



**PKO BANK POLSKI
SPÓŁKA AKCYJNA**

**THE PKO BANK POLSKI SA GROUP
DIRECTORS' REPORT
FOR THE YEAR 2010**

WARSAW, MARCH 2011



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1. INTRODUCTION

1.1 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, 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. It is also among the oldest, operating financial institutions in the country. In 2010, the Bank celebrated the 91th anniversary of its establishment (Pocztowa Kasa Oszczędności (PKO) was established on 8 February 1919). Since its establishment, the Bank had been consistently developing the prestige of its brand and providing services to many generations of Poles. The long tradition and clients' confidence are the source of an obligation to the Bank. 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 the biggest bank for corporate clients and small and enterprises 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) and voivodeships and budget sector. It is also the most important organizer of issues of municipal bonds. The high client service standards and effective credit risk assessment procedures enabled the the PKO Bank Polski SA Group to increase its gross loan portfolio by ca. 12.5% to the level of PLN 135.5 billion in 2010. With regard to consumer loans, the market share of PKO Bank Polski SA reached 20%, whereas the profound clients' confidence resulted in over 6.3% increase in deposits, which reached the level of PLN 133.0 billion.

In 2010, the Bank continued its activities concerning the efficiency of the expenditure and costs incurred, which manifested in a selective approach towards the distribution network. As at the end of 2010, the largest network of branches in Poland comprised 1 208 branches and 1 942 agencies. Clients can use the 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 2010, there were 2 419 ATM machines.

The PKO Bank Polski SA Group is one of the largest employers in Poland. As at the end of 2010, the Group employed 29 780 people. The comprehensive learning and education offer addressed to the employees is aimed at building loyal and competent staff, adapting easily and quickly to changes in the economic environment and achieving high performance.

Apart from the strictly banking operations, 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 in the real estate sector.



1.2 Selected financial data of the PKO Bank Polski SA Group

	2010			2009			Change 2010/2009
NET PROFIT	PLN	3 216.9	million	PLN	2 305.5	million	39.5%
RESULT ON BUSINESS ACTIVITIES*	PLN	10 197.6	million	PLN	8 867.8	million	15.0%
ADMINISTRATIVE EXPENSES	PLN	(4 249.1)	million	PLN	(4 243.8)	million	0.1%
NET IMPAIRMENT ALLOWANCE	PLN	(1 868.4)	million	PLN	(1 681.1)	million	11.1%
C/I		41.7%			47.9%		-6.2 pp.
ROE net		14.9%			14.8%		0.1 pp.
ROA net		2.0%			1.6%		0.4 pp.

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

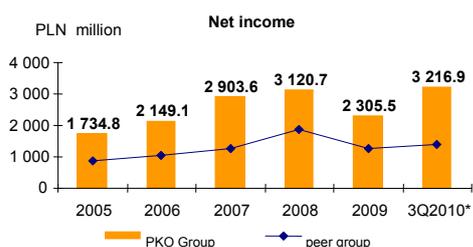
In 2010, net profit of the PKO Bank Polski SA Group amounted to PLN 3 216.9 million, which equals to an increase by 39.5% i.e. by PLN 911.3 million as compared to the previous year. Earned net profit was determined by the following factors:

- ⇒ high result on business activities of the PKO Bank Polski SA Group, which amounted to PLN 10 197.6 million (+15.0% y/y), mainly as a result of:
 - increase in net interest income by 29% y/y - mainly due to increase in interest income related to loans to customers (+12.8% y/y), offset by a decrease in interest costs (-2.0% y/y),
 - increase in net fee and commission income by 21.7% y/y - mainly due to achieving higher fee and commission income related to loans and loans insurance, as well as commission income related to investment funds and payment cards service,
 offset by decrease in net foreign exchange gains (-61.9% y/y) and net other income and expenses (-32.7% y/y),
- ⇒ stable level of administrative expenses (+0.1% y/y); along with positive growth rate of income of the PKO Bank Polski SA Group, the C/I ratio declined by 6.2 pp. y/y to 41.7%,
- ⇒ increase in negative result on net impairment allowance (+11.1% y/y), mainly on corporate loans,
- ⇒ increase in the PKO Bank Polski SA Group's total assets by PLN 13.2 billion (y/y) to the level of PLN 169.7 billion resulting from an intensive growth of the sales of loans financed by the increase in deposits from customers as well as the issue of Eurobonds,
- ⇒ secure and effective structure of the statement of financial position – an increase in deposits of the PKO Bank Polski SA Group by PLN 7.9 billion and issue of Eurobonds enabled a dynamic growth of business activities; as at the end of 2010, the ratio of loans to deposits (amounts due to customers) of the PKO Bank Polski SA Group amounted to 98.3%, (ratio of loans to stable sources of financing¹ amounted to 92.0%).

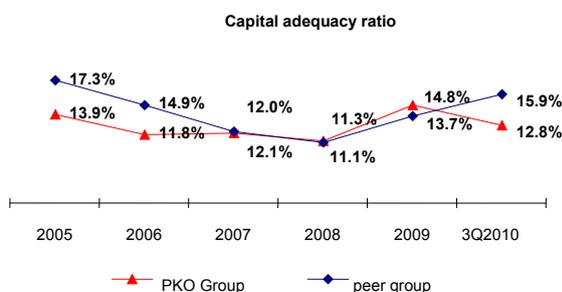
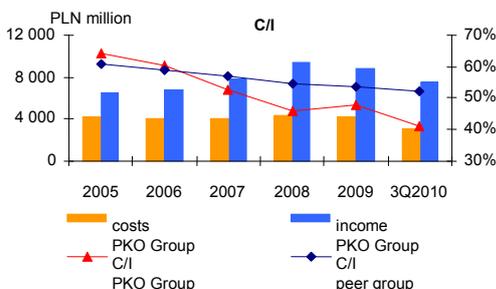
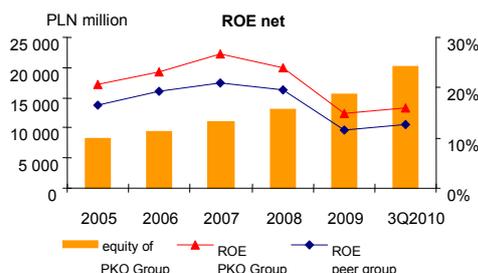
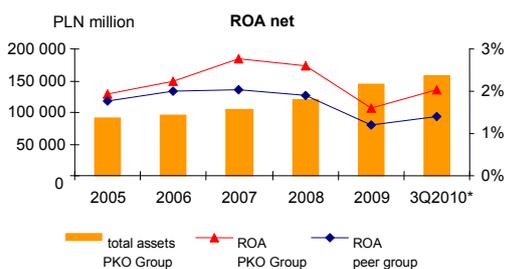
¹ Stable sources of financing include amounts due to customers and long-term external financing in the form of: the issuance of securities, including funds from the issuance of Eurobonds borrowed from PKO Finance AB, subordinated liabilities and amounts due to financial institutions.



1.3 The PKO Bank Polski SA Group against its peer group²



* The value of net profit in 3Q 2010 for particular banks was adopted as a sum of net profit recognized in 3Q2010 and in 4Q2009.



The relatively more favorable (as compared to 2009) macroeconomic environment in the Polish economy, the stabilization in interest rates and decreasing costs of financing as well as the high costs of credit risk translated into a stabilization of the profits recorded by banks in 2010.

In 2010, the PKO Bank Polski SA Group achieved very good financial results, significantly better than the average for its peers.

In 2010, financial results were influenced by more favorable macroeconomic condition, accompanied by increase in net interest income of banks and lower than in 2009 increase in costs of credit risk. In 2010, credit portfolio quality stabilized.

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 high return on assets.

The rate of the increase in net profit level of the entire banking sector in 2010, compared with that achieved in 2009, accompanied by accumulation of earnings in equity, resulted in a stabilization in return on equity.

In 2010, the PKO Bank Polski SA Group maintained its profitability at high level (considerably above the average level of the peer group).

In 2010, Polish banking sector continued its activities aiming at reducing operating expenses. Banks kept on hiring fewer employees as compared to previous years. There was also a selective approach towards the development of the branch network and an intensive growth of e-banking.

In 2010, the PKO Bank Polski SA Group maintained the relation of costs to income at a very low level – as a result of rapidly growing business activities accompanied by stable level of costs.

The capital adequacy of the banking sector in 2010 remained stable, mainly due to the profit accumulation. As a result, further improvement in the capital adequacy ratio was observed in the whole sector.

The level of capital adequacy ratio in the PKO Bank Polski SA Group remained at a stable 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 2005-2009), and due to lack of publications of some of the banks from the peer group consolidated annual reports for 2010 before publication date of consolidated PKO Bank Polski SA Group's financial statements, as data representing trends in 2010 there was adopted data from 3Q 2010 of these banks. All data is weighted by total assets.



2. EXTERNAL BUSINESS ENVIRONMENT

2.1 Macroeconomic environment

In 2010, after the dramatic slowdown associated with the crisis in 2009, Poland experienced an economic recovery following the improved economic situation in the USA and in the euro area. In 2010, the GDP in Poland increased by 3.8% y/y, compared with 1.7% in 2009. The GDP growth was largely affected by the inventory rebuilding process (after its sudden reduction in 2009) and slightly less by the private consumption growth. For the second year in a row, the GDP growth was negatively affected by investments, mainly due to the continued drop in the number of investments being carried out by enterprises, accompanied by a stable increase in public investments in infrastructure. In spite of a noticeable increase in exports, the recovery in imports resulted in the balance of trade being a neutral factor for the GDP growth.

The improved economic activity in 2010 resulted in employment growth in the business enterprise sector of 0.8% y/y compared with a 1.2% drop in 2009, and an annual registered unemployment rate increase of 0.2 pp to 12.3% in December 2010. The salary growth in the business enterprise sector slowed to 3.3% in 2010 compared with 4.4% in 2009. The annual growth in employee pensions and disability benefits amounted to 6.5% in 2010 compared with 8.7% in 2009.

In 2010, the average annual inflation rate measured with the consumer price index dropped to 2.6% y/y from 3.5% y/y in 2009. During the first seven months, the inflation rate dropped to 2.0% y/y in July, which resulted mainly from the decrease in the net core inflation rate (the effect of the weak demand and cost pressures) and the lower growth in fuel and food prices. In the last months of the year, the trend was reversed and the growth of consumer prices accelerated to 3.1% y/y in December, which was an effect of the accelerated growth in food prices (the effect of crop failure on the domestic market of fruit and low cereal crop yields), the increase in energy prices and the strong growth in fuel prices in December.

In accordance with the 'Monetary Policy Guidelines for 2010', the monetary policy objective was to maintain inflation at 2.5%, with a symmetrical tolerance range for deviations of +/- 1 percentage point. Although in 2010, the GDP growth clearly accelerated, the less favorable growth structure, the continued risks for the global economic growth outlook (uncertainty as to the effectiveness of the economic policy measures implemented) and the strong drop in the core inflation rate, resulted in the stabilization of NBP interest rates over the entire year on an unchanged level of 3.50% for the NBP reference rate.

The appreciation of the zloty initiated in 2009 was temporarily stopped in April 2010 in connection with the sudden increase in risk aversion caused by the debt crisis in Greece. The stabilization measures, namely the EU-IMF stabilization loan and the purchase of bonds on the secondary market by the European Central Bank stopped the growth in risk premium and the depreciation of Central and Eastern Europe currencies. In the second half of the year, the zloty strengthened more slowly. Throughout the whole of 2010, it strengthened by 3.6% against the euro and weakened by 4.0% against the US dollar and 14.4% against the Swiss franc.

In the first half of the year the situation on the interbank market clearly improved with regards to mutual confidence among banks - the market participants. As a result, the WIBOR rates dropped noticeably. With the stabilizing situation on the global markets and the domestic interbank market, in the 4th quarter the NBP withdrew from conducting liquidity-providing tuning repo transactions, carried out monthly since 2009. In the second half of the year, the situation remained stable, the improved transactionability in shorter terms was not observed in the case of loans above 1 month.

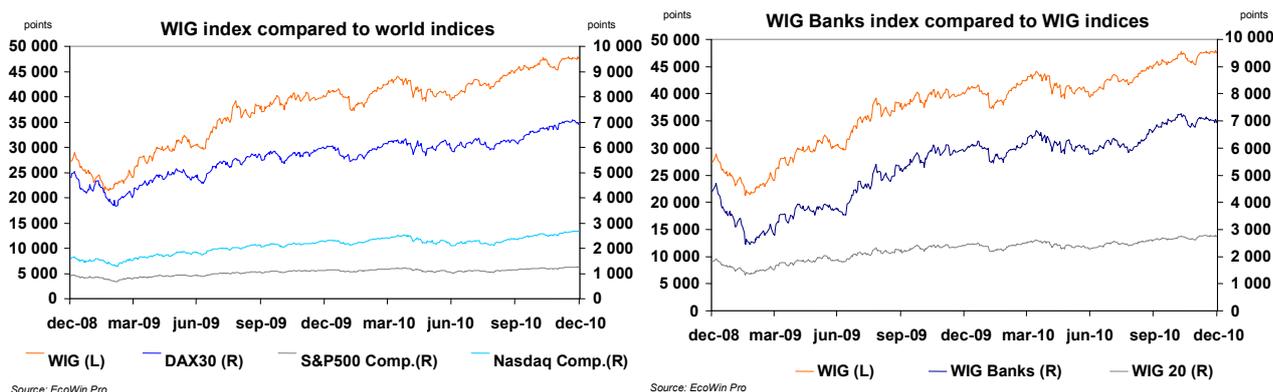
2.2 The situation on the stock exchange

In 2010, the situation on the main market of the Warsaw Stock Exchange continued to be influenced by the situation on foreign stock exchanges. The WIG index recorded an annual growth of 19% compared with the increase in the American indices: *S&P500 Comp.* of 17% and *Nasdaq Comp.* of 17% and the German DAX30 of 16%. In 2010, the annual growth rates of the main WSE indices increased with the two-digit pace but were significantly lower than the growth rates in 2009. The index of medium-size enterprises mWIG40 recorded the strongest growth (+20% y/y). The WIG-Banks index (+18% y/y) grew more slowly than the main index (+19% y/y) and so did the WIG20 index for the largest companies (+15% y/y). The weakest growth was recorded in the sWIG80 index for small and medium companies (+10% y/y). As at the end of 2010, WIG reached the level of 47 490 points and WIG Banks of 6 921 points.

As at the end of 2010, 400 companies were listed on the main WSE market, including 25 foreign companies (compared with 379 and 25 respectively in 2009). In 2010, 34 companies conducted their IPOs on the main WSE market (compared with 13 in 2009), including three large IPOs: PZU SA



the offering value of PLN 8.1 billion), Tauron Polska Energia SA (PLN 4.2 billion) and GPW SA (PLN 1.2 billion).



The good situation on the stock exchange and the increased number of companies listed on the main market resulted in the increased capitalization of the companies listed on the main WSE market, which increased by 10.3% in 2010 (compared with 53.9% y/y in 2009) to PLN 789 billion.

The level of activity on the WSE affected the situation on the banking and non-banking financial market, including the valuation of banks listed on WSE, the increased percentage of shares and investment funds in household savings accompanied by a drop in the share of bank placements and the increased value of assets of investment and pension funds.

2.3 The situation of the Polish banking sector

In 2010, the gradual improvement of the macroeconomic environment had a positive effect on the situation of the Polish banking sector. The financial results continued to be largely affected by the credit risk accumulated in the banks' loan portfolios, being the result of lenient lending policies before the crisis. In the prior year, however, the quality of the loan portfolio stabilized and credit risk costs increased less.

The growth in impaired loans was slower than in 2009 and their share in total loans was gradually stabilizing to 8.8% as at the end of 2010 compared with 7.9% as at the end of 2009. This situation was due to the lower growth of the share of non-performing loans in the total corporate loans, which amounted to 12.3% as at the end of 2010 compared with 11.5% as at the end of 2009. However, the continued deterioration in the quality of household loans resulting mainly from the growing share of non-performing loans in total consumer loans, had a negative effect on the situation. The share of impaired household loans increased to 7.2% from 6% as at the end of 2009, including an increase of 17.2% for consumer loans compared with 13.1% respectively.

The situation on the market for deposits and loans was affected by the recovery in the market for housing loans, the slowdown in lending activity in respect of consumer loans and corporate loans, accompanied by the low demand for these loans, and a lower increase in deposits. The volumes of loans and deposits were strongly affected by foreign exchange fluctuations, including the depreciation of the Polish currency against the Swiss franc (14.4% y/y), which increased the value of foreign currency loans expressed in zloty. Foreign currency loans represented ca. 39% of the value of household loans (with the Swiss franc playing the dominating role).

After the adjustment for foreign exchange fluctuations, the increase in the loan portfolio in 2010 was lower than in 2009. Total loans increased by ca. PLN 47 billion compared with PLN 64 billion in 2009 and their growth dropped to 7% y/y, compared with 10.4% as at the end of 2009. The portfolio growth mainly related to household loans, whose volume grew due to the recovery on the housing loans market. The easing of the banks' lending policies, including the cuts in lending margins as a result of the growing competition on the housing loans market had a positive effect on the situation. The value of the housing loans portfolio after taking into account foreign exchange rate fluctuations increased by ca. PLN 31 billion compared with PLN 24 billion in 2009 and the growth rate accelerated to 16% y/y.

The lending activities in respect of consumer loans were limited. As a result of the deterioration in the quality of the said loan portfolio, banks continued their restrictive lending policies in respect of these loans. In 2010, the growth of the consumer loans portfolio after taking account of foreign exchange rate fluctuations, dropped to PLN 1.5 billion compared with ca. PLN 16 billion in 2009 and the growth rate decelerated to 1.1% y/y.



As in 2009, the value of corporate loans continued to drop. In spite of the fact that banks were gradually easing their lending policies towards enterprises, the continued uncertainty in the pursuit of the business activities and the low demand for these loans were growth barriers to lending. After eliminating foreign exchange rate fluctuations, the drop in the value of corporate loans was ca. PLN 2.5 billion but the scale of the decrease dropped to -1.2% y/y compared with -3.3% y/y at the end of 2009.

During 2010, the deposit base grew less dynamically than in the years 2008-2009. The growth of total deposits slowed down to 9.1% y/y compared with 10.8% y/y in 2009 and ca. 20% y/y in 2008. The total increase in deposits amounted to ca. PLN 60 billion, including an increase in household deposits of ca. PLN 37 billion and an increase in corporate deposits of ca. PLN 18 billion. The increase in deposits was positively affected by the better situation on the labour market than in the prior year and the good financial results of enterprises, as well as their continued low investment activity. On the other hand, it was negatively affected by the increased competitiveness of the alternative forms of saving, mainly investment funds.

2.4 The situation of the Polish non-banking sector

Investment funds sector

In 2010, the positive trend on the investment funds market continued, fuelled by the good situation on the Warsaw Stock Exchange and the positive balance of inflow of new funds. The growth of the investment funds market in 2010 was slower than in 2009 (23.8% compared with 26.4% y/y respectively). In 2010, the investment fund assets increased to PLN 115.6 billion, i.e. by ca. PLN 22.2 billion compared with PLN 19.5 billion in 2009. This was the result of a positive balance of payments and cancellations (+PLN 12.2 billion compared with PLN 3.1 billion in 2009) and a positive result on asset management (+PLN 9.9 billion compared with PLN 16.9 billion in 2009). Investors remained cautious in allocating resources to funds related to the share market, which resulted in an inflow of net resources to monetary and cash funds of ca. PLN 6 billion compared with PLN 0.5 billion net inflow to share funds. The situation on the funds market had a positive effect on non-interest income of banks participating in their distribution.

The market of open pension funds

In 2010, the assets of open pension funds increased to PLN 221.3 billion, i.e. by PLN 42.7 billion (23.9%) compared with PLN 40.4 billion in 2009. This situation was mainly due to the inflow of new funds from the Social Insurance Institution of PLN 21.6 billion after taking into account the fees charged by pension fund management companies (i.e. 10% more than in 2009) and a similar result on asset management (+PLN 21.1 billion), which was due to the improved situation on the market for shares and bonds. As at the end of 2010, the total value of shares in which open pension funds held more than 1% exceeded PLN 35 billion.

The lease market

After a period of a strong slow-down in 2008 (+0.9% y/y) and a contraction in 2009 (-30% y/y), in 2010 the value of new lease transactions executed was 18.7% higher than in 2009 and amounted to PLN 27.3 billion. After a drop in Q1 of 2010 (-1.7% y/y) and a weaker growth in Q2 (+4.9% y/y) and Q3 (+9.1% y/y), in Q4 a significant recovery was recorded on the lease market (+43%) compared with a similar period of the prior year. This was a result of growth in all the market segments but mainly a strong growth in the demand for the lease of cars, including passenger cars with certification of approval for load-carrying in response to the changes in tax regulations effective from 2011 which limit the possibility of deducting VAT. Weak investment demand continued to have a negative effect on the situation on the lease market.

2.5 Regulatory environment

The financial and organizational situation of the PKO Bank Polski SA Group in 2010 was affected i.a. by the following new regulatory solutions:

- the amendment to the Act on money laundering and financing of terrorism (Journal of Laws of 2009, No. 166, item 1377) based on which banks, brokerage houses, investment fund management companies and lease firms introduced new, more stringent procedures aimed at preventing money laundering, which required banks, brokerage houses and investment funds to incur adaptation costs;



- resolution no. 52/2010 of the Polish Financial Supervision Authority (PFSA) of 23 February 2010 on the T-Recommendation concerning good practice in managing the risk of retail loan exposures (Official Journal of PFSA No. 2, item 12) aimed at limiting the accumulation of risk at banks,
- resolution no. 53/2010 of the PFSA of 23 February 2010 on the amendment to the I-Recommendation concerning currency risk at banks (Official Journal of PFSA No. 2, item 13) which placed new obligations on banks towards their customers in order to limit the risk related to concluding lending transactions in foreign currencies and improve currency risk management at banks;
- resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 introducing changes in setting capital requirements in connection with the individual risk types (Official Journal of PFSA No. 2, item 11);
- resolution no. 134/2010 of the PFSA of 5 May 2010 on the A Recommendation concerning managing the risk accompanying transactions on the derivatives market concluded by banks, introducing changes in the monitoring and control of risk (particularly credit risk);
- the amendment of 26 June 2009 to the Act on the organization and functioning of pension funds (Journal of Laws No. 127, item 1049), which had an effect on the reduction in the fees charged for asset management by pension funds, which resulted in a drop in their revenues and financial results;
- the decree of the Minister of Finance of 20 November 2009 on the mode and terms of proceedings of investment firms, banks (referred to in Art. 70 clause 2 of the Act on trading in financial instruments) and trust banks (Journal of Laws No. 204, item 1577) placing new information requirements towards customers on banks, brokerage houses and investments funds from 17 June 2010.

The situation of the PKO Bank Polski SA Group was affected by new solutions concerning the subsidiaries of PKO Bank Polski SA, including those implemented in the Ukraine where KREDOBANK SA, a subsidiary of PKO Bank Polski SA operates, including:

- resolution no. 541 of the National Bank of Ukraine (NBU) of 10 September 2009 on changes to the Instruction concerning the mode of conducting business activities of banks in the Ukraine, which allows banks to increase their share capital by subordinated loans in the period from 3 January 2010 to 1 January 2012;
- resolution no. 115 of the NBU of 5 March 2010, which allows banks granting corporate loans to avail themselves of certain relief on the classification of business transactions for the purpose of recording specific provisions and calculating capital adequacy;
- resolutions of the NBU reducing the reference rate of the central bank: from 8 June 2010 to 9.5% from 10.25%; from 8 July to 8.5%, and from 10 August to 7.75%;
- resolution of the NBU no. 210 of 20 April 2010 introducing changes in the procedure of creating mandatory provisions by banks from 1 May 2010;
- resolution of the NBU no. 762 of 5 March 2010 introducing changes in the scope of the registration of foreign investments made in the form of cash;
- resolution no. 115 of the NBU of 5 March 2010 introducing certain relief on the classification of loans granted to industrial production manufacturers and calculating regulatory capital adequacy;
- resolution of the NBU no. 237 of 9 June 2010 establishing that subordinated loans drawn in a foreign currency shall be included in capital at the exchange rate valid on the reporting date (previously, at the exchange rate as of the day of obtaining the loan).

Moreover:

- the level of banks' lending activities was affected by the planned introduction in 2011 of changes in the government programme for preference housing loans 'Rodzina na swoim', limitations to granting loans in foreign currencies announced by the PFSA and the increase in VAT;
- the development of the activities of lease companies was affected by the planned introduction of limits as to the possibility of deducting the full amount of output VAT relating to passenger cars with certification of approval for load-carrying from 2011.

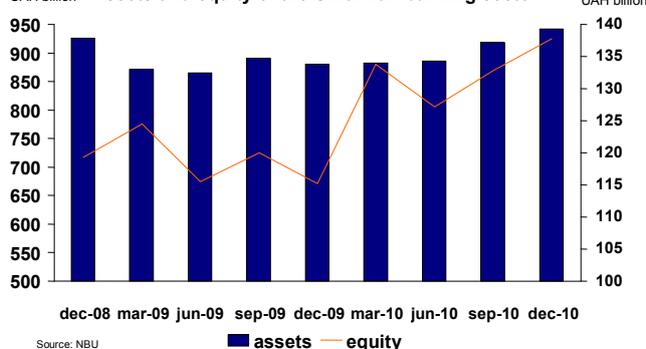
2.6 The Ukrainian market

After the sudden recession in 2009 (close to -15% y/y), in 2010 the Ukrainian GDP increased and its growth is estimated at ca. 3.8% y/y. The more stable economic situation resulted in a growth in real salaries and the stabilization of the Ukrainian currency. In 2010, the Stand-by Arrangement with the IMF was continued for Ukraine, and at the end of the year IMF granted a second loan to the Ukraine as part of the programme.

