



Bank Polski

Appendix to the Resolution No 17/2015

of the Supervisory Board of 6 May 2015

Report of the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, comprising: the results of the assessment of the financial statements of PKO Bank Polski S.A. for the year ended 31 December 2014, PKO Bank Polski S.A. Directors' Report for the year 2014, Motion of the Management Board on distribution of profit of PKO Bank Polski S.A. for the year 2014 and of unappropriated profit of previous years

and the Report on the activities of the Supervisory Board as a company body in 2014



Pursuant to the relevant provisions of the Commercial Companies Code, the Supervisory Board submits, to the Annual General Meeting of PKO Bank Polski, the report comprising the results of the assessment of:

1. the financial statements of PKO Bank Polski SA for the year ended 31 December 2014,
2. PKO Bank Polski SA Directors' Report for the year 2014,
3. the motion of the Management Board on distribution of profit of PKO Bank Polski SA for the year 2014 and of unappropriated profit of previous years

and the Report on the activities of the Supervisory Board as a company body in 2014.

#### Assessment of the financial statements of PKO Bank Polski S.A. for the year ended 31 December 2014

The Supervisory Board heard the opinion of the statutory auditor on the audit of the financial statements of PKO Bank Polski SA for the year ended 31 December 2014. The statutory auditor issued an unqualified opinion on the financial statements referred to above. No significant adjustments were required, and all adjustments identified in the course of the audit were included in the Financial Statements in question. According to the statutory auditor, the financial statements of PKO Bank Polski S.A. for the year ended 31 December 2014, in all material respects:

- a) give a true and fair view of the financial position of the Bank as at 31.12.2014, and of its financial performance for the financial year from 1 January to 31 December 2014 in accordance with International Financial Reporting Standards, as adopted by the European Union,
- b) comply in their form and content with the laws applicable to the Bank and with the Bank's Articles of Association,
- c) have been prepared on the basis of properly maintained accounting records in accordance with the applicable accounting policies.

The Supervisory Board shares the opinion issued by the statutory auditor.

Pursuant to Article 382 § 3 of the Commercial Companies Code, having considered and evaluated the financial statements of PKO Bank Polski S.A. for the year ended 31 December 2014, taking into account the positive recommendation of the Audit Committee of the Supervisory Board and on the basis of an unqualified opinion of the auditor on the audit of the financial statements of PKO Bank Polski SA for the year ended 31 December 2014, the Supervisory Board issued a positive opinion on the said financial statements as having been prepared in accordance with the accounting records, documents and facts.

Pursuant to Article 4a of the Accounting Act, the Supervisory Board shall also ensure that all the components of the financial statements of PKO Bank Polski S.A. for the year ended 31 December 2014 meet the requirements provided for in the aforementioned Act.

#### Assessment of PKO Bank Polski S.A. Directors' Report for the year 2014

Pursuant to Article 382 § 3 of the Commercial Companies Code, having considered and evaluated PKO Bank Polski S.A. Directors' Report for the year 2014, the Supervisory Board issued a positive opinion on PKO Bank Polski S.A. Directors' Report for the year 2014 as having been prepared in accordance with the accounting records, documents and facts.

In accordance with Article 4a the Accounting Act, the Supervisory Board shall also ensure that all the components of PKO Bank Polski S.A. Directors' Report for the year 2014 meet the requirements provided for in the aforementioned Act.

#### Assessment of the motion of the Management Board on distribution of profit of PKO Bank Polski S.A. for the year 2014 and of undistributed profit of previous years

The Supervisory Board issues a positive opinion on the motion of the Management Board on distribution of profit of PKO Bank Polski S.A. for the year 2014 and of unappropriated profit of previous years, and namely:

- net profit of PKO Bank Polski S.A. generated for the period from 1 January 2014 to 31 December 2014 in the amount of PLN 3 079 471 thousand and unappropriated profit of previous years in the amount of PLN 132 793 thousand, in the total amount of PLN 3 212 264 thousand, is proposed to be distributed as follows:
  1. to reserve capital, the amount of PLN 1 900 000k
  2. to other reserves, the amount of PLN 62 264k.

The remaining portion of profit, in the amount of PLN 1 250 000k, is proposed to be left unappropriated.

## ASSESSMENT OF THE COMPANY'S POSITION, INCLUDING ASSESSMENT OF THE INTERNAL CONTROL SYSTEM AND THE RISK MANAGEMENT SYSTEM COVERING THE RISKS OF SIGNIFICANCE TO THE COMPANY

### Assessment of the Company's position

The financial performance of the PKO Bank Polski Group in 2014 was high, and the volumes of loans and deposits of PKO Bank Polski SA were among the highest as compared to other banking sector institutions in Poland.

In 2014, PKO Bank Polski SA ensured the development of core business activities, the growth of asset profitability and continued activities aimed at optimising of the Bank's operating expenses.

The activities of PKO Bank Polski S.A. in 2014 were also related to finalising the transaction of acquisition of the Nordea Group's assets, the legal merger with Nordea Bank Polska S.A., and preparing operational merger of both banks. The execution of the asset acquisition transaction considerably improved the Bank's position in the segment of affluent retail customers, enhanced its competence in the corporate banking segment and helped to extend the bancassurance offer.

Building the Bank's strategic position for the coming years resulted in taking measures which will lead to launching the operations of its first foreign branch in 2015 - a corporate branch of PKO Bank Polski S.A. in Germany.

Moreover, PKO Bank Hipoteczny S.A. has been established. In the second quarter of 2015 it started its operational activities, as part of which it offers long-term mortgage loans to retail customers and issues long-term mortgage bonds.

The measures taken by the PKO Bank Polski Group in 2014 helped to generate high financial performance and strengthen the position of the largest bank on the Polish market.

The net profit generated by the PKO Bank Polski S.A. Group in 2014 amounted to PLN 3 254.1m, which means an increase of 0.8% or PLN 24.3m compared to the previous year. The achieved level of net profit was determined by:

- 1) result on business activities of PKO Bank Polski S.A. Group, which reached the level of PLN 11 146.6m (+ 4.1% y / y), mainly as a result of:
  - an increase in net interest income by 11.9% y/y, due to the optimisation of maintenance costs of the deposit base, along with the further reduction in market interest rates,
  - the maintained net fee and commission income (-2.4% y/y), realised under the pressure of regulatory restrictions in respect of fees for payment services,
  - an increase in gains less losses from investment securities (2.2x y/y), due to the realisation of positive valuation of securities held by the Bank, in connection with a decrease of the yield on Polish bonds,
- 2) a decrease (of 63.5% y/y) in net other operating income and expense - due to a high reference base from 2013, when a part of shares in Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o was sold,
- 3) an increase in operating expenses, being under the pressure of additional expenses incurred in connection with the merger with Nordea Bank Polska SA and the inclusion of new companies in the Group, which was accompanied by the maintenance of cost discipline related to ongoing operations. This resulted in high cost management effectiveness; the C/I ratio amounted to 47.1%,
- 4) net impairment allowance and write-downs, which improved by PLN 139.2m compared to the result achieved in 2013, mainly due to a decrease in impairment allowances on consumer and corporate loans.

In 2014 PKO Bank Polski S.A. generated net profit of PLN 3 079.5m, which represents a decrease of PLN 154.3m or 4.8% compared to the previous year's profit. The achieved level of net profit was determined by:

- 1) result on business activities, which reached the level of PLN 10 259.0m (a decrease of 0.1% y/y),
- 2) an increase in operating expenses, being under the pressure of additional expenses incurred in connection with the merger, which was accompanied by the maintenance of cost discipline related to ongoing operations. This resulted in high cost management effectiveness; the C/I ratio amounted to 43.5% and improved compared to the Polish banking sector's average of 46.3%<sup>1</sup>.
- 3) net impairment allowance and write-downs, which improved by PLN 106.8m than achieved in 2013, mainly due to a decrease in impairment allowances on consumer and corporate loans.

Secure and effective structure of the statement of financial position of the PKO Bank Polski S.A. Group, characterised by strong deposit base and a high level of equity, enabled further growth of business activities through stable organic development and acquisitions as a natural next stage of the development of the Bank's Group. Despite the acquisition of a significant loan portfolio, the loan to deposit (amounts due to customers) ratio as at the end of 2014 amounted to 102.9% (the ratio of loans to stable sources of funding<sup>2</sup> amounted to 86.4%), which proves a good liquidity position of the PKO Bank Polski S.A. Group.

As a result of measures taken in 2014, the PKO Bank Polski S.A. Group:

- increased its total assets by nearly one fourth (to PLN 249bn), including the portfolio of amounts due from customers by one fifth,
- increased its share in the loan and deposit market to the level of 17.9% and 17.3%, respectively,
- significantly improved the quality of the loan portfolio, as measured by a ratio of impaired loans (a decrease from 8.2% to 6.9%) and allowances coverage ratio (an increase from 51.7% to 61.8%),
- as a result of acquisition of an insurance sector company, the Group expanded its offer of insurance and investment products for customers,
- PKO Bank Polski SA, the parent of the Group, increased the number of its customers by 442.9 thousand, mainly in the retail segment, and expanded the network of branches by 131 new retail branches and 2 new private banking offices.

