

## **Extract form the report on Acitivities of Management Board of ther Bank Handlowy w Warszawie S.A. regarding the compliance with the coporate governance rules in 2008**

### **I. Declaration of Bank Handlowy S.A. regarding compliance with corporate governance rules**

#### **Corporate governance rules applied by the Bank Handlowy w Warszawie S.A (the “Bank” or “Company”)**

It is the Bank’s priority to become the most respected financial institutions in Poland, with a considerable sense of business and social responsibility. Since 2003 the Bank has been complying with corporate governance rules adopted by Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) in the form of “Best Practices in Public Companies 2005” and as of 1 January 2008 “Best Practices in Listed Companies”. The key objective behind the adoption of corporate governance rules as a standard determining the Bank’s functioning has been the establishment of transparent relations among all corporate bodies and entities involved in the Company’s operation as well as ensuring that the Company and its enterprise are managed properly, with due diligence and loyalty with respect to all shareholders. The willingness to ensure transparency of the operation of Bank Handlowy w Warszawie S.A., including in particular with respect to the relations and processes between the Company’s statutory bodies, led to the adoption of best practices as set forth in the “Best Practices in Listed Companies” to be applied by the Bank. The aforementioned document is available at the website of the Warsaw Stock Exchange. Based on a resolution of 13 May 2008 adopted by the Management Board and a resolution of 20 May 2008 adopted by the Supervisory Board, the Bank’s corporate bodies declared their willingness to comply with the corporate governance rules specified in the “Best Practices in Listed Companies”, except for three rules not applicable to the Bank’s operations.

#### **Corporate governance rules as per the “Best Practices in Listed Companies”, which were not applied by the Bank in 2008**

The Bank declared its willingness to comply with the “Best Practices in Listed Companies”, except for the following three rules:

- (i) rule II.3 (applicable to the Management Board) and rule II.9 (applicable to the Supervisory Board) in respect of the Supervisory Board’s approval of material related party transactions/agreements entered into as part of ongoing operations, in particular those related to liquidity management; and
- (ii) rule IV.8 for ensuring a change of the entity authorized to audit the financial statements at least every seven financial years.

The Bank did not apply rules II.3 and III.9 incorporated in the “Best Practices in Listed Companies” only with respect to related party agreements regarding ongoing operations, in particular those related to liquidity management.

Considering the nature and number of transactions entered into as part of ongoing operations, it is not possible to obtain the Supervisory Board’s approval of their conclusion from the perspective of the operating activity. Simultaneously, it should be emphasized that a report on the ongoing monitoring of the Bank’s operations is submitted to the Supervisory Board on a monthly basis, which includes among others information on related party transactions exceeding PLN 100,000.

Rule IV.8 of the “Best Practices in Listed Companies” may not be applied as the Bank belongs to the Citi Capital Group and is included in the consolidated financial statements drawn up by Citigroup Inc., which applies separate principles of cooperation with entities auditing financial statements. At the same time, the Bank informs that it complies with the applicable regulations on statutory auditor rotation in line with

Directive 2006/43/EC of the European Parliament of 17 May 2006 on statutory audits of annual accounts and consolidated accounts.

### **Internal control and risk management systems in the process of drawing up financial statements of the Bank**

The financial statements of the Bank are drawn up by the Financial Reporting and Control Department, which constitutes a separate organizational unit in the Financial Division in the Management and Support Sector, reporting directly to the Chief Financial Officer – Vice-President of the Management Board.

The process of drawing up the financial statements is subject to the Bank's internal control system, aimed at supporting decision-making processes which ensure credibility and reliability of financial reporting. The internal control system includes control mechanisms applicable to risks related to the process of drawing up the Bank's financial statements, auditing the Bank's compliance with legal provisions and internal regulations in this respect as well as internal audit.

Functional internal control is exercised by every employee 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. The internal control functions include a separate financial control function performed by the Financial Division as well as the Risk and Control Self-Assessment process (RCSA). The Bank's financial control applies to the accounting policy and financial reporting. The quarterly Risk and Control Self-Assessment constitutes an evaluation and a proactive, effective key risk management process, integrated with the process of drawing up the financial statements. Risk management is performed by means of internal control mechanisms. The quarterly RCSA process is the Bank's fundamental tool used for monitoring the risk levels as well as changes in the financial reporting environment, for identification of new threats and development of corrective action plans. The Bank's operational risk monitoring process is based on efficient mechanisms ensuring the security of technology systems. The IT systems used in the process of drawing up the financial statements are covered by the Bank's COB plan.

The functional control system is supervised by the Bank's Management Board through the Risk Committee.

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 ARR Department is responsible for an independent and objective review and assessment of the risk related to the activities undertaken by the units involved in the process of the Bank's financial reporting as well as effectiveness of the internal control system. To this end, the Department regularly controls and evaluates the compliance of the above units with the law, internal normative acts as well as the risk incurred.

The Supervisory Board of the Bank exercises supervision over the internal control system and the operations of the Audit and Risk Review Department. The Supervisory Board performs its functions through the Audit Committee, which, as part of the supervisory function, in cooperation with the Bank's Management Board and the statutory auditor verifies the fairness of the financial statements as well as proper functioning of the processes related to their preparation and submits recommendations with respect to the approval of the annual and interim financial statements by the Bank's Supervisory Board.

On a periodic basis, at least once per annum, the Head of 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 has the right to participate in meetings of the Management and Supervisory Boards during which issues related to the Bank's internal control are considered.

