PKO BANK POLSKI
SPÓŁKA AKCYJNA

THE PKO BANK POLSKI SA GROUP DIRECTORS' REPORT FOR THE YEAR 2011

TABLE OF CONTENTS:

1. INTRODUCTION

1.1 The PKO Bank Polski SA Group – historical background

The PKO Bank Polski SA Group - historical background

1919-1938	1.	Pocztowa Kasa Oszczędności was established through a decree signed by the Head of the country Józef Piłsudski, prime minister Ignacy Paderewski and Hubert Linde - founder and the first president
	2.	Pocztowa Kasa Oszczędności vested with legal personality as a state institution, operating under the supervision and with guarantee of the State
	3.	first local branch of Pocztowa Kasa Oszczędności was founded in Poznań
	4.	Pocztowa Kasa Oszczędności started to run School Savings Unions (*Szkolne Kasy Oszczędnościowe*)
	5.	with the initiative of Pocztowa Kasa Oszczędności, Treasury Ministry has decided to set up Bank Polska Kasa Opieki (today Pekao SA) as a public company to facilitate the Polish Diaspora the transfer of Polish foreign currencies to the country
	6.	Pocztowa Kasa Oszczędności strongly contributed to the development of non-cash transactions - every other larger industrial plant and any large company had a cheque account in Pocztowa Kasa Oszczędności, and cheque turnover in Poland was half as much greater than the cash
1939-1945		years of war were time of huge losses and standstill in the activity of Pocztowa Kasa Oszczędności
1949-1988	1.	Pocztowa Kasa Oszczędności transformed as Powszechna Kasa Oszczędności
	2.	Banking Law introduced privilege of saving deposits held in Powszechna Kasa Oszczędności, they were covered by the State guarantee
	3.	Powszechna Kasa Oszczędności introduced a new and at that time very modern product: current account
	4.	Powszechna Kasa Oszczędności merged into the structures of the National Bank of Poland (NBP); yet retains its identity (1975)
	5.	Powszechna Kasa Oszczędności was separated from the National Bank of Poland (1988)
1991-2000	1.	the first card 'PKO Ekspres', which served only to cash withdrawals from ATMs, was issued
	2.	the memorandum of association granted to Bank by the Council of Ministers include a modified name of Powszechna Kasa Oszczędności - Bank Państwowy (a state bank); PKO BP in the short form
	3.	the first Supervisory Board of PKO BP was appointed
	4.	the Bank became a sole shareholder in Inbudex Sp. z o.o. - currently Qualia Development Sp. z o.o. - a development company, which implements, through its subsidiaries, specific projects
	5.	IT departmental system ZORBA3000, which automated all banking operations performed in a branch was implemented
	6.	the mortgage loan 'Alicja' with deferred payment of a part of receivables was the most popular mortgage loan in country
	7.	the first internet information portal of the Bank was launched
	8.	a company PKO Towarzystwo Funduszy Inwestycyjnych SA, established by PKO BP and Credit Suisse Asset Management Holding Europe (Luxembourg) SA., started operations. Since 2009 the Bank is the sole shareholder of the Company, which manages investment funds' assets and clients' portfolios
	9.	PKO BP and Bank Handlowy w Warszawie SA established a company PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA. Since 2003 the Bank is the sole shareholder of the Company. The Company is active in the area of compulsory social security, within the so called II pillar of the pension reform
	10.	a company Bankowy Fundusz Leasingowy SA was established. The Company, together with its subsidiary, provides services of operating and financial leases of non-current assets and properties
	11.	PKO BP and Bank Śląski SA established a company Centrum Elektronicznych Usług Płatniczych eService SA. Since 2001 the Bank holds 100% of the Company's shares. eService mainly processes information about payment transactions, manages the network of payment cards' acceptance and provides services offered on the basis of POS terminals
	12.	a package of mortgage loans 'Własny Kąt' for individual clients, and a loan 'Nowy Dom' for corporate clients appeared in the PKO BP's offer
	13.	first Internet branch e-PKO was launched
	14.	the Bank was transformed into a wholly-owned subsidiary of the State Treasury under the name of PKO Bank Polski Spółka Akcyjna
2002-2010	*1.*	*the Bank took over Inteligo Financial Services SA. The Company provides services ensuring the maintenance and development of IT systems supporting banking systems, including electronic access to bank accounts (Inteligo account)*
	2.	*the Bank bought 66.65% of KREDOBANK SA shares. The Company is registered and operates in Ukraine. Currently the Bank owns 99.5655% in the Company's registered capital. KREDOBANK is a commercial bank, providing standard banking services for private and corporate clients*
	3.	successful Bank's flotation took place - at the end of the first day of quotations, shares of the Bank reached a price of PLN 24.50 per unit against the issue price fixed at PLN 20.50
	4.	a consumer loan 'Szybki Serwis Kredytowy' due to its innovativeness proved to be one of the highest rated in the market
	5.	rollout of Integrated IT System O-ZSI in the Bank's network was completed
	6.	*the company PKO BP Faktoring SA started operations*
	7.	successful rights issue of 250 000 000 D series shares was conducted within public offering, which resulted in the Bank's capital increase from PLN 1 000 000 000 to PLN 1 250 000 000 (2009)
	8.	'Lider' development strategy of PKO Bank Polski SA for years 2010-2012 was adopted
	9.	commercial scale issuance of EMV technology compliant contactless smart Visa cards commenced
	10.	PKO Bank Polski SA (through its subsidiary PKO Finance AB) issued 5-year Eurobonds with value EUR 800 million
2011	1.	a new, innovative offer of current accounts (ROR), diversified in terms of customer preferences, was added to the Bank's offer: SUPERKONTO Oszczędne, PKO Konto za Zero, PKO Konto dla Młodych, PKO Konto Pogodne, PKO Konto Pierwsze
	2.	PKO Bank Polski SA reached the highest ever value of amounts due from corporate clients, by which it became a leader in corporate entities loans
	3.	the PKO Bank Polski SA Group reached a record net profit of PLN 3 807.2 million

1.2 The PKO Bank Polski Group in years 2009-2011

	2011	2010	2009
Statement of financial position (in PLN million)			
Total assets*	190 748	169 661	156 479
Equity*	22 822	21 360	20 436
Loans and advances to customers*	141 634	130 668	116 573
Amounts due to customers*	146 474	132 981	125 073
Income statement (in PLN million)			
Net profit*	3 807	3 217	2 306
Net interest income*	7 609	6 516	5 051
Net fee and commission income*	3 101	3 143	2 583
Result on business activities*	11 142	10 198	8 868
Net impairment allowance*	(1 930)	(1 868)	(1 681)
Administrative expenses*	(4 411)	(4 249)	(4 244)
Financial indicators			
ROE net**	17.5%	14.9%	14.8%
ROA net**	2.1%	2.0%	1.6%
Interest margin**	4.6%	4.4%	3.9%
Capital adequacy ratio*	12.4%	12.5%	14.7%
C/I*	39.6%	41.7%	47.9%
Number of PKO Bank Polski SA's clients (in thousand)			
Retail clients	7 225	7 126	7 089
Inteligo	645	632	618
Small and medium entities	309	310	315
Housing market	44	38	32
Corporate clients	11	12	11
Operational data			
Number of PKO Bank Polski SA's branches (in number of units)	1 198	1 208	1 228
Number of employees (in number of full-time equivalents)	28 924	29 780	31 098
Number of current accounts in PKO Bank Polski SA (in thousand of units)	6 182	6 150	6 212
Data on shares			
Capitalisation of the stock exchange (in PLN million)	40 150	54 188	47 500
Number of shares (in million of units)	1 250	1 250	1 250
Share price (in PLN)	32.12	43.35	38.00
Dividend per share (in PLN) (paid in the particular year from the profit for the previous year)	1.98	1.90	1.00

** Data based on consolidated financial statements for the particular year.*

*** Data brought to comparability.*

1.3 General information

The PKO Bank Polski SA Group is among the largest financial institutions in Poland. PKO Bank Polski SA ('the Bank'), the parent company of the Group, is the largest commercial bank in Poland and a leading bank on the Polish market in terms of total assets, equity, loans, deposits, number of clients and the size of the sales network. During the whole period of activity, the Bank had been consistently developing the prestige of its brand and providing (and still provides) services to many generations of Poles. The long tradition and clients' confidence are the source of an obligation. Therefore, The PKO Bank Polski SA Group consistently takes measures in order to consolidate its perception as an institution:

– secure, strong and competitive,
– modern and innovative, client-friendly and efficiently managed,
– socially responsible, concerned about the development of the cultural awareness of Poles.

Despite the keen market competition, the PKO Bank Polski SA Group effectively develops its operations not only in its traditional area of operations – serving retail clients. It became also the biggest financial institution for corporate clients and small and medium entities in Poland – especially with regard to financing their operations. It is a leader in the market for financial services offered to communes (gminas), districts (poviats), voivodeships and State budget sector. It is also the most important organiser of issues of municipal bonds. The high client service standards and effective credit risk assessment procedures enabled the PKO Bank Polski SA Group to increase its gross loan portfolio by 8.7% to the level of PLN 147.3 billion in 2011. With regard to consumer loans, the market share reached 19.2%, whereas the profound clients' confidence resulted in 10.1% increase in deposits, which reached the level of PLN 146.5 billion as at the end of 2011.

In 2011, the PKO Bank Polski SA Group continued its activities concerning the efficiency of the expenditure and costs incurred, which manifested in a selective approach towards development of distribution network. As at the end of 2011, the largest network of PKO Bank Polski SA's branches in Poland comprised 1 198 branches and 1 400 agencies. The Bank's clients can use the systematically enriched e-banking services offered under the iPKO brand. They also have ATMs at their disposal, whose number is continually increasing – as at the end of 2011, there were 2 457 ATM machines.

The PKO Bank Polski SA Group is one of the largest employers in Poland. As at the end of 2011, the PKO Bank Polski SA Group employed 28 924 people. The comprehensive learning and education offer was aimed at building loyal and competent staff providing increasingly higher standard of services to the clients and achieving high performance.

Apart from the strictly banking and brokerage activities, the PKO Bank Polski SA Group provides specialist financial services relating to leasing, factoring, investment funds, pension funds, internet banking and electronic payment services. Moreover, the PKO Bank Polski SA Group conducts investment and development operations.

The activities of the PKO Bank Polski SA Foundation for the public good in the widest possible range are the expression of the Bank's social responsibility.

1.4 Selected financial data of the PKO Bank Polski SA Group

	2011			2010			Change 2011/2010
NET PROFIT	3 807.2	PLN	million	3 216.9	PLN	million	18.4%
RESULT ON BUSINESS ACTIVITIES*	11 142.3	PLN	million	10 197.6	PLN	million	9.3%
ADMINISTRATIVE EXPENSES	(4 411.4)	PLN	million	(4 249.1)	PLN	million	3.8%
NET IMPAIRMENT ALLOWANCE	(1 930.4)	PLN	million	(1 868.4)	PLN	million	3.3%
C/I	39.6%			41.7%			-2.1 pp.
ROE NET	17.5%			14.9%			2.6 pp.
ROA NET	2.1%			2.0%			0.1 pp.

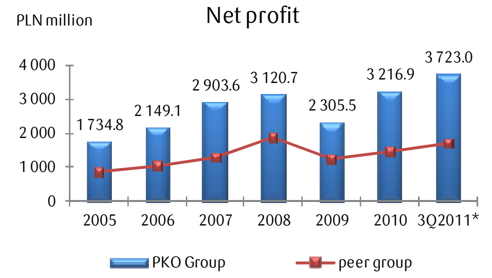
** Result on business activities defined as operating profit before administrative expenses and net impairment allowance.*

The net profit of the PKO Bank Polski SA Group generated in 2011 amounted to PLN 3 807.2 million, which represents an increase of 18.4%, i.e. PLN 590.3 million in relation to the previous year. Earned net profit was determined by:

- ⇒ the high result on business activities of the PKO Bank Polski SA Group, which amounted to PLN 11 142.3 million (+9.3% y/y), mainly as a result of:
  - – increase in net interest income by 16.8% y/y - mainly due to increase in interest income related to loans and advances to customers (+14.7% y/y), offset by lower growth of interest expense (+13.6% y/y),
  - – offset by decrease in gains less losses from investment securities (-72.4% y/y), net fee and commission income (-1.3% y/y) and net other operating income and expenses (-18.9% y/y),
- ⇒ slight increase in total administrative expenses (+3.8% y/y); along with high growth rate of income of the PKO Bank Polski SA Group, the C/I ratio declined by 2.1 pp. y/y to the level of 39.6%,
- ⇒ increase in negative result on net impairment allowance (+3.3% y/y), mainly impairment allowance on corporate loans,
- ⇒ increase in the PKO Bank Polski SA Group's total assets by PLN 21.1 billion y/y to (the level of PLN 190.7 billion) resulting from an intensive growth of loan activity financed by the increase in deposits from customers as well as the issue of bonds,
- ⇒ secure and effective structure of the statement of financial position – an increase in the deposits of the PKO Bank Polski SA Group by PLN 13.5 billion and the issue of bonds enabled a dynamic growth of business activities; as at the end of 2011, the loan to deposit ratio (amounts due to customers) of the PKO Bank Polski SA Group amounted to 96.7% (loans to stable sources of financing ratio[1] amounted to 88.4%).

[1] *Stable sources of financing include amounts due to customers and long-term external financing in the form of: the issue of securities, subordinated liabilities and amounts due to financial institutions.*

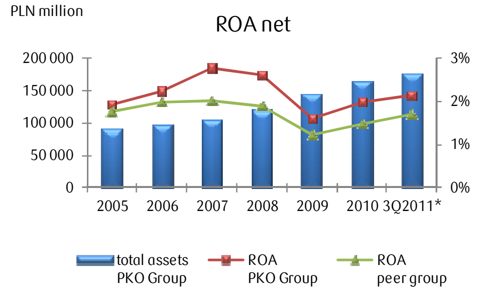
1.5 The PKO Bank Polski SA Group against its peer group[2]



The relatively favourable macroeconomic environment in the Polish economy, the increase of interest rates and the stabilisation in costs of credit risk, translated into the increase of the profits recorded by banks in 2011.

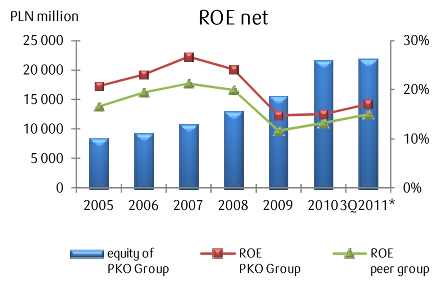
In 2011, the PKO Bank Polski SA Group achieved very good financial results, significantly better than the average for its peers.

** The value of net profit in 3Q 2011 for particular banks was adopted as a sum of net profit recognised in 3Q2011 and in 4Q2010.*



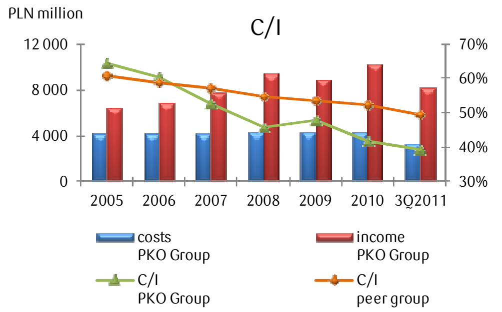
In 2011, financial results were influenced by favourable macroeconomic condition, accompanied by increase in net interest income of banks and lower than in 2010 level of costs of credit risk.

At the same time, active policy of the PKO Bank Polski SA Group contributed to a significant increase in its total assets and financial results accompanied by maintaining a high return on assets.



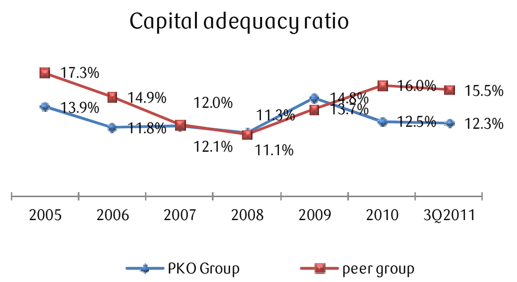
The rate of the increase in net profit of the entire banking sector in 2011, compared with that achieved in 2010, resulted in an increase of return on equity.

In 2011, the PKO Bank Polski SA Group maintained its profitability at high level (considerably above the average level of the peer group).



In 2011, Polish banking sector continued its activities aiming at reducing administrative expenses. Banks still kept lower number of people employed as compared to previous years. There was also a selective approach towards the development of the branch network and an intensive growth of internet banking.

In 2011, the PKO Bank Polski SA Group maintained the relation of costs to income at a very low level – the growth rate of administrative expenses was significantly lower than the growth rate of business activities.



The capital adequacy of the banking sector in 2011 remained stable and as a result, capital adequacy ratio remained on a high level in the whole sector.

The level of capital adequacy ratio in the PKO Bank Polski SA Group remained at a safe level – above the minimum level set by the Banking Law.

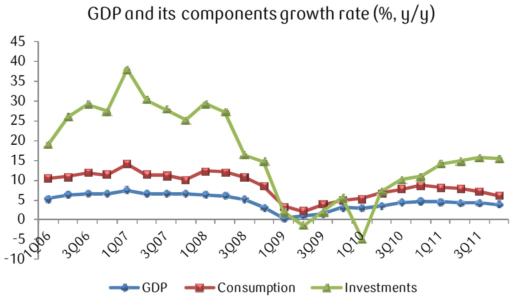
---

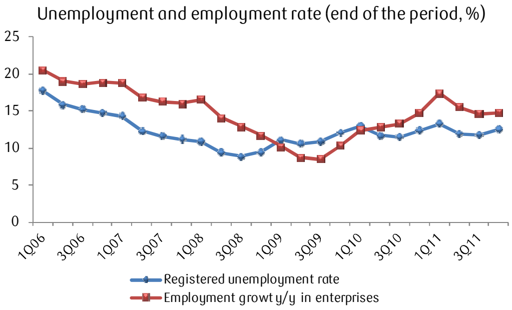
[2] *Peer group includes the following capital groups: Pekao SA, BRE Bank SA, ING Bank Śląski SA, BZ WBK SA. Ratio calculations are based on the data available in consolidated financial statements issued by the banks constituting peer group (data for the years 2005-2010), and due to lack of publications of some of the banks from the peer group consolidated annual reports for 2011 before publication date of consolidated PKO Bank Polski SA Group's financial statements, data from 3Q 2011 of these banks, as data representing trends in 2011, was adopted. All data is weighted by total assets.*

2. EXTERNAL BUSINESS ENVIRONMENT

2.1 Macroeconomic environment

In 2011 a continuation of the economic recovery faced with a high uncertainty due to the prolonged fiscal crisis in the euro zone and the deteriorating prospects for growth in the following year was recorded. In 2011 the GDP in Poland increased by 4.3% y/y, compared with 3.9% in 2010. The GDP growth rate was largely affected by private consumption and to a slightly smaller but significant extent by investments (mainly stimulated by public spending on infrastructure, accompanied by conservative investing activities of enterprises as a result of the high uncertainty as to the prospects for the demand for their products). The inventory rebuilding process weakened slightly due to the weakening of economic activity, and in the second half of the year the role of net exports increased as a result of the depreciation of the Polish zloty, with lower growth rate of export and import volumes than a year ago. The accelerating growth of GDP in 2011 was accompanied by employment growth in the corporate sector of 3.2% y/y, compared with 0.8% in 2010, and an annual registered unemployment rate increased by 0.1 pp. to 12.5% in December 2011. The salary growth in the corporate sector amounted to 5.0% in 2011 compared with 3.3% in 2010. The annual growth rate in employee pensions and disability benefits amounted to 5.2% in 2011 compared with 6.5% in 2010.





In 2011, the average annual inflation rate measured with the consumer price index increased to 4.3% y/y from 2.6% y/y in 2010. At the beginning of the year, the inflation rate accelerated significantly mainly as a result of the changes in the VAT rates and the increase in food prices and reached its peak at the level of 5% y/y in May 2011. In the following months, the growth in prices of consumer goods and services decreased to a level slightly below 4% y/y in September, after which it began accelerating again in the last quarter of 2011 as a result of the strong depreciation of zloty and the introduction of new decrees on reimbursed drugs.

In accordance with the 'Monetary Policy Guidelines for 2011', the monetary policy objective was to maintain inflation at the level of 2.5%, with a symmetrical tolerance range for deviations of +/- 1 pp. In first half of 2011 with the continuation of the economic recovery and the strong growth in the inflation rate, beyond the upper bound of the permissible deviations from the NBP target, the Monetary Policy Council (RPP – Rada Polityki Pieniężnej) increased interest rates by 100 b.p. in total to 4.5%. In second half of 2011 interest rates remained unchanged.

2.2 The situation on the stock exchange

The situation on the Polish Stock Exchange was chiefly affected by external factors, in particular the progressing crisis in the euro zone. Investors were afraid that the problems of the most indebted countries from the South of Europe may spread via the financial sector to the entire continent, and then affect the entire global economy. In the case of Poland, the fears mainly related to the effect of the deteriorated economic position of commercial partners on the level of export and increased costs of financing our economy which were related to risk aversion among international investors. Thus, in spite of Poland's relatively good economic condition, the Warsaw Stock Exchange gave in to the global trends.

2.3 The market of Treasury debt securities

In 2011, the market of Treasury debt securities was characterised by high volatility of quotations. In the first half of the year, RPP increased interest rates by a total of 100 b.p. causing a noticeable price reduction in bonds. On the other hand, later on in the year fears of an economic downturn in Europe prevailed. They intensified the expectations of an expansive monetary policy, which in effect led to a drop in the profitability of debt securities. As at the end of the year, compared with the beginning of the year, the profitability of

2-year bonds increased by 7 b.p. to 4.85% and the profitability of 5- and 10-year bonds dropped by 20 b.p. to 5.35% and 5.89% respectively. There was also an observable systematic growth in credit risk premium in Europe and the quotations for the 5-year CDS contract for Poland increased by 140 b.p. reaching the level of 280 b.p.

2.4 The currency market

In 2011, the factors affecting the changes on the currency market were as follows: the sovereign debt crisis in the euro zone and a slowing down in economic growth globally. In the first months, the Euro strengthened noticeably – the EUR/USD exchange rate reached a local peak of 1.48 in May. Expected interest rate increases in Europe were the main factor which upheld the single currency. During that time a side trend became visible on the EUR/PLN market with a local peak above 4.12. The second half of 2011 was already dominated by the sovereign debt crisis in the euro zone. As of May, there was a clear change in the trends on the currency market. The risk aversion was strengthened by the progressing global economic slowdown, also in the American economy (the IMF warned that the USA may even be in danger of the return of recession). The uncertainty affected the markets practically until the end of the year, and in December the Euro depreciation process was at its peak, leading to the weakening of the single currency to 1.30 to the US dollar. In spite of the relatively good foundations, the Polish zloty also deteriorated significantly. Over the entire 2011, the Polish currency weakened by 15% compared with the US dollar and by ca. 12% compared with the Euro. In the case of the CHF/PLN exchange rate, an important role was played by the National Bank of Switzerland which in fear of the negative effects of the heavy strengthening of the Swiss franc set an emergency minimum EUR/CHF exchange rate at the level of 1.20. This resulted in the stabilisation of the zloty against the Swiss currency, in spite of the continuing uncertainty in the euro zone. The CHF/PLN exchange rate which increased to more than 4.10 by August, oscillated within the range 3.45-3.75 in the following months.

2.5 The situation of the Polish banking sector

In 2011, the situation of the Polish banking sector improved. Net profit amounted to PLN 15.7 billion. It was 37.5% higher than as at the end of 2010 and the highest ever achieved by the banking sector. This growth was mainly due to:

– lower net impairment allowance (by about 29.5% y/y) which was a result of improvement of the loan portfolio quality,
– high increase of net interest income (by about 13.1% y/y),
– maintaining the stable growth of administrative expenses (4.8% y/y).

Operational efficiency of the banking sector improved: C/I ratio amounted to 51% compared with 52.4% in 2010. Capital adequacy ratio for the banking sector amounted to 13.1%.

The growth in impaired loans slowed down, and their share in total loans stabilised and amounted to 8.3% as at the end of 2011 compared with 8.8% as at the end of 2010. This situation was due to a slight increase in non-performing corporate loans (by 2.3% y/y), whose share in total corporate loans decreased to 10.5% as at the end of 2011 from 12.4% as at the end of 2010. Deterioration in the quality of household loans continued, though it was much slower than in 2010. The share of impaired household loans amounted to 7.2%. Non-performing mortgage loans were increasing the fastest, and their share in total mortgage loans increased to 2.3% from 1.8% as at the end of 2010.

The situation on the loan and deposit market was affected by:

– an improvement of loan activity on the corporate loans market,
– a decrease of mortgage loans growth rate,
– limited lending activity on the consumer loan market,
– an accelerating increase in deposits.

The changes in the volumes of loans, mainly mortgage loans in foreign currencies, were affected by changes in exchange rates, including depreciation of the Polish currency to the Swiss franc (exchange rate has increased by 14.8% y/y) to the Euro (exchange rate has increased by 11.5% y/y) increasing the value of loans in PLN.

In 2011 growth of the total loan portfolio was almost 70% higher than in 2010. Loans increased by ca. PLN 120 billion and their growth rate amounted to 15.2% y/y compared with 9.5% in 2010. However, about 33% of the increase in loans was a result of depreciation of the Polish currency. After adjustment for changes in exchange rates, the increase in loans would amount to ca. PLN 79 billion and growth rate would amount to 11% y/y.

An improvement in the situation on the corporate loans market had a significant effect on the increase in loans. The amount of corporate loans increased by ca. PLN 42 billion in 2011 compared with a decrease by PLN 3.7 billion in 2010. The growth rate of loans amounted to 19.4% y/y compared with a decrease by 1.7% y/y as at the end of 2010. Loans for small and medium entities amounted to about 60% of the increase in loans. According to a survey conducted by the NBP, the banks continued their gradual liberalisation of the loan granting criteria and conditions, which was due to the competitive pressure and an increase in demand for all types of corporate loans.

The growth of mortgage loans portfolio slowed down. As at the end of 2011 mortgage loans growth rate decreased to 19% y/y from 23% y/y as at the end of 2010. The growth rate of mortgage loans amounted to PLN 51 billion, though half of this increase was a result of depreciation of the Polish currency. After eliminating the changes in exchange rates, the actual increase in loans in 2011 would amount to ca. PLN 26 billion and it would be ca. 17% lower than in 2010. After eliminating the changes in exchange rates, growth rate of loans decreased to 11.5% y/y from 16% y/y as at the end of 2010. The negative influence on sale of loans had a lower demand related to limiting of 'Rodzina na swoim' programme, as well as a stricter credit policy of banks caused by new legal regulations and the deterioration of the mortgage loans portfolio quality.

The banks' lending activities in the area of consumer loans were limited. In 2011 the amount of such loans decreased by PLN 3 billion compared with a growth of PLN 2.6 billion in 2010. An influence on such situation had low demand on consumer loans and a stricter credit policy of banks resulting from new legal regulations.

In 2011 the increase in total deposits was higher than in 2010. Their amount increased by ca. PLN 80 billion compared with ca. PLN 60 billion in 2010 and growth rate was accordingly 11% y/y and 9.1% y/y. The main source of this growth were deposits of households, which increased by ca. PLN 56 billion, i.e. 13.4% y/y mainly due to savings outflow from the capital market and an increase of interest rates on bank deposits. Corporate deposits increased by PLN 23.5 billion, i.e. 12.5% y/y.

At the end of 2011 a gap between loans and deposits in banking sector increased and reached PLN 100 billion comparing to ca. PLN 62 billion as at the end of 2010.

2.6 The situation of the Polish non-banking sector

Investment funds sector

In 2011, the downward trend on the investment funds market prevailed after a period of stability in the first half of the year and a strong slump in August which was maintained until the end of the year. The situation on the investment funds market was mainly the consequence of the downturn in the situation on the WSE as a result of the continued uncertainty arising from the developments in the euro zone, including no decision having been made concerning the Greece's debt, the deteriorating situation in the peripheral countries and decreasing confidence in the debt market.

In 2011, the investment funds assets decreased by ca. 8.3% compared with the increase of ca. 24.7% in 2010. As a result of the negative balance in the valuation of assets (-PLN 9.6 billion compared with +PLN 9.8 billion in 2010) and the small positive balance of payments and cancellations (+PLN 0.1 billion compared with +PLN 12.4 billion in 2010). The strongest outflow of net resources was recorded in the fourth quarter, which resulted from the growing pessimism of investors. In the second half of 2011, investors withdrew resources mainly from share funds and funds linked to the share market, which resulted in a net outflow from these segments. The largest positive balance of payments and cancellations was recorded by non-public asset funds.

The situation on the funds market had an effect on non-interest income of banks participating in their distribution.

The market of open pension funds

In 2011, the assets of open pension funds (OPF) increased by ca. 1.5% y/y to PLN 224.7 billion compared with the increase of 23.9% in 2010. In 2011, OPF recorded the lowest dynamics of asset growth since the beginning of their operation, i.e. since 1999. The situation was strongly affected by the ca. 32.5% lower inflow of new resources from the Social Insurance Institution than in 2010. The significantly lower balance of transfers from the Social Insurance Institution to OPFs was a result of reduced pension contribution transferred to Pillar 2 from 7.3% to 2.3%, effective from May 2011. The value of OPF's assets was negatively affected by the portfolio valuation, which was a result of the adverse situation on the WSE. The OPF's portfolio comprised ca. 28% of companies from WIG20, including PKO Bank Polski SA. In 2011, the number of participants in Pillar 2 increased by 15.3 thousand compared with 567.9 thousand of people in 2010, which was due to i.a. the relatively high unemployment level and unfavourable demographic tendencies reflected in the lower number of people entering the labour market.

The lease market

After a period of high growth dynamics of the lease market in 2010 (+18.7% y/y), in 2011 the market slowed down slightly. The balance of lease financed assets increased by 14.1% y/y to PLN 31.1 billion. This was a result of growth in all market segments, apart from the segment of delivery vehicles, due to the new regulations in force from 1 January 2011 concerning the deduction of VAT on this type of vehicles. The development of the lease market was strongly affected by the leasing of machinery and equipment (+PLN 2.3 billion y/y), which represented 34.7% of the lease financed assets (compared with 31.1% the year before). The leasing of trucks developed dynamically due to a revival on the transport market and the improving condition of road transport companies.

Leasing constituted a significant source of financing of entercorporate activities. The value of lease financed assets in 2011 was higher than the value of the increase in loans granted by banks to non-financial corporate entities for investment purposes and for real property.

2.7 Regulatory environment

In 2011 significant regulatory changes influenced banking and non-banking financial sector in Poland and banking sector in Ukraine, where KREDOBANK - a subsidiary of PKO Bank Polski SA operates. The financial and organisational situation of PKO Bank Polski SA Group was affected i.a. by:

- Resolution of the Monetary Policy Council (RPP) No. 9/2010 of 27 October 2010 (Official Journal of NBP No. 15, item 16) increasing the mandatory reserve rate for banks to 3.5% from 3.0% as of 31 December 2010,
- Resolutions of RPP of January, April, May and June 2011 increasing: the reference rate to 4.5% from 3.5%, the interest rate on refinancing loans secured with a pledge on securities to 6% from 5%, the interest rate of fixed-term deposits placed by banks with the National Bank of Poland to 3% from 2% and the rediscount rate for bills of exchange accepted by the National Bank of Poland from banks for rediscounting to 4.75% from 3.75%,
- Resolution of the Bank Guarantee Fund (BGF) Council of 17 November 2010 increasing the interest rate used to calculate the mandatory annual fee payable by banks to the BGF for 2011 more than two-fold,
- Resolutions of the Polish Financial Supervision Authority (PFSA) No. 367/2010 of 12 October 2010 (Official Journal of PFSA No. 8, item 36) and No. 434/2010 of 20 December 2010 (Official Journal of PFSA No. 1 of 2011, item 36) introducing changes in items included in the banks' share capital and supplementary capital as of 31 December 2010,
- Resolution No. 369/2010 of PFSA of 12 October 2010 (Official Journal of PFSA No. 8, item 38) introducing changes in the determination of capital requirements for different types of risk as of 31 December 2010,
- Resolution No. 52/2010 of PFSA of 23 February 2010 (Official Journal of PFSA No. 2, item 12) which required banks to comply, as of 23 December 2010, with all rules of Recommendation T in respect of retail loan exposure risk management; affected the level of lending activity in banks in retail segment,
- Resolution No. 18/2011 of PFSA of 25 January 2011 (Official Journal of PFSA No. 3, item 6) which required banks to comply Recommendation S concerning good practices related to credit exposures secured by mortgage; the resolution put banks under an obligation to comply from 25 July 2011 with the quality requirements and to introduce by 31 December 2011 quantity requirements related to exposures secured by mortgage; affected the creditability of customers intending to draw loans and a result the value of mortgage loans granted,
- the Act of 29 July 2011 called the Anti-spread Act (Journal of Laws No. 165, item 984) amending, from 26 August 2011, the rules concerning repayment of foreign currency loans under which banks are obliged to accept, in the case of mortgage loans denominated in foreign currencies, the repayment of principal and interest in the loan's currency and which forbids restricting the consumers' right to obtain this currency from any source; the Act came into force on 26 August 2011; affected i.a. non-interest income of banks,
- the Act of 15 July 2011 amending from 31 August 2011 the Act on financial support to families purchasing their own homes (Journal of Laws, No. 168, item 1006), which envisages gradually extinguishing by 31 December 2012, the 'Rodzina na Swoim' programme, the Act specified the changes in the criteria for granting preferential loans, thus affecting the level of lending activity in banks; the Act came into force on 30 August 2011,

- the Act of 12 May 2011 on consumer credit (Journal of Laws no. 126, item 715) introduced significant changes to granting consumer loans as of 18 December 2011, which is going to affect the business activities in 2012,
- Resolution No. 208/2011 of PFSA of 22 August 2011 introducing, as from 14 October 2011, changes in the principles and conditions for taking into account exposures in determining concentration limits (Official Journal of the PFSA No. 9, item 34); the resolution, i.a. unified the level of exposure concentration limits,
- the Act of 16 December 2010 amending the Act on Public Finance (Journal of Laws 257, item 1726) requiring that public sector entities transfer, as from June 2011, surplus cash to the Minister of Finance for management or deposit purposes, which affected the level of deposits of this segment with commercial banks,
- amendment of the Act on value added tax of 16 December 2010 (Journal of Laws No. 247, item 1652) introducing in the period from 1 January 2011 to 31 December 2012 certain restrictions in respect of deducting total output VAT on the lease of passenger cars with homologation, which affected the value of assets financed by lease companies,
- decree of the Minister of Finance of 23 December 2010 (Journal of Laws No. 244, item 1692) extending the list of items included in the public debt by adding i.a. loans and advances and lease contracts, which affected activities of lease companies,
- Amendment of the Act on the organisation and functioning of pension funds of 25 March 2011 (Journal of Laws No. 75, item 398), introducing changes in respect of depositing OPF assets as of 1 May 2011, which i.a. decreased the base amount of the social insurance contribution payable to OPFs from 7.3% to 2.3% and prohibited canvassing on behalf of OPFs; affected the activities of general pension funds,
- decree of the President of the Council of Ministers of 30 May 2011 on payments covering the costs of supervision over pension fund activities (Journal of Laws No. 122, item 655), increasing the liabilities of pension funds to Polish Financial Supervision Authority and the Ombudsman for the Insured.

The business activities of banks in 2011 were also affected by the prepared amendments to the Tax Ordinance relating to the principles for calculating tax on income from deposits, which will come into force on 1 April 2012.

The following new legal regulations implemented in the Ukraine also affected the situation of the PKO Bank Polski SA Group, of which:

- the Tax Code introduced by Act No. 2755-VI, which reduced the corporate income tax rate to 23% in the period April-December 2011 and changed the methods of estimating inflows and outflows and the principles for tax depreciation and amortisation of tangible fixed assets and intangible assets, which affected, i.a. the level of the provision for impaired loans,
- decision No. 3332-VI of the Government of the Ukraine of 15 May 2011 obliging banks to prepare financial statements in accordance with the IFRS (became effective on 11 June 2011),
- Resolution No. 111 of the Management Board of the Central Bank of Ukraine (NBU) of 13 April 2011 on the liberalisation of the currency market, including i.a. in the scope of entering into currency swaps on the interbank market which enabled making both sales and purchases of foreign currencies (previously only purchase or sale); the Act came into force on 20 May 2011,
- Resolutions Nos. 204 and 205 of the Management Board of NBU of June 2011 resulting in limiting the ability of banks' to conduct the purchase and sale of foreign currencies and affecting the increase in the currency risk,
- Resolution No. 278 of the NBU introducing changes to the system for foreign currency transactions concluded by banks (the increase in the maximum sum of currency sales, identification of the persons conducting currency transactions in cash, liquidation of the maximum level of margins on cash transactions on the currency market) from 23 September 2011,
- the Act of 22 September 2011 which disallowed granting consumer loans in foreign currency and, i.a. introduced changes in the scope of bank secrecy from 16 October 2011.

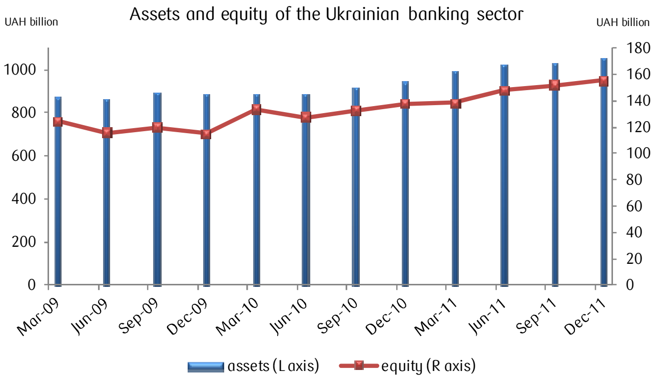
2.8 The Ukrainian market

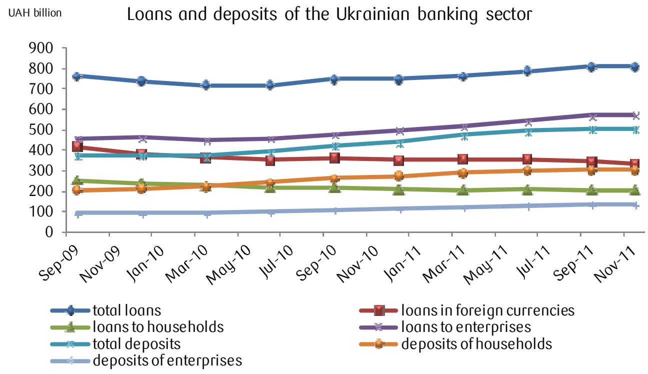
In 2011, the economic growth in the Ukraine was stimulated by investments and strong private consumption supported by a fast increase in real salaries. The dynamics of the Ukraine's GDP in 2011 was estimated to amount to ca. 5.2% y/y (according to unofficial government information) compared with 4.2% y/y in 2010. Despite the tension on the currency market caused by the unstable situation on the international financial markets and the increased demand of households for foreign currencies, a stable UAH/USD rate was maintained in 2011. Due to the Ukraine's failure to meet the conditions of the agreement with the

International Monetary Fund – mainly with regards to changes in the retail prices of natural gas – cooperation with the Fund was suspended, and the next tranche of financial aid to the Ukraine has not been paid since February 2011.

In order to mitigate the depreciation pressure on UAH, over the majority of the year the central bank of Ukraine (NBU) executed a policy of limiting overliquidity in the banking system and conducting regular interventions on the currency market. The basic interest rate of the central bank remained at a level of 7.75% throughout the whole of 2011.

