

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

for the period from the Ordinary General Meeting in 2009
to the Ordinary General Meeting in 2010

I. Members of the Supervisory Board

The Supervisory Board of the Bank during the reporting period was as follows:

Pan Stanisław Sołtysiński	Chairman of the Board	entire reporting period
Pan Shirish Apte	Vice Chairman of the Board	entire reporting period
Pan Andrzej Olechowski	Vice Chairman of the Board	entire reporting period
Pani Susan Blaikie	Member of the Board	from 15.10.2009 r.
Pan Igor Chalupiec	Member of the Board	from 18.06.2009 r.
Pan Sanjeeb Chaudhuri	Member of the Board	entire reporting period
Pan Goran Collert	Member of the Board	entire reporting period
Pan Mirosław Gryszka	Member of the Board	entire reporting period
Pani Sabine Hansen	Member of the Board	to 17.06.2009 r.
Pan Krzysztof Opolski	Member of the Board	from 18.06.2009
Pani Aneta Polk	Member of the Board	entire reporting period
Pan Stephen Simcock	Member of the Board	from 18.06.2009
Pan Wiesław Smulski	Member of the Board	entire reporting period
Pan Michael Schlein	Member of the Board	to 16.10.2009 r.
Pan Alberto J. Verme	Member of the Board	from 20.11.2009 r.
Pan Stephen R. Volk	Member of the Board	from 20.11.2009 r.

In the reporting period the composition of the Committees of the Supervisory Board was as follows:

Audit Committee

Pan Mirosław Gryszka	Committee Chairman	entire reporting period
Pan Shirish Apte	Committee Member	entire reporting period
Pani Susan Blaikie	Committee Member	to 15.10.2009 r.
Pan Krzysztof Opolski	Committee Member	from 18.06.2009 r.
Pani Aneta Polk	Committee Member	to 18.06.2009 r. and from 01.12.2009
Pan Stephen Simcock	Committee Member	from 18.06.2009 r.
Pan Wiesław Smulski	Committee Member	entire reporting period

Remuneration Committee

Pan Stanisław Sołtysiński	Committee Chairman	entire reporting period
Pan Alberto Verme	Committee Vice Chairman	from 01.12.2009 r.
Pan Shirish Apte	Committee Member	entire reporting period
Pani Sabine Hansen	Committee Member	to 17.06.2009 r.
Pan Andrzej Olechowski	Committee Member	entire reporting period

Strategy and Management Committee

Pan Shirish Apte	Committee Chairman	entire reporting period
Pan Andrzej Olechowski	Committee Member	entire reporting period
Pan Igor Chalupiec	Committee Member	to 18.06.2009 r.

Pan Sanjeeb Chaudhuri	Committee Member	from 18.06. 2009 r.
Pan Goran Collert	Committee Member	entire reporting period
Pan Mirosław Gryszka	Committee Member	entire reporting period
Pan Krzysztof Opolski	Committee Member	to 18.06.2009 r.
Pan Stanisław Sołtysiński	Committee Member	entire reporting period
Pan Alberto J. Verme	Committee Member	from 01.12.2009 r.
Pan Stephen Volk	Committee Member	from 01.12.2009 r.

Risk and Capital Committee

Pani Susan Blaikie	Committee Chairman	from 15.10.2009 r.
Pan Igor Chalupec	Committee Vice Chairman	from 18.06.2009 r.
Pan Sanjeeb Chaudhuri	Committee Member	from 01.12.2009 r.
Pani Sabine Hansen	Committee Member	to 17.06.2009 r.
Pan Andrzej Olechowski	Committee Member	entire reporting period
Pan Krzysztof Opolski	Committee Member	to 18.06.2009 r.
Pani Aneta Polk	Committee Member	from 01.12.2009 r.
Pan Stephen Simcock	Committee Member	from 18.06.2009 r.
Pan Alberto Verme	Committee Member	from 01.12.2009 r.

The Supervisory Board points out that in the reporting period its members included individuals having in-depth knowledge of law, economics, banking, management and finance. The majority of the Supervisory Board members have practical knowledge gained due to holding managerial functions in international economic institutions. In view of the Supervisory Board, the qualifications of the Supervisory Board members ensure proper execution of the Supervisory Board's tasks resulting from the provisions of law. The structure of the Supervisory Board, including its individual committees, ensures use of the experience and expertise of the Supervisory Board members, thus contributing to the achievement of the goals set for the Supervisory Board.