### **Significant shareholdings**

The Bank's shareholder holding directly or indirectly through its subsidiaries at least 5% of votes at the General Meeting of Bank Handlowy w Warszawie S.A. as of 31 December 2008:

1). Citibank Overseas Investment Corporation (COIC) – a subsidiary of Citibank N.A. holding 97,994,700 shares, which accounted for 75% of the Bank's share capital. The number of votes corresponding to COIC's shareholding was 97,994,700, which accounted for 75% of the total number of votes at the Bank's General Meeting.

All shares issued by the Bank are ordinary bearer shares which do not involve any special control privileges with respect to the Bank.

In addition to restrictions under the Article 25 of the Banking Act – the act of assuming or acquiring the Bank's shares exceeding the threshold of 10%, 20%, 25%, 33%, 50%, 66% or 75% requires the approval of the Polish Financial Supervision Authority. Additionally, permission is required in the event of disposing of shares by an entity which has previously exceeded the thresholds specified above. The Bank's Articles of Association do not provide for any other restrictions as regards the transfer of its shares.

### **Rules governing the appointment and dismissal of Members of the Management Board**

The Management Board of the Bank is composed of five to nine members, including President of the Management Board of the Company, Vice-Presidents of the Management Board of the Company as well as Members of the Management Board. At least half of the members of the Management Board should be of Polish nationality. Each member of the Management Board is appointed by the Supervisory Board for a term of three years. The appointment of two members of the Bank's Management Board, including the President, requires the approval of the Polish Financial Supervision Authority.

The term of office of a member of the Management Board expires:

- 1) as of the date of the General Meeting which approves the Management Board's report on the activities of the Bank as well as the financial statements for the last full financial year of a Management Board member's term of office;
- 2) upon the death of a Management Board member;
- 3) as of the date of dismissal of a Management Board member;
- 4) as of the date of resignation submitted to the Chairman of the Supervisory Board in writing.

Based on resolutions, the Management Board decides on the Company's matters not reserved by the applicable laws and the Articles of Association to be a responsibility of another corporate body, in particular:

- 1) determines the strategy of the Company;
- 2) establishes and liquidates the Company's committees and determines their competences;
- 3) develops its regulations and submits them to the Supervisory Board for approval;
- 4) develops regulations regarding the management of special funds created from the net profit and submits them to the Supervisory Board for approval;
- 5) determines dividend payment dates within the deadlines specified by the General Meeting;
- 6) appoints proxies, general attorneys and general attorneys with the right of substitution;
- 7) decides on matters specified in the regulations of the Management Board;
- 8) resolves issues raised by the President, Vice-President or a member of the Management Board;
- 9) takes independent decisions regarding acquisition and disposal of real properties, perpetual usufruct or share in a real property;
- 10) adopts a draft of the Company's annual financial plan, accepts investment plans and reports on their implementation;

- 11) accepts reports on the activities of the Company as well as financial statements;
- 12) draws up motions regarding profit distribution or loss coverage methods;
- 13) approves the HR and credit policy as well as legal rules governing the Company's operation;
- 14) approves the principles governing the Company's capital management;
- 15) approves the employment structure;
- 16) determines the fundamental organizational structure of the Company, appoints and dismisses Sector Heads, appoints and dismisses Division Heads and determines the scope of their competence;
- 17) develops the plan of control measures undertaken in the Company and accepts reports on audits conducted;
- 18) resolves other issues subject to submission to the Supervisory Board or the General Meeting pursuant to the Articles of Association;
- 19) decides on contracting liabilities or managing assets whose total value with respect to one entity exceeds 5% of the Company's equity or grants authorizations to designated parties to take the aforementioned decisions. However, with respect to issues for which the Company's Committees bear responsibility, such decisions are made upon consultation with the competent Committee;
- 20) determines the organizational structure and the scope of responsibilities of the ARR Department, including mechanisms ensuring audit independence.

The Management Board is in charge of development, implementation and ensuring proper functioning of the Company's management system. It develops, implements, approves and updates written strategies, procedures, plans and analyses as well as undertakes other measures in respect of the risk management system, internal control, internal capital assessment as well as review of the process of assessing and maintaining the internal capital. Members of the Management Board as well as heads of the organizational units specified in the Regulations of the Management Board are authorized to file motions to be considered by the Management Board with respect to matters within the competence of the aforementioned units.

President of the Management Board:

- 1) manages the activities of the Management Board, including designation from among the Board members of a person performing the role of Deputy President in their absence and determines the method of deputizing other Board members in their absence;
- 2) convenes and chairs meetings of the Management Board;
- 3) presents the position of the Management Board to the Company's corporate bodies, state and local authorities as well as the general public;
- 4) files motions to the Supervisory Board regarding the appointment or dismissal of members of the Management Board as well as determination of their compensation;
- 5) issues internal regulations governing the Company's operations and has the right to authorize the remaining members of the Management Board or other employees of the Company to issue such regulations;
- 6) decides on the use of internal control results and notifies the audited unit of any decisions made with respect to the audit;
- 7) exercises other rights under the regulations adopted by the Supervisory Board.

President of the Management Board has the right to assign to individual members of the Management Board as well as Division Heads particular responsibilities as specified above, except for those referred to in points 1) and 4).