In accordance with the data of the NBU, the number of banks conducting operating activities in the Ukraine did not change in 2011 and as at the end of December amounted to 176. The share of foreign capital in the capital of the Ukrainian banking sector increased to 41.9% from 41% in 2010.





Source: NBU

Thanks to the strong economic growth which was accompanied by an increase in the income of households and the improved situation of enterprises, the situation in the Ukrainian banking sector gradually improved. By the end of 2011, the assets of the banking sector in the Ukraine increased by UAH 112.2 billion (11.9% y/y) compared with an increase of UAH 61.8 billion over the whole of 2010 (7.0% y/y). The increase in the assets was largely affected by maintaining dynamic lending activities for enterprises (financial and non-financial). The increase in loans to corporate sector in 2011 amounted to UAH 77.6 billion (15.1% y/y). The maintained negative dynamics of loans to households of ca. -4.0% y/y had an adverse effect on the level of loans granted by the banking sector. The decrease in loans to households was concentrated in the foreign currency loans segment (-20.9% y/y), whereas loans denominated in UAH increased by 33.8% y/y, which was related to the changes in regulations arising from the Act of 22 September limiting the possibility of granting consumer loans in foreign currencies.

In 2011, the dynamics of total deposits (of residents and non-residents) in the Ukrainian banking sector increased to 18.6% y/y from 17.8% y/y in 2010; in absolute terms deposits increased by UAH 82.4 billion compared to UAH 67.0 billion the year before. Among residents, the strongest increase in deposits related to non-financial enterprises sector (31.9% y/y) and households (12.8% y/y). Deposits (of residents and non-residents) in UAH increased faster (19.9% y/y) than deposits denominated in foreign currencies (17.0% y/y). Among residents the stronger growth of deposits was recorded in deposits denominated in foreign currencies, which resulted from the increased demand on foreign currencies from households in connection with increased uncertainty in the Ukrainian economic environment.

Equity of banks operating in the Ukraine increased in 2011 by 12.9% y/y compared with the increase of 19.6% y/y in 2010.

In 2011, the upward tendency prevailed as regards the quality of the loan portfolio. The value of impaired loans as at the end of December dropped by UAH 5.6 billion from UAH 84.9 billion as at the end of December 2010. Thus, the dynamics of impaired loans dropped to -6.6% y/y from 21.3% y/y the year before. The balance of provisions recorded as at the end of December 2011 increased by UAH 6.0 billion to UAH 119 billion compared with the end of 2010. In 2011, the efficiency ratios of the Ukrainian banking sector also improved further. As at the end of 2011, ROA ratio increased to -0.8% (from -1.5% as at the end of 2010), ROE ratio amounted to -5.3% (compared with -10.2% in 2010).

3. FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP [3]

PKO Bank Polski SA and the other PKO Bank Polski SA Group entities did not release financial results forecasts for 2011.

3.1 Factors influencing results of the PKO Bank Polski SA Group

In 2011, relatively favourable macroeconomic conditions and an increase of interest rates translated into positive financial results of the Polish banking sector. In 2011, credit portfolio quality stabilised as well as the level of the costs of credit risk decreased.

Actions undertaken by the PKO Bank Polski SA Group in 2011 allowed generating the net profit amounting to PLN 3 807.2 million. The efficiency of the PKO Bank Polski SA Group shaped up on high level – as at the end of 2011, the ROE ratio amounted to 17.5%.

The growth of the deposit base and high level of the equity of the PKO Bank Polski SA Group covered the increasing capital needs, arising from the growth of the loan activity, and enabled the further stable growth of business activities. As at the end of 2011, the capital adequacy ratio amounted to 12.37%, while its minimum level, determined by the Banking Law, amounted to 8%.

3.2 Key financial indicators

The summary of results, achieved by the PKO Bank Polski SA Group in 2011, is represented by the level of the following key financial efficiency indicators, which are shown in the table below.

Table 1. Key financial indicators of the PKO Bank Polski SA Group

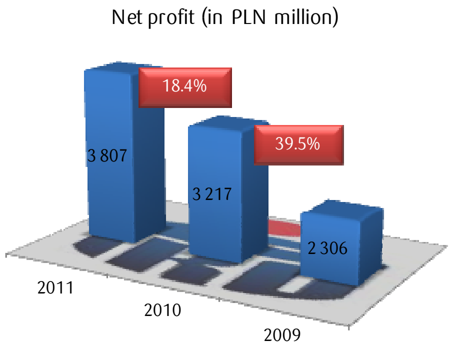
Items	31.12.2011	31.12.2010	Change 2011-2010
ROA net (net profit/average total assets)	2.1%	2.0%	0.1 pp.
ROE net (net profit/average total equity)	17.5%	14.9%	2.6 pp.
C/I (cost to income ratio)	39.6%	41.7%	-2.1 pp.
Interest margin (net interest income/average interest-earning assets)	4.6%	4.4%	0.2 pp.
The share of impaired loans*	8.0%	8.0%	0 pp.
The coverage ratio of impaired loans**	48.0%	44.6%	3.4 pp.

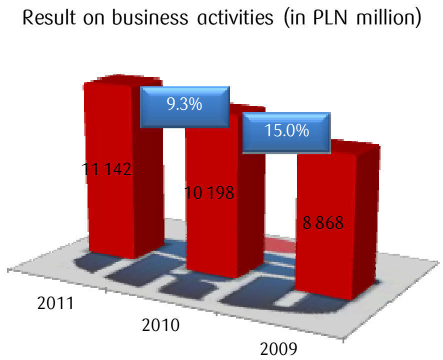
* *Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers.*

** *Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying amount of impaired loans and advances to customers.*

3.3 Consolidated income statement

In 2011, PKO Bank Polski SA Group achieved consolidated net profit in the amount of PLN 3 807.2 million, which was PLN 590.3 million higher than in 2010.





[3] *In this section, any differences in total balances, shares and growth rates result from rounding the amounts to PLN million and rounding percentages to one decimal place.*

Table 2. Income statement of the PKO Bank Polski SA Group (in PLN million)

	2011	2010	Change (in PLN million)	Change 2011/2010
Interest and similar income	12 037.8	10 415.3	1 622.4	15.6%
Interest expense and similar charges	(4 428.6)	(3 899.1)	(529.5)	13.6%
Net interest income	**7 609.1**	**6 516.2**	**1 093.0**	**16.8%**
Fee and commission income	3 837.2	3 880.9	(43.7)	-1.1%
Fee and commission expense	(735.7)	(738.0)	2.3	-0.3%
Net fee and commission income	**3 101.4**	**3 142.8**	**(41.4)**	**-1.3%**
Dividend income	6.8	5.7	1.1	20.1%
Net income from financial instruments at fair value	(75.1)	(62.6)	(12.5)	19.9%
Gains less losses from investment securities	20.2	73.1	(52.9)	-72.4%
Net foreign exchange gains	337.3	346.8	(9.5)	-2.7%
Other operating income	451.7	469.4	(17.7)	-3.8%
Other operating expenses	(309.2)	(293.7)	(15.5)	5.3%
Net other operating income and expense	**142.5**	**175.7**	**(33.1)**	**-18.9%**
Net impairment allowance	(1 930.4)	(1 868.4)	(62.1)	3.3%
Administrative expenses	(4 411.4)	(4 249.1)	(162.2)	3.8%
Operating profit	**4 800.5**	**4 080.1**	**720.5**	**17.7%**
Share of profit (loss) of associates and jointly controlled entities	(19.7)	(0.8)	(18.8)	24.1x
Profit (loss) before income tax	**4 780.9**	**4 079.2**	**701.6**	**17.2%**
Income tax expense	(976.1)	(866.4)	(109.7)	12.7%
Net profit (including non-controlling shareholders)	3 804.7	3 212.8	591.9	18.4%
Net profit (loss) attributable to non-controlling shareholders	(2.5)	(4.1)	1.6	-39.9%
Net profit (loss)	**3 807.2**	**3 216.9**	**590.3**	**18.4%**

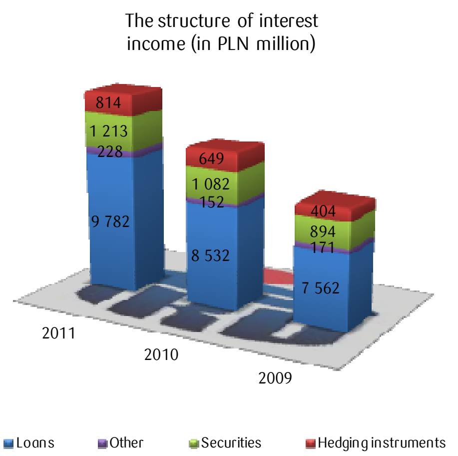
In the income statement of the PKO Bank Polski SA Group for year 2011, the sum of revenue positions amounted to PLN 11 142.3 million and was PLN 944.8 million, i.e. 9.3% higher than in 2010.

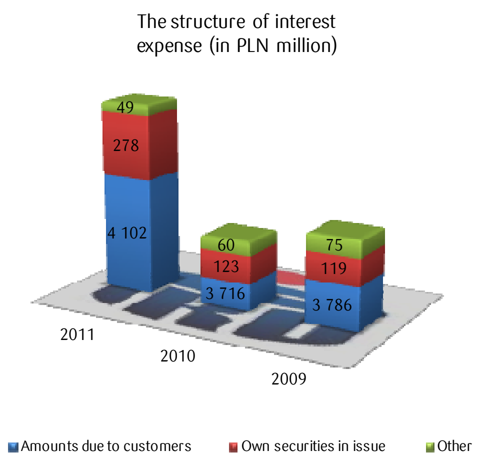
Net interest income

In 2011, net interest income was PLN 1 093.0 million higher than in the previous year, mainly due to interest income growth by PLN 1 622.4 million. In 2011, interest income amounted to PLN 12 037.8 million and in comparison with 2010 was higher by 15.6%, mainly as a result of an increase in:

- revenue in respect of loans and advances to customers (+) 14.7% y/y resulting from the fast loan portfolio growth (+8.4% y/y), along with growing interest rates during 2011,
- income in respect of derivative hedging instruments (+) 25.4% y/y resulting from an increase in the CIRS transactions volume denominated in Polish currency - increase in the average CHF exchange rate and as a result of increase in CIRS net coupons – increase in average 3M WIBOR rate on an annual basis,
- income from investment securities available for sale (+) 26.0% y/y resulting from an increase in the volume (+40.8% y/y).

Growth of interest expense amounted to (+) 13.6% y/y, which was mainly due to an increase in the costs of amounts due to customers (+10.4% y/y), resulting from both the growth of their portfolio, and interest rates of deposits.





In 2011, the average interest rate on loans in PKO Bank Polski SA amounted to 7.1% whereas the average interest rate on deposits amounted in total to 2.9%, as compared with 6.8% and 2.8% in 2010 respectively.

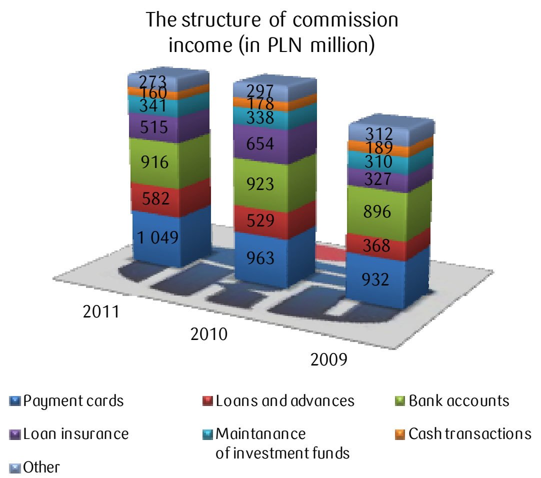
The interest margin increased by 0.2 pp. y/y to the level of 4.6% in 2011, as a result of an increase in net interest income by 16.8% y/y, which was accompanied by increase in average level of interest-bearing assets of 9.5% y/y.

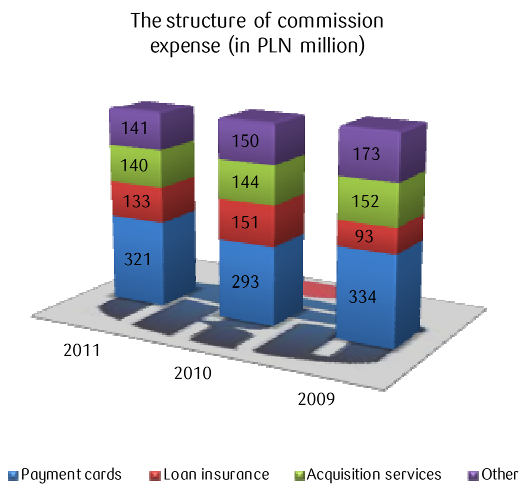
Table 3. Interest income and expense of the PKO Bank Polski SA Group (in PLN million)

Items	2011	Structure 2011	2010	Structure 2010	Change 2011/2010
Interest income, of which:	**12 037.8**	**100.0%**	**10 415.3**	**100.0%**	**15.6%**
Loans and advances to customers	9 782.5	81.3%	8 532.2	81.9%	14.7%
Derivative hedging instruments	814.3	6.8%	649.1	6.2%	25.4%
Investment securities available for sale	576.6	4.8%	457.8	4.4%	26.0%
Financial assets designated upon initial recognition at fair value through profit and loss	561.8	4.7%	494.7	4.7%	13.6%
Placements with banks	218.7	1.8%	148.5	1.4%	47.3%
Trading assets	74.8	0.6%	128.9	1.2%	-42.0%
Securities held to maturity	0.0	0.0%	0.2	0.0%	x
Other	9.0	0.1%	3.9	0.0%	2.3x
Interest expense, of which:	**(4 428.6)**	**100.0%**	**(3 899.1)**	**100.0%**	**13.6%**
Amounts due to customers	(4 101.6)	92.6%	(3 715.7)	95.3%	10.4%
Debt securities in issue	(278.2)	6.3%	(123.4)	3.2%	2.3x
Deposits from banks	(45.7)	1.0%	(30.3)	0.8%	50.9%
Premium expense on debt securities available for sale	(1.3)	0.0%	(3.6)	0.1%	-62.8%
Other expense	(1.9)	0.0%	(26.2)	0.7%	-92.8%
Net interest income	**7 609.1**	**x**	**6 516.2**	**x**	**16.8%**

Net fee and commission income

In 2011, net fee and commission income was PLN 41.4 million lower than in the previous year, along with income decrease by PLN 43.7 million and expense decrease by PLN 2.3 million.





Net fee and commission income decreased by 1.3% y/y as a result of i.a.:

- a decrease in commission income in respect of loan insurance (-21.1% y/y), in effect of the decrease in sale of consumer loans with optional insurance,
- a decrease in commission income in respect of cash transactions (-9.7% y/y) connected with the dynamic growth in electronic banking in the PKO Bank Polski SA Group,

along with:

- an increase in commission income in respect of servicing payment cards (+8.9% y/y), mainly as a result of an increase in card transactionability,
- an increase in commission income in respect of loans and advances (+10.1% y/y).

The negative growth rate in commission expense was determined by the costs of loans insurance and asset management costs, along with the increase in commission expense concerning payment cards.

Table 4. Fee and commission income and expense of the PKO Bank Polski SA Group (in PLN million)

Items	2011	Structure 2011	2010	Structure 2010	Change 2011/2010
Fee and commission income, of which:	**3 837.2**	**100.0%**	**3 880.9**	**100.0%**	**-1.1%**
Payment cards	1 048.7	27.3%	963.4	24.8%	8.9%
Maintenance of bank accounts	916.5	23.9%	922.6	23.8%	-0.7%
Loans and advances granted	582.1	15.2%	528.8	13.6%	10.1%
Loan insurance	515.5	13.4%	653.5	16.8%	-21.1%
Maintenance of investment funds and pension funds (of which management fees)	340.8	8.9%	338.1	8.7%	0.8%
Cash transactions	160.5	4.2%	177.7	4.6%	-9.7%
Securities operations	70.3	1.8%	73.3	1.9%	-4.0%
Servicing foreign mass transactions	48.0	1.3%	44.8	1.2%	7.2%
Sale and distribution of value marks	18.6	0.5%	26.3	0.7%	-29.1%
Fiduciary services	2.8	0.1%	1.7	0.0%	69.1%
Other*	133.4	3.5%	150.7	3.9%	-11.5%
Fee and commissions expenses, of which:	**(735.7)**	**100.0%**	**(738.0)**	**100.0%**	**-0.3%**
Payment cards	(320.6)	43.6%	(293.2)	39.7%	9.3%
Acquisition services	(140.2)	19.1%	(144.3)	19.5%	-2.8%
Loan insurance	(133.5)	18.1%	(150.8)	20.4%	-11.5%
Settlement services	(21.0)	2.9%	(21.8)	2.9%	-3.6%
Assets management	(16.2)	2.2%	(21.7)	2.9%	-25.4%
Operating services granted by banks	(11.4)	1.6%	(10.1)	1.4%	12.8%
Other**	(92.9)	12.6%	(96.1)	13.0%	-3.4%
Net fee and commission income	**3 101.4**	**x**	**3 142.8**	**x**	**-1.3%**

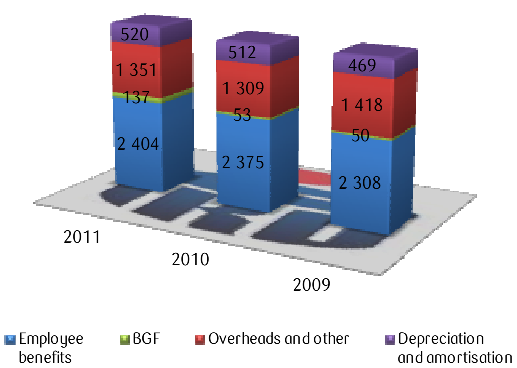
** Included in 'Other' are i.a. commissions: received for servicing bond sale transactions, of Dom Maklerski (the Brokerage House of PKO Bank Polski SA, DM) for servicing Initial Public Offering issue and for servicing loans granted by the State budget.*

*** Included in 'Other' are i.a.: fees and expenses paid by the Brokerage House to Warsaw Stock Exchange (WSE) and the National Depository for Securities (KDPW).*

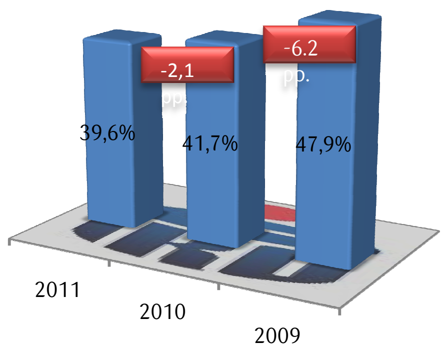
Administrative expenses

In 2011, total administrative expenses increased by PLN 162.2 million as compared to the previous year (+3.8% y/y).

The structure of administrative expenses (in PLN million)



C/I



Their level was mainly determined by:

- increase in overheads and other expense of PLN 125.5 million (+9.2% y/y), including the increase of the contribution and payments to the BGF of PLN 83.4 million y/y and the increase in promotion and advertising costs,
- increase in employee benefits by PLN 28.8 million (+1.2% y/y), affected mainly by the increase in wages and salaries of PLN 20.6 million (+1.0% y/y).

Table 5. Administrative expenses of the PKO Bank Polski SA Group (in PLN million)

Items	2011	Structure 2011	2010	Structure 2010	Change 2011/2010
Employee benefits	(2 403.7)	54.5%	(2 374.9)	55.9%	1.2%
Overheads and other, of which:	(1 487.5)	33.7%	(1 361.9)	32.1%	9.2%
Contribution and payments to the Bank Guarantee Fund	*(136.7)*	*3.1%*	*(53.4)*	*1.3%*	*2.6x*
Depreciation and amortisation	(520.2)	11.8%	(512.3)	12.1%	1.5%
TOTAL	**(4 411.4)**	**100.0%**	**(4 249.1)**	**100.0%**	**3.8%**

A slight increase in the level of administrative expenses accompanied by a significant increase in the income of the PKO Bank Polski SA Group, resulted in maintaining high operating efficiency of the PKO Bank Polski SA Group, measured with the C/I ratio, which amounted to 39.6% as at the end of 2011 (-2.1 pp. compared with 2010).

Net impairment allowance

Net impairment allowance is an effect of maintaining a conservative approach of PKO Bank Polski SA to recognition and measurement of credit risk and the growth of credit portfolio. The increase in negative result on net impairment allowances (+3.3% y/y) is a result of the deterioration in the quality of the corporate loans portfolio, along with the improvement in the result on consumer loans.

As at the end of 2011, the share of impaired loans ratio and the coverage ratio of impaired loans respectively amounted to 8.0% (the same level as in 2010) and 48.0% (an increase by 3.4 pp. in comparison to 2010), which is the consequence of consistent use of stricter credit quality assessment criteria and adopted policy on the treatment of bad debts by the Bank.

Table 6. Net impairment allowance of the PKO Bank Polski SA Group (in PLN million)

	31.12.2011	Structure 2011	31.12.2010	Structure 2010	Change 2011/2010
Net impairment allowance, of which:					
Investment securities available for sale	1.3	-0.1%	(1.3)	0.1%	x
loans and advances to customers measured at amortised cost	(1 838.8)	95.3%	(1 746.2)	93.5%	5.3%
non-financial sector	(1 807.6)	93.6%	(1 720.1)	92.1%	5.1%
consumer loans	*(661.0)*	*34.2%*	*(813.8)*	*43.6%*	*-18.8%*
mortgage loans	*(392.1)*	*20.3%*	*(268.7)*	*14.4%*	*45.9%*
corporate loans	*(754.4)*	*39.1%*	*(637.6)*	*34.1%*	*18.3%*
financial sector	(8.5)	0.4%	(15.8)	0.8%	-46.2%
budget sector	(2.6)	0.1%	8.4	-0.4%	x
receivables from financial lease	(20.1)	1.0%	(18.7)	1.0%	7.6%
intangible assets	(2.6)	0.1%	(37.8)	2.0%	-93.2%
investments in entities measured using the equity method	(28.8)	1.5%	(55.1)	2.9%	-47.7%
tangible fixed assets	(4.5)	0.2%	(28.8)	1.5%	-84.2%
non-current assets held for sale	0.0	0.0%	(1.3)	0.1%	x
other	(57.0)	3.0%	2.2	-0.1%	x
Total	**(1 930.4)**	**100.0%**	**(1 868.4)**	**100.0%**	**3.3%**

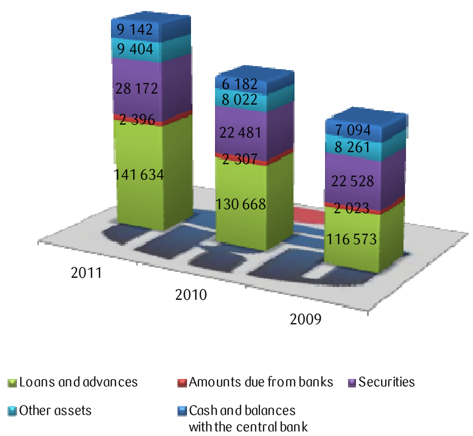
3.4 Consolidated statement of financial position

Main items of the statement of financial position

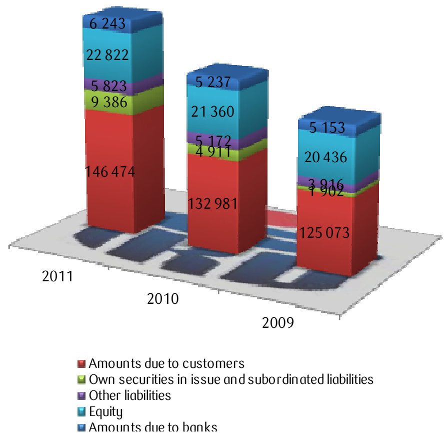
The statement of financial position of the PKO Bank Polski SA Group is strongly influenced by the statement of financial position of the parent entity. It determines both the size of total assets and the structure of assets and liabilities.

The total assets of the PKO Bank Polski SA Group amounted to PLN 190.7 billion as at the end of 2011, which means increase of 12.4% y/y. As a result, the PKO Bank Polski SA Group strengthened the position of the largest institution in the Polish banking sector.

The structure of assets (in PLN million)



The structure of liabilities and equity (in PLN million)



The increase in assets of the PKO Bank Polski SA Group was mainly due to an increase in the volume of loans and advances to customers by 8.4% y/y as well as an increase in the securities portfolio by 25.3% y/y.

The increase in total assets was financed mainly by an increase in amounts due to customers (+10.1% y/y) and liabilities arising from the issue of securities (2.4x y/y) associated with the issue of bonds (detailed information relating to the issue are presented in Chapter 5.8).

Table 7. Main items of the statement of financial position of the PKO Bank Polski SA Group (in PLN million)

Items	31.12.2011	Structure 2011	31.12.2010	Structure 2010	Change 2011/2010
Cash and balances with the central bank	9 142.2	4.8%	6 182.4	3.6%	47.9%
Amounts due from banks	2 396.2	1.3%	2 307.0	1.4%	3.9%
Loans and advances to customers	141 634.5	74.3%	130 668.1	77.0%	8.4%
Securities	28 171.6	14.8%	22 481.4	13.3%	25.3%
Other assets	9 403.6	4.9%	8 021.6	4.7%	17.2%
Total assets	**190 748.0**	**100.0%**	**169 660.5**	**100.0%**	**12.4%**
Amounts due to banks	6 242.6	3.3%	5 237.2	3.1%	19.2%
Amounts due to customers	146 473.9	76.8%	132 981.2	78.4%	10.1%
Debt securities in issue and subordinated liabilities	9 386.2	4.9%	4 910.6	2.9%	91.1%
Other liabilities	5 823.4	3.1%	5 171.8	3.0%	12.6%
Total liabilities	**167 926.1**	**88.0%**	**148 300.9**	**87.4%**	**13.2%**
Total equity	22 822.0	12.0%	21 359.6	12.6%	6.8%
Total liabilities and equity	**190 748.0**	**100.0%**	**169 660.5**	**100.0%**	**12.4%**
Loans/Deposits (amounts due to customers)	96.7%	x	98.3%	x	-1.6 pp.
Loans/stable sources of financing*	88.4%	x	92.0%	x	-3.6 pp.
Interest bearing assets/Assets	90.3%	x	91.6%	x	-1.4 pp.
Interest paying liabilities/Liabilities	85.0%	x	84.4%	x	0.6 pp.

** Stable sources of financing include amounts due to customers and long-term external financing in the form of: the issue of securities, subordinated liabilities and amounts due to financial institutions.*

In 2011, the following efficiency ratios improved: the return on assets (ROA) and the return on equity (ROE), by 0.1 pp. and 2.6 pp. respectively. The increase was due to a high growth rate of the net profit (+18.4% y/y) combined with an increase in average assets of 10.2% y/y and stable level of average equity in comparison to 2010.

Loans and advances to customers

In the type structure of the net loan portfolio, the main items are loans and advances to the non-financial sector (+9.3% y/y), the share of which increased by 0.8 pp. y/y, mainly due to an increase in the share of mortgage loans (+2.1 pp. y/y), offset by decrease in the share of consumer loans. mortgage loans (+13.2% y/y) are the largest item of loans and advances to the non-financial sector (49.3% of the portfolio as at the end of 2011). The share of loans and advances to the financial sector decreased by 1.4 pp. (y/y).

Table 8. Loans and advances to customers of the PKO Bank Polski SA Group – structure by type (in PLN million)

Structure by type	31.12.2011	Structure 2011	31.12.2010	Structure 2010	Change 2011/2010
Loans and advances to the Bank's customers net	**141 634.5**	**100.0%**	**130 668.1**	**100.0%**	**8.4%**
Financial sector (without banks)	1 215.3	0.9%	2 972.2	2.3%	-59.1%
Non-financial sector	135 368.5	95.6%	123 858.6	94.8%	9.3%
consumer loans	*22 872.9*	*16.1%*	*24 129.4*	*18.5%*	*-5.2%*
mortgage loans	*69 832.4*	*49.3%*	*61 695.2*	*47.2%*	*13.2%*
corporate loans	*42 663.2*	*30.1%*	*38 033.9*	*29.1%*	*12.2%*
Public sector	5 050.7	3.6%	3 837.4	2.9%	31.6%

Amounts due to customers

In the structure of amounts due to customers by types, the main items were amounts due to retail clients (+9.5% y/y) the share of which decreased by 0.4 pp. y/y along with an increase of amounts due to corporate entities by 2.3 pp. y/y.

Table 9. Amounts due to customers of the PKO Bank Polski SA Group – structure by type (in PLN million)

Structure by type	31.12.2011	Structure 2011	31.12.2010	Structure 2010	Change 2011/2010
Amounts due to retail clients	104 183.1	71.1%	95 107.9	71.5%	9.5%
Amounts due to corporate entities	38 468.6	26.3%	31 826.6	23.9%	20.9%
Amounts due to state budget entities	3 822.2	2.6%	6 046.8	4.5%	-36.8%
Total amounts due to customers	**146 473.9**	**100.0%**	**132 981.2**	**100.0%**	**10.1%**

In 2011, the term structure of amounts due to customers has changed: the share of amounts up to 1 month increased by 1.6 pp. y/y at the expense of amounts over 1 month up to 3 months (-2.6 pp. y/y).

Table 10. Amounts due to customers of the PKO Bank Polski Group – term structure (in PLN million)

Term structure	31.12.2011	Structure 2011	31.12.2010	Structure 2010	Change 2011/2010
Up to 1 month	93 164.5	62.7%	82 510.9	61.1%	12.9%
Over 1 month up to 3 months	15 234.6	10.3%	17 377.6	12.9%	-12.3%
Over 3 month up to 1 year	35 242.3	23.7%	31 661.7	23.4%	11.3%
Over 1 year up to 5 years	3 184.4	2.1%	1 877.2	1.4%	69.6%
Over 5 years	1 798.6	1.2%	1 609.0	1.2%	11.8%
Value adjustments and interest	(2 150.6)	x	(2 055.2)	x	4.6%
Total amounts due to customers	**146 473.9**	**x**	**132 981.2**	**x**	**10.1%**

Equity and capital adequacy ratio

Equity increased by 6.8% y/y and as at the end of 2011 accounted for 12.0% of total liabilities and equity of the PKO Bank Polski SA Group (-0.6 pp. y/y).

The capital adequacy ratio of the PKO Bank Polski SA Group amounted to 12.37% as at the end of 2011 and reached a high level similar to the end of 2010 (-0.1 pp. y/y). Capital adequacy measured with the capital adequacy ratio remained at a safe level with the payment of dividend from net profit for 2010 of 74.7% and an increase of the loan portfolio.

Table 11. Equity and capital adequacy ratio of the PKO Bank Polski SA Group (in PLN million)

Items	2011	Structure 2011	2010	Structure 2010	Change 2011/2010
Equity, of which:	**22 822.0**	**100.0%**	**21 359.6**	**100.0%**	**6.8%**
Share capital	1 250.0	5.5%	1 250.0	5.9%	0.0%
Reserve capital	13 041.4	57.1%	12 212.2	57.2%	6.8%
General banking risk fund	1 070.0	4.7%	1 070.0	5.0%	0.0%
Other reserves	3 460.4	15.2%	3 412.2	16.0%	1.4%
Financial assets available for sale	(52.4)	-0.2%	(25.2)	-0.1%	2.1x
Share of other comprehensive income of an associate	(0.3)	0.0%	1.0	0.0%	x
Cash flow hedges	362.2	1.6%	217.9	1.0%	66.2%
Currency translation differences from foreign operations	(92.0)	-0.4%	(109.7)	-0.5%	-16.1%
Unappropriated profits	(23.2)	-0.1%	112.3	0.5%	x
Net profit for the period	3 807.2	16.7%	3 216.9	15.1%	18.4%
Non-controlling interest	(1.3)	0.0%	2.0	0.0%	x
Own funds	**18 342.9**	**x**	**17 618.5**	**x**	**4.1%**
Capital adequacy ratio	**12.37%**	**x**	**12.47%**	**x**	**-0.1 pp.**

4. STRUCTURE OF THE PKO BANK POLSKI SA GROUP

As at 31 December 2011 the PKO Bank Polski SA Group consisted of the Bank, as the parent company, and 27 direct and indirect subsidiaries.

4.1 Entities included in the financial statements

Included in the consolidated financial statements are PKO Bank Polski SA – the parent company of the PKO Bank Polski SA Group and its subsidiaries as defined in IAS 27 'Consolidated and separate financial statements'.

Table 12. Entities comprising the PKO Bank Polski SA Group

No.	Entity name	The value of exposure at acquisition cost (in PLN thousand)	The share in the share capital (%)	Consolidation method
	Parent company			
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
	Subsidiaries			
2	KREDOBANK SA	935 619	99.5655	full method
3	PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	205 786	100	full method
4	PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	100	full method
5	Qualia Development Sp. z o.o.*	183 393	100	full method
6	Centrum Finansowe Puławska Sp. z o.o. – in liquidation	167 288	100	full method
7	Bankowy Fundusz Leasingowy SA	70 000	100	full method
8	Inteligo Financial Services SA	59 602	100	full method
9	Centrum Elektronicznych Usług Płatniczych eService SA	55 500	100	full method
10	Fort Mokotów Inwestycje Sp. z o.o.* [1]	51 599	99.9885	full method
11	Bankowe Towarzystwo Kapitałowe SA	21 566	100	full method
12	PKO BP Finat Sp. z o.o.	11 693	100	full method
13	Finansowa Kompania 'Prywatne Inwstycje' Sp. z o.o.	1 482	100	full method
14	PKO Finance AB	172	100	full method
	Subsidiaries of Qualia Development Sp. z o.o. [2]			
15	Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k. [3]	82 980	99.9750	full method
16	Qualia - Residence Sp. z o.o.*	42 030	100	full method
17	Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k. [4]	19 000	99.9975	full method
18	Sarnia Dolina Sp. z o.o. [5]	8 187	56	full method
19	Qualia – Rezydencja Flotylla Sp. z o.o. [6]	7 575	100	full method
20	Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	4 700	99.9787	full method
21	Fort Mokotów Sp. z o.o. – in liquidation*	2 040	51	full method
22	UKRPOLINWESTYCJE Sp. z o.o.	519	55	full method
23	Qualia Hotel Management Sp. z o.o. [7]	50	99.9	full method
24	Qualia Sp. z o.o.*	30	100	full method
25	Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	1	50	full method
26	Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.	1	50	full method
	Subsidiary of Bankowy Fundusz Leasingowy SA			
27	Bankowy Leasing Sp. z o.o.	57 424	100	full method
	Subsidiary of Bankowe Towarzystwo Kapitałowe SA			
28	PKO BP Faktoring SA [8]	13 329	99.9889	full method

** The position comprises the value of shares at acquisition cost and inclusive of specific capital injections.*
1 - the second shareholder of the Company is Qualia Development Sp. z o.o.
2 - in limited partnerships of the Qualia Development Group, the limited partner is Qualia Development Sp. z o.o. and the general partner is Qualia Sp. z o.o., in the position of value of exposure, value of contributions made by the limited partner is presented, in the position of share capital, the total contributions made by the limited partner is presented.
3 - the Company was established as a result of transformation of the company PKO BP Inwestycje – Nowy Wilanów Sp. z o.o., in the position of value of exposure, acquisition cost of shares and the value of capital contributions before transformation into limited partnership is presented.
4 - the Company was established as a result of transformation of the company PKO BP Inwestycje – Neptun Park Sp. z o.o., in the position of value of exposure, acquisition cost of shares and the value of capital contributions before transformation into limited partnership is presented.
5 - previously PKO BP Inwestycje – Sarnia Dolina Sp. z o.o.
6 - previously PKO BP Inwestycje – Rezydencja Flotylla Sp. z o.o.
7 - the second shareholder of the Company is Qualia Sp. z o.o.
8 - PKO Bank Polski SA holds 1 share in the Company.

Table 13. Other subordinated entities included in the consolidated financial statements

No.	Entity name	The value of exposure at acquisition cost (in PLN thousand)	The share in the share capital (%)	Consolidation method
	Jointly controlled entities			
1	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43	equity method
2	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44	equity method
	Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.			
3	Sopot Zdrój Sp. z o.o.*	67 126	100	equity method
4	Promenada Sopocka Sp. z o.o.	10 058	100	equity method
5	Centrum Majkowskiego Sp. z o.o.	3 833	100	equity method
6	Kamienica Morska Sp. z o.o.	976	100	equity method
	Associates			
7	Bank Pocztowy SA	146 500	25.0001	equity method
8	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33	equity method
9	Agencja Inwestycyjna CORP SA	29	22.31	equity method
	Subsidiaries of Bank Pocztowy SA			
10	Centrum Operacyjne Sp. z o.o.	3 284	100	equity method
11	Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	2 680	100	equity method

** The position comprises the value of shares at acquisition cost and inclusive of specific capital injections.*

In addition, PKO Bank Polski SA holds shares in an associate Kolej Gondolowa Jaworzyna Krynicka SA (37.53% interest in the Company's share capital), disclosed as non-current assets held for sale.

4.2 Changes to the organisation of subordinated entities

In 2011, the structure of the PKO Bank Polski SA Group was affected by the following events:

1. **Taking up shares in the increased share capital of Bankowe Towarzystwo Kapitałowe SA**

   On 12 January 2011, the increase in the share capital of Bankowe Towarzystwo Kapitałowe SA, in the total amount of PLN 3 000 thousand was registered with the National Court Register. As a result, the Company's share capital amounted to PLN 24 243.9 thousand and consists of 242 439 shares of nominal value of PLN 100 each.

   All the shares in the increased share capital were taken up by PKO Bank Polski SA for a price equal to the nominal value of the shares taken up.

   As at 31 December 2011, PKO Bank Polski SA held a total of 100% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

2. **Taking up shares in the increased share capital of PKO BP Faktoring SA**

   On 7 March 2011, the increase in the share capital of PKO BP Faktoring SA in the total amount of PLN 1 500 thousand was registered with the National Court Register. As a result, the Company's share capital amounted to PLN 9 000 thousand and consisted of 9 000 shares of PLN 1 thousand nominal value each.

   All the shares in the increased Company's share capital were taken up by Bankowe Towarzystwo Kapitałowe SA - a subsidiary of PKO Bank Polski SA - for a price equal to PLN 3 000 thousand, with PLN 1 500 thousand included in the reserve capital of the Company.

   After the registration of the issue mentioned above, BTK SA held a total of 99.9889% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

3. **Activities carried out as a part of the liquidation process of Centrum Finansowe Puławska Sp. z o.o.**

   On 13 June 2011, an increase in the share capital of Centrum Finansowe Puławska Sp. z o.o. in the amount of PLN 39 000 thousand was registered with the National Court Register. As a result, the Company's share capital amounted to PLN 117 808 thousand and consists of 14 726 shares of PLN 8 thousand nominal value each.

   All shares in the increased share capital were taken up by PKO Bank Polski SA for a price equal to the nominal value of the shares taken up. The funds raised as a result of the above mentioned capital increase were used for early repayment of the loan in PKO Bank Polski SA.

   As a result of the issue mentioned above, PKO Bank Polski SA held a total of 100% of the Company's share capital and voting rights at the Company's General Shareholders' Meeting.

On 1 July 2011, PKO Bank Polski SA passed a resolution on the Company's winding up and opening its liquidation as of 1 July 2011. The relevant motion was filed with the National Court Register on 4 July 2011.

The winding up of the Company will not result in any changes to the scope of activities of the PKO Bank Polski SA Group – in the Bank, activities related to the acquisition of management of the Centrum Finansowe Puławska building in Warsaw together with the property are carried out, which is the main activity conducted by the Company.

