivables / [( Total receivables from loans, advances, leasing at the end of the current period + Total receivables from loans, advances and leasing at the end of the previous year)/2])*(4/2) |
| 6 | C/I<br>Cost-to-income ratio | 69,17% | 72,12% | -2,95 p.p. | General administrative expenses / net operating income |

In the reported period the Russian Group managed to further improve its performance. As at the end of June, Carcade enjoyed a share of 8.8% in the market of light vehicles and trucks.

The sales volume in H1 2019 totalled PLN 610.9 million, which means a growth by 22.8% compared to the corresponding period in 2018. Such high sales volume in the reported period translated to the growth of the portfolio of lease receivables by 19.6% to over PLN 1 billion.

In H1 2019, the Russian sector generated a substantial increase in the interest income and commissions and fees income by 15% and 7.7%, respectively, which translated to a substantially higher net income. The net result generated in the Russian segment in H1 2019 totalled PLN 10.7 million and it was 25.9% higher than the net income generated in H1 2018.

In H1 2019, the balance sheet total for the segment increased by 16.6% compared to the situation recorded on 31.12.2018.

The cost of financing (COF) as at the end of H1 2019 stood at 11.4% compared to 12.0% for the corresponding period in the previous year, whereas the costs of risk (COR) in the reported period was 1.7% compared to 2% recorded in H1 2018.

**b. The main successes and failures of the segment companies in H1 2019**

Carcade sp. z o. o. remains among the TOP-13 major lease companies operating in Russia.

The segment is still improving its operating performance.

Enhancing the company sales force and launching new products and services, including the innovative products such as the clients interface or sale in online channels enhanced the company's market position.

Carcade is presently implementing a new innovative sales platform which will allow for meeting clients' expectations better by introducing online verification. Clients will also be able to use a special client's zone where they will manage services under the Carcade brand. The Russian sector companies are also working to launch new solutions, such as a mobile application.

In H1 2019, Carcade sp. z o. o. paid out dividends amounting to RUB 90 million.

**c. List of factors and risks that in the Issuer's opinion will affect performance of the segment companies in at least one quarter to come**

In the Issuer's opinion, the following factors will affect the performance of the banking segment in Russia in the subsequent periods:

- the USA sanctions imposed on the Russian Federation exerting pressure on the local financial market and business condition in the region;
- threat of new sanctions;
- the changes introduced by the Central Bank of Russia in the base interest rate that determines interest rates for commercial loans and deposits and affects the inflation rate and costs of financing;
- availability of financing correlated with the evaluation of the portfolio of Carcade sp. z o. o. and quality of its assets;
- the demand for lease products;
- potentially increased credit risk;
- keeping the Fitch's B rating for Carcade sp. z o. o., with stable outlook;
- Fitch increasing the Russia's rating from "BBB-" to "BBB" with stable outlook;
- Moody's increasing the Russia's rating from Ba1 to Baa3 (reflecting the "positive impact of the recent reforms").

### d. The consequences of the changes to the segment structure

In H1 2019, no changes in the segment structure took place. After the balance sheet date, i.e. on 09.07.2019, the formal process of the liquidation of Assets Service Finance sp. z o. o. started.

Also after the reported period, i.e. on 14.08.2019, the merger of Centr Karawto sp. z o. o. and Carcade Service sp. z o. o. was registered.

## 2.5 Banking and lease services sector in Romania

The segment of financial services of the Issuer's Capital Group in Romania is represented by:

- Idea Bank (Romania) – a universal bank that provides services for individual clients and small and medium-sized enterprises;
- Idea Leasing IFN S.A. – provides lease services for corporate clients;
- Idea Finance IFN S.A. – provides financial lease services;
- Idea Investment S.A. – provides business consultancy services;
- Idea Broker de Asigurare sp. z o. o. – insurance broker;
- Idea Credite de Consum sp. z o. o.– money agent.