<sup>1</sup>Source: Polish Financial Supervision Authority

<sup>2</sup>Stable sources of funding include amounts due to customers (including funds from the issue of Eurobonds) and external funding in the form of subordinated liabilities, issue of own debt securities and loans obtained from financial institutions.

## Assessment of the internal audit system

PKO Bank Polski S.A. has an internal audit system in place, which is an element of the Bank's management system. The purpose of the internal audit system is to support the decision making processes, which contributes to ensuring operational efficiency and effectiveness of the Bank, reliability of its financial reporting and compliance of the Bank's operation with the generally applicable laws and the Bank's internal regulations. The internal audit system enables the Bank to identify risks connected with each operation, transaction, product, service and process, as well as the risks arising from the organisational structure of the Bank and the PKO Bank Polski Group.

The internal audit system of the Bank comprises:

- control mechanisms, whose aim is to limit the number of irregularities and fraud in the Bank's operations; to ensure high quality and correctness of the tasks executed in the Bank; compliance of the Bank's activities with the generally applicable laws and the Bank's internal regulations, and reliability of its accounting, reporting and management information. All the employees of the Bank comply with the control mechanisms as they carry out their tasks and responsibilities within the respective processes,
- examination of the compliance of activities and of the internal regulations drafted in the Bank with generally applicable laws and the Bank's internal regulations, and performance by the Bank's employees of the tasks assigned to them in compliance with those laws and regulations. The Compliance Department is responsible for the development of the compliance risk management system and the identification of compliance risk in the Bank, in collaboration with the Head Office's upper and lower tier organisational units which draft internal regulations and supervise processes,
- internal audit, which is an independent and objective control and advisory function and involves systematic and organised evaluation of significant processes and showing the courses of action aimed at improving the Bank's operational quality and efficiency.

In 2014, the Supervisory Board analysed and acknowledged the semi-annual information of the Internal Audit Department on the efficiency of the internal audit system.

## Assessment of the risk management system covering risks of significance to the Bank

The risk management process is supervised by the Supervisory Board, which regularly receives information on the risk profile of the Bank and the PKO Bank Polski SA Group, and on the most important activities taken in the area of risk management. In the opinion of the Supervisory Board, the risk management system of PKO Bank Polski covers all the risk categories of significance to the Bank, while the processes of their identification, measurement, evaluation, monitoring and reporting, and the related management measures utilise the instruments, methods and techniques relevant to the respective risk type.

Risk management in the Bank takes place in all of the organisational units of the Bank. The relevant committees support the Management Board and the Supervisory Board in banking risk management.

The banking risk is managed at three independent levels:

- the first level involves: risk management within the limits set on the basis of procedures and detailed internal regulations with embedded risk control mechanisms; internal control; and operational compliance with generally applicable laws;
- the second level involves, in particular: measurement, evaluation, monitoring, inspection and reporting of risks of significance to the Bank; notification of identified threats and irregularities; drafting of internal regulations defining the principles, methods, tools and procedures of risk management; and measurement of operational efficiency;
- the third level involves the internal audit function, which performs independent audits of the key components of risk management, and of the control activities embedded in the Bank's operations.

The Bank has an integrated risk management structure, which ensures that all the risks having a significant impact on the Bank's operations are identified, measured, monitored and controlled. According to the Supervisory Board, this structure is adequate to the Bank's size and risk profile, taking into account the economic environment and the possibility of the occurrence of adverse situations. The Bank optimises the risk management structure on an ongoing basis, adjusting it to the changing environment and the risk profile specified in the "Banking Risk Management Strategy in PKO Bank Polski SA".

A comprehensive structure of risk management is complemented by a consistent and transparent system of monitoring and reporting the risk level and any breaches of the established limits. The reporting system covers the key management levels. The Supervisory Board is provided with periodic reports assessing the risk level of individual risk categories, together with descriptions of the effectiveness of measures taken by the Management Board.

Setting of risk levels acceptable to the Bank in its current operations is one of the basic components of risk management. The maximum risk the Bank and the Group are ready to take has been defined in the form of quantified strategic limits of tolerance to specific types of risk in the "Banking Risk Management Strategy in PKO Bank Polski SA", as adopted by the Management Board and approved by the Supervisory Board.

In 2014, the Bank operated in a prudent manner, with adequate level of equity, and in particular:

- 1) it adhered to a prudent lending policy, and the lending processes and procedures were compliant with the regulatory requirements and the market best practices.
- 2) with effect from 1 April 2014, the Bank acquired shares in Nordea Bank Polska (and thus incorporated this company into the PKO Bank Polski Group). On 31 October 2014, the legal merger of PKO Bank Polski and Nordea Bank Polska took place. This operation did not change the risk profile of PKO Bank Polski. The acquired portfolio of mortgage loans in CHF is relatively small and accounts for approx. 6% of the total loan portfolio of combined banks (as at the end of the fourth quarter of 2014). The operational combination of the two banks was conducted in April 2015
- 3) As at 31 December 2014 the Bank maintained the capital requirement for operational risk, in accordance with the AMA approach, at a safe level of PLN 655m. The increase of PLN 115m compared to the end of 2013 is mainly due to the fact of taking account of the Bank's merger with Nordea Bank Polska,



- 4) the Bank maintained a robust liquidity position. At the end of 2014, the loan to deposit (liabilities to customers) ratio stood at 95.5%, and the core deposits represented approx. 94.7% of all deposits with the Bank (excluding the interbank market). The Bank's deposit base, with its 17.3% share in the banking sector's deposit market, has the leading position in the banking sector and represents a stable source of funding,
- 5) the Bank maintained the utilisation of strategic tolerance limits for specific risks and capital adequacy within the ranges effective in the Bank and in the Group,
- 6) the level of the Bank's own funds was sufficient. As at 31 December 2014, total capital ratio (TCR) of the Bank stood at 13.37% and Common Equity Tier 1 capital ratio (CET1) - at 12.12%. Capital adequacy was maintained at a safe level. As at 31.12.2014, the Bank met the criteria established by the PFSA for payment of the dividend in 2015 amounting to 50% of the profit generated in 2014, because TCR was higher than 12.5% and CET1 was higher than 12%. The dividend Policy provides for a possibility to make payments out of the Bank's profit to shareholders in the long term, in the amount of the excess of capital above the minimum capital adequacy ratios, taking into account an additional capital buffer,
- 7) in connection with the integration project with Nordea Bank Polska, PKO Bank Polski SA identified and monitored, on an ongoing basis, the operational risk associated with the integration process,
- 8) it continued implementation of management measures mitigating operational risk and updated the structure and levels of the existing limits of operational risk losses, taking into account the integration with Nordea Bank Polska.

In 2014, the Bank participated in stress tests organized by the Polish Financial Supervision Authority and in stress tests combined with asset quality review (AQR), conducted under the auspices of the European Banking Authority (EBA). The results of those tests confirmed high resilience of PKO Bank Polski SA to potential macroeconomic shocks.

The Bank performs analysis and stress tests regarding the influence of potential changes in macroeconomic environment on the quality of the Bank's loan portfolio. The test results are presented in reports to the Bank's bodies and once a year they are submitted to the Polish Financial Supervision Authority. The above-mentioned information enables the Bank to identify and take measures to limit the negative influence of unfavourable market changes on the Bank's performance.

Due to significant changes in the banking sector's regulatory environment, in 2014 the Bank took intensive measures to adjust its operations to the requirements arising from external regulations, in particular:

- 1) it implemented the new guidelines arising from the supervisory regulations (CRD IV / CRR Package).
- 2) it completed the process of adjustment to the requirements of Recommendation T on good practices in the management of retail credit exposure risk, as amended by the PFSA in February 2013,
- 3) it continued measures to adapt to the requirements of Recommendation S on good practices in the management of mortgage-secured loan exposures, as amended by the Polish Financial Supervision Authority in June 2013. All the recommendations had been implemented in the Bank in accordance with the expected date, in two stages, namely by 31 December 2013 and 30 June 2014,
- 4) it continued measures in connection with the implementation of Recommendation D on the management of IT area and safety of ICT environment in banks, as amended by the PFSA in January 2013,
- 5) in October 2014 it obtained the Polish Financial Supervision Authority's consent to introduce a significant extension of the Advanced Measurement Approach (AMA) used for calculating the capital requirement for operational risk, by including in the said approach an additional part of the operations which resulted from the legal merger with Nordea Bank Polska SA.

In the opinion of the Supervisory Board, the following will be of particular importance to the Bank's development:

- 1) maintenance of safe risk and capital adequacy levels in connection with the operational merger with Nordea Bank Polska S.A. and the launch of operational activities by PKO Bank Hipoteczny SA,
- 2) prudent management of capital and maintenance of an adequate capital buffer against any significant deterioration in the macroeconomic environment; in addition to capital growth, the effective management of risk-weighted assets will be important in this respect;
- 3) stable deposits maintained at a high level will guarantee further development of lending and will be the basis for growth of interest income,
- 4) maintenance of highly effective cost management, as measured by the C/I ratio.

