

**Report of the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna containing the results of the evaluation of: the financial statements of PKO BP SA for 2010, the report of the Management Board on the activities of PKO BP SA in 2010, the motion of the Management Board on the distribution of profit earned by PKO BP SA in 2010 and the report on the activities of the Supervisory Board as a company body in 2010**

## 1. INTRODUCTION

The Supervisory Board of PKO BP SA, according to the relevant provisions of the Code of Commercial Partnerships and Companies, submits to the Ordinary General Meeting of PKO BP SA a report containing results of the evaluation of:

- 1) the financial statements of PKO BP SA for 2010;
- 2) the report of the Management Board on the activities of PKO BP SA for 2010;
- 3) the motion of the Management Board on the distribution of the profit earned by PKO BP SA in 2010;

and the report on the activities of the Supervisory Board as a company body for 2010.

### Evaluation of the Financial Statements of PKO BP SA for 2010

The Supervisory Board has heard the opinion of the statutory auditor authorised to examine the financial statements of the Bank on the economic and financial standing of the Bank. The statutory auditor did not communicate any reservations to the financial statements. In particular, he concluded that the financial statements are prepared on the basis of properly kept accounting books, comply with the applicable general provisions and the Bank's Articles of Association, and adequately and clearly present the assets and the financial situation of the Bank as of 31 December 2010 as well as the financial result for the year 2010, according to the International Financial Reporting Standards.

The Board agrees with the opinion of the statutory auditor.

The Supervisory Board – in accordance with Article 219(3) and Article 382(3) of the Code of Commercial Partnerships and Companies – after examining the *financial statements of PKO BP SA for 2010*, considering the positive recommendation of the Audit Committee of the Supervisory Board and on the basis of the auditor's opinion, not containing any reservations, given after the examination of the financial statements of PKO BP SA for 2010, gives a positive opinion on the financial statements as compliant with the books and documents and the actual

state of things. The Supervisory Board gave a positive opinion on the draft resolution of the Ordinary General Meeting on *approving the financial statements of PKO BP SA for 2010*.

Pursuant to Article 4a of the Accounting Act, the Supervisory Board declares that all the components of the financial statements of PKO BP SA for 2010 comply with the requirements specified in the Act.

#### Evaluation of the Report of the Management Board on the Activities of PKO Bank Polski SA for 2010

The Supervisory Board - in accordance with Article 382(3) of the Code of Commercial Partnerships and Companies - after evaluating *the Report of the Management Board on the activities of PKO BP SA for 2010*, containing information on the activities of the Management Board as a company body, gave a positive opinion on the draft resolution of the Ordinary General Meeting on adopting *the Report of the Management Board on the activities of PKO BP SA for 2010*.

Also, pursuant to Article 4a of the Accounting Act, the Supervisory Board declares that all the components of the Report of the Management Board on the activities of PKO BP SA for 2010 comply with the requirements specified in the Act.

#### Evaluation of the Motion of the Management Board on the Distribution of Profit Earned by PKO BP SA in 2010

The Supervisory Board gave a positive opinion on the motion of the Management Board on allocating from the net profit amounting to PLN 3,311,209k earned in 2010 to the following: PLN 1,375,000k to the disbursement of dividend to shareholders, PLN 1,900,000k to the reserve capital and PLN 36,209k to the reserves.

## 2. REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD AS A COMPANY BODY

- 1) Information on the term of office of the Supervisory Board, its activity in the successive year within this term of office, the composition of the Supervisory Board and the functions of its members, and changes in the composition of the Supervisory Board during the financial year

Supervisory Board (composition as of 31 December 2010):  
(common 3-year term of office started on 20 May 2008)

