

REPORT

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

for the period from the date of the Annual General Meeting of Shareholders in 2016
to the date of the Annual General Meeting of Shareholders in 2017

1. Members of the Supervisory Board

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

Mr. Andrzej Olechowski	Chairman of the Board	entire reporting period
Mr. Zdenek Turek	Vice Chairman of the Board	until December 31, 2016
Mr. Shirish Apte	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. Marek Kapuściński	Member of the Board	from September 22, 2016
Mr. Frank Mannion	Member of the Board	entire reporting period
Mr. Dariusz Mioduski	Member of the Board	until June 30, 2016
Ms. Anna Rulkiewicz	Member of the Board	entire reporting period
Mr. Anand Selvakesari	Member of the Board	from June 21, 2016
Mr. Stanisław Sołtysiński	Member of the Board	entire reporting period
Mr. Stephen R. Volk	Member of the Board	entire reporting period
Mr. Anil Wadhvani	Member of the Board	until June 20, 2016

1.2. Independent Members of the Supervisory Board

In the opinion of the Supervisory Board, the Independent Members of the Supervisory Board are as follows:

Mr. Andrzej Olechowski	Chairman of the Board
Mr. Igor Chalupiec	Member of the Board
Mr. Mirosław Gryszka	Member of the Board
Pan Marek Kapuściński	Member of the Board
Ms. Anna Rulkiewicz	Member of the Board
Mr. Stanisław Sołtysiński	Member of the Board

1.3. Evaluation of the composition of the Supervisory Board

The Supervisory Board wants to emphasize that, during the entire reporting period, it was composed of persons demonstrating the extensive knowledge of law, economics, banking, management and finance. Members of the Supervisory Board have 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.

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

1.4.1. Audit Committee

Mr. Mirosław Gryszka	Chairman of the Committee	entire reporting period
Mr. Frank Mannion	Vice Chairman of the Committee	entire reporting period
Mr. Shirish Apte	Member of the Committee	entire reporting period
Mr. Igor Chalupiec	Member of the Committee	entire reporting period
Mr. Marek Kapuściński	Member of the Committee	from September 28, 2016

Ms. Anna Rulkiewicz	Member of the Committee	entire reporting period
---------------------	-------------------------	-------------------------

1.4.2. Remuneration Committee

Mr. Andrzej Olechowski	Chairman of the Committee	entire reporting period
Ms. Jenny Grey	Vice Chairman of the Committee	from September 28, 2016
Mr. Stanisław Sołtysiński	Member of the Committee	entire reporting period
Mr. Zdenek Turek	Member of the Committee	until December 31, 2016

1.4.3. 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
Ms. Jenny Grey	Member of the Committee	from September 28, 2016
Mr. Mirosław Gryszka	Member of the Committee	entire reporting period
Mr. Marek Kapuściński	Member of the Committee	from September 28, 2016
Mr. Frank Mannion	Member of the Committee	entire reporting period
Mr. Dariusz Mioduski	Member of the Committee	until June 30, 2016
Mr. Andrzej Olechowski	Member of the Committee	entire reporting period
Ms. Anna Rulkiewicz	Member of the Committee	entire reporting period
Mr. Anand Selvakesari	Member of the Committee	from September 28, 2016
Mr. Zdenek Turek	Member of the Committee	until December 31, 2016
Mr. Stephen R. Volk	Member of the Committee	entire reporting period
Mr. Anil Wadhvani	Member of the Committee	until June 20, 2016

1.4.4. Risk and Capital Committee

Mr. Zdenek Turek	Chairman of the Committee	by December 31, 2016
Mr. Igor Chalupiec	Vice Chairman of the Committee	entire reporting period
Mr. Frank Mannion	Chairman of the Committee from March 22, 2017	entire reporting period
Mr. Dariusz Mioduski	Member of the Committee	until June 30, 2016
Mr. Andrzej Olechowski	Member of the Committee	entire reporting period
Mr. Anand Selvakesari	Member of the Committee	from September 28, 2016
Mr. Stephen R. Volk	Member of the Committee	entire reporting period
Mr. Anil Wadhvani	Member of the Committee	until June 20, 2016

1.5. Meetings of the Supervisory Board and its Committees

In the reporting period, the Supervisory Board held six meetings, and its Committees: Audit Committee – 4, Risk and Capital Committee – 4, Remuneration Committee – 3, Strategy and Management Committee – 2.