4. The takeover of direct control of PKO BP Finat Sp. z o.o. by PKO Bank Polski SA

As part of the process related to the takeover of direct control of PKO BP Finat Sp. z o.o. by the Bank, on 12 September 2011, PKO BP Finat Sp. z o.o. repaid to PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA capital contribution in the amount of PLN 2 500 thousand.

In the third quarter of 2011 PKO Bank Polski SA bought from its subsidiaries all shares of PKO BP Finat Sp. z o.o., of which:

- on 24 August 2011 bought from Inteligo Financial Services SA 75 999 shares of PKO BP Finat Sp. z o.o. with a total nominal value of PLN 7 599.9 thousand; acquisition cost of the above mentioned shares amounted to PLN 9 392.7 thousand,
- on 13 September 2011 bought from PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA 18 610 shares of PKO BP Finat Sp. z o.o. with a total nominal value of PLN 1 861 thousand; acquisition cost amounted to PLN 2 300 thousand.

As a result of the above mentioned transaction, PKO Bank Polski SA held shares of PKO BP Finat Sp. z o.o. which represented 100% interest in the share capital of the Company and entitled to 100% of the voting rights at the General Shareholders' Meeting.

5. Activities concerning Bankowy Leasing Sp. z o.o. (taking up shares in the increased share capital of the Company and merger of the subsidiaries of Bankowy Fundusz Leasingowy SA)

On 27 January 2011, the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 6 600 thousand was registered with National Court Register. All the shares were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of the Bank – for a price equal to the nominal value of the shares taken up.

On 11 May 2011, the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 12 700 thousand was registered with National Court Register. All the shares were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of the Bank – for a price equal to the nominal value of the shares taken up.

On 28 September 2011 Bankowy Fundusz Leasingowy SA repurchased from PKO Bank Polski SA 1 share in Bankowy Leasing Sp. z o.o. The acquisition cost was PLN 0.8 thousand. As a result of the above transaction Bankowy Fundusz Leasingowy SA became the sole shareholder in the company Bankowy Leasing Sp. z o.o.

On 30 December 2011 with National Court Register was registered:

- the increase in the share capital of Bankowy Leasing Sp. z o.o. by PLN 15 414.5 thousand by the share issue, which were granted to Bankowy Fundusz Leasingowy SA as a sole shareholder in the company BFL Nieruchomości Sp. z o.o. (acquiree) in a merger of the subsidiaries of Bankowy Fundusz Leasingowy SA,
- the merger of the subsidiaries of Bankowy Fundusz Leasingowy SA, as a result of which the whole property of the company BFL Nieruchomości Sp. z o.o. was transferred to the company Bankowy Leasing Sp. z o.o.

As of 31 December 2011 the Company's share capital amounted to PLN 57 414.5 thousand and consists of 114 829 shares with a nominal value of PLN 500 each.

6. **Activities concerning BFL Nieruchomości Sp. z o.o. (taking up shares in the increased share capital of the Company and merger of the subsidiaries of Bankowy Fundusz Leasingowy SA)**

   In 2011, the increase in the share capital of BFL Nieruchomości Sp. z o.o. in the total amount of PLN 8 000 thousand, including: on 27 January in the amount of PLN 1 000 thousand and on 9 May in the amount of PLN 7 000 thousand, was registered with the National Court Register. As a result, the Company's share capital amounted to PLN 18 400 thousand and consisted of 36 800 shares of PLN 500 nominal value each.

   All the shares in the increased share capital were taken up by Bankowy Fundusz Leasingowy SA - a subsidiary company of PKO Bank Polski SA - for a price equal to the nominal value of the shares taken up.

   On 28 September 2011 Bankowy Fundusz Leasingowy SA repurchased from PKO Bank Polski SA 1 share in BFL Nieruchomości Sp. z o.o. The acquisition cost was PLN 0.8 thousand. As a result of the above transaction, Bankowy Fundusz Leasingowy SA became the sole shareholder in BFL Nieruchomości Sp. z o.o.

   On 30 December 2011 the merger of the subsidiaries of Bankowy Fundusz Leasingowy SA was registered with the National Court Register, whereby all the assets of BFL Nieruchomości Sp. z o.o. was transferred to Bankowy Leasing Sp. z o.o., and BFL Nieruchomości Sp. z o.o. was removed from the register.

7. **Changes in Qualia Development Sp. z o.o. Group (appearing under the name of PKO BP Inwestycje Sp. z o.o. Group until 10 May 2011)**

   In 2011, the Qualia Development Sp. z o.o. Group carried out actions aimed at implementing a new concept of development activities within the holding structure, which consists mainly of limited partnerships established to execution of investment projects, in which Qualia Development Sp. z o.o. acts as a limited partner and Qualia Sp. z o.o. acts as a general partner.

   As part of above mentioned actions:

   a) Qualia Sp. z o.o. was formed (the Company was registered with the National Court Register on 25 February 2011);

      The Company's share capital amounted to PLN 5 thousand and consists of 100 shares of PLN 50 nominal value each. On the day of the Company's establishment, its shares with a nominal value of PLN 4 950 were taken up by Qualia Development Sp. z o.o., and 1 share with a nominal value of PLN 50 was taken up by Qualia – Rezydencja Flotylla Sp. z o.o. – a subsidiary of Qualia Development Sp. z o.o. Since 28 April 2011 the sole shareholder in the Company is Qualia Development Sp. z o.o. which repurchased the 1 share for a price equal to the nominal value of the share.

   b) Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa was formed (the Partnership was registered with the National Court Register on 11 March 2011);

      The shareholders are: Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand) and Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 4 700 thousand increased from PLN 1 thousand by the shareholders' resolution of 31 March 2011). The activities of Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa comprise the preparation and execution of the investment project in Sopot at Bohaterów Monte Cassino Street.

   c) on 6 April 2011, Qualia Sp. z o.o. repurchased from PKO Bank Polski SA 1 share in PKO BP Inwestycje – Nowy Wilanów Sp. z o.o. for the price of PLN 21.4 thousand and 1 share in PKO BP Inwestycje – Neptun Park Sp. z o.o. for PLN 0.8 thousand.

   d) PKO BP Inwestycje – Nowy Wilanów Sp. z o.o. was transformed into a limited partnership and changed its name to Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Spółka komandytowa (on 1 July 2011 the above mentioned changes were registered with the National Court Register);

      The shareholders are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 3 999 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).

   e) PKO BP Inwestycje – Neptun Park Sp. z o.o. was transformed into a limited partnership and change its name to Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Spółka komandytowa (on 1 July 2011 the above mentioned changes were registered with the National Court Register);

The shareholders are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 3 999.9 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 0.1 thousand).

f) Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa was formed (the Partnership was registered with the National Court Register on 21 July 2011);

The shareholders are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).

g) Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Spółka komandytowa was formed (the Partnership was registered with the National Court Register on 29 July 2011);

The shareholders are: Qualia Development Sp. z o.o. (limited partner, amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).

h) Qualia – Residence Sp. z o.o. was formed (the Company was registered with the National Court Register on 6 October 2011);

The Company's share capital amounted to PLN 5 thousand and consists of 100 shares of PLN 50 nominal value each. On the day of the Company's establishment, its shares with a nominal value of PLN 4.95 thousand were taken up by Qualia Development Sp. z o.o., and 1 share with a nominal value of PLN 50 was taken up by Qualia Sp. z o.o. Since 13 October 2011 the sole shareholder in the company is Qualia Development Sp. z o.o., which repurchased the 1 share for a price equal to the nominal value of the share.

i) Qualia Hotel Management Sp. z o.o. was formed (the Company's deed of incorporation was signed on 28 November 2011);

The Company's share capital amounts to PLN 50 thousand and consists of 1 000 shares of PLN 50 nominal value each. Shares with a nominal value of PLN 49.95 thousand were taken up by Qualia Development Sp. z o.o., and 1 share with a nominal value of PLN 50 was taken up by Qualia Sp. z o.o. The Company was registered with the National Court Register on 4 January 2012. The activities of the Company are operating activities in the area of hotel suites.

j) liquidation of Fort Mokotów Sp. z o.o. was commenced;

On 28 July 2011, the Extraordinary Shareholders' Meeting of Fort Mokotów Sp. z o.o. – a subsidiary of Qualia Development Sp. z o.o. – passed a resolution to dissolve the Company and open its liquidation as of 28 July 2011. The liquidation is carried out in connection with completing the execution of a development project.

In 2011, the following companies changed their names:

- PKO BP Inwestycje Sp. z o.o. changed its name to Qualia Development Sp. z o.o.; on 11 May 2011 the change was registered with the National Court Register,
- PKO BP Inwestycje – Sarnia Dolina Sp. z o.o. changed its name to Sarnia Dolina Sp. z o. o.; on 29 June 2011 the change was registered with the National Court Register,
- PKO BP Inwestycje – Rezydencja Flotylla Sp. z o.o. changed its name to Qualia - Rezydencja Flotylla Sp. z o. o.; on 30 June 2011 the change was registered with the National Court Register.

In 2011, the following additional contributions to the capital of the Qualia Development Sp. z o.o. Group companies were made:

- PKO Bank Polski SA made additional contributions to Qualia Development Sp. z o.o. in the total amount of PLN 65 580 thousand (of which: PLN 5 340 thousand on 25 March, PLN 5 800 thousand on 1 June and PLN 54 440 thousand on 21 November),
- on 7 April 2011 Qualia Development Sp. z o. o. made an additional contribution to Qualia Sp. z o.o. in the amount of PLN 25 thousand,
- on 28 November 2011 Qualia Development Sp. z o.o. made an additional contribution to Qualia Residence Sp. z o.o. of PLN 42 025 thousand.

8. Acquiring shares of a new company Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.

PKO Bank Polski SA acquired 1 share with a nominal value of UAH 3 101 thousand in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. with its seat in Kiev from Kompania Finansowa 'Centrum Usług Faktoringowych' Sp. z o.o., constituting 100% of the Company's share capital which entitles it to 100% of votes at the shareholders' meeting. The acquisition cost was PLN 1 482 thousand.

On 29 November 2011, PKO Bank Polski SA was registered with the State Ukrainian Register of Businesses as the Company's sole shareholder.

The Company's operations comprise conducting factoring activities.

The Company purchased from KREDOBANK SA loan liabilities portfolio.

In 2011, the following events concerning jointly controlled entities and associates took place:

9. Decreasing in the share capital of Centrum Majkowskiego Sp. z o.o.

On 28 September 2011, a decrease in the share capital of Centrum Majkowskiego Sp. z o.o. – a subsidiary of Centrum Haffnera Sp. z o.o. (a jointly controlled entity of PKO Bank Polski SA) – was registered with the National Court Register. The share capital was reduced from PLN 6 609 thousand to PLN 3 833.2 thousand by reducing the nominal value of each share.

4.3 Major equity investments

The major equity investments of PKO Bank Polski SA and its subsidiaries relating to purchases and disposals of shares in other subordinated entities are presented in item 4.2 of the report.

4.4 Transactions with related parties

In 2011, PKO Bank Polski SA provided services, on arm's length, to its related (subordinated) entities. The services comprised maintaining bank accounts, accepting deposits, granting loans and advances, issuing debt securities, granting guarantees and current foreign exchange transactions, as well as offering investment fund units, lease products, rental of terminals and payment transactions of billing services offered by the entities of the PKO Bank Polski SA Group.

A list of major transactions concluded by PKO Bank Polski SA with subordinated entities, including their indebtedness in relation to the Bank as at 31 December 2011 was presented in the financial statements of PKO Bank Polski SA for 2011.

5. ACTIVITIES AND DIRECTIONS OF DEVELOPMENT OF THE PKO BANK POLSKI SA GROUP[4]

The PKO Bank Polski SA Group is composed of PKO Bank Polski SA and its subsidiaries, which by being product centres complement the Bank's core financial services offer. Particular companies provide specialist services in respect of leasing, factoring, investment funds, pension funds, internet banking and servicing and settlement of card transactions. The PKO Bank Polski SA Group also consists of KREDOBANK SA that provides banking activities in Ukraine.

5.1 Directions of development of the PKO Bank Polski SA Group

The directions of development of PKO Bank Polski SA are set by development strategy for years 2010 – 2012 which was adopted by the Bank's Management Board and approved by the Bank's Supervisory Board in February 2010. The key strategic goals of the Bank, consistent with its mission, stipulate:

– maintaining the universal bank with tradition, Polish nature, perceived as both modern and safe Bank,
– achieving sustainable competitive advantages and strengthen the leadership position in all major market segments,
– focusing services on clients' needs in order to build strong, long-term relationships,
– maintaining sustainable, organic growth in scale of operations and results, while improving efficiency,
– maintaining stable profitability and ensuring constant growth of the company's value, according to the expectations of shareholders,
– engaging in prudent risk management policy,
– obtaining the opinion of the best employer in the Polish financial sector.

The operations under the Bank's Strategy cover several initiatives aimed at the full and effective use of the potential of the Bank and the subsidiaries of the Bank's Group. These operations are aimed at achieving the synergy effect and optimising the business advantage relating to the preparation of a complementary service offer. The strategic initiatives implemented in this regard are related to, in particular, operations aimed at optimising the Bank's Group model, comprising, i.a. working out new development strategies for particular companies. The development of the Bank and its Group also assumes intensive work aimed at increasing cost effectiveness. As a result of the strategic operations undertaken, PKO Bank Polski SA is becoming an increasingly stronger, central entity in an efficient and effective Group, offering a modern, comprehensive product offer to its customers.

The Bank's stable and increasingly strong position on the financial services market is an important, measurable effect of the process of implementing the Bank's strategy, in particular from the point of view of its shareholders. The investors' trust in the Bank is reflected in the stable level of the value of the share price, in particular with reference to stock exchange indices (WIG 20, Euro STOXX Banks), in particular bearing in mind the macroeconomic limitations resulting from the on-going economic crisis. The investors' trust is additionally strengthened by the recorded, gradual increase in the level of customer satisfaction, which shows that the system changes which are being implemented are correct.

In business level, the strategy of the Bank is based on three main business pillars, which are: retail banking, corporate banking and investment banking. The implementation of strategic business objectives is strongly aimed at meeting the needs of the Bank's clients, both individual as well as corporate, taking into consideration the specific needs of particular segments, eg.: the small and medium entities sector, institutions operating on behalf of households, and central and local government institutions.

In order to realise business and client-oriented operations, work related to revitalising the product offer, adapting the Bank's services to the clients' needs and expectations is performed. The best service standards in force on the financial services market are being implemented. The pursuit of these objectives is related to both initiatives in the area of retail banking, taking into account, in particular, private banking and personal banking clients, as well as initiatives in the areas of corporate and investment banking, and in particular taking into account the adaptation of the offer and the service model to the development potential of the Bank's largest, strategic clients.

Within the adopted timeframe for implementation of the strategy, significant quality changes are stipulated not only in the offer or the process and standard of service, but also in the development, modernisation, fittings and visualisation of the branch network. At the same time, operations aimed at improving the

[4] *Financial data concerning the companies of the PKO Bank Polski SA Group are presented in accordance with the Companies' financial statements prepared under IAS/IFRS.*

functionality of serving customer accounts via remote access channels are conducted. In order to support the implementation of the business initiatives, the Bank continues work on the implementation of system changes with regard to *back office* processes and activities. This will contribute to the significant simplification and shortening the period of execution of sales activities. The Bank also undertakes initiatives aimed at unifying and developing transaction platforms supporting the sales processes within the branch network.

With regard to supporting business processes, the centralisation of operations and analyses, based on the development of a uniform Management Information System of the Bank, is carried on consistently. Moreover, a platform providing comprehensive support for HR processes is being implemented. The trend in changes in the IT area is related to changes in the operating systems, the reconstruction of *front office* processes, as well as changes in the processes which support managing the Bank.

The main business effect of implementing the strategy will be a visible increase in the scale of the operations of the Bank, which will be demonstrated by an increase in assets. According to the adopted assumptions, they are going to increase by approx. 35%, reaching approx. PLN 200 billion as at the end of 2012, with the value of the loan portfolio at the level exceeding PLN 160 billion (increase by approx. 45%).

The sustainable Bank's development should translate into high profitability (achieving ROE in excess of 16% and ROA in excess of 2%) which is to be accompanied by strict cost control (the costs to income (C/I) ratio is at the level of 45%) and the capital adequacy ratio maintained at a safe level of more than 12%.

The PKO Bank Polski SA Group strategy assumes focusing on the core banking activities, supplemented with an offer of complementary financial products and services. The Group's objective is to simplify and optimise its structure, increase efficiency and achieve full consistency of the adopted operating model. The key strategic initiatives in this respect include:

– integration of the Group companies, primarily 'product factories', with the Bank through i.a. centralisation of the support function or a complete transfer of the companies' operations to the Bank,
– sale of assets which are not related to the Group's core activities,
– implementation of a new development strategy for KREDOBANK SA that is focused on servicing of retail customers and SMEs operating mainly in the western part of Ukraine,
– strengthening of the Group's market position in selected market segments, including through acquisitions of companies,
– increasing the efficiency of property management.

In 2011, PKO Bank Polski SA took actions aimed at simplifying the Group structure and optimising its administrative expenses (including those relating to taking over the operations of Centrum Finansowe Puławska Sp. z o.o. and the changes of the ownership structure of PKO BP Finat Sp. z o.o. from an indirect subsidiary to a direct subsidiary of the Bank), as well as establishing within the Group a single centre responsible for asset and investment management (through integrating the *asset management* operations of Dom Maklerski PKO Banku Polskiego (the Brokerage House of PKO Bank Polski, DM) on the basis of subsidiary PKO TFI SA). Under the execution of development strategy of KREDOBANK SA, a factoring and debt collection company in Ukraine, which aims to complete the restructuring of the KREDOBANK SA loan portfolio (the acquisition process of the debt collection company was completed in January 2012) was acquired.

Activities related to the execution of key strategic initiatives aimed at strengthening the effectiveness of PKO Bank Polski SA Group will be continued in 2012.

The key events which had an impact on the operations and results of the PKO Bank Polski SA Group in 2011 were related to the business activities conducted by the PKO Bank Polski SA Group companies and the results achieved by particular PKO Bank Polski SA Group entities, and are described in further chapters to this report.

5.2 Market share of PKO Bank Polski SA

In 2011 the Bank maintained its leading position in the banking sector in respect of its share in the loan market, which amounted to 16.2%. As regards deposits, market share was stable and amounted to 17.8% along with an increase in shares in respect of corporate customers (+0.4 pp.).

*Table 14. Market share of PKO Bank Polski SA (in %)**

	31.12.2011	31.12.2010	31.12.2009	Change 2011/2010
Loans for:	**16.2**	**17.2**	**16.6**	**-1 pp.**
retail clients, of which:	19.2	20.0	19.5	-0.8 pp.
mortgage	*19.9*	*20.9*	*21.0*	*-1 pp.*
in Polish zloty	*30.6*	*33.1*	*33.3*	*-2.5 pp.*
in foreign currencies	*13.2*	*13.7*	*14.3*	*-0.5 pp.*
consumer and other	*17.6*	*18.2*	*17.1*	*-0.6 pp.*
corporate clients	13.1	14.1	13.8	-1 pp.
Deposits for:	**17.8**	**17.9**	**18.5**	**-0.1 pp.**
retail clients	22.3	23.2	23.4	-0.9 pp.
corporate clients	12.1	11.7	12.9	0.4 pp.

* *Data source: NBP reporting system – WEBIS.*

5.3 Activities of PKO Bank Polski SA – the parent company of the PKO Bank Polski SA Group [5]

As at 31 December 2011, the relation of total assets of PKO Bank Polski SA to the total assets of the PKO Bank Polski SA Group amounted to 98.8% and share of net profit of PKO Bank Polski SA for 2011 in the PKO Bank Polski SA Group's consolidated net profit amounted to 103.8%. PKO Bank Polski SA, as the parent company, constitutes the most important component of the statement of financial position and income statement of the PKO Bank Polski SA Group. Consolidated financial results presented in Chapter 3 reflect also the financial results of PKO Bank Polski SA.

PKO Bank Polski SA is a universal commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO Bank Polski SA is licensed to hold foreign exchange and currencies and sell/buy them, as well as perform a full range of foreign exchange services, open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

Retail segment

In 2011, activities undertaken by the Bank within the retail segment were focused on increasing attractiveness and competitiveness of offered products, as well as on reacting in a flexible way to changing market conditions.

In the retail segment, PKO Bank Polski SA focused on providing comprehensive banking services which, on the one hand satisfy the credit needs, and on the other – the deposit and settlements needs of the clients. Efforts to improve the quality of the service, i.a. by improving the standard of providing services to the clients and enhancing the skills of employees (product training courses) were also performed. The activities aimed at specified groups of products are detailed below.

[5] *In this sub-chapter the Bank's management information is presented; any differences in total balances, shares and growth rates result from rounding.*

Table 15. Loan products available in retail segment

Products and services	Activity
Cash loan	In order to make the cash loan offer more attractive, in 2011 promotional product offers were carried out periodically i.a. for customers opting for product with extended insurance package, for customers opening current accounts from the Bank's new offer while concluding a loan agreement and at the same time arrange for their salary/pension to be transferred to the newly opened current account and arrange for the loan to be repaid from that account. Within iPKO new remote loan sale campaigns were carried out (February 2011). The chief asset of the campaign was the opportunity to benefit from reduced commission compared with the standard offer.
SME Loans	The SME credit offer for current and potential clients of PKO BP SA, with loans in other banks, the possibility to benefit from special loan pricing conditions in PKO BP SA to repay debt in other banks (withdrawal from a commission for accepting the request, a very low commission for granting a loan, ranging from 0.1% and decreased by 1 pp. of the margin level). Promotion was valid from 1 June 2011 to 1 August 2011.
Mortgage loan	In 2011 the Bank PKO BP SA remained the market leader in sales of mortgage loans. In order to support sales, promotional activities were carried out in respect of two loans: the 'WŁASNY KĄT hipoteczny' loan and the Preferential mortgage loan with interest subsidised by BGK. Moreover, a special offer was launched for clients who purchase real estate as part of investments realised by selected developers (comprising a list of ca. 219 developers) and for employees of selected corporations (comprising 16 offers), as well as a special offer for clients of industry fairs – in respect of ca. 93 fairs organised. On 15 and 16 December 2011, open days were organised in relation to mortgage loans as part of which the customers who visited one of the Bank's branches and enrolled to a special list and then applied for a loan until 13 January 2012, and had or opened any current account with PKO BP SA, were granted preferential loan terms.
Credit cards	In the 1st quarter of 2011 PKO BP SA's credit card offer was reorganised in a comprehensive manner, which involved inter alia: - expanding the insurance offer for credit cards, - introducing a new functionality (*Instalment*) for PKO Bank Polski SA's credit cards which allows splitting non-cash credit card transactions into instalments, - introducing a new, attractive designs for credit cards issued with the Visa logo from the so-called gallery, - introducing a possibility of obtaining a credit card without the first annual fee for the card on condition that the user opens a current account under the new offer, and applies for the card, - introduction a new, free service for credit card holders - every customer who gave the mobile phone number gets a text message receives with a repayment term debt. Additionally, in August and September were carried out promotional campaigns supporting the sale of blue, silver and gold credit cards and it consisted in ceasing to charge an annual fee for newly issued credit cards. From 1 November 2011 to 1 January 2012 the Bank participated in a promotion organised by the Visa organisation connected with the Olympic Games in London in 2012.

The above mentioned changes in the loan offer resulted in an increase by 7.8% y/y i.e. PLN 8.0 billion in the volume of retail segment loans. The increase related mainly to mortgage loans (+) PLN 7.6 billion. PKO Bank Polski SA maintained its leading position in the market of the mortgage loans sale.

Table 16. Loans in the retail segment (in PLN million)

Items	31.12.2011	31.12.2010	Change 2011/2010	Change (in PLN million)
Gross loans and advances, of which:*				
- retail and private banking	21 550	23 046	-6.5%	(1 495)
- small and medium entities	15 345	14 340	7.0%	1 005
- mortgage banking	65 342	57 765	13.1%	7 577
- mortgage market (of which refinanced by the State budget)	7 887	6 971	13.1%	916
Total	**110 124**	**102 122**	**7.8%**	**8 002**

** Change in relation to business volumes previously presented results from a change in presentation; i.a. volumes currently presented include also valuation adjustments.*

PKO Bank Polski SA continued activities relating to making the deposit offer more attractive to customers, both in terms of the permanent deposit offer and by introducing new products with high interest rates for its customers. The key activities undertaken in the area of deposit activities are shown below.

Table 17. Deposit products available in retail segment

Products and services	Activity
Current savings account in the 'Superkonto' Group	On 14 March, a new, innovative offer of current accounts diversified in terms of customer preferences, was added to the Bank's offer: SUPERKONTO Oszczędne, PKO Konto za Zero, PKO Konto dla Młodych, PKO Konto Pogodne, PKO Konto Pierwsze. From 16 May 2011, 3 new types of accounts have been introduced, in which two of them dedicated to private banking clients: PKO Konto bez Granic, PKO Konto Aurum, PKO Konto Platinium II. The sale of new accounts was supported by an intensive advertising campaign. Under iPKO services, new accounts were made available to clients: Konto Pierwsze, Konto dla Młodych, Superkonto Oszczędne, Konto za Zero, PKO Konto Pogodne, PKO Konto bez Granic, PKO Konto Aurum, PKO Konto Platinium II. In respect of all the new packages, the monthly fee for using iPKO service is PLN 0.

'PLUS' Savings Account	On 18 August 2011 the Bank implemented a new product – 'PLUS' Savings Account with progressive interest rate (9 quota intervals). The product was offered: - in the standard option - with monthly capitalisation, available to all interested customers, - in the promotional option - with daily capitalisation (up to 29 December 2011) for owners of current accounts at PKO BP SA. Interest rate 3.90% corresponded to 4.80% on the standard deposit subject to the income tax. In connection with the amendment to the Tax Ordinance Act, the account with daily capitalisation was withdrawn from the offer as of 31 December 2011.
Deposit linked to investment funds (Lokata Inwestycyjna Akcji Plus/Stabilnego Wzrostu Plus)	Offered in the period from 16 March to 31 December 2011. The third edition of a product popular among the customers of the Bank. The product combines guaranteed profit from a high interest rate deposit with an investment portion in the form of investment fund participation units. Clients could choose from 2 subfunds in PKO TFI offer: Akcji PLUS or Stabilnego Wzrostu PLUS. The deposit is a product characterised by high interest on the deposit portion reaching 6.66% (deposit period – 12 months) and 5.55% (deposit period – 6 months), a low minimum amount of investment – PLN 2 000, and no fees for redemption of participation units after 12 months.
Deposit linked to funds (PKO Zrównoważony Plus)	Introduced to the offer from 12 September to 31 December 2011 was addressed to private banking clients. The deposit account was opened for a contractual period of 12 months. The recommended investment horizon for the investment component for PKO Zrównoważony Plus subfund was 4 years, profit is dependent on the results of PKO Zrównoważony Plus subfund. The fixed interest rate of the deposit component was 7% per annum. The minimum deposit payment was PLN 50 000.
Fixed-term deposit 2M, 3M with daily capitalisation of interest	From 18 August of the previous year very attractive 2- and 3-month fixed-term deposits with daily capitalisation of interest and 2- and 3-month fixed-term deposits with daily capitalisation of interest for new funds were introduced. The interest rate on deposits amounted to 4.05% and corresponded to the interest rate of 4.50% on the standard deposit subject to the income tax. The interest rate for new funds amounted to 4.50% and corresponded to the interest rate of 5.56% on the deposit subject to the 'Belka' tax. The minimum deposit payment was PLN 1 000. The deposit withdrawn from the offer on 31 December 2011.
Fixed-term deposit 5M, 10M, 15M with daily capitalisation of interest	From November a very attractive 5-, 10-, 15-month fixed-term deposit with daily capitalisation of interest and a 5-, 10-, 15-month fixed-term deposit with daily capitalisation of interest for new funds were introduced. The interest rate on deposits amounted respectively to 4.10%, 4.20% and 4.30% per annum and corresponded to the interest rate of 5.10%, 5.27% and 5.45% on the standard deposit subject to the income tax, while the interest rate for new funds amounted respectively to 4.50%, 4.60% and 4.70% per annum and corresponded to the interest rate of 5.60%, 5.79%, 5.97% on the deposit subject to the 'Belka' tax. The minimum payment - PLN 1 000. The deposit withdrawn from the offer on 31 December 2011.
Insurance Policy with PZU Życie	Offered to the Bank's customers in II editions from 26 April to 30 June 2011, from 11 July to 5 August 2011. The insurance policy is a group life and endowment insurance in PZU Życie SA (Insurer) with an attractive level of profit per annum of 4.05%, which corresponds to the profit of a deposit with an interest rate of 5.00% per annum. The term of the savings policy in all editions was 12 months.
Housing Savings Book (Oszczędnościowa Książeczka Mieszkaniowa)	In 2011, 'Oszczędnościowa Książeczka Mieszkaniowa' was revitalised. In January 2011 the deposit and investment product called 'Oszczędnościowa Książeczka Mieszkaniowa powiązana z funduszami inwestycyjnymi PKO' was introduced. The launch of the new version of the housing savings book is aimed at modernising the product offer of PKO BP SA and once again drawing the clients' attention to this form of savings. The product is meant for clients expecting higher profits in a longer time horizon, which would not be charged with the tax on capital income on the deposit portion of the product. In July the savings account 'Oszczędnościowa Książeczka Mieszkaniowa' was modified (two additional saving thresholds were added). The characteristic of the product is an attractive interest rate on the deposit portion, preferences in drawing the mortgage loan 'Własny Kąt' in PKO BP SA, possibility of additional gains on the investment portion linked to PKO funds, exemption from personal income tax of interest obtained from the deposit portion. The 'Oszczędnościowa Książeczka Mieszkaniowa' with a fixed interest rate where the interest is 4.25% was introduced in August of the previous year.
SKO' circulating savings books (Obiegowe książeczki oszczędnościowe *SKO*)	In 2011, interest rates on funds accumulated on circulating savings books with a-vista deposits, issued for School Savings Accounts were changed twice by the Bank. - in period from 3 January to 31 May 2011, current interest rates was increased from 0.01% to 3.5% and applied a promotional interest rate of 4.5%, - on 1 September interest rate was increased from 3.5% to 5%. This change resulted from promoting by the Bank a positive image of School Savings Accounts, whose activity is based on the education of pupils in saving and entrepreneurship.
Biznes Waluta Package	The Package, introduced to the Bank's offer in March 2011, is a tool for attracting dynamically developing companies from SME sector which carry out regular foreign transactions (export, import, foreign exchange). The basis of the package is 'Internetowa Platforma Transakcyjna iPKO *dealer*' (an internet transaction platform iPKO *dealer*).
SME Business Deposit	New editions of SME Business deposit (26 April and 17 October 2011) were introduced into Bank's offer. This is a deposit with progressive interest rate for periods of 6 or 12 months. Since April 2011 SME Business Deposit with iPKO service is available in the Bank's offer.
Pakiet Biznes Debiut 18	Pakiet Biznes Debiut 18, an attractive package for companies from the SME segment was introduced into the Bank's offer (19 September 2011). The package is addressed to customers who have conducted business activities for no more than 12 months and are interested in a cheap offer of daily services.
Nasza Wspólnota Plus Package	Making the offer more attractive and enhancing competitive position on the housing community market by introducing the Nasza Wspólnota Plus (sale from 18 April 2011). The fee for maintaining the account of PLN 12 includes domestic transfers through iPKO or iPKO Biznes. Moreover, the account holders pay lower rates for maintaining the repair fund account, subscription for iPKO Biznes service and open cash payments in PLN. Additionally, the new offer supports the sale of investor loans from the 'Nasz Remont' group by decreasing the fee by 50% for maintaining the basic current account in the period of the first four years of crediting.
2+3M Deposit	The Offer introduced on 14 November of the previous year was addressed to the customers of the housing market. The contractual period of the deposit is 5 months and the interest rate is up to 4.6%. In case of withdrawing funds after 2 months but before the expiry of 5 months, the customer shall receive interest at the level of 4.3%.
2-year Structured Bank Securities (BS) based on S&P 500 index	The product combines guaranteed profit from a high interest rate deposit with an investment portion in the form of investment fund participation units. Clients can choose from 2 subfunds in PKO TFI offer: Akcji PLUS or Stabilnego Wzrostu PLUS. The deposit is a product characterised by high interest on the deposit portion (reaching 6.66% for deposit period – 12 months and 5.55% for deposit period – 6 months), a low minimum amount of investment – PLN 2 000, and no fees for redemption of participation units after 12 months.
Structured Bank Securities based on the price of copper	In the Bank's offer from 29 August to 23 September 2011. BS based on the price of copper (listed on the London Metal Exchange (LME)) is a 2-year investment product with 100% guarantee of principal on the redemption date. An investor obtains a profit equal to a percentage change in the value of copper regardless of the direction of the change, provided that the price never reaches or exceeds the specified barriers. If the barrier is reached or exceeded the premium will be 3% for the investment term. The minimum investment amount is PLN 5 000.

Structured Bank Securities based on the price of gold	Introduced into the offer from 24 October 2011 to 18 November 2011. BS is an investment product with 100% guarantee of principal on the redemption date. The minimum investment amount is PLN 5 000. The premium value denominated in PLN will be dependent on changes in gold prices expressed by GOLDLNPM fixing performed by *The London Gold Market Fixing Ltd.*
Structured gold-based deposit (Investors' gold, Gold's Price III)	A two-year structured deposit based on the gold price (Investors' gold, Gold's Price III) offered to customers in II editions from 30 May to 24 June and from 21 November to 16 December 2011. It is an investment product which guarantees full protection of capital on the maturity date and the possibility of obtaining higher profits than from a standard fixed-term deposit. The minimum amount of deposit is PLN 5 000. In exchange for maintaining the deposit until the end of the contractual period, the client received an amount based on the current gold price.
INTELIGO	Under the Inteligo account a debit card MasterCard *PayPass* in the EMV standard was launched which enabled making payments using the *PayPass* contactless technology. The card is offered both in the segment of individual clients (from February 2011) and in the SME segment (since March 2011). From May, the clients who have Individual Pension Accounts – Bonds maintained by the Brokerage House of PKO BP SA can have permanent access to information on their account balance through the Inteligo webpage.
Dobolokata	In July 2011, the interest on fixed-interest deposits with daily interest payment was increased to 3.70% - for 1M deposits, 4.20% for 3M deposits and 4.45% for 6M deposits. From September, the offer of a fixed-term deposit with daily payment of interest as part of the Inteligo Account was extended for two new terms of 9M and 12M, with nominal interest rates of 5.24% and 5.59% respectively (communicated respectively 6.47% and 6.90%). The deposit was withdrawn by the end of 2011.
IGO deposit with daily capitalisation of interest	From 9 September 2011, a new attractive deposit product with daily capitalisation of interest (to 5.52%, communicated 7.0%) – IGO deposit was introduced. The minimum amount of one deposit was PLN 1 000. Tenors and nominal interest rates of IGO-deposit were as follows: - 3M – 4.45%, 6M – 5.00%, 9M – 5.22%, 12M- 5.52%. The deposit was withdrawn as of 31 December 2011.

The above mentioned activities contributed to a significant increase in the portfolio of deposits in the retail segment, of 9.0% y/y which related mainly to retail and private banking deposits (+9.7% y/y).

Table 18. Deposits in retail segment (in PLN million)

Items	31.12.2011	31.12.2010	Change 2011/2010	Change (in PLN million)
Client deposits, of which*:				
- retail and private banking	99 631	90 860	9.7%	8 771
- small and medium entities	8 932	8 593	4.0%	340
- housing market	5 406	5 083	6.3%	322
Total	**113 969**	**104 536**	**9.0%**	**9 432**

** Change in relation to business volumes previously presented results from a change in presentation; volumes currently presented include also balance sheet interest and valuation adjustments.*

Corporate segment

During 2011 the corporate segment of PKO Bank Polski SA continued its growth path commenced in the previous years. Operations in the previous year were focused on comprehensive development in all aspects, i.e. results, volumes, products, organisational improvements and on flexible adaptation to current client needs and the changing economic conditions. All initiatives – commenced and completed in 2011 – led, in consequence, to maintaining by PKO Bank Polski SA its position as the leader of the banking sector in financing business entities. In spite of another crisis on the financial markets (the public finance crisis), the corporate segment of PKO Bank Polski SA successfully implemented the strategy it had adopted, deriving measurable benefits for the Bank. Throughout 2011 PKO Bank Polski SA participated in projects of huge importance to Polish entrepreneurship and, consequently, to the Polish economy. Last year PKO Bank Polski SA financed several significant transactions on the Polish market, both of an investing nature and supporting corporate recovery processes. PKO Bank Polski SA participated in, amongst others, a material acquisition on the telecommunications market, and it took part in the consolidation of the Polish chemical industry, thanks to which the largest fertiliser concern in Poland was established.

In 2011, there was a noticeable improvement in the corporate loan market. Lending activities accelerated significantly. According to NBP data, the corporate loan market grew by 19.4% per annum. The business activity
of enterprises improved, which resulted in an increased demand for loans and, in response, an increase in the availability of this product on the part of banks.

PKO Bank Polski SA was an active market player for another year, dynamically developing the sales of its products, which resulted in the volume of loans to corporate clients increasing by more than 16% in 2011 compared with 2010. As at the end of 2011, the corporate segment achieved a record loan volume of PLN 33.9 billion.

2011 was a period of intense competition on the financial services market, both in terms of loan products and deposit products, which caused the migration of customers among individual entities of the banking sector. During that time the corporate segment of PKO Bank Polski SA took intensive measures to strengthen the customers' relationships with the Bank by means of, amongst others, a loyalty programme and the flexible adaptation of the current product offer to client needs, which allowed the Bank's corporate client base to be maintained at a level in excess of 11.4 thousand at the end of 2011.

The development of the corporate segment in 2011 can be seen not only on the side of the loan base but also the deposit base. The funds raised from corporate customers amounted to almost PLN 29 billion as at the end of 2011, which allowed a 14.8% y/y increase to be achieved.

Table 19. Loans and deposits in the corporate segment (in PLN million)

Items	31.12.2011	31.12.2010	Change 2011/2010	Change (in PLN million)
Gross corporate loans*	33 636	28 703	17.2%	4 933
Corporate deposits**	28 874	25 154	14.8%	3 720

** Change in relation to business volumes previously presented results from a change in presentation; i.a. volumes currently presented include also valuation adjustments.*

*** Change in relation to business volumes previously presented results from a change in presentation; volumes currently presented include also balance sheet interest and valuation adjustments.*

In 2011, PKO Bank Polski SA also conducted several internal operations and external operations aimed at improving the functioning of the corporate segment (client-oriented operations).

An important project initiated in 2011 was the centralisation of strategic client service. The Bank's largest clients will be served by a dedicated specialised entity. This will contribute greatly to raising the standard of service offered to these clients, and it will strengthen the clients' relationships with the Bank.

Other important projects which were carried out within the corporate segment in 2011 included: optimising the lending process – improving the lending process, implementation of the CRM system for the purposes of planning and monitoring sales, and the continuation of the project consisting of centralising corporate operations, as well as the expansion and modernisation of the network of night drop boxes.

2011 was yet another period of improving and developing the Bank's products and services which are, on the one hand, very important to meeting the needs of corporate clients and which, on the other hand, allow the Bank to participate actively in business. Last year the development of corporate products comprised, i.a. expanding the functionality and revitalising the internet platform iPKO Biznes, implementing a new platform enabling direct contact with the client, and modernising products i.a. such as mass disbursements.