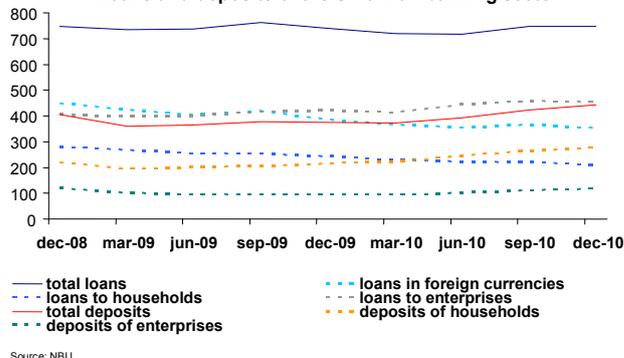


In 2010, in spite of the gradual stabilization, the difficult situation in the Ukrainian banking sector continued, which was a result of the low economic growth, accompanied by the continually low level of household income, high unemployment level and low economic activity after the sudden recession in 2009. In 2010, the base interest rate of the central bank was reduced by 2.5 pp. to 7.75%. According to the data of the National Bank of Ukraine, the number of banks conducting business activities dropped to 176 compared with 182 at the end of 2009. At the same time, the share of foreign capital in the equity of the Ukrainian banking sector increased by 4.8 pp. (to 41%).

UAH billion **Assets and equity of the Ukrainian banking sector**



UAH billion **Loans and deposits of the Ukrainian banking sector**



In 2010, the assets of the banking sector increased by 7% y/y (+UAH 62 billion y/y) compared with a drop of 4.9% y/y in 2009. The increase in assets was a result of the recovery on the corporate loans market (an increase of UAH 33 billion, 8% y/y), supported by the relief on the classification of transactions and on calculating the regulatory capital adequacy. The small growth in total loans (+1% y/y) was the result of a declining trend in household loans continuing since Q1 of 2009. In 2010, loans to this segment dropped by UAH 32 billion (-13% y/y). In 2010, there was a significant drop in loans granted in foreign currencies (-UAH 33 billion, -8% y/y), which was the result of the regulatory restrictions that were introduced.

In 2010, there was an increase in the total value of deposits of PLN 67 billion (+18%) compared with a drop of PLN 30 billion (-7%y/y) in 2009. Deposits placed by households increased significantly (+UAH 61 billion, +28%) compared with a drop a year earlier. The growth was weaker in corporate deposits (+PLN 21 billion, +22%) which decreased in 2009. The increase in the level of deposits resulted from weaker concerns about the systemic risk and the growing confidence in the banking sector compared with previous years.

In 2010, there was an improvement in the capital base of the banking sector. The value of capital increased by 19% (compared with a drop of 3% in 2009), which was a result of the ongoing process of providing banks with additional capital and introducing regulatory solutions enabling an increase in share capital with a 100% of the subordinated loans obtained.

The quality of the loan portfolio continued to be low. However, the growth of non-performing loans in 2010 was lower than in 2009 (21% compared with 123% in 2009). The value of provisions recorded in 2010 increased by UAH 14 billion compared with UAH 55 billion in 2009. As a result of the losses incurred by banks, the return on assets and equity remained negative: ROE -10.2%, ROA -1.45% compared with -32.5% and -4.4% respectively as at the end of 2009.



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 2010.

3.1 Factors influencing results of the PKO Bank Polski SA Group

In 2010, the gradual improvement in macroeconomic conditions translated into positive financial results of the Polish banking sector. Nevertheless, the results were still driven by maintaining credit risk accumulated in banks' credit portfolios as a result of soft credit policy implemented before the financial crisis. In 2010, credit portfolio quality stabilized and growth of credit risk was lower.

The steps undertaken by the PKO Bank Polski SA Group allowed it to generate the net profit for 2010 of PLN 3 216.9 million.

The PKO Bank Polski SA Group maintained its high efficiency – the ROE net ratio amounted to 14.9 %.

The growth of the deposit base and high level of the PKO Bank Polski SA Group's equity covered the increasing need for capital, arising from the growth of the loan activity, and the further stable growth of business activities. At the end of 2010, the capital adequacy ratio amounted to 12.47%, 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 2010, is represented by 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	31.12.2010	31.12.2009*	Change 2010-2009
ROA net (net profit / average total assets)	2.0%	1.6%	0.4 pp.
ROE net (net profit / average total equity)	14.9%	14.8%	0.1 pp.
CI (cost to income ratio)	41.7%	47.9%	-6.2 pp.
Interest margin (net interest income / average interest-earning assets)	4.4%	3.9%	0.5 pp.
Share of loans and advances to customers for which an individual objective of impairment was identified**	8.4%	8.1%	0.3 pp.
The share of impaired loans***	8.0%	7.6%	0.4 pp.

* The change compared to previously published data results from the changed manner of calculating ROE, ROA and interest margin. To calculate the denominator of the said ratios, the average of quarterly balances of respective items of assets and equity and liabilities was used. Data brought to comparability.

** Calculated by dividing the gross carrying amount of loans and advances to customers for which an individual objective of impairment was identified by the gross carrying amount of loans and advances to customers.

*** 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.

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



3.3 Consolidated income statement

In 2010, PKO Bank Polski SA Group achieved consolidated net profit at the amount of PLN 3 216.9 million, which was PLN 911.3 million higher than in 2009.

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

	2010	2009	Change (in PLN)	Change 2010/2009
Interest and similar income	10 415.3	9 031.3	1 384.0	15.3%
Interest expense and similar charges	(3 899.1)	(3 980.1)	81.0	-2.0%
Net interest income	6 516.2	5 051.2	1 465.0	29.0%
Fee and commission income	3 880.9	3 335.3	545.5	16.4%
Fee and commission expense	(738.0)	(752.3)	14.3	-1.9%
Net fee and commission income	3 142.8	2 583.0	559.8	21.7%
Dividend income	5.7	5.4	0.3	5.2%
Net income from financial instruments at fair value through profit and loss	(62.6)	60.9	(123.4)	x
Gains less losses from investment securities	73.1	(2.6)	75.7	x
Net foreign exchange gains	346.8	909.1	(562.4)	-61.9%
Other operating income	469.4	584.9	(115.6)	-19.8%
Other operating expenses	(293.7)	(324.1)	30.3	-9.4%
Net other operating income and expense	175.7	260.9	(85.2)	-32.7%
Net impairment allowance	(1 868.4)	(1 681.1)	(187.3)	11.1%
Administrative expenses	(4 249.1)	(4 243.8)	(5.3)	0.1%
Operating profit	4 080.1	2 942.9	1 137.1	38.6%
Share of profit (loss) of associates and jointly controlled entities	(0.8)	0.3	(1.2)	x
Profit before income tax	4 079.2	2 943.3	1 136.0	38.6%
Income tax expense	(866.4)	(631.5)	(234.9)	37.2%
Net profit (including non-controlling interest)	3 212.8	2 311.8	901.0	39.0%
Net profit attributable to non-controlling shareholders	(4.1)	6.2	(10.3)	x
Net profit (loss)	3 216.9	2 305.5	911.3	39.5%

In the statement of comprehensive income of PKO Bank Polski SA Group for year 2010, the sum of revenue positions amounted to PLN 10 197.6 million and was PLN 1 329.7 million (i.e. 15.0%) higher than in year 2009.

Net interest income

In 2010, net interest income was PLN 1 465.0 million higher than in the previous year, mainly due to interest income growth by PLN 1 384.0 million.

In 2010, interest income amounted to PLN 10 415.3 million and in comparison with 2009 was higher by 15.3%, mainly as a result of an increase in:

- revenue from loans and advances to customers (+)12.8% y/y – the effect of high growth in the credit portfolio (+12.1% y/y), with continued stability of interest rates in 2010;
- revenue in respect of hedging instruments (+) 60.7% y/y, in effect of the use of hedge accounting by PKO Bank Polski SA since the 2nd quarter of 2009;

The rate of growth in interest expense amounted to (-) 2.0% y/y, mainly in effect of a drop in the costs of amounts due to customers (-1.9% y/y).

In 2010, the average interest on loans in PKO Bank Polski SA amounted to 6.8% whereas the average interest on deposits amounted in total to 2.8%, as compared with 6.7% and 3.2% in 2009 respectively.

Interest margin rose by 0.5 pp. y/y to the level of 4.4% in 2010, as a result of an increase in interest income of 29.0% y/y, accompanied by increase in average level of interest-earning assets by 15.3% y/y.



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

Items	2010	Structure 2010	2009	Structure 2009	Change 2010/2009
Interest income, of which:	10 415.3	100.0%	9 031.3	100.0%	15.3%
Loans and advances to customers	8 532.2	81.9%	7 562.3	83.7%	12.8%
Hedging instruments	649.1	6.2%	403.9	4.5%	60.7%
Financial assets designated at fair value through profit and loss	494.7	4.7%	403.1	4.5%	22.7%
Investment securities	458.0	4.4%	393.5	4.4%	16.4%
Placements with banks	148.5	1.4%	159.3	1.8%	-6.8%
Trading securities	128.9	1.2%	97.2	1.1%	32.6%
Other	3.9	0.0%	12.0	0.1%	-67.4%
Interest expense, of which:	(3 899.1)	100.0%	(3 980.1)	100.0%	-2.0%
Amounts due to customers	(3 715.7)	95.3%	(3 785.8)	95.1%	-1.9%
Debt securities in issue	(123.4)	3.2%	(119.3)	3.0%	3.4%
Deposits from other banks	(30.3)	0.8%	(47.5)	1.2%	-36.2%
Other	(29.8)	0.8%	(27.6)	0.7%	8.0%
Net interest income	6 516.2	x	5 051.2	x	29.0%

Net fee and commission income

In 2010, net fee and commission income was PLN 559.8 million higher than in the previous year, along with fee and commission income increase by PLN 545.5 million and fee and commission expense decrease by PLN 14.3 million.

Net fee and commission income increased by 21.7% y/y as a result of i.a.:

- an increase in commission income in respect of borrowings granted (+43.7% y/y) and their insurance (+99.7% y/y), in effect of the growth in the volume of sales of loans and saturation of the loans with insurance;
- an increase in commission income in respect of servicing payment cards (+3.3% y/y), mainly as a result of an increase in card transactionability;
- an increase in commission income in respect of the servicing of investment and pension funds (+9.0% y/y);
- an increase in commission income in respect of servicing bank accounts (+3.0% y/y);

along with:

- a drop in commission income in respect of cash transactions (-6.1% y/y), in connection with the dynamic growth in electronic banking in the PKO Bank Polski SA Group.

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



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

Items	2010	Structure 2010	2009	Structure 2009	Change 2010/2009
Fee and commission income, of which:	3 880.9	100.0%	3 335.3	100.0%	16.4%
Payment cards	963.4	24.8%	932.3	28.0%	3.3%
Bank accounts maintenance	922.6	23.8%	896.0	26.9%	3.0%
Loan insurance	653.5	16.8%	327.3	9.8%	99.7%
Loans and advances granted	528.8	13.6%	368.0	11.0%	43.7%
Maintenance of investment funds and pension funds (including management income)	338.1	8.7%	310.4	9.3%	9.0%
Cash transactions	177.7	4.6%	189.2	5.7%	-6.1%
Securities operations	73.3	1.9%	53.3	1.6%	37.5%
Foreign mass transactions servicing	44.8	1.2%	41.5	1.2%	7.8%
Sale and distribution of marks of value	26.3	0.7%	27.8	0.8%	-5.7%
Fiduciary services	1.7	0.0%	1.7	0.0%	0.3%
Other*	150.7	3.9%	187.9	5.6%	-19.8%
Fee and commissions expenses related to:	(738.0)	100.0%	(752.3)	100.0%	-1.9%
Payment cards	(293.2)	39.7%	(334.4)	44.4%	-12.3%
Loan insurance	(150.8)	20.4%	(92.9)	12.4%	62.3%
Acquisition services	(144.3)	19.5%	(152.4)	20.3%	-5.4%
Settlement services	(21.8)	2.9%	(20.4)	2.7%	6.6%
Assets management	(21.7)	2.9%	(58.3)	7.7%	-62.8%
Operating services granted by other banks	(10.1)	1.4%	(6.7)	0.9%	50.5%
Other**	(96.1)	13.0%	(87.2)	11.6%	10.3%
Net fee and commission income	3 142.8	x	2 583.0	x	21.7%

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

** Included in 'Other' are: fees and expenses paid by the Brokerage House (Dom Maklerski) to Warsaw Stock Exchange (WSE) and the National Depository for Securities (KDPW), costs of settlement and clearing services.

Administrative expenses

In 2010, administrative expenses remained at the stable level as compared to the previous year (an increase of PLN 5.3 million, i.e. 0.1% y/y). They were mainly determined by:

- increase in staff costs by PLN 67.4 million (+2.9% y/y), affected mainly by increase in remuneration expenses of PLN 68.5 million (+3.5% y/y),
 - increase in depreciation and amortization costs of PLN 43.2 million (+9.2% y/y),
- along with:
- decrease in overheads by PLN 105.3 million (-7.2% y/y), mainly as a result of decrease in promotion and advertisement expenses, IT and telecommunications expenses and postal and courier services.

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

Items	2010	Structure 2010	2009	Structure 2009	Change 2010/2009
Staff costs	(2 374.9)	55.9%	(2 307.5)	54.4%	2.9%
Overheads and other	(1 361.9)	32.1%	(1 467.2)	34.6%	-7.2%
Depreciation and amortisation	(512.3)	12.1%	(469.2)	11.1%	9.2%
Total	(4 249.1)	100.0%	(4 243.8)	100.0%	0.1%

A stable level of administrative expenses combined with a simultaneous increase in the income of the PKO Bank Polski SA Group by 15.0% as compared with 2009, resulted in maintaining high operating efficiency of the PKO Bank Polski SA Group, measured via the C/I ratio, which amounted to 41.7% (-6.2 pp. compared with 2009).

Net impairment allowance

Result on net impairment allowances 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 base. The increase in result on net impairment allowances (+11.1% y/y) was due to the deterioration in the quality of the loan portfolio, mainly the corporate loan portfolio.



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

	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Allowances, of which:					
loans and advances to customers and amounts due from other banks measured at amortised cost	(1 747.0)	93.5%	(1 583.4)	94.2%	10.3%
non-financial sector	(1 720.1)	92.1%	(1 562.5)	92.9%	10.1%
<i>consumer loans</i>	(813.8)	43.6%	(819.0)	48.7%	-0.6%
<i>mortgage loans</i>	(268.7)	14.4%	(250.6)	14.9%	7.2%
<i>corporate loans</i>	(637.6)	34.1%	(492.9)	29.3%	29.4%
financial sector	(16.6)	0.9%	6.2	-0.4%	x
budget sector	8.4	-0.4%	2.0	-0.1%	4.2x
receivables from financial lease	(18.7)	1.0%	(29.1)	1.7%	-35.8%
intangible assets	(37.8)	2.0%	(3.4)	0.2%	11.1x
investments in entities accounted for using the equity method	(55.1)	2.9%	(3.9)	0.2%	14.2x
tangible fixed assets	(28.8)	1.5%	0.2	0.0%	x
other	0.3	0.0%	(90.6)	5.4%	x
Allowances - total	(1 868.4)	100.0%	(1 681.1)	100.0%	11.1%

The ratio of loans for which an individual objective evidence of impairment was identified and those whose impairment has been recognized increased by 0.3 pp. y/y (to the level of 8.4% in 2010) and 0.4 pp. (to the level of 8.0% in 2010) respectively, as a result of consistent use of stricter credit quality assessment criteria by the Bank.

3.4 Consolidated statement of financial position

Main items of the statement of financial position

The statement of financial position of the parent company has the biggest influence on the statement of financial position of the PKO Bank Polski SA Group. It determines the structure of the statement of financial position as well as both total assets and total liabilities.

The total assets of PKO Bank Polski SA Group amounted as at the end of 2010 to PLN 169.7 billion, which means increase of 8.4% y/y. As a result, the PKO Bank Polski SA Group maintained the position of the largest financial institution in the Polish banking sector.

The increase in assets of the PKO Bank Polski SA Group was mainly due to an increase in the volume of loans and advances granted to customers of 12.1% y/y combined with an increase in the share of these loans and advances in total assets of the PKO Bank Polski SA Group of 2.5 pp. y/y.

The increase in total assets was financed mainly by an increase in amounts due to customers (+6.3% y/y) and liabilities in respect of securities issued (11.4x y/y) associated with the issue of Eurobonds in October 2010 – for more information please refer to Chapter 5.8).



The PKO Bank Polski SA Group Directors' Report for the year 2010

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

Items	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Cash and balances with the central bank	6 182.4	3.6%	7 094.4	4.5%	-12.9%
Amounts due from banks	2 307.0	1.4%	2 023.1	1.3%	14.0%
Loans and advances to customers	130 668.1	77.0%	116 572.6	74.5%	12.1%
Securities	22 481.4	13.3%	22 527.9	14.4%	-0.2%
Other assets	8 021.6	4.7%	8 260.8	5.3%	-2.9%
Total assets	169 660.5	100.0%	156 478.7	100.0%	8.4%
Amounts due to banks	5 237.2	3.1%	5 152.6	3.3%	1.6%
Amounts due to customers	132 981.2	78.4%	125 072.9	79.9%	6.3%
Debt securities in issue and subordinated liabilities	4 910.6	2.9%	1 901.5	1.2%	2.6x
Other liabilities	5 171.8	3.0%	3 915.7	2.5%	32.1%
Total liabilities	148 300.9	87.4%	136 042.8	86.9%	9.0%
Total equity	21 359.6	12.6%	20 435.9	13.1%	4.5%
Total liabilities and equity	169 660.5	100.0%	156 478.7	100.0%	8.4%
Loans/Deposits (amounts due to customers)	98.3%	x	93.2%	x	5.1 pp.
Loans/Stable financing resources*	92.0%	x	89.3%	x	2.8 pp.
Interest bearing assets/Assets	91.6%	x	90.2%	x	1.4 pp.
Interest paying liabilities/Liabilities	84.4%	x	84.4%	x	-0.1 pp.

* Stable sources of financing include amounts due to customers and long-term external financing in the form of issue of securities, including funds from the issuance of Eurobonds borrowed from PKO Finance AB, subordinated liabilities and amounts due to financial institutions.

Loans and advances to customers

Loans and advances to the non-financial sector (+13.4% y/y) are the main item in the type structure of the net loan portfolio. Their share increased by 1.1 pp. y/y, mainly due to an increase in the share of mortgage loans (+2.7 pp. y/y), offset by decrease in the share of consumer and corporate loans. Mortgage loans (+18.8% y/y) were the largest item of loans and advances to the non-financial sector (47.2% of the portfolio as at the end of 2010). The share of loans and advances to the public sector decreased by 1.3 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	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Loans and advances to customers net	130 668.1	100.0%	116 572.6	100.0%	12.1%
Financial sector (without banks)	2 972.2	2.3%	2 442.0	2.1%	21.7%
Non-financial sector	123 858.6	94.8%	109 184.4	93.7%	13.4%
<i>consumer loans</i>	24 129.4	18.5%	22 295.7	19.1%	8.2%
<i>mortgage loans</i>	61 695.2	47.2%	51 938.4	44.6%	18.8%
<i>corporate loans</i>	38 033.9	29.1%	34 950.2	30.0%	8.8%
Budget sector	3 837.4	2.9%	4 946.2	4.2%	-22.4%

Gross loan portfolio maturity structure is dominated by long-term loans and advances (above 1 year). They account for 80.9% of the total portfolio and their value increased by 16.8% (y/y). The high growth rate of the gross loan portfolio of the PKO Bank Polski SA Group (+12.5% y/y) was a result of high sales of loans with long maturities - mainly mortgage and corporate loans.

Table 9. Loans and advances to customers of the PKO Bank Polski SA Group – term structure (in PLN million)

Term structure	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Loans and advances to customers (gross)	135 524.8	100.0%	120 509.7	100.0%	12.5%
Short-term	25 865.8	19.1%	26 618.6	22.1%	-2.8%
Long-term	109 658.9	80.9%	93 891.1	77.9%	16.8%
Allowances - total	(4 856.7)	x	(3 937.1)	x	23.4%
Total	130 668.1	x	116 572.6	x	12.1%



Amounts due to customers

In the structure of amounts due to customers by types, the main item were amounts due to retail clients (+8.6% y/y) whose share increased by 1.5 pp. y/y together with a decrease in amounts due to State budget entities by 3.2 pp. y/y.

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

Structure by type	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Amounts due to retail clients	95 107.9	71.5%	87 557.4	70.0%	8.6%
Amounts due to corporates	31 826.6	23.9%	27 834.5	22.3%	14.3%
Amounts due to state budget	6 046.8	4.5%	9 681.0	7.7%	-37.5%
Total amounts due to customers	132 981.2	100.0%	125 072.9	100.0%	6.3%

In 2010, the term structure of amounts due to customers has changed: the share of short-term liabilities decreased by 6.7 pp. y/y, whereas the share of long-term liabilities has increased.

Table 11. Amounts due to customers of the PKO Bank Polski Group – term structure (in PLN million)

Term structure	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Amounts due to customers (net)	132 981.2	100.0%	125 072.9	100.0%	6.3%
Short-term	124 025.0	93.3%	124 995.3	99.9%	-0.8%
Long-term	8 956.2	6.7%	77.6	0.1%	115.4x
Total	132 981.2	x	125 072.9	x	6.3%

Equity and capital adequacy ratio

Equity increased by 4.5% y/y and accounted for 12.6% of total liabilities and equity of the PKO Bank Polski SA Group (-0.5 pp. y/y).

The capital adequacy ratio amounted to 12.47% as at the end of 2010. Despite the drop of 2.3 pp. y/y, the level significantly exceeds the minimum level for the ratio required by the Banking Law. Capital adequacy measured with the solvency ratio remained at a safe level despite the fact that the net profit for 2009 had not been accumulated, while the credit portfolio grew dynamically.

Table 12. Equity and solvency ratio of the PKO Bank Polski SA Group (in PLN million)

Items	2010	Structure 2010	2009	Structure 2009	Change 2010/2009
Equity, of which:	21 359.6	100.0%	20 435.9	100.0%	4.5%
Share capital	1 250.0	5.9%	1 250.0	6.1%	0.0%
Reserve capital	12 212.2	57.2%	12 149.7	59.5%	0.5%
General banking risk fund	1 070.0	5.0%	1 070.0	5.2%	0.0%
Other reserves	3 412.2	16.0%	3 405.1	16.7%	0.2%
Financial assets available for sale	(25.2)	-0.1%	(11.8)	-0.1%	2.1x
Share of other comprehensive income of an associate	1.0	0.0%	0.7	0.0%	38.4%
Cash flow hedges	217.9	1.0%	119.3	0.6%	82.7%
Currency translation differences from foreign operations	(109.7)	-0.5%	(108.8)	-0.5%	0.9%
Unappropriated profits	112.3	0.5%	248.8	1.2%	-54.9%
Net profit for the period	3 216.9	15.1%	2 305.5	11.3%	39.5%
Non-controlling interest	2.0	0.0%	7.3	0.0%	-72.8%
Own funds	17 618.7	x	17 872.9	x	-1.4%
Capital adequacy ratio	12.47%	x	14.81%	x	-2.34 pp.

In 2010, the following efficiency ratios improved: the return on assets (ROA) and the return on equity (ROE), by 0.4 pp. and 0.1 pp. respectively. The increase was due to a high growth rate of the net profit (+39.5% y/y) combined with an increase in average assets of 13.4% y/y and in average equity of 38.2% y/y.



4. STRUCTURE OF THE PKO BANK POLSKI SA GROUP

As at 31 December 2010 the PKO Bank Polski SA Group consisted of PKO Bank Polski SA (the parent company) and 21 direct and indirect subsidiaries.

4.1 Entities included in the financial statements

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

Table 13. 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			
Direct subsidiaries				
2	KREDOBANK SA	935 619	99.5655	Full method
3	PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S	205 786	100	Full method
4	PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	100	Full method
5	Centrum Finansowe Puławska Sp. z o.o.	128 288	100	Full method
6	PKO BP Inwestycje Sp. z o.o.*	117 813	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	18 566	100	Full method
12	PKO Finance AB	172	100	Full method
Subsidiaries of PKO BP Inwestycje Sp. z o.o				
13	PKO BP Inwestycje Nowy Wilanów Sp. z o.o.* ²	82 980	99.9750	Full method
14	PKO BP Inwestycje – Neptun Park Sp. z o.o.* ²	19 000	99.9975	Full method
15	PKO BP Inwestycje – Sarnia Dolina Sp. z o.o.*	8 187	56	Full method
16	PKO BP Inwestycje – Rezydencja Flotylla Sp. z o.o.*	7 575	100	Full method
17	Fort Mokotów Sp. z o.o.*	2 040	51	Full method
18	UKRPOLINWESTYCJE Sp. z o.o.	519	55	Full method
Subsidiaries of Bankowe Towarzystwo Kapitałowe SA				
19	PKO BP Faktoring SA ²	10 329	99.9867	Full method
Subsidiaries of Inteligo Financial Services SA				
20	PKO BP Finat Sp z o.o. ³	7 600	80.3287	Full method
Subsidiaries of Bankowy Fundusz Leasingowy SA				
21	Bankowy Leasing Sp. z o.o. ²	22 709	99.9978	Full method
22	BFL Nieruchomości Sp. z o.o. ²	10 409	99.9952	Full method

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

1 – The second shareholder in this entity is PKO BP Inwestycje Sp. z o.o.

2 – PKO Bank Polski SA holds directly 1 share in the entity.

3 – Remaining shares of PKO BP Finat Sp.z o.o in hold of PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA (19.6702%) and PKO Bank Polski SA (1 share).



Table 14. 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.	6 609	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 Poczтового Sp. z o.o.	2 000	100	Equity method

* The position comprises the value of shares at acquisition cost, 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 organization of the entities of the Group

In 2010, there were following changes in capital and organisational structure within the subordinated entities:

1. Participation in the increased share capital of KREDOBANK SA

On 22 July 2010 the 20th issue of KREDOBANK SA shares was registered. PKO Bank Polski SA participated in the increase in the share capital of KREDOBANK SA within the 20th share issue, purchasing shares with a total nominal value of UAH 367 497 387.35, which constituted 99.83% of the new issue. After the said issue was registered, PKO Bank Polski SA's share in the registered capital of KREDOBANK SA and the share of votes on the Company's General Shareholders' Meeting increased from 99.4948% to 99.5655%.