## Report on the activities of the Supervisory Board as a Company body in 2014

1. Information on the term of office of the Supervisory Board, the subsequent year of operations during the term of office, the composition of the Supervisory Board, the functions performed within the Supervisory Board and any changes in the composition of the Supervisory Board during the financial year

Supervisory Board (composition of the Supervisory Board in the period from 26 June 2014 to 31 December 2014):

(the common three-year term of office commenced at the date of the Annual General Meeting of Shareholders, convened for 26 June 2014)

Item	Name	Function	Date of appointment/ dismissal
1.	Jerzy Góra	Chairman of the Supervisory Board	appointed on 26 June 2014 for the Supervisory Board's next term of office commenced at the date of the Annual General Meeting of Shareholders, convened for 26 June 2014. (notarial deed /Repertory A-3969/2014, Resolution No 34/2014) On 26 June 2014, the State Treasury as the Eligible Shareholder, designated Jerzy Góra as Chairman of the Supervisory Board.
2.	Tomasz Zganiacz	Vice-Chairman of the Supervisory Board	appointed on 31 August 2009, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A - No 5855/2009, Resolution No 8/2009) re-appointed on 30 June 2011, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A- 3529/2011, Resolution No 30/2011) The Minister of the State Treasury designated Mr T. Zganiacz, a member of the Supervisory Board, as Vice-Chairman of the Supervisory Board re-appointed on 26 June 2014 for the Supervisory Board's next term of office commenced at the date of the Annual General Meeting of Shareholders, convened for 26 June 2014. (notarial deed /Repertory A-3969/2014, Resolution No 35/2014) On 26 June 2014, the State Treasury as the Eligible Shareholder, designated Tomasz Zganiacz as Vice-Chairman of the Supervisory Board.
3.	Mirosław Czekaj	Secretary of the Supervisory Board (since 30 June 2010)	appointed on 31 August 2009, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A - No 5855/2009, Resolution No 5/2009) re-appointed on 30 June 2011, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A- 3529/2011, Resolution No 31/2011) re-appointed on 26 June 2014 for the Supervisory Board's next term of office commenced at the date of the Annual General Meeting of Shareholders, convened for 26 June 2014. (notarial deed /Repertory A-3969/2014, Resolution No 36/2014) On 16 July 2014, the Supervisory Board re-appointed Mirosław Czekaj as the Secretary of the Supervisory Board.
4.	Mirosława Boryczka	Member of the Supervisory Board	appointed on 26 June 2014 for the Supervisory Board's next term of office commenced at the date of the Annual General Meeting of Shareholders, convened for 26 June 2014. (notarial deed /Repertory A-3969/2014, Resolution No 38/2014)
5.	Zofia Dzik	Member of the Supervisory Board	appointed on 6 June 2012, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A-2380/2012, Resolution No 32/2012) re-appointed on 26 June 2014 for the Supervisory Board's next term of office commenced at the date of the Annual General Meeting of Shareholders, convened for 26 June 2014. (notarial deed /Repertory A-3969/2014, Resolution No 39/2014)
6.	Jarosław Klimont	Member of the Supervisory Board	appointed on 26 June 2014 for the Supervisory Board's next term of office commenced at the date of the Annual General Meeting of Shareholders, convened for 26 June 2014. (notarial deed /Repertory A-3969/2014, Resolution No 40/2014)
7.	Piotr Marczak	Member of the Supervisory Board	appointed on 25 June 2010, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A - No 4239/2010, Resolution No 37/2010) re-appointed on 30 June 2011, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A- 3529/2011, Resolution No 38/2011) re-appointed on 26 June 2014 for the Supervisory Board's next term of office commenced at the date of the Annual General Meeting of Shareholders,

			convened for 26 June 2014. (notarial deed /Repertory A-3969/2014, Resolution No 41/2014)
8.	Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	appointed on 20 June 2013, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A-2926/2013, Resolution No 27/2013) re-appointed on 26 June 2014 for the Supervisory Board's next term of office commenced at the date of the Annual General Meeting of Shareholders, convened for 26 June 2014. (notarial deed /Repertory A-3969/2014, Resolution No 37/2014)
9.	Marek Mroczkowski	Member of the Supervisory Board	appointed on 30 June 2011, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A- 3529/2011, Resolution No 34/2011) re-appointed on 26 June 2014 for the Supervisory Board's next term of office commenced at the date of the Annual General Meeting of Shareholders, convened for 26 June 2014. (notarial deed /Repertory A-3969/2014, Resolution No 42/2014)

**Supervisory Board (composition of the Supervisory Board in the period from 1 January 2014 to 26 June 2014):**

(the common three-year term of office commenced with the expiry of the Supervisory Board's common term of office commenced on 30 June 2011)

Item	Name	Function	Date of appointment/ dismissal
1.	Cezary Banasiński	Chairman of the Supervisory Board	appointed on 20 April 2009, until the end of the previous term of office of the Supervisory Board (commenced on 20 May 2008) (notarial deed /Repertory A - No 2959/2009, Resolution No 7/2009) re-appointed on 30 June 2011, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A- 3529/2011, Resolution No 29/2011) The Minister of the State Treasury designated Mr Cezary Banasiński, a member of the Supervisory Board, as Chairman of the Supervisory Board.
2.	Tomasz Zganiacz	Vice-Chairman of the Supervisory Board	appointed on 31 August 2009, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A - No 5855/2009, Resolution No 8/2009) re-appointed on 30 June 2011, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A- 3529/2011, Resolution No 30/2011) The Minister of the State Treasury designated Mr Tomasz Zganiacz, a member of the Supervisory Board, as Vice-Chairman of the Supervisory Board
3.	Mirosław Czekaj	Secretary of the Supervisory Board (since 30 June 2010)	appointed on 31 August 2009, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A - No 5855/2009, Resolution No 5/2009) re-appointed on 30 June 2011, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A- 3529/2011, Resolution No 31/2011)
4.	Zofia Dzik	Member of the Supervisory Board	appointed on 6 June 2012, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A-2380/2012, Resolution No 32/2012)
5.	Piotr Marczak	Member of the Supervisory Board	appointed on 25 June 2010, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A - No 4239/2010, Resolution No 37/2010) re-appointed on 30 June 2011, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A- 3529/2011, Resolution No 38/2011)
6.	Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	appointed on 20 June 2013, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A-2926/2013, Resolution No 27/2013)
7.	Marek Mroczkowski	Member of the Supervisory Board	appointed on 30 June 2011, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A- 3529/2011, Resolution No 34/2011)
8.	Ryszard Wierzba	Member of the Supervisory Board	appointed on 30 June 2011, until the end of the previous term of office of the Supervisory Board (notarial deed /Repertory A- 3529/2011, Resolution No 33/2011)

**Changes in the composition of the Supervisory Board in 2014:**

On 26 June 2014, pursuant to Article 385 § 1 of the Commercial Companies Code, the Annual General Meeting of Shareholders of PKO Bank Polski SA dismissed from the Bank's Supervisory Board:

- Cezary Banasiński
- Tomasz Zganiacz
- Mirosław Czekaj
- Zofia Dzik
- Piotr Marczak
- Elżbieta Mączyńska-Ziemacka,
- Marek Mroczkowski,
- Ryszard Wierzba.

Pursuant to Article 385 § 1 of the Commercial Companies Code, the Annual General Meeting of Shareholders convened for 26 June 2014 appointed to the Supervisory Board of the Bank:

- Jerzy Góra
- Tomasz Zganiacz
- Mirosława Boryczka
- Mirosław Czekaj
- Zofia Dzik
- Jarosław Klimont
- Piotr Marczak
- Elżbieta Mączyńska-Ziemacka,
- Marek Mroczkowski.

## 2. Information on the number and frequency of meetings of the Supervisory Board held and on the number of resolutions adopted

In 2014, the Supervisory Board held a total of 11 minuted meetings on the following dates: 8 January, 29 January, 5 March, 9 April, 14 May, 11 June, 16 July, 27 August, 15 October, 5 November and 17 December.

In 2014, the Supervisory Board adopted 60 resolutions.

## 3. Information on the attendance of Supervisory Board members at meetings

All the absences of Supervisory Board members at the meetings held in 2014 were excused by following resolutions of the Supervisory Board: 9/2014, 23/2014, 38/2014, 40/2014, 47/2014, 48/2014 and 49/2014; these pertained to absences of five Supervisory Board members at five meetings.