### **Amendments to the Articles of Association**

The General Meeting is authorized to introduce amendments to the Bank's Articles of Association. Any changes to the Articles of Associations must be entered in the register. Pursuant to Article 34 clause 2 of the Banking Act of 29 August 1997, any amendments to the Bank's Articles of Association require permission of the Polish Financial Supervision Authority, if they pertain to:

- 1) the Bank's name;
- 2) the Bank's registered office as well as the object and scope of its business activities;
- 3) the corporate bodies and their competences, in particular those of members of the Management Board appointed upon the consent of the Polish Financial Supervision Authority as well as the principles governing the decision-making process, the fundamental organizational structure of the Bank, principles for submitting declarations with respect to property rights and obligations, the procedure for issuing internal regulations and the decision-making process regarding contracting liabilities or managing assets whose total value with respect to one entity exceeds 5% of the Bank's equity;
- 4) the principles governing the internal control system;
- 5) equity and financial management principles;
- 6) share privilege or restrictions with respect to the voting right.

### **General Meeting procedure, description of its fundamental powers as well as shareholder rights and their exercise method**

#### **General Meeting procedure**

The General Meeting of Bank Handlowy w Warszawie S.A. operates in accordance with the Regulations of the General Meeting, Articles of Association as well as applicable laws. The Bank's General Meetings (General Meeting) comply with stable Regulations setting forth detailed principles for conducting meetings and adopting resolutions.

It is the Company's practice that the General Meeting is held at the registered office of the Company in Warsaw. Pursuant to the Company's Articles of Association, the Ordinary General Meeting is held within six months from the end of each financial year. The Supervisory Board is entitled to convene the General Meeting in the event the Management Board fails to exercise this right within the aforementioned deadline. The Company complies with the rule of convening the Ordinary General Meetings not later than in the last week of June, before noon. The Extraordinary General Meeting is convened by the Management Board on its own initiative, upon the request of the Supervisory Board or shareholders representing at least one tenth of the share capital. For the purpose of General Meetings the Company provides a conference room whose size corresponds to the number of the Shareholders, professional interpreters as well as an electronic system for casting and counting votes.

It is the Company's practice that all important materials to be used at the General Meeting, including draft resolutions with a statement of reasons as well as opinions of the Management and Supervisory Boards are provided to the Shareholders at least 15 days (financial statements) or 7 days (copies of draft resolutions) prior to the General Meeting date. Additionally, materials to be used at the General Meeting are made available at the Company's registered office at the time of announcement of convening the General Meeting as well as published at the Company's website. Notwithstanding the foregoing, the Company fulfills all disclosure requirements related to convening General Meetings imposed by the applicable laws.

A General Meeting whose agenda included specific issues incorporated to it upon the motion of authorized entities or which has been convened upon such motion, may be cancelled only with the consent of the parties submitting the respective motions. Otherwise the General Meeting may be cancelled in the event its organization meets unusual obstacles (force majeure) or is obviously pointless. Cancellation is governed by the same rules as those applicable to convening and should ensure the least negative consequences for the Company and its shareholders, not later than three weeks prior to the initially planned date. Any changes to the General Meeting date are introduced in line with the cancellation procedure, even if the proposed agenda is not modified. The General Meeting is convened by placing an announcement in the Court and Business Monitor (Monitor Gospodarczy i Sądowy) at least three weeks prior to the General Meeting date.

The General Meeting is opened by Chairman of the Supervisory Board and in the event of their absence by the Vice-Chairman or a member of the Supervisory Board. It is the Company's practice with respect to holding General Meetings that a Chairman is elected immediately after opening the Meeting. The General Meeting does not make any decisions prior to the election of the Chairman.

Through the party in charge of opening the General Meeting the Company's Management Board always provides the Chairman of the General Meeting with instructions for performing such function in a manner ensuring compliance with generally applicable laws, corporate governance rules, the Articles of Association as well as internal regulations of the Company. Members of the Company's Management and Supervisory Boards as well as the statutory auditor ought to participate in the event the General Meeting focuses on financial issues.

The General Meeting votes in an open ballot. Secret ballot is applied with respect to elections and motions regarding dismissal of members of the Company's corporate bodies or liquidators, holding them liable as well as in personal matters. In addition, secret ballot must be ordered upon the motion of at least one shareholder present or represented at the General Meeting.

The General Meeting is valid irrespective of the number of shares represented at the General Meeting, subject to specific circumstances defined by applicable laws. Resolutions are adopted by the General Meeting by an absolute majority of votes cast by the attendees, unless the applicable laws or the Articles of Association provide otherwise.

In practice, voting takes place through a computer system for casting and counting votes, which ensures that the number of votes corresponds to the number of shares held and eliminates the possibility to identify the vote casting method used by individual shareholders in the event of secret ballot.

The Chairman of the General Meeting ought to formulate resolutions in a manner ensuring that each authorized party who objects to the decision constituting the object of the resolution has an opportunity to appeal against it. The Chairman of the General Meeting is obliged to ensure that resolutions are drawn up in a clear and explicit manner. Additionally, the Management Board of the Company provides the Chairman with the potential assistance of the entity rendering legal services to the Company.

Resolutions adopted by the General Meeting are recorded in the form of minutes by a notary public. The minutes should identify any irregularities with respect to convening the General Meeting as well as its capacity to adopt resolutions, list the resolutions adopted, number of votes for each resolution as well as objections filed. The minutes should be supplemented with an attendance list, including signatures of the participants in the General Meeting. The evidence supporting the fact of convening the General Meeting should be enclosed by the Management Board to the book of minutes.

The Management Board encloses a copy of the minutes to the book of minutes.

General Meetings may be attended by the media.