2. Granting KREDOBANK SA subordinated loan

On 5 February 2010 PKO Bank Polski SA granted KREDOBANK SA subordinated loan amounting to USD 15 million. On 25 February 2010 the loan was registered by the National Bank of Ukraine and increased the regulatory capital of KREDOBANK SA.

3. Sale of WISŁOK Inwestycje Sp. z o.o. shares

On 26 February 2010, all the shares in possession of PKO BP Inwestycje Sp. z o.o., the subsidiary of PKO Bank Polski SA, comprising shares in the entity WISŁOK Inwestycje Sp. z o.o. changed its holder and became the property of the entity JEDYNKA SA with headquarters in Rzeszów due to the fact that all the criteria included in Contingent Agreement of Shares Sale dated 23 November 2009 have been met. The selling price of the shares amounted to PLN 3 952 thousand.

4. Participation in the increased share capital of BFL Nieruchomości Sp. z o.o.

In 2010, the increase in the share capital of BFL Nieruchomości Sp. z o.o. in the total amount of PLN 3 300 thousand, including: on 5 March, amount of PLN 2 000 thousand, on 7 September, amount of PLN 800 thousand and on 9 November, amount of PLN 500 thousand, was registered with the National Court Register. As a result, the Company's share capital amounted to PLN 10 400 thousand and consists of 20 800 shares of nominal value of PLN 500 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.



As at 31 December 2010, Bankowy Fundusz Leasingowy SA held a total of 99.9952% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

5. Participation in the increased share capital of Bankowy Leasing Sp. z o.o.

In 2010, the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 6 400 thousand, including: on 27 April, the amount of PLN 2 700 thousand and on 10 November, the amount of PLN 3 700 thousand, was registered with the National Court Register. As a result, the Company's share capital amounted to PLN 22 700 thousand and consists of 45 400 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.

As at 31 December 2010, Bankowy Fundusz Leasingowy SA held a total of 99.9978% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

6. Capital contribution to PKO BP Inwestycje – Sarnia Dolina Sp. z o.o.

In 2010 (on 23 April and 19 August), PKO BP Inwestycje Sp. z o.o., the subsidiary of PKO Bank Polski SA, made an additional payment of PLN 448 thousand to PKO BP Inwestycje – Sarnia Dolina Sp. z o.o.

7. Participation in the increased share capital of PKO BP Faktoring SA

On 29 September 2010, the increase in the share capital of PKO BP Faktoring SA in the total amount of PLN 1 000 thousand was registered with the National Court Register. As a result, the Company's share capital amounted to PLN 7 500 thousand and consisted of 7 500 shares of PLN 1 thousand nominal value each.

All the shares in the increased share capital were taken up by Bankowe Towarzystwo Kapitałowe SA - a subsidiary company of PKO Bank Polski SA, for a price equal to PLN 2 000 thousand.

As at 31 December 2010, Bankowe Towarzystwo Kapitałowe SA held a total of 99.9867% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

8. Changes in the names of certain PKO BP Inwestycje Sp. z o. o. Group companies

As part of the process of unification of names and symbols of the PKO BP Inwestycje Sp. z o. o. Group companies, the following companies changed their names in 2010:

- the company PKO Inwestycje – Międzyzdroje Sp. z o. o. changed its name to PKO BP Inwestycje – Rezydencja Flotyła Sp. z o. o.; on 26 March 2010, the change was registered with the National Court Register,
- the company Baltic Dom 2 Sp. z o. o. changed its name to PKO BP Inwestycje – Sarnia Dolina Sp. z o. o.; on 7 April, the change was registered with the National Court Register,
- the company Wilanów Investments Sp. z o. o. changed its name to PKO BP Inwestycje – Nowy Wilanów Sp. z o. o.; on 13 October 2010, the change was registered with the National Court Register,
- the company Pomeranka Sp. z o. o. changed its name to PKO BP Inwestycje – Neptun Park Sp. z o. o.; on 15 October 2010, the change was registered with the National Court Register,

In 2010, the following events relating to associates took place:

9. Establishing of the Bank Pocztowy SA subsidiaries

On 14 June 2010, Spółka Dystrybucyjna Banku Poczтового Sp. z o.o. was registered in the National Court Register. The Company's share capital amounted to PLN 2 000 thousand and was divided into 100 shares with a nominal value of PLN 20 thousand each. All the Company's shares were taken up by Bank Pocztowy SA – an associate of PKO Bank Polski SA.

On 17 June 2010, Centrum Operacyjne Sp. z o.o. was registered in the National Court Register. The Company's share capital amounted to PLN 3 283 782.50 and was divided into 250 shares with a nominal value of PLN 13 135.13 each. All the Company's shares were taken up by Bank Pocztowy SA – an associate of PKO Bank Polski SA.

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 2010, PKO Bank Polski SA provided services, on an arm's length basis, to its related (subordinated) entities. The services comprised maintaining bank accounts, accepting deposits, granting loans and advances, issuing securities, granting guarantees and current foreign exchange transactions, as well as offering investment fund units and lease products 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 2010 was presented in the financial statements of PKO Bank Polski SA for 2010.



5. ACTIVITIES AND DIRECTIONS OF DEVELOPMENT OF THE PKO BANK POLSKI SA GROUP⁴

The PKO Bank Polski SA Group consists of PKO Bank Polski SA and its subsidiaries which – supplementing its product offer – at the same time pursue their own business goals. Particular companies provide specialist financial services in respect of leases, investment funds, pension funds or electronic payment services in respect of banking cards.

The potential of each entity conduce to building the synergy effects of the whole PKO Bank Polski SA Group.

The key events which had an impact on the operations and results of the PKO Bank Polski SA Group in 2010 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.

5.1 Directions of development of the PKO Bank Polski SA Group

The directions of development of PKO Bank Polski SA for the foreseeable future is set in the Bank's Strategy which was adopted by the Management Board and approved by the Supervisory Board in February 2010.

The key strategic goals of PKO Bank Polski SA for the years 2010-2012 stipulate:

- maintaining the universal and Polish nature of the bank;
- strengthening the lead position in all significant market segments, directed at speed and effective action, and efficient use of the Bank's potential;
- maintaining sustainable growth based and focused on recognizing and satisfying clients' needs;
- improving the quality of customer service and adapting it to their needs and expectations;
- maintaining stable profitability and ensuring constant growth in the company's value, especially important from the perspective of the shareholders, but also the ability to execute further development plans;
- improving the efficiency of organizational and management processes;
- engaging in prudent credit and risk management policies.

PKO Bank Polski SA undertakes actions with an aim to be perceived as a safe bank with traditions, which, nevertheless, at the same time is modern and offers the highest market standard of financial services. PKO Bank Polski SA is the central entity of an efficient group which offers a comprehensive product offer to its clients. At the same time, operations under the Strategy of PKO Bank Polski SA cover several initiatives aimed at the full use of the potential of all subsidiaries of the PKO Bank Polski SA Group in order to achieve the full synergy effect and business advantage.

The Strategy of PKO Bank Polski SA is based on three business pillars: retail banking, corporate banking and investment banking. It is strongly aimed at meeting the needs of the Bank's clients – both individual and corporate, taking into consideration the SME sector, institutions operating on behalf of households, and central and local government institutions.

In order to realize client-oriented policies, work is in force aimed at revitalizing the product offer adapted to the clients' needs and expectations, and in accordance with the best market standards and practices (which is related to operations aimed at preparing an appropriate customer service model and standard).

Moreover, within the timeframe of the Strategy of PKO Bank Polski SA significant changes in the development and modernization of the POSs and ATMs of the Bank are stipulated, covering new functionalities and visualizations, and ensuring 'closeness to the customer'.

In the foreseeable future, PKO Bank Polski SA intends to develop by using energetic actions aimed at improving cost and business effectiveness. The development of the offer for individual customers, including specifically private banking and personal banking clients, will be realized based on new technologies and the development of alternative, remote distribution channels. The development of the offer will also stipulate better adaptation of the offer and corporate client service model to the development potential of the latter, and an individual approach to investment banking clients, adapting their service model to their demand for specialist solutions.

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.



In order to ensure effective realization of the new development goals of PKO Bank Polski SA, work is conducted aimed at significant improvement in cost-effectiveness and operating effectiveness of the Bank. This operating trend is related to changes in the IT systems which support the Bank's processes, and with the reconstruction of front office processes, as well as of the management and organizational standards. The process of centralization of operations, analyses and back office processes supporting business processes will also be consistently carried on.

The main business effect of implementing the strategy will be a visible increase in the scale of the operations of the PKO Bank Polski SA, which will be demonstrated by an increase in assets. According to the adopted assumptions, they are to increase by approx. 30%, exceeding PLN 200 billion as at the end of 2012, with the value of the loan portfolio exceeding PLN 160 billion (increase by approx. 45%).

The sustainable 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 C/I ratio is to remain below 45%) and the capital adequacy ratio maintained at a safe level of more than 12%.

5.2 Market share of PKO Bank Polski SA

In terms of assets, loans and deposits PKO Bank Polski SA is the leader of the banking sector.

With reference to loans and advances to retail and corporate clients, the Bank has strengthened its position (+0.5 and +0.3 pp. y/y respectively) in 2010. Regarding deposits, a decrease in market share has been noted, mainly due to the decrease in market share of corporate clients' deposits.

Table 15. Market share of PKO Bank Polski SA (in %)*

	31.12.2010	31.12.2009**	Change 2010/2009
Loans for:	17.2	16.6	0.6 pp.
retail clients, of which:	20.0	19.5	0.5 pp.
<i>mortgage</i>	20.9	21.0	-0.1 pp.
<i>in PLN</i>	33.1	33.3	-0.2 pp.
<i>in foreign currencies</i>	13.7	14.3	-0.6 pp.
<i>consumer and other</i>	18.2	17.1	1.1 pp.
corporate clients	14.1	13.8	0.3 pp.
Deposits	17.9	18.5	-0.6 pp.
retail clients	23.2	23.4	-0.2 pp.
corporate clients	11.7	12.9	-1.2 pp.

* Data source: NBP reporting system – WEBIS.

** As a result of including transactions with conditional purchase in loans since June 2010, the data published previously are different.



5.3 Activities of PKO Bank Polski SA – the parent company of the PKO Bank Polski SA Group⁵

As at 31 December 2010, the relation of total assets of PKO Bank Polski SA to Group amounted to 98.6% and share of net profit of PKO Bank Polski SA in the Group's consolidated net profit amounted to 102.9%. The Bank, as the parent company, constitutes the most important component of the consolidated statement of financial position and influences heavily statement of comprehensive income 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 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 2010, 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. The Bank made efforts to improve the quality of the service, among other, by improving the standard of providing services to the clients and enhancing the skills of employees (product training courses). 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 rates of growth result from rounding; gross loans and advances to customers are presented without interest due and interest not due.



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Table 16. Loan products available in retail segment

Products and services	Activity
Cash loan	Since March 2010, the Bank's offer has been supplemented with a new, expanded insurance option to the life and job loss insurance package offered to recipients of cash loans. As part of intensifying sales in 2010, cross-sell activities aimed at specific client groups were carried out.
Fast Loan Service	In April 2010, in connection with the share offering of PZU SA, the Bank offered the employees of PZU SA authorized to acquire the company's shares a special cash loan to purchase shares in the company.
Aura Platinum Loan	Centralized up-selling loan offer mailings to selected private banking clients using cash loans were conducted, under which the client received proposals to increase the loan amount on special price terms.
Loan for the purchase of securities INVESTOR /ISSUE	To increase the product's attractiveness changes were made to the structure of interest, an option to pay commission for granting a non-cash loan was added, the catalogue of collateral on liquid assets was expanded.
Mortgage loan	As of 4 January 2010, a savings program 'Niższa rata' was implemented, consisting of linking mortgage loans to systematic investing in PKO TFI SA units. The purchase of units in PKO TFI SA by clients with mortgage loans authorizes them to a lower credit margin on the loan drawn. Important steps in the area of mortgage loans concerned also two promotional campaigns carried out for mortgage loans 'WŁASNY KĄT' in PLN and EUR (in the 2 nd and 4 th quarter 2010). An on-line option to verify the legal status of the real estate in the Central Mortgage and Land Register Database (CBD KW) was introduced.
iPKO	For selected iPKO clients, the remote sale campaign of 'Max Pożyczka' borrowings was launched as of March. Clients could avail themselves of the offer via electronic access channels on preferential terms. In 2010, consecutive tranches of the remote Max Pożyczka were available.
INTELIGO	In May, in the Inteligo Account, a new loan product was implemented – the Inteligo Loan, and in September, a new functionality, the Kredyt Odnawialny Inteligo (revolving loan). Clients of the Inteligo account were offered credit cards. As of mid November, the Bank's offer was expanded by the MasterCard, which enabled clients multi-level links with the selected savings and settlement account within the private Inteligo account. In December 2010, the Inteligo Account offer was expanded by the VISA credit card with the payWave technology. The card enables, among other things, selecting a fixed repayment date and, after linking it to the savings and settlement account, it merges the functions of the debit and credit card (it enables paying out cash, using ATMs, from a selected account: a credit account, on the terms of the credit card and the settlement account on the terms of the debit card).
SME loan	The most important actions in the area of the credit policy in respect of small and medium enterprises: - the ability to grant loans under a credit facility with the Development Bank of the Council of Europe, - originating loans under the credit facility with the European Investment Bank (EIB), aimed at financing investments and expenses in the context of the development of small and medium enterprises in the sectors of agriculture, industry and services; - launching a new product – a mortgage loan for small and medium enterprises linked to <i>Generali</i> insurance of the real estate from fire and other fortuitous events. Moreover, changes were made allowing setting up mortgage on real estate already mortgaged on behalf of PKO BP SA (condition: LTV<60%); - a new credit product offer was launched dedicated to the SME segment clients - investment loans 'Kredyt Inwestycyjny MSP', working capital loans 'Kredyt Obrotowy MSP', using the scoring method; - the pilot program aiming at implementation and verification of a new credit process in the area of credit analyses and launching of credit products for SME clients.
'NOWY DOM' loan ('New house loan')	PKO BP SA ranked first in the general classification of the 6 th ranking of banks crediting developers' housing projects realized by Polski Związek Firm Deweloperskich. The on-going uncertainty on the housing market and stricter credit terms and conditions did not translate negatively into a volume of sales of investor loans to finance developers.
'NASZ REMONT z premią z BGK' loan	In 2010, sales of loans to finance housing repairs grew, and specifically premium loans 'NASZ REMONT z premią z BGK'. The total value of sales of loans to finance housing repairs increased by over 60% compared with 2009. In 2010, the share of the Bank in the market was 78% in respect of the thermo-modernization premium (the next bank in the ranking: 6.5%) and 77% in respect of the housing repairs premium (the next bank in the ranking: 17%).

Above mentioned actions resulted in an increase of PLN 14.8 billion (y/y) in the volume of gross loans and advances. The increase related mainly to mortgage loans (an increase of PLN 10.5 billion on a year to year basis) and to loans granted to small and medium enterprises – growth by PLN 2.5 billion (y/y).

Table 17. Loans in the retail segment (in PLN million)

Items	31.12.2010	31.12.2009	Change 2010/2009	Change (in PLN)
Gross loans and advances*, of which:				
- retail and private banking	23 410	21 566	8.6%	1 845
- small and medium-sized enterprises	14 537	11 993	21.2%	2 544
- mortgage banking	58 067	47 541	22.1%	10 526
- housing market (including supported by the State budget)	6 972	7 116	-2.0%	(144)
Total	102 987	88 216	16.7%	14 770

* Without interest due and interest not due.

Source: Management information of the Bank.



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

Table 18. *Deposit products available in retail segment*

Products and services	Activity
Current savings account in the Superkonto Group	In 2010, the Bank concentrated on making the savings and settlement account more attractive by: 1) increasing the number of free-of-charge ATMs thanks to making ATMs of BZ WBK and eService available to its clients; 2) introducing debit cards in the EMV standard; 3) making the revolving loan facility more attractive. Thanks to its special offer, the Bank obtained additional accounts linked to the issue of PZU and Tauron shares.
INTELIGO	As of May 2010, the offer of the Inteligo account was comprehensively changed. The main terms and conditions offered to clients concerned preferable pricing conditions with regard to fees for current accounts, debit cards and transfers. New free-of-charge ATMs have also been introduced to the offer, not only these belonging to PKO BP SA, but also owned by eService and BZ WBK. In November, the offer was additionally enriched by offering free-of-charge ATMs at the price of a monthly subscription ('Bankomaty bez granic' service).
iPKO	Several changes were made to the iPKO service adapting it to the newly offered products (deposit 6+6, deposit 9+9, expanding the offer of PKO TFI investment funds). In April, in the iPKO Internet service, services in respect of brokerage accounts were implemented, and in August the opening and servicing of business deposits for SME clients - Biznes Lokata MSP – bearing an attractive interest rate of up to 3.70% if the contractual terms were kept – were enabled.
Term deposits n+n	The n+n deposit offer – unique on the Polish market – was expanded by the 6+6 deposit (February 2010) and 9+9 (March 2010) offers. These relate to term deposits with fixed interest rates, in respect of which the client – after meeting the first contractual deadline – i.e. after 6 or 9 months – may take the decision on whether to keep the savings for another 6/9 months. The 6+6 deposit was introduced to the Inteligo account offer and iPKO account for individual clients.
Savings Policy with PZU Życie	The product constitutes group life and endowment insurance with PZU Życie SA (the Insurer) with a profit of 3.73% per annum, which corresponds to income on deposits with an interest rate of 4.60% per annum (the interest given corresponds to a bank deposit before taxing it with the tax on capital gains of 19%).
'Dobolokata'	A term deposit with interest paid daily (Dobolokata) was added to the Inteligo account offer. The minimum deposit amount is PLN 1000, and the maximum one is PLN 20 000. The contractual deposit term is 1 month, 3 or 6 months respectively. During the term of the Dobolokata contract clients may not pay in or withdraw any funds. There is a possibility of choosing the option of the deposit being renewed automatically. The fixed interest rate in the contractual period is 3.60% - 1M, 3.85% - 3M and 4.10% - 6M respectively, which constitutes 4.44%, 4.75% and 5.06% respectively in the case of deposits subject to income tax.
WIG20 II with AVIVA Structured Policy	The product with a guarantee as to the principal amount after the lapse of the period of liability of the Insurer. Minimum policy amount is PLN 5,000. The policy ensures 100% participation in the increase or drop of WIG 20 after 3 years of the commencement of the investment, on condition that the value of the WIG 20 index in the 3-year period is always higher than the floor level (1 168.135 points) and lower than the ceiling level (3 504.405 points). If at any time during the investment period WIG 20 achieves or exceeds the floor or ceiling level, the client will receive endowment benefits of 5% per annum.
'Akcji Plus/Stabilnego Wzrostu Plus' Investment deposit	A product combining a profit guarantee from a deposit with a high interest rate with the investment part of the instrument in the form of participation units in an investment fund. Clients had an option of choosing from 2 subfunds from the PKO TFI offer: Akcji PLUS or Stabilnego Wzrostu PLUS. The deposit was a product characterized by a high interest rate on the deposit portion, reaching 5.05 pp. (the term of the deposit - 12 months), low nominal amount of the investment – PLN 2 000, no fees for redeeming the participation units after 12 months.
Structured deposit in EUR/PLN	A structured EUR/PLN deposit is a short-term (6-month) investment product which was addressed to clients who wanted to earn profits higher than standard while exposed to limited investment risk. The deposit was subject to subscription during which the funds in the structured deposit were interest-bearing. The client could choose of 3 investment strategies – he could choose an option forecasting an increase, decrease or stabilization of the EUR/PLN exchange rate.
'Złoto Teksasu' Structured Policy	The product constituted an alternative to traditional financial deposits/instruments by offering a policy in the form of life and endowment insurance linked to the raw materials market. It was prepared in cooperation with Aviva Towarzystwo Ubezpieczeń na Życie SA.
'Złota Inwestycja' Structured deposit	Based on the price of gold (denominated in USD, in the form of the value of the GOLDLNPM Index) guaranteed refund of the principal amount and 100% participation in the growth of the index in a situation whereby the threshold is not reached (165% of the value of the GOLDLNPM Index as at 7 December 2010 – USD 2343). 2 years after the commencement of the investment the gain amounts to the increase in the value of the GOLDLNPM Index compared with the price of gold on the date of the initial observation.
Packages for SME	Actions under the SME packages were aimed at activating new accounts. The Bank introduced temporary, promotional reductions of fees on packages, including 'Debiut' and Business packages.
Business deposit for SME	6-month deposit bearing an attractive interest rate of 4.04%, introduced to the Bank's offer for the period December 2009 – March 2010. In August, the 2 nd edition of sales of Biznes Lokata MSP bearing an interest rate of 3.70% (if the contractual period was maintained) was resumed. The selling period which had been initially planned until the end of October was extended to the end of December 2010 due to clients' high interest.

The above mentioned activities contributed to a significant increase in the portfolio of deposits in the retail segment, of 9.0% y/y. The increase related mainly to retail and private banking deposits (+9.0% y/y) as well as to housing market customers' deposits (+21.3% y/y).



Table 19. Deposits in retail segment (in PLN million)

Items	31.12.2010	31.12.2009	Change 2010/2009	Change (in PLN)
Client deposits, of which:				
- retail and private banking	90 674	83 214	9.0%	7 459
- small and medium-sized enterprises	8 592	8 331	3.1%	261
- housing market clients	5 088	4 195	21.3%	893
Total	104 354	95 741	9.0%	8 613

Corporate segment

The year 2010 was the period, in which the effects of the economic slowdown resulting from the 2009 crisis in the financial markets were to be observed. In spite of the fact that the economy has significantly recovered and the macroeconomic indices started to improve, corporate clients remained reluctant towards external sources of financing. The main source of financing used by corporate clients for current needs in 2010 were, as in the previous year, working capital loans and overdraft facilities. This factor as well as crisis repercussions had a direct and indirect impact on the reduction of credit demand.

Despite the difficult situation on the financial market, PKO Bank Polski SA continued its active sales policy with regard to financing Polish enterprises by increasing the market share and maintaining the position of the leader. Moreover, the Bank's corporate segment developed significantly by dynamically increasing financial results reached by this segment.

In 2010, the corporate segment has been consistently building the credit offer suiting current and future needs of clients, which allowed the Bank to maintain high volume of loans. At the same time, the sales processes have been intensified, which was the reason for the increase in the number of clients by 7.5% (y/y), i.e. to the level of 11.5 thousand.

As at the end of 2010, the sum of corporate clients' deposits amounted to PLN 25.5 billion. The moderate pricing policy with regard to negotiated deposits resulting from Bank's favorable liquidity position had an influence on a slight decrease in deposits amount (-2.4%).

Table 20. Gross loans, advances and deposits in the corporate segment (in PLN million)

Items	31.12.2010	31.12.2009	Change 2010/2009	Change (PLN)
Gross corporate loans*	29 112	29 475	-1.2%	(364)
Corporate deposits	25 500	26 133	-2.4%	(633)

* Without interest due and interest not due.
Source: management data of PKO Bank Polski SA.

While developing the offer and services, PKO Bank Polski SA is continuously extending the cooperation with its clients by offering new products to them and modifying their up to now scope of activities in order to meet the market expectations. In 2010, the Group continued inter alia:

- 1) design for locating the on-line closed payments deposit drop-box,
- 2) process of sales support processes centralization and automation as well as product administration,
- 3) developing basic corporate Internet platform iPKO Business.

Moreover, the following newly launched products deserve special attention:

- 1) *trade finance* transaction platform (*Trade Service*),
- 2) *Cash Pooling* in real terms, and
- 3) new *charge* corporate cards - PKO *Diners Club* card.

In 2010, the Bank integrated sales actions within the PKO Bank Polski SA Group by introducing the possibility of submitting cooperation offers on preferential pricing terms and conditions to clients who do not have current accounts but are interested in the offer of Bankowy Fundusz Leasingowy SA.



Investment segment

Until April 2010, drops in profitability were noted on the Treasury securities market. There was a threat of marginal inflationary in remote perspective. Additionally, counteraction following the panic after the bankruptcy of Lehman Brothers was noted, supported by the expansive fiscal and monetary policy. The relatively quick growth of GDP, in correspondence with the stable situation on the foreign exchange market made Poland an attractive destination for the inflow of foreign capital.

The situation changed somewhat in the second half of 2010. The first concerns of the investors in respect of inflation were noted on the market in the 3rd quarter. They were caused by growing food and commodity prices which to a large extent were the effect of the expansive policy mix in developed countries and the rapid growth of GDP in developing economies. In effect, in the last months of 2010, concerns that the NBP would raise interest rates became a dominating scenario, and the date for commencing the cycle of tightening the monetary policy and the scale of the increases remained under dispute.