### a. Presentation of the segment's financial result for H1 2019

Segment's result:

| | kPLN | | % Change | kRON | | % Change |
|---|---|---|---|---|---|---|
| | H1 2019 | H1 2018 | | H1 2019 | H1 2018 | |
| Net interest income | 35 045 | 32 701 | 7,2% | 38 805 | 35 919 | 8,0% |
| Interest income | 55 497 | 49 378 | 12,4% | 61 451 | 54 238 | 13,3% |
| Interes expense | (20 452) | (16 677) | 22,6% | (22 646) | (18 318) | 23,6% |
| Net fee and comission income | 13 782 | 13 106 | 5,2% | 15 260 | 14 396 | 6,0% |
| Fee and commission income | 18 580 | 16 697 | 11,3% | 20 573 | 18 340 | 12,2% |
| Fee and commission expense | (4 798) | (3 591) | 33,6% | (5 313) | (3 944) | 34,7% |
| Net operating income | 14 308 | 13 101 | 9,2% | 15 843 | 14 390 | 10,1% |
| Net impairment losses | (8 712) | (7 636) | 14,1% | (9 647) | (8 388) | 15,0% |
| Administrative expenses | (46 363) | (40 980) | 13,1% | (51 337) | (45 013) | 14,0% |
| Income tax | (1 631) | (2 091) | -22,0% | (1 806) | (2 297) | -21,4% |
| **Net profit (loss)** | **6 429** | **8 201** | **-21,6%** | **7 119** | **9 008** | **-21,0%** |

Selected balance sheet data:

| | kPLN | | % Change | kRON | | % Change |
|---|---|---|---|---|---|---|
| | 30.06.2019 | 31.12.2018 | | 30.06.2019 | 31.12.2018 | |
| Balance sheet total | 2 318 287 | 2 285 793 | 1,4% | 2 582 762 | 2 476 750 | 4,3% |
| Credit and leasing receivables | 1 543 546 | 1 538 661 | 0,3% | 1 719 637 | 1 667 202 | 3,1% |
| Deposits | 1 724 981 | 1 667 903 | 3,4% | 1 921 770 | 1 807 241 | 6,3% |

Key financial performance indicators:

| | Financial performance indicator | Value of the ratio as at Q2 2019 | Value of the ratio as at Q2 2018 | Change | Method for calculating the ratio |
|---|---|---|---|---|---|
| 1 | ROA<br>Return on assets | 0,56% | 0,79% | -0,23 p.p. | (Net profit / [(Total assets at the end of the current period + Total assets at the end of the previous year)/2])*(4/2) |
| 2 | ROE<br>Return on equity | 7,58% | 10,58% | -3,00 p.p. | (Net profit / [( Total equity at the end of the current period + Total equity at the end of the previous year)/2])*(4/2) |
| 3 | NIM<br>Net interest margin | 3,21% | 3,34% | -0,13 p.p. | (Net interest income / [(Total interest-earning assets at the end of the current period + Total interest-earning assets at the end of the previous year)/2])*(4/2) |
| 4 | COF<br>Cost of financing | 1,96% | 1,80% | 0,16 p.p. | (Interest expenses / [(Total interest-bearing liabilities at the end of the current period + Total interest-bearing liabilities at the end of the previous year)/2])*(4/2) |
| 5 | COR<br>Cost of risk | 1,13% | 1,08% | 0,05 p.p. | (Net impairment result on loans, advances and leasing receivables / [( Total receivables from loans, advances, leasing at the end of the current period + Total receivables from loans, advances and leasing at the end of the previous year)/2])*(4/2) |
| 6 | C/I<br>Cost-to-income ratio | 73,43% | 69,57% | 3,87 p.p. | General administrative expenses / net operating income |

The net result generated by the Romanian segment in H1 2019 totalled PLN 6.4 million and it was 21.6% lower than the net result generated in H1 2018. It was caused by higher contributions to the local Bank Guarantee Fund (PLN 1.2 million in the reported period compared to PLN 0.3 million in the corresponding period in the previous year), a new assets tax (PLN 0.6 million), and currency conversion of Idea Investment S.A. bonds in the amount PLN 0.5 million.