### **Fundamental powers of the Company's General Meeting**

The General Meeting should be convened to:

- 1) examine and approve the Management Board's report on the activities of the Company, its financial statements for the previous financial year as well as the consolidated financial statements of the Company's capital group;
- 2) adopt a resolution on profit distribution or loss coverage;
- 3) grant a discharge to members of the governing bodies of the Company with respect to fulfillment of their duties.

In addition to the competences set forth in absolutely applicable laws, the General Meeting is responsible for:

- 1) disposing of and leasing the enterprise or its organized part and establishing a limited property right on the enterprise or its part;
- 2) amending the Articles of Association;

- 3) increasing or reducing the Company's share capital;
- 4) determining the date of exercising the pre-emptive right with respect to new issues;
- 5) determining the date of dividend payment for the previous financial year as well as dividend payment deadlines;
- 6) creating and liquidating special funds from profit;
- 7) appointing and dismissing members of the Supervisory Board;
- 8) determining the amount of compensation paid to members of the Supervisory Board;
- 9) business combination or dissolution of the Company;
- 10) appointing and dismissing liquidators;
- 11) redeeming the Company's shares;
- 12) using the supplementary and reserve capitals, including the reserve capital created for the purpose of collecting undistributed profit (not allocated to dividend paid in a given financial year) as well as general risk fund.

The General Meeting decides upon profit distribution by determining the amount of write-offs for:

- 1) supplementary capital created on an annual basis from write-offs from profit in the amount of at least 8% of the profit generated in a given financial year until the capital amounts to at least one third of the share capital. The General Meeting has the right to adopt a resolution imposing the obligation to record further write-offs for:
  - 2) reserve capital;
  - 3) general risk fund;
  - 4) dividend;
  - 5) special funds;
  - 6) other purposes.

In the event of the Company's liquidation, upon the motion of the Supervisory Board the General Meeting appoints one or more liquidators and determines the liquidation method.

### **Shareholders' rights and their exercise method**

The Company's shares are disposable bearer shares. The shareholders have the right to a share in the profit disclosed in the financial statements audited by a statutory auditor, which has been allocated to payment to the shareholders by the General Meeting. The profit is shared in proportion to the number of shares.

The right to participate in the General Meeting is vested in owners of bearer shares who deposit their shares at the registered office of the Company at least one week prior to the General Meeting or in case of dematerialized shares – a name-bearing certificate of deposit.

A shareholder participating in the General Meeting is entitled to vote, file motions and raise objections as well as present a concise statement of reasons for their position.

Draft resolutions proposed for adoption by the General Meeting as well as other important materials ought to be provided to the shareholders together with a statement of reasons and the opinion of the Supervisory Board prior to the General Meeting within a time limit sufficient for the shareholders to read and evaluate the above documents.

A shareholder has the right to participate in the General Meeting and exercise their voting right in person or through an attorney.

Each shareholder has the right to stand as a candidate for the position of Chairman of the General Meeting and propose one candidate for the position of Chairman of the General Meeting to the minutes.

In consideration of every point of the agenda the shareholder is entitled to make a statement and a response.

Upon a shareholder's request the Management Board is bound by the obligation to provide them with information on the Company, on condition that such request is justified for the purpose of evaluating the issue included in the agenda. The Management Board ought to refuse access to information if such action:

- 1) could be detrimental to the Company, its related party or subsidiary, in particular through the disclosure of technical, trade or organizational secrets of the enterprise;
- 2) could expose a member of the Management Board to penal, civil or administrative liability.

In justified cases the Management Board has the right to provide information in writing, not later than within 2 (two) weeks from the date of closing the General Meeting.

The governing bodies of the Company do not limit the information requested in particular by the General Meeting but at the same time they comply with the provisions of the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies, the Act on Trading in Financial Instruments, the Ordinance on current and periodical reporting by issuers of securities as well as the provisions of the Code of Commercial Companies.

The General Meeting is valid irrespective of the number of shares represented, subject to specific circumstances defined by applicable laws. Resolutions are adopted by the General Meeting by the absolute majority of votes cast by the attendees, unless the applicable laws or the Articles of Association provide otherwise.

Each shareholder has the right to object to the provisions of a resolution adopted by the General Meeting as well as present their related arguments and statement of reasons.

Each shareholder has the right to propose changes and supplements to draft resolutions included in the agenda of the General Meeting until the closing of the discussion regarding a particular point of the agenda with respect to the draft resolution to which the proposal applies. Proposals and their brief justifications ought to be presented in writing.

A shareholder may file a motion on a formal issue at the General Meeting. Motions on formal issues concern the procedure and voting.

The shareholders have the right to propose their candidates to the Bank's Supervisory Board in writing to the Chairman of the General Meeting or orally to be included in the minutes, whereas in both cases the proposals require a brief justification.

The shareholders have the right to access the book of minutes and request the issuance of copies of the resolutions certified by the Management Board.

Shareholders who voted against a resolution at the General Meeting and after its adoption requested their objection to be recorded in the minutes, shareholders who have not been admitted to participate in the General Meeting for no legitimate reasons and shareholders absent from the General Meeting shall have the right to file an action regarding cancellation of a resolution adopted by the General Meeting only in the event the procedure for convening the General Meeting was not executed correctly or a resolution was adopted with respect to a matter not included in the agenda.

The shareholders have the right to file an action against the Company with the objective to cancel a resolution adopted by the General Meeting which does not comply with an applicable legal act.