In 2011, the Bank submitting a proposal for the provision of comprehensive services to the Social Insurance Institution (ZUS) and subsequently winning the tender was a prestigious activity.

Investment segment

Despite the unfavourable and extremely volatile market environment, in 2011 the Bank consistently pursued its strategic goals in respect of the development of the investment banking segment.

In its treasury operations, the Bank focused on developing cooperation with corporate clients in respect of investing free cash flows, transactions on the currency market and managing market risk. The importance of electronic distribution channels for treasury products increased. Trading operations on the money, currency and debt markets concentrated on *market making* of PLN instruments while applying a conservative approach to market risk in conducting operations on its own account.

The Bank optimised the sources and costs of financing its operations, and specifically in respect of loans denominated in foreign currencies. To this end apart from continuing the issuance of debt on the Euro market (via the subsidiary PKO Finance AB), issues of short-term debt on the domestic market was also started addressed mainly to the financial institutions segment.

In respect of brokerage activities, the network of customer service points of the Brokerage House was further developed, restructured and modernised. The network of brokerage service points located in the Bank's branch offices was significantly expanded, which together with the POS of the Brokerage House enabled offering brokerage services in over 1 000 locations, which is the largest number of locations among all the financial institutions operating in Poland. The Brokerage House also attached a lot of weight to the development of remote distribution channels for brokerage services – preparations were under way for a new internet transaction system for customers. Capital market risk analysis competencies were reconstructed and institutional sales were reinforced for the purpose of improving the position of the Brokerage House in the institutional clients segment. The Brokerage House continued its activities on the primary market and in financial advisory services. Operations on its own account focused on *market making* on the equity markets (WSE, *New Connect*) and derivative financial instruments (*futures,* index options).

Table 20. Achievements of PKO Bank Polski SA in the investment segment – treasury activities

	Investment activity	Activity
Treasury activities	Treasury products sales	***Development strategy and achieved results***
		Treasury instruments are sold to individual and institutional clients via network of the Bank's branches and dedicated Treasury *dealers*. In 2011, further increase in sales of traditional Treasury products trading such as foreign exchange SPOT, FORWARD and OPTIONS transactions were achieved. Compared with 2010, the value of SPOT and FORWARD transactions, and OPTIONS turnover was higher by 5%, 9% and 6% respectively. In November 2010, the Bank offered the Internet Transaction Platform to its institutional clients, which enables exercising foreign exchange transactions. Number of clients who used this distribution channel during a month increased from 69 in December 2010 to 552 in December 2011.
		Risk
		Automation of the simulation process of a price of the underlying change effect was introduced for customers - in accordance with the provisions of PFSA A Recommendation.
	Interbank market	***Achieved results***
		The Bank is the Treasury Securities *Dealer*, it holds a high level of trading in the interest rate and foreign exchange market. In 2011 in the Ministry of Finance's contest for the Treasury Securities *Dealer*, which assessed activity on the interest rate market, PKO BP SA took the 1st place again. According to the data for the end of December 2011, the Bank's share (cumulatively) in FRA transactions was 25% in the previous year, and 18.5% in 2010, while in the IRS market remained at the previous year level, i.e. about 21%. The Bank is still one of the primary *market-makers* in the foreign exchange market. In 2011, the share of PKO BP SA in the spot foreign exchange market amounted to 9%. Bank is also an active participant in the money market and it acts as a Money Market *Dealer*. In 2011, the Bank took the 2nd place in the IAD (*Dealer* Activity Index) assessment of market activity conducted by NBP.
		Own securities issues of PKO BP SA are conducted from August 2011, PLN 4.9 billion was placed in the market as at the end of 2011.
		Risk
		In order to secure its trading, in 2011 the Bank concluded 1 framework agreement (with a domestic bank) and 3 hedging agreements to framework agreements, moreover 4 ISDA agreements (with foreign banks) and 5 CSA *Annex*, as well as one GMRA agreement were concluded. The Bank actively managed the financial risk (liquidity, interest rate and currency), focusing on the exposure minimising.

Table 21. Achievements of PKO Bank Polski SA in the investment segment – brokerage activities

	Investment activity	Activity
Brokerage activities	shares' market	In 2011 the value of turnover of the Brokerage House in the share market amounted to PLN 28.8 billion, which represents an increase of 3% compared with 2010. The share of the Brokerage House in the turnover amounted to 5.05%, giving 7th position in ranking.
	primary market	In 2011 the Brokerage House was active on the primary market and it was another very good year for the Brokerage House. The value of public offers, in which the Brokerage House participated, amounted nearly to PLN 5 683.5 million, which makes DM one of the leaders on the primary market by value of initial public offerings (IPO) carried out. DM ranks among the top three most active brokerage houses by scale of initial offerings on the share market in 2011 (*source: Parkiet 09.01.2012*). Jastrzębska Spółka Węglowa SA (the greatest IPO offer on the Polish market in 2011) and Bank Gospodarki Żywnościowej SA debuted on the market with the participation of DM. DM participated in secondary public offerings (SPO) of: Ciech, Zakłady Azotowe w Tarnowie – Mościcach, Cersanit. In 2011 the Brokerage House introduced the bonds of the City of Warsaw, the company Multimedia Polska SA and Bank Pocztowy SA to the *Catalyst* market. The value of bonds introduced amounted to about PLN 754 million. DM participated in the sales consortium of the following companies: MEGARON, Kredyt Inkaso, Kino Polska, Industrial Milk Company, Enel-Med, Toya, AC. DM also participated in other transactions on the capital market. The Brokerage House acted as, i.a. an offering party in public offerings of shares in connection with the merger of the Tauron Group companies (EnergiaPro SA and PEC Katowice SA) with a total value of about PLN 319 million and the function of the offer or in the share sale transaction in the privatisation of Krajowa Spółka Cukrowa SA with a total value of over PLN 1.2 billion. It also participated in the transaction of buying up own shares of Multimedia Polska SA (value of approx. PLN 83 million) and in the transaction of buying up bonds of Polkomtel SA (value of over PLN 1 billion). In 2011, the Brokerage House also serviced the consecutive phases of the incentive plans for TIM SA and ELEKTROTIM SA. In 2011, as part of the services on the primary market, DM also handled Subscription Warrants of TIM SA and subscriptions to shares as part of the Incentive Plan for employees of and persons related to SELENA FM SA. At the same time, in 2011, a new product in the Bank's offer was successfully introduced, i.e. the Structured Bank Securities (BS). This resulted in 3 issues of the BS, i.e. Structured United Finance BS, Structured BS based on the price of copper, Structured BS based on the price of gold. Also in 2011, the subscriptions and payments to the first issue of non-public A-series corporate bonds of Lokaty Budowlane SA were carried out. As at the end of 2011, the Brokerage House serviced the units of 162 funds and subfunds managed by 12 Fund Management Companies.

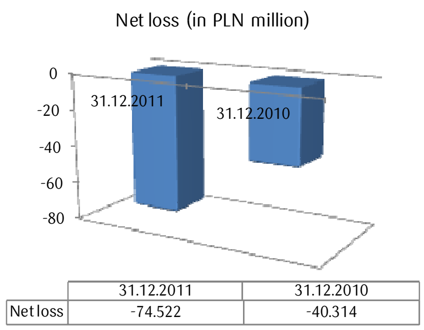
Brokerage activities	***NewConnect market***	In 2011, in the NewConnect market, DM achieved a turnover of more than PLN 391 million and held the 4th place with a 10.01% market share. DM was the market maker in the NewConnect market for 52 companies, which gives it 2nd place in the market.
	bonds' market	DM maintains its leading position in the market with a 45.17% share.
	futures/forward market	In 2011, the fastest growth of turnover was recorded on the options market. In spite of high volatility in the second half of 2011, the market was developing in a stable manner. DM executed 5% of turnover on the market and ranked 1st in the market ranking with a share of 14.92%. On the contracts market, due to the high operational risk in this market segment, the turnover of DM dropped by more than 22%, which was reflected in falling to the 10th position on the market and the decrease of the share in turnover to 3.66%. In 2011, the value of turnover of DM on the contracts market amounted to over 1 070 thousand of items, and nearly 268 thousand of items on the options market. At the end of 2011 the number of signed agreements on acting as the market maker by DM amounted to 49 (3rd position on the market) and 19 agreements on acting as the issue underwriter (5th position on the market).
	number of accounts	As at the end of 2011, as part of its operations, DM maintained 155.1 thousand securities and cash accounts and 153.4 thousand registration accounts. The over 25% increase in the number of securities accounts enabled DM to rise to the 4th position among the 45 participants of the National Depository for Securities (KDPW).
	development	The planned replacement of the transaction system of the Stock Exchange with the UTP system will be of crucial importance to the development of the brokerage services market in Poland, including the DM's customers. Modernisation of the IT infrastructure of the Brokerage House carried out in parallel to the above replacement will enable the customers to avail themselves of, i.a. the increased speed and efficiency of the stock exchange system and new types of orders.

A broader description of the operations of PKO Bank Polski SA - the parent company of the PKO Bank Polski SA Group, including its business activities and financial results in 2011 is presented in the Directors' Report of PKO Bank Polski SA for 2011, which forms an integral part of the Annual Report of PKO Bank Polski SA.

5.4 Activities of other entities of the PKO Bank Polski SA Group[6]

The Group provides via its subsidiaries specialist financial services relating to leasing, factoring, investment funds, pension funds, internet banking and electronic payment services and conducts operations in the real estate sector and provides banking services in Ukraine.

KREDOBANK SA (data according to IFRS/IAS)

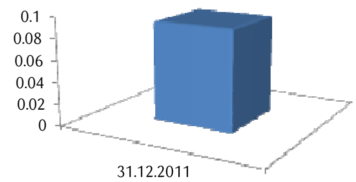


1. As at 31 December 2011, the value of KREDOBANK SA equity amounted to PLN 282 116 thousand (UAH 663 023 thousand).
2. As at the end of December 2011 KREDOBANK SA incurred a net loss of PLN 74 522 thousand (UAH 252 463 thousand). In 2010 the net loss of the Company amounted to PLN 40 314 thousand (UAH 105 258 thousand).
3. The Company's gross loan portfolio in 2011 decreased by PLN 660 million, i.e. by 42.7% and amounted to PLN 887 million at year-end (the gross loan portfolio as denominated in UAH decreased in 2011 by UAH 2 072 million, i.e. by 49.9% and amounted to UAH 2 085 million as at 31 December 2011).
4. The drop in the result and the decrease in the gross loan portfolio is mainly an effect of selling the impaired loans portfolio with a total value of PLN 700 million (UAH 1 645 million) to Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. in December 2011.
5. In 2011 clients' term deposits of KREDOBANK SA decreased by PLN 104 million, i.e. by 12.5% (term deposits denominated in UAH decreased by UAH 526 million, i.e. by 23.4%) - the decrease in deposits resulted from adopting a policy of reducing deposit interest rates in 2011.
   As at 31 December 2011 term deposits amounted to PLN 731 million (UAH 1 718 million).
6. As at the end of 2011, KREDOBANK SA has the following granted by PKO Bank Polski SA:
   - 2 subordinated loans with a total value of USD 35 million,
   - credit line of USD 50 million,
   (the remaining credit lines were repaid by the Company before they matured, and the guarantees for repayment of the borrowers' debt granted to the Company by PKO Bank Polski SA were terminated after the Bank paid a compensation fee).
7. As at 31 December 2011, the network of KREDOBANK SA branches consisted of 1 branch and 130 subordinated branches in 22 out of 24 Ukrainian districts and in the Autonomous Republic of the Crimea. In 2011 7 subordinated branches were closed.

[6] *In case of capital groups, the financial result presented in the description is the financial result attributable to the parent company of the group.*

Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. (data according to IFRS/IAS)

Net profit (in PLN million)

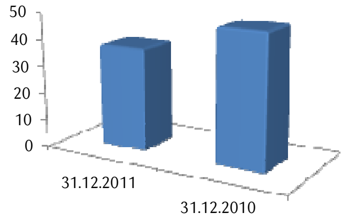


	31.12.2011
Net profit	0.093

1. As at 31 December 2011, the value of the Company's equity amounted to PLN 1 413 thousand (UAH 3 322 thousand).
2. As at the end of December 2011 the Company recorded a net profit of PLN 93 thousand (UAH 219 thousand).
3. The Company conducts factoring activities and it was acquired by the Bank for the purpose of carrying out effective restructuring of the loan portfolio of KREDOBANK SA.
4. In December 2011, the Company acquired an isolated impaired loans portfolio from KREDOBANK SA in the total amount of PLN 700 million (UAH 1 645 million). The purchase transactions of the above mentioned portfolio were financed by PKO Bank Polski SA in the form of a loan of USD 63.07 million granted to the Company.

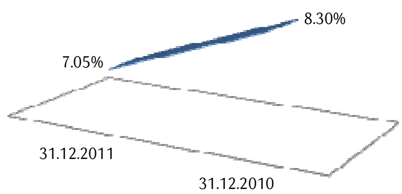
PKO Towarzystwo Funduszy Inwestycyjnych SA

Net profit (in PLN million)



	31.12.2011	31.12.2010
Net profit	37.821	48.463

Share in investment funds market

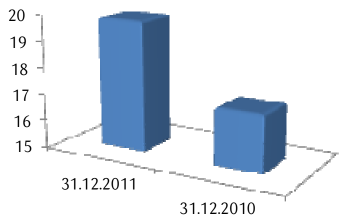


1. As at 31 December 2011, the value of PKO TFI SA equity amounted to PLN 61 034 thousand.
2. In 2011 the Company earned a net profit of PLN 37 821 thousand (in 2010 the Company's net profit amounted to PLN 48 463 thousand). The decrease in the result is mainly the effect of a drop in the value of the managed funds in 2011.
3. The asset value of the funds managed by the Company amounted to PLN 8.06 billion as at the end of 2011, which gave the Company 7.05% share in the investment fund market and placed the Company on the 3rd place among the funds*. In 2011, the value of assets of funds managed by the Company dropped by 16.7%, and the largest drop related to the assets of funds containing shares in their portfolios. A decrease of the asset value was primarily related with the deterioration in the situation on the stock exchange and negative net sales result.
4. In 2011, the company introduced into its offer 2 new investment subfunds offered as part of the PKO Parasolowy - fio fund: PKO Skarbowy Plus Subfund and PKO Akcji Małych i Średnich Spółek Plus Subfund and closed investment fund: PKO Globalnej Makroekonomii - fiz. Additionally, the investment policy was changed, as well as the name of the PKO Akcji Rynku Europejskiego Subfund, which since 9 November 2011 has been exercising a capital protection strategy and has been operating under the name PKO Ochrony Kapitału 100 Subfund.
5. As at 31 December 2011 PKO TFI SA managed 29 investment funds and subfunds.
6. In September 2011, the Company made available to its customers a new portfolio management service, where the portfolio comprises one or more financial instruments.
7. In 2011 the Company paid dividend to PKO Bank Polski SA for 2010 in the gross amount of PLN 48 200 thousand.

** Source: Chamber of Fund and Asset Management*

Inteligo Financial Services SA

Net profit (in PLN million)

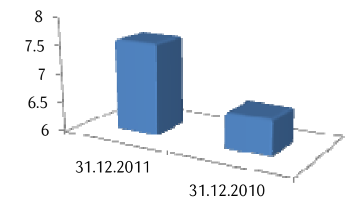


	31.12.2011	31.12.2010
Net profit	19.898	17.116

1. As at 31 December 2011, the value of Inteligo Financial Services SA equity amounted to PLN 152 612 thousand.
2. In 2011 the Company earned a net profit of PLN 19 898 thousand (in 2010 the Company's net profit amounted to PLN 17 116 thousand).
3. At the end of 2011, the Company provided electronic banking services to more than 3 651 thousand of PKO Bank Polski SA's customers using iPKO services.
4. The Company provided services to over 645 thousand Inteligo account customers.
5. In 2011 the Company paid dividend for 2010 to PKO Bank Polski SA in the gross amount of PLN 16 716 thousand.

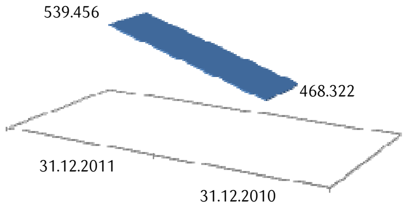
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA

The net assets value among OPF
(in PLN billion)



	31.12.2011	31.12.2010
Assets value	7.6	6.6

Number of OPF's members (in thousand)

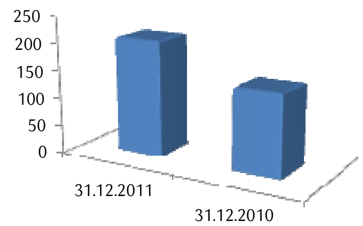


1. As at 31 December 2011, the value of PKO BP BANKOWY PTE SA equity amounted to PLN 240 450 thousand.
2. In 2011 PKO BP BANKOWY PTE SA earned a net profit of PLN 4 714 thousand (in 2010 the Company's net profit amounted to PLN 12 125 thousand). The decrease in the result is mainly the effect of increase in amortisation of capitalised acquisition cost.
3. At the end of 2011, the net assets value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA, amounted to PLN 7.6 billion, which is an increase of 15.1% in comparison to the end of 2010. The increase in the value of net assets of PKO BP Bankowy OFE was mainly the effect of gaining a considerable number of new members as a result of the continuing acquisition process. In 2011 PKO BP Bankowy OFE distinguished itself among all OPFs both in terms of the number of members acquired and the value of assets obtained.
4. As at 31 December 2011, the number of members of PKO BP Bankowy OFE amounted to 539 456.
5. PKO BP Bankowy OFE holds the 9th place regarding the net assets value among OPF and the 10th place regarding the number of members*.
6. According to the ranking of the Polish Financial Supervision Authority PKO BP Bankowy OFE for the period from 30 September 2008 to 30 September 2011 reached a rate of return of 16.138% (the weighted average rate of return of 14.735%) occupying the same 1st place in the ranking of OPF for that period.
7. PKO BP BANKOWY PTE SA was the first Fund Management Company to obtain approval from the Polish Financial Supervision Authority for forming PKO Dobrowolny Fundusz Emerytalny. Thus, the Company's offer in 2012 will be enriched by another fund which is going to engage in the operations of maintaining individual pension accounts (IKE) and individual pension security accounts (IKZE).

** Source: www.knf.gov.pl*

Qualia Development Sp. z o.o. (previously: PKO BP Inwestycje Sp. z o.o.)

Value of equity (in PLN million)

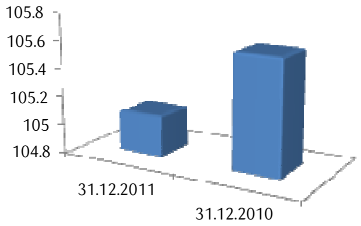


	31.12.2011	31.12.2010
Value of equity	210.632	147.786

1. The value of equity of the Qualia Development Sp. z o.o. Group (Qualia Development Sp. z o.o. and its subsidiaries) at the end of December 2011 amounted to PLN 210 632 thousand.
2. Qualia Development Sp. z o.o. Group in 2011 incurred a net loss of PLN 2 453 thousand (in 2010 net loss of the Group amounted to PLN 6 255 thousand).
3. In 2011 work related to the restructuring of the Group to achieve higher economic and organisational effectiveness was conducted. New corporate governance terms and conditions were adopted which stipulate that the investment projects would be realised mainly by limited partnerships, Qualia Development Sp. z o.o. would be the limited partner and Qualia Sp. z o.o. would be the general partner.
4. In 2011, the Group's activities were focused on:
   - continuing its projects Nowy Wilanów in Warsaw, Neptun Park in Gdańsk, Jelitkowo and Rezydencja Flotylla in Międzyzdroje,
   - conducting activities related to the commencement of new projects: a residential building with an office function in Sopot, an apart hotel in Gdańsk Jelitkowo, and an investment in Warsaw realised by a related entity - Fort Mokotów Inwestycje Sp. z o.o.,
   - preparing a business formula for the project in Jurata, Wladyslawowo and Zakopane on properties purchased and planned to buy from PKO Bank Polski SA (in 2011 Qualia Residence Sp. z o.o. bought an organised part of business OSW Neptun in Jurata),
   - implementing a new business model related to execution of investment projects and management of hotel apartments,
   - extinguishing activity of Fort Mokotów Sp. z o.o. in liquidation,
   - restructuring of the remaining projects.

Fort Mokotów Inwestycje Sp. z o.o.

Value of equity (in PLN million)

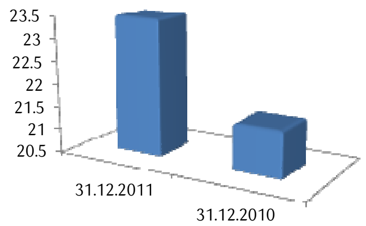


	31.12.2011	31.12.2010
Value of equity	105.088	105.609

1. As at 31 December 2011, the value of equity of Fort Mokotów Inwestycje Sp. z o.o. amounted to PLN 105 088 thousand.
2. The Company incurred a net loss of PLN 522 thousand in 2011 (in 2010 the net loss amounted to PLN 261 thousand). The loss resulted from the fact that the Company incurred cost related to current stage of the investment.
3. In 2011, the Company continued working on the organisation of a development investment project on the plot of land located at 107 Racławicka Street in Warsaw.

Centrum Elektronicznych Usług Płatniczych eService SA

Value of transactions (in PLN billion)

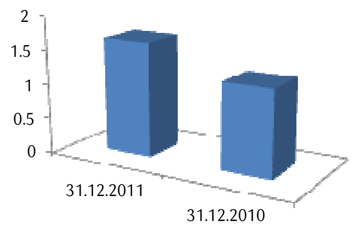


	31.12.2011	31.12.2010
Value of transactions	23.5	21.5

1. As at 31 December 2011, the value of CEUP eService SA equity amounted to PLN 86 927 thousand.
2. In 2011 the Company earned a net profit of PLN 23 710 thousand (in 2010 the Company's net profit amounted to PLN 24 215 thousand).
3. In the end of 2011, the Company operated 53.6 thousand payment terminal units reaching, according to Company's estimates, 21% market share.
4. In 2011, in CEUP eService SA terminals processed transactions valued to PLN 23.5 billion, which is 9.3% more than in the previous year.
5. In terms of the value of generated card transactions, market share estimated by the Company as at the end of 2011, amounted to around 24.4%.
6. In 2011, the Company i.a.: implemented the eCommerce product for commercial purposes, which enables accepting payments for goods and services through the Internet by means of payment cards or bank transfers, launched alternative channels for selling its services, including in particular starting to offer, in the Bank's branches, rental of terminals and payment transaction clearing services, and extended the network of its own ATMs to 140 machines.
7. In 2011 the Company paid dividend to PKO Bank Polski SA for 2010 in the gross amount of PLN 22 200 thousand.

Bankowy Fundusz Leasingowy SA

Value of assets under lease (in PLN billion)

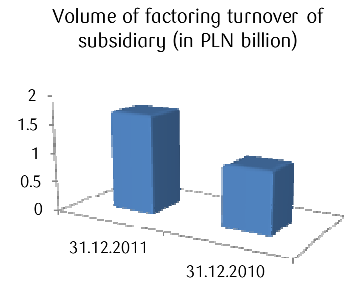


	31.12.2011	31.12.2010
Value of lease	1.671	1.250

1. At the end of 2011 the value of the BFL SA Group (Bankowy Fundusz Leasingowy SA and its subsidiary Bankowy Leasing Sp. z o.o.) equity amounted to PLN 108 177 thousand.
2. In 2011 the Group earned a net profit of PLN 8 412 thousand (in 2010 the Group's net profit amounted to PLN 10 532 thousand).
3. In 2011, the BFL SA Group's entities leased out assets with a total value of PLN 1 671 million, i.e. an increase of 33.7% compared with 2010. The increase is a result of entrepreneurs recommencing investment projects, which had been put off in previous years, since the beginning of the previous year.
4. At the end of 2011, in terms of the value of assets leased, the BFL Group ranked 5th position with 5.4% market share*.
5. The total carrying amount of the lease investments of the BFL SA Group's entities amounted to PLN 2 806 million as at 31 December 2011 (PLN 2 402 million as at the end of 2010).
6. On 30 December 2011 the process of merger of BFL SA subsidiaries i.e. Companies: Bankowy Leasing Sp. z o.o. and BFL Nieruchomości Sp. z o.o. has been finished. As a result of this merger all assets of the company BFL Nieruchomości Sp. z o.o. was transferred to the company Bankowy Leasing Sp. z o.o., the company Bankowy Leasing Sp. z o.o. joined all rights and obligations of the company BFL Nieruchomości Sp. z o.o., and BFL Nieruchomości Sp. z o.o. was removed from the National Court Register.

** Source: Polish Leasing Association*

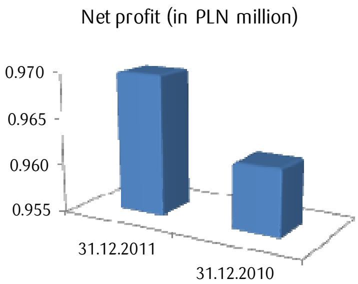
Bankowe Towarzystwo Kapitałowe SA



	31.12.2011	31.12.2010
Volume of turnover	1.709	1.045

1. As at the end of 2011, the value of BTK SA Group's equity (Bankowe Towarzystwo Kapitałowe SA and its subsidiary PKO BP Faktoring SA) amounted to PLN 4 051 thousand.
2. In 2011, the Group incurred a net loss of PLN 2 606 thousand (in 2010 the Group incurred a net loss of PLN 5 977 thousand). The Group's loss is a result of implementation of PKO BP Faktoring SA's development model, assuming that the Company incurs losses in the first two years of activity. Since July 2011, PKO BP Faktoring SA has already been generating net profit in monthly terms.
3. In 2011, PKO BP Faktoring SA – the subsidiary of BTK SA – was providing domestic and export factoring services, both with and without the acceptance of risk and reverse factoring.
4. In 2011, the volume of factoring turnover amounted to PLN 1 709 million (which means 63.5% y/y growth), and client volume increased to 116.
5. At the end of December 2011, PKO BP Faktoring SA ranked 9th place among factoring companies associated in the Polish Factors' Association, with a market share of 2.55%.
6. In 2011, the Bank began works on the analysis of possibilities of transferring the factoring activity to the Bank. Any potential takeover of the factoring activity by the Bank will not cause any changes of the PKO Bank Polski SA Group's activity.

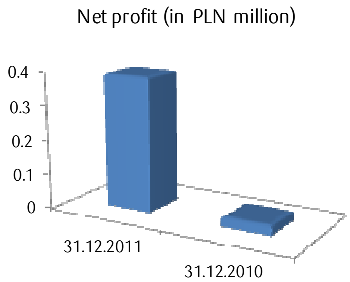
PKO BP Finat Sp. z o.o.



	31.12.2011	31.12.2010
Net profit	0.970	0.962

1. At the end of 2011, the value of PKO BP Finat Sp. z o.o. equity amounted to PLN 11 878 thousand.
2. In 2011 the Company earned a net profit of PLN 970 thousand (in 2010 the Company's net profit amounted to PLN 962 thousand).
3. As a result of Bank's acquisition of Company's shares from existing shareholders, as at the end of the third quarter of 2011, PKO Bank Polski SA became the sole shareholder of the Company.
4. The Company provides transfer agent services to PKO TFI SA and PKO BP BANKOWY PTE SA, support services to PKO TFI SA related to the Management Company's maintaining a register of certificates of closed investment fund participants, and transfer agent services or bookkeeping services of investment fund to 5 other companies.
5. In 2011, based on the audit carried out, the Company obtained the recommendation for extending the validity of the ISO 27001/:2005 certificate related to the Information Security Management System at the Company for the next 3 years.

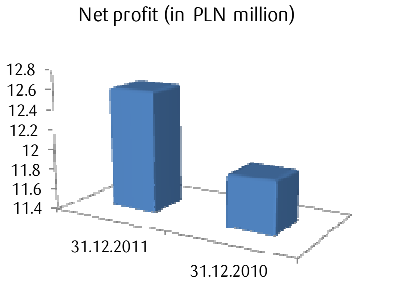
PKO Finance AB



	31.12.2011	31.12.2010
Net profit	0.395	0.028

1. As at 31 December 2011, the value of PKO Finance AB equity amounted to PLN 893 thousand (EUR 202 thousand).
2. In the end of 2011 the Company earned a net profit of PLN 395 thousand (EUR 95 thousand). In 2010 the Company's net profit amounted to PLN 28 thousand (SEK 65 thousand). As of 1 January 2011 the Company changed the functional currency to euro.
3. The Company's core activity is to raise funds for PKO Bank Polski SA, deriving from the issue of bonds.
4. In 2011 the Company issued bonds for a total amount of CHF 250 million with a maturity of 7 July 2016, and serviced Eurobonds issued in October 2010 for a total amount of EUR 800 million with a maturity of 21 October 2015.

Centrum Finansowe Puławska Sp. z o.o. – in liquidation



	31.12.2011	31.12.2010
Net profit	12.619	11.920

1. As at the end of 2011, the value of equity of Centrum Finansowe Puławska Sp. z o.o. according to the data used for consolidation amounted to PLN 261 918 thousand.
2. In 2011 the Company's net profit amounted to PLN 12 619 thousand (in 2010 the Company earned a net profit of PLN 11 920 thousand).
3. As at 31 December 2011, the Company rented 98.1% of the office and commercial space in the managed by itself Centrum Finansowe Puławska building, of which 91.9% was rented to the entities of the PKO Bank Polski SA Group.
4. On 30 May 2011 the Company made an early repayment of the loan received from PKO Bank Polski SA. The value of the repayment amounted to PLN 62.6 million, while the Company acquired PLN 39 million by a share capital increase. Repayment of the loan was one of the activities conducted in preparation for liquidation of the Company.
5. On 1 July 2011, PKO Bank Polski SA, as the sole shareholder of the Company Centrum Finansowe Puławska Sp. z o.o., passed a resolution on the Company's winding up and opening its liquidation as of 1 July 2011. According to the schedule the liquidation of the Company should be completed by the end of the second quarter of 2012.

5.5 Activities taken by PKO Bank Polski SA towards KREDOBANK SA

In 2011, the Management Board of PKO Bank Polski SA undertook a series of activities which directly contributed to the result of KREDOBANK SA operations, in particular by the corporate supervision over the investment in Ukraine.

Agreement with the National Bank of Ukraine

On 20 April 2011, KREDOBANK SA signed with the National Bank of Ukraine (NBU) a two-year agreement defining actions to be taken in order for KREDOBANK SA to obtain a positive financial result and meet all regulatory requirements of NBU. Under this agreement, NBU will not introduce any restrictions in the activity of KREDOBANK SA despite its incompliance with regulatory standards. The agreement defined in particular the requirements relating to:

– adjusting the capital structure to the requirements of article 32 of the Ukrainian Act on banks and banking activities,
– complying with the regulatory limit of the open currency position,
– loan portfolio quality improvement.

In 2011, active measures were taken in connection with meeting the obligations contained in the agreement with the NBU, including, i.a. developing a new concept of further restructuring of the loan portfolio of KREDOBANK SA. As at 31 December 2011, KREDOBANK SA met the conditions of the agreement in the following areas:

– the achieved results established in accordance with the Ukrainian Accounting Standards (UAS)[7], including the net profit (which was higher than assumed in the agreement), which translated into meeting the declared level of regulatory capital,
– complying with the regulatory limit of the open currency position,
– loan portfolio quality improvement.

The agreement concluded with the NBU assumed a two-year period for adjusting the basic parameters of KREDOBANK SA to the requirements of the Ukrainian regulator. Adopting a new concept for restructuring the loan portfolio of KREDOBANK SA and starting its implementation at the end of 2011 mainly helped meet most of the obligations assumed by KREDOBANK SA before the set deadline.

[7] *The main difference between the results determined in accordance with UAS and IFRS/IAS is the amount of impairment allowances on credit portfolio value (resulting from different rules of their creation), which influenced value of reversed impairment allowances in respect of the sale of the loan portfolio of KREDOBANK SA to the company Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.*

Restructuring of KREDOBANK SA loan portfolio

PKO Bank Polski SA carried out the restructuring of the loan portfolio of KREDOBANK SA, which comprised:

– transferring the impaired loans portfolio from KREDOBANK SA to the special purpose vehicle (SPV), thus ensuring that KREDOBANK SA is able to meet the standard ratios required by the NBU and increasing the effectiveness of debt collection activities,

  On 29 November 2011, PKO Bank Polski SA acquired a 100% share in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. (SPV), which holds a factoring licence in the Ukraine, for PLN 1.4 million.

  Then, in December 2011, the above mentioned Company purchased from KREDOBANK SA the sectioned off loans portfolio in the total amount of UAH 1 645 million (PLN 700 million at the average NBP rate as of the last day of 2011) in three batches.

– terminating 2 guarantees granted to KREDOBANK SA in 2010 by PKO Bank Polski SA as security for the impaired loans portfolio, by PKO Bank Polski SA paying compensation on the guarantee agreements,

  PKO Bank Polski SA signed annexes with KREDOBANK SA to the guarantee agreements granted as security for the impaired loans portfolio of KREDOBANK SA, based on which the guarantees expired after paying the compensation.

– PKO Bank Polski SA granting a loan denominated in USD to the SPV for financing the purchase of the loan portfolio.

  PKO Bank Polski SA granted a loan to Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. of USD 63.07 million.

Building of PKO Bank Polski SA's strategy towards KREDOBANK SA

In the period from June to August 2011, PKO Bank Polski SA developed the new strategy of PKO Bank Polski SA towards KREDOBANK SA. The strategy assumed the restructuring and reorganisation of the business and implementing the best market practice, while focusing on selected areas of the Ukrainian market.

Implementing a new development strategy for KREDOBANK SA should impact the capital adequacy improvement, revenues reconstruction, better risk management and focusing on strategic directions, i.a. creating a regional bank for Western Ukraine, which would also operate in the largest selected cities of other regions of the country and take advantage of market niches, mainly in the area of services to retail customers and SME.

Restructuring of KREDOBANK SA

As part of executing its investment policy towards KREDOBANK SA, PKO Bank Polski SA carried out the restructuring of its activity. In 2011, these activities focused on:

– debt collection and restructuring activities relating to the KREDOBANK SA portfolio,
– monitoring the costs and optimising expenses of KREDOBANK SA in particular the staff costs and costs of rental of space,
– optimisation of KREDOBANK SA branch network by shutting down unprofitable branches. In 2011 7 of them were closed,
– changing the Management Board of KREDOBANK SA:
  - ⇒ appointing the 1st Vice-President supervising the area of corporate and retail business after the resignation of the former 1st Vice-President of the Management Board of KREDOBANK SA,
  - ⇒ appointing the Vice-President supervising the operations area,
  - ⇒ appointing the Vice-President supervising the IT and telecommunications area,
  - ⇒ in connection with ending the term of office and the former President of the Management Board ceasing to perform the function – entrusting the duties of the President of the Management Board of KREDOBANK SA to the former 1st Vice-President supervising corporate and retail business.

5.6 Other subordinated entities[8]

SUBSIDIARY	SCOPE OF ACTIVITIES	ACTIVITIES OF OTHER SUBORDINATED ENTITIES
CENTRUM HAFFNERA Sp. z o.o.	CENTRUM HAFFNERA Sp. z o.o. supervises investment projects relating to arrangement and revitalisation of Sopot's tourist centre, executed together with its subsidiaries	1. The value of equity of the CENTRUM HAFFNERA Sp. z o.o. Group (CENTRUM HAFFNERA Sp. z o.o. and its subsidiaries) at the end of 2011 amounted to PLN 19 424 thousand. 2. The CENTRUM HAFFNERA Sp. z o.o. Group closed the year 2011 with a net loss of PLN 46 586 thousand.
Centrum Obsługi Biznesu Sp. z o.o.	Centrum Obsługi Biznesu Sp. z o.o. supervises the management of the Sheraton Hotel in Poznań	1. The value of the Company's equity at the end of 2011 amounted to PLN 12 807 thousand. 2. The Company closed the year 2011 with a net loss of PLN 11 318 thousand.
Bank Pocztowy SA	Bank Pocztowy SA conducts banking activities	1. The value of the equity of the Bank Pocztowy SA Group (Bank Pocztowy SA and its subsidiaries) at the end of 2011 amounted to PLN 318 454 thousand. 2. The Bank Pocztowy SA Group closed the year 2011 with a net profit of PLN 26 613 thousand.
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	The Entity's scope of activities includes granting of suretyships and guarantees to secure the repayment of loans and advances granted by financial institutions to small and medium entities	1. The value of the Company's equity at the end of 2011 amounted to PLN 14 925 thousand. 2. The Company closed the year 2011 with a net profit of PLN 21 thousand.
Agencja Inwestycyjna CORP-SA SA	The Entity manages business premises in Warsaw	1. The value of the Company's equity at the end of 2011 amounted to PLN 1 915 thousand. 2. The Company closed the year 2011 with a net profit of PLN 1 109 thousand.
Kolej Gondolowa Jaworzyna Krynicka SA	The Company was set up mainly for the purpose of construction and operation of cable railway from Krynica to Jaworzyna Krynicka and for carrying people on ski lifts	1. The value of the Company's equity at the end of 2011 amounted to PLN 37 104 thousand. 2. The Company closed the year 2011 with a net loss of PLN 4 080 thousand.

5.7 International co-operation

Under the *2020 European Fund for Energy, Climate Change and Infrastructure*, PKO Bank Polski SA increased its capital involvement in the above mentioned fund from EUR 1 200 thousand as at the end of 2010 to EUR 7 100 thousand as at the end of December 2011.

PKO Bank Polski SA participates in the above mentioned project as the only Bank operating in one of the new European Union Member States which was awarded the status of '*Core sponsor'.* The *Marguerite* Fund was established in 2009 for 20 years and is currently at the stage of building its investment portfolio.

KREDOBANK SA (a subsidiary of PKO Bank Polski SA) cooperates with financial institutions in 15 countries within the international settlements system. The bank has 38 nostro accounts and 48 loro accounts.

In 2011, Bankowy Fundusz Leasingowy SA (a subsidiary of PKO Bank Polski SA) used the resources obtained from loans from the Council of Europe Development Bank (CEB) and from the European Investment Bank to finance the development of small and medium entities. The loan agreements were signed for a total of EUR 90 million and the amount of funds used in 2011 was EUR 12 million.

5.8 Issue of own securities and Eurobonds

1. On 21 June 2011, PKO Bank Polski SA passed a resolution on granting consent for the opening of a programme for issuing the Bank's bonds on the domestic market ('the Issue Programme'). The Issue Programme amount is PLN 5 billion or its equivalent in other currencies. The funds obtained as a result of the issue of bonds under the Issue Programme will be used for the general purposes of financing the Bank. The term of the Issue Programme is unlimited (Current Report No. 32/2011). Due to the above mentioned Programme having been opened, on 12 August 2011 and 9 September 2011 PKO Bank Polski SA issued short-term bonds totalling PLN 1.95 billion. Moreover, on 10 November 2011 (Current Report No. 75/2011) and 9 December 2011 (Current Report No. 81/2011), PKO Bank Polski SA issued short-term bonds under the Programme totalling PLN 2.95 billion, including bonds rolling the debt resulting from the previously issued bonds. The total debt due to the bonds issued under the Programme amounted to PLN 2.95 billion as at 31 December 2011.
2. On 5 July 2011, PKO Bank Polski SA signed with its subsidiary PKO Finance AB a loan agreement, on the basis of which the Bank will borrow from the lender the funds raised as a result of the bond issue executed by the lender as part of the EMTN Eurobond issue programme. The intention of the agreement is to grant the PKO Bank Polski SA a loan of CHF 250 million for the general purposes of financing the Bank. The interest rate on the loan is fixed and amounts to 3.538% p.a.