## 4. Significant issues dealt with by the Supervisory Board

In 2014, the Supervisory Board, except for the issues arising from the adoption of documents for the Annual General Meeting of Shareholders in accordance with the generally applicable laws and the Bank's Articles of Association, dealt with the following issues:

1. adoption of resolutions on the appointment of the President of the Management Board and Vice-Presidents of the Management Board of PKO Bank Polski S.A. for the common term of office of the Bank's Management Board, commencing upon the expiry of the previous common term of office of the Bank's Management Board,
2. the transaction of acquisition of the Nordea Group's assets, including the Information on the impact on this transaction on the PKO Bank Polski Group's performance, and adoption of a resolution expressing opinion on the merger plan of PKO Bank Polski and Nordea Bank Polski.
3. approval of the financial plan of PKO Bank Polski S.A. for 2014, including the capital plan of PKO Bank Polski S.A. for 2014 and approval of the amendment to the financial plan of PKO Bank Polski SA for 2014, and the draft financial plan of PKO Bank Polski SA for 2015, including the capital plan of PKO Bank Polski for 2015,
4. the rules of investing, by Supervisory Board members as persons related to Dom Maklerski PKO BP S.A. [PKO BP SA Brokerage House] and to PKO BP S.A., in financial instruments on their own account,
5. the process of selection of the entity authorised to audit financial statements, including the amendment to: Resolution No 39/2012 of the Supervisory Board of 19 September 2012 on the rules for selecting an entity authorised to audit financial statements, the adoption of a Resolution on the rules for selecting an entity authorised to audit the financial statements for 2014, and the adoption of a Resolution on the process of selecting the entity authorized to audit financial statements for the years 2015-2017, which introduced criteria for the selection of the entity authorized to audit financial statements for the years 2015-2017, the method of evaluation of tenders and the content of the invitation to tender,
6. the operations of selected Regional Retail Branches and Corporate Macro-Regions,
7. the review of the qualifications of Management Board members in the field of operational risk management,
8. information summarizing the results of the review of the strategy and the operational risk management process in 2013.
9. the situation of the PKO PTE pension fund, after the changes introduced to the capital portion of the pension system,
10. approval of MbO objectives as well as their values and weights for Management Board members for 2014,
11. adoption of the level of fair interest rate for the calculation of the cash component, paid in 2014, of deferred variable remuneration of Management Board members and persons holding managerial positions in the Bank,
12. approval of changes to the Policies on variable components of remuneration of persons holding managerial positions in the Bank, as proposed by the Bank's Management Board, and changes to the remuneration policies for Management Board members of PKO Bank Polski SA (Rules of variable components of remuneration for Management Board members),
13. an application for a housing loan for a member of the Management Board,
14. accounting for MbO objectives of the Management Board for 2013 and accounting for and payment of variable components of remuneration for 2012 and 2013, paid in 2014 and in January 2015,
15. approval of the change to the MbO objectives for Management Board members for 2014,
16. giving consent for Management Board members to act in the Supervisory Boards of Nordea Bank Polska SA having its registered office in Gdynia and Bank Pocztowy SA having its registered office in Bydgoszcz,
17. Annual report: *Reputational Risk in PKO Bank Polski S.A.*;
18. the review of the current and planned activities of the Bank, together with the current and assumed results, as regards the cost of risk,

19. information on the current situation of KREDOBANK in connection with the economic and political crisis in Ukraine, Information on the situation of KREDOBANK SA in 2013, the Scenario analysis of Kredobank's performance for 2014 and planned activities as regards the Bank's capital position, as well as information on the current situation and implementation of the development strategy of Kredobank SA,
20. New Bancassurance Model in PKO Bank Polski SA;
21. The concept of establishing an Insurance Banking Area in PKO Bank Polski,
22. synthetic information on the evaluation of internal banking systems,
23. information on the outcomes of the Supervisory Review and Evaluation Process (SREP),
24. development trends of international banking in PKO Bank Polski,
25. the establishment of a branch of the Bank in the Federal Republic of Germany,
26. New Rhythm after a year of implementation - results and further actions,
27. Banking for the youngest in PKO Bank Polski,
28. the Policy of IT development for the years 2013-2015 - implementation of Recommendation D,
29. Strategic programme: ICT Security of the Bank,
30. information on audits of selected IT areas - a summary of results,
31. information on the cooperation with the Polish Financial Supervision Authority and the Bank Guarantee Fund as regards the stabilization of the sector of cooperative savings and credit unions,
32. Report: Capital adequacy and other information subject to disclosure (Pillar III) in the PKO Bank Polski Group as at 31 December 2013;
33. Multi-channel customer service in PKO Bank Polski,
34. PKO Bank Hipoteczny - information on the project,
35. Macroeconomic and market forecasts for 2015,
36. information on the results of the asset quality review and stress tests,
37. a summary of the activities of the Private Banking Centre in PKO Bank Polski,
38. a report on the activities of the Customer Care Officer for the period from 16 December 2013 to 30 September 2014,
39. approval of the Banking risk management strategy and changes to that Strategy;
40. approval of the Rules for capital adequacy and equity management in PKO Bank Polski S.A. and in the PKO Bank Polski S.A. Group,
41. information on Corporate and Investment Banking. Summary of changes implemented in the organizational structure and the most important business challenges,
42. giving consent to the Bank's exposure to entities for which the sum of the Bank's receivables and off-balance sheet commitments granted by the Bank exceeds 5% of the Bank's own funds,
43. Framework work plan of the Supervisory Board for the first half of 2015,
44. election of the Secretary of the Supervisory Board,
45. amendments to the Resolution establishing the Audit Committee of the Supervisory Board,
46. amendment to the Resolution appointing the Remuneration Committee,
47. amendment to the Resolution on the Rules of Procedure of the Remuneration Committee.

Moreover, on 17 December 2014, the Supervisory Board adopted Resolution No 57/2014, by which it adopted for use the Principles of corporate governance for supervised institutions, attached as Appendix No 1 to that resolution, in the scope concerning the powers and responsibilities of the Supervisory Board, i.e. supervising the conduct of the Bank's affairs in compliance with the generally applicable laws and the Bank's Articles of Association.

Topics regularly discussed by the Supervisory Board:

- Report on the implementation of the Strategy of PKO Bank Polski SA,
- Information on the financial performance of PKO Bank Polski SA and the results of PKO Bank Polski SA as compared with competing banks
- Report: *Service quality and customer satisfaction in retail banking of PKO Bank Polski SA*;
- Report: *Credit risk in PKO Bank Polski*,
- Report: *Financial risk in PKO Bank Polski*,
- Report: *Capital Adequacy in PKO Bank Polski*,
- Report: *Operational Risk in PKO Bank Polski*,
- Report: *Business Risk in PKO Bank Polski*,
- Report: *Compliance risk in PKO Bank Polski*,
- Information of the Internal Audit Department on the effectiveness of the internal control system,
- Information on the progress in integration of selected assets of the Nordea Group in Poland (at every meeting).

## 5. Completed inspections

In 2014, no inspections were conducted at the instruction of the Supervisory Board.

## 6. Information on the Supervisory Board's actions involving: changes in the composition of the Management Board; suspension of Management Board members in performance of their functions; and secondment of Supervisory Board members to performance of functions of Management Board members

On 8 January 2014, the Supervisory Board of PKO Bank Polski S.A. adopted Resolutions re-appointing: Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA, and the following Vice-Presidents of the Management Board of PKO Bank Polski S.A.: Piotr Alicki, Bartosz Drabikowski, Piotr Mazur, Jarosław Mójak, Jacek Obłękowski and Jakub Papierski, to positions previously held. According to the adopted Resolutions, the above-mentioned persons have been appointed to perform the indicated functions in PKO Bank Polski S.A. for the common term of office of the Bank's Management Board, which commences upon the expiry of the common term of office of the Bank's Management Board commenced on 30 June 2011.

In 2014, the Supervisory Board did not take any decision suspending any Management Board member in performance of their functions neither did it second any member of the Supervisory Board to performance of functions of a Management Board member.



## 7. Information on execution of the resolutions of the General Meeting on the activity of the Supervisory Board

By Resolution No 44/2006 of the Annual General Meeting of Shareholders of 18 April 2006, the Supervisory Board was obligated to supervise the disposal, by the Bank, of the training and recreation centres listed in the resolution and to submit, to the General Meeting, a report on that process, together with the assessment of its correctness. The last information on the above-mentioned topic was presented directly at the General Meeting of PKO Bank Polski on 26 June 2014.

By Resolutions No 45/2014, 46/2014, 47/2014, 48/2014 and 49/2014 of the Annual General Meeting of 26 June 2014, the Supervisory Board was authorized to establish a consolidated text of the Articles of Association of PKO Bank Polski SA, taking into account the changes resulting from the provisions of the above-mentioned resolutions.

In view of the above, on 5 November 2014 the Supervisory Board adopted Resolution No 54/2014 on the consolidated text of the Articles of Association of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

## 8. Other information on the work of the Supervisory Board

In 2014, the two committees were operating in the Bank: the Audit Committee of the Supervisory Board and the Remuneration Committee. Annual reports on the activities of the Committees mentioned above are attached to this Report as Appendix No 1 and Appendix No 2 respectively.

Warsaw, 6 May 2015



Appendix No 1

# REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD'S AUDIT COMMITTEE FOR 2014

## 1. Legal basis:

- The Audit Committee of the Supervisory Board, hereinafter the "Audit Committee", was established by Resolution No 44/2006 of the Supervisory Board of 30 November 2006 (as amended),
- The report on the activities of the Audit Committee was prepared pursuant to § 3(3) of the Committee's Rules of Procedure, attached as Appendix to Resolution No 62/2010 of the Supervisory Board of 16 December 2010 on the Rules of Procedure of the Supervisory Board's Audit Committee.