The Company's shares may be redeemed upon the consent of a shareholder through their acquisition by the Company (voluntary redemption). Share redemption requires the adoption of a relevant resolution by the General Meeting. The resolution ought to determine in particular the legal basis for the redemption, the amount of consideration payable to the shareholder of the redeemed shares or a statement of reasons for share redemption without a consideration as well as the method of reducing the share capital.



## **Composition of and changes to the Management and Supervisory Boards. Rules of procedure of the Bank's managing and supervisory bodies**

### **Management Board**

The Management Board of the Bank is composed of five to nine members, including President of the Management Board of the Company, Vice-Presidents of the Management Board of the Company as well as Members of the Management Board. At least half of the members of the Management Board should be of Polish nationality. Each member of the Management Board is appointed by the Supervisory Board for a term of three years.

At present, the Management Board of the Company is composed of five members, including:

Sławomir S. Sikora – President of the Management Board;

Michał H. Mrozek – Vice-President of the Management Board;

Peter Rossiter – Vice-President of the Management Board;

Sonia Wędrychowicz-Horbatowska – Vice-President of the Management Board;

Witold Zieliński – Vice-President of the Management Board.

The aforementioned persons were also members of the Management Board in 2008. In 2008, the Bank's Management Board comprised also Lidia Jabłonowska-Luba – Member of the Board and Edward Wess – Vice-President of the Board.

The Management Board of the Company operates based on generally applicable regulations, the Company's Articles of Association as well as the Regulations of the Management Board of Bank Handlowy w Warszawie S.A.

The Regulations of the Management Board of Bank Handlowy w Warszawie S.A. set forth the scope, rules of procedure as well as the procedure for the adoption of resolutions.

President of the Management Board convenes and chairs meetings of the Management Board, and they may also determine fixed meeting dates.

The Corporate Services Office in the Corporate Communication and Marketing Department, henceforth the Corporate Services Office, endures organizational support to the Management Board.

The attendance of members of the Management Board at its meetings is obligatory. Absence must be excused. In addition to members of the Management Board, meetings may be attended by:

- 1) Division Heads;
- 2) Corporate Services Office Head or a designated person;
- 3) Compliance Head;
- 4) Legal Division Head.

The ARR Head may participate in meetings of the Management Board during which issues related to the Company's internal control are considered. Upon the motion of members of the Management Board, meetings may be attended by the Company's employees or third parties competent with respect to a particular matter. The chairman of the meeting may decide upon a debate without the participation of parties not being members of the Management Board.

For resolutions adopted by the Management Board to be valid the presence of at least half of the members at the meeting is required. Adoption of resolutions by the Management Board requires the absolute majority of votes.

The Management Board adopts resolutions by voting in an open ballot. The chairman of the meeting may order a secret ballot on their own initiative or upon a motion of a member of the Management Board. A resolution of the Management Board enters into force as of the date of its adoption, unless a different adoption date is specified therein.

In justified cases, resolutions may be adopted by the Management Board by circulation pursuant to a decision of the President of the Management Board or the Deputy President. A resolution may be adopted by circulation provided that all members of the Management Board are notified of its adoption. A resolution adopted by circulation constitutes an appendix to the minutes from the first meeting of the Management Board following its adoption.

Minutes are taken from the Management Board's meeting, for which the Corporate Services Office is responsible. Minutes from the Management Board's meetings are marked with the clause "banking, restricted". The minutes ought to include:

- 1) agenda;
- 2) first and last names of attendees;
- 3) information on excused absence or reasons for the absence of members of the Management Board from a meeting;
- 4) texts of resolutions adopted;
- 5) number of votes cast for a particular resolution and dissenting opinions;
- 6) name of the entity or organizational unit or first and last name of the person in charge of implementation of the resolution; and
- 7) resolution implementation deadline.

The minutes must be taken not later than within 3 (three) business days from the date of the meeting. The minutes are signed by all members of the Management Board attending the meeting, immediately after their receipt of the document.

The Management Board provides the Supervisory Board with the following financial information:

- 1) upon preparation, but not later than 30 (thirty) days from each month-end, monthly and periodical (covering the period from the beginning of the year to the end of the preceding month) financial information, compared with the budget adopted in the annual plan and in relation to the previous year;
- 2) immediately upon preparation, but not later than 120 (one hundred and twenty) days after each year-end, annual individual and consolidated financial statements drawn up in accordance with the International Financial Reporting Standards and audited by the Company's statutory auditor;
- 3) immediately upon preparation but in each case not later than by the end of each year, the draft annual plan for the following financial year; and
- 4) immediately, other available financial data related to the Company's operations and its financial position as well as the operations and financial position of the Company's subsidiaries, which may be reasonably requested by a member of the Supervisory Board.

### **The Supervisory Board**

The Supervisory Board of the Company is composed of five to twelve members, each of whom is appointed by the General Meeting for a term of three years. At least half of the members of the Supervisory Board should be of Polish nationality.

At present, the composition of the Company's Supervisory Board is as follows:

Chairman:                      Stanisław Sołtysiński

Vice-Chairmen: Shirish Apte, Andrzej Olechowski

Members: Susan Blaikie, Sanjeeb Chaudhuri, Goran Collert, Mirosław Gryszka, Sabine S. Hansen, Krzysztof L. Opolski, Aneta Polk, Michael Schlein, Wiesław A. Smulski.

Independent members account for half of the members of the Supervisory Board. The independence criteria with respect to members of the Supervisory Board are set forth in the Company's Articles of Association.

The Supervisory Board of the Company operates based on generally applicable regulations, the Company's Articles of Association as well as the Regulations of the Supervisory Board of Bank Handlowy w Warszawie S.A.

