

**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 2014  
to the date of the Ordinary General Meeting of Shareholders in 2015

**I. Compositions of the Supervisory Board**

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

Mr. Andrzej Olechowski	Chairman of the Board	entire reporting period
Mr. Shirish Apte	Vice Chairman of the Board	entire reporting period
Mr. Adnan Omar Ahmed	Member of the Board	entire reporting period
Mr. Igor Chalupiec	Member of the Board	entire reporting period
Mr. Mirosław Gryszka	Member of the Board	entire reporting period
Mr. Frank Mannion	Member of the Board	entire reporting period
Mr. Dariusz Mioduski	Member of the Board	entire reporting period
Ms. Anna Rulkiewicz	Member of the Board	entire reporting period
Mr. Stanisław Sołtysiński	Member of the Board	entire reporting period
Mr. Zdenek Turek	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. Frank Mannion	Vice Chairman of the Committee	since September 30, 2014
Mr. Shirish Apte	Member of the Committee	entire reporting period
Mr. Igor Chalupiec	Member of the Committee	entire reporting period
Ms. Anna Rulkiewicz	Member of the Committee	entire reporting period

**Remuneration Committee**

Mr. Andrzej Olechowski	Chairman of the Committee	entire reporting period
Mr. Adnan Omar Ahmed	Vice Chairman of the Committee	entire reporting period
Mr. Shirish Apte	Member of the Committee	entire reporting period
Mr. Stanisław Sołtysiński	Member of the Committee	entire reporting period

**Strategy and Management Committee**

Mr. Shirish Apte	Chairman of the Committee	entire reporting period
Mr. Stanisław Sołtysiński	Vice Chairman of the Committee	entire reporting period
Mr. Igor Chalupiec	Member of the Committee	entire reporting period
Mr. Mirosław Gryszka	Member of the Committee	entire reporting period
Mr. Frank Mannion	Member of the Committee	since September 30, 2014
Mr. Dariusz Mioduski	Member of the Committee	since September 30, 2014
Mr. Andrzej Olechowski	Member of the Committee	entire reporting period
Ms. Anna Rulkiewicz	Member of the Committee	entire reporting period
Mr. Zdenek Turek	Member of the Committee	entire reporting period

Mr. Stephen R. Volk	Member of the Committee	entire reporting period
Mr. Anil Wadhvani	Member of the Committee	since September 30, 2014

#### Risk and Capital Committee

Mr. Zdenek Turek	Chairman of the Committee	entire reporting period
Mr. Igor Chalupec	Vice Chairman of the Committee	entire reporting period
Mr. Frank Mannion	Member of the Committee	since September 30, 2014
Mr. Andrzej Olechowski	Member of the Committee	entire reporting period
Mr. Stephen R. Volk	Member of the Committee	entire reporting period
Mr. Dariusz Mioduski	Member of the Committee	entire reporting period
Mr. Anil Wadhvani	Member of the Committee	since September 30, 2014

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. Supervisory Board 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 growth rate in the economy was relatively stable during 2014, reaching its peak in the second quarter, followed by a slowdown, with the average of 3.3 percent for the year. In turn the consumer price index did not change year over year, mainly as a result of falling fuel and food prices. Taking into account both deep decline in the inflation rate and deteriorating growth outlooks, the Monetary Policy Council (MPC) decided to cut the reference interest rate by 50 basis points and the lombard rate by 100 basis points in the second half of 2014.
- In such a demanding market environment the Bank earned a net profit of PLN 971 million, i.e. 4% higher versus prior year. The high efficiency of the Bank and its safe and stable capital position are the main areas where the Bank surpassed its competitors.
- (iii) The key factors affecting the financial result in 2014 include a decline in net interest income, offset by consistent cost discipline and positive net impairment charges for financial assets, achieved thanks to the continued stabilization of the credit portfolio of the Bank.
- (iv) In 2014, operating revenues amounted to PLN 2.408 billion and were PLN 58 million, or 2.4%, lower versus the 2013 level, first of all as a result of a decline in net interest income and a lower result on investment debt securities. On the other hand, the result on trading financial instruments rose by PLN 35 million, i.e. 10.1%, in consequence of higher earnings from interbank operations.
- (v) In 2014, as in 2013, the Bank strived to maintain cost discipline. As compared to 2013, costs declined by PLN 82 million, or 6.2%, mainly because of restructuring savings, which were partially reinvested in branch conversion efforts (including the Smart Banking Ecosystem project), technologies and marketing.