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

In 2016, Poland's economy continued to grow, however at a slower pace of 2.8%, as compared to 3.9% in 2015. The key growth driver was domestic demand, and especially private consumption, which rose from 3.2% year-over-year to 3.6% in 2016. That consumption growth was mainly fuelled by the labor market, which continued to improve with the unemployment rate falling to a record low level in 2016. At the same time, last year saw a significant decline in investments, by 5.5% year-over-year versus an increase by 6.1% in 2015, mainly because of lower inflows of EU funds.

In 2016, the net profit of the banking sector rose by 24%, to PLN 13.9 billion, as compared to PLN 11.2 billion in 2015. That growth was primarily caused by one-off factors, such as an increase in revenues resulting from the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. in 2016. At the same time, the profitability of the banking sector in 2016 was adversely affected by the bank levy on certain financial institutions, new regulatory requirements for group insurance products and high volatility in international financial markets.

In this demanding market environment, the Bank generated net profit reaching PLN 604.2 million. At the same time, return, liquidity and equity ratios of the Bank reached much higher levels than the banking sector average. The stable situation of the Bank enabled it to actively support development plans of its clients and to pursue its policy of shareholder value maximization.

The key factors that shaped the financial result in 2016 include higher revenues and continued cost discipline. The costs of risk were up, back to normal level, and the Bank paid the bank levy.

In 2016, the operating revenues of the Bank amounted to PLN 2.06 billion and were higher by PLN 45 million, or 2.2%, than in 2015, first of all because of the revenue from settlement of the takeover of Visa Europe Ltd. by Visa Inc. and higher net interest income, achieved despite all time low interest rates. This growth was partially offset by lower net fee and commission income, following regulatory changes applicable to group insurance, and a lower result on treasury operations, caused by market headwinds.

In 2016, the Bank continued its cost discipline policy. As compared to 2015, costs were down by PLN 73.6 million, or 5.9%. The key drivers were a decline in general and administrative expenses and lower staff-related costs in connection with the continued transformation of the distribution system towards the *Smart Banking Ecosystem*.

In 2016, the costs of risk were back to normal levels. The result on impairment write-downs for financial assets was PLN 48.8 million. On the other hand, the Non-Performing Loan (NPL) ratio was reduced to a record-low level of 2.9% as at the end of 2016.

For the Bank, it was another year of sustainable growth of lending. In the Institutional Clients Group (ICG), the growth rate reached 9%, i.e. significantly above the GDP growth rate in 2016, and in the Global Consumer Banking (GCG) business, the volumes increased by 4%. Simultaneously, in 2016 the Bank had an increase in funds deposited in current accounts, by 7% and 17% in ICG and GCG, respectively, from 2015.

At the end of 2016, the equity of the Bank recorded a small decrease as compared to the prior year period, mainly owing to a negative valuation of the debt securities portfolio. 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, 2016, the capital adequacy ratio of the Bank was 17.2%. The excess of the Bank's capital over the regulatory requirement was constantly one of the largest surpluses among large 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.

As the GDP growth rate in Poland is likely to decline – because of the planned changes in the EU budget after Brexit and the outflow of capital from emerging markets triggered by the uncertainty generated by the economic and foreign policy of the United State – the Supervisory Board will still

closely cooperate with the Management Board to monitor the impact of those factors on the situation of the Bank.

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 2016 is positive. Simultaneously, the Supervisory Board is convinced that both already started and planned initiatives will contribute to an increase in shareholder value by allowing the Bank to achieve optimal financial results and market position despite a challenging market environment.

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

3.1. Corporate social responsibility of the Bank

The Bank undertakes all actions following the needs of its customers, but also the community in which it operates. The Bank is socially responsible for and sensitive to the needs of both its business and social partners.