The Supervisory Board performs activities as set forth in the applicable laws and the Company's Articles of Association, in line with the Regulations of the Supervisory Board of Bank Handlowy w Warszawie S.A.

In addition to the rights and regulations stipulated in the applicable laws, the competences of the Supervisory Board include:

- 1) appointment and dismissal of the President of the Management Board of the Company in a secret ballot;
- 2) appointment and dismissal of Vice-Presidents and other members of the Company's Management Board in a secret ballot upon the motion of the President of the Management Board;
- 3) determination of the terms and conditions of employment contracts or other legal relationship between members of the Management Board and the Company;
- 4) granting consent to opening or closing branches;
- 5) adoption of the Regulations of the Supervisory Board as well as the approval of:
  - a) the Regulations of the Management Board of the Company;
  - b) regulations for management of special funds created from the net profit;  
as adopted by the Management Board of the Company;
- 6) granting prior consent to undertaking measures with respect to management of the Company's fixed assets with value exceeding 1/10 of the Company's share capital;
- 7) appointment of the Company's statutory auditor;
- 8) granting consent to employment and dismissal of the person in charge of the Audit and Risk Review Department upon the motion of the Management Board;
- 9) supervision over the Company's internal control system in line with the principles determined separately in the Company's Articles of Association and the Regulations of the Audit Committee;
- 10) any performances made by the Company and its related parties for the benefit of members of the Management Board as well as granting consent to entering into a material agreement by the Company or its subsidiary with the Company's related party, member of the Supervisory Board or Management Board as well as their related parties;
- 11) supervision over the implementation of a management system in the Company as well as evaluation of such system's adequacy and efficiency.

Additionally, the Supervisory Board is responsible for suspending individual or all members of the Management Board for material reasons as well as delegating members of the Management Board to temporarily (for a period not exceeding three months) act in the capacity of members of the Management Board who have been dismissed, submitted a statement of resignation or are incapable of performing their duties for any other reasons.

Members of the Supervisory Board perform their duties in person. The Supervisory Board performs its duties collectively, whereas each member of the Supervisory Board has the right to be provided by the Management Board with information required for due performance of their duties. Meetings of the Supervisory Board are held at least on a quarterly basis. Such meetings are convened by Chairman of the Supervisory Board, and in their absence – by one of Vice-Chairmen of the Supervisory Board on their own initiative, upon the motion of a member of the Supervisory Board or upon the motion of the Management Board of the Company. Chairman of the Supervisory Board may determine fixed dates of the Supervisory Board's meetings. Notices of convening such meetings, including the agenda and materials to be debated upon, are distributed by the Secretary of the Supervisory Board to members of the Supervisory Board at least 7 (seven) days prior to the date of the meeting.

The Supervisory Board meets on the date of the General Meeting which approves the Management Board's report on the activities of the Company as well as the financial statements for the last full financial year of performing the function of member of the Management Board in which the terms of office expire, for the purpose of electing new members of the Management Board of the Company.

On an annual basis, the Supervisory Board adopts a resolution regarding the report on the activities prepared by the Board, presenting the Supervisory Board's evaluation of the Company's position as well as the results of the evaluation of the financial statements of the Company, including proposals of the Management Board as to profit distribution. The above document is submitted by the Supervisory Board to the General Meeting for approval.

Members of the Supervisory Board may participate in the process of resolution adoption, by casting their votes in writing through another member of the Supervisory Board. The Supervisory Board has the right to adopt resolutions in writing or by means of direct long-distance communication.

Meetings of the Supervisory Board are chaired by Chairman of the Supervisory Board and in their absence – by one of Vice-Chairmen of the Supervisory Board. In the event both the Chairman and Vice-Chairman are absent – the meeting is chaired by a member of the Supervisory Board elected by the remaining members.

For resolutions adopted by the Supervisory Board to be valid the presence of at least half of the members at the meeting is required. Adoption of resolutions by the Supervisory Board requires the absolute majority of votes. Without the consent of the majority of independent members of the Supervisory Board resolutions should not be adopted with respect to:

- 1) any performances made by the Company or its related parties for the benefit of members of the Management Board;
- 2) granting consent to entering into a material agreement by the Company or its subsidiary and the Company's related party, member of the Supervisory Board or Management Board or their related parties;
- 3) appointment of a statutory auditor responsible for auditing the financial statements of the Company.

Each member of the Supervisory Board is obliged to immediately inform the remaining members of a conflict of interests and refrain from taking part in the discussion as well as voting on a resolution with respect to which a conflict has arisen.

The Supervisory Board adopts resolutions in an open ballot, except for the appointment and dismissal of the President of the Management Board in a secret ballot as well as the appointment and dismissal of Vice-Presidents and other members of the Company's Management in a secret ballot upon the motion of the President of the Management Board. The chairman of the meeting may decide upon a secret ballot with respect to other issues on their own initiative or upon a motion of a member of the Supervisory Board.

A resolution of the Supervisory Board enters into force as of the date of its adoption, unless a different adoption date is specified therein.

Minutes are taken from the meetings of the Supervisory Board, including the agenda, first and last names of the present members of the Supervisory Board, the number of members absent from the meeting with

the reasons for their absence, the number of votes for individual resolutions, separate tasks as well as the full text of resolutions adopted. The list of members of the Supervisory Board attending the meeting as well as other participants constitutes an appendix to the minutes. The minutes are signed by all members of the Supervisory Board attending the meeting. The minutes from the meetings of the Supervisory Board for the whole term of its office are collected in a separate file stored by the Company.