- (vi) The year 2014 also saw a further stabilization of quality of the credit portfolio, which was confirmed by positive net impairment charges for financial assets, amounting to PLN 18.3 million. In addition, the Bank sold some impaired cash loan and credit card exposures with related impairment charges totaling PLN 161.6 million. As a result, the Non-Performing Loan (NPL) ratio was reduced to the record-low level of 4.5% as of the end of 2014.
- (vii) The Supervisory Board concludes with great satisfaction that it was another year of sustainable growth of lending, both in institutional and consumer banking area, this time by 9% and 11%, respectively, versus prior year.  
On the side of deposit volumes, funds on the current accounts of clients with the Bank continued to expand thanks to a strategic focus on operating accounts. As a result, the deposit base of the Bank rose 13.5% year on year.
- (viii) As of the end of 2014, shareholders' equity was practically unchanged versus prior year level. The Supervisory Board believes that the level of capital maintained by the Bank is sufficient to ensure the financial safety of both our institution and deposits in our custody, as well as to support various development scenarios for the Bank.  
As of the end of December 2014, the Capital Adequacy Ratio (CAR) of the Bank was 17.2% and, as always, one of the highest ratios among the large banks operating in Poland's market. The high CAR level achieved by the Bank confirms its financial safety and solid capital base.
- (ix) The Supervisory Board assesses cooperation of the Bank with its majority shareholder on an ongoing basis. That cooperation is multidimensional, with the key areas including implementations of new banking products and IT systems, risk management, financial controlling, HR management and internal control. The Supervisory Board acknowledges the efforts of the Management Board in the area of adequate settlements of services provided by the majority shareholder.
- (x) Because of the risk of zloty appreciation in connection with monetary policy easing in the Eurozone and the risk of increasing geopolitical uncertainty in Eastern Europe, which may hamper the growth rate in Poland, the Supervisory Board assumes that its close cooperation with the Management Board should be continued to examine the impact of those risk factors on the situation of the Bank.
- (xi) Taking into consideration the financial results achieved, the safe position of the Bank, the stable capital and liquidity ratios and the consistent and coherent strategy of the Bank, the Supervisory Board's assessment of the activities of the Bank in 2014 is positive. Simultaneously, the Supervisory Board is convinced that both already started and planned initiatives will contribute to an increase in shareholder value by allowing Citi Handlowy to achieve optimal financial results and market position 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) The institutional internal control in the Bank is carried out by the Audit Department, being an independent organizational unit, operating within the organizational structure of the Bank. The Audit Department reports to the President of 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 adhered to the corporate governance rules for public companies, within the framework of its powers.

(ii) Settlements between the Bank and Citi

In the period covered by this report, the Supervisory Board monitored and supervised, on an ongoing basis, the area of settlements between the Bank and Citi, its strategic shareholder. In particular, such supervision covered any contracts for provision to the Bank of consulting and advisory services and operating support, and for performance of actual operations connected with banking activity in the area of information technology, including banking outsourcing. On 7 January 2015, the Supervisory Board approved the fee resulting from the contract for consulting and advisory services.

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

By the resolution of 14 August 2014, the Supervisory Board determined the consolidated text of the Rules of the General Meeting of Shareholders of Bank Handlowy w Warszawie S.A.

At the meeting of 30 September 2014 and by the resolution of 29 January 2015, the Supervisory Board approved the recommended amendments to the Articles of Association of the Bank relating, inter alia, to the scope of brokerage operations.