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

Investment activity	Activity
Treasury products sales	<p>Development strategy and achieved results</p> <p>Treasury instruments are sold to individual clients and institutions via a network of Bank branches and dedicated Treasury dealers.</p> <p>In 2010, excellent results were achieved in sales of traditional Treasury products such as foreign exchange spot and forward transactions. The value of spot and forward turnover was higher by 33% and 30% respectively. In the prior year, such derivatives as FX options were less popular with clients.</p> <p>In November 2010, the Bank offered an Internet Transaction Platform to its institutional clients. The platform enables exercising foreign exchange transactions. Until the end of 2010, over 100 clients used this distribution channel.</p>
	<p>Risk</p> <p>The Bank completed the work related to implementing the requirements of the MIFiD Directive. The implemented changes in the process of customer service should have a positive impact on the process of concluding transactions and better recognition of risk by clients.</p>
Treasury activities	<p>Achieved results</p> <p>The Bank is a dealer of Treasury securities, it maintains a high level of trading on the interest rate and currency market. In 2010, in the competition for the Dealer in securities organized by the Minister of Finance assessing the activity of banks on the interest rate market, PKO BP SA ranked 1st. According to the data as at the end of November 2010, the Bank's participation in FRA transactions amounted to 17.2%, compared with 13.6% in 2009, whereas on the IRS market it amounted to 19.2% and 12.9% respectively. The Bank is also one of the key market-makers on the currency market. During the 11 months of 2010, the share of PKO BP SA in the spot foreign exchange market amounted to 9% and was ca. 1 pp. higher than in the prior year. The Bank also actively participates in the money market and performs the function of dealer of the money market. In 2010, the Bank ranked second in the assessment of market activity Dealer Activity Index (DAI).</p>
Inter-bank market	<p>Risk</p> <p>In order to provide security of turnovers, the Bank signed 14 master agreements (ISDA) and 18 CSA security agreements (CSA) with domestic and foreign banks. The Bank actively managed financial risk (liquidity risk, interest rate risk, and currency risk) concentrating on minimization of the exposure.</p>



Table 22. *Achievements of PKO Bank Polski SA in the investment segment – brokerage activities*

	Investment activity	Activity
	Shares' market	In 2010, the value of trading in the secondary share market amounted to over PLN 28 billion, which represents an increase of over 20% compared with 2009. Share in the market turnover amounted to 5.92%, giving 6 th position in ranking.
	Primary market	<p>2010 was a very good year for Brokerage House (Dom Maklerski PKO BP SA) in the area of activities on the primary market. The following events are worth noting:</p> <ul style="list-style-type: none"> - preparation and conducting the largest public offerings on the Polish market: PZU, Tauron and GPW with a total value of PLN 13.5 billion, - conducting three share sale transactions in the course of Accelerated Book-building for: the Mint, PGE and PZU with a total value of over PLN 8.4 billion; - participation in the Catalyst market and floating communal bonds of the following communes and towns: Zamość, Ustronie Morskie, Kórnik, Brzesko, Konopiska, Tczew, Wodzisław Śląski, Połczyn Zdrój; - completing consecutive stages of servicing the management plan for Elektrotim S.A. <p>Moreover, at the end of 2010, the Brokerage House offered 145 investment funds managed by 10 Investment Fund Companies and continued to distribute four types of retail Treasury bonds with fixed and floating interest rates.</p> <p>As at the end of 2010, the number of contracts signed with issuers and the WSE in respect of performing the function of market maker and issuer amounted to 57 and 21 respectively, which places the Brokerage House on the 2nd and 4th position on the market. The Brokerage House (Dom Maklerski) PKO BP SA ranked first in the ranking of Gazeta Giełdy Parkiet (Parkiet of 10.01.2011) and Forbes magazine (Forbes no. 02/11) for the value of IPOs executed by particular brokers in 2010.</p>
Brokerage activities	NewConnect market	In the NewConnect market, the Brokerage House (Dom Maklerski) achieved a turnover of about PLN 306 million and took the fifth place with a 8.7% market share. The Brokerage House (Dom Maklerski) was the market maker in the NewConnect market for 27 companies, which gives it the second place in that market.
	Bonds' market	The Brokerage House (Dom Maklerski) takes the first place in the bond market with a 40% share in the market turnover.
	Futures/Forward market	Sales of the Brokerage House (Dom Maklerski) on the derivatives market grew dynamically. Compared with 2009, in the prior year Dom Maklerski noted a 40% increase in turnover on the contract market which moved it up to 4 th position from 7 th in 2009 and a more than twofold increase on the options market, which enabled it to achieve the 2 nd position vs. the 3 rd in 2009. In 2010, the value of turnover of the Brokerage House (Dom Maklerski) on the contracts market amounted to nearly 1 378 thousand pieces, and 255 thousand pieces on the options market.
	Number of accounts	In 2010, the Brokerage House (Dom Maklerski) noted a record increase in the number of serviced investment accounts. At the end of December, the number of open accounts amounted to 123.5 thousand, which is 58% more than those serviced as at the end of 2009, and including active registration accounts, the number of accounts with the Brokerage House (Dom Maklerski) amounted to 304.7 thousand.
	Development	In the 1 st half of 2010, the Brokerage House (Dom Maklerski) completed a project consisting of making available brokerage services to clients with bank accounts. The project was conducted in several stages, from implementing the possibility of automatic collection of funds from the checking account for the purpose of placing brokerage orders through the possibility of opening an investment account, using information functions and placing orders with the Bank's branches and via channels capable of automating credit services for the purchase of securities on the primary market (Emisja loan) and secondary market (Inwestor loan).

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 performance in 2010 is presented in the Directors' Report of PKO Bank Polski SA for 2010, 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 Group⁶

The PKO Bank Polski SA Group provides via its subsidiaries 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 operations in the real estate sector and provides banking services in Ukraine.

SUBSIDIARY	SIGNIFICANT EVENTS OF 2010
KREDOBANK SA	<ol style="list-style-type: none"> 1. As at 31.12.2010 the value of KREDOBANK SA's equity amounted to PLN 340 616 thousand (UAH 915 143 thousand). 2. As at the end of 2010, KREDOBANK SA recognized a net loss amounting to PLN 40 314 thousand (UAH 105 258 thousand). In the same period of 2009, KREDOBANK SA generated a net loss of PLN 190 192 thousand (UAH 488 048 thousand). The high value of loan loss provisions, which was a result of unfavorable economic situation in Ukraine and financial condition of Bank's clients, had the greatest impact on the result of KREDOBANK SA as at 2010. 3. The Company's gross loan portfolio decreased by PLN 209 million i.e. 11.9% in 2010 – the decrease was caused i.al.by restructuring activities, including the sale of a part of the loan portfolio to the external entities (the gross loan portfolio as denominated in UAH decreased in 2010 by UAH 780 million, i.e. 15.8%. As at 2010, the gross loan portfolio of the company amounted to PLN 1 547 million (UAH 4 157 million). 4. In 2010, clients' term deposits decreased by PLN 148 million, i.e. 15.0% - the decrease was the result of the adopted policy concerning the optimisation of the currency structure in 2010 (the value of deposits as denominated in UAH decreased by UAH 518 million, i.e. 18.8%). As at the end of 2010, the term deposits amounted to PLN 835 million (UAH 2 224 million). 5. In 2010 PKO Bank Polski SA: <ol style="list-style-type: none"> a) transferred to KREDOBANK SA funds in the amount of UAH 367.5 million in respect of subscribing for shares of the 20th issue. The said capital increase was registered on 22 July 2010. b) granted KREDOBANK SA the second subordinated loan in the amount of USD 15 million. The loan was registered by the National Bank of Ukraine and increased the regulatory capital of the Company. c) granted KREDOBANK SA two guarantees for the repayment of the borrowers' debt for a part of the loan portfolio. The nominal value of the guarantees is USD 74,83 million and the guarantees expire in January 2012. d) placed deposits totalling USD 4.8 million in the account of KREDOBANK SA maintained by Bank of New York Mellon and established a pledge on these deposits for KREDOBANK SA as collateral for selected loan liabilities. 6. As at 31 December 2010, the network of KREDOBANK SA branches consisted of 1 Central Branch (a result of consolidation of 19 autonomous branches) and 137 subordinated branches in 22 out of 24 Ukrainian districts and in the Autonomous Republic of the Crimea. <i>The financial information concerning the statement of financial position of Kredobank SA was recalculated using the average NBP rates prevailing at the last day of each month – as at the end of 2010 UAH 1=PLN 0.3722 and as at the end of 2009 UAH 1=PLN 0.3558.</i> <i>The financial information concerning the profit and loss account of Kredobank SA was recalculated using the arithmetic average of NBP rates prevailing at the last day of each month – as at the end of 2010 UAH 1=PLN 0.3830.</i>

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



The PKO Bank Polski SA Group Directors' Report for the year 2010

SUBSIDIARY	SIGNIFICANT EVENTS OF 2010
PKO Towarzystwo Funduszy Inwestycyjnych SA	<ol style="list-style-type: none"> 1. As at 31 December 2010, the value of PKO TFI SA's equity amounted to PLN 75 603 thousand. 2. In 2010, Company earned a net profit of PLN 48 463 thousand (in 2009 the Company earned a net profit in the amount of PLN 60 850 thousand). The decrease has mainly been caused by the change of a clearing system with the Bank, which contributed to an increase in commission revenue in the PKO Bank Polski SA's financial statements. 3. The value of the funds' assets managed by PKO TFI SA amounted to PLN 9.67 billion as at the end of 2010, which means that Company's market share accounts for 8.3%* and let the Company keep its 5th position among such funds. In 2010 the value of funds managed by the Company increased by 15.1%. The increase in value of the funds' assets is a result of the favorable situation on the stock exchange and positive net sales result. 4. Since 1 January 2010 the Company has managed the investment funds portfolios independently. 5. In 2010 the Company introduced to its offer 4 new investment sub-funds, offered under the Parasolowy – fio PKO Fund, and consolidated investment sub-funds under the PKO Światowy Fundusz Walutowy – sfio. As at 31 December 2010 the entity managed 26 investment funds. 6. In 2010, the Company paid dividend to PKO Bank Polski SA for 2009 in th amount of PLN 61 209 thousand (gross). <p><i>* Source: Chamber of Fund and Asset Management.</i></p>
PKO BP BANKOWY Powszechno Towarzystwo Emerytalne SA	<ol style="list-style-type: none"> 1. As at 31 December 2010, the value of PTE BANKOWY SA's equity amounted to PLN 237 442 thousand. 2. In 2010, PKO BP BANKOWY PTE SA earned a net profit of PLN 12 134 thousand (in 2009 the net profit of the Company amounted to PLN 23 619 thousand). The decrease in the result is due to the fact that in 2010 the maximum fee for the contributions transmitted by the Social Insurance Institution to the accounts of fund members was lowered from 7% to 3.5%. 3. As at the end of 2010, the net assets of PKO BP BANKOWY OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 6 565 million, which is an increase of 33.7% in comparison to the end of 2009. An increase in value of PKO BP Bankowy OFE's net assets results from positive trends at the Warsaw Stock Exchange. 4. As at 31 December 2010, the number of accounts maintained for participants of PKO BP OFE Bankowy amounted to 524 256. 5. As at the end of 2010, PKO BP BANKOWY OFE possessed the 9th largest net assets amongst pension funds and the 10th largest number of active member accounts, the same as at the end of the first half of 2010*. (As at the end of 2009: 10th largest net assets amongst pension funds and the 10th largest number of active member accounts). <p><i>* Source: www.knf.gov.pl</i></p>
Inteligo Financial Services SA	<ol style="list-style-type: none"> 1. The value of IFS SA Group's (Inteligo Financial Services SA and its subsidiary PKO BP Finat Sp. z o.o.) equity amounted to PLN 152 724 thousand. 2. In 2010, the IFS SA Group earned a net profit of PLN 17 861 thousand (in 2009 the Group earned a net profit in the amount of PLN 13 462 thousand). 3. At the end of 2010, Inteligo Financial Services SA provided access to electronic banking systems to approximately 3.72 million PKO Bank Polski SA clients using iPKO services, and served more than 631 thousand holders of Inteligo accounts. 4. In 2010, the Company introduced a number of innovative solutions for the customers of PKO Bank Polski SA electronic banking, including: requests for a credit history report from Biuro Informacji Kredytowej SA, introduction of a credit card which combined the features of a debit and credit card and providing new tools for transaction authorization such as SMS codes and the use of a token application for a mobile phone. 5. In 2010, the Company paid dividend to PKO Bank Polski SA for 2009 in th amount of PLN 1 424 thousand (gross). 6. In 2010, PKO BP Finat Sp. z o.o., a subsidiary of Financial Services SA, obtained a positive opinion as regards the certification of the correct operations of the internal control system, in accordance with the international SAS 70 standard.



SUBSIDIARY	SIGNIFICANT EVENTS OF 2010
<p style="text-align: center;">Centrum Elektronicznych Usług Płatniczych eService SA</p>	<ol style="list-style-type: none"> 1. As at 31 December 2010, the value of Company's equity amounted to PLN 85 417 thousand. 2. In 2010 the company recorded a net profit of PLN 24 215 thousand (PLN 31 981 thousand in 2009). The decrease in the profit is a result of a fierce competition on the market on which CEUP eService SA operates. 3. The number of terminals as at the end of December 2010 amounted to 53 590 units (including terminals enabling to withdraw cash), which is a decrease of 393 as compared to the end of 2009. 4. In terms of the number of installed terminals (including terminals enabling to withdraw cash), the Company's estimated market share amounted to 22% as at the end of 2010. 5. In 2010, transactions amounting to PLN 21.5 billion were generated with the use of CEUP eService SA terminals, representing an increase of 2.8 % in relation to 2009. 6. In terms of the value of card transactions (including cash withdrawals), the Company's estimated market share as at the end of December 2010 amounted to approximately 25.4%. 7. In 2010, the Company expanded the network of its own ATMs to 94 devices. 8. In 2010 the company paid a dividend of PLN 29 million (gross) to PKO Bank Polski SA for 2009.
<p style="text-align: center;">PKO BP Inwestycje Sp. z o.o.</p>	<ol style="list-style-type: none"> 1. As at the end of December 2010, the value of PKO BP Inwestycje Sp. z o.o. Group's (PKO BP Inwestycje Sp. z o.o. and its subsidiaries) equity amounted to PLN 147 786 thousand. 2. The PKO Inwestycje Sp. z o.o. Group closed the year 2010 with a net loss of PLN 6 255 thousand (net loss of PLN 1 031 thousand in 2009). The PKO Inwestycje Sp. z o.o. In 2010, the Group earned revenue of PLN 155 342 thousand and recorded the operating profit of PLN 6 093 thousand. The net loss for 2010 is the result of the loss on other operating activities due to the recognition of goodwill arising on shares in subsidiaries acquired before 2010. 3. The flagship projects realized by the PKO BP Inwestycje Sp. z o.o. Group include the 'Nowy Wilanów' project in Warsaw, the 'Neptun Park' project in Gdańsk-Jelitkowo and the 'Rezydencja Flotylla' project in Miedzyzdroje. 4. PKO BP Inwestycje is a banking developer with 11 years of experience in the execution of housing construction projects realized throughout the country. In its activities to date, the PKO Inwestycje Group sold and transferred to its customers ca. 3 thousand apartments in total. Its achievements are evidenced by 256.5 thousand square metres of the usable area of completed projects and 45.8 thousand square metres in the course of construction. The Group's achievements include the 'Marina Mokotów' project in Warsaw, realized in 2003-2007 and the 'Trzy Gracie' project in Sopot, Monte Cassino Street, completed in 2003.
<p style="text-align: center;">Fort Mokotów Inwestycje Sp. z o.o.</p>	<ol style="list-style-type: none"> 1. As at the end of December 2010, the value of Company's equity amounted to PLN 105 609 thousand. 2. The Company recorded a net loss of PLN 261 thousand in 2010 (PLN 602 thousand in 2009). The loss resulted from the fact that the Company only incurred start-up cost in the initial period of its operations. 3. In 2010, the Company continued to work on the organization of a development project on the plot of land located at 107 Raclawicka Street in Warsaw.
<p style="text-align: center;">Bankowy Fundusz Leasingowy SA</p>	<ol style="list-style-type: none"> 1. As at the end of December 2010, the value of BFL SA Group's (Bankowy Fundusz Leasingowy SA and its subsidiaries) equity amounted to PLN 99 835 thousand. 2. In 2010, the BFL SA Group earned a net profit of PLN 10 532 thousand (in 2009 the net profit of the Group amounted to PLN 2 445 thousand). 3. In 2010, the BFL SA Group Companies leased out assets with a total value of PLN 1 250 million, which represents an increase of 33.3% compared with 2009. The increase in terms of the value of leased assets is due to the stable market situation and the improvement of the financial condition of entities which use lease services. 4. In terms of the value of assets leased, at the end of 2010, the Group ranked 9th*. 5. The total carrying value of the BFL SA Group lease investments as at 31 December 2010 was PLN 2 398 million (as at the end of 2009: PLN 2 229 million). 6. In 2010, Bankowy Fundusz Leasingowy SA financed the development of small and medium enterprises (SMEs) from the funds of the loan obtained from the European Investment Bank of PLN 50 million. <p style="text-align: center;"><i>* Company's calculation based on the data published by the Polish Leasing Association.</i></p>
<p style="text-align: center;">Bankowe Towarzystwo Kapitałowe SA</p>	<ol style="list-style-type: none"> 1. As at the end of December 2010, the value of BTK SA Group's (Bankowe Towarzystwo Kapitałowe SA and its subsidiary PKO BP Faktoring SA) equity amounted to PLN 5 124 thousand. 2. In 2010, the BTK SA Group recorded a net loss of PLN 4 439 thousand (in 2009, Bankowe Towarzystwo Kapitałowe SA recorded a net loss of PLN 4 556 thousand). The net loss for 2010 resulted from the costs incurred by the Group in connection with undertaking new activities by both Bankowe Towarzystwo Kapitałowe SA and PKO BP Faktoring SA. 3. In 2010, PKO BP Faktoring SA - a subsidiary of BTK SA – included new products to its offer, providing domestic factoring services and export factoring services, both with and without the acceptance of risk (with recourse). 4. In 2010, the value of factoring trade amounted to PLN 1 045 million. The Company acquired 75 customers in total.



SUBSIDIARY	SIGNIFICANT EVENTS IN 2010
PKO Finance AB	<ol style="list-style-type: none"> As at 31 December 2010, equity of PKO Finance AB amounted to PLN 425 thousand (SEK 962 thousand). In 2010 the Company earned a net profit of PLN 28 thousand (SEK 65 thousand). In 2009 the Company's net profit amounted to PLN 63 thousand (SEK 155 thousand). The Company's core activity is to raise funds for PKO Bank Polski SA, deriving from the issue of Eurobonds. In October 2010 the Company has issued 5-year Eurobonds at the amount of EUR 800 million, and the earned funds were transferred to PKO Bank Polski SA, in accordance with the loan agreement. <i>Equity value was translated using the average NBP rate as at 31 December 2010 (1 SEK= 0.4415 PLN).</i> <i>Net result for 2010 was translated using the rate 1 SEK = 0.4222 PLN and the net result for 2009 was translated using the rate 1 SEK = 0.4095 PLN, which were the average NBP rates prevailing as at the last day of each month of a given year.</i>
Centrum Finansowe Puławska Sp. z o.o.	<ol style="list-style-type: none"> As at the end of 2010, the Company's equity amounted to PLN 210 299 thousand. In 2010 the Company's net profit amounted to PLN 11 920 thousand (in 2009 the Company earned a net profit of PLN 12 491 thousand). As at 31 December 2010, the Company rented 100% of the office and commercial space in the managed by itself Centrum Finansowe Puławska building, 90.8% of which was rented by the entities of the PKO Bank Polski SA Group. In 2010, the Company paid a dividend for the year 2009 in the gross amount of PLN 12 491 thousand to PKO Bank Polski SA.

5.5 Activities taken by PKO Bank Polski SA towards Kredobank SA

In 2010, the Management Board of PKO Bank Polski SA undertook a series of measures which directly contributed to securing the operations of KREDOBANK SA and strengthening corporate supervision over its investment in Ukraine.

Enhancing the safety of KREDOBANK SA operations

Increase in share capital of KREDOBANK SA

The 20th KREDOBANK SA share issue was registered on 22 July 2010. PKO Bank Polski SA participated in the increase in the share capital of KREDOBANK SA within the 20th share issue, acquiring shares with a nominal value of UAH 367 497 387.35, representing 99.83% of the new share issue. As a result of acquiring these shares, the interest of PKO Bank Polski SA in the share capital of KREDOBANK SA and the percentage of voting rights increased from 99.4948% to 99.5655%.

Subordinated loan

On 5 February 2010, PKO Bank Polski SA granted a second subordinated loan of USD 15 million to KREDOBANK SA. On 25 February 2010, the loan was registered by the National Bank of Ukraine and increased the regulatory capital of KREDOBANK SA.

Guarantee

On 30 June 2010, PKO Bank Polski SA granted a guarantee of repayment of liabilities of KREDOBANK SA's borrowers in respect of selected loan agreements. The nominal value of the guarantee is USD 37 677 280.46. The guarantee expires on 10 January 2012.

PKO Bank Polski SA set a guarantee limit for granting KREDOBANK SA a guarantee of payment of debts in respect of selected loan agreements amounting to a USD equivalent of UAH 500 million. The limit is exclusive of the amount of the guarantee granted to KREDOBANK SA on 30 June 2010. The relevant decision of the Supervisory Board of PKO Bank Polski SA in this matter was made on 6 October 2010.

On 15 November 2010, PKO Bank Polski SA granted, as part of the limit granted, a second guarantee of repayment of liabilities of KREDOBANK SA's borrowers in respect of selected loan agreements. The nominal value of the guarantee is USD 37 148 235.51. The guarantee expires on 17 January 2012.

Deposits

On 30 December 2010, PKO Bank Polski SA placed deposits totalling USD 4.8 million on the account of KREDOBANK SA maintained by Bank of New York Mellon and established a pledge on these deposits for KREDOBANK SA as collateral for selected loan liabilities.



Investment policy towards KREDOBANK SA

In order to minimize the negative effects of the economic crisis, the investment policy adopted by PKO Bank Polski SA in 2009 for KREDOBANK SA assumed that the operations of KREDOBANK SA would be restructured in the period 2010-2011.

In 2010, the activities focused on the following areas:

- 1) debt collection and restructuring activities in respect of the loan portfolio of KREDOBANK SA; the following steps were undertaken in this area:
 - in order to enable KREDOBANK SA to conduct effective debt collection of non-performing loans, PKO Bank Polski SA granted two guarantees to KREDOBANK SA, guaranteeing the repayment of debt to KREDOBANK SA by borrowers in respect of selected loan agreements, and placed deposits with KREDOBANK SA;
 - the management of receivables covered with guarantees and secured with the deposits was changed; on 11 August 2010, PKO Bank Polski SA and KREDOBANK SA signed a cooperation agreement concerning collection of debts covered by a banking guarantee; the agreement enables working out the optimum strategy to be developed and effectively implemented in respect of the said receivables;
 - a task force was appointed within PKO Bank Polski SA to cooperate in collecting receivables covered with the said guarantee and secured with the deposits;
 - within the structures of KREDOBANK SA, the KREDOBANK SA Restructuring Committee was appointed, comprising three Polish representatives of the Management Board of KREDOBANK SA;
 - KREDOBANK SA intensified its collection and debt restructuring activities;
- 2) cost control, procurement optimization and investments in tangible fixed assets of KREDOBANK SA; the following steps were undertaken in this area:
 - cost restructuring as regards personnel costs and costs of renting operational space;
 - centralization of the accounting system – improvements to the bank management system and its expenses, reduction of back office personnel costs and IT costs;
- 3) optimizing the network of KREDOBANK SA outlets, which consists in closing down unprofitable outlets – in 2010, the process of consolidating 19 branches of KREDOBANK SA into one Central branch, was completed;
- 4) change in lending policies of KREDOBANK SA:
 - a new lending policy of KREDOBANK SA was approved; the policy implemented conservative requirements as regards an assessment of the risk of potential borrowers;
 - the lending activities were resumed;
- 5) a further strengthening of supervision over KREDOBANK SA:
 - establishing a separate organizational unit of the Head Office of PKO Bank Polski SA within the Risk and Debt Collection Area of PKO Bank Polski SA. The unit reports directly to the Vice-President of the Management Board of the Bank who is, at the same time, the Chairman of the Supervisory Board of KREDOBANK SA;
 - extending the composition of the Supervisory Board of KREDOBANK SA;
 - introducing 3 Polish representatives to the Management Board of KREDOBANK SA, to oversee the areas of business, restructuring, debt collection and financial controlling;
 - As part of its supervision over the investment, PKO Bank Polski SA:
 - conducted detailed monitoring of the financial and economic position of KREDOBANK SA;
 - continued cooperation in the area of implementing at Kredobank SA the procedures similar to those applicable at PKO Bank Polski SA, including the development of amendments to already binding internal regulations;
 - organized experience-sharing trips of its employees to KREDOBANK SA and traineeships for Kredobank SA's employees at PKO Bank Polski SA.

These above mentioned activities are intended to ensure a sustainable basis for the rebuilding of the value of the shareholding of PKO Bank Polski SA in KREDOBANK SA.



Activities supporting the investment of PKO Bank Polski SA in Ukraine

In order to ensure direct and quick access to information on changes in policies introduced by the Ukrainian authorities, including in particular planned changes to the regulations governing the operations of financial institutions and enabling to respond, in an organized manner, to economic developments which hinder foreign investments, in November 2010 PKO Bank Polski SA:

- signed a cooperation agreement with the Polish-Ukrainian Business Chamber,
- started cooperating with the *Amicus Europae* Foundation.

Significant events after the reporting period relating to Kredobank SA.

On 5 January 2011 roku General Shareholders' Meeting of KREDOBANK SA made changes in the Supervisory Board of KREDOBANK SA.

5.6 Other subordinated entities⁷

SUBSIDIARY	SCOPE OF ACTIVITIES	ACTIVITIES OF OTHER SUBORDINATED ENTITIES
CENTRUM HAFFNERA Sp. z o.o.	CENTRUM HAFFNERA Sp. z o.o., together with its subsidiaries, carries out an investment project relating to arrangement and re-vitalization of Sopot's tourist centre.	<ol style="list-style-type: none"> 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 2010 amounted to PLN 63 429 thousand. 2. The CENTRUM HAFFNERA Sp. z o.o. Group closed the year 2010 with a net loss of PLN 15 575 thousand.
Centrum Obsługi Biznesu Sp. z o.o.	Centrum Obsługi Biznesu Sp. z o.o. supervises the management of the Sheraton Hotel in Poznań.	<ol style="list-style-type: none"> 1. The value of the Company's equity at the end of 2010 amounted to PLN 24 230 thousand. 2. The Company closed the year 2010 with a net loss of PLN 875 thousand.
Bank Pocztowy SA	Bank Pocztowy SA conducts banking activities.	<ol style="list-style-type: none"> 1. The value of the Company's equity at the end of 2010 amounted to PLN 306 929 thousand. 2. The Company closed the year 2010 with a net profit of PLN 14 706 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-sized enterprises (SMEs).	<ol style="list-style-type: none"> 1. The value of the Company's equity at the end of 2010 amounted to PLN 14 954 thousand. 2. The Company closed the year 2010 with a net profit of PLN 82 thousand.
Agencja Inwestycyjna CORP SA	The Entity manages of business premises in Warsaw.	<ol style="list-style-type: none"> 1. The value of the Company's equity at the end of 2010 amounted to PLN 1 310 thousand. 2. The Company closed the year 2010 with a net profit of PLN 503 thousand.
Kolej Gondolowa Jaworzyna Krynicka SA	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.	<ol style="list-style-type: none"> 1. The value of the Company's equity at the end of 2010 amounted to PLN 41 184 thousand. 2. The Company closed the year 2010 with a net profit of PLN 2 657 thousand.