[8] *Financial results of the subordinated entities are presented in accordance with Polish Accounting Standards.*

Interest is payable annually. The Loan Agreement was signed for a period of 5 years. The loan is not secured (Current Report No. 41/2011).

5.9 Activities in the area of promotion and image building of the PKO Bank Polski SA Group

Sponsorship activities of PKO Bank Polski SA

Realised sponsoring activities in 2011 were aimed at building the image of PKO Bank Polski SA as a reliable financial institution, open to the needs and expectations of its clients, engaged in the development of the country and local communities.

Table 22. The main sponsorship areas

	2011		2010	
Area	Number of projects	Share in budget	Number of projects	Share in budget
Image sponsorship	322	40%	291	82%
Sector sponsorship	157	60%	136	18%
Total	**479**	**100%**	**427**	**100%**

40% of the budget spent in 2011 was dedicated to sponsoring activities which shape the image and brand. The majority of the projects sponsored related to culture, the protection of the national heritage, sports and education.

The leading project **in the area of culture and national heritage** was the patronage taken up by the Bank over the Polish Presidency in the European Union, which included participation in a number of nationwide and local artistic events anticipated in the Presidency programme.

In 2011, large sponsorship projects initiated in 2010 were continued: commemoration of the Anniversary of the Katyń Massacre and of the Anniversary of the Outbreak of the Warsaw Uprising.

The most important projects in the group of undertakings **in the area of education** included: continuing cooperation with the Planetarium at the Copernicus Science Centre in Warsaw and supporting initiatives of universities throughout the country, including i.a. the Warsaw School of Economics, Cracow University of Economics, Bialystok University, Gdansk University of Technology, Adam Mickiewicz University in Poznan.

Thanks to the activities **as part of the PKO Blisko Ciebie ('PKO Close to You') programme**, the Bank was visible in all areas of social life. Hence, its presence in a number of festivities, picnics and public events throughout the country. The Bank commenced cooperation with the SPINKA Association by financing driving courses for persons with motion, speech and hearing dysfunctions.

The largest undertaking **in the area of sports sponsorship** was the support granted to the events in the cycle 'Zabiegaj o pamięć' ('Run to Commemorate'): 21st Warsaw Uprising Race and 23rd Independence Race, 35th Piasts' Race and 12th Maciej Frankiewicz Poznan Marathon.

The Bank is involved in leading **undertakings related to the sector**, thus intensifying its promotional activities supporting sales of the offered products and services. The purpose of the supported initiatives was to present the Bank as the financial market leader. The main examples of such initiatives included the sponsorship of: the Most Valuable Polish Brands competition, the '100 Businesswomen' Ranking, Pillars of the Polish Economy, the European Economic Congress in Katowice, CEE IPO SUMMIT Conference in Warsaw, 2nd Innovative Economy Congress, 4th Retail Banking Congress, Stock Exchange Company of the Year Gala.

Charity activities of PKO Bank Polski SA

Charity activities play an important role in forming image of PKO Bank Polski SA as a socially sensitive institution. Apart from the image issues, participation in charity activities creates also the possibility of contacts with opinion-setting circles. In 2011 the charity activity was run by both the Bank and by the PKO Bank Polski SA Foundation, which will take over all tasks related to realisation of charity projects from 2012.

Table 23. Main areas of charity activities

Area	2011		2010	
	Number of donations	Share in budget	Number of donations	Share in budget
Social aid	85	24.2%	188	39.6%
Life and health rescue	61	29.1%	122	14.6%
Sport and leisure	48	13.3%	87	19.1%
Education and entrepreneurship	36	9.5%	62	7.6%
Culture and national heritage	13	12.1%	20	3.5%
Help to victims of natural calamities and disasters	6	1.4%	20	13.2%
Other	33	10.4%	18	2.5%
Total	**282**	**100%**	**517**	**100%**

In the area of social aid, the Bank supported the campaigns to the benefit of children from poor and dysfunctional families, from orphanages and handicapped children and adults in difficult life situations.

Again, the support from PKO Bank Polski SA enabled children and young people to participate in rehabilitation cycles. PKO Bank Polski SA helped finance summer and winter holidays for children and young people, organise sports camps, purchase food, supplementary meals in schools and purchase of teaching materials. PKO Bank Polski SA supported, both financially and materially, the activities related to education of children and young people which would enable them to gain practical knowledge and skills.

As in previous years, the support from PKO Bank Polski SA helped purchase different kinds of equipment and medical apparatuses for hospitals and foundations operating in the area of life and health rescuing. Moreover, the Bank continued granting financial support to flood victims.

Activities of the PKO Bank Polski SA Foundation

The objective of the PKO Bank Polski Foundation is acting for the public interest to the widest possible extent, giving each employee of the Bank an opportunity to join a specific project or indicate a problem that needs solving.

In 2011, the PKO Bank Polski Foundation allocated approx. PLN 7.0 million, gross, for programme-related activities, including approx. PLN 6.0 million for strategic projects and approx. PLN 1.0 million for local and individual projects. In the period from April to the end of December 2011, the Foundation received 1 104 applications, out of which the Foundation's team analysed 869 applications during 29 meetings, making 547 positive decisions and 322 refusals.

In 2011, the Foundation's achievements included i.a. the following:

– forming a strategic partnership with the Siemach Association which pursues an original educational programme focused on personal development of children and young people in difficult life situation,
– cooperating with the WIOSNA Association which organises the Noble Parcel (*Szlachetna* Paczka) nationwide campaign. The project consists of granting systemic aid to families afflicted by non-culpable poverty and is executed throughout the year and ends two weeks before Christmas. The Foundation, as one of the two project sponsors, together with the organiser, partners and the whole Polish society, participated in granting aid to 11 884 families,
– supporting the circle of Polish IT specialists, mathematicians and programmers (teachers and students) through the execution of joint projects and scholarship programmes with selected partners: the Warsaw University, the Foundation for Information Technology Development and the Strategic Solutions Centre,
– continuing the cooperation formed in 2002 with the Professor Zbigniew Religa Cardiac Surgery Development Foundation which realises the Polish Artificial Heart project, the objective of which is to support the efforts of Polish cardiac surgeons to construct an extrasomatic artificial heart both for adults and for children,
– participating in the Polish Humanitarian Action project which consists of supporting the families of Polish Repatriates within the territory of the Republic of Poland,
– independently organising annual 'Santa Claus Day Integration Meetings' – a Christmas party for children from care and education centres which are under the supervision of the Bank's regional branches, and for children of the employees of PKO Bank Polski SA. More than 6 thousand children participated in 36 events organised in 29 cities in Poland.

Promotional activities carried out by other companies of the PKO Bank Polski SA Group

In 2011 the promotional activities of other companies of the Group focused particularly on:

- building the position of PKO Towarzystwo Funduszy Inwestycyjnych SA on the market of investment funds, mainly by participating in educational and marketing campaigns carried out regularly by i.a. Radio TOK FM, Rzeczpospolita, Gazeta Prawna, Puls Biznesu and Gazeta Wyborcza,
- marketing activities in respect of all the projects carried out by companies from the Qualia Development Sp. z o.o. Group as part of the campaign related to promoting the new name and logo of Qualia Development (arranging a press conference, press advertisements) and other companies,
- promotional campaigns of Centrum Elektronicznych Usług Płatniczych eService SA, related to *MasterCard PayPass* contactless payments as part of the summer festivals organised by *Alter Art Festival Sp. z o.o.* and *Orange* operator, organising competitions promoting sales of prepaid top-ups and the service consisting of drawing cash in the network of the Bank's Agencies and sponsorship of the '*e-commerce 2011*' report published by IDG SA,
- image building activities conducted by PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA as part of the 2nd part of the campaign entitled 'Jutro to dziś tyle, że jutro' (Tomorrow is tomorrow's today), participating in arranging the conference entitled "Think about the future – Pillar 3 for everyone' organised by Rzeczpospolita and Gazeta Giełdy Parkiet, and marketing campaigns conducted on the website of the Analizy *Online* portal,
- promoting products offered by companies from the Bankowy Fundusz Leasingowy SA Group, in particular machinery, equipment and passenger cars leasing, through the website and product leaflets, and participating in the Maszbud 2011 construction fair, Transexpo 2011 transport fair and the 4th European Economic Forum,
- ensuring advertising support for sales of banking products and building a positive image of KREDOBANK SA, i.a. by taking up patronage over the Encyclopaedia of the I. Franko National University of L'viv, published in connection with the 350th anniversary of the University, and sponsorship of the concert of the L'viv Philharmonic to celebrate the 93rd anniversary of the Republic of Poland's independence,
- building the image of PKO BP Faktoring SA on the market through publications in the press, mainly in supplements on factoring and participating in preparing and publishing the Almanac of the Polish Factors Association in cooperation with the Polish Factors Association.

Prizes and awards granted to entities of the PKO Bank Polski SA Group

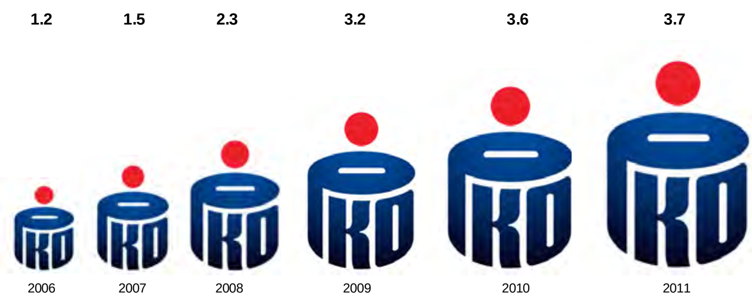
In 2011, PKO Bank Polski SA and other entities of the PKO Bank Polski SA Group have been granted numerous prizes and awards, including the following:

1. 'Ten, który wspiera Polski Przemysł' ('Polish Industry Supporter') A.D. 2010 – PKO Bank Polski SA was awarded this title for its role of an active financial market stabiliser and for maintaining healthy, open and pro-development relations with business in a difficult economic time. The title has been awarded by Miesięcznik Gospodarczy Nowy Przemysł.
2. 'Najlepiej prosperujący krajowy bank komercyjny' ('The most flourishing domestic commercial bank') - PKO Bank Polski was the winner of the *Book of Lists 2011* ranking, prepared by the editor of *Warsaw Business Journal*, in the category 'Commercial Banks'.
3. Złoty Bankier (Golden Banker) – PKO Bank Polski SA won a prize for the best cash loan in the market 'Max Pożyczka Mini Rata' and the best working capital loan for small and medium entities.
4. Europrodukt – PKO Bank Polski SA won the 16th edition of the national competition EUROPRODUKT. The Bank was awarded three prestigious statues in the category of services for accounts for corporate clients: payroll account, ESCROW contingent settlement account, consolidated account.
5. 'Złote Godło Zaufania' (Gold Emblem of Trust) – PKO Bank Polski SA brand was chosen by readers of Reader's Digest monthly as the most trusted one: PKO Bank Polski SA received Złote Godło (Gold Emblem) of European Trusted Brand, as well as the title of the Most Environment Friendly Brand.
6. Ranking '100 najlepszych instytucji finansowych' ('100 best financial institutions') – PKO Bank Polski SA won the ranking organised by Gazeta Finansowa. The Bank was also ranked first in the banks and brokerage house ranking. The purpose of the project is to presen*t and promote the key* Financial Institutions in Poland, which despite the difficult market conditions in the previous year maintained stable position and demonstrated dynamic development.
7. Ambasador Polskiej Gospodarki ('Ambassador of the Polish Economy') – in the 3rd edition of the competition organised by *Business Center Club* PKO Bank Polski SA received the title of Ambassador in the category European Brand. The main objective of the competition is to increase the involvement of

Polish entrepreneurs in the promotion of Poland on the international scene as a reliable economic partner. The Minister of Foreign Affairs became the honorary patron of the event.

8. Best Macroeconomic Analyst – PKO Bank Polski SA ranked second in category 'Investments' in the competition 'Best Macroeconomic Analyst'. Those economic analysts are awarded in the competition whose forecasts from the prior year proved to be most accurate. The awards are granted by NBP, Rzeczpospolita daily and Parkiet, the daily exchange publication.
9. Benefactor of the Year 2010 – in the 14th edition of the competition organised by the Academy for the Development of Philanthrophy in Poland, PKO Bank Polski SA together with Inteligo Financial Services SA received the title of 'Benefactor of the Year 2010' in the category 'A firm's cooperation with a non-governmental organisation. A large firm'.
10. Mistrz Biznesu 2011 (Business Master 2011) – PKO Bank Polski was awarded a honourable mention in the category Finance and Banking, in the competition organised by *Businessman.pl*. It has been awarded not only for economic performance, but also i.a. for boldness of economic vision, expertise in management, facing adversities, talent in the selection of personnel and the social responsibility of business.
11. An honourable mention from the Chapter of the Congress of Electronic Economy – during the 6th Congress of Electronic Economy PKO Bank Polski SA received an honourable mention in the category 'Project of the Year' for the massive replacement of payment cards. The awards granted by the Chapter of the Congress of Electronic Economy are aimed at honouring people, projects and activities promoting the development of the electronic economy in Poland.
12. Solidny Pracodawca 2010 (Reliable Employer 2010) – in the competition organised by Grupa Media Partner PKO Bank Polski SA was awarded the title of a 'Reliable Employer'. The purpose of the competition Reliable Employer is to promote the best firms in Poland which distinguish themselves from others by model human resources management policy which translate into high quality of the products and services offered.
13. Perły Rynku FMCG 2011 (Pearls of the Market FMCG 2011) - PKO Bank Polski won in the category 'Best Banking Service'. The award was granted for the card in the EMV technology with the *paywave* proximity feature.
14. 'Najwyższa Jakość *Quality International 2011'* – the chapter of the competition appreciated two products of PKO Bank Polski SA addressed to corporate customers: highest quality service – electronic banking system iPKO biznes, and highest quality product - payroll account.
15. 'Przyjazny Bank Newsweeka' ('Nesweek's Friendly Bank') - Inteligo Financial Services SA took the first place in the 'Mobile bank' category. IFS SA has been appreciated i.a. for availability to customers and a wide package of additional services.
16. The golden statuette 'Serce za serce' - Inteligo Financial Services SA was again rewarded for cooperation with the Zbigniew Religa Cardiac Surgery Development Foundation. IFS SA was awarded the golden statuette 'Serce za serce' by the Council of the Foundation in appreciation of its to date support for the Polish Artificial Heart Building Program.
17. *'Bank of the Year'* – in the competition organised by the monthly *The Banker*, PKO Bank Polski SA was honoured with the prize 'Bank of the Year in Poland'. It received recognition for both its financial results and its comprehensive modernisation.
18. 50 largest banks in Poland 2011 – PKO Bank Polski SA was awarded the main prize in the ranking prepared by 'Miesięcznik finansowy BANK' (monthly publication), published by Związek Banków Polskich (Polish Banks Association). The ranking 50 largest banks in Poland reflects the market position of the financial institutions.
19. Best financial institution of 'Rzeczpospolita in 2010' – in the 9th edition of best financial institutions ranking, organised by Rzeczpospolita weekly, PKO Bank Polski SA ranked second in the commercial banks and brokerage houses category.
20. 1st position in the competition for the Best Annual Report for 2010 - PKO Bank Polski SA became the winner of the competition for the Best Annual Report for 2010 in the category 'Banks and financial institutions' organised by the Accounting and Taxation Institute under the honorary sponsorship of, i.a. the Warsaw Stock Exchange.
21. The strongest financial brand – in the ranking of Rzeczpospolita, in the financial institutions category, PKO Bank Polski SA was recognised as the strongest brand. It also took 2nd place in terms of brand value. The total value of 330 brands in yet another edition of the ranking amounted to PLN 57 billion. The PKO Bank Polski SA brand was valued at PLN 3 748 billion, which represents a 3% increase compared with 2010. The ranking 'Marki Polskie' by Rzeczpospolita is prepared according to a similar methodology to that of the most prestigious global rankings. Financial results and the role of the brand in consumers' purchasing decisions play a key role there.

Value of PKO Bank Polski SA brand*



** according to the rating of the most valuable Polish brands published by Rzeczpospolita (in PLN billion)*

For the purposes of the ranking, a worldwide used method '*relief from royalty*' was adopted. It is based on hypothetical licensing fees that the owner of the brand would have to pay, if he did use it basing on the license agreement. Such a fee is settled in relation to income on sales.

22. Title of IT leader of financial institutions 2010 – PKO Bank Polski SA was awarded the title in the 9th edition of the 'Gazeta Bankowa' competition, while Inteligo Financial Services SA, the virtual branch of PKO Bank Polski SA, was selected as the 'IT Leader' in the category 'electronic banking and e-finance'.
23. 'Laur Konsumenta/Klienta 2011' ('Consumer/Customer Laurels 2011') – PKO TFI SA ranked 1st in the nationwide poll in the category of Fund Management Associations.
24. 'Business Gazelle' - Centrum Elektronicznych Usług Płatniczych eService SA was awarded the title by Puls Biznesu daily in the 11th Ranking of the Most Dynamic Small and Medium Entities.
25. 'Najlepszy produkt dla biznesu 2011' ('The Best Product for Businesses 2011') – PKO BP Faktoring SA was rewarded by Gazeta Finansowa for the safety and quality of the factoring services provided.
26. 'Deweloper Roku 2011' ('Developer of the Year 2011') – Qualia Development Sp. z o.o. was granted the title awarded to the best development companies in Poland according to Gazeta Finansowa.
27. 'Inwestor roku 2010' ('The Investor of 2010') – KREDOBANK SA took 1st place in the contest organised by the Lviv State Administration and the Lviv Chamber of Commerce and Industry.
28. 'Najlepszy bank regionalny' ('Best Regional Bank') – KREDOBANK SA ranked 3rd in the '*UKRAINIAN BANKER AWARDS 2011*' ranking organised by the economic newspaper '*Investgazeta*'.

6. INTERNAL ENVIRONMENT

6.1 Principles of risk management

Risk management is one of the most important internal processes in PKO Bank Polski SA as well as in the other entities comprising the PKO Bank Polski SA Group. The objectives of risk management are to ensure an adequate level of security and profitability of business operations in the changing legal and economic environment. The level of risk plays an important role in the planning process.

The following types of risk which are subject to risk management have been identified in the PKO Bank Polski SA Group: credit risk, interest rate risk, currency risk, liquidity risk, price risk of equity instruments, operational risk, compliance risk, business risk (including strategic risk) and reputation risk. Derivatives risk is a subject to a special control due to the specific characteristics of these instruments.

Risk management in the Group is based on the following principles:

– the Group manages all of the identified types of banking risk,
– the risk level is monitored on a current basis,
– the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
– the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,
– the risk management process supports the pursuit of the Bank's strategy in keeping with the risk management strategy, in particular with regard to the level of tolerance of the risk,
– the area of risk and debt collection remains organisationally independent of business activities,
– risk management is integrated with the planning and controlling systems.

The risk management process is supervised by the Supervisory Board of the Bank, which is informed on a regular basis about the risk profile of the Bank as well as of the PKO Bank Polski SA Group and about the most important activities taken in the area of risk management.
The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board approves the most important decisions affecting the risk level of the Bank and enacts internal regulations defining the risk management system.

The risk management process is carried out in three, mutually independent lines of defence:

1) the first line of defence, which is functional internal control that ensures using risk controls and compliance of the activities with the generally applicable laws,
2) the second line of defence, which is the risk management system, including risk management methods, tools, process and risk management organisation,
3) the third line of defence, which is an internal audit.

The independence of the lines of defence consists of preserving organisational independence in the following areas:

– the function of the second line of defence as regards creating system solutions is independent of the function of the first line of defence,
– the function of the third line of defence is independent of the functions of the first and second lines of defence,
– the function of managing the compliance risk reports directly to the President of the Management Board of the Bank.

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves their development strategies, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular Group entities in the risk reporting and risk monitoring system of the entire Group.

The internal regulations concerning management of certain types of risk in the entities of the Group are defined by internal regulations implemented by those entities, after taking the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management allow for consistent and comparable assessment of particular types of risk within the Bank and entities of the Group, taking into consideration the specific nature of the entity's activity and the market on which it operates.

PKO Bank Polski SA's priority is to maintain its strong capital position and to increase its stable sources of financing, which constitute a basis for the stable development of business activity, while maintaining the priorities of efficiency and effective cost control.

In consequence, in 2011 the Bank:

– in the methods applied to measuring banking risks, took into account the conditions arising from the financial crisis (i.a. in the scope of stress test scenarios),
– in June, obtained through the intermediation of PKO Finance AB funds from the issue of 5-year bonds as part of the EMTN programme in the amount of CHF 250 million,
– began issuing short-term bonds (in the fourth quarter, the Bank obtained funds in the amount of PLN 2 950 million).

In 2011 the Bank implemented the requirements arising from Recommendation S, in particular with regard to:

– separating the functions relating to the acquisition of customers and the sale of the products offered, the direct analysis of loan applications, risk assessment and making a loan granting decision, and monitoring the loan exposure financing real estate during its term,
– ensuring that independence and objectivity are maintained during the process of assessing the value of the real estate accepted as collateral – the persons assessing the value of real estate should be independent of the employees of the sales units, and in banks with significant loan exposures financing real estate and loans exposures secured by mortgage – also of the employees of the risk acceptance units,
– changing the method of determining disposable income for foreign currency loan transactions drawn to finance real estate and foreign currency loan transactions secured by mortgage,
– changing (shortening) the maximum lending period adopted in the assessment of creditability,
– taking into account the probability that the level of the borrower's income will change after he/she acquires the pension entitlement in the assessment of creditability.

6.1.1 Credit risk

Credit risk is defined as a risk of occurrence of losses due to a counterparty's default of payments to the Bank or as a risk of decrease in economic value of amounts due to the Bank as a result of deterioration of a counterparty's ability to repay due amounts.

The objective of credit risk management is to reduce losses of loan portfolio and to minimise the risk of loans with impairment, while maintaining an expected level of yield and loan portfolio value.

The Bank and the Group's subsidiaries apply the following principles of credit risk management:

- a loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal *rating* or credit *scoring*,
- credit risk assessment related to loan transactions is measured on the stage of a loan request review and a cyclical basis during the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels or their value is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
- loan granting decisions are made only by authorised persons within their authority,
- credit risk is diversified in particular by geographical location, by industry, by product and by clients,
- expected credit risk is mitigated by setting by the Bank legal collateral, credit margins and impairment allowance on loan exposures.

The above mentioned policies are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal *ratings* based requirements (IRB), i.e. advanced credit risk management method, which can be used while calculating capital requirements for credit risk after being approved by the Polish Financial Supervision Authority.

The Bank assesses the credit risk of retail clients on two levels: the client's borrowing capacity and creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves *scoring* and evaluating the client's credit history obtained from external sources and internal records of the Bank.

Credit risk relating to the financing of corporate clients is assessed on two levels: the client and the transaction. These assessments are based on the *ratings* of the client and the transaction. The so-called cumulative *rating* is a synthetic measure of credit risk. Since 1 September 2010, the Bank has implemented a *scoring* method of credit risk assessment of small and medium enterprises customers along with a dedicated IT application. This method is available next to the *rating* method. Its implementation resulted in shortening the assessment process of loan applications as well as improvement of credit risk management effectiveness. As a result of positive assessment of corporate client portfolio *scoring* in November 2011, the range of use of *scoring* has been extended.

In the first quarter of 2011 the Bank added to its *rating* system the identification of events of default, i.e. events whose occurrence, in the Bank's opinion, would make it impossible to collect receivables without using such measures as cashing the security or restructuring. The *rating* scale was extended as follows: 10 *rating* classes were introduced in place of the former 8 *rating* classes (7 classes of clients who are in compliance with their obligations and 3 classes of clients who are not in compliance) and, in principle, the conditions of availability of financing were maintained.

Information on *ratings* and *scoring* is widely used in the Bank for the purposes of credit risk management, the system of credit decision-making powers, determining the amounts above which independent credit assessment services are activated and in the credit risk assessment and reporting system.

In 2011 the EWS (Early Warning System – a tool for reducing the response time to warning signs indicating the elevated credit risk levels) application has been developed, in result of which in June 2011 the automatic identification of adverse events was implemented.

The Group's entities, whose activities are related to credit risk, reviewed and updated the regulations on credit risk management. Moreover, in KREDOBANK SA active efforts were continued to automate the lending process, including the assessment of credit risk based on IT tools.

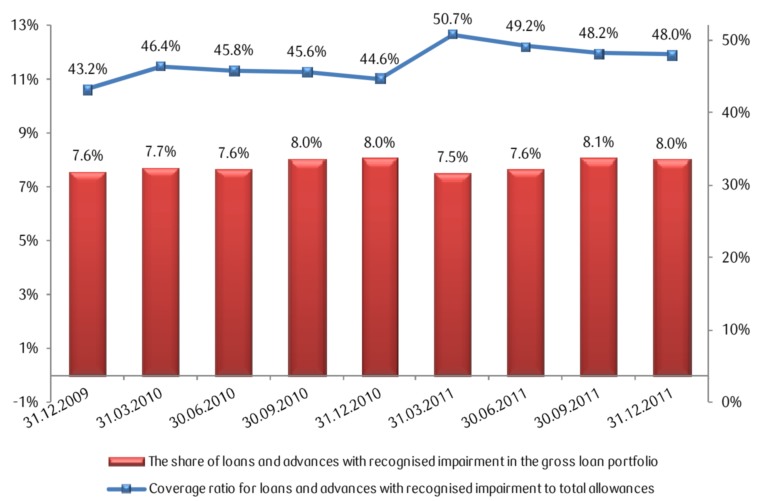
Table 24. The structure of loan portfolio and impairment allowances of the PKO Bank Polski SA Group (in PLN million)

	31.12.2011	31.12.2010	Change 2011/2010
Loans and advances to customers			
Valued with the individual method	6 549.4	6 562.4	-0.2%
Impaired, of which:	5 701.5	5 899.2	-3.4%
Receivables from finance leases	*142.2*	*125.6*	*13.2%*
Not impaired, of which:	847.8	663.1	27.9%
Receivables from finance leases	*89.5*	*155.4*	*-42.4%*
Valued with the portfolio method, of which:	6 095.7	4 987.9	22.2%
Impaired, of which:	6 095.7	4 987.9	22.2%
Receivables from finance leases	*107.9*	*102.1*	*5.6%*
Valued with the group method (IBNR), of which:	134 647.7	123 974.5	8.6%
Receivables from finance leases	*2 656.6*	*2 177.6*	*22.0%*
Loans and advances to customers - gross	**147 292.7**	**135 524.8**	**8.7%**
Allowances on exposures valued with the individual method	(2 079.6)	(1 766.0)	17.8%
Impaired, of which:	(2 079.6)	(1 766.0)	17.8%
Allowances on lease receivables	*(36.2)*	*(29.5)*	*22.6%*
Allowances on exposures valued with the portfolio method, of which:	(2 910.0)	(2 593.1)	12.2%
Allowances on lease receivables	*(60.1)*	*(48.0)*	*25.2%*
Allowances on exposures valued with the group method (IBNR), of which:	(668.6)	(497.6)	34.4%
Allowances on lease receivables	*(12.1)*	*(12.4)*	*-2.3%*
Allowances – total	(5 658.2)	(4 856.7)	16.5%
Loans and advances to customers – net	**141 634.5**	**130 668.1**	**8.4%**

In 2011, the value of gross loans granted by the Group and evaluated under the individual method decreased by PLN 13.0 million, and those evaluated under the portfolio method increased by PLN 1 107.7 million.

The chart below presents the share of impaired loans and their coverage ratio.

Chart 1. Share of impaired loans and advances for the PKO Bank Polski SA Group and the coverage ratio



The share of impaired loans and advances in the PKO Bank Polski SA Group's gross loan portfolio as at 31 December 2011 amounted to 8.0% and remained unchanged as compared to 31 December 2010 (see chapter 3.2).

Coverage ratio for impaired loans for the PKO Bank Polski SA Group as at 31 December 2011 amounted to 48.0%, compared with 44.6% as at 31 December 2010 (see chapter 3.2).

The Group entities, which have significant credit risk levels (KREDOBANK SA, the BFL SA Group, the BTK SA Group) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these entities.

Any changes to the solutions used by the Group subsidiaries are agreed every time with the Bank's units responsible for risk management.

The BFL SA Group, the BTK SA Group and KREDOBANK SA measure credit risk regularly and the results of such measurements are submitted to the Bank.

Appropriate organisational units of the Banking Risk Division participate in managing the credit risk in the Group's entities by giving their opinions on projects and periodically reviewing internal regulations of the companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group entities.

6.1.2 Interest rate risk

The interest rate risk is a risk of incurring losses on statement of financial position and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in the interest rates on the market.

The objective of interest rate risk management is to mitigate potential losses arising from market interest rate changes to an acceptable level by shaping the structure of balance and off-balance sheet items.

In the process of interest rate risk management, the Group uses the Value at Risk (VaR) model, interest income sensitivity measure, stress testing and a repricing gap.

Methods of interest rate risk management in the Group's entities are defined by internal regulations implemented by those entities which are characterised by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank for entities.

The PKO Bank Polski SA Group's exposure to interest rate risk as at 31 December 2011 and 31 December 2010 consisted mainly of the Bank's exposure. The interest rate risk for such currencies as PLN, EUR and CHF, generated by the Group entities, did not have a material influence on the interest rate risk of the whole Group and, as a result, did not change significantly its risk profile. Interest rate risk for USD was changed significantly by the exposure of the Group entities, in which the most significant exposure concerned KREDOBANK SA.

Table 25. VaR of PKO Bank Polski SA and stress tests of the Group's exposure to the interest rate risk (in PLN thousand)

Name of sensitivity measure	31.12.2011	31.12.2010
VaR for a 10-day time horizon*	62 661	39 004
Parallel movement of the interest rate curves by 200 b.p. (stress-test)	530 726	522 641

** Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to PLN 29 673 thousands as at 31 December 2011 and PLN 30 150 thousand as at 31 December 2010, respectively.*

As at 31 December 2011, the Bank's interest rate VaR for the holding period of 10 days amounted to PLN 62 661 thousand, which accounted for approximately 0.36% of the value of the Bank's own funds. As at 31 December 2010, VaR for the Bank amounted to PLN 39 004 thousand, which accounted for approximately 0.24% of the Bank's own funds (own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio).

6.1.3 Currency risk

Currency risk is the risk of incurring losses due to exchange rate changes, generated by maintaining open currency positions in a given foreign currency.

The objective of managing the currency risk is to reduce potential losses arising from exchange rate changes to an acceptable level by shaping the currency structure of balance and off-balance sheet items.

The Bank measures currency risk using the Value at Risk (VaR) model and stress tests.

Methods of currency risk management in the Group's subsidiaries are defined by internal regulations implemented by these entities. The regulations are developed by entities, for which currency risk measurement tools obtain a significant value, after consulting the Bank's opinion and taking into account recommendations issued to the entities by the Bank.

Table 26. VaR of PKO Bank Polski SA and stress tests of the Group's exposure to the currency risk, cumulatively for all currencies (in PLN thousand)

Name of sensitivity measure	31.12.2011	31.12.2010
VaR for a 10-day time horizon*	1 470	3 171
Change of CUR/PLN by 20% (stress test)**	17 210	8 109

** Due to the nature of the activities carried out by the other Group's entities generating significant currency risk as well as the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These entities apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR, which amounted to ca. PLN 467 thousand as of 31 December 2011 and ca. PLN 182 thousand as of 31 December 2010.*
*** The table presents the value of the most adverse stress test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%. Data as at the end of 2010 was brought to the comparability.*

The level of currency risk was low both as at 31 December 2011 and as at 31 December 2010.

Table 27. The Group's currency position for particular currencies (in PLN thousand)

Currency	Currency position as at 31.12.2011	Currency position as at 31.12.2010
EUR	83 153	(4 035)
GBP	50	48 073
CHF	(37 266)	(18 820)
USD	(180 781)	(78 916)
Other (global net)	11 630	11 257

6.1.4 Liquidity risk

The liquidity risk is a risk of the lack of the possibility to pay the debts on time due to the lack of liquid assets; lack of liquidity may arise from an inadequate structure of the statement of financial position, mismatch of cash flows, not received payments from contractors, sudden withdrawal of cash by clients or other market events.

The objective of liquidity risk management is to ensure the appropriate level of capital necessary to pay present and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of the statement of financial position and off-balance sheet liabilities.

The Group's policy concerning liquidity is based on keeping a portfolio of liquid securities and growth of stable sources of financing (in particular a stable deposit base). In its liquidity risk management policy, money market instruments, including NBP open market operations, are used.

Methods of liquidity risk management in the Group's entities are defined by internal regulations implemented by entities, for which currency risk measurement tools obtain a significant value. These regulations are developed after consulting the Bank and taking into account recommendations issued to the entities by the Bank.

The table below presents liquidity reserve as at 31 December 2011 and 31 December 2010:

Table 28. Liquidity reserve of PKO Bank Polski SA (in PLN million)

	31.12.2011	31.12.2010
Liquidity reserve to 1 month*	17 723	10 151

** Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.*

As at 31 December 2011, the level of permanent balances on deposits constituted approximately 94.8% of all deposits of the Bank (excluding interbank market), which is a decrease by ca. 0.4 pp. as compared to the end of 2010.

6.1.5 The price risk of equity securities

The price risk of equity securities is the risk of incurring a loss due to changes in the prices of equity securities on the public market or stock exchange indices, generated by maintaining open positions in instruments sensitive to changes in these market parameters.

The price risk of equity securities results from operations conducted as part of trading activities (DM PKO BP SA), investing activities and from other operations as part of banking activities generating a position in equity securities.

Managing the equity securities risk is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to a level acceptable to the Bank, by optimising the positions taken in instruments sensitive to changes in these market parameters.

An influence of the price risk of equity securities on the financial position of the Bank was assessed as immaterial. The positions taken in equity securities and index instruments are limited, and the Bank does not expect them to increase significantly.

6.1.6 Derivative instruments risk

The risk of derivative instruments is a risk of incurring losses arising from taking up by the Bank a position in financial instruments, which meet all of the following conditions:

- the value of an instrument changes with the change of the underlying instrument,
- the instrument does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms,
- the instrument is to be settled at a future date.

The process of derivatives management in the Bank is integrated with the management of interest rate, currency, liquidity and credit risks. However, due to the specific nature of derivatives it is subject to special control specified in the internal regulations of the Bank.

The Bank measures the derivative instruments risk using i.a. the Value at Risk (VaR) model.

Risk management is carried out by imposing limits on derivative instruments divided into trading and banking portfolios, monitoring the use of limits and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Banks Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreements (*CreditSupportAnnex*).

Methods of derivative instruments risk management in the Group's subsidiaries are defined by internal regulations implemented by entities which take positions in derivative instruments or plan to take positions in such instruments. These regulations are developed after consulting the Bank and taking into account the recommendations issued by the Bank for the entities.

6.1.7 Operational risk

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events.

The objective of operational risk management is to optimise operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the Group to events which are beyond its control.

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk. Systemic operational risk management is centralised at the PKO Bank Polski SA Head Office level. The ongoing operational risk management is conducted by every organisational unit of the Bank.

The main tools for managing the operational risk are as follows:

- control instruments,
- human resources management (staff selection, enhancement of professional qualifications of employees, motivation packages),
- setting threshold values of Key Risk Indicators (KRI),
- strategic tolerance limits and limits on operational risk losses,
- contingency plans,
- insurance,
- outsourcing,
- business continuance plans.

In 2011, the dominant impact on the operational risk profile of the Group was exercised by the following three entities: PKO Bank Polski SA, the BFL SA Group and KREDOBANK SA. The other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk. Group's subsidiaries manage operational risk according to principles of risk management in PKO Bank Polski SA, considering their specific nature and scale of activity.

In 2011 the process of unification of IT solutions for operating risk management at the BFL SA Group and at KREDOBANK SA was commenced.

On 21 June 2011 PKO Bank Polski SA obtained the consent of the Polish Financial Supervision Authority (PFSA) for applying statistical methods to calculate capital requirements for operational risk (AMA) as of 30 June 2011, with a temporary limitation (until the conditions set by the PFSA have been met) on the drop of the capital requirement by not more than up to a level of 75% of the requirement calculated under the standardised approach.

6.1.8 Compliance risk

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Group, employees of the Group or entities acting on its behalf to comply with the provisions of the law, internal regulations and standards adopted by the Bank, including ethical standards.

The objective of compliance risk management is to ensure the Group's compliance with law and adopted standards and the Group's acting as an entity that is reliable, fair and honest, through mitigating compliance risk, reputation risk or the Group's credibility and mitigating the risk of occurring financial losses or legal sanction risk resulting from breach of regulations and ethical standards.

Compliance risk management involves in particular:

- preventing involvement of the Group in illegal activities,
- ensuring data protection,
- development of ethical standards and monitoring of their application,
- conflict of interest management,
- preventing situations where the Group's employees could be perceived as pursuing their own interest in the professional context,
- professional, fair and transparent formulation of offers of products, advertising and marketing messages,
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

The rules concerning the process of compliance risk management adopted by all Group's entities is inherent within the PKO Bank Polski SA Group.

6.1.9 Strategic risk

The strategic risk is defined as a risk related to the possibility of negative financial consequences resulting from erroneous decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions to the direction of strategic development of the Bank.

Managing the strategic risk is aimed at maintaining, on an acceptable level, the negative financial consequences resulting from bad decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions to the direction of the strategic development of the Bank.

In measuring the strategic risk, the Bank takes into account an impact of selected types of factors, distinguished in the activity and in the environment, which comprise in particular:

- external factors,
- factors related to the growth and development of the banking activities,
- factors related to the management of human resources,
- factors related to investment activities,
- factors related to the organisation's culture.

6.1.10 Reputation risk

The reputation risk is defined as the risk related to a possibility of negative variations from the planned results of the Group due to the deterioration of the Group's image.

The objective of managing the reputation risk is to protect the Group's image and limit the probability of the occurrence and level of reputation-related losses.

Management of reputation risk in the Group comprises mainly preventive activities aimed at reducing or minimising the scale and the scope of image-related events, as well as selection of effective tools for protective measures aimed at eliminating, mitigating or minimising the unfavourable effect of image-related events on the Group's image.

6.1.11 Capital adequacy

Capital adequacy is the maintenance of own funds by the PKO Bank Polski SA Group which exceeds capital requirements (the so-called Pillar 1) and internal capital requirements (the so-called Pillar 2).

The objective of capital adequacy management is to maintain capital on a level that is adequate to the risk scale and profile of the Group's activities.

The process of managing the Group's capital adequacy comprises:

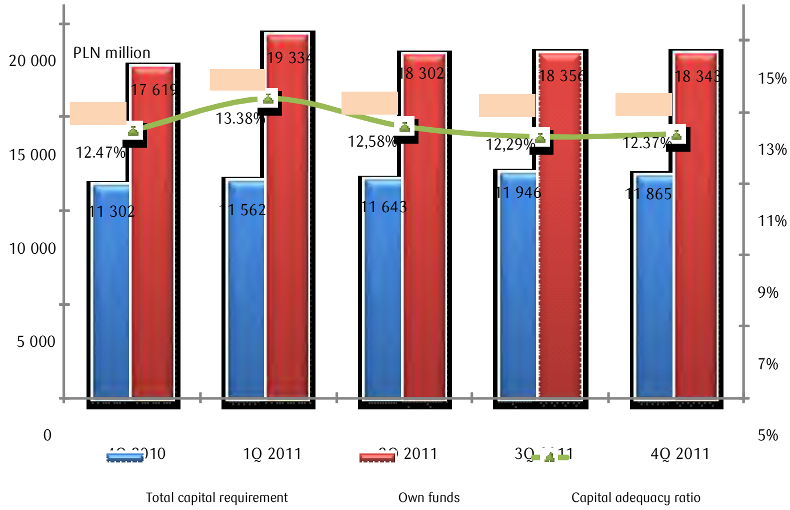
- identifying and monitoring significant types of risks,
- assessing internal capital to cover the individual risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business segments, client segments and entities in the Group in connection with profitability analyses,
- using tools affecting the capital adequacy level (of which: tools affecting the level of equity, the scale of equity item reductions and the level of the loan portfolio).