II. APPRAISAL OF THE RESULTS AND THE GENERAL CONDITION OF THE COMPANY

- (i) 2009 was a year of a long-lasting global slowdown and continuing trouble on the financial markets resulting from the credit crunch worldwide. Despite the adverse macroeconomic environment and the trouble on the financial markets, the Bank generated net profit for 2009 of PLN 525.2MM.
- (ii) Key contributors to the result of 2009 include the rise in interest result, a decline in costs and an increase in net allocations to impairment of financial assets and a decrease in the result of fees and commissions.
- (iii) The increase in net allocations to impairment of financial assets resulted from the increased credit risk caused by the slowdown, deteriorated market environment and the resulting financial losses incurred by corporate customers of the Bank. The rise in provisions in the Global Consumer Bank was due to increased allocations to incurred but not reported losses (IBNR) resulting from the deteriorated market environment, the accrual of the credit and credit card portfolio and the increased share of underperforming receivables. The increase in interest result was mainly due to the rise in revenues from debt securities and the decline in costs of deposits of the non-financial sector. The decrease in the commission result was mainly due to the lowering commissions on investment and insurance products in the Global Consumer Bank and the commission on custodian services.
- (iv) Our opinion on the cost discipline policy continued by the Bank is positive. Costs fell by 7.9%, i.e. PLN 115MM, compared to 2008. Depreciation, transaction costs and personnel costs of GCB fell. This was due to the streamlining of marketing expenses, the optimization of the sales incentive system and the optimization and consolidation of

the network of corporate and consumer branches. The cost efficiency of the Bank is much better. The cost/income ratio dropped by 7.6pp compared to 2008 and reached 53.2%.

- (v) Credits were still the biggest asset of the Bank in 2009. The balance of credits extended to the non-financial sector was lower by 12,7% at the end of 2009 compared to the end of 2008 while the balance of credits granted to the financial sector rose by 31.5% (to the level of PLN 5,043.4 MM. Deposits were the biggest liability. The deposits of financial sector were lower at the end of 2009 compared to the end of 2008 while the deposits of the non-financial sector rose.
- (vi) The equity of the Bank at the end of 2009 was much higher than at the end of 2008 due to the increase in provisions and the general banking risk fund by amounts coming from the profit for 2008. We believe that the level of equity maintained by the Bank is sufficient for guaranteeing the financial security of the institution and the deposits and that it enables the Bank to grow. The solvency ratio of the Bank was 16.8% at the end of 2009 and is still one of the highest among large banks on the Polish market. The high solvency ratio reached by the Bank confirms its financial security and strong capital basis.
- (vii) Our opinion on the efforts of the Bank enhancing the competitiveness of its range and winning new customers is positive. Prospects of the Commercial Bank include all the businesses active in Poland except sectors permanently excluded due to the general policy of the Bank and businesses included in the lists of specially designated nationals as a result of US or international sanctions. The position of the Bank was particularly strong in terms of service provided to multinationals and the largest Polish businesses. The Bank had a large, comprehensive and modern range of financial and transaction services for businesses including up-to-date liquidity management solutions (Consolidated Account, Cash Pool) as well as mass payment and receivable management products (Speedcollect, Direct Debit, Unikasa). Successes of the transaction services in 2009 included consolidation of the leadership of the Micropayments and the Direct Debit markets and the maintenance of the undisputable leadership of the prepaid cards in Poland. The Bank provided custody services to foreign institutional investors and depositary services designed for local financial entities, in particular pension funds, investment funds and capital insurance funds. The Bank consolidated its leadership of this area in 2009. The "Top Rated" award in the category of the largest and the most demanding customers given by *Global Custodian* in a prestigious customer satisfaction survey confirms the quality of our depositary services. The bank also offered a wide range of products and services related to the currency market designed for non-banking customers. CitiFX Pulse (a web-based platform) deserves special attention. It is a new, extended version of Online Trading enabling our customers to conclude currency spots at market prices online. Platform users conclude quick and safe transactions at the time convenient for them. The alignment of our range with the needs of small and medium-sized enterprises was appreciated by the jury of the 10th *Entrepreneur-friendly Bank* competition who awarded the Honorary Mention and the Promotional Logo to the Bank. The Bank was a leading partner of the public sector in 2009. The Bank fully underwrote and carried out the issuance of road bonds of Bank Gospodarstwa Krajowego and issued bonds for the municipalities of Warsaw and Białystok. The Bank steadily extended its consumer range to include new solutions in 2009; as a result, it had a comprehensive range of deposit products and value added services. Customers could profit from the comprehensive range of personal accounts and term deposits including new products, namely, TurboProcent and Cheap Francs. The offer of the Bank stood out by the non-financial advantages proposed. The Medical Package enabling holders of personal accounts and their families to profit from health care services in a network of private medical institutions at a preferential price was added to the range. More than 185,000 of new credit cards were sold in 2009. The whole portfolio of credit cards amounted to 1,031,000 at the end of the year. All credit cards issued to individual customers have been equipped with a chip since the beginning of May 2009. Along with the signature, the holder's picture and the 72-hour