5.7 International co-operation

Under the *2020 European Fund for Energy, Climate Change and Infrastructure* (hereinafter 'The Marguerite Fund'), PKO Bank Polski SA increased its capital involvement in the said fund from EUR 500 thousand as at the end of 2009 to EUR 1 200 thousand as at the end of 2010. PKO Bank Polski SA participates in the 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 cooperates with financial institutions in 16 countries within the international settlements system. The bank has 40 nostro accounts and 48 loro accounts.

5.8 Issue of Eurobonds

1. On 21 September 2010, the Management Board of the Bank adopted a resolution establishing the terms and conditions of the First Drawdown under the EMTN Programme of the subsidiary, PKO Finance AB ('the Issuer') seated in Sweden, of which the Bank is the sole shareholder. The basic terms and conditions of the First Drawdown under the EMTN Programme are as follows:
 - drawdown amount: up to EUR 800 000 000,
 - drawdown currency: EUR,
 - maturity: 5 years,
 - the funds obtained from the drawdown will be used for general financing purposes of the Bank, including liquidity ensuring purposes,

⁷ Financial results of the Group's subsidiaries are presented in accordance with Polish Accounting Standards.



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- interest: nbonds issued under the programme will bear interest at fixed rate,
 - interest period: 1 year,
 - denomination of each note will be EUR 50 000,
 - type of issue: senior,
 - listing: Luxemburg Stock Exchange,
 - way of settlement of funds between the Issuer and the Bank: the funds will be transferred between the Issuer and the Bank in a form of a loan, the amount and loan conditions of which will be equal to the amount of funds obtained from the issuance of notes. The settlements between the Issuer and the Bank will be provided by the Paying Agent through banking accounts dedicated only for purposes of the issuance of notes and with consent of the Bank,
 - the Issuer will be paid accordingly to the agreement for the administration of the bonds issue.
2. On 12 October 2010, PKO Bank Polski SA has issued through its subsidiary, PKO Finance AB, 5-year Eurobonds in the amount of EUR 800 million. This is the very first issue of this type in the Bank's history, the success of which proves that the Bank is capable of using capital markets effectively, also in the debt financing segment, which enables the Bank's sources of finance to be diversified. The demand for the first tranche of Eurobonds of PKO Bank Polski SA, issued within EMTN program, was large and significantly exceeded EUR 1 billion. Investors who, apart from domestic ones, were mainly institutions from Germany, Austria, Belgium, the Netherlands and Luxemburg, applied for over 100 subscriptions. Final valuation of Eurobonds amounted to 185 basis points over the midswap rate. The interest rate amounted to 3.733%. It is the most profitably placed issue by a Polish issuer (excluding the State Treasury). Markets offer comparable costs of financing to such banks as Santander, BBVA, Banco Popolare as well as to some German financial institutions. Arrangers of the issue were HSBC and Société Générale and dealers were HSBC, Société Générale and PKO Bank Polski SA.
3. On 19 October 2010, PKO Bank Polski SA concluded a loan agreement with its subsidiary, PKO Finance AB seated in Sweden (the 'Issuer'), pursuant to which the Bank will borrow from the Issuer certain funds representing proceeds from the issue of Eurobonds by the Issuer (the 'Loan Agreement').
- The Bank is the sole shareholder of the Issuer. The issuer is a related party to the Bank according to the Polish Accounting Act. Under the Loan Agreement, the Issuer grants a loan of EUR 800 000 000 to the Bank, i.e. PLN 3 145 360 000, intended to be used for general financing purposes of the Bank. The loan bears interest at a fixed rate of 3.733%. Interest is paid annually. The Loan Agreement was concluded for the term of five years. The loan is not secured. The Loan Agreement does not provide for any contractual penalties. To date, the Bank has not concluded any agreements with the Issuer meeting the criteria of a material contract. The Bank is required to announce the conclusion of the Loan Agreement as qualifying as a material contract since the amount of the loan meets the criteria referred to in par. 2 clause 1 item 44 of the Decree of the Finance Minister dated 19 February 2009 on current and periodic information published by issuers of securities and conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state.

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

Realized sponsoring activities 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 23. Structure of the main sponsorship areas

Area	Number of projects	Share in %	Share in budget (in PLN)
image sponsorship	291	82%	7 769 340
sector sponsorship	136	18%	1 704 990
Total:	427	100%	9 474 330



Table 24. Sponsorship activities by amount (in PLN)

Sponsorship activities by amount	Number of projects
0 – 100 000	411
100 000 – 500 000	12
Above 500 000	4

82% of the budget was dedicated to sponsoring activities which shape the desired image and brand of PKO Bank Polski SA. The initiatives supported were aimed at presenting the Bank as the leader of the financial market, and a dynamic organization in the course of modernization, and at the same time a friendly institution open to the needs of local communities. The majority of the projects sponsored related to education, sports, culture and the protection of the national heritage, as well as so-called social sponsoring.

The following were the main events in the area of culture and national heritage sponsored by the Bank: commemoration of the 70th anniversary of the Katyń genocide, restoration of Jan Matejko's painting 'The Battle of Grunwald', reconstruction of the events related to the 40th anniversary of December 1970 in Gdynia, the celebration of the 66th anniversary of the Warsaw Uprising. Moreover, the Bank supported operations of theatres, philharmonics, co-financed the organization of many important artistic events, festivals, exhibitions.

In the group of educational projects, the most important one is the sponsoring of the Planetarium at the Copernicus Science Centre in Warsaw and projects related to supporting university level school initiatives throughout the country.

The largest project in this respect was sponsoring of two running events from the 'Zabiegaj o pamięć' cycle: the 20th Warsaw Uprising Race and the 22nd Independence Race.

PKO Bank Polski SA monitors on an ongoing basis the realization of particular sponsorship projects and orders research concerning sponsorship and image perception (both qualitative and quantitative).

Charity activities

Charity activities play an important role in forming a positive image of PKO Bank Polski SA as a socially sensitive institution. Apart from the image issues, participation in charity activities creates the possibility of contacts with opinion-setting circles and local authorities.

Table 25. Main areas of charity activities

Area	Number of donations	Share in budget In %	Amount paid (in PLN)
Social aid	188	39.6%	1 653 501
Life and health rescue	122	14.6%	608 644
Sport and leisure	87	19.1%	799 136
Education and entrepreneurship	62	7.6%	315 900
Culture and national heritage	20	3.5%	146 900
Help to victims of natural calamities and disasters	20	13.2%	551 249
Other	18	2.5%	104 900
Total:	517	100%	4 180 230

Table 26. Charity activities by amount (in PLN)

Charity activities by amount	Number of donations
0 – 5 000	415
5 001 – 20 000	98
20 001 – 100 000	1
Above 100 000	3

In the area of social aid, the agreement signed towards the end of 2007 with Fundacja Polsko-Niemieckie Pojednanie continued to be realized. PKO Bank Polski SA is subsidizing the program of social and humanitarian help for the former soldiers of Armia Krajowa (the Home Army). This initiative is organized under the auspices of the President of the Republic of Poland.

Support of the 5th Special European Summer Olympics 2010 organized in September in Warsaw was a large sports and physical culture-promoting event supported by the Bank.

PKO Bank Polski SA participated in actions for the flood victims, transferring funds for i.a. renovation of schools and kindergartens. Additionally, thanks to the support of PKO Bank Polski SA, it was possible to



purchase various equipment and medical apparatus for hospitals and funds operating in the area of life-saving.

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

Promotional activities carried out by the other companies of the Group in 2010:

- KREDOBANK SA participated in the fifth campaign of aid to newborns, organized by the *Heart to Heart* Foundation. The campaign consisted in collecting funds to purchase equipment for the diagnostics and pre-emptive treatment of birth defects (over UAH 3 million was collected);
- KREDOBANK SA was one of the sponsors of the 'Polish night – 2010' gala, organized in October 2010 by the Polish Embassy in Ukraine and the European Business Association EBA in Kiev;
- PKO Towarzystwo Funduszy Inwestycyjnych SA has been building its position on the investment fund market mainly by: preparing and distributing educational brochures, publications and radio programmes on how to safely invest in investment funds (including a series of inserts to the 'Rzeczpospolita', 'Puls Biznesu', 'Gazeta Wyborcza', 'Gazeta Polska' and 'Gazeta Finansowa' daily and programmes broadcast by the Polish Radio);
- PKO BP Inwestycje Sp. z o.o. and its subsidiaries conducted marketing activities to support the sales of apartments in newly built housing estates 'Neptun Park' in Gdańsk Jelitkowo and 'Nowy Wilanów' in Warsaw, i.al. by sponsoring the Polish Film Festival in Gdańsk, the hockey competition on the Torwar skating complex in Warsaw, the Film Star Festival in Międzyzdroje and the 'Anna for Anna' Gala in Warsaw;
- Centrum Elektronicznych Usług Płatniczych eService SA conducted promotional campaigns relating to proximity cards, organized competitions promoting the sales of prepaid services and sponsored the Bridge Team eService playing in the First League;
- PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA (a pension fund) conducted image - building activities as part of the campaign 'Jutro to dziś tyle, że jutro' (Tomorrow is today, only tomorrow) maintained using the press, advertising and internet, and co-organized the Asset Management Forum;
- Centrum Finansowe Puławska Sp. z o.o. organised a conference on the real property market.

In addition, information, promotional and sales support activities were organized for products offered by Inteligo Financial Services SA and the companies of the Bankowy Fundusz Leasingowy SA Group.

Activities of the PKO Bank Polski SA Foundation

On 22 July 2010, PKO Bank Polski SA established the Foundation of PKO Bank Polski. The Foundation's objectives consist of acting for the public interest in the following areas: education, social aid, health promotion and protection, art and culture, environmental protection, activities supporting the development of social and other communities, promoting social objectives in the banking environment and organizing volunteers.

In 2010, the Foundation's major achievements included i.al. the following:

- the 'Friends' Committee for Assistance to Flood Victims' initiative – conducted on the basis of two permits of the Minister of Internal Affairs and Administration. As part of the initiative, PLN 1.2 million were collected for employees and retired employees of PKO Bank Polski who had suffered due to flooding in Poland since May 2010, and
- 'Santa Claus Integration Meeting' – parties organized for children from care centres for children and youth with which the Bank's regional branches cooperate and for children of the employees of PKO Bank Polski SA. Approximately 7 000 children participated in 26 events in 24 cities across Poland.

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

In 2010, PKO Bank Polski SA and other entities of the PKO Bank Polski SA Group have been granted numerous prizes and awards, including:

1. Product of The Year 2009 – PKO Bank Polski SA was awarded prizes in four categories: bank account, mortgage loan, cash loan, deposit.
2. Entrepreneur Friendly Bank – PKO Bank Polski SA was awarded a Gold Prize and the Laureate title for implementing new standards of servicing institutional clients, responding flexibly to the needs of corporate clients, improving and enhancing the product offer and the manner it is being sold using the solid models of cooperation with small and medium enterprises.

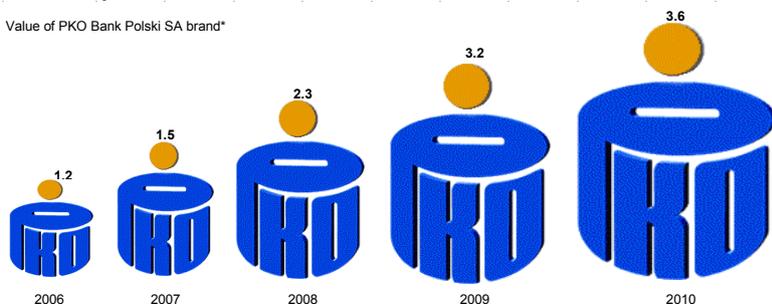


3. Złoty Bankier (*Golden Banker*) – PKO Bank Polski SA won a prize for the best mortgage loan in the market, Inteligo received an award 'Złoty Bankier' in a category Financial Innovation for the most original product of the year, i.e. an overdraft in a mobile phone.
4. The Prize of the Stock Exchange – the Brokerage House (Dom Maklerski) of PKO Bank Polski SA was awarded three prizes by the Warsaw Stock Exchange for its achievements in 2009: for the highest value of new issues of listed companies in 2009, for the support in launching the Catalyst market and active operations in the market as regards acquisition, for the largest share in the market maker turnover in the NewConnect market in 2009.
5. Lampart 2009 (*Leopard 2009*) – the idea of Leopards lies in awarding the banks that made the greatest effort to build their brand last year and were successful in doing so. PKO Bank Polski SA took the second place in the following categories: retail banking and banking services for microenterprises.
6. '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.
7. Ranking of banks financing developers' housing projects - in the 6th edition of the ranking, PKO Bank Polski SA took the first place in the general ranking (scoring 91 out of 100 points).
8. In the ranking of 100 most valuable companies in Poland in 2009 organised by *Newsweek*, PKO Bank Polski SA was valued at PLN 35.8 billion and took third place. The valuation was made by the consulting firm A.T. KEARNEY. The research analyzed companies with remarkable turnover, profitability and with brand valued by the Poles.
9. *PremiumBrand 2009* – in the 5th edition of *PremiumBrand MMT Management*, assessing brand reputation among consumers and businesses, PKO Bank Polski SA won the best score in the category 'banks' and was awarded the title of Brand of High Repute.
10. In the 18th edition of the Best Banks 2010 competition organized by Gazeta Bankowa, PKO Bank Polski SA won the category of 'large banks'.
11. The 50 largest banks in Poland 2010 – in a ranking reflecting the market position of financial institution – organized by 'Miesięcznik Finansowy BANK' issued by the Polish Banking Association, PKO Bank Polski SA was awarded the following: the main prize, a special distinction for the Bank as the institution with the highest capital power, a special prize awarded by the Credit Information Bureau (BIK) to the Bank for providing BIK reports.
12. 'The Best Financial Institution of 2009' organized by *Rzeczpospolita* - in the 8th ranking of the best financial institutions organized by *Rzeczpospolita* in the Bank category, PKO Bank Polski SA took the third place.
13. PKO Bank Polski SA – the most universal bank – *Comperia.pl* conducted research to find the most versatile bank in Poland. PKO Bank Polski SA was chosen as the bank that is best adapted to meet the high expectations of clients. It scored as many as 31.5 points out of the maximum score of 35 points and was the only one to exceed the threshold of 30 points. PKO Bank Polski SA won in three partial rankings – in the mortgage loan category, the credit card category and the investment product category.
14. Inteligo – the on-line no. 1 bank – in the eighth edition of the ranking 'The Newsweek's friendly bank', Inteligo was ranked first in the 'On-line bank' category. The Bank was praised for, amongst others, the quality of its client service, an easy-to-navigate and reliable website, as well as friendly transaction-related procedures.
15. A client-friendly Bank – PKO Bank Polski SA became the winner of the sixth edition of the nationwide Certification Program 'Firma Przyjazna Klientowi' (Client-friendly firm) conducted by Fundacja Obserwatorium Zarządzania. In this year's edition 19 institutions obtained certificates, among them PKO Bank Polski SA as the only representative of the banking sector. It is the second 'Firma Przyjazna Klientowi' award for PKO Bank Polski SA.
16. Second position in the competition for the Best Annual Report for 2009 - PKO Bank Polski SA became one of the winners of the competition for the Best Annual Report for 2009 organized by the Accounting and Taxation Institute under the honorary sponsorship of, among other things, the Warsaw Stock Exchange. In this year's edition of the competition PKO Bank Polski SA ranked second in the category 'Banks and financial institutions'.
17. 'Perła Polskiej Gospodarki' (*Pearl of the Polish Economy*) – in the 8th ranking of Polish enterprises organized by the Institute of Economics of the Polish Academy of Sciences (PAN) and *Polish Market*, PKO Bank Polski SA won the award 'Perła Polskiej Gospodarki'. Ratios that decided on PKO Bank Polski SA being awarded the title 'Perła Polskiej Gospodarki' in the category 'Perły Wielkie' (*Great Pearls*) were as follows: high rate of growth of income, very good return of sales, debt ratio, return on assets gross, return on equity net and outstanding work efficiency.



18. The most valuable brand in the Polish financial sector – for the last five years, i.e. since the first edition of the Rzeczpospolita ranking which takes into account financial services firms, PKO Bank Polski SA remains first among financial firms in terms of brand strength. In the ranking 'Marki Polskie 2010' prepared by *Rzeczpospolita* PKO Bank Polski SA proved to be the most valuable and the strongest brand in the Polish financial sector. During the last year, the value of the market leader's brand by more than 15% and was assessed by the authors of the ranking at over PLN 3.6 billion. Specialists from The Banker magazine evaluated it at one billion dollars. 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.

19. The award for mass introduction of proximity cards – during the *Central European Electronic Card Conference* in Warsaw, the results of the competition promoting products and events on the payment card market in Poland were presented. In the category 'Event of the Year 2010' PKO Bank Polski SA won by mass introduction of proximity cards.
20. PKO Bank Polski SA and Inteligo closest to their clients – *Dziennik Gazeta Prawna* published the results of the ranking 'Bank Najbliższy Klientowi' ('The Bank closest to the client'). In the transactional service category, Inteligo, the virtual branch of PKO Bank Polski SA, was one of the laureates. Apart from the transaction service, availability of branches and ATMs, call centres and consultants' competences, the information content of the website and the modernity and attractiveness of the offer were taken into account.
21. TOP 20 ranking of the safe deposits – KREDOBANK SA entered the ranking published by the Ukrainian internet agency 'Prawda ekonomiczna' ('Economic Truth') with the 'stable' evaluation.
22. 'The Best Bank-Partner for Insurance Companies' – KREDOBANK SA was nominated in the Bank of the Year 2010 competition organized by Ukrainian issue of the magazine 'Bankier'.
23. The title of IT Leader of financial institutions in 2009 in the transaction systems category – the prize awarded to PKO Bank Polski SA by *Gazeta Bankowa* for the ATFI system being developed and implemented by PKO BP Finat Sp. z o.o., a subsidiary of Inteligo Financial Services SA.
24. First position in the Consumer Laurel 2010 programme in the 'investment funds' category and a special award of the competition – Consumer Laurel Grand Prix 2010 – for PKO Towarzystwo Funduszy Inwestycyjnych SA.
25. The European Medal – the prize for Inteligo Financial Services SA awarded by *Business Centre Club* for innovation and the quality of services provided by the Company.
26. The first place in the category of the best Internet banks – the prize for Inteligo Financial Services SA in the annual ranking of banks organized by the 'Newsweek Polska' weekly.
27. 'The Bank Closest to Customers' – Inteligo Financial Services SA was one of the winners of the ranking organized by *Dziennik Gazeta Prawna* daily.
28. 2010 Award for Excellence ENEA – granted by the *Urban Land Institute* for Miasteczko Wilanów, whereby the Nowy Wilanów project is carried out.
29. The first place in 'The ranking of satisfaction' – award granted to PKO BP BANKOWY PTE SA in the ranking published by the *Business Magazine Manager*.
30. The distinction by the Credit Information Bureau (BIK) in the Innovation category – prize for Inteligo Financial Services SA for implementing possibilities the following service: purchase of BIK reports for Inteligo clients and iPKO e-banking users in PKO Bank Polski SA.
31. 'Partner of the Year 2009' – Centrum Elektronicznych Usług Płatniczych eService SA was rewarded by the Polish Banking Association.



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, especially in KREDOBANK SA and Bankowy Fundusz Leasingowy 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. Managing the banking risk by maintaining the risk level within the adopted tolerance level is aimed at:

- protecting the value of the shareholders' capital,
- protecting clients deposits,
- supporting the Bank in conducting effective operations.

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 organizationally 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 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 Group in the area of risk management. The Bank's Management Board approves the most important decisions affecting the risk profile 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 organization,
- 3) the third line of defence, which is an internal audit.

The independence of the lines of defence consists of preserving organizational 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 consulting 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, as well as reflect the specific nature of the entity's activity and the market on which it operates.

PKO Bank Polski SA Group's top priority is to maintain its strong capital position and to further increase its stable sources of financing, which are a precondition for increasing the loan portfolio.

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 minimize the risk of loans with impairment, while maintaining an expected level of yield and loan portfolio value.

The Bank and the subsidiaries of the Group 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,
- 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. For those clients, apart from the rating method, a scoring method is used, according to which the Bank assesses the credit risk in two dimensions: creditworthiness and financial viability of the client.

Implementation of the scoring method for SME customers will result in shortening the assessment process of loan applications as well as improvement of credit risk management effectiveness.



Information on ratings and scoring is widely used at 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 order to reduce the period of response as regards warning signals suggesting an increase in credit risk level, the Bank implemented a dedicated application to support the Early Warning System (EWS) in August 2010. The application is now being developed.

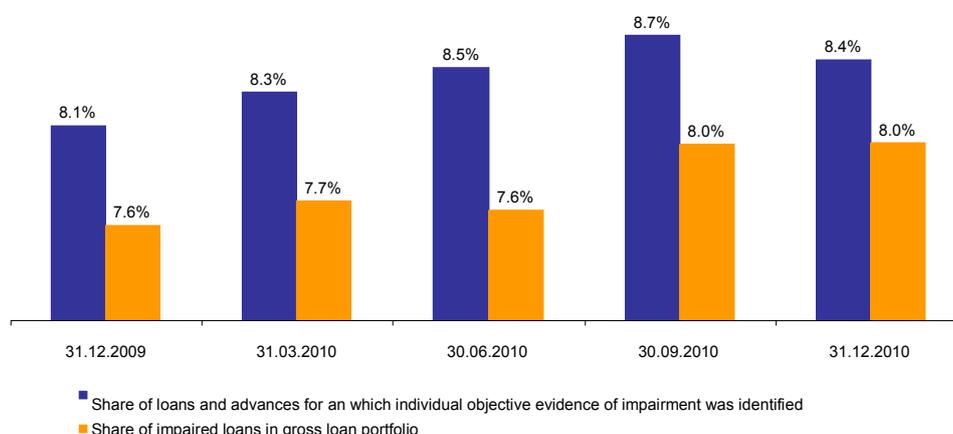
The Group entities whose business activity is related with the occurrence of credit risk, carried out a review of policies and procedures for credit risks.

Table 27. The structure of loan portfolio and impairment allowances of the PKO Bank Polski SA Group (in PLN million)

	31.12.2010	31.12.2009	Change 2010/2009
Loans and advances to customers			
Valued with the individual method	6 562.4	6 254.3	4.9%
Impaired, of which:	5 899.2	5 355.9	10.1%
<i>Receivables from finance leases</i>	125.6	191.1	-34.3%
Not impaired, of which:	663.1	898.4	-26.2%
<i>Receivables from finance leases</i>	155.4	30.3	5.1x
Valued with the portfolio method, of which:	4 987.9	3 752.3	32.9%
<i>Receivables from finance leases</i>	102.1	74.8	36.5%
Valued with the group method (IBNR), of which:	123 974.5	110 503.1	12.2%
<i>Receivables from finance leases</i>	2 177.6	2 062.5	5.6%
Loans and advances to customers - gross	135 524.8	120 509.7	12.5%
Allowances on exposures valued with the individual method	(1 766.0)	(1 365.6)	29.3%
Impaired, of which:	(1 766.0)	(1 365.6)	29.3%
<i>Allowances on lease receivables</i>	(29.5)	(24.2)	22.1%
Allowances on exposures valued with the portfolio method, of which:	(2 593.1)	(1 989.9)	30.3%
<i>Allowances on lease receivables</i>	(48.0)	(38.0)	26.4%
Allowances on exposures valued with the group method (IBNR), of which:	(497.6)	(581.7)	-14.5%
<i>Allowances on lease receivables</i>	(12.4)	(9.7)	27.9%
Allowances - total	(4 856.7)	(3 937.1)	23.4%
Loans and advances to customers – net	130 668.1	116 572.6	12.1%

In 2010, the value of gross loans granted by the Group and evaluated under the individual method increased by PLN 308 million, and those evaluated under the portfolio method increased by PLN 1 236 million.

Chart 1. Share of loans and advances for which an individual objective of impairment was identified and share of loans and advances with recognized impairment in the PKO Bank Polski SA Group.



As at 31 December 2010, the share of loans for which an individual objective of impairment was identified in the PKO Bank Polski SA Group's gross loan portfolio amounted to 8.4% as compared with 8.1% reached as at 31 December 2009.



Increase in the share of loans for which an individual objective of impairment was identified by 0.3 pp. as at 31 December 2010 compared with 31 December 2009 was mainly due to a higher growth rate of portfolio with individual objectives of impairment (16.7%) than the growth rate of the total loan portfolio (12.5%).

As at 31 December 2010, the PKO Bank Polski SA Group's coverage ratio for loans for which an individual objective of impairment was identified⁸ reached the level of 42.4% as compared with 40.2% as at 31 December 2009.

The share of loans with recognized impairment in the PKO Bank Polski SA Group's gross loan portfolio as at 31 December 2010 amounted to 8.0% as compared with 7.6% reached as at 31 December 2009.

Coverage ratio for loans with recognized impairment⁹ for the PKO Bank Polski SA Group as at 31 December 2010 amounted to 44.6%, compared with 43.2% as at 31 December 2009.

The Group entities, which have significant credit risk levels (KREDOBANK SA, the BFL 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 and KREDOBANK SA measure credit risk regularly and the results of such measurements are submitted to the Bank.

Appropriate organizational units of the Banking Risk Division participate in managing the credit risk in the Group companies 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.

In 2010, KREDOBANK SA centralized its credit risk assessment process and introduced the pilot version of the Early Warning System (EWS) in respect of loans to legal persons. It implemented a procedure for informing clients by a text message (SMS): a preventive SMS – three days before the repayment date and SMS – on the third day of the credit liability being overdue. It conducted actions aimed at systematizing monitoring of credit transactions, specifically by developing a database of current loan insurance contracts. It appointed a Restructuring Committee to improve the effectiveness of actions taken in the process of making decisions as to loan restructuring.

