

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

for the period from the date of the Ordinary General Meeting of Shareholders in 2010  
to the date of the Ordinary General Meeting of Shareholders in 2011

**I. Compositions of the Supervisory Board**

During the reporting period, the Supervisory Board was composed of:

|                           |                            |                         |
|---------------------------|----------------------------|-------------------------|
| Mr. Stanisław Sołtysiński | Chairman of the Board      | entire reporting period |
| Mr. Shirish Apte          | Vice Chairman of the Board | entire reporting period |
| Mr. Andrzej Olechowski    | Vice Chairman of the Board | entire reporting period |
| Mr. Igor Chalupiec        | Member of the Board        | entire reporting period |
| Mr. Sanjeeb Chaudhuri     | Member of the Board        | to April 14, 2011       |
| Mr. Mirosław Gryszka      | Member of the Board        | entire reporting period |
| Mr. Frank Mannion         | Member of the Board        | entire reporting period |
| Mr. Krzysztof Opolski     | Member of the Board        | entire reporting period |
| Mr. Stephen Simcock       | Member of the Board        | entire reporting period |
| Mr. Wiesław Smulski       | Member of the Board        | entire reporting period |
| Mr. Alberto J. Verme      | Member of the Board        | entire reporting period |
| Mr. Stephen R. Volk       | Member of the Board        | entire reporting period |

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

**Audit Committee**

|                       |                                |                         |
|-----------------------|--------------------------------|-------------------------|
| Mr. Mirosław Gryszka  | Chairman of the Committee      | entire reporting period |
| Mr. Stephen Simcock   | Vice Chairman of the Committee | entire reporting period |
| Mr. Shirish Apte      | Member of the Committee        | entire reporting period |
| Mr. Frank Mannion     | Member of the Committee        | from October 29, 2010   |
| Mr. Krzysztof Opolski | Member of the Committee        | from August 13, 2010    |
| Mr. Wiesław Smulski   | Member of the Committee        | entire reporting period |

**Remuneration Committee**

|                           |                                |                         |
|---------------------------|--------------------------------|-------------------------|
| Mr. Stanisław Sołtysiński | Chairman of the Committee      | entire reporting period |
| Mr. Alberto J. Verme      | Vice Chairman of the Committee | entire reporting period |
| Mr. Shirish Apte          | Member of the Committee        | entire reporting period |
| Mr. Andrzej Olechowski    | Member of the Committee        | entire reporting period |

**Strategy and Management Committee**

|                           |                           |                         |
|---------------------------|---------------------------|-------------------------|
| Mr. Shirish Apte          | Chairman of the Committee | entire reporting period |
| Mr. Andrzej Olechowski    | Member of the Committee   | entire reporting period |
| Mr. Igor Chalupiec        | Member of the Committee   | entire reporting period |
| Mr. Sanjeeb Chaudhuri     | Member of the Committee   | entire reporting period |
| Mr. Mirosław Gryszka      | Member of the Committee   | entire reporting period |
| Mr. Stanisław Sołtysiński | Member of the Committee   | entire reporting period |
| Mr. Alberto J. Verme      | Member of the Board       | entire reporting period |
| Mr. Stephen R. Volk       | Member of the Board       | entire reporting period |

## Risk and Capital Committee

|                        |                                |                         |
|------------------------|--------------------------------|-------------------------|
| Mr. Alberto J. Verme   | Chairman of the Committee      | entire reporting period |
| Mr. Igor Chalupiec     | Vice Chairman of the Committee | entire reporting period |
| Mr. Sanjeeb Chaudhuri  | Member of the Committee        | entire reporting period |
| Mr. Andrzej Olechowski | Member of the Committee        | entire reporting period |
| Mr. Stephen Simcock    | Member of the Committee        | entire reporting period |

The Supervisory Board wants to emphasize that, during the entire reporting period, it was composed of persons demonstrating the extensive knowledge of law, economics, banking, management and finance. A significant part of its Members have practical knowledge acquired as managers in international economic institutions. In the Supervisory Board's opinion, the expertise of its Members ensures due performance of its tasks resulting from applicable laws and regulations. The structure of the Board, including its committees, is shaped so that the Board and its committees can make the most of the expertise of its Members to contribute to the accomplishment of the goals and objectives assigned to the Supervisory Board.