The corporate social responsibility initiatives of the Bank cover workplace and market environment, local communities and natural environment protection. The strategic objective is to become a company setting Corporate Social Responsibility (CSR) standards, both outside and inside the organization. The Bank continues investments supporting local communities, implemented for public good in such fields as economic education, promotion of entrepreneurship, local development and protection of cultural heritage. The Bank's mission in this area is fulfilled through the Leopold Kronenberg Foundation (Foundation), established in 1996.

In 2016, the Foundation ran four programs in the area of financial education and entrepreneurship, three programs in the area of cultural heritage and six employee volunteering programs. It also carried out a ninth edition of the "Poles' Attitudes Towards Saving" survey, widely acclaimed by the media and opinion leaders. It is deemed one of the most reliable surveys of that kind in Poland. The Foundation continued its initiatives to protect cultural heritage, the most important of which is the Aleksander Gieysztor Award, granted to honor individuals and institutions with outstanding achievements in the field of cultural heritage protection. The ArtSherlock application was launched as part of the program aimed at recovering works of art and revolutionized searching for artworks lost in World War II. Its key quality consists in a wider range of search. Until recently, only an expert was able to identify whether a certain object is one of the missing artworks. At the moment, any smartphone owner can do this.

One of the key areas of the Foundation's activities in 2016 was the Citi Employee Volunteering Program. It has been consistently realized since 2005 and is one of the oldest employee volunteering programs in Poland. As in previous years, the Citi Global Community Day was a top event also in 2016. Volunteers from the Bank and Citi Service Center, together with their families and friends, were involved 3,299 times, took part in 217 projects and worked nearly 18,000 hours. They helped 31,000 people. As part of the program, volunteers also organized holiday campaigns, volunteers for seniors actions and integration volunteering outings. In 2016, the Foundation joined the "Volunteering in Culture" project, which resulted in a dedicated nation-wide conference. In 2016, the Foundation offered 7 subsidies for implementation of social projects. The high standards of the Bank's CRS activities are confirmed by many awards, for example the Ethical Company Award from the "*Puls Biznesu*" daily. A record number of good practices of Citi Handlowy was mentioned in the report "Responsible Business in Poland. Good Practices" prepared by the Responsible Business Forum.

The Kronenberg Foundation responds to social needs, which are previously properly diagnosed and identified. Especially in the area of economics education, there is a visible shortage of financial knowledge, which may lead to serious consequences in the life of every

Pole. A vital issue for the entire society is the goods plundered during World War II, which is why the Foundation pays a particular attention to searching for artworks lost in that time. As confirmed by multiple examples, employee volunteering is a special type of activity, which is meant not only to help others, but also to integrate. Surveys carried out by the Foundation every year show that volunteering strengthens teams of employees, affects their perception of the Bank as employer and develop their competences in various areas.

The Supervisory Board positively assesses the activities of the Kronenberg Foundation.

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

3.2. Sponsoring

In 2016, the Bank and the Foundation supported numerous nation-wide and international conferences and seminars. One of the them was the Smart City Forum conference, an event arranged in response to global transformation in the area of building and functioning of smart cities. The Bank was a partner of the Smart City Grand Gala, where the awards for achievements in 2015 were granted. As part of the conference, a representative of the Bank gave a presentation about the financing of Smart City investments and about Smart banking solutions.

Experts from the Bank took part in debates during the seventh edition of the "Economic Patriotism Age" program, organized under the patronage of the "Puls Biznesu" daily. Once more, the Bank was a partner of that initiative, which significantly contributes to development of the Polish business community.

In cooperation with the American Chamber of Commerce in Poland, the Bank was involved in the organization of the European Economic Congress in Katowice and the Economic Forum in Krynica. In Krynica, Mr. Sławomir S. Sikora, President of the Bank's Management Board, took part in the "Transatlantic Business Bridge" debate. During the meeting, for more than an hour, panelists discussed such issues as transatlantic economic cooperation, Polish companies investing in the USA and expectations of the TTIP (Transatlantic Trade and Investment Partnership).