Putting the one-off events aside, the normalised result generated by the Romanian Group would have been PLN 8.4 million, i.e. 3% higher than in H1 2018.

The sales volume for the segment in H1 2019 totalled PLN 453.7 million and it was 15.8% lower than in H1 2018. The material factor that determined the sales volume in the reported period was cutting down the maximum allowable DTI by the National Bank of Romania and refinancing loans by other banks. The sales of banking products in H1 2019 totalled PLN 202.4 million and it was 28.5% lower than in H1 2018. Sales of lease products totalled PLN 251.3 million, which means a 1.6% reduction (y/o/y).

The loan and lease receivables in the segment as at the end of H1 2019 totalled PLN 1.5 billion, which means a growth by 0.3% compared to the corresponding period in 2018. The deposits collected as at the end of the reported period totalled PLN 1.7 billion, which means a 3.4% increase compared to 31.12.2018.

In the reported period the NIM stood at 3.2% vs 3.3%, with the cost of financing (COF) at 2.0% vs 1.8% in the corresponding period in the previous year. The COR in the reported period was 1.1% just like in the previous year.

**b. The main successes and failures of the segment companies in H1 2019**

Idea Bank (Romania) focuses on providing banking services to individual clients and MSE sector companies. In H1 2019, Idea Bank (Romania) continued to expand its loans portfolio, specifically consumption loans, including extremely popular with clients *Selfie* loan.

The bank operates through the network of several dozen branches and leasing outlets as well as through several agents. Like other banks in the Issuer's Capital Group, Idea Bank (Romania) offers a wide range of Internet banking services. Besides loan products, Idea Bank (Romania) offers deposits, debit and credit cards, as well as several settlement and cash services and bancassurance services. In the reported period, Idea Bank (Romania) was working at the implementation of a new product – a *Mortgage* loan. In Q3 2019, the bank included the new product to its offer.

In H1 2019, Idea Leasing IFN (Romania) kept its position among the leading Romania-based lease companies offering lease of movable property (including loans) to small and medium-sized enterprises.

In the reported sector, the Romanian segment was working on optimising its costs, increasing the segment's efficiency and adapting the financing structure (redemption of bonds issued by Idea Investment S.A.).

The Group redeemed on the maturity date, i.e. 27.01.2019, bonds of Idea Investment worth PLN 26.3 million. The transaction required currency conversion of the obligation due to the bonds issued in PLN, which had an adverse impact on the segment's result diminishing it by PLN 0.5 million. The bonds redemption was one of the elements of optimising the financing structure for the Group in Romania.

In H1 2019, Idea Leasing (Romania) underwent an audit of the National Tax Administration Agency. The company was requested to provide materials used in advertisement campaigns. The inspection is connected with the risk of changing the qualification of marketing costs and imposing on Idea leasing (Romania) additional tax dues, and possibly penalties. The audit results are hardly foreseeable. As at the date hereof the Agency has not issued any opinion in the case yet.

**c. List of factors and risks that in the Issuer’s opinion will affect performance of the segment companies in at least one quarter to come**

Idea Bank (Romania) carries on the digitalisation project that will finally facilitate sale of a wide range of services and products, including loans and deposits, online. The platform will also allow for using the digital signature. The new version of the Internet banking system will be one of the most innovative in the Romanian market.

The bank is also investing in the growth of the traditional sales network. The extension of the infrastructure is carried out along with the optimisation and changing design of the existing network.

In H1 218, the segment's main strategic goal was to ensure business efficiency by enhancing its market position and expanding its product range while improving the quality of the customer service and cooperation with business partners. With this end in view the bank took several endeavours aiming at sustainable growth of the institution, increasing its profitability and expanding the customer base.

Idea Bank (Romania) is going to constantly master its products in order to meet the local market expectations, especially as regards products sold through digital channels to SME clients. In subsequent years Idea Bank (Romania) is going to adjust its business operations to the changeable macroeconomic environment, taking into account both the market and business conditions as well as possible changes of regulations.