## II. ASSESSMENT OF FINANCIAL RESULTS AND GENERAL SITUATION OF THE COMPANY

- (i) The year 2010 saw a visible recovery of Poland's economy and, as a result, brought about a significant improvement of profitability of the Polish banking sector. For the Bank, the year 2010 was the first year of implementation of its Strategy for 2010–2012 (adopted in March). Striving to ensure the utmost satisfaction of its clients, the Bank has built its Strategy on 4 pillars: new client segmentation, newly-defined business model, quality and innovation, and effectiveness. The results achieved by the Bank in 2010 confirm that the strategic assumptions have been implemented effectively. Net profit reached PLN 748.0 million, i.e. increased by 42% as compared to 2009.
- (ii) The main drivers that contributed to the 2010 financial result include an increase in net commission income and income on treasury operations and, also, a significant decline in net impairment write-offs relating to financial assets.
- (iii) Such decrease in net impairment write-offs relating to financial assets was primarily an outcome of a lower credit risk in the Corporate Banking segment, which, in turn, was the effect of improving financial condition of its clients. In the Consumer Banking segment, a slight increase in such write-offs was posted, which was largely connected with the impact of deteriorated macroeconomic conditions on the credit quality of the cash loan and credit card portfolios, which prevailed mainly in the first six months of 2010. However, in the last six months of 2010 such write-offs were gradually falling in that segment.  
The higher net fee and commission income was mainly generated by credit and payment cards and an increase in revenues from custody services.  
And the improved result on treasury operations was connected, first of all, with an increase in revenues from sales of investment debt securities.
- (iv) The Supervisory Board positively assesses the cost discipline policy continued by the Bank. As compared to 2009, total costs were reduced by PLN 12.2 million, i.e. by 0.9%. Such cost reduction was achieved due to the optimization of the branch network, which led to lower property rent and maintenance costs in the Consumer Banking segment. In addition, depreciation and other general administrative costs were also lower than in the previous year (including telecom fees, computer hardware costs and advisory services)

expenses). On the other hand, employee-related costs increased due new hires, which were necessary in the light of enhancement of the Bank's operations by some processes that were previously outsourced. The cost management policy of the Bank enabled it to maintain the cost/income ratio at the level of 53%.

- (v) In 2010, loans were still the largest asset position for the Bank. The balance of loans granted to the non-financial sector was slightly lower (by 1.1%) at the end of 2010 year on year. A deeper decline occurred in loans to the financial sector. Those loans decreased by 37.2%, to PLN 3.2 billion. The largest position on the liabilities side was deposits, as in the previous year. As compared to 2009, they rose by 4.5%, mainly as a result of higher deposits from the financial sector (increase by 26.3%). On the other hand, deposits from the non-financial sector recorded a small decline (by 0.7%), as a result of a lower balance of time deposits. Simultaneously, current account balances with the non-financial sector jumped by 12.4%. Such a shift in the structure of deposits of the non-financial sector reflects the Bank's current focus on clients that actively use their current accounts.
- (vi) As of the end of 2010, the Bank's equity recorded a small increase (by 1.2%) year on year. The Supervisory Board believes that the level of capitals maintained by the Bank is sufficient to ensure its financial security, as well as the security of deposits entrusted to it, and to stimulate its further growth. As of December 31, 2010, the capital adequacy ratio of the Bank was 18.7% and, as always, was one of the highest ratios among the largest banks operating in Poland's market. The high level of the capital adequacy ratio achieved by the Bank confirms its financial security and strong capital base.
- (vii) The Supervisory Board positively assesses the Bank's efforts to improve the competitiveness of its product range and to attract new clients. In the corporate business, prospective clients of the Bank include all companies in Poland, except businesses from those sectors that are permanently excluded due to the general policy of the Bank and those companies that are on various restriction lists as a result of international or U.S. sanctions. The Bank had an especially strong position in the segment of international corporations and largest Polish companies. The Bank had a rich, complex and advanced range of financial and transactional products and services for corporate clients, including leading edge solutions in the area of liquidity management (Consolidated Account, Cash Pool) and mass payments and receivables management (Speedcollect, Direct Debit, Unikasa). In 2010, the Bank maintained its leading position in such product markets as Microdeposits and Direct Debit and in the area of pre-paid cards in Poland. Additionally, the Bank was successfully developing its trade finance products, where a new solution was launched – reverse factoring. One of its most spectacular successes in 2010 was a 50% increase in factoring turnovers as compared to the previous year. Transactional banking services offered by the Bank were appreciated in the 15<sup>th</sup> edition of the Europroduct contest – the Bank was awarded for its Letter of Credit Discount, Citi Factoring and Local Government Factoring services. The Bank provides custodian services to foreign institutional investors and the services of a custodian bank to Polish financial institutions, especially pension funds, mutual funds and unit-linked insurance funds. In 2010, the Bank strengthened its leading position in that area. The top quality of custody services provided by the Bank is best confirmed by the "Top Rated" award in the category of the largest and most demanding clients, which the Bank won for the second time in a row in the prestigious customer satisfaction survey organized by "Global Custodian".  
The Bank offers a broad range of forex products and services for non-bank clients. In 2010, the Internet platform CitiFX Pulse gained a lot of interest among market participants after an upgrade that provided it with new functionalities and, hence, enabled it to maintain its market recognition as one of the most innovative solutions of that kind available in the market. In 2010, about 65% of forex clients actively used this platform.  
In 2010, an Investment Banking Team was established in Warsaw, and it has already participated in several key transactions in Poland's capital market, including its participation in the unique IPO of the Warsaw Stock Exchange.