The Bank was a partner of the European Forum for New Ideas (EFNI), with an award ceremony in the 3rd edition of the Emerging Market Champions competition, organized by the Kronenberg Foundation at Citi Handlowy. The ceremony was accompanied by a debate concerning the challenges that emerging economies are faced with nowadays.

In September 2016, the Bank was a partner of "Engineering of the Future 2016", a scientific and industrial conference dedicated to innovative technological and organizational solutions for the industry, organized by the Institute for Sustainable Technologies – National Research Institute.

In October 2016, Koziminski University in Warsaw organized the conference "Future of Poland's Economy", under the patronage of the Bank and with participation of Vice Prime Minister Mateusz Morawiecki and ex Vice Prime Ministers for economic policy. Its aim was to discuss internal and external conditions and development outlooks for Poland's economy. Experienced practitioners in the fields of economics, management, finance, banking and law took part in the discussion.

In mid-November, the Bank supported, as a partner, the Open Eyes Economy Summit. During that event, Mr. Sławomir S. Sikora, President of the Bank's Management Board, participated in the inspirational session "Value for a bank, value for its clients". On the second day of the conference, Ms. Katarzyna Majewska, Member of the Bank's Management Board and Head of Operations and Technology Sub-sector, joined a cybersecurity session.

In 2016, the Bank promoted golf in Poland, as a partner of the Polish Golf Union.

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

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

- 4.1. The obligation of the Supervisory Board to assess the functioning of the remuneration policy at Bank Handlowy w Warszawie S.A. results from Section 28.3 of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority (KNF) on July 22, 2014 and effective from January 1, 2015.

The remuneration policy for holders of key functions at Bank Handlowy w Warszawie S.A. ("Bank") ("Remuneration Policy") was approved by the resolution of the Supervisory Board of the Bank of December 3, 2015.

- 4.2. The Remuneration Policy is assessed as follows:

The Remuneration Policy covers the correct group of persons, defined as Key Persons. The Remuneration Policy appropriately defines the rules of remuneration applicable to Key Persons, including their form, structure and method of their determination. The rules of remuneration applicable to Members of the Supervisory Board are regulated by resolutions of the General Meeting of Shareholders.

The method of implementation of the Remuneration Policy at the Bank ensures that the structure of remuneration of Key Persons supports the long-term stability of the Bank and is in conformity with the strategy, goals and objectives, values and long-term interests of the Bank, especially such as sustainable growth, and enables the elimination of a potential adverse impact of remuneration systems on risk management.

The Bank has correctly implemented all the rules applicable to fixed remuneration included in the Remuneration Policy. In particular, the Bank diversifies amounts paid to Key Persons as their fixed remuneration taking into account their professional experience and functions in the organizational structure of the Bank.

The Bank uses the Remuneration Policy, in addition to other measures, to promote reasonable and effective risk management and to prevent risk taking going beyond an acceptable level. Consequently, the remuneration system based on financial and non-financial performance which is used by the Bank does not reward excessive risk taking in decision making. In particular, the remuneration of each of the Members of the Management Board is determined to promote the prudent management of the Bank and on the basis of financial and non-financial performance without rewarding inappropriate decisions taken by employees.

The detailed rules applicable to variable remuneration granted to Key Persons are regulated by the Policy of Variable Remuneration Components for Managers of Bank Handlowy w Warszawie S.A. ("Variable Remuneration Policy"). Those rules were properly applied to grant Key Persons variable remuneration in January 2017 (variable remuneration for their work in 2016), i.e.:

- the Remuneration Committee of the Bank's Supervisory Board recommends and justifies the amounts and conditions of variable remuneration for persons covered by the Variable Remuneration Policy. It also expresses an opinion on the amendments to the Variable Remuneration Policy, including the amounts of components of remuneration, following the rules of prudent and stable management of risk, capital and liquidity and with special care of long-term interests of the Bank and its shareholders, investors and stakeholders, In 2016, the Remuneration Committee of the Supervisory Board held five meetings;
- the level of variable remuneration for work in 2016 was determined on the basis of financial and non-financial criteria, taking into account the costs of risk, costs of capital and liquidity risk of the Bank in the long-term run. The variable remuneration determined as above was granted on January 16, 2017. It was divided into a current and deferred part. In turn, the deferred remuneration was split into a short-term part, which may be vested in employees after 6 months, and a long-term part, which is divided into three installments payable in 2018, 2019 and 2020;