The main measures of capital adequacy are:

- the capital adequacy ratio, of which minimum level in accordance with the Banking Law is 8%,
- the ratio of equity to internal capital, of which acceptable minimum level in accordance with the Banking Law is 1.0.

The capital adequacy level of the PKO Bank Polski SA Group in 2011 remained on a safe level and was significantly above the statutory limits.

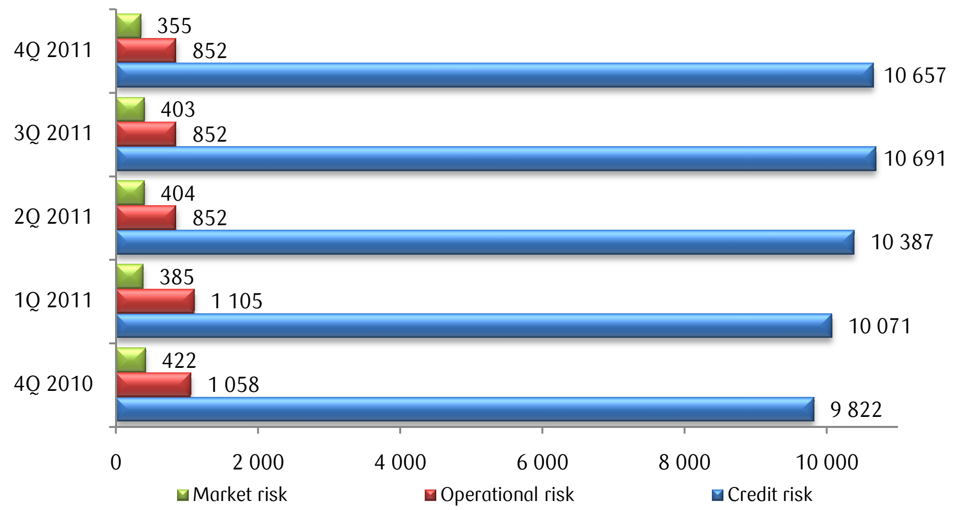
Chart 2. Capital adequacy of the PKO Bank Polski SA Group[9]



As at 31 December 2011 compared with 31 December 2010, the Group's capital adequacy ratio dropped by 0.1 pp. to 12.37%, as a result of a deeper increase in the Group's total capital requirement (+5.0% y/y) compared with the increase in the Group's own funds (+4.1% y/y). As at 31 December 2011 compared with 31 December 2010, the Group's total capital requirement increased by PLN 562.9 million, mainly as a result of an increase in the capital requirement in respect of credit risk (the effect of the growth of the loan portfolio) while the Group's own funds increased by PLN 724.4 million, mainly as a result of an increase in the Group's reserve capital.

The Group calculates capital requirements in accordance with PFSA Resolution No. 76/2010 of 10 March 2010 with subsequent amendments[10]: in respect of credit risk – the standardised approach, in respect of the Bank's operational risk – the advanced approach (AMA) as of 30 June 2011 taking into account the above mentioned limitations imposed by PFSA and the additional requirement in respect of activities of the Group's entities – the basic index approach, in respect of market risk – the basic approach.

Chart 3. Capital requirements of the PKO Bank Polski SA Group (in PLN million)



[9] *Own funds for the purposes of capital adequacy is calculated in accordance with the provisions of the Banking Law and Resolution of the Polish Financial Supervision Authority No. 325/2011 of 20 December 2011 on deductions from own funds, their amount, their scope and conditions of their deduction from a bank's own funds, other financial position statement items included in supplementary capital, their amount, their scope and the conditions of their inclusion in bank's supplementary capital, deductions from supplementary capital, their amount, their scope and conditions of their deduction from supplementary capital and the scope and manner of treating the activity of banks that are members of conglomerates in calculating own funds (Official Journal of PFSA No. 13*), item 49 of 30 December 2011).*

[10] *Amendments to the Resolution 76/2010 were introduced by the following PFSA Resolutions: No. 369/2010 of 12 October 2010, No. 153/2011 of 7 June 2011, No. 206/2011 of 22 August 2011 and No. 324/2011 of on 20 December 2011.*

The decrease of market risk capital requirement by 15.8% to PLN 355.3 million was mainly due to the decrease of liabilities due to corporate bonds underwriting agreements with a simultaneous increase of the corporate bonds' value (total decrease of bonds' requirement by ca. 29%).
The Bank capital requirement in respect of operational risk for the first half of 2011 was calculated under the standardised approach (TSA). On 21 June 2011, the Bank obtained approval from the PFSA to apply the AMA approach, with a temporary (until the conditions set by the PFSA have been met) limitation on the drop of the capital requirement by not more than up to a level of 75% of the requirement calculated under the standardised approach (TSA).
In 2011 the requirement in respect of operational risk for the Group decreased by PLN 205.8 million to the amount of PLN 852.1 million. The additional capital requirement in respect of operational risk of the Group's entities activity in 2011 was calculated under the basic indicator approach (BIA).

6.2 Human resources management

6.2.1 Incentive system in PKO Bank Polski SA

PKO Bank Polski SA has a remuneration and incentive system, in which the level of variable component of the salary is determined by the degree of achievement of the targets set. The procedure for target setting and performance measures used depends on the type of position and classification to one of the three employee groups: management, widely understood sales and processing-support. The system is based mainly on the Management by Objectives (MbO) model. As the individual remuneration is linked with the level and quality of performance of the tasks specified, the variable component of the remuneration is strengthened and represents an additional salary incentive. The system focuses on setting objectives which are aligned with the direction of development of the entire organisation; these tasks are then cascaded to particular organisational units and individual employees.

Three pillars of the remuneration and incentive system:

I Pillar, the so-called Management by Objectives (MbO) covers managers for which specific individual objectives may be assigned. The MbO consists of granting bonuses which depend on the quality and degree of completion of the tasks assigned and is the system which focuses on: determining performance indicators, assessing performance against the targets assigned, granting bonuses depending on performance.
II Pillar, the so-called Individual Bonus System (IBS), is the system of bonuses which depend on the degree of completion of specific tasks in the areas of sales and effectiveness. The system covers those employees who are completing business tasks, mainly in retail branches and corporate centres, where individual or team, measurable targets can be defined or where there is a strong causal link between activities undertaken by individual employees and the level of achievement of the economic and financial results of the Bank.
III Pillar, the so-called Support Bonus System (SBS), includes other employees not covered by the system MbO and IBS. This is a typical 'participatory' solution, whereby award is granted for the achievement of targets
by a person managing a given group of employees (a directors' contribution to the completion of tasks) and a unit. Given the nature of their jobs, such employees have an indirect, but significant impact on the degree of completion of the tasks assigned to their superiors and the organisation as such, and thus participate in the results achieved by the Bank. It is also possible to define separate team targets (for an internal organisational unit). In this case, the Support Bonus System is a bonus which depends on the quality and degree of completion of the tasks assigned to a team – solidarity-related targets.

6.2.2 Remuneration policy

The basic internal regulation regard of remuneration policy is the Collective Labour Agreement (ZUZP) concluded with the company trade union organisations on 28 March 1994 (with subsequent amendments), under which employees of the Bank receive the following remuneration components:

– the base remuneration,
– additional remuneration for working overtime, as well as under conditions which are especially onerous and detrimental to health,
– long service bonuses,
– one-off cash bonuses in connection with retiring on a pension or a disability pension due to a complete or partial inability to work,

and in addition, based on the separate resolutions passed by the Management Board of the Bank as a result of a recommendation of ZUZP in consultation with the trade union organisations, bonuses and awards for special achievements in work.

Up until 2010, annual bonuses for the results of operations achieved by the Bank were paid on the basis of a resolution of the Bank's Management Board. As a result of consultation with the trade union organisations, the annual bonus was cancelled, and the funds budgeted for paying the bonus for the 2011 results were earmarked for:

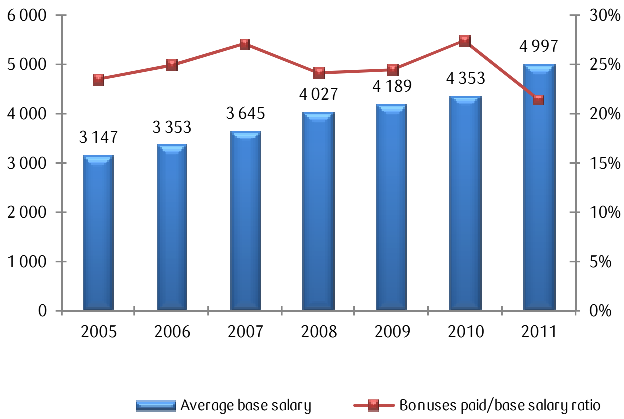
- increasing the employees' base salary from 1 May 2011,
- paying one-off additional remuneration in an amount corresponding to a proportionate recalculation of the bonus funds for the period from 1 January to 30 April 2011.

As a result of the above mentioned consultation, an additional protocol to ZUZP was signed, deleting the provisions relating to the bonus.

In 2011, a unified employee remuneration system was also implemented, based on the values of individual workplaces, which was aimed at: creating a transparent remuneration policy, the rational planning and spending of funds earmarked for base salaries, and encouraging the employees to plan their own development in a more conscious manner.

All positions were grouped according to their role in the implementation of the Bank's business strategy by comparing and valuing the scope of tasks and competencies. Individual groups were assigned market pay reference levels.

Chart 4. Average base salary and bonuses paid/base salary ratio (in PLN)



Change in the level of the base remuneration in 2011 results from the inclusion of bonus to the base remuneration starting from 1 May 2011.

6.2.3 Benefits for employees

Medical care

The Bank ensures its employees additional, besides occupational health services (resulting from the regulations of the Polish Labour Code), medical care owed to employees according to various packages, addressed to particular groups of jobs as well. All packages enabled employees to have unlimited number of doctors' consultations in all areas of specialisation and to diagnostic tests ordered by them.

In 2011, the medical care for the employees was extended to include a health promotion programme called 'Zdrowie jak w Banku', covering, amongst others, a preventive health check and activities directed at health-oriented education and promoting a healthy life style.

Providing broad range of charge medical services for all employees constitutes a significant element of additional benefits provided for the employed in the Bank.

Social benefits

Table 29. Benefits granted by the Company Social Benefits Fund in 2011 to employees of PKO Bank Polski SA and former employees (pensioners, people receiving pre-retirement benefits) and members of their families

Items	Number of beneficiaries	Total money granted in PLN
Refundable benefits*	5 361	72 260 200
Non-refundable benefits**	47 216	21 482 377
Total	52 577	93 742 577

** Mortgage loans.*

*** Including aids, organised and non-organised holidays subsidies, promotion of education, cultural and sport activities, writing off loans and other non-refundable aid.*

6.2.4 Number of employees

As at 31 December 2011, employment in the PKO Bank Polski SA Group amounted to 28 924 full-time positions, which is a drop of 857 positions y/y. Employment in other (apart from PKO Bank Polski SA) Group entities increased by 5 positions, while the increase in employment concerned companies: BTK SA Group, Qualia Development Sp. z o.o. Group, CEUP eService SA, Fort Mokotów Inwestycje Sp. z o.o., Finansowa Kompania Prywatne Inwestycje Sp. z o.o. The biggest drop in employment concerned KREDOBANK SA and was the result of restructuring activities related to the optimisation of the KREDOBANK SA branch network, resulting, i.a. in a reduction of employment.

Table 30. Number of employees in PKO Bank Polski SA and other Group companies (in number of full-time equivalents)

Entities	31.12.2011	31.12.2010	31.12.2009	Change in employment (full-time equivalent) 2011/2010
PKO BP SA	25 908	26 770	27 846	(862)
Other Group entities	3 015	3 010	3 252	5
Total	28 924	29 780	31 098	(857)

As at 31 December 2011, PKO Bank Polski SA employed 26 453 persons (25 908 full-time equivalents). In the course of 2011, layoffs for reasons unrelated to the employees affected 1 253 people.

Group layoffs conducted in 2011 in the Bank resulted from the following reasons:

– the increase in the work effectiveness of the Bank's employees,
– adopting the number of employees to the changes in the manner or scope of tasks realised in the Bank's particular organisational entities and in the organisational units of the Head Office,
– implementing organisational changes, including the centralisation of functions and processes resulting in changes of the scope of tasks realised,
– implementing new IT technologies supporting cost reduction activities,
– needs of employment restructuring to adopt the qualification of the employed to changes in the manner of performing and in the quality of tasks realised by the Bank's organisational entities.

6.2.5 Training policy

In 2011, the training activities supported the pursuit of the Bank's strategic objectives, by supporting the development of the employees, providing standardised tools for analysing their needs and effectiveness, as well as on-going professional training for the employees.

The issues covered during training courses were focused on developing the professional competencies of the employees, in particular for:

– supporting campaigns for the implementation of new products,
– implementing modern customer service standards,
– building a culture of a learning organisation creating conditions for a positive attitude to changes and identification with the Bank's strategic objectives, team work and a feeling of responsibility and commitment.

Conducting the training courses was supported by an appointed team of internal trainers within the structures of the area of retail, corporate and investment banking. Establishing the trainer structures was aimed at ensuring a significant increase in the effectiveness of the functioning of training courses in the Bank and implementing system solutions relating to internal training courses in the organisation, as well as ensuring the standardisation of knowledge, an increase in skills relating to sales techniques, and a significant improvement in the quality of customer service by the Bank's employees within the Bank's network.

All employees of the Bank took part in training courses carried out in 2011. These training courses were conducted in the following forms:

- in-house, as internal or external trainings,
- *e-learning* – on average one employee took part in 13 this type of training courses.

In 2011, the Bank carried out the 'Akademia Menedżera' project that is a comprehensive programme for the development of managerial skills in the form of workshops and training courses, co-financed by the European Union as part of the European Social Fund. The 'Akademia Menedżera' was a response to strategic challenges included in the Bank Development Strategy 'Lider' planned for the years 2010-2012.

The aim of the project is to ensure an increase in management competencies which translates into an improvement in the Bank's operation, including:

- supporting the implementation of Bank Development Strategy for the years 2010-2012,
- orientation management towards innovation and effectiveness,
- expanding skills which improve communication, the organisation of work and managing teams of employees, and developing tools supporting team management,
- shaping attitudes among managers directed at meeting customer needs, building long-term relationships and improving the quality of service.

The Academy of Competence programme was launched as a competence development programme directed at the key managers of PKO Bank Polski SA – TOP 150. The programme is addressed to the managers responsible for the most essential tasks from the perspective of the implementation of the strategy 'Lider' 2010-2012. The aim of the programme is to support top management in improving their skills in the area of leadership. The programme will be continued in 2012.

7. CORPORATE GOVERNANCE

7.1 Information for investors

7.1.1 Share capital and shareholding structure of PKO Bank Polski SA

As at 31 December 2011, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and consisted of 1 250 000 thousand shares with nominal value of PLN 1 each – shares are fully paid. In relation to the end of 2010 there were no changes in the share capital of PKO Bank Polski SA. All issued shares of PKO Bank Polski SA are not preferred shares.

Effective 24 November 2011, 197 500 000 registered A series shares of the Bank were converted into bearer shares. The conversion was performed as a result of the request of the shareholder – the State Treasury for an exchange and due to an amendment to the Bank's Memorandum of Association by means of Resolution No. 26/2011 of the Ordinary General Shareholders' Meeting of the Bank dated 30 June 2011 on amending the Bank's Memorandum of Association. The Bank's other A series shares (312 500 000 shares) still have the status of registered shares.

Table 31. Share capital structure in PKO Bank Polski SA

Series	Type of shares	Number of shares	Nominal value of 1 share	Issue amount by nominal value
Series A	ordinary, registered shares	312 500 000	PLN 1	PLN 312 500 000
Series A	ordinary, bearer shares	197 500 000	PLN 1	PLN 197 500 000
Series B	ordinary, bearer shares	105 000 000	PLN 1	PLN 105 000 000
Series C	ordinary, bearer shares	385 000 000	PLN 1	PLN 385 000 000
Series D	ordinary, bearer shares	250 000 000	PLN 1	PLN 250 000 000
		1 250 000 000		**PLN 1 250 000 000**

To the best knowledge of PKO Bank Polski SA, there are two shareholders that hold, directly or indirectly, significant shareholding (at least 5%): the State Treasury and Bank Gospodarstwa Krajowego (BGK), holding as at 31 December 2011, respectively 512 406 277 and 128 102 731 of PKO Bank Polski SA's shares.

The share of the State Treasury and BGK in the share capital of PKO Bank Polski SA amounts, respectively, to 40.99% and 10.25% and matches the percentage share in the total number of votes at the General Shareholders' Meeting of PKO Bank Polski SA.

Table 32. Shareholding structure of PKO Bank Polski SA

Shareholders	As at 31.12.2011		As at 31.12.2010		Change in the number of votes on GSM (pp.)
	Number of shares	Share in the votes on GSM	Number of shares	Share in the votes on GSM	
The State Treasury	512 406 277	40.99%	512 406 277	40.99%	0.00
Bank Gospodarstwa Krajowego	128 102 731	10.25%	128 102 731	10.25%	0.00
Other shareholders	609 490 992	48.76%	609 490 992	48.76%	0.00
Total	1 250 000 000	100.00%	1 250 000 000	100.00%	0.00

7.1.2 Information concerning dividend

On 30 June 2011, General Shareholders' Meeting of PKO Bank Polski SA took up resolution concerning dividend payout for the year 2010 in the amount of PLN 1.98 per share. List of shareholders entitled to receive dividend for the year 2010 was set on 31 August 2011 and the dividend was paid out on 15 September 2011.

The dividend policy assumes that the Management Board recommends that the General Shareholders' Meeting adopt resolutions concerning the payment of the dividend, taking into account the factors specified below, in an amount representing ca. 40% of the separate net profit of the Bank for a given financial year.

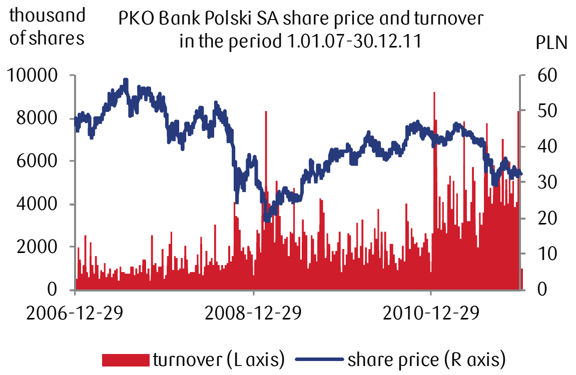
The overall assumption behind the Bank's policy for the payment of the dividend is that payments are made in proportion to the amount of the profit generated and the Bank's financial capabilities. When putting forward proposals concerning the payment of the dividend, the Management Board is guided by the need to ensure an appropriate level of the capital adequacy ratio of the Group and the capital necessary for developing its activities.

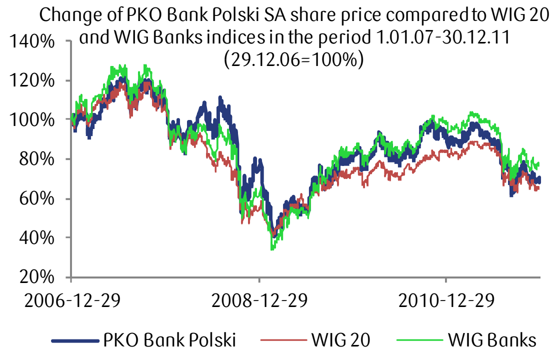
However, the policy for the payment of the dividend may, if necessary, be reviewed by the Management Board, and decisions in this matter will be made taking into account several different factors relating to the Group, including the prospects for its future activities, future profits, cash needs, financial position, the level of the capital adequacy ratio, expansion plans and the legal requirements in this regard. Each time the final decisions on the payment of the dividend are made by the General Shareholders' Meeting.

7.1.3 Share price of PKO Bank Polski SA at Warsaw Stock Exchange

Share price of PKO Bank Polski SA

In 2011, the share price of PKO Bank Polski SA was mainly determined by situation on the Warsaw Stock Exchange (GPW).





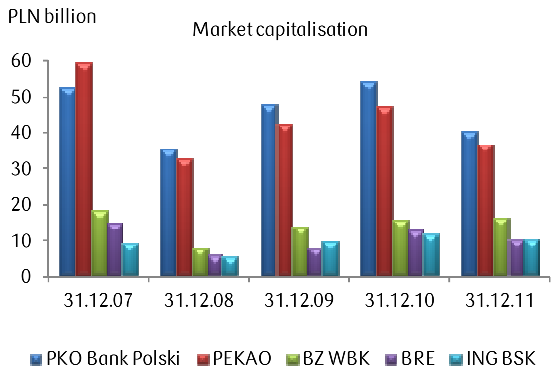
In 2011:

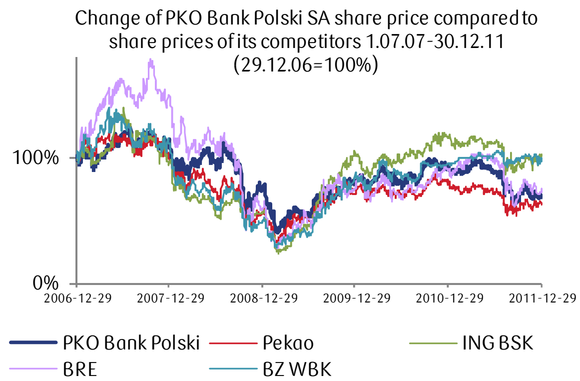
- the price of PKO Bank Polski SA shares decreased by 25.9% (PLN -11.23) from PLN 43.35 at the end of 2010 to PLN 32.12 at the end of 2011,
- the average price of the Bank's shares amounted to PLN 39.05 per share and was lower by 4.1% (PLN -1.67) than in 2010,
- the share price fluctuated in the range from PLN 46.30 (13.04) to PLN 29.22 (12.09),
- the average daily volume of trading in the Bank's shares amounted to 3 002 thousand shares and fluctuated from 449 thousand shares (29.04) to 9 259 thousand shares (10.01).

In 2011, the share prices of the companies listed on the Warsaw Stock Exchange significantly fluctuated with a clear downward trend, which is illustrated by a drop in the WIG and WIG20 indices of 20.8% and 21.9% per annum respectively. This was mainly due to sales on the international financial markets, especially in the second half of the year, as a result of the crisis deepening in the euro zone and the deteriorating economic activity in Europe, as well as serious problems in the US economy.

In 2011, the price of PKO Bank Polski SA's shares recorded a relatively bigger drop compared with the other largest banks (the WIG Banks index decreased by 21.7%), which, in the light of the above-mentioned factors, was due to the high liquidity of the shares and the fact that the relatively larger blocks of the Bank's shares are held in the portfolios of foreign institutional investors. In addition, the trends in the price of PKO Bank Polski SA's shares in 2011 were affected by the publication of information about the planned public offering of the Bank's shares by the State Treasury and BGK, which may have prevented investors from purchasing the shares.

Share prices and market capitalisation of PKO Bank Polski SA and market competitors





7.1.4 Assessment of financial credibility of PKO Bank Polski SA

Currently, the financial reliability ratings of PKO Bank Polski SA are awarded by three leading rating agencies:

– *Moody's Investors Service* assigns a *rating* to the Bank at a charge, in accordance with its own bank assessment procedure,
– *Standard & Poor's* and *Fitch Ratings* assign a free-of-charge *rating* (not ordered by the Bank), on the basis of publicly available information, including primarily interim and annual reports, and information on the Bank made available during direct contacts of representatives of the agency with the Bank.

Ratings awarded to Bank by above mentioned agencies did not change in 2011.

Table 33. Ratings as at 31 December 2011

Rating with a charge	
Moody's Investors Service	
Long-term rating for deposits in foreign currencies	A2 with a stable perspective
Short-term rating for deposits in foreign currencies	Prime-1 with a stable perspective
Long-term rating for deposits in a domestic currency	A2 with a stable perspective
Short-term rating for deposits in a domestic currency	Prime-1 with a stable perspective
Financial strength	C- with negative perspective
Rating not requested by the Bank	
Fitch Ratings	
Support Rating	2
Standard and Poor's	
Long-term rating for liabilities in a domestic currency	A-pi

On 3 November 2011, the international rating agency *Standard & Poor's* granted KREDOBANK SA following ratings:

– long-term credit rating on the international scale – 'B-',
– forecast - 'Stable',
– short-term credit rating on the international scale - 'C',
– rating on the Ukrainian scale - 'uaBBB-'.

7.1.5 Investor relations

In 2011, the Bank's investor relation activities focused on the following areas:

– building a positive image of PKO Bank Polski SA as a reliable and transparent company among the existing and potential investors, financial market analysts and rating agencies, through the use of various market communication tools,
– fulfilling the information duties of the Company as an issuer of securities, as required by the law,
– organising the General Shareholders' meeting and providing information to the Bank's shareholders,
– ensuring the Bank's cooperation with appropriate governmental bodies, organisations and capital market institutions in connection with the Bank's presence on the public securities market.

As part of market communication:

– after each quarter end, the Bank's and the Group's financial performance was presented by the Bank's Management Board in a meeting with capital market and debt securities analysts, organised on the Bank's premises, and during a teleconference in which ca. 65 analysts and representatives of investors participated each time,
– members of the Management Board of the Bank and the key management regularly participated in meetings (and teleconferences) with investors and analysts, both on the Bank's premises and in investor conferences. In 2011, there were ca. 80 meetings on the Bank's premises, ca. 100 meetings during 8 investor conferences and 6 *roadshow* projects and ca. 80 teleconferences. However, in assessing the Bank's activity it should be taken into account that in 2011, especially in the third quarter, the participation of the Bank's representatives in investor conferences was limited due to the planned public offering of the Bank's shares by the State Treasury and BGK,
– the Investor Relations Office maintained on-going contacts with analysts and investors, both institutional and individual, by answering many questions asked by telephone or e-mail and relating to business operations and financial performance of PKO Bank Polski,
– the Bank immediately published all information relevant to investors and the Bank's shareholders on the website of the Investor Relations Office: www.pkobp.pl.

These activities were aimed at providing comprehensive information on the Bank's financial performance and activities, in the context of the changes in market environment, to enable a sound assessment of the Bank's current position and outlook and the correct valuation of the Bank's securities.

PKO Bank Polski SA makes every effort to ensure the ultimate quality of periodic reports - so that they present the Bank's results in a complete and transparent manner and are as useful as possible to institutional investors, analysts and individual shareholders. In October 2011 the Accounting and Taxation Institute honoured the Annual Report of PKO Bank Polski SA for the year 2010 with the Main Prize in '*The Best Annual Report'* competition in the category 'Banks and financial institutions'. Winning the competition is a proof of the Report's highest value in use for shareholders and investors. In the competition the Bank received also an honourable mention in the category: 'Directors' report'. The aim of '*The Best Annual Report'* competition is the creation of recognised standards of annual reports' preparation according to IFRS/IAS, in accordance with IFAC recommendations and good practices in this area.

7.2 Compliance with the rules for corporate governance

7.2.1 The rules for corporate governance and the scope of use

PKO Bank Polski SA Bank applies the rules for corporate governance introduced in the form of a document 'Good Practices of Warsaw Stock Exchange Companies' approved by the Supervisory Board of the Warsaw Stock Exchange SA on 4 July 2007 (Resolution No.12/1170/2007) with subsequent amendments.

The above mentioned document on corporate governance rules is publicly available at the website: www.corp-gov.gpw.pl, which is the official site of Warsaw Stock Exchange in the topic of corporate governance of companies listed on Warsaw Stock Exchange.

In 2011, the Bank took necessary actions with an aim to fully obey the rules included in the document 'Good Practices of Warsaw Stock Exchange Companies'.

In the opinion of the Management Board in 2011 PKO Bank Polski SA did not depart from application of rules specified in the above mentioned document.

On 19 May 2010, the Warsaw Stock Exchange SA (by Resolution of the Supervisory Board of the WSE No. 17/1249/2010) introduced changes in the 'Good Practices of Companies Listed on the WSE'. One of the changes (discussed in point 10 of Chapter IV) related to enabling the shareholders of companies listed on the WSE to participate in general shareholders' meetings using electronic communication tools, starting from 1 January 2012 at the latest. This principle was covered by the obligation to apply it in accordance with the formula '*comply or explain'*. Adopting the application of this good practice by PKO Bank Polski SA required introducing changes in the Bank's Memorandum of Association and in the Rules and Regulations of the General Shareholders' Meeting before the above-mentioned date, so as to enable general shareholders' meetings to be conducted using electronic communication tools. In order to enable this rule to be complied with, the Bank's Management Board in the draft resolutions submitted for consideration by the Annual General Shareholders' Meeting convened for 30 June 2011, proposed draft resolutions of the General Meeting concerning changes in the Bank's Memorandum of Association and changes in the Rules and Regulations of the General Meeting, which would enable General Meetings to be conducted using electronic communication tools. None of the above resolutions was passed at the Annual General Meeting held on 30 June 2011.

Based on the amendment to the 'Good Practices of Companies Listed on the WSE' introduced by a resolution of the Supervisory Board of the WSE of 31 August 2011 (No. 15/1282/2011), the deadline for applying the principle referred to above was rescheduled for one year later, and should therefore be applied starting from 1 January 2013 at the latest.

7.2.2 Control systems in financial statements preparation process

7.2.2.1 Internal control and risk management

Internal control system being in force in PKO Bank Polski SA is an element of the Bank management function, and which is composed of the following items: control mechanisms, compliance of Bank's operations with binding laws and internal regulations of the Bank and internal audit. The system of controls is complemented by functional internal control.

Internal control system covers the whole Bank, including organisational entities, organisational units of the Head Office and subsidiaries included in the PKO Bank Polski SA Group.

The objective of the internal control system is to support management of the Bank, including decision processes which contribute to ensuring the following: the Bank's effectiveness and efficiency, truth and fairness of its financial reporting and the compliance of Bank's operations with binding laws and internal regulations of PKO Bank Polski SA. Within the system of internal control the Bank identifies risk: connected with every action, transaction, product and process, resulting from the organisational structure of the Bank and the Group.

Control mechanisms are aimed at ensuring that all tasks and activities at the Bank are performed correctly.

The Bank's organisational units and Head Office's units are obliged to perform their tasks in accordance with the generally applicable law and the Bank's internal rules and regulations. The compliance is checked during internal functional inspections and verified independently by the Internal Audit Department in the course of its audits.

The functional internal control function in the Bank is exercised in the following manner:

– at the stage of legislative works, by providing compliance of internal regulations with generally binding laws, including defining adequate control mechanisms within internal regulations which guarantee a proper execution of processes and tasks,
– by employees in the course of their activities concerning the scope of business of organisational teams and units,
– at the stage of verification, by management and persons authorised by above mentioned employees, the correctness of performed tasks by employees, especially its compliance with binding laws and regulations, internal regulations and prudence norms.

General principles, described above, are also used in the process of financial statements preparation.

The operation of internal control system and risk management in respect of the process of preparation of the financial statements is based on:

– control mechanisms embedded in the functionality of the reporting systems and
– on the on-going verification of compliance with the books of accounts and other documents underlying the financial statements and with the binding laws concerning accounting principles and financial statements preparation.

The process of the preparation of the financial statements is subject to cyclical multi-level functional control, in particular concerning the correctness of accounting reconciliations, merit-based or substantial analysis or truth and fairness of financial information. In accordance with the internal regulations, the financial statements are accepted by the Management Board of PKO Bank Polski SA and the Supervisory Board's Audit Committee established by the Supervisory Board of PKO Bank Polski SA in 2006.

Information included in the financial statements is prepared in accordance with International Financial Reporting Standards, after taking into account all data available.

Information concerning objectives and risk management policies as well as quantitative information relating to individual risk types is included in annual and interim financial statements. The information referred to above comprises:

– credit risk (including the risk of concentration and financial institutions' credit risk),
– market risk (including interest rate, currency, liquidity risks as well as securities price and derivative risks),
– operational risk,
– compliance risk,
– strategic risk,
– reputation risk,
– capital adequacy.

On an annual basis, in a separate non-financial reporting document, disclosed is the full scope of information relating to capital adequacy, in accordance with Resolution No. 385/2008 with subsequent amendments of the Polish Financial Supervision Authority. At the website of the PKO Bank Polski SA (in the section 'Investor Relations') the last report 'Capital Adequacy and Risk Management (Pillar III) in the PKO Bank Polski SA Group as at 31 December 2010' is available.

7.2.2.2 Entity authorised to audit financial statements

Auditor rotation rules applicable in PKO Bank Polski SA

In accordance with Appendix to the Resolution of the Bank's Supervisory Board on the rules for selecting an auditor, Section 2 The selection of an auditor, § 3 clause 5, PKO Bank Polski SA applies the following rules:

It is assumed that:

1. the maximum period of uninterrupted cooperation with the same audit company is 6 years,
2. contracts for audits and reviews of the financial statements are concluded for the maximum period of 3 years,
3. an audit company may perform an audit of the financial statements again after the period of at least 3 years.

Information concerning the agreement concluded with the entity authorised to audit financial statements

On 28 March 2011, the Supervisory Board of PKO Bank Polski SA selected *PricewaterhouseCoopers Sp. z o.o.* as the entity authorised to audit and review the Bank's financial statements and the consolidated financial statements of the Bank's Group. *PricewaterhouseCoopers Sp. z o.o.* with its registered office in Warsaw, Al. Armii Ludowej 14, has been entered to the list of registered auditors maintained by the National Council of Registered Auditors with No. 144. The Bank's Supervisory Board appointed the auditor authorised to audit and review financial statements in accordance with applicable laws and professional requirements, on the basis of § 15 clause 1 point 3 of the Bank's Memorandum of Association.

On 14 April 2011, PKO Bank Polski SA concluded a contract with *PricewaterhouseCoopers* Sp. z o.o., an entity authorised to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended respectively 31 December 2011, 2012 and 2013 and for a review of standalone and consolidated financial statements for the six-month periods ended respectively 30 June 2011, 2012, 2013. In the past, the Bank used the services of *PricewaterhouseCoopers Sp. z o.o.* for the purpose of auditing and reviewing the financial statements of PKO Bank Polski SA and the PKO Bank Polski SA Group for the years 2008-2010, and for related services.

Total fees payable to *PricewaterhouseCoopers Sp. z o.o.* under the contracts concluded by PKO Bank Polski SA amounted to PLN 5 080.5 thousand net for the financial year of 2011 and of PLN 2 765.9 thousand net for the financial year of 2010.

Table 34. Fee for the entity authorised to audit financial statements (in PLN thousand)

No.	Title	2011	2010
1.	Audit of standalone and consolidated financial statements	1 140.0	1 140.0
2.	Authenticating services, including a review of financial statements	1 910.0	560.0
3.	Tax consulting services	0.0	0.0
4.	Other services	2 030.5	1 065.9
	TOTAL	**5 080.5**	**2 765.9**

7.2.3 Shares and shareholders of PKO Bank Polski SA

To the best knowledge of PKO Bank Polski SA, there are two shareholders that hold, directly or indirectly, significant shareholding (at least 5%): the State Treasury and Bank Gospodarstwa Krajowego, holding directly as at 31 December 2011, respectively 512 406 277 and 128 102 731 of PKO Bank Polski SA's shares.

The share of the State Treasury and BGK in the share capital of PKO Bank Polski SA amounts, respectively, to 40.99% and 10.25% and matches the percentage share in the total number of votes at the General Shareholders' Meeting of the PKO Bank Polski SA.

On 21 April 2010, the State Treasury and Bank Gospodarstwa Krajowego concluded an agreement for cooperation in the joint exercise of the ownership rights arising from holding shares.

Special control rights are not resulting from PKO Bank Polski SA securities for their holders.

The public offering of sale of the Bank's shares by the State Treasury and BGK planned in 2011

1. On 19 April 2011, the Management Board of PKO Bank Polski SA informed that it had received a letter from the State Treasury and from BGK acting as shareholders of the Bank, informing of the State Treasury's and BGK's intention to sell the Bank's shares, and containing a request for commencing activities aimed at preparing the Bank for participation in the transaction. The shareholders intending to sell shares assumed that the transaction would take the form of a public offering, which would require preparing a prospectus and its approval by the Polish Financial Supervision Authority. According to the initial assumptions the transaction was to be executed in September 2011. Therefore, on 19 April 2011 the Bank's Management Board took the decision to undertake actions aimed at preparing the Bank for participation in the transaction.
2. On 18 July 2011, the application for the approval of the Bank's prospectus prepared in connection with a public offering for sale of up to 190 602 731 of the Bank's shares (i.e. up to 15.25% of the Bank's share capital) and seeking approval for the admission and introduction of 197 500 000 A-series shares of the Bank to trading on the primary market at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie SA) was filed with the Polish Financial Supervision Authority (PFSA). In accordance with the Prospectus, the Bank's shareholders, i.e. Bank Gospodarstwa Krajowego and the State Treasury, were about to offer jointly up to 165 602 731 A and D-series ordinary bearer shares of the Bank with PLN 1 nominal value each (i.e. up to 13.25% of the Bank's share capital), where BGK was about to offer up to 128 102 731 D-series ordinary bearer shares (i.e. 10.25% of the Bank's share capital) and the State Treasury up to 37 500 000 A-series ordinary bearer shares (i.e. up to 3% of the Bank's share capital).
3. Not later than on the date of setting the share selling prices and the final number of the shares offered, the State Treasury could decide to offer additional 25 000 000 A-series ordinary bearer shares (i.e. up to 2% of the Bank's share capital). Due to the above, the maximum number of shares sold as part of the public offering could be 190 602 731 ordinary bearer shares with a PLN 1 nominal value each (i.e. 15.25% of the Bank's share capital).
4. The application and the prospectus also deal with the admission of 197 500 000 A-series ordinary bearer shares with PLN 1 nominal value each to trading on the regulated market. Before implementing the public offering and admission and introduction of A-series ordinary shares of the Bank to trading on the Warsaw Stock Exchange primary market, 197 500 000 A-series ordinary registered shares of the Bank will be transformed into A-series ordinary bearer shares, in accordance with Resolutions No. 25/2011 and No. 26/2011 of the Ordinary General Shareholders' Meeting of the Bank dated 30 June 2011.

5. On 23 August 2011, the Bank's Management Board received a letter from the State Treasury and BGK, informing of suspending the work on preparing and carrying out the sale of the Bank's shares through a public offering. The shareholders asked PKO Bank Polski SA to suspend its activities in preparation for this sale and asked the Bank to submit an application for suspending the administrative proceedings before the Polish Financial Supervision Authority related to the approval of the prospectus prepared in connection with the sale of the Bank's shares. On receiving the above-mentioned letter, on 23 August 2011 the Management Board of the Bank decided to suspend the activities related to preparing and carrying out the sale of the Bank's shares through a public offering and a decision to agree to sign on behalf of the Bank and submit an application to suspend the administrative proceedings before the PFSA related to approval of the prospectus.
6. On 24 November 2011, 197 500 000 registered A-series shares of the Bank were converted to bearer shares. The conversion was carried out based on the motion to convert submitted by a shareholder – the State Treasury, and in connection with the amendment to the Bank's Memorandum of Association introduced by resolution No. 26/2011 of the Annual General Shareholders' Meeting of the Bank dated 30 June 2011 on amending the Bank's Memorandum of Association. The remaining 312 500 000 A-series shares of the Bank still have the status of registered shares.
7. On 16 December 2011, the Management Board of PKO Bank Polski SA received letters from the State Treasury and BGK in which they informed about the decision to resign from carrying out the joint sale of the Bank's shares through a secondary public offering and discontinuing work on the offering.