No.	Name	Function	Date of appointing/ recalling
	Cezary Banasiński	Chairman of the Supervisory Board	appointed on 20 April 2009 until the end of the present term of office of the Supervisory Board (started on 20 May 2008) (by notarial deed/Register A - No. 2959/2009, Resolution No. 7/2009) The Minister of Treasury appointed Cezary Banasiński, member of the Supervisory Board, as the Chairman of the Supervisory Board
	Tomasz Zganiacz	Deputy Chairman of the Supervisory Board	appointed on 31 August 2009 until the end of the current term of office of the Supervisory Board (by notarial deed/Register A - No. 5855/2009, Resolution No. 8/2009) The Minister of Treasury appointed Tomasz Zganiacz, member of the Supervisory Board, as the Deputy Chairman of the Supervisory Board
	Miroslaw Czekaj	Secretary of the Supervisory Board (since 30 June 2010)	appointed on 31 August 2009 until the end of the current term of office of the Supervisory Board (by notarial deed/Register A - No. 5855/2009, Resolution No. 5/2009)
	Jan Bossak	Member of the Supervisory Board	appointed on 26 February 2008 for the term of office ended on 19 May 2008 and for the current term of office of the Supervisory Board (by notarial deed/Register A - No. 1362/2008, Resolution No. 4/1/2008)
	Błażej Lepczyński	Member of the Supervisory Board	appointed on 20 April 2009 until the end of the current term of office of the Supervisory Board (by notarial deed/Register A - No. 2959/2009, Resolution No. 9/2009)
	Piotr Marczak	Member of the Supervisory Board	appointed on 25 June 2010 until the end of the current term of office of the Supervisory Board (by notarial deed/Register A - No. 4239/2010, Resolution No. 37/2010)
	Alojzy Zbigniew Nowak	Member of the Supervisory Board	appointed on 31 August 2009 until the end of the current term of office of the Supervisory Board (by notarial deed/Register A - No. 5855/2009, Resolution No. 7/2009)

Changes in the Composition of the Supervisory Board in 2010

	Ireneusz Fąfara	Member of the Supervisory Board	appointed on 31 August 2009 until the end of the current term of office of the Supervisory Board (by notarial deed/Register A - No. 5855/2009, Resolution No. 6/2009) on 30 September 2010 resigned from the position of member the Supervisory Board
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2) Information on Number and Frequency of Meetings of the Supervisory Board and the Number of Resolutions Adopted

In 2010, the Supervisory Board held in total 15 minuted meetings (including two 2-day meetings) on the following dates: 13 January, 27 January, 24 February, 10 March, 21 April, 12 and 19 May, 30 June, two meetings on 23 July, 18 August, 1 and 3 September, 6 October, 3 November, 1 December and 16 December.

In 2010, the Supervisory Board adopted 62 resolutions.

A list of the adopted resolutions is included in Appendix No. 1 to this report.

3) Information on the Attendance of the Members of the Supervisory Board at its Meetings

All the cases of absences of the members of the Supervisory Board at its meetings in 2010 were justified in the following resolutions of the Board: No. 2/2010, 14/2010, 21/2010, 25/2010, 39/2010, 56/2010, 57/2010; the resolutions concerned the absence of three members of the Board at seven meetings.

4) Important Business Dealt with by the Board

In 2010, the Supervisory Board dealt, among others, with the following businesses:

- 1) draft Strategy of PKO Bank Polski for the Years 2010–2012 and approving the Development Strategy of PKO Bank Polski SA for the Years 2010–2012, as well as the Report of the Management Board of the Bank on the implementation of the LIDER Strategy;
- 2) financial plan of PKO Bank Polski for the year 2010 and the financial plan for PKO Bank Polski for the year 2011, including the capital plan for PKO Bank Polski for the year 2011;
- 3) forecast of developments in the macroeconomic situation in the years 2010–2012;
- 4) situation in KREDOBANK SA, including:
  - change in the conditions for granting a subordinated loans to the above-mentioned entity by PKO Bank Polski;
  - granting guarantees for the credit portfolio of the above-mentioned entity;
  - investment policy and directions of strategic actions of PKO Bank Polski towards the above-mentioned entity in the years 2010–2014;
  - rules, conditions for employment and accountability of members of the Management Board of the above-mentioned entity;