- after having examined the situation the Supervisory Board and the Management Board found no reason to reduce the remuneration granted to any Key Person under the Variable Remuneration Policy – either within the framework of the ex-post risk adjustment connected with the results of the Bank or in connection with individual performance. The above-mentioned vesting of rights was related to the respective portions of deferred variable remuneration for work in 2013, 2014 and 2015.

In 2016, the Bank correctly analyzed the roles and responsibilities of their employees in the context of the key risks managed by the Bank and the quantitative and qualitative criteria described in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile and, on that basis, determined the list, approved by the Supervisory Board, of persons holding managerial positions who have a material impact on the risk profile of the Bank and, thus, should be subject to the Variable Remuneration Policy. As of November 22, 2016, the list of staff covered by the Variable Remuneration Policy in 2016 included 82 persons.

The Supervisory Board positively assesses functioning of the Remuneration Policy applied at the Bank.

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

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

In the evaluation period, the Bank was obligated to follow the principles of corporate governance prescribed by the "Best Practice for GPW Listed Companies 2016" ("BPLC"). The required statement confirming the application of corporate governance principles set out in the BPLC is submitted by publishing the "Statement of Bank Handlowy w Warszawie S.A. regarding the application of corporate governance principles at the Bank in 2016" in the "Report on the activities of Bank Handlowy w Warszawie S.A. and of Bank Handlowy w Warszawie S.A. Capital Group in 2016". The statement of the Bank includes, *inter alia*, the indication of the principles and recommendations from the BPLC that were not applied by the Bank in 2016, with justification.

In the evaluation period, the Bank did not provide any reports on the non-application or violations of detailed principles included in the BPLC.

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

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

The Supervisory Board states that the information obligations resulting from the Regulation of the Minister of Finance of 19 February 2009 on the Current and Periodic Information Provided by Issuers of Securities and the Conditions for Recognizing the Information Required by Legal Regulations of a Non-Member State as Equivalent (Journal of Laws of 2014, item 133, as amended) were correctly performed by the Bank in the reporting period.

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

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.

The primary objective of the internal control system is to support the decision-making processes that are to ensure the effectiveness and efficiency of the Bank's operations, the reliability of its financial reporting and the compliance of the Bank's activities with applicable laws and internal regulations. The internal control system includes risk control mechanisms, reviews of the Bank's compliance with laws & internal regulations and internal audit.

At the Bank, institutional internal control is performed by the Audit Department, which, organizationally, is a separate unit in the organizational structure of the Bank. The Audit Department is supervised by the Supervisory Board via the Audit Committee composed of its Members. Organizationally, the Audit Department reports to the President of the Bank's Management Board. The tasks of the Audit Department include independent and objective audits and assessments of adequacy and effectiveness of the 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.

Functional internal control is a duty of each employee of the Bank and, additionally, of his or her direct manager and associates, and also 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.

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

The 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 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 confirms its positive assessment of both operation of the internal control, risk management and compliance risk management systems used by the Bank and activities of the Bank's Internal Audit function. This assessment covers all the key controls, including especially the internal controls over financial reporting and the operational controls.

7. ASSESSMENT OF ACTIVITIES OF THE SUPERVISORY BOARD

7.1. Corporate Governance

As part of the implementation for application, in 2014 by the Management Board and Supervisory Board of the Bank and, next, in 2015 by the General Meeting of Shareholders, of the document Principles of Corporate Governance for Supervised Institutions, issued by the Polish Financial Supervision Authority (KNF), the Supervisory Board read, at its meeting on March 22, 2017, the "2016 Report – Assessment of Application of the Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority at Bank Handlowy w Warszawie S.A.", prepared by the Compliance Department and including an independent assessment of application of the "Principles of Corporate Governance for Supervised Institutions".