Members of the Management Board of the Company attend meetings of the Supervisory Board, except for those concerning directly the Management Board. Upon the motion of Chairman of the Supervisory Board or the Management Board, meetings may be attended by the Company's employees or third parties competent with respect to a particular matter. The ARR Head may participate in meetings of the Supervisory Board during which issues related to the Company's internal control are considered. In particularly justified circumstances, Chairman of the Supervisory Board may decide on a meeting without the participation of parties other than members of the Supervisory Board, irrespective of any previous regulations providing otherwise.

### **Supervisory Board Committees**

Standing Committees of the Supervisory Board include:

- 1) Audit Committee; and
- 2) Remuneration Committee;
- 3) Risk and Capital Committee.

The Supervisory Board has the right to adopt a resolution on the appointment of committees other than those specified above and composed exclusively of members of the Supervisory Board. The relevant resolution of the Supervisory Board sets forth the scope of responsibilities of such committee.

In line with the aforementioned procedure, in 2003 the Supervisory Board appointed the **Strategy and Management Committee** responsible for ongoing analyses of all issues related to the activities performed by the Bank's corporate bodies as well as streamlining their functioning. The Committee is composed of: Shirish Apte acting as the Chairman and Goran Collert, Mirosław Gryszka, Andrzej Olechowski, Krzysztof Opolski and Stanisław Sołtysiński acting as Committee members. The Committee meets as convened by the Chairman.

### **Audit Committee**

The Audit Committee is composed of:

- 1) Mirosław Gryszka – Chairman of the Committee;
- 2) Susan Blaikie – Deputy Chairman of the Committee;
- 3) Shirish Apte – Member of the Committee;
- 4) Krzysztof Opolski – Member of the Committee;
- 5) Aneta Polk – Member of the Committee;
- 6) Wiesław Smulski – Member of the Committee.

The Audit Committee is a standing committee of the Company's Supervisory Board.

The roles and responsibilities of the Audit Committee include supervision over financial reporting, internal control, risk management as well as internal and external audits.

Members of the Committee perform their roles pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each consecutive calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to the shareholders through their publication at the Bank's internet website. During the first subsequent meeting of the Supervisory Board the Committee provides the Board with a report on every meeting of the Committee as well as its recommendations discussed in such meetings.

The Audit Committee consists of at least three members of the Supervisory Board, including at least two independent members of the Supervisory Board, one of whom performs the function of Committee Chairman. Committee members, including its Chairman and Deputy Chairman, are elected by the Supervisory Board. All Committee members have qualifications and experience in the field of finance. For the resolutions adopted by the Committee to be valid, at least three members must participate in the meeting.

Audit Committee meetings are convened by the Committee Chairman on their own initiative or upon the motion of a Committee member. Should the Committee Chairman be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Deputy Chairman. Meetings are also convened upon the motion of a Committee member or Chairman of the Supervisory Board.

Notice of the meeting, including the agenda and materials subject to discussion, are distributed to members of the Audit Committee by the Secretary of the Committee (this role is performed by the Secretary of the Supervisory Board). Meetings of the Audit Committee are held at least four times per annum at dates determined by the Chairman upon consultation with the Deputy Chairman of the Committee.

At least on an annual basis the Audit Committee meets:

- 1) with Audit and Risk Review Head, without the participation of the management;
- 2) with the statutory auditor of the Company, without the participation of the management;
- 3) members of the Audit Committee, exclusively.

At its discretion, the Audit Committee may also meet with individual members of the Company's management.

The agenda of the Audit Committee includes standing items as well as issues considered upon motion. The number of standing items considered at the Committee's meetings is determined in a resolution adopted by the Committee. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.

Based on materials received, the Secretary of the Audit Committee develops a draft agenda, including a list of invitees, and submits it to the Committee Chairman and Deputy Chairman for approval. The draft agenda approved by the Committee Chairman and Deputy Chairman is distributed with materials to Committee members.

All members of the Audit Committee are obliged to participate in its meetings. A Committee member unable to take part in the meeting should inform the Secretary of the Committee accordingly seven days prior to the specified meeting date. The Committee has the right to consult advisors and invite the Company's employees or other parties to its meetings with the objective to discuss or examine the issues considered by the Committee. Parties invited by the Committee Chairman or Deputy Chairman may participate in the meeting or its relevant part.

The meetings of the Committee are chaired by Chairman of the Audit Committee. In the event of the Chairman's absence, the meetings are chaired by the Deputy Chairman. Upon consultation with the Deputy Chairman of the Committee, the Chairman may remove an issue from the agenda, in particular for the purpose of supplementing a motion or obtaining an opinion.

Resolutions of the Audit Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting.

Upon consultation with the Deputy Chairman of the Committee, the Chairman may decide on considering a matter by circulation in writing.

### **Remuneration Committee**

The Remuneration Committee is composed of:

- 1) Stanisław Sołtysiński – Chairman of the Committee;

- 2) Shirish Apte – Member of the Committee;
- 3) Sabine Hansen – Member of the Committee;
- 4) Andrzej Olechowski – Member of the Committee.

The Remuneration Committee is a standing committee of the Company's Supervisory Board.

The Remuneration Committee is an advisory body of the Supervisory Board and the Committee members perform their functions pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each consecutive calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to the shareholders through their publication at the Bank's internet website. During the first subsequent meeting of the Supervisory Board the Committee provides the Board with a report on every meeting of the Committee as well as its recommendations discussed in such meetings.