Whereas Idea Leasing (Romania) is planning to develop cooperation with car suppliers and dealers in order to enhance its market position by expanding the range of offered vehicles and ways of financing their purchases. The company is also considering the possibility of starting operations as an insurance broker for lessees.

Factors and risks that affect and will affect the performance of the Romanian segment include the new assets tax and higher contribution to FGDB (the counterpart of the Polish Bank Guarantee Fund).

The final bill concerning the assets tax has been drawn up and agreed, but it has not been voted yet. Nevertheless the bank is obliged to pay the tax by the regulation that became binding on 01.01.2019 that obliges the bank to pay 0.2% of the adjusted net financial assets annually.

Another factor that may have a material impact on the bank's performance is the expected economic slow-down, reflected in lower annual GDP. It is caused by lower internal consumption that had been growing so far thanks to the fiscal policy of the Romanian government, but slowed down with the diminishing purchasing power due to increasing inflation rate. Furthermore, the segment's performance may also be affected by forecast increase of interest rates for the local currency and the exchange rate of the local currency to the euro.

The segment's operations will also be affected in the nearest future by possible legal changes concerning the banking and financial sectors (long-term consequences of changes in regulations on consumer bankruptcy and mortgage loans), fiscal policy aiming at reduction of the budget deficit, and the EU economic situation. In the perspective of the subsequent periods, with the present fiscal policy, the bank expects diminishing growth of the loans portfolio and of the overall level of deposits from legal entities. Another factor that may have a material impact on the companies' performance is the seasonal liquidity risk in the deposit market.

Another factor that may have an impact on the result generated by Idea Bank (Romania) will be the influence of increased base interest rates for on the net interest income, and the trends in the deposit market.

Similarly, the debt/income ratio regulation introduced by the National Bank of Romania may affect the future shape of the loans portfolio in the Romanian market.

While conducting their operations the segment companies, like other companies in the banking sector, are exposed to such factors as credit risk, cash flow disruptions or loss of financial liquidity of their clients.

In case of Idea Leasing (Romania), the company's performance will be affected by the development of the automotive market and the vehicle lease market. The markets may also be affected by possible legal or fiscal changes, specifically as regards buying out debt. For Idea Leasing (Romania), another crucial issue is ensuring continuous financing for the company's core operations.

**d. The consequences of the changes to the segment structure**

On 31.01.2019, the share capital of Idea Leasing S.A. (Romania) was increased by RON 8 million by issuing 800,000 shares, from RON 1 million to RON 9 million. All new shares were taken by Idea Bank S.A. (Romania), increasing its interest in the company from 0.001% to 88.67%. The remaining shares belong to Idea Investment S.A., a company controlled by Idea Bank (Romania).

## 2.6 Segment of financial services in Poland

The segment of financial services of the Issuer's Capital Group in Poland comprises M. W. Trade S.A. The strategic goal of M. W. Trade S.A. is to increase the company's goodwill by its specialisation in restructuring debt of public units and offering complex financial services while keeping high operating profitability. The characteristic feature of this market niche is concentration of demand and supply, which leads to the dependency of the company on the market situation, specifically on changes in legislation and activities of competitors.

### a. Presentation of the segment's financial result for H1 2019

Segment's result:

| | kPLN | | % Change |
|---|---|---|---|
| | H1 2019 | H1 2018 | |
| Net interest income | 3 759 | 6 741 | -44,2% |
| Interest income | 9 161 | 16 511 | -44,5% |
| Interes expense | (5 402) | (9 770) | -44,7% |
| Net fee and comission income | 138 | (847) | - |
| Fee and commission income | 306 | (264) | - |
| Fee and commission expense | (168) | (583) | -71,2% |
| Net operating income | 93 | 29 | 220,7% |
| Net impairment losses | 233 | 202 | 15,3% |
| Administrative expenses | (2 302) | (3 103) | -25,8% |
| Income tax | (325) | (558) | -41,8% |
| **Net profit (loss)** | **1 596** | **2 464** | **-35,2%** |