7.2.4 Limitations on the shares of PKO Bank Polski SA

All the shares of PKO Bank Polski SA carry the same rights and obligations. None of the shares are preference shares, in particular in relation to voting rights and dividends. The Memorandum of Association of PKO Bank Polski SA restrict the voting rights of shareholders holding more than 10% of the total number of votes at the General Meeting and forbids those shareholders to execute more than 10% of the total number of votes at the General Meeting. The above limitation does not apply to:

- those shareholders who on the date of passing the resolution of the General Meeting introducing the limitation of the voting rights had rights from the shares representing more than 10% of the total number of votes at the Bank (i.e. the State Treasury and BGK),
- shareholders who have the rights from A-series registered shares (the State Treasury), and
- shareholders acting jointly with the shareholders referred to in point (ii) based on an agreement concerning the joint execution of voting rights from shares. Moreover, limitation of the voting rights shall expire when the share of the State Treasury in the Bank's share capital drops below 5%.

In accordance with § 6 clause 2 of the PKO Bank Polski SA's Memorandum of Association, the conversion of A-series registered shares into bearer shares and the transfer of these shares requires an approval of the Council of Ministers in the form of a resolution. Conversion into bearer shares or transfer of A-series registered shares, after getting above mentioned approval, results in the expiry of the above restrictions in respect of shares subject to conversion into bearer shares or transfer, to the extent to which this approval was given.

7.2.5 The Memorandum of Association and manner of functioning of Annual General Meeting of PKO Bank Polski SA

7.2.5.1 Principles for amending the Memorandum of Association of PKO Bank Polski SA

Principles for amending the Memorandum of Association of PKO Bank Polski SA comply with the provisions of the Commercial Companies Code and the Banking Law.

Resolutions of the Annual General Meeting relating to share preference and to issues of the Bank's merger by transferring all of its assets to another company, its liquidation, reduction of share capital by cancelling a part of the shares without increasing it at the same time or changing the scope of the Bank's operations which would lead to the Bank ceasing its banking activities - all require a 90% majority of the cast votes.

7.2.5.2 Changes in the Memorandum of Association in 2011

1. On 14 April 2011, the Extraordinary General Shareholders' Meeting passed Resolution No. 3/2011 on amending the Memorandum of Association of PKO Bank Polski SA (the content of the resolution passed was published by the Bank in the current report No. 13/2011). The proposed amendments to the Bank's Memorandum of Association were presented by the State Treasury – the Bank's shareholder. The amendments referred to in the Resolution related to:

1) restricting the voting rights of the shareholders along with adopting rules for cumulating and reducing votes,
2) the statutory number of members of the Supervisory Board,
3) the agenda for the first meeting of the new term of office of the Supervisory Board,
4) the definition of the parent company and subsidiary.

The amendments to the Memorandum of Association of PKO Bank Polski SA referred to above, implemented by Resolution No. 3/2011 of the Extraordinary General Shareholders' Meeting of the Bank on 14 April 2011, were registered with the National Court Register by the Registration Court for the Capital City of Warsaw, the XIII Business Department of the National Court Register (KRS).

2. On 30 June 2011, the Ordinary General Shareholders' Meeting passed the following resolutions, published by the Bank in its current report No. 35/2011:

1) No. 26/2011 on the amendment to the PKO Bank Polski SA's Memorandum of Association relating to transforming 197 500 000 A-series registered shares into bearer shares,
2) No. 27/2011 on the amendment to the PKO Bank Polski SA's Memorandum of Association aimed at specifying in more detail the powers to establish and carry out cooperation between the Bank and the Bank Group entities, in particular providing services to those entities.

On 25 August 2011 The District Court for the Capital City of Warsaw, XIII Business Department of the National Court Register registered in the National Court Register changes to the Memorandum of Association of PKO Bank Polski SA introduced by Resolution No. 26/2011 passed by the Ordinary General Shareholders' Meeting of the Bank on 30 June 2011.

On 29 September 2011 the Polish Financial Supervision Authority (PFSA) did not allow changes in the Bank's Memorandum of Association consisting of the addition of § 3a clause 2 and 3, and discontinued the proceedings on changing the wording of clause 1 of the added § 3a as in the Annual General Meeting Resolution No. 27/2011 on the amendment of the Memorandum of Association of PKO Bank Polski SA. Entry into force of the above amendments to the Bank's Memorandum of Association (concerning clarification of competencies associated with cooperation of the Bank with the Group's entities), made by the Annual General Meeting of 30 June 2011 was dependent on the permission of PFSA, which was a condition of the registration of these changes by the registry court.

Amendments to the Bank's Memorandum of Association in 2011 were disclosed in detail in the resolutions of Extraordinary General Shareholders' Meeting and Ordinary General Shareholders' Meeting on amendments to the Memorandum of Association of PKO Bank Polski SA published on the Bank's website (web addresses, respectively):

http://www.pkobp.pl/index.php/id=rel_wal/akt_id=9522/source=rel_wal/section=ri

http://www.pkobp.pl/index.php/id=rel_wal/akt_id=9782/source=rel_wal/section=ri

7.2.5.3 Annual General Meeting, its manner of functioning and fundamental powers

Annual General Meeting of PKO Bank Polski SA is convened as ordinary or extraordinary meeting in accordance with the provisions of the Code of Commercial Companies and the Memorandum of Association, and based on the policies defined in the by-laws of the Annual General Meeting.

The fundamental powers of the Annual General Meeting, apart from other matters defined in the binding laws, include adopting resolutions concerning the following matters:

– appointment and dismissal of Supervisory Board Members;
– approval of by-laws of the Supervisory Board,
– determining the manner of redemption of shares and the amount of consideration for the shares subject to buyout,
– creation and liquidation of special funds established from net profit appropriation,
– disposal by the PKO Bank Polski SA of property items or perpetual usufruct right to property, provided that the value of the real property or the right being subject to such an act exceeds 1/4 of the share capital,
– issuance of convertible bonds or other instruments giving the right to acquire or take up the PKO Bank Polski SA's shares.

Allowed to participate in the Annual General Meeting are beneficiaries of rights attached to registered shares, as well as pledges and usufructuaries having voting rights, who have been entered in the Register of Shares at the day of registration and holders of bearer shares, if they were shareholders of the Bank at the day of the registration and they asked, within the act compliant time frame specified in the notification on the call of Annual General Meeting, the entity maintaining their securities accounts for registered certificate on the right to participate in the Annual General Meeting.

The shareholder who is a natural person may participate in the Annual General Meeting and exercise his voting right in person or by proxy. The shareholder who is not a natural person may participate in the Annual General Meeting and exercise his voting right through a proxy authorised to file declarations of will on his behalf, or by proxy.

An authorisation should be prepared, under the sanction of nullity, in writing and attached to the minutes of the General Shareholders' Meeting or granted in an electronic form. The right to represent a shareholder who is not natural person should be specified in the excerpt from the relevant register produced at the time of drawing up the attendance register (submitted in the original or a copy whose conformity to the original has been confirmed by a notary public), or a sequence of authorisations. The person(s) granting an authorisation on behalf of a shareholder who is not natural person should be listed in an up-to-date excerpt from the relevant register of a given shareholder.

Management Board Member and an employee of the PKO Bank Polski SA may serve as proxy of shareholders at the Annual General Meeting of PKO Bank Polski SA.

The documentation which is to be presented to the General Shareholders' Meeting along with draft resolutions is placed on the Bank's website from the date of the General Shareholders' Meeting being convened. The comments of the Management Board of the Bank or the Supervisory Board of the Bank concerning matters included in the agenda of the General Shareholders' Meeting or matters which are to be included in the agenda before the date of the General Shareholders' Meeting are available on the Bank's website as soon as they are prepared.

A shareholder or shareholders representing at least one twentieth of the share capital of the Bank may demand that certain matters be included in the agenda of the General Shareholders' Meeting. Such demand should be filed with the Management Board of the Bank no later than twenty one days before the date set for the meeting. The demand should contain a justification or a draft resolution concerning the proposed item on the agenda. The demand may be filed in an electronic form.

A shareholder or shareholders of PKO Bank Polski SA representing at least one twentieth of the share capital may, before the date of the General Shareholders' Meeting, put forward to the Bank, in writing or by using electronic means of communication, draft resolutions concerning the matters included in the agenda of the General Shareholders' Meeting or matters which are to be included in the agenda. Moreover, each of the shareholders may, in the course of the General Shareholders' Meeting, put forward draft resolutions concerning the matters included in the agenda.

Removing from agenda or desisting, at the request of shareholders, from further discussing the matter included in the Annual General Meeting agenda requires that the Annual General Meeting resolution is adopted by the majority of ¾ votes, after prior consent of all those shareholders present at the Annual General Meeting who applied for including the matter in the agenda.

Resolutions of the Annual General Meeting are adopted by an absolute majority of votes, unless the binding laws or the Memorandum of Association of PKO Bank Polski SA provide otherwise.

The Annual General Meeting adopts resolutions by way of open vote, with the provision that votes by secret ballot are ordered in the following circumstances:

- elections,
- applications for dismissal of members of PKO Bank Polski SA's authorities or liquidators,
- applications for bringing members of PKO Bank Polski SA's authorities or liquidators to justice,
- in staff matters,
- on demand of at least one shareholder present or represented at the Annual General Meeting,
- in other cases defined in binding law regulations.

A shareholder may not, either personally or by proxy, or while acting in the capacity of a proxy of another person, vote on resolutions concerning his liability towards PKO Bank Polski SA on whatever account, including the acknowledgement of the fulfilment of his duties, release of any of his duties towards PKO Bank Polski SA, or any dispute between him and PKO Bank Polski SA.

Shareholders have the right to ask questions, through the Chairman of the Annual General Meeting, to the Members of PKO Bank Polski SA's Management or Supervisory Boards and the PKO Bank Polski SA's auditor.

For each of the agenda point, each shareholder has the right to one own speech and one reply. Shareholders may, during the course of discussion on each of the agenda points, apply for closing the list of speakers or closing the discussion on the given agenda point.

7.2.6 The Supervisory Board and the Management Board of PKO Bank Polski SA in the reporting period

7.2.6.1 The Supervisory Board of PKO Bank Polski SA

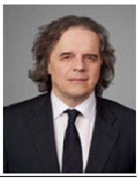
The Supervisory Board is composed of 5 to 13 members appointed for a joint term of office of three years. Members of the Supervisory Board are appointed and dismissed by the General Shareholders' Meeting.

On 30 June 2011 the State Treasury, as the Eligible Shareholder, on the basis of § 11 clause 1 of the Bank's Memorandum of Association determined the number of the Supervisory Board members to include 9 persons, of which the Bank informed in a Current Report No. 36/2011.

The current term of office of all the Supervisory Board members started on 30 June 2011. The mandates of all the current Supervisory Board members shall expire at the latest on the date of holding the General Shareholders' Meeting to approve the financial statements for the financial year ended 31 December 2013.

Table 35. Composition of the Supervisory Board of PKO Bank Polski SA as at 31 December 2011

	Positions	Competences
	**Cezary Banasiński – Chairman of the Bank's Supervisory Board On 20 April 2009 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board**	He is the doctor of laws, assistant professor at the Faculty of Law and Administration of the Warsaw University. Graduate of Faculty of Management and Faculty of Law and Administration of the Warsaw University. From 2001 to 2007 he was the President of the Office of Competition and Consumer Protection. He was responsible for the state of the competition in the Polish market and the legal protection of consumers and monitoring the provision of public aid. From 2006 to 2007 he was a member of Coordination Commission for Financial Conglomerates. From 2005 to 2006 he was a member of the Securities and Exchange Commission and of the Insurance and Pension Fund Supervisory Commission. From 2002 to 2004 he was the head of the Negotiation Team for Poland's membership in the European Union responsible for the negotiation area 'Competition policy'. From 1999 to 2001 he held the position of the undersecretary of state at the Office of the Committee for European Integration, where he was responsible for harmonisation of the Polish law with the EU law. From 1997 to 2000 he was a counsel at the Office of Jurisdiction at the Constitution Tribunal responsible for analysing the jurisdiction of the European Court of Justice. Scholar of, among others, the Faculty of Law at the University in Vienna, Humboldt Foundation at Universities in Konstanz and Munich. He is the author and co-author of many publications, books, articles, commentaries for acts and judgments of the Court of Justice in the scope of the administration and economic law and the European economic law. Member of the supervisory board of PKN Orlen SA.
	**Tomasz Zganiacz – Deputy-Chairman of the Bank's Supervisory Board On 31 August 2009 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board**	An experienced manager, currently Director of the Capital Markets Department within the Ministry of the Treasury. Until June 2009, President of TRITON DEVELOPMENT SA, a development company listed on the stock exchange. Before that, his positions included among others that of Vice-President and Financial Director of ARKSTEEL SA (listed company), credit department manager at SOCIETE GENERALE, and member of the academic and teaching staff of the Institute of Production Systems Organisation of the Warsaw University of Technology. He took part in the National Investment Funds programme. He has taken part in numerous projects implemented by business entities operating in various sectors by cooperating with among others commercial and investment banks, brokerage houses and other players on the capital markets. He has been responsible for managing finances and preparing and implementing investment projects, and has co-created development strategies. He has a wealth of experience in supervising commercial law companies, and was a member of the Supervisory Board of the Warsaw Stock Exchange. He graduated as an engineer, and also completed MBA postgraduate studies.
	**Mirosław Czekaj - Secretary of the Bank's Supervisory Board On 31 August 2009 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board**	PhD in Economics, a graduate of the Nicolaus Copernicus University in Toruń. Registered Auditor. In January 2007, he was elected by the Council of the City of Warsaw to the position of City Treasurer. Between 2004 and 2006, he was Vice-President of Bank Gospodarstwa Krajowego, responsible for the commercial activities of the bank and for supervising its branches. Previously, he was responsible for public sector and corporate finances. From 1992 to 2009, he held positions on the supervisory boards of numerous companies, including that of Chairman of the Supervisory Board of Remondis - Szczecin Sp. z o.o., Chairman of the Supervisory Board of Fundusz Wspierania Rozwoju Gospodarczego Miasta Szczecina, Chairman of the Supervisory Board of Szczecińskie Centrum Renowacji Sp. z o.o., Chairman of the Supervisory Board of MPT Sp. z o.o. in Warsaw. He was also a Supervisory Board Member of Pomorski Bank Kredytowy SA in Szczecin. He is the author and co-author of finance-related publications.

	**Jan Bossak - Member of the Supervisory Board On 26 February 2008 appointed for the term, which has terminated on 19 May 2008 and for the term prior to the current term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board**	Professor at the Warsaw School of Economics (SGH), Department of International Comparative Studies. He specialises in international economic relations, institutional economics and economic systems, corporate finance and value management, international competitiveness as well as European integration. Holder of a grant from the Japanese government, PhD student at the Osaka Imperial University (1972-74). Visiting professor at universities in the United States (*Seton Hall University*), Japan (Kyoto Imperial University - 1980-81 and Ryukoku University - 1985-86), Great Britain (*Buckinghamshire-College* - 1977) and Belgium (the University of Brussels - 1978). Research fellowship at the Vienna Institute for International Economic Studies (1983). He completed the *Executive Corporate Finance* course at the University of Minnesota (1991) and the *International Finance* course at LSE (1995) in London. In the years 1991-1992, he was the President of the Polish-American Enterprise Fund, in the years 1995-1997 he was the President of the Second National Investment Fund, and from 1999 to 2003 he was the President of the Erste Securities Polska SA investment bank. In the years 1990-93, he was the director of the World Economy Research Institute at the Warsaw School of Economics. He is a co-founder (in 2000) and Vice-Chairman of the Poland-Japan Economic Committee. He was the chairman of supervisory boards of Pierwszy Polsko-Amerykański Bank w Krakowie, Stilon SA, Famur SA, Tarbud SA, Milmet SA. He acted as adviser to a number of companies, including Petrochemia Płock SA, Techmex SA, Jelfa SA, NSK Polska SA, Sumitomo Polska SA, Mitsui Polska SA and Nichimen Trading SA. An author of over 25 books which were published in Poland and abroad, also by the World Bank, the Japanese government agency APO and the Silk Road Institute of the Jiatong University in Xi'an in China. The most recent publications include 'International Competitive Ability of Poland and Enterprises. Challenges on the Eve of the 21st Century', 'Economic Systems and Global Competition', 'Institutions, Market and Competition in the Contemporary World'.
	**Krzysztof Kilian - Member of the Supervisory Board On 30 June 2011 appointed for the current term of the Supervisory Board**	He graduated from the Gdansk University of Technology where he obtained a higher technical education and a degree of MSc in mechanics. He started his professional career in the 'Wisła' Shipyard in Gdansk. In 1991, he held position of the Head of the Minister's Office in the Ministry of Privatisation, and later he was a General Director at the Office of the Prime Minister and the Minster of Telecommunications. Later, he was an Advisor to the Chairman in Bank Handlowy and a Senior *Adviser in Morgan Stanley* (in London). In the years 1999 - 2008 he worked in his own consulting company cooperating with TDA Capital, Prokom Software, Asseco. From 2008 till 31 December 2011 he occupied a position of the 1st Vice-President of the Management Board, he also worked at the position of the Director of Marketing and Customer Relations Department in Polkomtel SA. He has experience in the field of supervisory bodies' activities - he was a member of the supervisory boards in the following entities: PI 2012, PKO Bank Polski SA, TFI PZU SA, PGF SA, Poczta Polska, Foundation for Banking Education, Privatisation Fund at the Ministry of Privatisation, KGHM SA, and BPH SA.
	**Piotr Marczak - Member of the Supervisory Board On 25 June 2010 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board**	He graduated from Warsaw School of Economics (earlier the Main School of Planning and Statistics). He has worked for the Ministry of Finance since 1992, now he is the director of the Public Debt Department and his main tasks include, for instance, preparation of public debt management strategies, the State Treasury risk and debt management, management of the state budget liquidity, consolidation of liquidity of the entities of the public finance sector. He is the author of dozens of papers and articles on the public debt and the market of treasury securities in Poland, and he was also a lecturer in Dolnośląska Szkoła Bankowa (Banking School of Lower Silesia). At the moment he is a member of the Supervisory Board of Polskie Koleje Linowe SA, and previously he was a member of the supervisory boards of, for instance, Bank Gospodarstwa Krajowego, Huta Będzin SA, Huta Stalowa Wola SA, Stomil Poznań SA.
	**Ewa Miklaszewska - Member of the Supervisory Board On 30 June 2011 appointed for the current term of the Supervisory Board**	Habilitated doctor, professor of Cracow University of Economics. In 1980 she graduated from Cracow University of Economics and in 1986 from *The Johns Hopkins University*, *School of Advanced International Studies*, *M.A. in International Affairs* (*Bologna Center*). In 1989 she obtained the degree of a doctor of economics and in 2004 the degree of habilitated doctor at Cracow University of Economics. She started her professional career in 1980 at the Pedagogical University of Cracow, in years 1983-2000 she was a research fellow at the Jagiellonian University (Faculty of Law, Department of Economics). Moreover, in 1994 she was employed by the Ministry of Finance in the Department of Financial Institutions as the Minister's advisor, in 1995 in the National Bank of Poland in the Research and Analysis Department. Since 2000 she has worked at Cracow University of Economics where she is now the head of the Banking Section (Faculty of Finance, Department of Finance) and in the Department of Economics and Management in the Jagiellonian University. She is an author of numerous research works, she has participated in post-graduate studies and internships in Europe and the US (HBS, MIT). Her research interests focus on the problems of the development of Polish and global financial markets, in particular in terms of strategies executed by financial institutions and the regulatory policy.
	**Marek Mroczkowski – Member of the Supervisory Board On 30 June 2011 appointed for the current term of the Supervisory Board**	He graduated from the Warsaw School of Economics (previously SGPiS). He completed postgraduate studies on the Faculty of Law and Administration at the University of Wrocław, as well as postgraduate studies - *Advanced Management Programme in INSEAD Fontainebleau*, France. Since 2009, he has been providing consultancy services in the field of management in MRM Finance. In the years 2007-2009 he was a President of the Management Board and General Director of MAŻEIKIU NAFTA AB in Lithuania. In the years 2005 - 2006 he was a Vice-President of the Management Board and Financial Director of UNIPETROL A.S. in Czech Republic (from September 2005 to April 2006 he was also a President of the Management Board and General Director). In the years 2003-2004 he was a President of the Management Board and General Director of ELANA SA in Toruń. In the years 2001-2002 he was a President of the Management Board and General Director of POLKOMTEL SA, and from 1994 to 2001 he was a Vice-President of the Management Board and Financial Director of PKN ORLEN SA. Also, he was a Member of the Management Board and Financial Director of Eda Poniatowa SA (1986-1994). He has experience in the field of supervisory bodies' activities - he was a member of the supervisory boards of the following companies: ZCH POLICE, IMPEXMETAL SA, ENERGOMONTAŻ PÓŁNOC SA, POLKOMTEL SA, ANWIL SA, MOSTOSTAL Kraków SA. Currently, he is a Chairman of the Supervisory Board of AZOTY TARNÓW.
	**Ryszard Wierzba - Member of the Supervisory Board On 30 June 2011 appointed for the current term of the Supervisory Board**	Professor of the Gdańsk University, head of Deapartment of Finance. He graduated from the Faculty of Finance and Statistics at the Main School of Planning and Statistics (currently Warsaw School of Economics). In 1973, he got a PhD in economics at the Department of Production Economics at the University of Gdańsk, and in 1981 a PhD in economics at the Faculty of Finance and Statistics at the Main School of Planning and Statistics. In 1991, he became a professor of economics. He started his professional career in 1966 in Bank Inwestycyjny county (Branch in Gdańsk), where he worked until 1969 as an Inspector. In 1972 he pursued doctoral studies at the University of Gdańsk and since 1972 he has been working as a research fellow at that university, where he completed consecutive stages of scientific career: from senior assistant in the years 1972-1973, through adjunct in the years 1973-1982, docent (academic appointment below that of a professor) in the years 1982-1991, associate professor in the years 1991-1999, and full professor and head of Department of Finance since 1999 until now. Moreover, since 1993 he is a Deputy Director of Gdańsk Academy of Banking at the Institute of Market Economy Research in Gdańsk. He is an author of more than 180 scientific publications, member of scientific organisations, as well as he completed numerous international traineeships. Since 1991 he has been a member of the supervisory boards of several big companies, including Bank Gdański SA (1991-1996), Bank Handlowy w Warszawie SA (1998-2002), Polskie Sieci Elektro - Energetyczne SA in Warsaw (2005-2007), and PKO Bank Polski SA (2008-2009).

Changes in the composition of the Supervisory Board in 2011

1. On 30 June 2011, the General Shareholders Meeting appointed to the Supervisory Board of the Bank:
    1) Cezary Banasiński,
    2) Tomasz Zganiacz,
    3) Jan Bossak,
    4) Mirosław Czekaj,
    5) Krzysztof Kilian,
    6) Ewa Miklaszewska,
    7) Piotr Marczak,
    8) Marek Mroczkowski,
    9) Ryszard Wierzba.

In accordance with passed resolutions, all above mentioned people were appointed for the term of the Supervisory Board which began on 30 June 2011.

The State Treasury, as the Eligible Shareholder, appointed on the basis of § 12 clause 1 of the Bank's Memorandum of Association:

1) Mr. Cezary Banasiński as Chairman of the Bank's Supervisory Board,
2) Mr. Tomasz Zganiacz as Deputy - Chairman of the Bank's Supervisory Board.

2. In connection with the end of term, on 30 June 2011 the mandates of the Members of Supervisory Board Błażej Lepczyński and Alojzy Zbigniew Nowak expired.

The Supervisory Board basis of activities

The Supervisory Board acts based on the by-laws passed by the Supervisory Board and approved by the Annual General Meeting. Meetings of the Supervisory Board are convened at least once a quarter.

The Supervisory Board adopts resolutions by an absolute majority of votes with the presence of at least half of the Supervisory Board Members, including the Chairman or Deputy-Chairman of the Supervisory Board, except for resolutions concerning those matters that are required to be accepted by, apart from the quorum indicated, the qualified majority of 2/3 of total votes. Excluded from the vote are those members of the Supervisory Board to whom the given voted matter relates.

The Supervisory Board competencies

The competencies of the Supervisory Board, apart from the rights and obligations stipulated in generally binding legal regulations and the provisions of the Memorandum of Association of PKO Bank Polski SA, include passing resolutions relating specifically to:

– approving the strategy of PKO Bank Polski SA and the annual financial plan passed by the Management Board,
– accepting the Bank's general level of risk,
– appointing the entity to conduct the audit or review of the financial statements and giving consent to concluding contracts with such entity or its related entities,
– passing the Internal Regulations in regard of:
    a) the Supervisory Board,
    b) defining the rules of granting loans, advances, bank's guarantees and warranties to a member of the Management Board, of the Supervisory Board, to a person holding a managerial position in the Bank and to entities related in terms of capital and organisation,
    c) using the reserve capital,
– appointing and dismissing the President of the Management Board and, at the request of the President of the Management Board, also the Vice-Presidents and other Management Board Members, and suspending Members of the Management Board from performing their duties, as well as delegating Members of the Supervisory Board to temporarily perform the duties of Members of the Management Board,
– approving the Internal Regulations passed by the Management Board: of the Management Board, Management of special funds set up from the net profit, the Organisational Regulations of PKO Bank Polski SA,

- expressing prior consent to actions which meet specific criteria, including, among other things, purchasing and selling fixed assets and real estate, establishing a company, taking up or acquiring shares, concluding transactions between PKO Bank Polski SA and a related entity,
- applying to the Polish Financial Supervision Authority for granting consent to appointing two Members of the Management Board, including the President of the Management Board.

Committees of the Supervisory Board

According to the Regulations of the Supervisory Board, the latter is entitled to appoint Permanent Committees whose members perform functions as members of the Supervisory Board delegated to fulfil selected supervisory activities in the Bank. In 2011, the following Permanent Committees of the Supervisory Board operated:

1. The Remuneration Committee (appointed on 2 November 2011), which is responsible in particular for executing the following tasks:
   - assessing the remuneration system and policy for people holding managerial positions at the Bank,
   - giving opinions on the types and levels of goals on which variable salary components will depend and giving opinions on evaluations of goal execution,
   - giving opinions on the variable salary components policy for persons holding managerial positions, as defined in § 28 clause 1 of Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for the functioning of the risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital, and the principles for determining the variable salary components policy for persons holding managerial positions at the bank, including the amount and components of the salaries, based on prudent and stable risk management, capital and liquidity and special care about the long-term interests of the Bank and the interests of shareholders, the Bank's investors,
   - giving opinions on and monitoring variable salary components of persons holding managerial positions at the Bank, related to risk management and maintaining compliance of the Bank's actions with the provisions of the law and internal regulations,
   - analysing and giving opinions on the principles for remunerating Management Board members and the level of their basic salaries,
   - giving opinions on motions for approval for a member of the Management Board to become involved in competitive business activities or participate in a competitive company as a shareholder of a civil law company, a partnership or as a member of a body in a corporation, or participate in another competitive legal person as a member of its body,
   - giving opinions on a review report concerning the implementation of the variable salary components policy carried out by the Internal Audit Department.
2. The Audit Committee whose tasks include, in particular:
   - monitoring the process of the financial reporting, including the review of interim and annual financial statements of the Bank and the Group (stand-alone and consolidated),
   - monitoring efficiency of the systems of internal control, internal audit and risk management, in particular:
     a) an assessment of the Bank's activities related to the implementation of the management system, of which risk management and internal control and assessment of its adequacy and efficiency, among other by means of:
        - consulting resolutions of the Management Board of the Bank to be approved by the Supervisory Board on the prudent and stable management of the Bank and on the acceptable level of risk in particular areas of the Bank's operations,
        - consulting resolutions of the Management Board of the Bank to be approved by the Supervisory Board on risk management, capital adequacy and the internal control system,
        - consulting reports on risk management, capital adequacy and the internal control system submitted periodically to the Supervisory Board,
        - assessing the Bank's activities aimed at risk mitigation through Bank's property insurance and civil liability insurance for members of the Bank's bodies and its proxies,

b) cooperation with an internal auditor, of which:

- evaluating the plan of internal audits in the Bank and an internal regulations of the Internal Audit Department,
- performing a periodic review of the execution of the internal audit plan, ad-hoc audits and evaluating activities of the Internal Audit Department within resources at its disposal,
- presenting an opinion to the Supervisory Board as regards appointing and revoking the head of the Internal Audit Department,

– monitoring the execution of financial audit activities, in particular by means of:

a) recommending to the Supervisory Board a registered audit company entitled to perform a financial audit of the Bank together with its evaluation level of fee and supervision of work performed,
b) examining written information submitted by the registered audit company concerning relevant issues concerning financial audit, of which in particular information concerning material irregularities in the Bank's internal control system as regarrds financial reporting,

– monitoring the independence of a registered auditor and a registered audit company and on the services referred to in art. 48, clause 2 of the Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision, in particular through obtaining:

a) statements confirming the independence of a registered audit company and the independence of the registered auditors conducting the financial audit activities,
b) information on the services referred to in § 48, clause 2 of the Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision, provided to the Bank.

As at 31 December 2011, the Remuneration Committee consisted of 5 members:

1) Krzysztof Kilian (President of the Committee),
2) Cezary Banasiński (Member of the Committee),
3) Jan Bossak (Member of the Committee),
4) Marek Mroczkowski (Member of the Committee),
5) Tomasz Zganiacz (Member of the Committee).

As at 31 December 2011, the Audit Committee consisted of 3 members:

1) Mirosław Czekaj (President of the Committee),
2) Jan Bossak (Vice-President of the Committee),
3) Ewa Miklaszewska (Member of the Committee).

All the members of the Audit Committee fulfilled the independence requirements in accordance with Art. 86 clause 4 of the Act on Registered Auditors. Additionally, the Chairman of the Audit Committee Mirosław Czekaj has qualifications in accounting and financial auditing.

7.2.6.2 The Management Board of PKO Bank Polski SA

Pursuant to § 19 clause 1 and 2 of the PKO Bank Polski SA Memorandum of Association, members of the Management Board are appointed by the Supervisory Board for a joint term of office of three years. Pursuant to § 19 clause 4 of the PKO Bank Polski SA Memorandum of Association, a member of the Management Board may only be revoked for important reasons.

The Management Board of the Bank is composed of 3 to 9 members appointed by the Supervisory Board of the Bank for a joint term of office of three years. Appointment of two members of the Management Board, including President of the Management Board, requires approval of the Polish Financial Supervision Authority. As at 31 December 2011, the Management Board of the Bank was composed of 7 members.

Current joint term of office of the Bank's Management Board began on 30 June 2011. The mandates of all current Management Board members shall expire at the latest on the date of holding the General Shareholders' Meeting to approve the financial statements for the financial year ended 31 December 2013.

Table 36. The Management Board of PKO Bank Polski SA as at 31 December 2011

	Functions	Competences
	**Zbigniew Jagiełło President of the Bank's Management Board On 1 October 2009 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board**	Graduated from the Faculty of Information Technology and Management of Wrocław University of Technology and he completed post-graduate studies organised by Gdańska Fundacja Kształcenia Menedżerów (Gdańsk Foundation for Education of Managers) and University of Gdańsk where he was granted Executive MBA title certified by Rotterdam *School of Management*, *Erasmus University*. In 1995 started working at Pioneer Pierwsze Polskie Towarzystwo Funduszy Inwestycyjnych SA, then, first as a sales and distribution director and since 1998 as the Vice-President of the Management Board he was one of the builders of PKO/Credit Suisse TFI SA. In July 2000 he took the position of the President of the Management Board of Pioneer Pekao TFI SA, and, at the same time, since 2005 he held the position of the President of the Management Board of Pioneer Pekao Investment Management SA. In the global structure of Pioneer Investments, he had the function of the Head of Distribution in Central and Eastern Europe Region (CEE). He was the Chairman of the Board of the Chamber of Funds and Assets Managers. He is the Member of the Board of the Polish Banks Association and of the *Institute International D'Etudes Bancaires* - the international organisation; he holds the position of the President of the Program Board of the Retail Banking Congress. He has been awarded by the President of the Republic of Poland with the Bachelor's Cross of the Order of the Revival of Poland and awarded with the Social Solidarity Medal for promoting the idea of corporate social responsibility and the Gold Banker award in the category Personality of the Year 2011.
	**Piotr Stanisław Alicki Vice-President of the Bank's Management Board in charge of IT and Services On 2 November 2010 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board**	A graduate of the Mathematics and Physics Department of Adam Mickiewicz University in Poznan. He has a many years' experience in IT projects management in the banking area. In 1990-98 he worked for Pomorski Bank Kredytowy SA in Szczecin in the Information Science Department - from 1997 as its Director, where he was responsible for designing, development, implementation and operation of the Bank's transaction systems. In the period 1999-2010 he worked for Bank Pekao SA - at first as the Assistant Manager and then the Manager of the IT Systems Maintenance and Development Department, and during the last four years he managed the Information Technology Division. He was responsible, among other things, for the execution of the IT merger of four banks (Pekao SA, PBKS SA, BDK SA, PBG SA); he implemented the Integrated Information System and managed the IT business analyses area in that bank. He also managed the IT integration and migration from BPH SA systems to Pekao SA systems and participated in the work of the team responsible for the preparation of the whole integration process. In 1999-2010, Piotr Alicki took part in the work of the Polish Banks' Association in: Steering Committee for the Development of Bank Infrastructure, the Payments System Committee, the Problem Committee for Banking and Bank Financial Services, and the Electronic Banking Council. Since 2000 he has been a member of the Supervisory Council of the Krajowa Izba Rozliczeniowa SA (National Clearing Chamber Ltd.), and since 2005 until 2010 he was its President. In 2002-2010 he represented Bank Pekao SA in the Payments System Council functioning under the auspices of the National Bank of Poland (NBP). He also sat on the supervisory boards of companies belonging to the Bank Pekao SA Group. He has been awarded by President of the National Bank of Poland with a honour distinction for the merits for Polish Banking. He is also the winner of the 'IT Leader 1997'. Since 1st May 2011 is the member of Visa Europe Limited Board where he represents PKO Bank Polski, another banks from Poland and seven countries of the Subregion 5.
	**Bartosz Drabikowski Vice-President of the Bank's Management Board in charge of Finance and Accounting On 20 May 2008 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board**	A graduate of the Technical University of Łódź, the Polish National School of Public Administration, Warsaw School of Economics, the Polish Institute of International Affairs and the Executive MBA Programme at the University of Illinois at Urbana - Champaign. He attended numerous academic trainings: at Deutsche Bundesbank, Deutsche Börse AG, Deutsche Ausgleichsbank and Rheinische Hypothekenbank. He received scholarship from The German Marshall Fund of the United States and participated in many trainings organised by the European Commission and the International Monetary Fund among others. He started his professional career at the Ministry of Finance, where he was responsible among others for regulation and supervision over financial market institutions, the banking sector and the capital market in the particular. He also prepared development strategies for the financial services sector development both for Poland and the European Union common market. At the Ministry of Finance he was subsequently employed as Advisor to the Minister, Deputy Director and Financial Institutions Department Director. In the years 2006-2008 he served as Member of the Management Board of the National Clearing House, where he was responsible for finance, new electronic payment products, security and risk management as well as analysis and administration. For several years he served as member of the Commission for Banking Supervision, member of the Polish Securities and Exchange Commission and deputy member of the Payment System Board at the National Bank of Poland. He also served as member of many institutions of the European Union, including the Financial Services Committee (European Council), the European Banking Committee and the European Securities Committee (European Commission). He has a wealth of experience in managing financial institutions. He served as member of the Supervisory Board of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych), member of the Bank Guarantee Fund Council and member of the Supervisory Board of the Polish Security Printing Works (Polska Wytwórnia Papierów Wartościowych). Currently he acts as Chairman of the Supervisory Board of Inteligo Financial Services SA and Member of the Supervisory Board of Polish Association of Stock Exchange Issuers.
	**Andrzej Kołatkowski Vice President of the Management Board responsible for Risk and Debt Collection On 30 June 2011 appointed for the current term of the Management Board of the Bank On 9 August 2011 the PFSA approved his appointment**	A graduate of the Main School of Planning and Statistics, Faculty of Finance and Statistics. In 1980 - 1988 he worked in the Institute of Economics of the Chemical Industry and the Institute of National Economy. In the period of 1988 - 1989 he worked in the Planning Commission by the Council of Ministers. Since 1991 he has been a member of supervisory boards of a number of companies, including the Warsaw Stock Exchange. In the period of 1989 - 1992 he was director of the Financial Policy and Analyses Department in the Ministry of Finance. At that time he was among people who organised the first issues of treasury securities. In 1992-1998 he occupied a position of a Member of the Management Board of Bank Handlowy SA. in Warsaw. In 1998 - 2001 he was the President of the Management Board of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA (Investment Fund Company). Simultaneously he was also the president of the Association of Investment Fund Companies in Poland. In 2002 - 2003 he was the President of the Management Board of Bank Współpracy Europejskiej SA. Since October 2003 he has worked at various positions in PKO Bank Polski, in the following order: Director of the Office of Credit Application Assessment, Plenipotentiary for Centralisation of Credit Risk Assessment, Director of Credit Risk Assessment Department. Since September 2009 until 8 August 2011 he was the Managing Director of the Credit Risk Sector and an in period of July 2011 till 8 August 2011 - the acting Managing Director of the Restructuring and Debt Collection Sector. He has thorough theoretical and practical knowledge on functioning of the financial markets, investment products related to investment funds and life insurance, experience in financial management of the bank and enterprises and in executing capital investments.