In the area of Consumer Banking, the Bank was consistently enhancing its product range by new solutions in 2010 and, as a result, it had a full range of products for individual clients. As part of the activities to implement one of the assumptions of its Strategy for 2010-2012, the Bank launched numerous innovative products in the market, including a mobile version of the CitiMobile Internet banking service or the Citibank City Payment Card, which integrates the functionalities of a payment card and a city transport ticket. This card was awarded as the "Most Innovative Polish card in 2010". In addition, the Bank was the first bank in Poland that implemented an instant embossing process for debit and credit cards, which is now executed at its branches. Cards issued by the Bank contain a microprocessor and meet the highest transaction security standards. In 2010, the Bank defended its position as leader in the credit card market (in terms of transaction value).

In 2010, the Bank continued the restructuring of its distribution network to adjust it to clients' needs by increasing the number of alternate points of sale, which are situated at airports, shopping centers and fuel stations, etc. The Bank was also developing other distribution channels. In 2010, the Bank introduced an upgraded version of its Citibank Online transaction service.

- (viii) The Supervisory Board carries out regular reviews of cooperation between the Bank and its majority investor. Such cooperation covers multiple areas, the most important of which are: implementations of new banking products and IT systems, risk management, financial control, HR management and internal control. The Supervisory Board positively assesses the efforts of the Management Board to ensure that the services provided by the majority investor are properly settled.
- (ix) Due to the risk of a prolonged sovereign debt crisis in the Eurozone, which may result in higher volatility in financial markets, the Supervisory Board assumes that its close cooperation with the Management Board will still be needed to monitor the impact of such factors on the situation of the Bank.
- (x) Taking account of the financial results achieved by the Bank, its secure position and stable capital and liquidity ratios, and its innovative product range, the Supervisory Board positively assesses the activities of the Bank in 2010 and is convinced that both the implemented and planned initiatives will contribute to ensuring the optimized financial results and market position of Bank Handlowy w Warszawie S.A. in a challenging market environment.

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

- (i) In accordance with its Articles of Association, the Bank has in place an internal control system that monitors if the Bank's activities are lawful and correct and if its financial statements and disclosures are accurate.
- (ii) The primary objective of the internal control system is to support decision-making processes that are to ensure the effectiveness and efficiency of the Bank's operations, the reliability of its financial reporting and the compliance of the Bank's activities with applicable laws and internal regulations. The internal control system includes risk control mechanisms, reviews of the Bank's compliance with laws & internal regulations and internal audit.
- (iii) Internal audit tasks are carried out at the Bank by the Internal Audit Department, which, organizationally, is a separate unit in the organizational structure of the Bank and reports directly to the Management Board. The tasks of the Internal Audit Department include independent and objective audits and assessments of adequacy and effectiveness of its internal control system and providing opinions on the management system of the Bank, including the effectiveness of management of all risks connected with the Bank's operations.

- (iv) Functional internal control is a duty of each employee of the Bank and, additionally, of his or her direct manager and associates, and of managers of organizational units of the Bank in the scope of quality, correctness and execution by individual employees of their tasks in order to ensure the compliance of such activities with procedures and controls of the Bank.
- (v) The Internal Audit Department is overseen by the Supervisory Board of the Bank. The Internal Audit Department submits, on a regular basis, but at least annually, to the Supervisory Board and Management Board, its reports on any identified irregularities and deficiencies, as well as recommendations formulated after internal audits, and activities initiated to rectify such irregularities and to implement such recommendations. The head of the Internal Audit Department is invited to participate in all meetings of the Management Board and Supervisory Board.
- (vi) The Supervisory Board has established a permanent Audit Committee. Its powers and duties include: oversight over financial reporting, risk management and internal & 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 at the Bank.