Selected balance sheet data:

| | kPLN | | % Change |
|---|---|---|---|
| | 30.06.2019 | 31.12.2018 | |
| Balance sheet total | 252 089 | 289 514 | -12,9% |
| Loans and receivables | 242 965 | 267 689 | -9,2% |

Key financial performance indicators:

| | Financial performance indicator | Value of the ratio as at Q2 2019 | Value of the ratio as at Q2 2018 | Change | Method for calculating the ratio |
|---|---|---|---|---|---|
| 1 | ROA<br>Return on assets | 1,18% | 1,19% | -0,01 p.p. | (Net profit / [(Total assets at the end of the current period + Total assets at the end of the previous year)/2])*(4/2) |
| 2 | ROE<br>Return on equity | 3,73% | 5,67% | -1,94 p.p. | (Net profit / [( Total equity at the end of the current period + Total equity at the end of the previous year)/2])*(4/2) |
| 3 | NIM<br>Net interest margin | 2,83% | 3,33% | -0,49 p.p. | (Net interest income / [(Total interest-earning assets at the end of the current period + Total interest-earning assets at the end of the previous year)/2])*(4/2) |
| 4 | COF<br>Cost of financing | 5,85% | 6,00% | -0,14 p.p. | (Interest expenses / [(Total interest-bearing liabilities at the end of the current period + Total interest-bearing liabilities at the end of the previous year)/2])*(4/2) |
| 5 | COR<br>Cost of risk | -0,18% | -0,10% | -0,08 p.p. | (Net impairment result on loans, advances and leasing receivables / [( Total receivables from loans, advances, leasing at the end of the current period + Total receivables from loans, advances and leasing at the end of the previous year)/2])*(4/2) |
| 6 | C/I<br>Cost-to-income ratio | 57,69% | 52,39% | 5,31 p.p. | General administrative expenses / net operating income |

The segment of financial services in Poland generated the net profit of PLN 1.6 million, which means a 35% fall compared to the corresponding period in the previous year.

The total expenses incurred by the company in H1 2019 amounted to PLN 2.3 million, which means a 25.8% reduction compared to the corresponding period in the previous year. It was caused to a great extent by lower costs of financing the portfolio (by 45%).

In H1 2019, M. W. Trade did not generate any new balance sheet contracting (in the corresponding period in 2018, the balance sheet contracting totalled PLN 10.9 million), and intermediated in sale of loans offered by the segment worth PLN 17.1 million (compared to PLN 5 million in the corresponding period in the previous year).

The company's loans portfolio after H1 2019 totalled PLN 243 million compared to PLN 337.8 million a year ago, and PLN 267.7 million at the end of 2018. The balance sheet total of the financial services segment in Poland as at the end of H1 2019 fell by 13% compared to the end 2018 (from PLN 289.5 thousand at the end of 2018).

**b. The main successes and failures of the segment companies in H1 2019**

M. W. Trade S.A. focuses on building a high quality portfolio for the bank that belongs to Getin Holding Capital Group S.A. and on keeping its own portfolio based on restructuring debt of medical entities and local government units. The company provides financial services taking into account available funds and the risk related to timely repayment by the restructured entities. All risks related to the company's operations are analysed on a current basis, both at the initial stage, before any obligations within a new financial project are assumed, and during the cooperation with clients.

In H1 2019, M. W Trade S.A. continued development works to expand its present product range. The company optimises on an ongoing basis available funds, adapting to the current market situation and to its assets portfolio as well as to the sale targets in that market.

In the reported period, the company generated a net profit of PLN 1.6 million, with the average monthly portfolio value of PLN 257 million. In H1 2019, the company's proceeds from sales totalled PLN 9.5 million.