On the basis of the above Report of the Compliance Department and taking into account a positive recommendation provided by the Audit Committee of the Supervisory Board, the Supervisory Board concluded that in 2016 the Bank applied the rules resulting from the Principles of Corporate Governance for Supervised Institutions, except for the excluded principles.

The Bank sustained its decision not to apply three principles:

- principle related to organization of the so-called e-general meetings;
- principle related to seeking opinion of the supervisory body when concluding transactions with related parties if such transactions significantly affected the financial or legal situation of the Bank – this principle will not apply to agreements related to ongoing operations, especially those in the area of liquidity, due to the nature of transactions and the number of concluded agreements;
- principle related to holding meetings of the Bank's Management Board in the Polish language – meetings of the Management Board participated by foreigners, and especially foreigners who are members of the Management Board and do not speak Polish, are held in the English language. Simultaneously, any motions submitted to the Management Board, any materials and minutes of meetings are also prepared and kept in Polish.

7.2. Settlements between the Bank and Citigroup

In the reporting period, the Supervisory Board's business included issues related to the outsourcing of actual operations connected with banking activity in the field of information technology, also in the area of banking outsourcing. At the meeting on September 28, 2016, the Supervisory Board discussed and approved the annual management information report on the management of the risk related to the outsourcing of operations connected with banking and investment activities (banking and investment outsourcing). Such supervision covered any agreements 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. On January 5, 2017, the Supervisory Board approved the fee resulting from the agreement for consulting and advisory services.

In addition, the Supervisory Board worked on issues related to intercompany settlements in Bank Handlowy w Warszawie S.A. Group.

The Supervisory Board confirms its positive assessment of the activities of the Management Board in the field of adequate settlement of services provided by Citi, the majority investor.

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

At the meeting on December 9, 2016, the Supervisory Board approved the "Audit Regulations of the Audit Department".

7.4. Miscellaneous

By the resolution of July 1, 2016, the Supervisory Board decided to approve the acceptable tolerance level for model risk for the Bank in 2016, defined as the number of significant high-risk models.

On July 28, 2016, the Supervisory Board of the Bank acquainted itself with the procedure "Information obligations of Bank Handlowy w Warszawie S.A. as issuer of securities" and the Individual Reporting Standards.

At the meeting on September 28, 2016, the Supervisory Board passed a resolution concerning: determination of the level of the Dtl ratio, which refers to the maximum level of relation of spending related to servicing of credit liabilities and financial liabilities other than credit liabilities to income of retail clients, and changes in the so-called risk appetite for individual clients of the Consumer Banking Sector. In addition, the Supervisory Board accepted the amendments to the document "Capital Management at Bank Handlowy w Warszawie S.A. Group for 2016" connected with the change of the Dtl ratio. After that, the Supervisory Board was presented a report on the progress of implementation of the "Risk management policy for the portfolio of unsecured and secured retail credit exposures". Next, the Supervisory Board accepted the draft "Policy of assessment of qualifications of members of the Supervisory Board at Bank Handlowy w Warszawie S.A.", which will be applied in the process to appoint and dismiss members of the Bank's Supervisory Board. On the same day, the members of the Supervisory Board participated in a seminar on notification obligations related to managerial transactions and on information obligations of the Bank as a public company resulting from Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation – MAR).

On October 5, 2016, the Supervisory Board acknowledged the report of the Bank's Management Board on the implementation of the Bancassurance Policy.