	**Jarosław Myjak Vice-President of the Bank's Management Board in charge of corporate market On 15 December 2008 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board**	A graduate of the Faculty of English Philology (1978) and Law (1981) from the Law and Administration Department at the Adam Mickiewicz University in Poznań. He studied Economics at University of Toronto. He graduated from programmes: General Management Programme (1998-1999), INSEAD-CEDEP Fontainebleau, Columbia Business School (2002-2003). He gained 17 years of experience being a manager in financial institutions. Since 1994 the member of a Management Board, a Vice-President, and from 1998 to 2004 the President of the Management Board of Commercial Union Towarzystwo Ubezpieczeń na Życie SA. He co-established the Commercial Union Group in Poland, of which he was also the President in 2000-2004 in Poland and Lithuania. The member of European Board Aviva plc., the Chairman of the supervisory boards of CU companies in Poland and Lithuania: PTE, TFI, Asset Management, Transfer Agent and CU Lithuania. He served as a member of: the Supervisory Board and the Strategic Committee of Citibank Handlowy SA, the Supervisory Board of BGŻ SA and he was Vice-Chairman of the Supervisory Board of PZU Życie SA. He is the Chairman of the supervisory boards of Bankowy Fundusz Leasingowy SA and of PKO BP Faktoring SA. In 2006 and since 2008 the Vice-President of the Management Board of PKO Bank Polski SA in charge of corporate banking. In 2009-2011 has successfully led to the corporate banking's leading position in companies' financing in Poland. He was a legal adviser (Altheimer&Gray), a member of the Polish Business Council, the Vice-President of PIU, the Vice-President of PKPP 'Lewiatan' and the Manager of the Year 2002 in Poland.
	**Jacek Obłękowski Vice-President of the Bank's Management Board in charge of Retail Market On 30 June 2011 appointed for the current term of the Bank's Management Board**	A graduate of the Higher School of Pedagogy (Wyższa Szkoła Pedagogiczna) in Olsztyn, speciality - history and diplomacy. He completed broker course. He also graduated from the University of Navara - AMP. He started his professional career at Powszechny Bank Gospodarczy SA in 1991, where he worked until 1998, initially as a trainee and, following several promotions, as a director of the Network Management Department. Since September 1998, he started working at the PKO Bank Polski as director of the Retail Banking Department, director of the Marketing and Sales Department, acting director of the Office for Servicing Compensation Payments, managing director of the Network Division. Between December 2000 and June 2002, he acted as the director responsible for supervision of the business aspects of implementing the central IT platform. Until 2004 was the Chairman of the Supervisory Board of Inteligo Financial Services. He was also the Chairman of KredytBank Ukraina. Since 2002 to 2007 was a Vice-President of the Bank's Management Board responsible for the retail market area and marketing. At this time he was a Chairman of the Bank's Credit Committee, the Member of the Council of Directors of VISA EUROPE and was responsible for the acquisition of Inteligo. Since 2007 was the President of the Management Board of Dominet Bank SA and from 2009 to 2011, after merger, in BNP Paribas/Fortis Bank Polska SA was at the position of Vice-President of the Management Board responsible for the Division of Servicing Small Enterprises and Individual Clients.
	**Jakub Papierski Vice-President of the Bank's Management Board in charge of Investing Banking On 22 March 2010 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board**	A graduate of Warsaw School of Economics and a holder of a Chartered Financial Analyst (CFA) license. He commenced his professional career in 1993 in Pro-Invest International, a consulting company. Between 1995 and 1996, he worked for ProCapital Brokerage House and subsequently for Creditanstalt Investment Bank. In March 1996, he started working for Deutsche Morgan Grenfell/Deutsche Bank Research dealing with the banking sector in Central and Eastern Europe. Between November 2001 and September 2003, he worked for Bank Pekao SA as executive Director of the Financial Division, directly supervising financial and fiscal policy of the bank, managerial information systems, as well as the treasury and management of investment portfolios; moreover, he was a member of the Asset and Liability Management Committee in the Bank. He took the position of the president of the Management Board for Centralny Dom Maklerski Pekao SA in October 2003. In September 2006, he also took up the position of a Deputy-Chairman of the Supervisory Board of Pioneer Pekao TFI SA. Since May 2009, he served as the President of the Management Board of Allianz Bank Polska SA and in October 2009 he became the President of the Management Board. Between 2005 and 2009, Jakub Papierski was a chairman in the Programme Council of Akademia Liderów Rynku Kapitałowego established at the Lesław Paga Foundation; at the present moment, he is a member of the Programme Council.

Table 37. Other functions performed by the PKO Bank Polski SA's Management Board Members in 2011

No.	Member of the Bank's Management Board	Function
1.	Zbigniew Jagiełło President of the Bank's Management Board	President of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' President of the Risk Committee President of the Assets and Liabilities Management Committee President of the Steering Committee for private banking model
2.	Piotr Alicki Vice-President of the Bank's Management Board	Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' President of the Bank Polski SA IT Architecture Committee President of the Steering Committee for the Integrated IT system 1st Vice-President of the Operational Risk Committee Member of the Risk Committee Vice-President of the Steering Committee for the Project 'New Operational Model of Retail Sales Support' (NeMO)
3.	Bartosz Drabikowski Vice-President of the Bank's Management Board	President of the Expenses Committee President of the Bank's Credit Committee 1st Vice-President of the Assets and Liabilities Management Committee Vice-President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of IAS 39 Vice-President of the Steering Committee for the Integrated IT system 2nd Vice-President of the Operational Risk Committee Member of the Risk Committee Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' President of the Steering Committee for the Project 'New Operational Model of Retail Sales Support' (NeMO)

4.	Andrzej Kołatkowski Vice-President of the Bank's Management Board	Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' President of the Bank's Credit Committee 2nd Vice-President of the Assets and Liabilities Management Committee Vice-President of the Risk Committee President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of IAS 39 Vice-President of the Steering Committee for the Integrated IT system President of the Operational Risk Committee President of the Steering Committee for the MIFID Project President of the Steering Committee for the Project of implementation of Internal Ratings-Based Approach (IRB) Member of the Steering Committee for the Project 'New Operational Model of Retail Sales Support' (NeMO)
5.	Jarosław Myjak Vice-President of the Bank's Management Board	Member of the Risk Committee Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' Vice-President of the Bank's Credit Committee
6.	Jacek Obłękowski Vice-President of the Bank's Management Board	Member of the Risk Committee Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' Vice-President of the Steering Committee for the Integrated IT system Vice-President of the Steering Committee for Private Banking Model Member of the Steering Committee for the Project 'New Operational Model of Retail Sales Support' (NeMO)
7.	Jakub Papierski Vice-President of the Bank's Management Board	Member of the Risk Committee Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012'
8.	Krzysztof Dresler Vice-President of the Bank's Management Board Performed the function until 30 June 2011	Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' until 30 June 2011 President of the Bank's Credit Committee until 30 June 2011 President of the Assets and Liabilities Management Committee until 14 June 2011 2nd Vice-President of the Assets and Liabilities Management Committee from 15.06.2011 to 30.06.2011 Vice-President of the Risk Committee until 30 June 2011 President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of IAS 39 until 30 June 2011 Vice-President of the Steering Committee for the Integrated IT system until 30 June 2011 President of the Operational Risk Committee until 30 June 2011 President of the Steering Committee for the MIFID Project until 30 June 2011 President of the Steering Committee for the Project of implementation of Internal Ratings-Based Approach (IRB) until 30 June 2011 President of the Steering Committee for the IT Platform until 30 June 2011
9.	Wojciech Papierak Vice-President of the Bank's Management Board Performed the function until 30 June 2011	Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' until 30 June 2011 Vice-President of the Steering Committee for the Integrated IT system until 30 June 2011 Vice-President of the Steering Committee for Private Banking Model until 30 June 2011 Member of the Risk Committee until 30 June 2011

Changes in the composition of the Management Board in 2011

1. On 2 March 2011, the Supervisory Board of PKO Bank Polski SA reappointed Mr Zbigniew Jagiełło as President of the Management Board of PKO Bank Polski SA for a joint term of office of the Bank's Management Board which commenced on the date of holding the Annual General Shareholders' Meeting of PKO Bank Polski SA approving the financial statements of PKO Bank Polski SA for 2010, i.e. from 30 June 2011.
2. On 1 April 2011, Supervisory Board of PKO Bank Polski SA passed resolutions appointing:
   1) Mr. Piotr Stanisław Alicki to the position of Vice-President of the Bank's Management Board,
   2) Mr. Bartosz Drabikowski to the position of Vice-President of the Bank's Management Board,
   3) Mr. Jarosław Myjak to the position of Vice-President of the Bank's Management Board,
   4) Mr. Jacek Obłękowski to the position of Vice-President of the Bank's Management Board,
   5) Mr. Jakub Papierski to the position of Vice-President of the Bank's Management Board.

   In accordance with the resolutions passed, the above-mentioned persons were appointed to the specified positions at PKO Bank Polski SA for the joint term of office of the Bank's Management Board which commenced on 30 June 2011

3. On 16 May 2011, the Supervisory Board of PKO Bank Polski SA passed a resolution appointing Andrzej Kołatkowski Vice-President of the Bank's Management Board responsible for risk and debt collection area for the joint term of office of the Bank's Management Board, which commenced on 30 June 2011, provided that the approval of the Polish Financial Supervision Authority is obtained. On 9 August 2011, the Polish Financial Supervision Authority has approved unanimously Mr. Andrzej Kołatkowski as Vice-President of the Management Board of PKO Bank Polski SA. responsible for risk and debt collection area.
4. In connection with the expiry of the term of office, on 30 June 2011 the mandates of the Vice-President of the Bank's Management Board Krzysztof Dresler and the Vice-President of the Bank's Management Board Wojciech Papierak also expired, and both of them informed the Bank that they were resigning from applying for appointment to the Bank's Management Board for the next term of office.

Rules of operations

The manner of functioning of the Management Board is defined in the by-laws decided by the Management Board and approved by the Supervisory Board.

Management Board makes decisions as resolutions. The resolutions of the Management Board are passed by an absolute majority of the votes of those present at the meeting of the Management Board, except for the resolution on appointing a proxy, which requires the unanimous vote of all the Management Board members. In the case of a voting tie, the President of the Management Board has the casting vote.

Statements on behalf of the Bank are made by:

– President of the Management Board independently,
– two members of the Management Board together or one member of the Management Board together with a proxy or
– proxies acting independently or jointly within the limits of granted authorisation.

The Management Board competencies

In accordance with § 20 clause 1 of the Memorandum of Association of PKO Bank Polski SA, the competences of the Management Board include all matters associated with the running of PKO Bank Polski SA's business, with the exception of those restricted for the competence of the General Shareholders' meeting or the Supervisory Board based on generally applicable law or the provisions of the Memorandum of Association of PKO Bank Polski SA, including purchasing and disposing of real properties, shares in real properties or the perpetual usufruct of land not requiring the approval of the general Shareholders' Meeting based on § 9 clause 1 item 5 of the Memorandum of Association of PKO Bank Polski SA.

In accordance with § 20 clause 2 of the Memorandum of Association of PKO Bank Polski SA, the competences of the Management Board include making decisions on incurring liabilities or disposing of assets whose total value, in relation to one entity, exceeds 5% of the equity, without prejudice to the competences of the General Shareholders' Meeting specified in § 9 of the Memorandum of Association of PKO Bank Polski SA or the competences of the Supervisory Board specified in § 15 of the Memorandum of Association of PKO Bank Polski SA.

The competences of the Management Board include all matters associated with the running of PKO Bank Polski SA's business, with the exception of those restricted for the competence of the General Shareholders' meeting or the Supervisory Board based on generally applicable law or the provisions of the Memorandum of Association of PKO Bank Polski SA. The Management Board passes specifically the following in the form of resolutions:

– it determines the strategy of PKO Bank Polski SA,
– it determines the annual financial plan, including the terms of its execution,
– it passes the organisational regulations and the principles for segregation of duties,
– it establishes and dissolves permanent committees of the Bank and determines their competences,
– it passes the Internal Regulations of the Management Board,
– it determines the internal regulations for managing the special funds set up from the net profit,
– it determines the dividend payment dates in periods specified by the General Shareholders' Meeting,
– it appoints proxies,
– it determines bank products and other banking and financial services,
– it determines the principles for participation of PKO Bank Polski SA in other companies and organisations,
– it determines the principles of operation of the internal controls and annual control plans,
– it establishes, transforms and liquidates organisational entities of PKO Bank Polski SA in Poland and abroad,
– it defines the system of efficient risk management, internal control and internal capital estimate.

Committees

In 2011, there were the following committees in which Members of the Management Board operated:

I. Permanent committees

1. The Assets and Liabilities Committee of PKO Bank Polski SA, whose purpose is managing assets and liabilities by influencing the structure of PKO Bank Polski SA statement of financial position and its off-balance sheet items in a manner conducive to achieving the optimum financial result. The competences of the Committee include specifically:
   - taking decisions on risk limits (market, liquidity, settlement and pre-settlement) and investment limits, as well as the values of the coefficients adjusting the transfer prices,
   - issuing recommendations in respect of:
     a) forming the statement of financial position structure, the financial model and the assumptions for the financial plan of PKO Bank Polski SA and the capital requirements in the light of prudence standards,
     b) the principles of risk management (market, liquidity, settlement and pre-settlement) and real and economic capital of the Bank,
     c) the value of the cut-off points and minimum scores used in assessing credit risk,
     d) the principles of the pricing policy in particular business areas and the level of interest rates and minimum credit margins.
2. The Risk Committee, the objective of which is to design strategic directions and tasks in the scope of banking risk in the context of the Bank's strategy and conditions arising from the macroeconomic situation and the regulatory environment, analysing periodic reports related to the banking risks and developing appropriate guidance on their basis, as well as preparing the banking risk management strategy and its periodic verification. The tasks of the Committee include, in particular:
   - monitoring the integrity, adequacy and effectiveness of the banking risk management system, capital adequacy and allocation of internal capital to individual business lines and implementing the risk management policy executed as part of the Bank's adopted Strategy,
   - analysing and evaluating the utilisation of strategic risk limits set in the Banking Risk Management Strategy,
   - giving opinions on cyclical risk reports submitted for approval to the Supervisory Board and taking into account the information from the reports when issuing opinions.
3. The Loan Committee of the Bank, whose objective is to mitigate credit risk when making lending decisions or decisions concerning the bad debt management in PKO Bank Polski SA. The competencies of the Loan Committee include, in particular:
   - making decisions in matters relating to the segregation of competencies for making lending and selling decisions, managing bad debts, industry and client limits, and securing the liabilities of PKO Bank Polski SA,
   - issuing recommendations for the Management Board of PKO Bank Polski SA in matters relating to making decisions about lending transactions and changes in the material terms and conditions of these transactions, industry and client limits, specifying list of industries covered by the limits of bad debt management, equity exposure in the PKO Bank Polski SA Group entity.
4. The Operational Risk Committee, whose purpose is to ensure coordination and consistency of decisions made by the Bank as regards managing operational risk, by performing the following tasks:
   - determining the directions of operational risk management development,
   - supervising the operation of the operational risk management,
   - coordinating operational risk management within the Bank and in other entities of the PKO Bank Polski SA Group,
   - determining measures to be taken in case of an emergency which exposes the Bank to reputational risk and results in financial losses.
5. The Expenses Committee of PKO Bank Polski SA, whose tasks include specifically:
   - approval of expenditure related to the on-going operations costs arising from new agreements or annexes to agreements concluded, which give rise to an increase in the costs of the Bank's on-going operations, and approval to exceed the annual cost budget within the specified ranges, and giving opinions on expenditure and exceeding of the budget above the upper limit of the range,

- approval of project applications,
- approval of project plans with budgets up to a specified limit and giving opinions on project plans subject to approval by the Bank's Management Board,
- initiating activities in the scope of cost-cutting,
- making decisions on suspending the execution of projects, closing of projects and significant changes in projects with budgets up to a specified limit - in accordance with the internal regulations of the Bank concerning cost management and project and investment management.

6. The IT Architecture Committee of PKO Bank Polski SA, whose objective is to develop an IT architecture ensuring the implementation of the Bank's Strategy by performing the following tasks:
   - developing the key assumptions of the IT architecture of the Bank (the principles),
   - evaluating the IT architecture functioning in the Bank on a periodical basis,
   - developing a target architecture model,
   - initiating measures aimed at achieving the target architecture model.

II. Non-permanent committees

1. The Steering Committee for the Integrated IT System Project, whose purpose is to supervise actions related to the development of the Integrated IT System in PKO Bank Polski SA and to take decisions necessary to ensure proper and efficient implementation of new ZSI versions. The Committee's tasks include specifically:
   - accepting the assumptions and requirements of the ZSI Project,
   - supervising the strategic development of the ZSI Project,
   - approving priorities of the ZSI Project,
   - accepting the budget of the ZSI Project and potential changes to the budget,
   - resolving potential disputes arising during the implementation of the new versions of the system requiring its participation.
2. The Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39, whose purpose is supervising the execution of adaptation measures of PKO Bank Polski SA to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39. The Committee's tasks include specifically:
   - taking key decisions, and supervising and monitoring the progress of work related to PKO Bank Polski SA's adaptation to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39,
   - recommending changes relating to the schedule of adaptation activities,
   - ensuring cooperation of appropriate entities and organisational units in respect of executing the work,
   - preparing regulations relating to investment projects consisting of modifying PKO Bank Polski SA's IT system to ensure implementation of the above-mentioned requirements in the IT systems.
3. The Steering Committee for 'the Implementation of The Development Strategy of PKO Bank Polski SA for 2010-2012', whose objective is to effectively implement the strategy by overseeing the implementation of strategic activities and the execution of the Bank's strategic objectives. The Committee's tasks include in particular:
   - managing the activities associated with Strategy implementation,
   - accepting the timetable of Strategy implementation,
   - evaluating the budget for strategic initiatives (based on an opinion of the Expenditure Committee),
   - adopting decisions on the implementation of particular strategic initiatives, including an approval of expenditure relating to their execution,
   - monitoring the execution of strategic initiatives,
   - adopting key decisions necessary to ensure implementation of the Strategy,
   - solving any disputes arising in the course of work on implementing particular strategic initiatives.

4. The Private Banking Model Steering Committee, whose objective is to ensure the development and implementation of the private banking model in the Bank for the most affluent customers of the Bank. The Committee's tasks include in particular:
   - approving timetables of work on the development and implementation of the model,
   - adopting key decisions at the stages of developing the model and agreeing the project,
   - monitoring the execution of particular stages of the model development and implementation,
   - management of activities related to the development and implementation of the model and resolve any disputes arising in the course of work.

Moreover, in addition to those mentioned above, members of the Management Board also participated in the Steering Committees set up as a part of realised projects.

7.3 Additional information about managers and supervisors

7.3.1 Shares of PKO Bank Polski SA held by the Bank's authorities

The Bank's shares held by the members of the Management Board and the Supervisory Board of PKO Bank Polski SA as at 31 December 2011 are presented in the table below. The nominal value of each share is PLN 1.

Table 38. Shares of PKO Bank Polski SA held by the Bank's authorities

No.	Name	Number of shares as at 31 December 2011	Purchase	Disposal	Number of shares as at 31 December 2010
I.	**The Management Board of the Bank**				
1.	Zbigniew Jagiełło, President of the Bank's Management Board	9 000	4 000	0	5 000
2.	Piotr Alicki, Vice-President of the Bank's Management Board	2 627	0	0	2 627
3.	Bartosz Drabikowski, Vice-President of the Bank's Management Board	0	0	0	0
4.	Andrzej Kołatkowski[1], Vice-President of the Bank's Management Board	0	x	x	x
5.	Jarosław Myjak, Vice-President of the Bank's Management Board	0	0	0	0
6.	Jacek Obłękowski[1], Vice-President of the Bank's Management Board	512	x	x	x
7.	Jakub Papierski, Vice-President of the Bank's Management Board	3 000	3 000	0	0
II.	**The Supervisory Board of the Bank**				
1.	Cezary Banasiński, President of the Bank's Supervisory Board	0	0	0	0
2.	Tomasz Zganiacz, Vice-President of the Bank's Supervisory Board	0	0	0	0
3.	Jan Bossak, Member of the Bank's Supervisory Board	0	0	0	0
4.	Mirosław Czekaj, Secretary of the Bank's Supervisory Board	0	0	0	0
5.	Krzysztof Kilian[1], Member of the Bank's Supervisory Board	0	x	x	x
6.	Piotr Marczak, Member of the Bank's Supervisory Board	0	0	0	0
7.	Ewa Miklaszewska[1], Member of the Bank's Supervisory Board	0	x	x	x
8.	Marek Mroczkowski[1], Member of the Bank's Supervisory Board	0	x	x	x
9.	Ryszard Wierzba[1][2], Member of the Bank's Supervisory Board	2 570	x	x	x

1) Members of the Bank's Management Board and the Supervisory Board that assumed functions after 31 December 2010.
2) On 7 July 2011, Professor Ryszard Wierzba transferred all of his PKO Bank Polski SA shares to a 'blind portfolio' managed by DM of PKO Bank Polski SA. As a result of termination of the 'blind portfolio', PKO Bank Polski SA shares held by Professor Ryszard Wierzba, in the number indicated above, have been credited on his investment account on 8 September 2011.

As at 31 December 2011, Members of the Supervisory Board and the Bank's Management Board did not hold shares in companies related to PKO Bank Polski SA.

7.3.2 Agreements concluded between the issuer and managing persons

Within the meaning of § 2 clause 1 item 30a of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259 with subsequent amendments), members of the Management Board are persons managing the Bank.

In 2011, two agreements were signed with each of the Management Board's members, providing for compensation in the case of their resignation or dismissal:

– an employment contract providing for severance pay of 3 monthly basic salaries,
– a non-competition agreement, providing for damages for failure to comply with the noncompetition requirement during 6 months after termination of the employment relation, amounting to 100% of the monthly basic salary received before termination of the employment relation, to be paid monthly in arrears during the non-competition period.

7.3.3 Benefits for supervisors and managers

Principles of remuneration of the Management Board members

In 2011, members of the Bank's Management Board were paid according to the principles implemented by the Supervisory Board starting from 1 February 2010. In accordance with the new rules, members of the Management Board of the Bank are entitled to remuneration as determined by the Bank's Supervisory Board and to additional benefits specified in the Bank's internal regulations. In addition, members of the Management Board may be granted:

– an annual bonus, at an amount determined by the Supervisory Board of the Bank, conditional on the financial performance or the degree of completion of other tasks,
– in justified cases – an additional bonus at an amount determined by the Supervisory Board of the Bank.

Principles of the remuneration of Supervisory Board members

Ordinary General Shareholders' Meeting of PKO Bank Polski SA Resolution No. 36/2010 of 25 June 2010 established the monthly salary for members of the Supervisory Board of:

a) President of the Bank's Supervisory Board – PLN 16 000,
b) Vice-President of the Bank's Supervisory Board – PLN 14 000,
c) The Secretary of the Bank's Supervisory Board – PLN 12 000,
d) Member of the Bank's Supervisory Board – PLN 10 000.

Supervisory Board members are entitled to remuneration regardless of the frequency of meetings convened. Regardless of the remuneration, the Members of the Supervisory Board are entitled to reimbursement of the costs incurred in connection with performing the function, and in particular travel costs from the place of residence to the location of the Supervisory Board's meeting and back, costs of accommodation and board.

Table 39. Remuneration received by managers and supervisors (in PLN thousand)

Specification	Remuneration received from PKO Bank Polski SA	Remuneration received from related entities*
The Bank's Management Board		
Remuneration of Members who were entrusted with the duties as at 31.12.2011	8 597	40
Remuneration of Members who ceased to be entrusted with the duties in the course of 2011	2 340	7
Total remuneration in 2011	**10 937**	**47**
Remuneration of Members who were entrusted with the duties as at 31.12.2010	6 143	115
Remuneration of Members who ceased to be entrusted with the duties in the course of 2010	688	23
Total remuneration in 2010	**6 831**	**137**
The Bank's Supervisory Board		
Remuneration of Members who were entrusted with the duties as at 31.12.2011	948	-
Remuneration of Members who ceased to be entrusted with the duties in the course of 2011	140	-
Total remuneration in 2011	**1 088**	**-**
Remuneration of Members who were entrusted with the duties as at 31.12.2010	566	-
Remuneration of Members who ceased to be entrusted with the duties in the course of 2010	55	-
Total remuneration in 2010	**621**	**-**

** Other than the State Treasury and the State Treasury's related entities.*

Full information concerning remuneration and other benefits provided to members of PKO Bank Polski SA's Management and Supervisory Boards during the reporting period has been presented in the Financial Statements of PKO Bank Polski SA for the year 2011.

8. OTHER INFORMATION

Off-balance sheet commitments granted

At the end of 2011, guarantees and other financial off-balance sheet commitments granted with respect to related parties amounted to PLN 1 712.6 million remained stable as compared to the end of 2010.

The largest commitments related to the following entities:

- Bankowy Fundusz Leasingowy SA – PLN 1 043.2 million,
- Bankowy Leasing Sp. z o.o. – PLN 224.5 million,
- KREDOBANK SA – PLN 172.3 million.

All transactions with related parties were concluded at an arm's length.

The details of related party transactions are presented in the consolidated financial statements of PKO Bank Polski SA Group for 2011.

Reacquisition of own shares

During the period covered by this Report, PKO Bank Polski SA did not re-acquire its shares on its own account.

Significant contracts and important agreements with the central bank or supervisory authorities

1. In 2011, PKO Bank Polski SA disclosed in its current reports all the agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259).
2. In 2011, the Bank did not conclude any significant agreements with the central bank or with the regulators.
3. As at the date of the financial statements, PKO Bank Polski SA is not aware of any agreements as a result of which changes may occur in the future in the proportions of shares held by the current shareholders.
4. On 30 June 2011 the Bank concluded the agreements for opening letters of credit, concerning the opening for the Client of letters of credit totalling PLN 2 258 million for financing the Client's activities. These agreements were concluded for a period from 30 June 2011, and the longest validity period of the letters of credit opened in accordance with the Agreement for opening letters of credit cannot be longer than until 30 June 2021. The Agreements for opening letters of credit were secured by paying a certain amount of money (deposit) to the Bank's account. The amount of such a deposit shall be equal to the maximum combined amount of the letters of credit opened by the Bank for the Client under the Agreement for opening letters of credit, which are valid at the same time.
5. On 30 June 2011 PKO Bank Polski SA signed a syndicated loan agreement concerning a syndicated loan granted to the Client by a consortium of five banks including PKO Bank Polski SA, which includes i.a. a tranche of an amortised investment loan of PLN 3 400 million, a tranche of a non-amortised investment loan of EUR 448 million and PLN 600 million, and a tranche of revolving working capital loan of PLN 600 million. The share of PKO Bank Polski SA in these tranches amounts to PLN 600 million, PLN 510 million and PLN 90 million respectively. The participation of PKO Bank Polski SA in the syndicated loan is limited to the above-mentioned tranches. The term of the syndicated loan provided by PKO Bank Polski SA is up to 6.5 years. The tranches bear interest based on the WIBOR/EURIBOR rate plus the Bank's margin. In accordance with the Syndicated Loan Agreement, the margin depends on the selected financial ratio of the Client. The liability resulting from the loan granted under the agreement was secured with registered pledges and transfers of receivables (among other things) (Current Report No. 37/2011).
6. In connection with the a syndicated loan agreement referred to above, on 3 November 2011 the Bank signed an annex as part of which an additional tranche of the investment loan in the amount of PLN 1 753 million was introduced, and as part of the syndication process the Bank concluded an exposure transfer agreement resulting in increasing the exposure by PLN 400 million. At the same time, the Bank's share in the remaining tranches decreased from PLN 1 200 million to PLN 1 000 million. The Bank's total exposure in respect of the agreements concluded with the client is PLN 1 400 million. The lending period as part of the Additional Tranche is up to 84 months from the date of launching the Additional Tranche for the first time. The interest rate of the Additional Tranche is based on WIBOR plus the Bank's margin (Current Report No. 73/2011).

7. On 20 April 2011, KREDOBANK SA signed with the National Bank of Ukraine a two-year agreement. Information about the above mentioned agreement is included in the section on activities taken by PKO Bank Polski SA towards KREDOBANK SA.

The other PKO Bank Polski SA Group companies did not conclude any significant agreements with the Central Bank or with the regulators.

Neither did the PKO Bank Polski SA Group companies conclude any significant agreements in 2011.

Guarantees and financial commitments

As at 31 December 2011, the total value of guarantees and financial commitments granted amounted to PLN 36 890.4 million, with financial commitments making up 82.6% of this amount. Total rate of growth of guarantees and financial commitments granted increased by 0.3% (y/y) with the decrease of guarantees granted (-11.6% y/y).

Table 40. Off-balance sheet items (in PLN million)

Items	31.12.2011	31.12.2010	Change (in PLN million)	Change 2011/2010
Financial liabilities granted:	**30 455.7**	**29 505.0**	**950.6**	**3.2%**
financial entities	1 145.0	752.1	392.9	52.2%
non-financial entities	28 486.8	27 747.3	739.4	2.7%
State budget entities	823.9	1 005.6	(181.7)	-18.1%
of which: irrevocable	*5 946.1*	*7 001.3*	*(1 055.3)*	*-15.1%*
Gurantees liabilities issued	**6 434.7**	**7 280.4**	**(845.6)**	**-11.6%**
financial entities	6 053.1	4 792.4	1 260.8	26.3%
non-financial entities	207.2	2 234.2	(2 027.1)	-90.7%
State budget entities	174.5	253.8	(79.3)	-31.3%
Total	**36 890.4**	**36 785.4**	**105.0**	**0.3%**

Loans and advances taken, guarantees and suretyships agreements

In 2011, PKO Bank Polski SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

In 2011, KREDOBANK SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

Underwriting agreements and guarantees issued to the subsidiaries

1. On 10 November 2011, PKO Bank Polski SA signed another Underwriting Agreement of a Bond Issuance Program with Bankowy Fundusz Leasingowy SA ('the Agreement'). The Agreement was concluded for the period ending 10 November 2016. In accordance with the above-mentioned agreement, on each day of the Agreement's validity the total nominal value of bonds issued and not redeemed by the Company based on the current and the previous Agreement dated 14 December 2006, will not exceed PLN 600 million.
2. As at 31 December 2011, Bankowy Fundusz Leasingowy SA issued bonds for a total amount of PLN 345 million, including bonds with a value of PLN 191 million which were sold on the secondary market, and bonds with a value of PLN 154 million were included in the portfolio of PKO Bank Polski SA.
3. In 2011, PKO Bank Polski SA granted:

1) guarantees to Bankowy Fundusz Leasingowy SA
   - up to the amount of PLN 179 thousand to the benefit of Centrum Finansowe Puławska Sp. z o.o. in respect of a rental agreement; the guarantee was issued for the period to 3 August 2012,
   - up to the amount of EUR 46 000 thousand to the benefit of European Investment Bank as a guarantee of loan repayment; the guarantee was issued for the period to 17 June 2019,
   - up to the amount of EUR 57 500 thousand to the benefit of the Council of Europe Development Bank (CEB) as a guarantee of loan repayment; the guarantee was issued for the period to 30 June 2020,

2) guarantees to Centrum Elektronicznych Usług Płatniczych eService SA:
   - up to the amount of PLN 240 thousand to the benefit of Garrick Investments Sp. z o.o. in respect of a rental agreement; the guarantee was issued for the period to 31 December 2012,
   - up to the amount of PLN 250 thousand to the benefit of P4 Sp. z o.o. in respect of a trade agreement concluded; the guarantee was issued for the period to 30 September 2014,
   - up to the amount of PLN 500 thousand to the benefit of Polska Telefonia Cyfrowa SA in respect of a trade agreement concluded; the guarantee was issued for the period to 30 September 2012,

- up to the amount of PLN 650 thousand to the benefit of Polkomtel SA in respect of a trade agreement concluded; the guarantee was issued for the period to 30 September 2014,
- up to the amount of PLN 1 050 thousand to the benefit of Polska Telefonia Komórkowa – Centertel Sp. z o.o. in respect of a trade agreement concluded; the guarantee was issued for the period to 30 September 2014,

3) a guarantee up to the amount of PLN 593 thousand to PKO BP Finat Sp. z o.o. to the benefit of Salzburg Center SA in respect of a rental agreement; the guarantee was issued for the period to 31 July 2018,
4) a guarantee up to the amount of PLN 105 thousand to PKO Towarzystwo Funduszy Inwestycyjnych SA to the benefit of Centrum Finansowe Puławska Sp. z o.o. in respect of a rental agreement; the guarantee was issued for the period to 31 December 2011,
5) a guarantee up to the amount of PLN 820 thousand to Qualia Spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. to the benefit of the Commune of the City of Gdansk in respect of a contract for building a road, the guarantee was issued for the period to 31 December 2013.

Information about the termination of the guarantees issued by PKO Bank Polski SA to KREDOBANK SA is included in the section on activities taken by the Bank towards KREDOBANK SA.

Enforceable titles issued by the Bank

In year 2011, PKO Bank Polski SA issued 39 795 banking enforceable titles for a total amount of PLN 2 123 071 466.77.

In the case of Kredobank SA, the Ukrainian law does not allow to issue enforceable titles as defined in the Polish Banking Law. In accordance with the Ukrainian law, bank liabilities are pursued in a court of law based on the provisions of the Code of Civil Procedure.

Debt write-offs

In 2011, impairment write-downs on loans and borrowings granted to customers in the PKO Bank Polski SA Group were reduced by PLN 1 170.2 million.

Proceedings pending in the court, arbitration tribunal or public administrative authority

As at 31 December 2011, the total value of court proceedings against the Bank amounted to PLN 337 557 thousand, while the total value of proceedings initiated by the Bank amounted to PLN 141 394 thousand. No court proceedings with the participation of the Bank are in progress, the value of which amounts to at least 10% of the equity.

No other Group's entities have conducted any proceedings pending before court, arbitration tribunal or public administrative authority concerning liabilities or receivables, the value of which amounts to at least 10% of the equity of PKO Bank Polski SA.

Proxies, Management Board meetings and execution of the resolutions of the General Shareholders' Meeting and the guidelines of the Minister of the State Treasury

PKO Bank Polski SA had 6 proxies on 1 January 2011; one proxy was appointed during the year and one was dismissed. As at 31 December 2011, the Bank had 6 proxies. In 2011, the Bank's Management Board held 63 meetings and adopted 644 resolutions.

Resolutions of the General Meeting adopted in 2011, which recommended undertaking specific actions, were executed.

Major actions and decisions of the Management Board, which affected the Bank's financial position and operations, are presented in different parts of this Directors' Report.

Factors which will determine future financial results of the PKO Bank Polski SA Group

In the near future, results of the PKO Bank Polski SA Group will be affected by economic processes which will occur in Polish and global economies and financial markets responses to them. A huge impact on future results will have the interest rate policy implemented by Monetary Policy Board (RPP) as well as other biggest central banks.

Additionally, the results of PKO Bank Polski will be impacted by the economic conditions in Ukraine where operates the Bank's subsidiary – KREDOBANK SA and new entities in the Bank's Group: factoring and debt collection company, which were acquired in order to finalise the loan portfolio restructuring of KREDOBANK SA. PKO Bank Polski SA is continuing activities to ensure the safe operation of KREDOBANK SA, covering the strengthening of supervisory activities and monitoring the funds transferred by the Bank in the form of a capital increase and loans and borrowings granted, as well as developments in the regulatory requirements of the National Bank of Ukraine.

Information on guarantees or warranties on loans and advances granted by the issuer or by the issuer's subsidiary – cumulatively to a single entity or its subsidiary, if the total value of outstanding warranties and guaranties constitutes at least 10% of the issuer's equity

In 2011 PKO Bank Polski SA did not issue any guarantees in respect of loans or advances and did not issue any warranties to a single entity or its subsidiary thereof with a total value accounting for 10% of the Bank's equity.

In 2011 subsidiaries of PKO Bank Polski SA did not grant any guarantees or warranties on loans or advances to a single entity or its subsidiary that would constitute at least 10% of the Bank's equity.

Information on any transaction or a number of transactions concluded by the issuer or its subsidiary with related parties, if they are essential and were concluded not on arm's length

In 2011, PKO Bank Polski SA did not conclude any material transaction with related parties not on arm's length.

In 2011 the subsidiaries of PKO Bank Polski SA did not conclude any material transaction with related parties not on arm's length.

Post balance sheet significant events

1. On 9 January 2012, in the Qualia Development Sp. z o.o. Group were concluded new companies agreements: Qualia Spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka Komandytowa, Qualia Spółka z ograniczoną odpowiedzialnością - Zakopane Spółka Komandytowa, Qualia Spółka z ograniczoną odpowiedzialnością- Jurata Spółka Komandytowa. These companies were created in order to realisation of investment projects. The registration of above-mentioned companies in the National Court Register is ongoing.
2. On 10 January 2012, the Bank signed an agreement with one of the client of PKO Bank Polski SA ('the Customer') for opening and maintaining consolidated accounts and execution of mass payments for a period of 4 years. As part of the agreement, the Bank will grant an intra-day credit limit of up to PLN 2 080 000 000. In the event of failing to repay the debit balance arising on a given day, the Bank will be entitled to suspend the execution of the Customer's orders until the debit balance is covered in full. In such case, the Bank shall be entitled to default interest in the amount of statutory interest. The total exposure of the Bank in respect of the agreements concluded by the Bank with the Customer and its subsidiaries in the last 12 months is PLN 4.6 billion.
3. On 16 January 2012, PKO Bank Polski SA was registered with the State Ukrainian Register of Businesses as the sole shareholder of 'Inter-Risk Ukraina' Spółka z dodatkową odpowiedzialnością (additional liability company) with its head office in Kiev (the additional liability means that the shareholder is responsible for the company's liabilities up to 103% of its share). PKO Bank Polski SA acquired 1 share constituting 100% of the Company's share capital which entitles it to 100% of votes at the shareholders' meeting. The acquisition cost was PLN 2 500 thousand. On 30 January 2012, the Bank made capital injection of UAH 43 million (PLN 17 212.9 thousand) to the above mentioned Companies. The main purpose of acquiring and then the operation of the Company is to use it to perform effective debt collection of the impaired loans portfolio of KREDOBANK SA and the impaired loans portfolio purchased by Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.
4. On 27 January 2012 Qualia Development Sp. z o.o. made an additional payment to the company Qualia Residence Sp. z o.o. amounted to PLN 13 000 thousand.
5. On 31 January 2012 was signed a sales agreement of a Holiday and Recreation Center 'Daglezja' in Zakopane by the Bank with the company Qualia Residence Sp. z o.o.

6. On 31 January 2012, the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 9 500 thousand, was registered with the National Court Register. All the shares were taken up by Bankowy Fundusz Leasingowy SA – the Bank's subsidiary - for the price equal to the nominal value of the shares taken up.
7. On 10 February 2012, the Bank carried out an issuance of own bonds on the basis of the programme for issuing bonds on the domestic market. The nominal value of bonds issued as a part of the programme amounted to PLN 1.5 billion. The nominal value of one bond amounted to PLN 100 thousand. Bonds issued as a part of the programme are bearer, zero coupon and discount. Redemption of bonds issued as a part of the programme will be carried out at the nominal value.
8. In January and February 2012, PKO Bank Polski SA made a capital contribution to Qualia Development Sp. z o.o. in the total amount of PLN 35 319 thousand.
9. In February 2012, PKO Bank Polski SA carried out a transaction consisting of selling 2% interest in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. to 'Inter-Risk Ukraina' Additional Liability Company. The above-mentioned transaction was carried out as part of the process of transforming Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. into a subsidiary of 'Inter-Risk Ukraina' Additional Liability Company.
10. In 2012 during the period to the publication of the report the Bank conducted activities connected with the liquidation of Centrum Finansowe Puławska Sp. z o.o., PKO Bank Polski SA took over the Company's assets. On 1 March 2010, in order to take over its assets, including property, in which is the Bank's Head Office is located.

Declaration of the Management Board

The Management Board of PKO Bank Polski SA certifies that, to the best of its knowledge:

1) The yearly financial statements and comparative data have been prepared in accordance with binding accounting and reporting standards and present a true and fair view of financial condition and results of operations of the PKO Bank Polski SA Group,
2) The yearly Directors' Report presents a true and fair view of the progress and achievements as well as condition of the PKO Bank Polski SA Group, including a description of the basic risks and threats.

The Management Board of PKO Bank Polski SA certifies that the entity authorised to audit the financial statements and which is performing the audit of financial statements, has been elected in compliance with applicable laws. The entity as well as the certified auditors performing the audit fulfilled all criteria for providing unbiased and independent audit opinion in compliance with applicable laws and professional requirements.

The Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group Directors' Report for the year 2011 consists of 93 numbered pages

_ _
President of the Management Board
Zbigniew Jagiełło

_ _
Vice-President of the Management Board
Piotr Alicki

_ _
Vice-President of the Management Board
Bartosz Drabikowski

_ _
Vice-President of the Management Board
Andrzej Kołatkowski

_ _
Vice-President of the Management Board
Jarosław Myjak

_ _
Vice-President of the Management Board
Jacek Obłękowski

_ _
Vice-President of the Management Board
Jakub Papierski