## 2. Composition of the Audit Committee in 2014

(from 2 October 2013 to 26 June 2014)

Name	Function
Mirosław Czekaj	Chairman of the Audit Committee Secretary of the Supervisory Board
Ryszard Wierzba	Vice-Chairman of the Audit Committee Member of the Supervisory Board
Zofia Dzik	Member of the Audit Committee Member of the Supervisory Board
Piotr Marczak	Member of the Audit Committee Member of the Supervisory Board
Tomasz Zganiacz	Member of the Audit Committee Member of the Supervisory Board

(from 16 July 2014 to 27 August 2014)

Name	Function
Mirosław Czekaj	Chairman of the Audit Committee Secretary of the Supervisory Board
Mirosława Boryczka	Member of the Audit Committee Member of the Supervisory Board
Zofia Dzik	Member of the Audit Committee Member of the Supervisory Board
Tomasz Zganiacz	Member of the Audit Committee Member of the Supervisory Board

(from 27 August 2014 to 8 October 2014)

Name	Function
Mirosław Czekaj	Chairman of the Audit Committee Secretary of the Supervisory Board
Mirosława Boryczka	Member of the Audit Committee Member of the Supervisory Board
Zofia Dzik	Member of the Audit Committee Member of the Supervisory Board
Piotr Marczak	Member of the Audit Committee Member of the Supervisory Board
Tomasz Zganiacz	Member of the Audit Committee Member of the Supervisory Board

(since 8 October 2014)

Name	Function
Mirosław Czekaj	Chairman of the Audit Committee Secretary of the Supervisory Board
Zofia Dzik	Vice-Chair of the Audit Committee Member of the Supervisory Board
Mirosława Boryczka	Member of the Audit Committee Member of the Supervisory Board
Piotr Marczak	Member of the Audit Committee Member of the Supervisory Board
Tomasz Zganiacz	Member of the Audit Committee Member of the Supervisory Board

### 3. Information on the meetings of the Audit Committee in 2014:

In 2014, as part of its duties under the Rules of Procedure, the Audit Committee held nine meetings (29 January, 5 March, 2 April, 14 May, 4 June, 27 August, 8 October, 5 November and 17 December). The number of Audit Committee members taking part in the respective meetings of the Audit Committee in 2014 was sufficient to ensure the proper conduct of all meetings of the Audit Committee in 2014.

In addition, the following persons participated in the meetings of the Audit Committee: President of the Management Board, Vice-President of the Management Board in charge of Finance and Accounting, and Vice-President of the Management Board in charge of Risk Management. The Director of the Internal Audit Department was invited to and participated in the meetings of the Audit Committee.

During its meetings in 2014, the Audit Committee held meetings, without the participation of Management Board members, with the Directors of: the Banking Risk Division, the Internal Audit Department, the Legal Department and the Compliance Department, and with the external auditor. The Committee's activities were based on the Work Plan of the Audit Committee for 2014.

### 4. The topics undertaken by the Audit Committee:

The key topics the Audit Committee covered in its work in 2014 included the following:

#### 4.1 Accounting and reporting, including:

1. a review of the interim and annual financial statements of PKO Bank Polski and the PKO Bank Polski Group (standalone and consolidated), i.e. for 2013, the first quarter of 2014, the first half of 2014 and the first three quarters of 2014,
2. the review of the degree of implementation of the auditor's recommendations to the Management Board, arising from the audit of the financial statements for the year ended on 31 December 2012 and of the recommendations from previous years still requiring implementation;
3. the review of new external regulations impacting the way in which the Bank performs accounting and financial reporting activities;
4. information on the progress in the Bank's preparations for the fulfilment of obligations arising from the implementation of the Foreign Account Tax Compliance Act (FATCA)
5. the distribution of profit of PKO Bank Polski S.A., generated in 2013 and the coverage of retained losses of previous years,

#### 4.2 Activities of the internal audit of the Bank, including:

1. the effectiveness of the internal control system of the Bank in the second half of 2013 and the first half of 2014,
2. the performance of the Bank's internal audit plan for 2014 and the results of audits carried out by the Internal Audit Department,
3. draft internal audit plan for 2015,
4. approval of the strategy of the operation of the Internal Audit Department,
5. the proposed amendments to the Rules of Procedure of the Internal Audit Department,
6. the review of the internal regulations on the operation of the internal audit function (assessment of the adequacy of the resources and means compared to operational needs and efficiency),
7. monitoring the remuneration of the director and the staff of the Internal Audit Department,
8. the results of the external evaluation of the Internal Audit Department, as required by Recommendation H of the Polish Financial Supervision Authority,
9. the functioning of the internal audit unit in Nordea Bank Polska SA in the transitional period,

#### 4.3 Monitoring the effectiveness of the Bank's risk management system, including:

1. the review of the banking risk management strategy,
2. the analysis of the periodic reports on banking risk, including credit risk, financial risk and business risk,
3. the ongoing monitoring of the risk management system,
4. the assessment of the capital adequacy and equity management, the rules for capital adequacy and equity management in PKO Bank Polski SA and in the PKO Bank Polski SA Group, as well as the analysis of the periodic report on capital adequacy,
5. the assessment of operational risk management, including information on the tasks resulting in the need to raise the qualifications of Management Board members in operational risk, in accordance with Recommendation M of the PFSA and the analysis summarizing the results of the review of the strategy and the operational risk management process in 2013, and also the review of the periodic report on operating risk.

#### 4.4 Monitoring the effectiveness of the compliance risk management system, including:

1. analysing the periodic report on compliance risk,
2. reviewing the effectiveness of the compliance monitoring system and the compliance of the Bank's and its employees' activities with regulations,
3. the functioning of the compliance unit in Nordea Bank Polska in the transitional period,
4. Principles of Corporate Governance - the proposals for new solutions of the PFSA,

#### 4.5 Cooperation with the external auditor, including:

1. Monitoring independence and objectivity of the statutory auditor and of the entity authorised to audit the financial statements of the Bank and the PKO Bank Polski S.A. Group (rotation of the key team members and remuneration);
2. the annual acknowledgement and representation on the independence of the external auditor and the information on the auditor's fee for audit and non-audit tasks,
3. the tasks related to the process of selecting the entity authorised to audit the financial statements for the years 2014-2016.

- 4.6 Implementation the recommendations issued by the Polish Financial Supervision Authority after the inspections conducted in the Bank in 2011 and 2013.
  - 4.7 The results of the review of the implementation in the Bank of the revised Recommendation D of the Polish Financial Supervision Authority
  - 4.8 The discussion of the SREP assessment for PKO Bank Polski S.A. as at 31 December 2013
  - 4.9 Presentation on the Principles of Corporate Governance proposed by the PFSA
  - 4.10 Legal issues significant for the Bank's operations,
  - 4.11 Evaluating the activities of the Bank aimed at mitigation of risks by insuring the Bank's property and taking out civil liability insurance for members of the Bank's corporate bodies and holders of the commercial power of attorney.
  - 4.12 Review of the Audit Committee's Rules of Procedure and the Audit Committee's Work Plan for 2015.
  - 4.13 The method of supervision of Kredobank SA, in particular the supervision comprising the functioning of the audit (audit committee) in the Company
  - 4.14 Asset Quality Review and results of stress tests in PKO Bank Polski S.A.
  - 4.15 Election of the Vice-Chairman of the Audit Committee.
5. Discussion of the Audit Committee's work
- 5.1. Accounting and reporting
1. review of the interim and annual financial statements of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group (standalone and consolidated)

As part of the review of the Bank's interim and annual financial statements (both standalone and consolidated), the Audit Committee focused on:

    - 1) the analysis of the financial performance of PKO Bank Polski S.A. and the PKO Bank Polski Group in respective periods, with particular consideration given to the factors influencing their level, and the analysis of high risk areas;
    - 2) the results of the audit, by the statutory auditor, of the Bank's and the PKO Bank Polski Group's financial statements for 2013 and the first half of 2014, and obtaining confirmation of the Bank's compliance with formal and legal requirements applicable to the said financial statements, i.e. their compliance with International Financial Reporting Standards, as adopted by the European Union, and the correct implementation, by the Bank, into the applicable accounting policies, of amendments made to those standards in 2013.
    - 3) information (the so-called Opening Report) on accounting for the acquisition transaction, as at 1 April 2014, of Nordea Polska companies and the Swedish Portfolio, as well as on the cooperation with the Nordea bank,

Having reviewed the financial statements of PKO Bank Polski S.A. for the year ended 31 December 2013 and the consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2013; having held a discussion on those financial statements, taking into account an unqualified audit opinion issued by the auditor (in the auditor's opinion, the financial statements have been prepared on the basis of properly maintained accounting records, in accordance with the accounting requirements and policies, and they give a true and fair of the Bank's financial position), and following a review, the Audit Committee, by Resolution No 4/2014 of 5 March 2014, recommended that the Supervisory Board issue positive opinions on the financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for the year ended 31 December 2013 and the consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group for the year ended 31 December 2013.
  2. the review of the degree of implementation of the auditor's recommendations to the Management Board, arising from the audit of the financial statements for the year ended on 31 December 2012 and of the Recommendations from previous years still requiring implementation.