During the next meeting held on December 9, 2016, the Supervisory Board approved amendments to the "Variable Remuneration Component Policy for Managerial Staff of Bank Handlowy w Warszawie S.A." As the next item of the agenda, within the framework of oversight over the internal control system, the Supervisory Board passed a resolution concerning approval of the report on the implementation by the Audit Department of the Strategic Plan in 2016. In addition, the Supervisory Board approved the "Audit Plan for Bank Handlowy w Warszawie S.A. for 2017". Next, the Supervisory Board discussed and approved the "Principles of functioning of internal control at Bank Handlowy w Warszawie S.A." and amendments to the "Rules of prudent and stable management of risk at Bank Handlowy w Warszawie S.A. Group". At the same meeting the Supervisory Board adopted a resolution to approve the document "Recovery plan for Bank Handlowy w Warszawie S.A. Group", prepared in accordance with the guidelines issued by the Polish Financial Supervision Authority and the requirements of the Banking Law, as amended by the Act on the Bank Guarantee Fund Act, the deposit guarantee system and compulsory resolution of June 10, 2016. Thereafter, the Supervisory Board accepted a report on the preliminary Financial Plan of the Bank for 2017.

On March 13, 2017, the Supervisory Board acknowledged a report on the manner of implementation of the Guidelines for provision of brokerage services in the OTC market of derivative instruments by the Brokerage Services Management Unit at Bank Handlowy w Warszawie S.A.

After that, on March 16, 2017, the Supervisory Board examined a report on the claims and complaints recorded at Bank Handlowy w Warszawie S.A. in 2016.

Moreover, on March 22, 2017, the Supervisory Board acknowledged a report on the full compliance of activities of the Brokerage Services Management Unit, which is a separate organizational unit through which brokerage activities are carried out at Bank Handlowy w Warszawie S.A., with the Guidelines on the management of information technology and information & telecommunication areas at investment firms and concluded that the subject guidelines had been fully implemented.

During the meeting on March 22, 2017, the Supervisory Board selected KPMG Audyt sp. z o.o. spółka komandytowa, with its registered office in Warsaw, as the entity entitled to audit the annual financial statements and to review the semi-annual abridged financial statements

for the years 2017-2018 prepared for Bank Handlowy w Warszawie S.A. and Bank Handlowy w Warszawie S.A. Capital Group. Then, the Supervisory Board adopted a resolution to approve the "Annual report on performance of compliance activities and on management of compliance risk at Bank Handlowy w Warszawie S.A. in 2016, including performance of security assurance tasks." The Supervisory Board discussed and accepted the acceptable general risk limit (overall risk appetite) for 2017 and approved changes in the document "Rules of prudent and stable management of risk at Bank Handlowy w Warszawie S.A. Group". As the next item of the agenda, the Supervisory Board examined the report of the Management Board on the implementation of the Risk Model Management Policy, the Concentration Risk Management Policy, the Risk Management Policy for Retail Credit Exposure Portfolio, including the Risk Management Policy for Mortgage-Backed Credit Exposures and the Risk Management Policy for Mortgage-Backed Credit Exposures and for Collateral Risk Management for Corporate and Commercial Banking. In addition, the Supervisory Board acknowledged a report on the portfolio of mortgage-backed credit exposures and a report on the level of risk generated by retail credit exposures. At the same meeting, the Supervisory Board was presented the final Consolidated Financial Plan of the Bank's Group for 2017. Additionally, the Supervisory Board approved the updated Technology Strategy of Bank Handlowy w Warszawie S.A. for 2016 – 2018.

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.

8. ASSESSMENT OF THE FINANCIAL STATEMENTS OF THE BANK

At the meeting, held on March 22, 2017, the Supervisory Board positively assessed: the Management Board's report on the activities of the Bank and the Bank's Group in the financial year 2016 and the financial statements of the Bank and the Bank's Group for the financial year 2016, taking into consideration the auditor's opinion and report on the audit of the financial statements of the Bank and the Bank's Group, prepared by PricewaterhouseCoopers sp. z o. o., the entity authorized to audit the annual financial statements of the Bank – and concluded that the submitted Management Board's report on the activities of the Bank in the financial year 2016 and the financial statements of the Bank and the Bank's Group for the financial year 2016 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.

The Supervisory Board positively assessed the recommendation concerning the distribution of profits for the financial year 2016, submitted by the Management Board.

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

This report was examined and accepted by way of resolution on May 17, 2017 in order to submit it to the Annual General Meeting of Shareholders of the Bank.