The income structure remained unchanged compared to previous periods. The company generates income mainly from sale of portfolio products offered to medical entities and to local government units that constitute the lion share of all income. The aggregated operating costs incurred by the company in H1 2019 amounted to PLN 7.87 million, i.e. 41% less than in the corresponding period in the previous year. The reduction is the result of diminishing portfolio financing costs (that fell by 45%) and diminishing administrative costs (that fell by 26%).

In H1 2019, the company generated no balance sheet contracting. In H1 2019, the company intermediated in sale of loans worth PLN 17.1 million (vs PLN 5 million in the corresponding period in the previous year). The company assumes that the upward trend as regards the number of applications and disbursing loans will continue in the subsequent quarters.

The portfolio of receivables as at the last day of H1 2019 totalled PLN 244.34, being 9% lower of the portfolio at the end of 2018, but the company recorded no material delays in repayments that occurred in the previous year.

A material repayment was recorded after the balance sheet date. Earlier in H1 2019, M. W. Trade S.A. got information about potential transformation of one its key accounts (Dr Władysław Biegański Regional Hospital SPZOZ in Grudziądz) into a company. In order to eliminate potential consequences of the transformation, on 29.05.2019, M. W. Trade – as agreed in contractual terms – demanded immediate repayment of the debt by the hospital (amounting to PLN 121.9 million). After the balance sheet date, the company was repaid over PLN 112 million waiting for the final settlement with the client by 31.10.2019.

In the subsequent periods the company is going to focus on the cooperation with other Getin Holding Capital Group companies by offering their products and optimising margins for both balance-sheet and off-balance sheet sales, as well as the possibility of obtaining external financing.

**c. List of factors and risks that in the Issuer's opinion will affect performance of the segment companies in at least one quarter to come**

In the Issuer's opinion, the key information for the evaluation of the chances of meeting obligations by M. W. Trade and affecting its business is business risk, strictly related to its market environment, where the company operates, other market players (including competitors) and external factors that shape the market.

Whereas the factor that influences the credit risk is the network of hospitals formed by the Minister of Health, i.e. the system of ensuring elementary hospital healthcare that aims to ensure wide access to healthcare services. The network of hospitals established the classification of healthcare units in a system that ensures adequate protection system: profiles in which services are provided and scopes and types of services refunded by the National Health Fund. The system covers all units that ensure continuous access to medical services and their complexity. It is the confirmation that the company applied the right strategy concerning risk assessment methodology and focusing on major units in a region.

As regards debt financing the company observes continuously negative trends in the bonds market that result primarily from negative incidents in 2018, after which the demand for bonds issued by small and medium-sized companies dropped substantially.

Additionally, the Ministry of Finance modified the bonds market normalising regulations. Since 01.07.2019, all bonds issues must be dematerialized in the National Depository for Securities with the obligatory participation of the issue agent, which may make the process of raising funds from new debt securities longer and more expensive.

Furthermore, the company is exposed to the risk of delays in debt servicing by public entities that it cooperates with. Shifts in positive cash flows or lack of such cash flows may cause that the company periodically may have no cash to pay its current liabilities. The Company's liabilities result from deferred repayments of purchased debts, contracted loans and credit facilities and issued debt instruments. Discharge of the aforementioned liabilities and covering costs of the current activity generates current and future negative cash flows. The company covers them from positive cash flows from its receivables portfolio or new liabilities, if necessary. The amount and complexity of assets and liabilities results in timing mismatch of positive and negative cash flows, which may cause temporary liquidity gaps. The company mitigates the risk by allocating concentration limit with each client and keeping adequate cash for the assets portfolio that is a liquidity buffer for the company. The possibility of intercompany transactions facilitates better matching of assets and liabilities, which gives the company the opportunity to enhance its liquidity buffer.

Furthermore, the scale of the influence of the following factors will have a material impact on the company's performance:

- the market conditions, including robust price competition;
- the situation in the financial market in Poland;
- refinancing the sector by the National Health Fund (NFZ);
- very strong wage pressure with limited resources of medical staff in Poland;
- implementation of individual adaptation programmes by SPZOZ healthcare units;
- outcomes of sanitary inspections at medical centres concerning safety and hygiene for patients;
- increased total debt of medical units, increasing need for revolving credit among suppliers and healthcare entities.