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

The Supervisory Board positively assesses the functioning of the system used by the Bank to manage significant risks.

#### **IV. ASSESSMENT OF ACTIVITIES OF THE SUPERVISORY BOARD**

- (i) Corporate Governance

In the reporting year, the Board, within the framework of its powers, adhered to corporate governance principles that apply to public companies.

- (ii) Settlements between the Bank and Citigroup

In the reporting period, the Supervisory Board monitored and supervised any issues relating to settlements between the Bank and Citigroup.

By Resolution of August 6, 2010, the Supervisory Board of the Bank decided to accept the amount of the license fees for the software used for business purposes. By Resolution of November 8, 2010, it approved an amendment to the trilateral agreement between Bank Handlowy and its affiliates concerning the assurance of continuity of business and support for IT systems of the Bank. In addition, on November 25, 2010, the Supervisory Board of the Bank decided to acknowledge the opinion of Deloitte, an independent auditor, in the scope of the arm's length level of the fee for the use by the Bank of IT services in 2009 under relevant agreements.

By Resolution of December 7, 2010, the Supervisory Board accepted the amount of the fee for the services in the scope of data processing and maintenance of IT systems used by the Bank that were provided in 2010.

By Resolution of December 16, 2010, the Supervisory Board approved the commencement of work relating to the use by Bank Handlowy of services in the scope

of card payment processing and transmission on the basis of a new system provided by member companies of Citigroup.

By Resolution of December 17, 2010, the Supervisory Board accepted a new format of agreements to be used at the Bank to conclude contracts between the Bank and member companies of Citigroup. By Resolution of December 22, 2010, the Supervisory Board accepted the fees under the ECHO agreement relating to advisory support services provided to the Bank by Citi affiliates. By Resolution of December 23, the Supervisory Board of the Bank decided to approve the renewal, on the same terms and conditions, of the agreement for use of the package of HROne applications.

(iii) Amendments to the Articles of Association and Rules of the Bank

No amendments were made to the Bank's Articles of Association or the Rules of the Supervisory Board.

(iv) Other Issues

On August 10, 2010, the Supervisory Board of the Bank acknowledged the information on the areas where the reinforcement of controls is recommended, as specified in the co called "Letter to the Management Board", provided by KPMG Audyt sp. z o.o. after the audit of the financial statements for the financial year ending December 31, 2009. At its meeting held on December 7, 2010, the Supervisory Board passed a resolution to approve the Audit Plan for Bank Handlowy w Warszawie S.A. for 2011.

At the 3<sup>rd</sup> meeting, held on March 15, 2011, the Supervisory Board accepted the "Report on Activities of the Compliance & Control Department in 2010". Thereafter, the Supervisory Board acknowledged the "Report on Banking Outsourcing and Outsourcing Risk Supervision and Control at Bank Handlowy w Warszawie S.A.". In addition, at the same meeting, the Supervisory Board accepted reports submitted by the Audit Committee, Risk and Capital Committee and Remuneration Committee. In the reporting period, the Supervisory Board monitored the implementation of the strategic assumptions of the Bank, while paying due attention to the areas of management of the Bank's risks and capital.

## **V. ASSESSMENT OF THE FINANCIAL STATEMENTS OF THE BANK**

At the 3<sup>rd</sup> meeting, held on March 15, 2011, the Supervisory Board positively assessed: the Management Board's report on the activities of the Bank and the Bank's Group of Companies in the financial year 2010 and the financial statements of the Bank and the Bank's Group of Companies for the financial year 2010, taking into consideration the auditor's opinion and report on the audit of the financial statements of the Bank and the Bank's Group of Companies, prepared by KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa, the auditor of the Bank – and concluded that the submitted Management Board's report on the activities of the Bank in the financial year 2010 and the financial statements of the Bank and the Bank's Group of Companies for the financial year 2010 were prepared in accordance with the books of account and documents and, also, in accordance with the actual status and the requirements of the Accounting Act. At the same meeting, a resolution concerning the selection of the auditor was passed.

The Supervisory Board positively assessed the recommendation concerning the distribution of profits for the financial year 2010, submitted by the Management Board.

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

This report was examined and accepted by way of resolution at the meeting of the Supervisory Board held on March 15, 2011 in order to submit it to the Ordinary General Meeting of Shareholders of the Bank.