protection in case of loss, they make Citibank credit cards one of the safest products of this kind on the market.

- (viii) The Supervisory Board evaluates the relationship of the Bank with the majority investor on a regular basis. The said relationship includes several areas. Deployments of new bank products and IT systems, risk management, financial control, personnel management and the internal control are the most important ones. Our opinion on the efforts of the Management Board in the field of adequate settlement of services provided by the majority investor is positive.
- (ix) Due to the condition of the global financial markets, uncertain growth outlooks of the Polish economy and risk of maintained slowdown of leading economies worldwide, we assume that further strict collaboration with the Management Board will be required in order to test the impact of these risk factors on the condition of the Bank.
- (x) Bearing in mind the results, the safe position, stable capital and liquidity ratios and the innovative product range, our opinion on the business of the Bank in 2009 is positive. We believe that the actions undertaken and to be undertaken will contribute to the achievement of the best results and market position of Bank Handlowy w Warszawie S.A. in the demanding market environment.

III. EVALUATION OF THE INTERNAL CONTROL SYSTEM AND THE MATERIAL RISK MANAGEMENT SYSTEM

- (i) Pursuant to the Articles of Association, the Bank has an internal control system which exercises control over its operations, both in terms of their legality and correctness, as well as the accuracy of the statements and information submitted by the Bank.
- (ii) The internal control system is aimed at supporting decision making processes which contribute to ensuring effectiveness and efficiency of the Bank's operations, credibility of its financial reporting and compliance of the Bank's operations with provisions of laws and internal regulations. The internal control system includes risk control mechanisms, examining the Bank's compliance with legal provisions and internal regulations as well as internal audit.
- (iii) The Bank's internal audits are conducted by the Audit and Risk Review Department, a separate organizational unit of the Bank, reporting directly to the Management Board. The task of the ARR Department is to examine and assess, independently and objectively, the adequacy and efficiency of the internal control system, as well as to issue opinions on the Bank's management system, including the efficiency of the management of risk related to the Bank's operations.
- (iv) Functional internal control is exercised by every employee of the Bank and additionally by their direct superiors, peers as well as managers of the Bank's organizational units with respect to the quality and correctness of the employees' performance of duties, with the objective to ensure compliance of such activities with the Bank's procedures and control mechanisms.
- (v) The Supervisory Board exercises supervision over the activities of the Audit and Risk Review Department. On a periodic basis, at least once per annum, the ARR Department provides the Supervisory and the Management Boards with information on irregularities identified and conclusions arrived at in the course of the internal audits performed as well as measures undertaken with the objective to remove the irregularities or implement the conclusions. The ARR Head is invited to participate in the meetings of the Management and Supervisory Boards during which issues related to the Bank's internal control are considered.
- (vi) The Supervisory Board has appointed a standing Audit Committee. The roles and responsibilities of the Committee include supervision over financial reporting, internal control, risk management as well as internal and external audits. The Committee submits annual reports on its activities to the Supervisory Board.

The Supervisory Board positively assesses the functioning of the internal control system in the Bank.