Critical success factors and factors that will ensure achievement of the company's strategic goals:

- the experience and expertise in the market of financing healthcare entities (knowledge base covering hospitals and their financial standing);
- access to financing and services offered by Getin Holding S.A. Capital Group companies;
- providing services that address the market demand;
- the ability to develop a flexible mix of services that ensure higher added value to clients;
- good relations with clients throughout the country (also with providers of services and goods to healthcare units).

External factors that materially affect the growth of the company:

- the liquidity situation of the medical sector units related to the medical procedures contracted by the National Healthcare Fund (NFZ) and the amount of funds raised from health insurance contributions;
- changes in the way of settlement of healthcare units with NFZ (or other funds responsible for financing healthcare system under the supervision of the Minister of Health);
- functioning of the network of hospitals;
- sanitary and structural requirements of the Minister of Health that force healthcare units to incur substantial outlays, that increase their operating costs, mainly labour costs increasing due to the increase of the minimal wages;
- increasing wage pressure at all levels of healthcare personnel, expectation of substantial raises;
- the liquidity of suppliers of hospitals;
- the situation in financial markets and the cost and availability of external financing;
- the activity of competitors in the market;
- implementation of legal restrictions for trading debt of healthcare units that will affect the sale structure of products directly financing healthcare units;
- the level of debt of local government units caused by higher investment expenses incurred in the EU-co-financed projects;
- statutory changes regulating operations of local government units, their income from taxes paid and earned on their property, in relation to expenses on implementing their own and delegated tasks.

A detailed description of factors that affect operations of M. W. Trade S.A. are available in the publicly available company's report for H1 2019.

### d. The consequences of the changes to the segment structure

In H1 2019, no changes in the segment structure took place.

## 3. Other information concerning Getin Holding Capital Group in H1 2019

### a. Information about changes of the structure of ownership of significant blocks of shares

The structure of ownership of significant blocks of shares as of the date of filing the Q1 2019 report and as of the date of filing this report, to the Issuer's knowledge:

| SHAREHOLDERS ENTITLED DIRECTLY OR INDIRECTLY TO AT LEAST 5% OF THE TOTAL NUMBER OF VOTES AT THE GENERAL MEETINGs OF SHAREHOLDERS OF GETIN HOLDING S.A. AS OF THE DATE OF FILING Q1 2019 AND AS AT THE DATE OF FILING THIS REPORT | | |
|---|---|---|
| Shareholder | Number of shares held/ number of votes arising from shares held (pcs.) | % share in the share capital / votes at GMs (pcs.) |
| *Leszek Czarnecki directly and indirectly**, including among others: | 104 316 454 | 54.97% |
| LC Corp B.V. based in Amsterdam | 64 845 032 | 34.17% |
| Getin Noble Bank S.A. based in Warsaw | 18 957 758 | 9.99% |

*to the Issuer's knowledge, Dr. Leszek Czarnecki holds:
- directly 20,468,082 shares accounting for 10.79% of the share capital (% of all votes at the company's GMs), and
- indirectly, through subsidiary companies – 83,848,372 shares accounting for 44.18% of the share capital (% of all votes at the company's GMs);
the companies controlled by Dr. Leszek Czarnecki that hold shares in Getin Holding S.A. include:
- LC Corp B.V. based in Amsterdam and Getin Noble Bank S.A. based in Warsaw, whose interest is presented hereinabove;
- RB Investcom sp. z o. o. based in Wrocław holding 8,231 shares accounting for 0.004% of the share capital (% of all votes at the company's GMs);
- Idea Money S.A. based in Warsaw holding 631 shares accounting for 0.0003% of the share capital (% of all votes at the company's GMs);
- Jolanta and Leszek Czarnecki's Foundation holding 29,970 shares accounting for 0.016% of the share capital (% of all votes at the company's GMs);
- Open Finance Fundusz Inwestycyjny Otwarty Subfundusz Akcji Małych i Średnich Spółek (managed by Open Finance TFI S.A.) holding 6,750 shares accounting for 0.0036% of the share capital (% of all votes at the company's GMs).