In its analysis of the degree of implementation of the recommendations to the Management Board, arising from the audits of PKO Bank Polski's financial statements for the aforementioned years, the Audit Committee focused on monitoring the recommendations still requiring implementation.
  3. the distribution of profit of PKO Bank Polski, generated in 2013 and the coverage of retained losses of previous years,

Having considered the grounds provided by the Management Board for its motion on the distribution of profit of PKO Bank Polski S.A., generated in 2013, and on the coverage of retained losses of previous years, and having analysed the motion, the Audit Committee, by Resolution No 8/2014 of 14 May 2014, recommended that the Supervisory Board issue a positive opinion on the aforementioned motion.
  4. reviewing new external regulations affecting the Bank's accounting and financial reporting activities

The Audit Committee analysed, inter alia, the changes arising from: IAS 19 "Employee Benefits", IFRIC Interpretation 21 "Leases", IAS 1, IFRS 13 "Fair Value Measurement", amendments to the Accounting Act. Moreover, it received information on the amendments to IFRSs, which have not entered into force and have not been approved by the European Union, as well as regulations referred to as the CRD IV / CRR package.
  5. information on the progress in the Bank's preparations for the fulfilment of obligations arising from the implementation of the Foreign Account Tax Compliance Act (FATCA)

The Audit Committee acquainted itself with information on the progress in the Bank's preparations for the fulfilment of obligations arising from the implementation of the Foreign Account Tax Compliance Act (FATCA) and on the size of transactions covered by FATCA.

## 5.2. Activities of the Bank's internal audit

1. the effectiveness of the internal control system in the second half of 2013 and in the first half of 2014.

In 2014, the Audit Committee acquainted itself with outcomes of the audits conducted by the Internal Audit Department on two separate occasions, on which basis it was able to provide a positive assessment of the effectiveness of the internal control system and discussed the issues in connection with post-audit recommendations.

2. implementation of the Bank's Internal Audit Plan for 2014 and outcomes of the audits conducted by the Internal Audit Department. Draft Internal Audit Plan for 2015.

The Audit Committee discussed, on a quarterly basis, the progress in implementation of the Bank's Internal Audit Plan for 2014 and the outcomes of the audits conducted by DAW; it also acquainted itself with the progress in the execution of recommendations issued after internal audits.

In addition, the Audit Committee:

- a. by Resolution No 10/2014 of 27 August 2014, it issued a positive opinion on the proposal of amendments to the internal audit plan for PKO Bank Polski SA for 2014, in accordance with the Appendix to that resolution,
  - b. having reviewed the draft internal audit plan for PKO Bank Polski SA for 2015 and the proposal for its supplementation by Resolution No 14/2014 of 5 October 2014, issued a positive opinion on the above-mentioned draft internal audit plan.
3. approval of the strategy of the operation of the Internal Audit Department,

Having reviewed the operational strategy of the Internal Audit Department for the years 2014-2016, as presented by the Director of that Department, the Audit Committee approved the operational strategy of the Internal Audit Department by Resolution No 5/2014 of 5 March 2014.

4. the amendments to the Rules of Procedure of the Internal Audit Department.

In 2014, the Audit Committee acquainted itself, on two occasions, with the proposed amendments to the Rules of Procedure of the Internal Audit Department, and, by resolutions No 6/2014 of 5 March 2014 and No 11/2014 of 27 August 2014, it issued a positive opinion on the draft Rules of Procedure of the Internal Audit Department.

5. The Audit Committee held a meeting with the Director of the Internal Audit Department, without the participation of Management Board members, during which it acquainting itself with the information on the review of internal regulations on the operation of the internal audit function (assessment of the adequacy of the resources and means compared to operational needs and efficiency), including those concerning:
  - the confirmation of the internal audit unit's independence (no circumstances were identified that would threaten the impartial exercise of the internal audit function in the Bank and in the Bank's Capital Group),
  - the results of the review of internal regulations, which confirmed their compliance with the generally applicable laws and good practices,
  - changes and improvements proposed by the Internal Audit Department,
  - the organizational and employment structure in the Internal Audit Department,
  - training and development of employees of the Internal Audit Department,
  - challenges for operations of the Internal Audit Department for 2015.

Having acquainted itself with and analysed the information and challenges presented by the Director of the Internal Audit Department, the Audit Committee approved the courses of action proposed by the Internal Audit Department.

6. Monitoring the remuneration of the Director and the staff of the Internal Audit Department,

The Audit Committee analysed, among other things, the structure and level of employment of the Internal Audit Department, assessed the level of remuneration of employees of the Internal Audit Department in terms of implementation of assigned goals by the Department, and received information on the qualifications and experience of employees of the Internal Audit Department, by acquainting itself in 2014, on two occasions, with the Report on remuneration of employees of the above-mentioned Department: for 2013 and for the first half of 2014.

7. the results of the external evaluation of the Internal Audit Department, as required by Recommendation H of the Polish Financial Supervision Authority

The Audit Committee acquainted itself and analysed the results of an independent evaluation of the internal audit function in the Bank, as carried out by an external company in the following areas: assessment of the internal audit function in the context of compliance with legal and regulatory requirements, in particular Recommendation H of the PFSA, Resolution 258/2011 of the PFSA and the Banking Law; assessment of the application of good market practices identified in the International Standards for Internal Audit; assessment of the internal audit's operating areas subject to assessment, that is the organizational model of DAW and its structure, technology, human resources and audit process.

8. the functioning of the internal audit unit in Nordea Bank Polska S.A. in the transitional period,

The Audit Committee carried out an analysis of the material presented by the Internal Audit Department on the functioning of the internal audit unit in Nordea Bank Polska S.A. in the transitional period.

## 5.3. Monitoring the effectiveness of the risk management system of the Bank

1. the ongoing monitoring of the risk management system

The Audit Committee analysed, on a quarterly basis, the reports on credit, financial and business risk, which were subsequently discussed at the meetings of the Supervisory Board.

The Audit Committee monitored, on an ongoing basis, the level of risk based on information contained in monthly reports prepared for the Committee by the Banking Risk Division.

As part of its ongoing monitoring of the risk management system, the Audit Committee held a meeting with the Director of the Banking Risk Division (without the participation of Management Board members) in the course of which it obtained confirmation of the adequacy of the resources and means for the performance of the tasks assigned to the Banking Risk Division, and confirmation that there are no situations or actions of which the Committee was not informed, from the area supervised by the Banking Risk Division.

2. the review of the banking risk management strategy

Having acquainted itself with the results of the annual review of the banking risk management strategy, the impact of the integration with Nordea Bank Polska on the level of strategic quantitative limits of tolerance to banking risk of the Bank and the organizational changes made in the Risk Management Area, the Audit Committee, by Resolution No 7/2014 of 2 April 2014, issued a positive opinion, to the Supervisory

Board, on Resolution No 146/A/2014 of the Management Board of 25 March 2014 on the banking risk management strategy in Powszechna Kasa Oszczędności Bank Polski S.A..

In addition, the Audit Committee:

- by Resolution No 9/2014 of 20 June 2014, issued a positive opinion, to the Supervisory Board, on Resolution No 310/A/2014 of the Management Board of 16 June 2014 amending the resolution on the introduction of the Banking risk management strategy in PKO Bank Polski S.A., taking into account the changes concerning the implementation of Recommendation 15.08 as regards the LtV ratio limits applicable to mortgage-secured loan exposures for which the security was established on a commercial immovable property.
- by Resolution No 15/2014 of 17 December 2014, issued a positive opinion, to the Supervisory Board, on Resolution No 729/A/2014 of the Management Board of 25 November 2014 on the Banking risk management strategy in PKO Bank Polski S.A. and Resolution No 785/A/2014 of the Management Board of 9 December 2014 amending Resolution No 729/A/2014 of the Management Board of 25 November 2014 on the Banking risk management strategy in PKO Bank Polski S.A., taking into account changes concerning the introduction of group limits, reduction of the limit for the cost of credit risk, an increase in the limit for liquidity reserve in a 1 month period and an increase in the solvency ratio in connection with the recommendations of the Polish Financial Supervision Authority in this regard.

3. evaluating the management of capital adequacy and equity in PKO Bank Polski S.A.

The Audit Committee, by Resolution No 16/2014 of 17 December 2014, issued a positive opinion, to the Supervisory Board, on Resolution No 779/A/2014 of the Management Board of 9 December 2014 on the introduction of the Rules for capital adequacy and equity management in PKO Bank Polski S.A. and in the PKO Bank Polski S.A. Group, taking into account the changes in the new EU legislation and supervisory recommendations, as well as conclusions presented by the PFSA after the SREP process conducted for 2013.

The Audit Committee analysed, on a quarterly basis, reports on capital adequacy, which were subsequently discussed by the Supervisory Board.