The key directions of the risk management policy of the BFL SA Group, set in 2010, cover the construction of a safe lease portfolio which would guarantee earning consolidated profits by the BFL Group, capital security and attempting to limit the share of non-performing receivables in the portfolio. The policy also specifies the criteria for considering industries, clients and assets undesirable, and exposure limits vis-à-vis particular industries, as well as client concentration limits. The purpose of the BFL SA Group is to develop lease activities via the banking distribution channel.

6.1.2 Market risk

Market risk is understood as a risk of incurring a loss due to adverse changes in market parameters, such as interest rates and foreign exchange rates, as well as liquidity risk. Market risk includes: interest rate risk, currency risk and liquidity risk.

Interest rate risk

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

⁸ Calculated as the amount of impairment allowance on loans and advances to customers divided by the total gross amount of loans and advances to customers for which individual objective evidence of impairment was identified.

⁹ Calculated as the amount of impairment allowance on loans and advances to customers divided by the amount of loans and advances gross with recognised impairment.



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 the statement of financial position items 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 entities are defined by internal regulations implemented by those Group entities which are characterized 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 Group entities.

The PKO Bank Polski SA Group's exposure to interest rate risk as at 31 December 2010 and 31 December 2009 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 28. 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	31.12.2010	31.12.2009
VaR for a 10-day time horizon*	39 004	17 086
Parallel movement of the interest rate curves by 200 base points (stress test)	522 641	233 304

* 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 30 150 thousands as at 31 December 2010 and PLN 40 048 thousand as at 31 December 2009, respectively.

As at 31 December 2010, the Bank's interest rate VaR for the holding period of 10 days amounted to PLN 39 004 thousand, which accounted for approximately 0.24% of the value of the Bank's own funds. As at 31 December 2009, VaR for the Bank amounted to PLN 17 086 thousand, which accounted for approximately 0.10% of the Bank's own funds (own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio).

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 the statement of financial position items and off-balance sheet items.

PKO Bank Polski SA measures currency risk using the Value at Risk model and stress tests.

Methods of currency risk management in the Group entities 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 29. VaR of PKO Bank Polski SA and stress tests of the Group's financial assets exposed to the currency risk, cumulatively for all currencies (in PLN thousand)

Name of sensitivity measure	31.12.2010	31.12.2009
VaR for a 10-day time horizon*	3 171	1 092
Change in CUR/PLN by 15% (stress test)	6 081	697

* Due to the nature of the activities carried out by the other Group 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 182 thousand as of 31 December 2010 and ca. PLN 64 thousand as of 31 December 2009, respectively.

The level of currency risk was low both as at 31 December 2010 and as at 31 December 2009.



Table 30. The Group's currency position for particular currencies (in PLN thousand)

Currency	Currency position as at 31.12.2010	Currency position as at 31.12.2009
USD	(78 916)	(31 811)
GBP	48 073	1 501
CHF	(18 820)	(3 634)
EUR	(4 035)	26 489
Other (global net)	11 257	12 101

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 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 entities are defined by internal regulations implemented by entities, for which currency risk measurement tools obtain a significant value. The regulations are developed after consulting the Bank and taking into account recommendations issued to the entities by the Bank.

To ensure an adequate liquidity level, the Bank and the subsidiaries of the PKO Bank Polski SA Group accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

The table below presents liquidity reserve as at 31 December 2010 and 31 December 2009.

Table 31. Liquidity reserve of PKO Bank Polski SA (in PLN million)

	31.12.2010	31.12.2009
Liquidity reserve up to 1 month*	10 151	16 030

*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 2010, the level of core deposits constituted approximately 95.2% of all deposits of the Bank (excluding interbank market), which is a decrease by ca. 0.4 pp. as compared to end of 2009.

6.1.3 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 Bank Polski 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 optimizing the positions taken in instruments sensitive to changes in these market parameters.

The risk is managed by imposing limits on the activities of Dom Maklerski PKO BP SA divided into the banking portfolio and the trading portfolio, and by monitoring the utilization thereof.



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

6.1.4 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, among others, the Value at Risk (VaR) model, described in the section describing interest rate risk or in the section describing currency risk depending on the risk factor which affects the value of the instrument.

Risk management is carried out by imposing limits on the individual derivative instruments divided into trading and banking portfolios, monitoring the use of limits, observation 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 agreement (Credit Support Annex).

Methods of derivative risk management in the subsidiaries of the Group 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.

6.1.5 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 optimize 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 organizational 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);
- tolerance and operational risk limits,
- contingency plans;
- insurance;
- outsourcing;
- business continuance plans.



In 2010, 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.

Other Group entities manage operational risk according to principles of risk management in PKO Bank Polski SA, considering their specific nature and scale of activity. In 2010, the Group entities continued their activities concerning development of the system of key risk indicators as regards operational risk and conducted trainings related to this risk.

6.1.6 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, its employees 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 Bank's acting as a 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 Group has adopted a zero tolerance policy against compliance risk, which means that the Group focuses its actions towards eliminating this risk.

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

6.1.7 Strategic risk

The strategic risk is defined as a risk related to the possibility of negative financial consequences caused by erroneous decisions, decisions made on the basis of an inappropriate assessment or failure to make correct decisions relating to the direction of the Bank's strategic development.

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 operations,
- factors related to the management of human resources,
- factors related to investment activities,
- factors related to the organization's culture.

6.1.8 Reputation risk

The reputation risk is defined as the risk related to a possibility of negative variations from the planned results of the Bank 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 minimizing the scale and the scope of image-related events, as well as selection of effective tools for protective measures aimed at eliminating, mitigating or minimizing the unfavourable effect of image-related events on the image of the Group.

6.1.9 Capital adequacy

Capital adequacy is the maintenance of a level of capital by the PKO Bank Polski SA Group which is sufficient to meet regulatory 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:

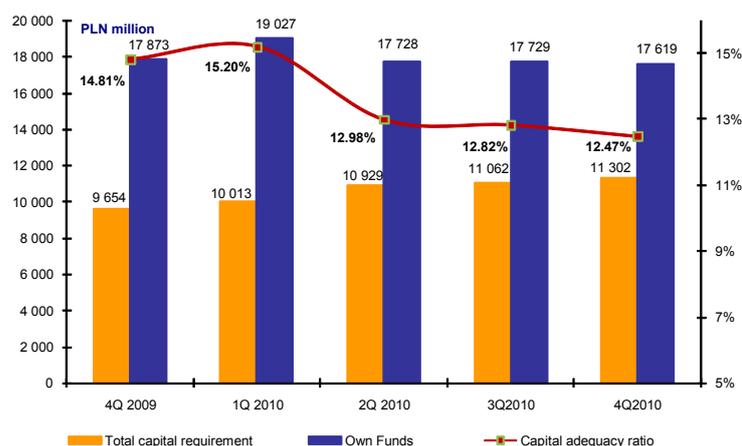
- identifying and monitoring significant types of risks;
- assessing internal capital to cover the individual risk types and total internal capital;
- monitoring, reporting, forecasting and limiting of capital adequacy;
- performing internal capital allocations to business segments, client segments and entities in the PKO Bank Polski SA Group in connection with profitability analyses;
- using tools affecting the capital adequacy level (including: 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 whose minimum level in accordance with the Banking Act is 8%;
- the ratio of equity to internal capital whose acceptable minimum level in accordance with the Banking Act is 1.0.

The capital adequacy level of the PKO Bank Polski SA Group in 2010 remained on a safe level and was significantly above the statutory limits.

Chart 2. Capital adequacy of the PKO Bank Polski SA Group¹⁰



Compared with 31 December 2009, the Group's capital adequacy level decreased by 2.34 pp., which was mainly caused by an increase in total capital requirement of the Group (by ca. PLN 1 648 059 thousand).

¹⁰ Own funds for the purposes of capital adequacy is calculated in accordance with the provisions of the Banking Law and Resolution No. 381/2008 of the Polish Financial Supervision Authority (PFSA) of 17 December 2008 on deductions from Tier 1 capital, as amended by Resolution No. 367/2010 of the PFSA of 12 October 2010, applicable to the data as at 31 December 2010. The 2009 data was restated to ensure comparability, in accordance with the provisions of the said Resolution.



The PKO Bank Polski SA Group Directors' Report for the year 2010

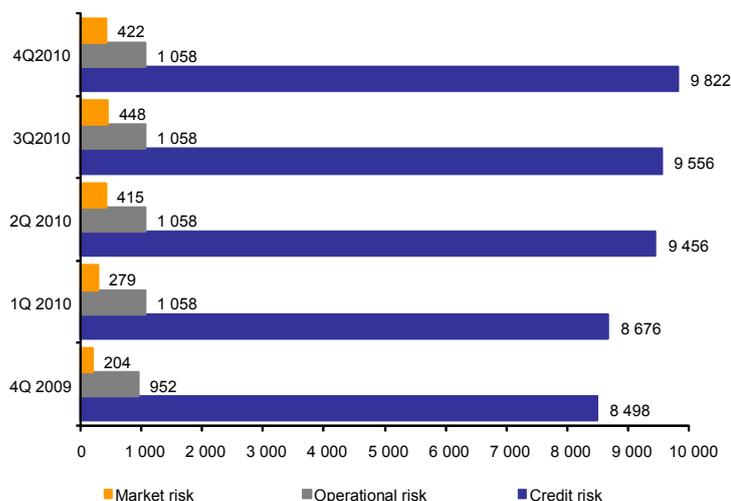
Despite the drop in the solvency ratio, the Bank's capital adequacy as at 31 December 2010 remained at a safe level, significantly above the statutory limits.

In 2010, the Group's own funds decreased by PLN 254 190 thousand, mainly as a result of an increase in items deducted from the Group's own funds, i.e. intangible assets of PLN 229 460 thousand and unrealized losses on debt and equity instruments classified in the available-for-sale portfolio of PLN 14 657 thousand, combined with a decrease in unappropriated profits of PLN 136 509 thousand.

The Group is calculating the capital requirements in accordance with Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 (Basel II): for credit risk – using the standardized approach, for operational risk for the Bank – using the standardized approach, and for the Group entities – using the basic approach, and for the market risk – using the basic approach.

An increase in capital requirements related to credit risk resulted mainly from a significant increase in loan portfolio (exposures in the statement of financial position as well as off-balance sheet exposures) by ca. 11.3%. The increase in capital requirements results mainly from an increase of liabilities related to the issue guarantee by ca. 100%.

Chart 3. Capital requirements of the PKO Bank Polski SA Group¹¹



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 organizational units and individual employees.

¹¹ Starting from 31 December 2010, the Group calculates the capital requirements in accordance with Resolution No. 76/2010 of the Banking Supervision Commission of 10 March 2010, as amended by Resolution No. 369/2010 of 12 October 2010 (CRD II): for credit risk – using the standardized approach, for operational risk for the Bank – using the standardized approach, and for Group companies – using the basic indicator approach, and for market risk – using the basic approaches. The 2009 data was restated to ensure comparability, in accordance with the provisions of the said Resolution.



Three pillars of the remuneration and incentive system:

I Pillar, the so-called Management by Objectives (MbO) covers top managers for which specific 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 outlets and corporate centers, 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, in a form of a premium. 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 organization as such, and thus participate in the results achieved by the Bank.

6.2.2 Remuneration policy

The remuneration policy is carried out in PKO Bank Polski SA within a framework specified by the internal regulations which, in accordance with the requirements of the provisions of the Labour Code, specify the terms and conditions of remunerating the Bank's employees and granting other work-related benefits.

The basic regulation in this regard is the Collective Labour Agreement (ZUZP) concluded with the company trade union organizations on 28 March 1994 – amended so far by means of six additional protocols.

According to this remuneration system employees:

1. receive the following remuneration components – determined in accordance with the principles specified in the ZUZP:
 - 1) the base remuneration,
 - 2) additional remuneration for working overtime and at night, as well as under conditions which are especially onerous or detrimental to health,
 - 3) long service bonuses,
 - 4) one-off cash bonuses in connection with retiring on a pension or a disability pension due to a complete or partial inability to work;
2. receive the following remuneration components – determined in accordance with the principles specified in separate resolutions passed by the Management Board – passed as a result of a recommendation of ZUZP, in consultation with the company trade union organizations:
 - 1) bonuses,
 - 2) annual bonuses for the results of operations achieved by the Bank,
 - 3) awards for special achievements in work for reaching results especially important to the Bank.
3. are employed in workplaces – classified in nine categories – defined in the tables of jobs in the Bank's business units.

In 2010, no system changes were made to the ZUZP or the 'Rules of Granting Awards to the Bank's Employees' or the 'Rules of Payment of Annual Bonuses'. However, the 'Rules of Granting Bonuses' were changed.

The Bank adopted a practice to annually increase base remuneration of employees – which in 2010 was realized thanks to the possibilities following from the level of personnel costs specified in the Bank's financial plan (*as of 2010, the Act on the negotiation system for establishing the increase in average remuneration in businesses ceased to be binding*).

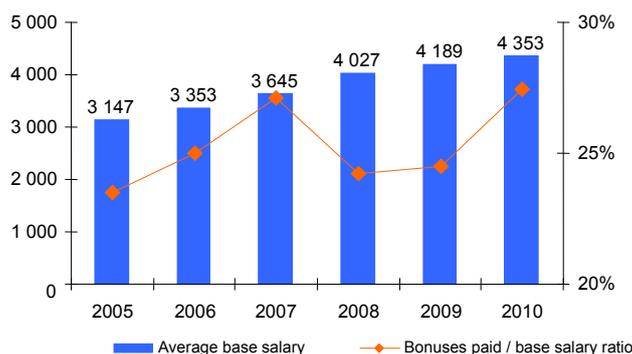
In July 2010, base remuneration of the employees of Regional Branches was increased. The average increase per employee amounted to 3.6%.

Base remuneration of employees – determined on the basis of requests of respective directors of the Bank's organizational entities or organizational units of the Head Office – is established taking into consideration:



- 1) the resolution of the Bank's Management Board determined in cooperation with the Collective Labour Agreement (ZUZP) on introducing tables of positions for organizational entities of the Bank;
- 2) the table of minimum monthly base remuneration rates determined in ZUZP – attributed to 9 work position classification categories;
- 3) the internal practice for remunerating employees appropriately to the scope of responsibility of the employee, the complexity of the tasks realized – in consideration of the evaluation of work (quality, effectiveness, timeliness);
- 4) the possibility to refer the level of remuneration to market practices using the analysis of the level of remuneration in the banking sector conducted by external advisory companies.

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



6.2.3 Benefits for employees

Medical care

In 2010 – as a part of the budgeted costs of medical services for the employees – free of charge, comprehensive health care continued to be provided. In 2010 the Bank ensured its employees – besides mandatory benefits, which employer is obliged to ensure under the applicable provisions of the Polish Labour Code – additional medical care according to various packages addressed to particular employee groups as well. All packages enabled employees to have unlimited access to doctors in all areas of specialization and to diagnostic tests. Based on the agreement concluded between the Bank and LUX MED Sp. z o.o., medical care services were provided by LUX MED Sp. z o.o. which cooperates with various subcontractors to ensure access to these services to the Bank's employees in all branches country-wide. Providing broad range of free of charge medical services for all employees (as well as for members of their families and former employees - pensioners – for a lump sum payment) constitutes a significant element of additional benefits provided for the employed in the Bank.

Social Benefits

Table 32. Benefits granted by the Company Social Benefits Fund in 2010 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*	5 499	68 911 500
Non-refundable benefits**	49 309	21 099 669
Total	54 808	90 011 169

* Housing loans.

** Including aids, organized and non-organized 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 2010, employment in the PKO Bank Polski SA Group amounted to 29 780 full-time positions, which is a drop of 1318 positions y/y, including 242 positions in other (apart from PKO Bank Polski SA) Group entities, mainly in KREDOBANK SA (-258 positions y/y). The drop in employment in KREDOBANK SA is the result of restructuring activities related to the optimization of the KREDOBANK SA branch network, resulting, i.al. in a reduction of employment.



Table 33. Number of employees in PKO Bank Polski SA and other Group companies (in number of full-time equivalents)

Entities	31.12.2010	31.12.2009	Change in employment (full-time equivalent)
PKO BP SA	26 770	27 846	-1 076
Other Group entities	3 010	3 252	-242
Total	29 780	31 098	-1 318

As at 31 December 2010, PKO Bank Polski SA employed 27 396 persons (i.e. 26 770 full-time equivalents). In the course of 2010, layoffs for reasons unrelated to the employees affected 985 people.

Group layoffs resulted specifically from the continuation of the following processes started in prior years:

- the planned increase in the work effectiveness of the Bank's employees;
- adapting the number of employees to the tasks realized in the Bank's particular organizational entities and in the organizational units of the Head Office;
- implementing organizational changes, including the centralization of functions and processes resulting in changes of the manner or scope of tasks realized;
- implementing new IT technologies supporting cost reduction activities;
- employment restructuring to adapt the qualifications of the employed to changes in the manner of performing and in the quality of tasks realized by the Bank's organizational entities.

6.2.5 Training policy

In 2010, training activities – as in the previous periods – was strongly determined by the business and organizational model of the PKO Bank Polski SA. Training-related decisions took into consideration the dynamic changes within and around PKO Bank Polski SA and concentrated on developing the professional competencies of the employees, including:

- expanding and consolidating knowledge, in particular that relating to: the law, economy, finance, up-to-date technological and IT solutions, product-related training courses;
- improving skills, in particular those relating to: identifying the client's needs, developing pro-client attitudes, improving sales techniques, increasing the level of labour effectiveness;
- supporting the management executives in improving their professional skills as regards the effective management of the Bank's resources.

The training courses were accompanied by the active involvement of the employees in the process of self-education and in the process of sharing knowledge, including in-house training courses conducted by trainers – the Bank's employees.

In 2010, a total of 364 893 participants took part in training courses, including:

- a total of 71 522 participants took part in the in-house training courses conducted by trainers – the Bank's employees and in external training courses;
- 293 371 took part in e-learning training courses.

Conducting the majority of the training courses based on a cascade formula and realisation of training courses based on the e-learning formula contributed to a more effective utilization of the budget intended for training courses for employees, without lowering the expected level of teaching at the same time.

In the Polish Agency for Enterprise Development (PARP) competition, PKO Bank Polski SA filed a request for additional finance for the training and advisory project 'Akademia Menedżera PKO Bank Polski SA' under the Operational Programme Human Capital 'Development of Human Capital in Enterprises'. The Bank's request was positively evaluated by PARP and was recommended for additional financing of PLN 7.3 million. Planned commencement - second quarter of 2011, period to completion amounts to 2 years. The programme is aimed at supporting the implementation of the Bank's 'Leader' strategy by improving key competencies of management which translates into an improvement in the effectiveness of the organization's operation.

Action was initiated to appoint professionally functioning internal trainers within the Bank under the programme 'Establishing the internal trainer structures in PKO Bank Polski SA'. The first stage of these actions (preparing and accepting the project, recruitment of candidates, establishing organizational structures) was completed in December 2010. The trainers are expected to begin work in new structures in March 2011.



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 2010, 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 2009 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.

Table 34. 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	510 000 000	PLN 1	PLN 510 000 000
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, holding as at 31 December 2010, respectively 512 406 277 and 128 102 731 of PKO Bank Polski SA's shares.

The share of the State Treasury and Bank Gospodarstwa Krajowego 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 35. Shareholding structure of PKO Bank Polski SA

Shareholders	As at 31.12.2010		As at 31.12.2009		Change in number of votes at AGM since 31.12.2009 (pp.)
	Number of shares	Share of votes at AGM	Number of shares	Share of votes at AGM	
The State Treasury	512 406 277	40.9925%	512 406 927	40.9926%	-0.0001
Bank Gospodarstwa Krajowego	128 102 731	10.2482%	128 102 731	10.2482%	0.0000
Other shareholders	609 490 992	48.7593%	609 490 342	48.7592%	0.0001
Total	1 250 000 000	100.0000%	1 250 000 000	100.0000%	0.0000

7.1.2 Information concerning dividend

On 23 July 2010, General Shareholders' Meeting of PKO Bank Polski SA took up resolution concerning dividend payout for the year 2009 in the amount of PLN 1.90 per share. List of shareholders entitled to receive dividend for the year 2009 was set on 23 October 2010 and the dividend was paid out on 20 December 2010.

The disbursement of dividend was to take place on the condition that by the date of 10 December 2010 PKO Bank Polski SA ultimately shall not take control over a bank with its registered seat on the territory of the Republic of Poland by direct or indirect acquisition of the majority of shares or shall not acquire the rights to take control in the manner specified above. The shareholders were notified of fulfillment of the dividend payment condition on 14 October 2010, i.e. before setting the dividend date on 23 October 2010

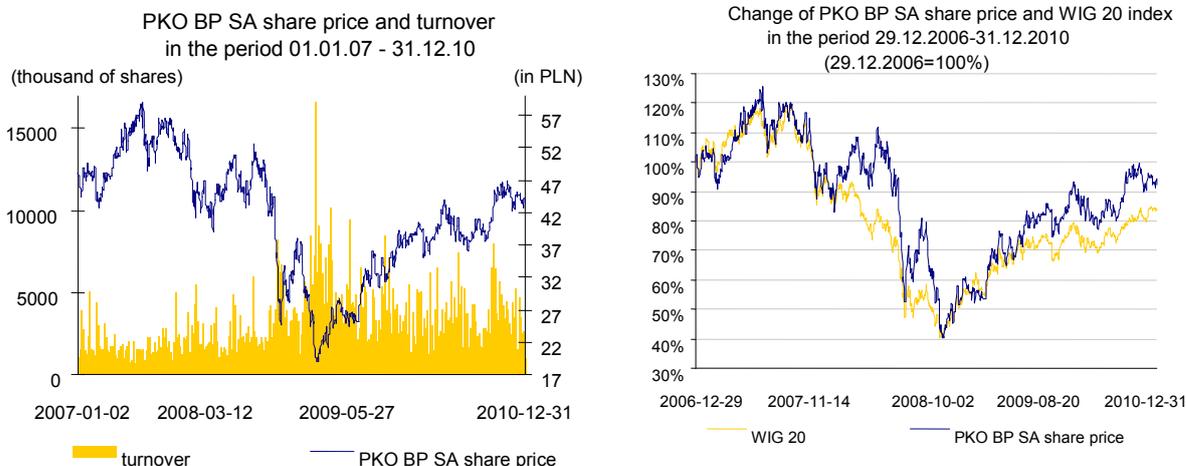
In the future, the Management Board intends to recommend that the General Shareholders' Meeting adopt resolutions concerning the payment of the dividend representing 40% of the separate net profit of the Bank for a given financial year.



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

Share price of PKO Bank Polski SA

In 2010, the share price of PKO Bank Polski SA was mainly determined by situation on the Warsaw Stock Exchange (GPW).

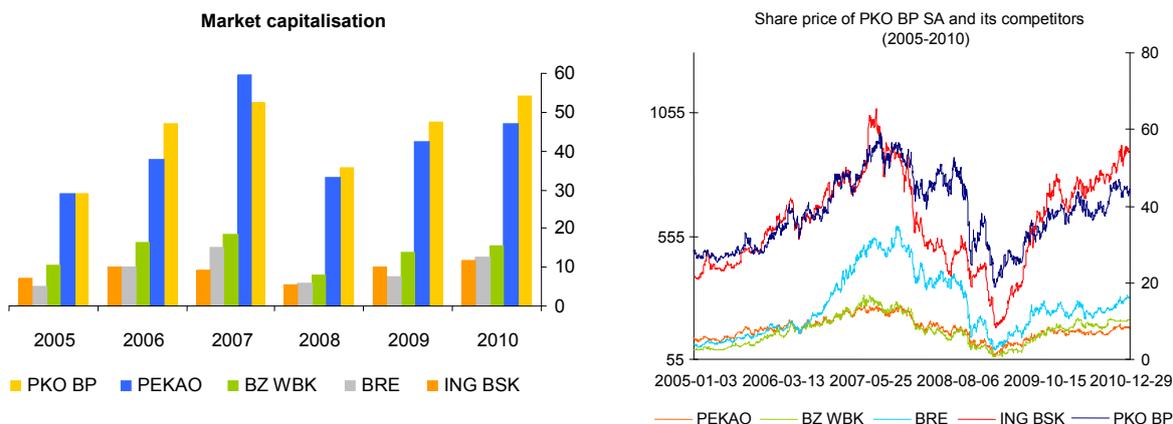


In 2010, the price of PKO Bank Polski SA shares increased by 14.1% from PLN 38.00 as at 31.12.2009 to PLN 43.35 as at 31.12.2010, and:

- the average price of the Bank's shares in 2010 amounted to PLN 40.72 per share and fluctuated in the range from PLN 35.06 (05.02.2010) to PLN 46.81 per share (4.11.2010);
- the average daily volume of trading in the Bank's shares amounted to 2,500 thousand shares and fluctuated from 536 thousand shares (27 December 2010) to 8,025 thousand shares (17.09.2010).

In 2010, the price of PKO Bank Polski SA shares significantly fluctuated when the periods of growth were interspersed with consecutive drops, the largest of which were noted at the break of January and February, in mid April, in August and November. The situation on the international financial markets and especially the drops caused by investors' concerns about the economic situation of the Euro area countries which were hit by the public finance crisis – first in Greece, and then in Ireland – as well as concerns about the crisis expanding to consecutive countries whose budgets were troubled, especially Spain and Portugal, had the largest impact on such trends in share prices in 2010.

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 four rating agencies:

- *Moody's Investors Service* assigns a rating to the Bank at a charge, in accordance with its own bank assessment procedure,



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- Standard & Poor's, Capital Intelligence 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.

In March 2010, the Bank received a report from the rating agency Capital Intelligence, dated January 2010, with the information that the support rating had been increased from level 2 to level 1 (the other ratings remained unchanged). The increased rating is the highest score granted by the agency within the support assessment category.

On 29 September 2010, the Bank received a press release of the rating agency Standard & Poor's notifying that the long-term assessment of liabilities in the domestic currency was increased from BBBpi to A-pi. At present, the rating agency Standard & Poor's assigns only one rating to the Bank solely on the basis of information provided to the general public. It should be emphasized that the increased rating is only one mark lower than the rating assigned to Poland (A). The agency justified increasing the rating with the high likelihood of PKO Bank Polski SA receiving, on time and to a sufficient extent, support from the State Treasury, its main shareholder if needed.