- (vii) The Supervisory Board has appointed a standing Risk and Capital Committee, which is responsible for supervision over the risk management system implemented in the Bank as well as evaluation of its effectiveness. The Committee submits annual reports on its activities to the Supervisory Board. As regards supervision over the risk management system, the Committee is in particular responsible for verification of the compliance of the Bank's risk policy with its strategy and financial plan, verification and provision of recommendations to the Supervisory Board with respect to the Bank's general risk level as well as examination of the periodic information on the types and size of the risk assumed by the Bank in the course of its business operations.

The Supervisory Board positively assesses the functioning of the material risk management system in the Bank.

IV. EVALUATION OF THE WORK OF THE SUPERVISORY BOARD

- (i) Corporate Governance

The Board applied the corporate governance rules applicable to public companies in the accounting year covered hereby to the extent of its powers.

- (ii) Settlements between the Bank and Citi

The Supervisory Board monitored and controlled issues related to settlements between the Bank and Citi in the accounting period covered hereby.

The Supervisory Board approved the trilateral agreement between Bank Handlowy w Warszawie S.A and its affiliates at its second meeting on September 18, 2009. The said agreement concerned continuity of business and support of IT systems. The Supervisory Board approved the fee for the services provided by Citi entities to the Bank under the ECHO agreement of 2008 in the resolution of September 29, 2010. It also approved the establishment of fees for the services provided to the Bank as a part of day-to-day business under the ITO agreement and approved the conclusion of another project annex thereof in the resolutions of December 22, 2009 and March 26, 2010.

The Supervisory Board approved the amendment to the APPC agreement related to the reserve centre for IT systems covered by the agreement in the resolution of March 31, 2010.

On April 1, 2010, the Supervisory Board approved the conclusion of the BH-ITO-CSTS agreement on the establishment of a reserve centre for systems covered by the ITO agreement. The Supervisory Board approved the fee for IT services covered by UKAT and USAT agreements in the resolution of March 16, 2010.

- (iii) Amendments to the Articles of Association and the Regulations of the Bank

The Supervisory Board adopted the consolidated text of the Articles of Association of the Bank in the resolution of November 6, 2009 and approved amendments to the Audit Committee Regulations in the resolution of February 18, 2010.

- (iv) Miscellaneous

The Supervisory Board of the Bank approved the Rules of Prudent and Stable Risk Management in the Bank Handlowy Group as required by Basel II at its third meeting on December 1, 2009. The Supervisory Board adopted a resolution on the approval of the Schedule of Audits at Bank Handlowy w Warszawie S.A. for 2010 and approved amendments to the Rules of Audit at Bank Handlowy w Warszawie S.A. and the Rules

of Internal Control at Bank Handlowy w Warszawie S.A. at the same meeting. The Report on the Activity of Compliance in 2009 was approved at the 4th meeting on March 16, 2010. The Board also acknowledged the information about the initial Financial Plan of the Bank for 2010 and adopted a resolution on adoption of the Strategy of Bank Handlowy w Warszawie S.A. for 2010-2012 during the meeting.

On April 6, 2010, the Supervisory Board acknowledged the Report on Outsourcing of Banking Activities, Supervision and Control of Outsourcing Risk at Bank Handlowy w Warszawie S.A. The Board also approved amendments to the Basic Organisational Structure of the Bank in the accounting period covered hereby.

V. EVALUATION OF THE BANK'S FINANCIAL STATEMENTS

At its third meeting on 19 March 2009 the Supervisory Board favorably assessed the Management Board's report on the activities of the Bank and the Bank's Capital Group in the 2008 financial year as well as the financial statements of the Bank and the Bank's Capital Group for the 2008 financial year, including the opinion and report on the audit of the financial statements of the bank and the Bank's Capital Group drawn up by KPMG Audyt sp. z o.o. acting as the Bank's statutory auditor – concluding that the submitted financial statements of the Bank and the Bank's Capital Group for the 2008 financial year had been prepared in accordance with the accounting records and documents as well as the facts and in line with the requirements of the Accounting Act. At the same meeting a resolution was adopted on the selection of the Bank's statutory auditor.

The Supervisory Board assessed the motion of the Management Board regarding distribution of profit for the 2009 financial year.

In view of the above, the Supervisory Board concludes that it has achieved its objectives resulting from the applicable laws in the reporting period.

This report has been considered and approved by way of resolution during the meeting of the Supervisory Board on May 26, 2010, for the purpose of presentation to the Ordinary General Meeting of the Bank.