Having performed its analysis, the Audit Committee issued and presented to the Supervisory Board a positive opinion on the Report on the Capital adequacy and other information subject to disclosure (Pillar III) of the Powszechna Kasa Oszczędności Bank Polski S.A. Group, as at 31 December 2013.

4. Assessment of operational risk management in PKO Bank Polski SA

The Audit Committee analysed, on a quarterly basis, reports on operating risk, which were subsequently discussed by the Supervisory Board. In March 2014, the Audit Committee analysed the Results of the review of the operational risk strategy and management process in 2013, without raising any objections in this respect, and at the same time it emphasised the fact that PKO Bank Polski S.A. was at that time the only bank in Poland, in which the Advanced Measurement Approach for operational risk was implemented. Furthermore, the Audit Committee reviewed the information on the tasks resulting in the need to raise the qualifications of Management Board members in operational risk, in accordance with Recommendation M of the PFSA.

#### 5.4. Review of the effectiveness of the compliance risk management system

As part of the above-mentioned activities, the Audit Committee reviewed the effectiveness of the compliance monitoring system and the compliance of the Bank's and its employees' activities with regulations, and in particular acquainted itself with the information concerning: human resources of the compliance unit, the SREP assessment and the results of inspections conducted by the PFSA in the Bank in 2013, the most important factors affecting the compliance risk in 2014, the investigation procedures conducted by the Office of Competition and Consumer Protection, cases of non-compliance and non-reported conflicts of interest relating to the Bank's employees, the risks of questioning the provisions of foreign currency loan agreements in connection with the rulings of courts and European tribunals regarding the repayment of these loans, and the quality of the loan portfolio held by the Bank, the implementation of the Foreign Account Tax Compliance Act (FATCA) and the failure to sign an intergovernmental agreement between Poland and the USA, and the upcoming deadline (25 April 2014) for the registration of financial institutions on the website of the US Internal Revenue Service, as an institution compatible or incompatible with FATCA and the related potential risks.

The Audit Committee obtained confirmation that there are no situations or actions of which the Committee was not informed, from the areas supervised by the Compliance Department.

The Audit Committee analysed, on a quarterly basis, reports on compliance risk, which were subsequently discussed by the Supervisory Board.

In addition, when implementing the above-mentioned task, the Audit Committee, during a meeting with the Director of the Compliance Department, without the participation of Management Board members, as part of reviewing the adequacy of available resources and means compared to the implementation of the tasks assigned to that Department, acquainted itself with the information on the factors hindering the effective execution of tasks by the Compliance Department and the plans in relation to human resources of that Department.

The Audit Committee also acquainted itself with the material presented by the Compliance Department on the functioning of the compliance unit in Nordea Bank Polska in the transitional period.

#### 5.5. Implementation of the recommendations issued by the Polish Financial Supervision Authority after the inspections conducted in the Bank in 2011 and 2013.

The Audit Committee evaluated, on a quarterly basis, the degree of implementation of post-inspection recommendations of the Polish Financial Supervision Authority.

#### 5.6. Cooperation with the external auditor, including activities related to the process of selecting the external auditor

At its meeting with the external auditor, without the participation of Management Board members, the Audit Committee discussed the issues relating to the monitoring of independence and objectivity of the external auditor, including:

- confirmation of PwC's independence in relation to the Bank, in the light of Polish and international regulations,
- key amendments to the Directive governing the audit of financial statements of public interest entities, with effective date from 2016,
- the standards, as applicable in PwC, of selection and rotation of key members of the audit team assigned to audit the financial statements of the Bank and the Bank's Group,

- the auditor's recommendations, prepared for discussion with the Bank, arising from the audit of the Bank's financial statements for 2013,
- the work plan related to the recognition of the acquisition, by the Bank, of the Nordea BP Group's assets
- the plan of the review of the financial statements of the Bank and the Bank's Group and of Nordea BP for the first half of 2014,
- changes in the regulations, including those related to the asset quality review of Polish banks, carried out by the Polish Financial Supervision Authority in selected 15 banks (including PKO BP), according to the methodology of the European Central Bank.

The Audit Committee acquainted itself with information on the auditor's fee for audit and non-audit tasks.

As a consequence of the guiding proposal, made in December 2013 by the Management Board, consulted with the Polish Financial Supervision Authority, for the modification of the actions in connection with the process of selecting the entity authorised to audit the financial statements for the years 2014-2016, involving the extension of the period of collaboration with the Bank's current auditor, i.e. PwC, by one year, in connection with, inter alia, the performance, in 2014, of the agreement on acquisition, by the Bank, of shares in certain Nordea Group companies, the Audit Committee:

- by Resolution No 1/2014 of 29 January 2014, it recommended that the Supervisory Board adopt a resolution amending Resolution No 39/2012 of the Supervisory Board of 19 September 2012 amending the Resolution on the rules for selecting an entity authorized to audit financial statements, in the wording specified in the Appendix to that Resolution,
- by Resolution No 2/2014 of 29 January 2014, it approved the schedule of the process of selecting an entity authorized to audit and review the financial statements of the Bank and the PKO Bank Polski SA Group for the years 2015-2017, in the wording specified in the Appendix to that Resolution.

Having examined the proposal of the Management Board and in connection with the consent of the PFSA, as obtained by PKO Bank Polski S.A., to the takeover of the Nordea Group's assets in Poland and to the extension of the cooperation with PwC, the present auditor, by one year, the Audit Committee, by Resolution No 3/2014 of 5 March 2014, recommended that the Supervisory Board adopt a resolution on selecting PricewaterhouseCoopers Sp. z o.o. as the entity authorized to audit the financial statements of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group for 2014, in the wording specified in the Appendix to that Resolution.

In addition, the Audit Committee, continuing the process of selecting the external auditor of PKO Bank Polski for subsequent years, having acquainted itself with the criteria for sending by the Bank, to audit firms, an enquiry for quotation, the scope of the proposed changes in relation to the applicable regulations of the Bank in this regard and the tasks of the Audit Committee in the process of selecting an auditor, by Resolution No 13/2014 of 8 October 2014, recommended that the Management Board adopt a resolution on the process of selecting the entity authorized to audit the financial statements for the years 2015-2016, in the wording specified in the Resolution.

On 5 November 2014, upon opening the envelopes with tenders and their initial review, the Audit Committee recommended their submission to the Commission supporting the Audit Committee in the process of selecting an entity authorized to audit financial statements, to carry out a detailed analysis, execute further work set out in the Schedule and submit the results of this process to the Audit Committee by 28 January 2015.

## 5.7. Asset Quality Review and results of stress tests in PKO Bank Polski S.A.

The Audit Committee reviewed and adopted the Asset Quality Review (AQR) and the results of stress tests in PKO Bank Polski S.A., and also obtained information on the differences between the AQR methodology for the calculation of impairment losses on loans from the corporate portfolio, and the IAS 39 methodology, effective in the Bank, as well as the recommendations resulting from the AQR, as presented by the PFSA.

## 5.8. The results of the review of the implementation in the Bank of the revised Recommendation D of the Polish Financial Supervision Authority

The Audit Committee analysed the results of the Review of the manner of implementation, in the Bank, of the revised Recommendation D, which was carried out by the Internal Audit Department in collaboration with an external consultant, and obtained information on:

- the assessment, performed as part of the review, of the compliance of the procedures, processes, internal regulations developed in the Bank with Recommendation D; assessment of the applied control mechanisms required by that Recommendation and operating efficiency of those mechanisms,
- the degree of implementation of the Recommendation at the completion of the review, including the recommendations for which there is a risk that they will not be fully implemented by the end of 2014,
- the issues regarding Nordea BP in the context of compliance with Recommendation D.

## 5.9. The discussion of the SREP assessment for PKO Bank Polski S.A. as at 31 December 2013

The Audit Committee analysed the Information on the results of the supervisory review and evaluation process as at 31.12.2013 and obtained detailed information on: the relation of an overall assessment and partial assessments assigned in specific areas, compared to the previous year's assessments, issues identified by the PFSA during the process in the field of operational risk and issues related to Nordea BP.

## 5.10. Presentation on the Principles of Corporate Governance proposed by the PFSA

The Audit Committee acquainted itself with the presentation on the Principles of Corporate Governance, as proposed by the Polish Financial Supervision Authority, with special emphasis on the purpose of issuing these Principles, the subject matter of their application, the Bank's comments on individual provisions and implementation of the Principles into the Bank's internal regulations.

### 5.11. Legal issues important for the activity of the Bank

At its meeting with the Director of the Legal Department, without the participation of Management Board members, the Audit Committee obtained:

- a confirmation of the adequacy of resources and means held to perform the tasks assigned to the Legal Department,
- information on the number of lawyers employed with the Department, the level of funding for legal services, the number of new cases in 2014, and the most important legal cases conducted by the Legal Department.

### 5.12. Evaluating the activities of the Bank aimed at mitigation of risks by insuring the Bank's property and taking out civil liability insurance for members of the Bank's corporate bodies and holders of the commercial power of attorney

The Audit Committee acquainted itself with the information on:

- the insurance plan for the Bank and the types of insurance contained in that programme,
- the costs incurred by the Bank for the insurance coverage in 2014.
- the loss ratio for individual types of insurance,
- the inclusion of Nordea Group companies in the insurance plan as from 1 April 2014.