Ratings assigned by other agencies did not change in 2010.

Table 36. Ratings as at 31 December 2010

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
Capital Intelligence	
Long-term rating for liabilities in a foreign currency	A-
Short-term rating for liabilities in a foreign currency	A2
Strength on a national scale	BBB+
Support Rating	1
Perspective for upholding the rating	Stable

In September 2010, 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-'.

The rating level and forecasts for KREDOBANK SA are identical to the rating and forecast for Ukraine as a country.

7.1.5 Investor relations

In 2010, 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, capital 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;
- organizing the General Shareholders' meeting and providing information to the Bank's shareholders;
- ensuring the Bank's cooperation with appropriate governmental bodies, organizations 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 analysts, organized 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 2010, there were ca. 90 meetings on the Bank's premises, ca. 140 meetings at 12 investor conferences and ca. 60 teleconferences;
- 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: <http://www.pkobp.pl/> in the 'Investor Relations' section.

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.

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 introduced on 19 May 2010 (Resolution No. 17/1249/2010).

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 listed companies.

In 2010, the Bank took necessary actions with an aim to obey the rules included in the document 'Good Practices of Warsaw Stock Exchange Companies'.

PKO Bank Polski SA has performed a one-off withdrawal from application of rules specified in above-mentioned document, of which it informed in a current report no. 36/2010 on 23 July 2010. It concerned compliance to the rules specified in Part IV of the 'Code of Best Practice for WSE Listed Companies' ('the Best Practices') referring to:

- setting a period longer than 15 business days between the date of setting the right to dividend and the date of dividend payment (Part IV point 6 of the Best Practice), and
- setting such conditions of conditional dividend payment whose fulfilment must take place after the date of setting the right to dividend (Part IV point 7 of the Best Practices).

Resolutions on distribution of profit and disbursement of dividend adopted by the Ordinary General Meeting on 23 July 2010 aimed to make the manner of distribution of profit earned by the Bank in 2009 dependent on possible Bank activities related to potential processes of disposal or transfer of control over entities acting in the national banking sector.

The dates indicated for the fulfilment of conditions specified in the resolution on distribution of profit were set so as to enable the Bank to conduct essential analyses related to its potential engagement in a potential process of taking control over another bank with its registered seat on the territory of the Republic of Poland, make relevant investment decisions or a potential conclusion of a transaction. Taking into consideration the above mentioned reasons, the date of 10 December 2010 was suggested as a date specified in par. 1 clause 2 of the resolution on distribution of profit. Such setting of a final date reliable for verification of fulfilment or failure of fulfilment of the condition – necessary for the reasons mentioned above – meant that the verification of the fulfilment or failure of fulfilment of the condition had to take place after the date of setting the right to dividend, which date could be set within the consecutive three months at the latest following the date on which the resolution on distribution of profit and disbursement of dividend was adopted (Article 348 § 3 of the code of commercial partnerships and companies). The above meant a one-off withdrawal from application of the rule referred to in Part IV point 7 of the Best Practices, of which the Bank hereby informed in the above mentioned report.

Moreover, the above mentioned distinction of the date reliable for verification of fulfilment or failure of fulfilment of the condition also determined an appropriate setting of dividend disbursement date. The dividend disbursement date could not take place earlier than the date reliable for verification of fulfilment



or failure of fulfilment of the condition on which dividend disbursement depends. Taking the above into consideration, the date of 20 December 2010 was set as a date of disbursement of dividend which meant a one-off withdrawal from application of the rule referred to in Part IV point 6 of the Best Practices, of which the Bank informed in the current report, simultaneously presenting detailed basis for the performed withdrawal in accordance with Part IV point 6 sentence 2 of the Best Practices.

On 14 October 2010 the Management Board of PKO Bank Polski SA, according to the obligation contained in paragraph 3 of the resolution of the Ordinary General Meeting No. 38/2010 on distribution of profit of PKO Bank Polski SA earned by the Bank in 2009 announced that Bank does not expect the fulfillment (till 10 December 2010) of the condition mentioned in paragraph 1.2 of the Resolution, relating to taking control over a bank with its registered seat on the territory of the Republic of Poland by direct or indirect acquisition of the majority of shares or acquiring the rights to take control in the manner specified in above. Therefore shareholders were informed about the dividend payment date, 9 days before the date of setting the right to dividend, which fell on 23 October 2010.

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 organizational entities, organizational 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 organizational 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 organizational 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 organizational teams and units,
- at the stage of verification, by management and persons authorized by said employees, the correctness of performed tasks by employees, especially its compliance with binding laws and regulations, internal regulations and prudence norms.

The objective of the internal audit performed by the Internal Audit Department is to deliver to the Management and Supervisory Boards of PKO Bank Polski SA independent and objective information, assessments and opinions, especially about the following:

- effectiveness of the internal control system, including the effectiveness of control mechanisms,
- PKO Bank Polski SA's management system, including business risk management,
- compliance with binding laws and regulations and internal regulations of PKO Bank Polski SA.

The operation of internal control system and risk management in respect of the process of preparation of the financial statements are based on control mechanisms embedded in the functionality of the reporting



systems, 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 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 periodic financial statements.

The information referred to above comprises:

- credit risk (including the risk of credit 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 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 2009' 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*, par.3 clause 5, PKO Bank Polski SA applies the following rules:

- 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 12 May 2008, 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 31 December 2008, 2009 and 2010 and for a review of standalone and consolidated financial statements for the 6-month periods ended 30 June 2008, 2009, 2010.

Total fees payable to *PricewaterhouseCoopers Sp. z o.o.* under the contracts concluded by PKO Bank Polski SA amounted to PLN 2 765.9 thousand net for the financial year of 2010 and of PLN 4 276.6 thousand net for the financial year of 2009.



Table 37. Fee for the entity authorised to audit financial statements (in PLN thousand)

No.	Title	2010	2009
1.	Audit of standalone and consolidated financial statements	1 140.0	1 225.0
2.	Authenticating services, including a review of financial statements	560.0	560.0
3.	Tax consulting services	0.0	102.8
4.	Other services	1 065.9	2 388.8
Total		2 765.9	4 276.6

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 as at 31 December 2010, respectively 512 406 277 and 128 102 731 of PKO Bank Polski SA's shares.

The share of the State Treasury and Bank Gospodarstwa Krajowego 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.

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

In PKO Bank Polski SA there are no voting right restrictions such as the restriction on exercising voting rights by holders of a specific portion or number of shares, time restrictions relating to exercising voting rights or provisions according to which, in cooperation with PKO Bank Polski SA, equity rights related to securities are separated from the ownership of the securities.

In accordance with par. 6 clause 2 of the Bank's Articles of Association, the conversion of the registered 'A' class shares (possessed at present by the State Treasury) with a total number of 510 000 000 into bearer shares and the transfer of these shares requires an approval of the Polish Council of Ministers in the form of a resolution. Acquiring such consent results in the expiry of the above restrictions to the extent to which this consent was given.

Apart from the above mentioned, there are no other specific limitations concerning the shares of PKO Bank Polski SA.

7.2.4 The Articles of Association and manner of functioning of Annual General Meeting of PKO Bank Polski SA

7.2.4.1 Principles for amending the Articles of Association of PKO Bank Polski SA

Principles for amending the Articles of Association of PKO Bank Polski SA comply with the provisions of the Commercial Companies Code and the Banking Law. The Articles of Association does not introduce different or detailed regulations in this respect.

7.2.4.2 Changes in the Articles of Association in 2010

In 2010, based on Resolution No. 34/2010 of the Bank's General Shareholders' Meeting dated 25 June 2010, the District Court in Warsaw, 13th Business Division of the National Court Register registered changes to the Articles of Association of PKO Bank Polski SA.

Amendments to the Articles of Association related to the following, i.e.:

- competences of the General Shareholders' Meeting as regards adopting resolutions on disposal of the Bank's real properties – such a resolution is not required provided that the value of the real property or the right being subject to such an act does not exceed $\frac{1}{4}$ of the share capital or if the acquisition of the property being disposed in such a manner, the share in the property or the perpetual usufruct occurred as part of executory proceedings, bankruptcy proceedings, composition arrangements or another arrangement with the Bank's debtor (par.9 clause 1 item 5 of the Bank's Articles of Association);
- strengthening competences of the Supervisory Board as regards its supervision over the risk management and internal controls systems, including acceptance of the general risk level of the Bank (par.14a, par.15 clause 1 item 1a, item 11 and item 11a of the Bank's Articles of Association).



- competences of the Supervisory Board as regards approving acquisitions or disposals of real estates, provided that the value of the property does not exceed 1/50 of the share capital (previously: 1/10 of the equity) (par.15 clause 1 item 12b of the Bank's Articles of Association);
- competences of the Supervisory Board as regards approving the Bank's transactions with related parties, provided that the value of the transaction does not exceed 1/10 of the share capital (previously: the PLN equivalent of EUR 500 000) (par.15 clause 1 item 12d of the Bank's Articles of Association);
- competences of the Supervisory Board as regards an obligation to appoint an Audit Committee (par.17a of the Bank's Articles of Association)
- the internal control model (par.26 clauses 4-7 of the Bank's Articles of Association);
- authorization for the Management Board of the Bank as regards the payment of an advance of dividend to shareholders (par. 34a of the Bank's Articles of Association);

Amendments to the Bank's Articles of Association were disclosed in detail on the Bank's website: <http://www.pkobp.pl/> (Investor Relations/General Meeting/Archive of 2010/Resolutions adopted by the Ordinary General Meeting of PKO BP SA convened for 25 June 2010) in Appendices No. 1 and No. 2 to the justification of the draft resolution of the General Shareholders' Meeting on amendments to the Articles of Association of PKO Bank Polski SA.

7.2.4.3 Annual General Meeting of the Bank, 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 Bank's Articles of Association, and based on the policies defined in the by-laws of the Annual General Meeting (hereinafter 'the AGM').

The fundamental powers of the AGM, 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 PKO Bank Polski SA of property items or perpetual usufruct right to property, from which the Bank conducts its business,
- issuance of convertible bonds or other instruments giving the right to acquire or take up the Bank's shares.

Allowed to participate in the Annual General Meeting of the Bank are beneficiaries of rights attached to registered shares, as well as pledgees and usufructuaries having voting rights, who have been entered in the Register of Shares at the day of registration or 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 AGM, exercise his voting right in person or by proxy. The shareholder who is not a natural person may participate in the AGM and exercise his voting right through a proxy authorized to file declarations of will on his behalf, or by proxy.

An authorization 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 an individual 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 authorizations. The person(s) granting an authorization on behalf of a shareholder who is not an individual should be listed in an up-to-date excerpt from the relevant register of a given shareholder.

Management Board Member or an employee of the Bank may serve as proxy at the AGM 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 1/20 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 21 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 the shareholders of PKO Bank Polski SA representing at least 1/20 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 the Annual General Meeting agenda or desisting, at the request of the 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 $\frac{3}{4}$ votes, after prior consent of all those shareholders present at the AGM 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 Articles of Association of the Bank 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 the Bank's Management or Supervisory Board or liquidators,
- applications for bringing the Bank's liquidators or members of the Management or Supervisory Board 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 the Bank on whatever account, including the acknowledgement of the fulfillment of his duties, release of any of his duties towards the Bank, or any dispute between him and the Bank.

Shareholders have the right to ask questions, through the Chairman of the Annual General Meeting, to the Members of the Bank'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.

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

7.2.5.1 The Supervisory Board of PKO Bank Polski SA

The Supervisory Board is composed of 6 to 11 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 25 June 2010, General Shareholders' Meeting of PKO Bank Polski SA was informed that pursuant to par.11 clause 1 of the Bank's Articles of Association, the State Treasury, as the Eligible Shareholder, determined the number of the Supervisory Board members to include 8 persons.

Current joint term of the Bank's Supervisory Board has begun on 20 May 2008 and expires on 19 May 2011, while mandates expire after Annual General Shareholders' Meeting in 2011.



Table 38. Composition of the Supervisory Board of PKO Bank Polski SA as at 31 December 2010

Positions	Competences
 <p>Cezary Banasiński – Chairman of the Bank's Supervisory Board appointed on 20 April 2009 until the end of the current term of the Bank's Supervisory Board</p>	<p>Cezary Banasiński graduated from University of Warsaw at the Faculty of Management in 1977 and at the Faculty of Law and Administration in 1980 obtaining master's degree in Management&Organisation and in Law. Moreover, in 1987 he was awarded a PhD at the Faculty of Law and Administration at the University of Warsaw, where he has been been a member of academic staff since 1980. From 1999 to 2001 he held the position of the undersecretary of state at the Office of the Committee for European Integration and from 2001 to 2006 he was the President of the Office of Competition and Consumer Protection. Moreover, from 2005 to 2006 he was a member of the Securities and Exchange Commission, of Coordination Commission for Financial Conglomerates and of the Insurance and Pension Fund Supervisory Commission.</p>
 <p>Tomasz Zganiacz – Vice-chairman of the Bank's Supervisory Board appointed on 31 August 2009 until the end of the current term of the Bank's Supervisory Board</p>	<p>Tomasz Zganiacz graduated from Warsaw University of Technology at the Faculty of Automotive and Construction Machinery Engineering (obtaining in 1989 master's degree in Mechanical Engineering) and Mechanical Faculty of Technology and Automation (in 1991 obtaining master's degree in Mechanical Engineering of Manufacturing Organization). Moreover, in 1993, he obtained Master of Science in Business (equivalent of MBA) at Business School (joint venture of Warsaw University of Technology, London Business School, HEC School of Management Paris and Norwegian School of Economics and Business Administration). From 1991 to 1998, he was a member of the academic and teaching staff of the Institute of Production Systems Organization at Warsaw University of Technology. He also worked as an assistant of the President of the Management Board at Mesat S.A. (1991-1992), Chief Executive Officer at Aster City S.A. (1994), Manager at Loans Department in <i>Société Générale Succursale de Varsovie</i> (1995-1996) and assistant of the President of the Management Board in Eurofund Management Polska Sp. z o.o. From 1999 to 2006, he was working for the company 7bulls.com S.A. at following positions: Research & Development Director (1999), Chief Financial Officer (2001-2002), Financial Advisor of the Management Board (2002-2006). Since 1999, he worked for Pekpol S.A. where he held the position of Chief Financial Officer (1999-2002), Vice-President of the Management Board - Chief Financial Officer (2002-2003) and liquidator – Chief Financial Officer of Pekpol S.A. in liquidation (2003). From 2004 to 2006 he was a Member of the Management Board at Arksteel S.A. (until 31 December 2003 – Pekpol S.A.). From 2003 to 2006 he was also a liquidator of Pekpol-bis S.A. and from 2006 to 2009 he was the President of the Management Board at Triton Development S.A. (previously named 7bulls.com S.A.). Since 2009, he has worked for the Ministry of Treasury, currently as the Head of Capital Markets Department.</p>
 <p>Mirosław Czekaj - Secretary of the Bank's Supervisory Board appointed on 31 August 2009 until the end of the current term of the Bank's Supervisory Board</p>	<p>Mirosław Czekaj graduated from the Nicolaus Copernicus University in Toruń in 1988 obtaining master's degree in Economics. In 2000 he was awarded a PhD in Economics at the University of Szczecin. Chartered accountant since 1992. He held a managerial position in finance and accounting, among others, as a chief accountant, Deputy Director for economic affairs, the City Treasurer. He was a Vice-President of the Management Board of Bank Gospodarstwa Krajowego (2004-2006) and the Chairman of the Board of Euro Fund Advisors Sp. z o.o. (2006-2007). Since 2007 he has held the position of City Treasurer in the City Council of Warsaw. Since 1993, he has held positions in supervisory boards of commercial companies. An author of publications in the area of finance.</p>
 <p>Jan Bossak - Member of the Bank's Supervisory Board appointed on 26 February 2008 for the term ended on 19 May 2008 and for the current term of the Bank's Supervisory Board</p>	<p>Jan Bossak graduated from the Faculty of Foreign Trade at the Main School of Planning and Statistics in Warsaw (currently Warsaw School of Economics) obtaining master's degree in Economics in 1968. From 1972 to 1974 he was awarded a scholarship from the government of Japan and took his Ph.D. course at the University of Osaka. In 1975 he was awarded a PhD in International Economic Relations, and in 1984 he obtained the habilitation at the Faculty of Foreign Trade at the Main School of Planning and Statistics. In order to improve his occupational qualifications he has taken part in numerous finance and management trainings. Since 1992, Jan Bossak works as Professor of Economics at the Warsaw School of Economics. In the years 1991-1992, he acted as Chairman of the Polish-American Enterprise Fund. Moreover, from 1994 to 1996 he was the Chairman of <i>Hevelius Management International Sp. z o.o.</i> and from 1995 to 1997 he acted as President of the Second National Investment Fund S.A. From 1999 to 2003 he acted as President of the investment bank Erste Securities Polska S.A. From 1997 to 1999 he also acted as an advisor for Petrochemia Płock S.A. and he served as Chairman of Supervisory Boards of companies such as i.e. Stilton S.A., FAMUR S.A. and Tarbud S.A. Moreover, he was cooperating with International Monetary Fund and the World Bank at organizing international economics conferences. He has conducted lectures on international economic relations at many foreign universities, among others in Japan, United Kingdom and the USA.</p>



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**Błażej Lepczyński -
Member of the Bank's
Supervisory Board**

appointed on 20 April
2009 until the end of
the current term of the
Bank's Supervisory
Board

In 1995, Błażej Lepczyński graduated from the University of Gdańsk obtaining a master's degree in Economics. Moreover, in 2002 he has completed post-graduate studies in the field of banking and finance at the Faculty of Economic Sciences and Management of Nicolaus Copernicus University in Toruń (organised in cooperation with the Gdańsk Academy of Banking). He was awarded a PhD in Economics at the University of Gdańsk in 2003. Since 2004 he has held the position of an assistant professor at the Management Faculty of the University of Gdańsk. Since 1996 he has been engaged with the Research Institute of Market Economics where he has become a manager of the 'Banking and financial markets' research area since 2005.

**Piotr Marczak -
Member of the Bank's
Supervisory Board**

appointed on 25 June
2010 until the end of
the current term of the
Bank's Supervisory
Board

Piotr Marczak graduated from Warsaw School of Economics (earlier name - Main School of Planning and Statistics). Since 1992, he has been involved with the Ministry of Finance where he started his career in the Financial Politics and Analyses Department. At present, he is the Head of Public Debt Department responsible i.a. for preparation and execution of strategy of public debt management, the State Treasury risk and debt management, consolidation of the management of the public sector liquidity, management of the State Treasury currency liquidity. He is an author of dozens of working papers and articles on public debt and Treasury securities market in Poland. He was a lecturer in Dolnośląska Szkoła Bankowa (Banking School in Lower Silesia) and a member of a supervisory board, i.e. in Bank Gospodarstwa Krajowego.



**Alojzy Zbigniew
Nowak -
Member of the Bank's
Supervisory Board**

appointed on 31 August
2009 until the end of
the current term of the
Bank's Supervisory
Board

In 1984, Alojzy Zbigniew Nowak graduated from the Faculty of Foreign Trade at the Main School of Planning and Statistics (currently Warsaw School of Economics), where he obtained a master's degree in Economics. In 1991, he gained the PhD degree and in 1995 he obtained the habilitation in Economics at the Faculty of Management at Warsaw University. Moreover, he studied banking and finance at the Exeter University in United Kingdom (1992), Economics at the University of Illinois at Urbana Champaign in USA (1991) and at the Free University of Berlin in Germany (1994).

Since 2002 he has been a professor of Economics at Warsaw University. He has been the Dean of Faculty of Management at Warsaw University (since 2005), Head of the Chair of National Economy (since 2007) and of the Department of International Economic Relations (since 1999) within the Faculty of Management at Warsaw University and Head of the Chair of Finance at the Leon Koźmiński Business and Management School in Warsaw (since 1995) and he is currently the Head of the Chair of Banking and Insurance at the above-mentioned school. Professor Nowak is the author of over 150 academic publications related to banking, financial crises, monetary policy, financial stability and international economic relations. Many of those works have been published by the prestigious foreign publishing houses. Professor Alojzy Z. Nowak is a member of numerous programme committees and editorial boards of both Polish and foreign academic journals, including 'Gazeta Bankowa', 'Journal of Interdisciplinary Economics' - London, 'Cross Cultural Management' - Barcelona, 'Yearbook on Polish European Studies', 'INTERNATIONAL BUSINESS: RESEARCH, TEACHING AND PRACTICE' - USA, 'Problemy Zarządzania' and others. Alojzy Zbigniew Nowak has been a lecturer at Polish and foreign universities (among others in the United States, UK, France, Germany, Russia, China, Taiwan, Ukraine, Belgium and many others). He is a laureate of numerous prizes and awards for outstanding academic and innovative achievements: i.e. Gold Medal of the Polish Success Academy, the prize granted by the Polish Minister of Science and Higher Education, Medal of Entrepreneurship by Academic Incubators of Entrepreneurship and others. Professor Alojzy Z. Nowak is a chief executor and the head of numerous research grants, implementation, investment and educative grants financed by the European Union, NATO and governmental funds (supporting i.e. entrepreneurship, innovation and programmes of exchange of students and academics). Professor A. Z. Nowak is the Head of Scientific Council of National Bank of Poland and a member of *NewConnect* committee as well as a member of advisory bodies, i.e. by the Minister of Justice.

Changes in the composition of the Supervisory Board in 2010:

- on 25 June 2010, the Ordinary General Shareholders' Meeting of PKO Bank Polski SA appointed Piotr Marczak to the Supervisory Board of the Bank. In accordance with the appropriate resolution, Piotr Marczak's appointment was effective from 25 June 2010,
- on 30 September 2010, Ireneusz Fąfara resigned from the post of the member of the Supervisory Board of PKO Bank Polski SA. According to Ireneusz Fąfara's declaration, the reason for his resignation was a necessity to fully concentrate on his business activities within Orlen Lietuva.



The Supervisory Board basis of activities:

The Supervisory Board acts based on the by-laws passed by the Supervisory Board and approved by the AGM. 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 Members, including the President or Vice-President 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 Articles 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:
 - the Supervisory Board,
 - 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 organization,
 - using the reserve capital,
- appointing and dismissing the President of the Management Board and, at the request of the President of the 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 Organizational 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 Financial Supervision Authority for granting consent to appointing two Members of the Management Board, including the President of the 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 fulfill selected supervisory activities in the Bank.

The Supervisory Board is entitled to appoint Permanent Committees, in particular the following:

1. Committee for remuneration, whose tasks include, in particular:
 - 1) examining issues related to remuneration rules and the amount of remuneration for the members of the Management Board,
 - 2) presenting the view on granting a consent to a member of the Management Board to take on competitive business activities or participating in competitive entity.
2. The Audit Committee whose tasks include, in particular:
 - 1) 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),
 - 2) 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:



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- 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 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.
- 3) 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 and supervision of done work,
 - 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 regards financial reporting
- 4) monitoring the independence of a registered auditor and a registered audit company on the services referred to in par. 48, clause 2 of the Act dated 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 par. 48, clause 2 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision, provided to the Bank.

In 2010, the Audit Committee of the Supervisory Board operated within the Supervisory Board of PKO Bank Polski SA.

7.2.5.2 The Management Board of PKO Bank Polski SA

Pursuant to Article 19 point 1 and 2 of the PKO Bank Polski SA Statute, members of the Management Board are appointed by the Supervisory Board for a joint term of office of three years. Pursuant to par. 19 clause 4 of the PKO Bank Polski SA Articles 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 by the Polish Financial Supervision Authority. As at 31 December 2010, the Management Board of the Bank was composed of 7 members.

The current term of office of the Bank's Management Board started on 20 May 2008 and will end on 19 May 2011, and the mandates will expire as at the date of the General Shareholders' meeting in 2011.



Table 39. The Management Board of PKO Bank Polski SA as at 31 December 2010

Functions	Competences
 <p>Zbigniew Jagiełło President of the Bank's Management Board Appointed on 1 October 2009 until the end of the current term of the Bank's Management Board. On 13 April 2010 the Polish Financial Supervision Authority approved his appointment for the President of the Management Board</p>	<p>Zbigniew Jagiełło graduated from the Faculty of Information Technology and Management of Wrocław University of Technology and he completed post-graduate studies organized by Gdańska Fundacja Kształcenia Menedżerów (Gdańsk Foundation for Education of Managers) and University of Gdańsk where he was granted <i>Executive MBA</i> title certified by <i>Rotterdam School of Management, Erasmus University</i>. Since 1995 he was engaged with <i>Pioneer Pierwsze Polskie Towarzystwo Funduszy Inwestycyjnych S.A.</i>; then he was one of the co-founders of <i>PKO/Credit Suisse TFI S.A.</i> Since July 2000, he took the position of the President of the Management Board of <i>Pioneer Pekao TFI S.A.</i> At the same time, since 2005 he held the position of the President of the Management Board of <i>Pioneer Pekao Investment Management S.A.</i> In the global structure of <i>Pioneer Investments</i>, he had the function of the Head of Distribution in Central and Eastern Europe Region (CEE). He headed the Board of the Chamber of Funds and Assets Managers. Zbigniew Jagiełło has also 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.</p>
 <p>Piotr Alicki Vice-President of the Bank's Management Board in charge of IT and services Appointed on 2 November 2010 until the end of the current term of the Bank's Management Board.</p>	<p>Piotr Alicki is a graduate of the Mathematics and Physics Faculty of Adam Mickiewicz University in Poznań. He has a many years' experience in IT projects management in the banking area. In 1990-98 he worked for <i>Pomorski Bank Kredytowy SA</i> in Szczecin in the Information Science Department – since 1997 as its Director, where he was responsible for designing, development, implementation and operation of the Bank's transaction systems. In 1999-2010 he worked for <i>Pekao SA</i> - at first as the Vice-Director and then the Director of the IT Systems Maintenance and Development Department, and during the last four years he managed the Information Technology Division. He was responsible i.a. for the execution of the IT merger of four banks (<i>Pekao SA, PBKS SA, BDK SA, PBG SA</i>), 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 <i>BPH SA</i> systems to <i>Pekao SA</i> systems and participated in the work of the team responsible for the preparation of the whole integration process. In 1999-2001, Piotr Alicki took part in the works of the Polish Banks' Association: in its Steering Committee for the Development of Bank Infrastructure, the Payments System Committee, the Problem Committee for Banking and the Bank Financial Services and the Electronic Banking Council. Since 2000 he has been a member of the Supervisory Council of <i>Krajowa Izba Rozliczeniowa SA</i> (National Clearing Chamber), and since 2005 he has been its President. In 2002-2010 he represented <i>Pekao SA</i> 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 <i>Pekao SA</i> Group. He was awarded the distinction of honor by the Chairman of NBP 'For Services for the Banking System of the Republic of Poland' and he is the winner of the 'IT Leader 1997' competition.</p>
 <p>Bartosz Drabikowski Vice-President of the Bank's Management Board in charge of Finance and Accounting Appointed on 20 May 2008 until the end of the current term of the Bank's Management Board.</p>	<p>Bartosz Drabikowski graduated from 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 i.a. in <i>Deutsche Bundesbank, Deutsche Börse AG, Deutsche Ausgleichsbank, Rheinische Hypothekenbank, the European Commission</i> and <i>International Monetary Fund</i>. He received scholarship from the German Marshall Fund of the United States. In 1998 he started his professional career at the Ministry of Finance, where (till 2006) he consecutively took positions of 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. Moreover, he served as a member of the Commission for Banking Supervision (2004-2005), member of the Polish Securities and Exchange Commission (2004-2005), deputy member of the Payment System Board at the National Bank of Poland SA (2002 - 2005), member of the Supervisory Board of the National Depository for Securities SA (2002-2004), member of the Board of the Bank Guarantee Fund (2004-2007) and member of the Supervisory Board of the Polish Security Printing Works (1998-2006). In the years 2003 - 2005 he also served as a member of some institutions of the European Union, including the <i>Financial Services Committee, the European Banking Committee and the European Securities Committee</i>.</p>



Krzysztof Dresler
Vice-President of
the Bank's
Management
Board

in charge of Risk
and Debt Collection
Appointed on
1 July 2008 until the
end of the current
term of the Bank's
Management Board.