### b. Specification of changes of the number of shares held by members of management and supervisory boards

| Person | Position | as of the date of publication of Q1 2019 report (pcs.) | change | as of the date of publication of H1 2019 report (pcs.) |
|---|---|---|---|---|
| Piotr Kaczmarek | President of Management Board | 6 000 | - | 6 000 |
| Krzysztof Jarosław Bielecki | Deputy President of Management Board | 0 | - | 0 |
| Izabela Lubczyńska | Member of Management Board | 1 130 | - | 1 130 |
| Krzysztof Florczak | Member of Management Board | 0 | - | 0 |
| Leszek Czarnecki | Chairman of Supervisory Board | 20 468 082 1) | - | 20 468 082 1) |
| | | 83 848 372 2) | - | 83 848 372 2) |
| Remigiusz Baliński | Vice Chairman of Supervisory Board | 49 410 | - | 49 410 |
| Adam Maciejewski | Member of Supervisory Board | 0 | - | 0 |
| Stanisław Wlazło | Member of Supervisory Board | 0 | - | 0 |
| Bogdan Frąckiewicz | Member of Supervisory Board | 0 | - | 0 |

1) directly
2) indirectly

**c. The Management Board's position concerning potential accomplishment of previously published forecasts for the given year and comparison of the data presented in the semi-annual statement to the forecasts**

Neither the Issuer, nor its subsidiaries published financial forecasts for H1 2019.

**d. Information about granting by the Issuer or its subsidiary of a substantial value loan or credit guarantee or a guarantee**

In H1 2019, neither the Issuer nor its subsidiaries granted any loan or credit guarantees or a guarantee of the substantial value of at least 10% of the Issuer's equity.

**e. Other information the Issuer finds important for the assessment of its employment, property, financial situation, financial result and their changes as well as information important for assessment of the Issuer's ability to pay its liabilities**

Apart from the events reported hereinabove, in the reported period in Getin Holding Capital Group there were no events important for the assessment of its employment, property, financial situation, financial result and their changes as well as information important for assessment of the Issuer's ability to pay its liabilities.

**f. List of material pending court or administrative proceedings**

In H1 2019, there no proceedings concerning Getin Holding or its subsidiaries' liabilities or claims of substantial nature. There were no pending proceedings concerning the Issuer's or its subsidiaries' liabilities or claims of substantial nature or with the total value of at least 10% of the Issuer's equity other than specified in 2.6 hereof.

Administrative proceedings (KNF and UOKiK) concerning matters other than liabilities or claims, with participation of Idea Bank (Poland) are described in 2.1. hereof.

**g. Information about conclusion by the Issuer or its subsidiary of a single or more transactions with a related entity, if the transaction or transactions were material and concluded on terms other than the arm's length principle**

In H1 2019, neither the Issuer nor its subsidiaries concluded any substantial transactions with a related entity on terms other than the arm's length principle.

**h. Statement of the Management Board**

Management Board of Getin Holding S.A. states that to their best knowledge:

- the Semi-annual Condensed Financial Statements and the comparable data have been drawn up according to the applicable accounting principles and they give a true, reliable and fair view of the economic and financial standing of Getin Holding Capital Group and its financial result;
- the Semi-annual Report on Operations reflects faithfully the development and achievements and the position of Getin Holding Capital Group, including the description of basic threats and risks.

| | |
|---|---|
| _____________________ | _____________________ |
| Piotr Kaczmarek | Krzysztof Jarosław Bielecki |
| President of Management Board | Deputy President of Management Board |
| _____________________ | _____________________ |
| Izabela Lubczyńska | Krzysztof Florczak |
| Member of Management Board | Member of Management Board |

Wrocław, dated 23 September 2019

**Spis treści**