On 29 January 2015, the Supervisory Board amended the Rules of the Supervisory Board of Bank Handlowy w Warszawie S.A. The amendments have implemented the requirements concerning the principles of identification, management and prevention of conflicts of interest affecting Members of the Bank's Supervisory Board, which are specified in the "Principles of Corporate Governance for Supervised Institutions", issued by the PFSA (Polish Financial Supervision Authority). On the same day, the Supervisory Board approved similar changes to the Rules of the Management Board of Bank Handlowy w Warszawie S.A.

(iv) Miscellaneous

At the meeting of 21 July 2014, the Supervisory Board decided to confirm the acquisition by Members of the Bank's Management Board of their rights to the Variable Remuneration for 2013 consisting of Short-Term Phantom Shares and determined the manner of distribution of those bonuses.

At the meeting of 30 September 2014, the Supervisory Board discussed and approved the "Technology Strategy of Bank Handlowy w Warszawie S.A. for 2014 - 2015." At the same meeting, the Board acknowledge the report on results of assessment of implementation of the principles of the "Risk management policy for (unsecured and mortgage secured) retail credit exposures." During the meeting, the Supervisory Board further approved the Report of the Audit Department for the period from 16 April 2014 to 2 September 2014.

On 11 January 2015, the Supervisory Board approved, upon a positive opinion of the Remuneration Committee, amendments to the "Variable Remuneration Component Policy for Managerial Staff at Bank Handlowy w Warszawie S.A."

On 15 January 2015, the Supervisory Board acknowledged the report on the implementation at the Bank of Recommendation D concerning management of IT areas and IT and telecommunication environment safety at banks.

At the meeting of 20 January 2015, the Supervisory Board discussed issues relating to remuneration of Members of the Bank's Management Board, and especially awarding annual bonuses for 2014 to Members of the Bank's Management Board and awarding next installments of "Long-Term Bonuses in BH Phantom Shares and Deferred Monetary Bonuses."

At the meeting held on 20 March 2015, the Supervisory Board accepted the "Annual report on performance of compliance activities and on management of non-compliance risk in 2014 at Bank Handlowy w Warszawie S.A., including performance of security assurance tasks." At the same meeting, the Supervisory Board discussed and approved the "Strategy of disclosing and assessing adequacy of information disclosed by Bank Handlowy w Warszawie S.A." and the "Principles of information policy of Bank Handlowy w Warszawie S.A." Further at the meeting, within the framework of supervision over activities of the Audit Department, the Supervisory Board approved the "Report of the Audit Department for 2014." The report summarizes activities carried out by the Audit Department in a given period, including the presentation of existing risks and control issues, the status of implementation of Audit Plans and the evaluation of the control environment at the Bank. As the next item on the agenda, the Supervisory Board was presented the Consolidated Financial Plan of the Bank Group for 2015. After that, the Board approved amendments to the "Principles of prudent and stable risk management at the Group of Bank Handlowy w Warszawie S.A." and accepted the document "Capital management at the Group of Bank Handlowy w Warszawie S.A. for 2015." Within the framework of implementation of the Principles of Corporate Governance for Supervised Institutions, issued by the PFSA (Polish Financial Supervision Authority), the Supervisory Board passed a resolution to accept amendments to the "Internal Control Principles of Bank Handlowy w Warszawie S.A." In addition, the Supervisory Board was presented a report on policies of management of risks generated by credit exposure portfolios.

In the reporting period, the Supervisory Board monitored the implementation of 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 meeting, held on March 20, 2015, 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 2014 and the financial statements of the Bank and the Bank's Group of Companies for the financial year 2014, 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 PricewaterhouseCoopers sp. z o.o., the auditor of the Bank – and concluded that the submitted Management Board's report on the activities of the Bank in the financial year 2014 and the financial statements of the Bank and the Bank's Group of Companies for the financial year 2014 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 2014, 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 May 19, 2015 in order to submit it to the Ordinary General Meeting of Shareholders of the Bank.