Krzysztof Dresler graduated from the Faculty of Finance and Banking of the Warsaw School of Economics. In 1998-2006, he was involved with Warsaw School of Economics specialising in monetary and currency policies and globalisation of financial markets. He is a member of the Global Association of Risk Professionals and the Professional Risk Management International Association as well as the Polish Association of Business Economists. Member of the Program Board of the Capital Market Leaders Academy (Fundacja 2065 im. Lesława A. Pagi) and the Council of the Foundation for Financial Advisory Standards EFPA Polska. He was a trainee in the Depository Trust Company in New York. He completed the Chartered Financial Analyst (CFA) training for investment advisors and a school for finance directors. In 1996-2001, he was employed at the National Securities Depository. In March 2001, he joined PKO Bank Polski SA as a Director of the Financial Risk Department and subsequently since March 2005, he worked as Director of the Planning and Controlling Department. Since March 2007, he has been working as Chief Financial Officer for UniCredit Group in Xelion. In May 2008 he was appointed Managing Director in charge of the Assets and Liabilities Management Department at Pekao S.A. Vice-President of the Management Board of PKO Bank Polski SA responsible for Risk and Debt Collection Area starting from July 2008. He obtained an approval of the Polish Financial Supervision Authority to be appointed Member of the Management Board of PKO Bank Polski SA. Currently, he is also the Chairman of the Supervisory Board of KREDOBANK S.A. with its registered office in Lviv (Ukraine), member of the Supervisory Board of PZU SA and Chairman of the Council of the Polish-Ukrainian Business Chamber.



Jarosław Myjak
Vice-President of
the Bank's
Management
Board

in charge of
Corporate Market
Appointed on
15 December 2008
until the end of the
current term of the
Bank's Management
Board.

Jarosław Myjak graduated from the Faculty of English Philology (1978) and from the Faculty of Law and Administration (1981) at Adam Mickiewicz University in Poznań. He also studied Economics at University of Toronto. He graduated from programmes: *General Management Programme* (1998-1999), *INSEAD-CEDEP Fontainebleau*, *Columbia Business School*. He is a member of the Warsaw Bar Council and the Warsaw Chamber of Legal Advisers. He worked as a legal adviser for law offices *Altheimer & Gray* and *Dewey & LeBouef*. He was responsible for establishing and developing the Commercial Union Group in Poland and Lithuania. He gained seventeen years of experience being a manager of holding, financial as well as proprietary supervision groups. From 2000 to 2004, he took position of the President of the *Commercial Union* Group in Poland and Lithuania. From 1998 to 2004 he was also the President of CU Poland TUnZ; the Chairman of the Supervisory Boards of Commercial Union companies in Poland and Lithuania such as CU PTE, CU TFI, *Asset Management*, Transfer Agent and CU Lithuania. Moreover, 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 the Chairman of the Supervisory Board of PKO BP Finat Sp. z o.o. He is the Vice-Chairman of the Supervisory Board of PZU Życie SA, the Chairman of the Supervisory Board of Bankowy Fundusz Leasingowy and of PKO BP Faktoring SA. In 2006 and since 2008 he has been a Vice-President of the Management Board of PKO Bank Polski SA in charge of corporate banking. He was a member of the Polish Business Roundtable, the Vice-President of PIU and of PKPP 'Lewiatan'. The Manager of the Year 2002'. Awarded with the 'Golden Cross of Merit of the Republic of Poland'.



Wojciech Papierak
Vice-President of
the Bank's
Management
Board

in charge of
Retail Market
Appointed on
1 July 2008 until the
end of the current
term of the Bank's
Management Board.

Wojciech Papierak graduated from the Faculty of Law and Administration at the University of Łódź. During his professional career he worked at the following positions: from 1993 to 1995 as assistant at the Credit Department at Powszechny Bank Inwestycyjny S.A., from 1995 to 1998 in Powszechny Bank Gospodarczy in Łódź; as Chief Specialist at the Retail Banking Department and as an acting Director of the Customer Service Department in Kasa Oszczędnościowo-Budowlana within the Pekao S.A. Group. Moreover, he represented Powszechny Bank Gospodarczy in the field of an offer for retail clients when Pekao S.A. took over three banks. His occupation comprised among other analysis of product gap and standardization of an offer for clients. In 1998-2000 he was a Deputy Director and subsequently a Director of Retail Banking Department in PKO Bank Polski SA; from 2000 to 2003 he worked for BRE Bank S.A. as a Director of the Department of Commercial Management for Retail Banking as well as Director of the Department of Operational Support for Retail Banking. He participated in an implementation and run of the first online bank in Poland – mBank – and he supervised activities as regards opening a retail branch network of MultiBank. In 2002-2006 he worked at the Settlement and Information Centre CERI sp. z o.o. as a member of the Management Board, Managing Director and subsequently President of the Management Board and Chief Executive Officer. In 2003, he participated in the merger of BRE BANK and Bank Częstochowa as well as in an implementation of a formal process on behalf of Bank Częstochowa and an implementation of an operational merger (assets take-over, migration of customers, branch optimization etc.). From November 2006 to June 2008, he served as Vice President of the Management Board of Nordea Bank Polska S.A. in charge of Operations, Logistics and Security. He has experience in back office centralization projects gained in many banks (BRE Bank, Nordea Bank Polska). In 1999 – 2002, he was a member of the Supervisory Board of Biuro Informacji Kredytowej S.A. in Warsaw. In 2001-2003, he was Deputy Chairman of the Supervisory Board of Bank Częstochowa S.A. in Częstochowa. In 2008-2010, he was a member of the Supervisory Board of KREDOBANK S.A. Currently, he is a member of the Supervisory Board of Bank Poczty SA and PKO Towarzystwo Funduszy Inwestycyjnych S.A. Since April 2009, he has been a member of the Board of Directors of VISA Europe. Since May 2009, he has been Deputy Chairman of the European Mortgage Federation.



Jakub Papierski
Vice-President of
the Bank's
Management
Board

in charge of
Investment Banking

Appointed on
22 March 2010 until
the end of the
current term of the
Bank's Management
Board.

Jakub Papierski is 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. From 1995 to 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. From November 2001 to September 2003, he worked for Bank Pekao S.A. 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 accepted the position of the president of the Management Board for Centralny Dom Maklerski Pekao S.A. in October 2003. In September 2006, he also took up the position of a Deputy-Chairman of the Supervisory Board of Pioneer Pekao TFI S.A. Since May 2009, Mr. Papierski served as the President of the Management Board of Allianz Bank Polska S.A. and in October 2009 he became the Board's president. From 2005 to 2009, Jakub Papierski was a Chairman in the Programme Council of Akademia Liderów Rynku Kapitałowego established at the Lesław Paga Foundation; at present, he is a member of the Programme Council.

Table 40. Other functions performed by the PKO Bank Polski SA's Management Board Members in 2010.

No.	Member of the Management Board	Function
1.	Zbigniew Jagiełło President of the Management Board	<ul style="list-style-type: none"> ▪ President of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' ▪ President of the Expenses Committee from 15.06.2010 to 3.08.2010 ▪ President of the PKO Bank Polski SA IT Architecture Committee from 1.08.2010 to 1.11.2010 ▪ President of the Steering Committee for the Integrated IT system from 1.08.2010 to 1.11.2010 ▪ 1st Vice-President of the Operational Risk Committee* from 1.08.2010 to 1.11.2010 ▪ President of the Steering Committee for Private Banking Model**
2.	Piotr Alicki Vice-President of the Management Board since 2 November 2010	<ul style="list-style-type: none"> ▪ Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' ▪ President of the PKO Bank Polski SA IT Architecture Committee from from 2.11.2010 ▪ President of the Steering Committee for the Integrated IT system from 2.11.2010 ▪ 1st Vice-President of the Operational Risk Committee from 2.11.2010
3.	Bartosz Drabikowski Vice-President of the Management Board	<ul style="list-style-type: none"> ▪ Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012', ▪ President of the Expenses Committee from 6.05.2009 to 14.06.2010 ▪ Vice-President of the Expenses Committee from 15.06.2010 to 3.08.2010 ▪ President of the Expenses Committee from 4.08.2010 ▪ Vice-President of the Assets and Liabilities Management Committee ▪ 2nd Vice-President of the Operational Risk Committee
4.	Krzysztof Dresler Vice-President of the Management Board	<ul style="list-style-type: none"> ▪ Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012', ▪ President of the Bank's Credit Committee ▪ President of the Assets and Liabilities Management 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) ▪ President of the Steering Committee for the IT Platform
5.	Jarosław Myjak Vice-President of the Management Board	<ul style="list-style-type: none"> ▪ 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. Wojciech Papierak Vice-President of the Management Board	<ul style="list-style-type: none">▪ 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
7. Jakub Papierski Vice-President of the Management Board since 22 March 2010	<ul style="list-style-type: none">▪ Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012'
8. Mariusz Zarzycki Vice-President of the Management Board since 31 July 2010	<ul style="list-style-type: none">▪ Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' since 31 July 2010▪ President of the Steering Committee for the Integrated IT system until 31.07.2010▪ President of the PKO Bank Polski SA IT Architecture Committee until 31.07.2010▪ Member of the Steering Committee for the MIFID Project until 31.07.2010▪ Vice-President of the Expenses Committee from 17.12.2009 to 14.06.2010▪ Member of the Expenses Committee from 15.06.2010 to 31.07.2010▪ 1st Vice-President of the Operational Risk Committee since 31.07.2010

* The Operational Risk Committee operates since 15 July 2010.

** Steering Committee for private banking model operates since 11 May 2010.

Changes in the composition of the Management Board in 2010:

- on 10 March 2010, the Bank's Supervisory Board appointed Jakub Papierski as the Vice-President of the Bank's Management Board, effective from 22 March 2010, for the joint term of the Board beginning on 20 May 2008.
- on 21 July 2010 Mariusz Zarzycki resigned from the post of the Vice-President of PKO Bank Polski SA Management Board effective from 31 July 2010;
- on 1 September 2010, the Bank's Supervisory Board appointed Piotr Stanisław Alicki as the acting Vice-President of the Bank's Management Board as of 2 November 2010 for the joint term of the Board beginning on 20 May 2008.

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 in the form of resolutions, which are passed by an absolute majority of votes of those present at the Management Board Meeting. In the case of a voting tie, the President of the Management Board has the casting vote. For all matters outside the scope of ordinary business of PKO Bank Polski SA, resolution of the Management Board is required.

The Management Board competencies

In accordance with par. 20 clause 1 of the Articles 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 Articles 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 par.9 clause 1 item 5 of the Articles of Association of PKO Bank Polski SA.

In accordance with par. 20 clause 2 of the Articles 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 par.9 of the Articles of Association of PKO Bank Polski SA, or the competences of the Supervisory Board specified in par. 15 of the Articles 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 organizational 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 organizations,
- it determines the principles of operation of the internal controls and annual control plans,
- it establishes, transforms and liquidates organizational 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 2010, there were the following committees appointed by the Management Board in which Members of the Management Board operated:

I. Permanent committees

1. 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 risk) and investment limits, as well as the values of the coefficients adjusting the transfer prices,
- issuing recommendations in respect of:
 - forming the statement of financial position structure, the financial model and the assumptions for the financial plan of PKO Bank Polski SA and its capital requirements in the light of prudence standards,
 - the principles of risk management (market, liquidity, settlement and pre-settlement) and real and economic capital,
 - the value of the cut-off points and minimum scores used in assessing credit risk,
 - the principles of the pricing policy in particular business areas and the level of interest rates and minimum credit margins.

2. 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 and managing bad debts, industry and client limits, and securing the receivables 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, bad debt management, equity exposure to the PKO Bank Polski SA Group company.

3. Expenses Committee of PKO Bank Polski SA whose tasks include specifically:

- accepting expenses, including projects, within a specific amount brackets, including requests for increasing the budget;
- determining project priorities and taking decisions on discontinuing projects, changing their scope, purpose or time schedule;
- giving opinions on the grounds for expenses in amounts approvable by the Management Board of PKO Bank Polski SA;
- taking measures to limit expenses.

4. 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.



5. 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 companies of the PKO Bank Polski SA Group;
- determining measures to be taken in the case of an emergency which exposes the Bank to reputational risk and results in financial losses.

II. Non-permanent committees

1. 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. 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 organizational 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 Bank's private banking model 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;



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- 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 2010 are presented in the table below. The par value of each share is PLN 1.

Table 41. Shares of PKO Bank Polski SA held by the Bank's authorities

No.	Name	Number of shares as at 31 December 2010	Purchase	Disposal	Number of shares as at 31 December 2009
I. The Management Board of the Bank					
1.	Zbigniew Jagiełło, President of the Bank's Management Board	5000	5000	0	0
2.	Piotr Alicki*, Vice-President of the Bank's Management Board	2627	x	x	x
3.	Bartosz Drabikowski, Vice-President of the Bank's Management Board	0	0	0	0
4.	Krzysztof Dresler, Vice-President of the Bank's Management Board	0	0	0	0
5.	Jarosław Myjak, Vice-President of the Bank's Management Board	0	0	0	0
6.	Wojciech Papierak, Vice-President of the Bank's Management Board	3283	0	0	3283
7.	Jakub Papierski*, Vice-President of the Bank's Management Board	0	x	x	x
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.	Mirosław Czekaj, Secretary of the Bank's Supervisory Board	0	0	0	0
4.	Jan Bossak, Member of the Bank's Supervisory Board	0	0	0	0
5.	Błażej Lepczyński, Member of the Bank's Supervisory Board	0	0	0	0
6.	Piotr Marczak*, Member of the Bank's Supervisory Board	0	x	x	x
7.	Alojzy Nowak, Member of the Bank's Supervisory Board	0	0	0	0

* Management Board and Supervisory Board members who were appointed after 31 December 2009.

7.3.2 Agreements concluded between the issuer and managing persons

Within the meaning of par. 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 2010, 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 for members of the Management Board

In 2010, members of the Management Board were paid according to two different principles:



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- until 31 January 2010, the monthly basic remuneration was equal to six times the average salary determined by the Act of 3 March 2000 on the remuneration of managers of certain legal entities (Journal of Laws No. 26, item 306, with subsequent amendments), the so-called Managerial Remuneration Ceiling Act.
- due to the lowering of the State Treasury shareholding in the Bank to the level below 50% and, consequently, the exclusion of PKO Bank Polski SA from the scope of application of the said Managerial Remuneration Ceiling Act, the Bank's Supervisory Board introduced new remuneration rules for members of the Management Board of the Bank, 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 for 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.

Table 42. 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 31.12.2010	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
Remuneration of Members who were entrusted with the duties as at 31.12.2009	1 413	889
Remuneration of Members who ceased to be entrusted with the duties in the course of 2009	441	250
Total remuneration in 2009	1 854	1 139
The Bank's Supervisory Board		
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	-
Remuneration of Members who were entrusted with the duties as at 31.12.2009	130	-
Remuneration of Members who ceased to be entrusted with the duties in the course of 2009	149	21
Total remuneration in 2009	279	21

* 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 Notes to the Financial Statements of PKO Bank Polski SA for the year 2010.



8 OTHER INFORMATION

Off-balance sheet commitments granted

At the end of 2010, guarantees and other financial off-balance sheet commitments granted with respect to related parties amounted to PLN 1 780.4 million and increased by PLN 970.6 million compared to the end of 2009.

The largest commitments related to the following entities:

- Bankowy Fundusz Leasingowy SA – PLN 807.7 million,
- KREDOBANK SA – PLN 489.4 million,
- PKO BP Faktoring SA – PLN 157.5 million.

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

The details of related party transactions are presented in the Notes to the Financial Statements.

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 2010, the Bank 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 par. 2 clause 2 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).
2. In 2010, 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 1 February 2010 the Bank concluded an agreement to organize and service a bond issuance in stand-by form with one of the clients of PKO Bank Polski SA in the amount of PLN 1.5 billion (in words: one billion five hundred million zlotys). The agreement on organizing and servicing the bond issuance is valid until 31 January 2011. PKO Bank Polski SA underwrites the issue. The bonds bear interest based on 1M WIBOR plus the Bank's margin. The bonds are not secured. The agreement does not provide for contractual penalties.
5. On 1 March 2010 the Bank concluded an agreement to organize and service a bond issuance with one of the clients of PKO Bank Polski SA up to the amount of PLN 350 million (in words: three hundred and fifty million zlotys). The agreement for organizing, conducting and operating a bond issue programme was concluded for the period to 31 March 2020. PKO Bank Polski SA guaranteed the closing of the issue and is obliged to purchase the bonds issued as part of the programme, should the said bonds be issued by 31 March 2010. The bonds bear interest based on 6M WIBOR plus the Bank's margin. The agreement does not provide for contractual penalties.

On 31 March 2010 the Bank signed an annex No. 1 to the agreement for organizing, conducting and operating the subordinated bonds issue with one of the clients of PKO Bank Polski SA up to the amount of PLN 350 million (in words: three hundred and fifty million zlotys) concluded on 1 March 2010. According to the signed annex, the length of guarantee period within the programme was extended to 30 April 2010.

6. On 28 December 2010, PKO Bank Polski SA signed two loan agreements with one of its customers. The agreements are for granting the Borrower revolving working capital loans totalling PLN 2.5 billion (in words: two billion five hundred million Polish zloty) for the financing of the Borrower's operations. The first agreement for a revolving working capital loan was concluded for the period from 1 January 2011 to 31 December 2012 for PLN 1.25 billion (in words: one billion two hundred and fifty million



Polish zlotys). The second agreement for a revolving working capital loan was concluded for the period from 1 September 2011 to 31 December 2012 for PLN 1.25 billion (in words: one billion two hundred and fifty million Polish zlotys). The loans for granting revolving working capital loans are secured with an irrevocable authorization for the banking account of the Borrower. Interest on the revolving working capital loans is based on WIBOR 1M rate plus the Bank's margin, paid monthly.

7. The Bank also concluded a significant agreement with its subsidiary – PKO Finance AB. The details of the transaction are described in Chapter 5.8.

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 2010.

Guarantees and financial commitments

As at 31 December 2010, the total value of guarantees and financial commitments granted amounted to PLN 36 785.4 million, with financial commitments making up 80.2% of this amount. Total rate of growth of guarantees and financial commitments granted increased by 11.9% (y/y), of which the increase of guarantees granted amounted to 32.4% y/y.

Table 43. Off-balance sheet items (in PLN million)

Items	31.12.2010	31.12.2009	Change (in PLN)	Change 2010/2009
Financial liabilities granted:	29 505.0	27 385.2	2 199.9	7.7%
financial entities	752.1	784.0	(31.9)	-4.1%
non-financial entities	27 747.3	24 786.9	2 960.4	11.9%
State budget	1 005.6	1 814.3	(808.7)	-44.6%
of which: irrevocable	7 001.3	6 985.5	15.8	0.2%
Guarantees liabilities issued	7 280.4	5 497.5	1 782.9	32.4%
financial entities	2 234.2	22.6	2 211.6	98.9x
non-financial entities	4 792.4	5 101.6	(309.2)	-6.1%
public entities	253.8	373.3	(119.5)	-32.0%
Total	36 785.4	32 882.6	3 902.7	11.9%

Loans and advances taken, guarantees and suretyships agreements

During the year 2010, 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.

During the year 2010, 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

PKO Bank Polski SA:

- on 30 June 2010 granted a guarantee to repay the debt of KREDOBANK SA borrowers under selected loan agreements. The nominal value of the guarantee is USD 37 677 280.46 and the guarantee expires on 10 January 2012.
- on 6 October 2010 set a guarantee limit for granting KREDOBANK SA a guarantee of payment of dues in respect of selected loan agreements amounting to a USD equivalent of UAH 500 million. The limit is exclusive of the amount of the guarantee granted to KREDOBANK SA on 30 June 2010.
- on 15 November 2010, granted, as part of the limit granted, a guarantee of repayment of liabilities of KREDOBANK SA's borrowers in respect of selected loan agreements. The nominal value of the guarantee is USD 37 148 235.51, and the guarantee expires on 17 January 2012.

As at 31 December 2010, bonds' issues of Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA – are regulated by Underwriting Agreement of a Bond Issuance Program as of 14 December 2006, amended by annex at 28 March 2008, as a result of which the maximum value of the bond issue programme amounts to PLN 600 million.

As at 31 December 2010, Bankowy Fundusz Leasingowy SA issued bonds for a total amount of PLN 120 million, including bonds with a value of PLN 111.74 million which were sold on the secondary market, and bonds with a value of PLN 8.26 million which were included in the portfolio of PKO Bank Polski SA.



In 2010 PKO Bank Polski SA granted the following:

- a guarantee for PKO BP Inwestycje Sp. z o.o. of EUR 100.5 thousand in favour of Rondo Office Project Sp. z o.o. securing the Company's liabilities resulting from office space rental agreement; the guarantee was issued for the period ending 16 October 2016;
- for Bankowy Fundusz Leasingowy SA – a guarantee up to PLN 409 thousand to the benefit of Cross Point Sp. z o.o. to secure the Company's rental liabilities; the guarantee is valid until 30 June 2015.
- the following guarantees for Bankowy Leasing Sp. z o.o. (a subsidiary of Bankowy Fundusz Leasingowy SA):
 - a) up to PLN 2 000 thousand for the benefit of Miejskie Zakłady Autobusowe Sp. z o.o. in respect of a tender deposit; the guarantee was issued for the period ending 29 August 2010;
 - b) up to PLN 100 thousand for the benefit of Tramwaje Śląskie SA in respect of a tender deposit; the guarantee was issued for the period ending 8 December 2010 and was returned before the expiry of the guarantee;
 - c) up to PLN 100 thousand for the benefit of Tramwaje Śląskie SA in respect of a tender deposit; the guarantee was issued for the period ending 17 January 2011 and was returned before the expiry of the guarantee.

Enforceable titles issued by the Bank

In year 2010, PKO Bank Polski SA issued 55 642 banking enforceable titles for a total amount of PLN 2 052 291 862.63 and EUR 1 499 090.40.

In the case of Kredobank SA, the Ukrainian law does not allow to issue enforceable titles as defined in the Polish Banking Law.

Debt write-offs

In 2010, impairment write-downs on loans and borrowings granted to customers in the PKO Bank Polski SA Group were reduced by PLN 870.0 million.

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

As at 31 December 2010, the total value of court proceedings against the Bank amounted to approximately PLN 308 304 thousand (after rounding), while the total value of proceedings initiated by PKO Bank Polski SA was approximately PLN 60 207 thousand (after rounding). No court proceedings with the participation of the Bank are in progress, the value of which amounts to at least 10% of the equity.

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 7 proxies on 1 January 2010; one proxy was appointed during the year and two were dismissed. As at 31 December 2010, the Bank had 6 proxies. In 2010, the Bank's Management Board held 67 meetings and adopted 634 resolutions.

Resolutions of the General Meeting adopted in 2010, 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 PKO Bank Polski SA

In the near future, results of PKO Bank Polski 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 the Bank's subsidiary – KREDOBANK SA – operates. 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 the Ukraine.



Other information of particular importance to the assessment of the human resources and financial situation of the Issuer and changes thereto

On 30 December 2010, PKO Bank Polski SA placed with KREDOBANK SA deposits totaling USD 4 777 670.17, with the purpose of establishing a collateral in the form of a pledge on property rights to the said deposit to secure selected loan liabilities of KREDOBANK SA.

Post balance sheet significant events

1. 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. All the shares in the increased share capital were acquired by PKO Bank Polski SA.
2. On 27 January 2011, the increase in the share capital of BFL Nieruchomości Sp. z.o.o in the total amount of PLN 1 000 thousand was registered with National Court Register. All the shares in the increased share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA.
3. 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 in the increased share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA.

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 authorized to audit the financial statements and which is performing the audit of financial statements, has been elected as PKO Bank Polski SA auditor in compliance with applicable laws. The entity as well as the certified auditor 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 2010 consists of 80 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
Krzysztof Dresler

Vice-President of the Management Board
Jarosław Myjak

Vice-President of the Management Board
Wojciech Papierak

Vice-President of the Management Board
Jakub Papierski