### 5.13. Election of the Vice-Chair of the Audit Committee

By Resolution No 12/2014 of 8 October 2014, the Audit Committee elected Ms Zofia Dzik as the Vice-Chair of the Audit Committee.

### 5.14. Review of the Rules of Procedure of the Audit Committee

At the meeting held on 17 December 2014, the Audit Committee acquainted itself with the results of the periodic (annual) review of the Rules of Procedure of that Committee.

The Audit Committee, by Resolution No 17/2014 of 17 December 2014, recommended that the Supervisory Board amend the Rules of Procedure, in accordance with that Resolution.

### 5.15 The method of supervision of Kredobank S.A., in particular the supervision comprising the functioning of the audit (audit committee) in the Company

The Audit Committee acquainted itself with the following information: the supervision of Kredobank SA, the major powers and the composition of the bodies of control / shareholder supervision of Kredobank SA, the functional control of Kredobank SA, as exercised by PKO BP SA.

### 5.16. The Work Plan for the Audit Committee for 2015

At the meeting held on 17 December 2014, the Audit Committee approved the Work Plan of the Audit Committee for 2015.

## 6. Assessment of the effectiveness of the Audit Committee's work in 2014

The Audit Committee assessed the effectiveness of its work in 2014, at a closed session - workshop during which the following areas were assessed:

- Financial reporting and information subject to disclosure,
- Risk management system and internal control system,
- The culture and compliance with laws,
- Cooperation with the Internal Audit,
- Cooperation with the External Auditor,
- Meetings,
- Other.

Audit Committee members have the relevant experience and expertise, including the currently available knowledge on accounting and auditing. In 2014, all of the Audit Committee members took an active part in the meetings of the Audit Committee, demonstrated high level of commitment and dedicated sufficient amount of time for the proper performance of their duties.

The number and duration of the meetings, as well as access to resources were sufficient to enable the Audit Committee to fully perform its tasks, and the documents prepared for the Audit Committee contained important information and were prepared sufficiently in advance. As a result of the analysis and the summary of the self-assessment process and its comparison over the period 2012-2015, a downward trend was observed as regards discrepancies in the assessment of the functioning of the Audit Committee and its Members in individual areas. The members of the Committee have similar awareness and assessment of the tasks performed and the materials and information received, which enable their performance. The analysis of the questions for which responses with lowest scores were given revealed a downward zero-approaching trend, evidencing the absence of significant gaps in the processes supervised and evaluated by the Committee. However, the analysis of questions for which responses with highest scores were given revealed a stable upward trend evidencing the increasing awareness / competency of Audit Committee members in specific areas and the assessment of the activities carried out by the Committee.

Moreover, the Audit Committee analysed the work proposals presented by the external auditor, in connection with the review of the quality and adequacy of the information and documents received by the Audit Committee in 2014, including:

- the review of the completeness of information received by the Audit Committee, in the context of the performance of tasks assigned to the Audit Committee, arising from legal and internal requirements and best market practices, taking into account the specific nature of the Bank,

- the review of the adequacy of the information received by the Audit Committee, taking into account the level of its aggregation, form of presentation, arrangement, and its mutual consistency, as well as the review of optimization possibilities, and
- the presentation of recommendations developed in close cooperation with the Bank's Management Board, including the possibilities of optimizing the reports received by the Audit Committee in terms of arrangement of the information contained therein and their adequacy.

As a result of the discussion on the assessment of the Audit Committee's demand for additional reports and information, the Committee did not report, to the Management Board, any demand for additional reports or information.

In 2014, the Audit Committee performed its tasks in accordance with the Rules of Procedure, and continued to improve its performance in this respect. The discussions held at the meetings of the Audit Committee were characterised by a high level of competence.

In implementing the Work plan of the Audit Committee for 2014, Audit Committee members enriched and advance their knowledge of operational risk management by participating in workshops on the New trends and risks associated with fraud in banks:

- Report to the Nations 2014
- The Report to the Nations on Occupational Fraud and Abuse, by the Association of Certified Fraud Examiners - the presentation of the report's most important theses of significance to the banking sector.
- Global profiles of the fraudsters. What are the characteristics of the Polish white-collar frauds?
- Presentation of the outcomes of the report "Global profiles of the fraudster" - an international survey conducted by KPMG based on more than 600 cases of identified "white collar" abuses.
- Abuses in the banking sector - the latest "trends" and threats
- Presentation and discussion (based on examples) on the latest trends and threats in the form of frauds in the banking sector, such as, for example, the use of social engineering and computer technology, intellectual property theft or obtaining loans under false pretences

The cooperation of the Audit Committee with the Management Board, the internal auditor and other key officers within the Bank, as well as the external auditor, was positive; the Audit Committee reacted positively to the information received in order to ensure transparency and appropriateness of the communication process in the future. The Audit Committee deemed independence of the audit process satisfactory, based on the monitoring of that process and analysis of the information and materials received from the internal and external auditors.

## 7. Summary:

On the basis of the periodic reports received and evaluations of external advisors, the Audit Committee, focusing on high risk areas, regularly monitored the process of financial reporting and information subject to disclosure, the efficiency of the internal control system, the internal audit and risk management system within the Bank, as well as auditing tasks and the independence of the statutory auditor.



Appendix No 2

# REPORT ON THE ACTIVITIES OF THE REMUNERATION COMMITTEE IN 2014

### 1. Legal basis:

1. The Remuneration Committee was established by Resolution No 52/2011 of the Supervisory Board of 2 November 2011 (as amended) for the purpose of assisting the Supervisory Board in the performance of its statutory duties and tasks arising from laws, in particular with regard to the general rules of variable components of remuneration of persons holding managerial positions in the Bank, the remuneration policies and the remuneration of Management Board members. The Committee operates in accordance with the Rules of Procedure of the Remuneration Committee, as adopted by Resolution No 55/2011 of the Supervisory Board of 16 December 2011 (as amended), which specifies the objectives, organization, mode of operation and tasks of the Committee.
2. The report was drafted pursuant to § 3(3) of the Rules of Procedure of the Remuneration Committee.

### 2. Composition of the Committee in 2014:

In the period from 18 December 2013 to 26 June 2014

Name	Function
Tomasz Zganiacz	Chairman of the Committee
Zofia Dzik	Vice-Chair of the Committee
Cezary Banasiński	Member of the Committee
Elżbieta Mączyńska-Ziemacka	Member of the Committee
Marek Mroczkowski	Member of the Committee

In the period from 16 July 2014 to 27 August 2014

Name	Function
Tomasz Zganiacz	Chairman of the Committee
Jerzy Góra	Member of the Committee
Jarosław Klimont	Member of the Committee
Elżbieta Mączyńska-Ziemacka	Member of the Committee
Marek Mroczkowski	Member of the Committee

Since 27 August 2014

Name	Function
Tomasz Zganiacz	Chairman of the Committee
Jerzy Góra	Vice-Chairman of the Committee
Jarosław Klimont	Member of the Committee
Elżbieta Mączyńska-Ziemacka	Member of the Committee
Marek Mroczkowski	Member of the Committee

### 3. Number of meetings of the Committee in 2014:

In 2014, the Remuneration Committee held four meetings. The meetings were held on 29 January, 5 March, 27 August and 17 December. The number of Remuneration Committee members taking part in the Remuneration Committee meetings in 2014 was sufficient to ensure the proper conduct of all meetings of the Committee.

### 4. The topics undertaken by the Committee:

The Remuneration Committee:

- by Resolution No 1/2014, recommended that the Supervisory Board adopt a resolution amending the resolution on the Rules of Procedure of the Remuneration Committee,
- as a result of the discussions at the meetings of the Committee held on 29 January and 5 March, by Resolution No 2/2014, recommended that the Supervisory Board adopt the MbO objectives, their values and weights for Management Board members for 2014,



- by Resolution No 3/2014, recommended that the Supervisory Board adopt the level of fair interest rate for the calculation of the cash component, paid in 2014, of deferred variable remuneration of Management Board members and persons holding managerial positions in the Bank,
- by Resolution No 4/2014, issued a positive opinion on the accounting for the MbO objectives for 2013 and the amount of variable components of remuneration for 2012 and 2013, paid in 2014 and in January 2015, and the basic salaries of Management Board members,
- by Resolution No 5/2014, the Committee issued a positive opinion on variable components of remuneration for 2012 and 2013 of Bank employees holding the positions included in the List of positions for persons holding managerial positions,
- by Resolution No 6/2014, the Committee issued a positive opinion on the change to the MbO objectives for Management Board members for 2014,
- by Resolution No 7/2014, elected the Vice-Chairman of the Committee,
- by Resolution No 8/2014, the Committee issued a positive opinion on changes to the Policies on variable components of remuneration of persons holding managerial positions in the Bank, and recommended to the Supervisory Board the approval of the changes to the remuneration policies for Management Board members of PKO Bank Polski.