The competences of the Remuneration Committee include:

- 1) evaluating the remuneration paid to members of the Company's Management Board against arm's length criteria. The evaluation involves analysis of reports prepared by independent experts or independent market research companies and providing the Supervisory Board with information on material changes to arm's length conditions for remunerating management board members of competitive entities;
- 2) evaluating the remuneration paid to members of the Company's Management Board with respect to their scopes of duties and their performance. The evaluation involves analyses of the relationship between remuneration paid to individual members of the Company's Management Board and the present scope of their duties and the performance of such duties by members of the Company's Management Board as well as informing the Supervisory Board of material changes in the relationship referred to above;
- 3) providing the Supervisory Board with recommendations as to the amount of remuneration paid to individual members of the Company's Management Board each time prior to its determination or modification. Recommendations are submitted following the assessment of qualifications and scopes of duties of each member of the Company's Management Board as well as suggestions as to the adequate remuneration. The suggestions presented by the Remuneration Committee ought to apply to both the total amount of remuneration and its individual components;
- 4) performing a general assessment of the correctness of the remuneration policy adopted by the Company with respect to its management not being members of the Management Board.

The Remuneration Committee consists of at least 3 (three) members of the Supervisory Board, including 1 (one) independent member of the Supervisory Board. Committee members, including its Chairman and Deputy Chairman are elected by the Supervisory Board in an open ballot.

Remuneration Committee meetings are convened by the Committee Chairman on their own initiative or by the Deputy Chairman in the event the Committee Chairman is unable to convene a meeting for any reasons whatsoever. Meetings are also convened upon the motion of a Committee member or Chairman of the Supervisory Board. Meetings of the Remuneration Committee are held at least twice per annum at dates determined by the Chairman of the Committee. The agenda of the Remuneration Committee includes standing items as well as issues considered upon motion.

Based on materials received, the Secretary of the Remuneration Committee develops a draft agenda, including a list of invitees and submits it to the Committee Chairman for approval.

All members of the Remuneration Committee are obliged to participate in its meetings. A Committee member unable to take part in the meeting should inform the Secretary of the Committee accordingly 7 (seven) days prior to the specified meeting date. Parties invited by the Committee Chairman, and in particular parties presenting individual issues, participate in the meeting or its relevant part.

Resolutions of the Remuneration Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting.

The Committee Chairman may decide on considering a matter by circulation in writing. A member of the Remuneration Committee voting against may request that a dissenting opinion be included in the minutes.

Minutes are taken from the meetings of the Remuneration Committee, which are signed by the Chairman and the Secretary. The minutes from the Committee meeting are subject to approval by the Committee members at the first subsequent meeting of the Committee.

### **Risk and Capital Committee**

The Risk and Capital Committee is composed of:

- 1) Susan Blaikie – Chairman of the Committee;
- 2) Sabine Hansen – Member of the Committee;
- 3) Andrzej Olechowski – Member of the Committee;
- 4) Krzysztof Opolski – Member of the Committee.

Members of the Committee perform their roles specified in these Regulations pursuant to Article 390 of the Code of Commercial Companies. The Committee submits annual reports on its activities to the Supervisory Board. A report for each consecutive calendar year is submitted by the end of the first quarter of the following year. The aforementioned reports are made available to the shareholders through their publication at the Bank's internet website and in its registered office. During the first subsequent meeting of the Supervisory Board the Committee provides the Board with a report on every meeting of the Committee as well as its recommendations discussed in such meetings. The Committee's Regulations are published at the Bank's internet website and made available in its registered office.

The Committee is responsible for supervision over the implementation of a risk management system by the Bank's Management Board, assessment of the adequacy and effectiveness of the aforementioned system as well as supervision over the process of assessing the internal capital and capital management.

The Committee consists of at least four members of the Supervisory Board, one of whom performs the function of the Committee's Chairman. For the resolutions adopted by the Committee to be valid, at least three members must participate in the meeting.

Committee meetings are convened by the Committee Chairman on their own initiative or upon the motion of a Committee member. Should the Committee Chairman be unable to convene a meeting for any reason whatsoever, the above right is exercised by the Deputy Chairman. Meetings are also convened upon the motion of a Committee member or Chairman of the Supervisory Board.

Meetings of the Committee are held at least on a semi-annual basis at dates determined by the Committee Chairman upon consultation with the Deputy Chairman of the Committee.

Notice of the meeting, including the agenda and materials subject to discussion are distributed to members of the Committee by the Secretary of the Committee (this role is performed by the Secretary of the Supervisory Board). The notice should include the agenda as well as materials related to the matters discussed at the meeting. The agenda of the Committee includes standing items as well as issues considered upon motion. The Supervisory Board, individual Committee members as well as the remaining members of the Supervisory Board have the right to propose issues to be considered at the Committee's meetings.

All members of the Committee are obliged to participate in its meetings.

The Committee has the right to consult advisors and invite the Bank's employees or other parties to its meetings with the objective to discuss or examine the issues considered by the Committee.

Parties invited by the Committee Chairman or Deputy Chairman may participate in the meeting or its relevant part.

Committee meetings are chaired by the Chairman of the Committee. In the event of the Chairman's absence, the meetings are chaired by the Deputy Chairman.

Resolutions of the Committee are adopted by the absolute majority of votes cast by Committee members attending a meeting. Upon consultation with the Deputy Chairman of the Committee, the Chairman may decide on considering a matter by circulation (in writing).

Minutes are taken from the Committee meetings.