- 5) *Programme of the Issuance of Loan Participation Notes* started in order to acquire resources for PKO Bank Polski SA;
- 6) *Binding Offer* for the acquisition of shares of BZ WBK and BZ WBK AIB Asset Management SA from AIB Group;
- 7) conducting the recruitment procedure for the position of the Vice-President of the Management Board of PKO Bank Polski in charge of investment banking and for the position of the Vice-President of the Management Board of PKO Bank Polski in charge of IT and services;
- 8) principles of remuneration for members of the Management Board and principles of remuneration for members of the Supervisory Board;
- 9) rules for selecting the entity authorised to audit financial statements and process of selecting the entity authorised to audit financial statements for the years 2011–2013;
- 10) rules for operational risk management in PKO Bank Polski;
- 11) rules for capital adequacy management and management of the equity of PKO Bank Polski;
- 12) corporate identity of PKO Bank Polski;
- 13) marketing activities of PKO Bank Polski;
- 14) approving the Organizational Regulations of PKO Bank Polski SA;
- 15) appointing the Head of the Internal Audit Department;
- 16) Regulations of the Audit Committee of the Supervisory Board;
- 17) breakdown of the IT system on 9 April 2010 and results of the audit conducted by the external advisor concerning breakdown of the IT system of the Bank on 9 April 2010, as well as results of the special audit on this matter conducted by the Internal Audit Department;
- 18) activities of the Brokerage House of PKO Bank Polski;
- 19) Inteligo Strategy;
- 20) Foundation of PKO Bank Polski;
- 21) presentations of the companies of the PKO Bank Polski Capital Group, including: PKO BP Bankowy PTE SA, Bank Pocztowy SA, PKO BP Factoring SA, Bankowy Fundusz Leasingowy SA, PKO BP Inwestycje Sp. z o.o., CEUP eService SA, PKO Towarzystwo Funduszy Inwestycyjnych SA;
- 22) change of rules for cooperation with PKO Bank Polski agents;
- 23) School Saving Schemes revitalization programme.

Businesses discussed by the Board on a regular basis include:

- information on achieving the financial result;

- information on the effectiveness of the internal control system and external audits conducted in the Bank;
- information on communications from the external supervision and control authorities received by the Bank, transmitted to the Internal Audit Department;
- report on credit risk in PKO Bank Polski;
- report on capital adequacy in PKO Bank Polski;
- report on operational risk and non-compliance risk in PKO Bank Polski;
- report on financial risk in PKO Bank Polski;
- information on the functioning of the Restructuring and Debt Recovery Division.

#### 5) Controls Carried Out

On a request from the Supervisory Board an external advisor revised the risk management system in PKO Bank Polski. The revision concentrated on mechanisms, i.e. processes and organisation, which are crucial for the evaluation of the adequacy and effectiveness of the risk management system conducted by the Supervisory Board.

Other complaints and anonymous letters handed over to the Supervisory Board were considered according to the procedures set by the President of the Management Board.

#### 6) Information on Changes Introduced by the Supervisory Board in the Composition of the Management Board, Suspension of Members of the Management Board of the Bank and Delegation of Members of the Supervisory Board to Perform the Duties of Members of the Management Board

On 10 March 2010, the Supervisory Board appointed Mr Jakub Papierski to perform, as from 22 March 2010, duties of the Vice-President of the Management of the Board of PKO Bank Polski SA for the common term of office of the Management Board started on 20 May 2008.

On 21 July 2010, Mr Mariusz Zarzycki resigned, as from 31 July 2010, from the position of the Vice-President of the Management Board.

On 1 September 2011, the Supervisory Board appointed Mr Piotr Alicki, as from 2 November 2010, for the position of the Vice-President of the Management Board for the common term of office started on 20 May 2008.

In the period covered by this report, the Supervisory Board did not take any decision to suspend members of the Management Board or to delegate members of the Supervisory Board to perform the duties of members of the Management Board of the Bank.

7) Information on Execution of Resolutions of the Meeting Related to the Activities of the Supervisory Board

The resolutions adopted at the General Meetings of Shareholders were executed by PKO BP SA. With Resolution No. 44/2006 of the Ordinary General Meeting of 18 April 2006, the Supervisory Board has been obliged to supervise the process of selling training and recreation centres mentioned in the resolution and to present to the General Meeting a report on the progress of this process, including an assessment of its correctness. Information concerning this matter will be presented directly at the General Meeting of PKO BP SA.

8) Assessment of the Work of the Supervisory Board in Accordance with the Rules of Corporate Governance Contained in the *Good Practices of Warsaw Stock Exchange Companies*

In 2010, the Supervisory Board worked in accordance with the rules of corporate governance contained in the *Good Practices of Warsaw Stock Exchange Companies*.

It supervised and supported works on the project concerning Development Strategy of PKO Bank Polski SA for the Years 2010–2012, and – after this document was approved – the Board supervised implementation of the Strategy.

In the period covered by this report, the Supervisory Board worked intensively, what is reflected by the number of the Board's meetings held, number of resolutions adopted, and wide scope of subjects discussed by the Board.

Due to the professionalism and involvement of the Supervisory Board members and the efficient organisation of this body, the Supervisory Board was successful in performing the duties entrusted with it by the Articles of Association.

9) Other Information on the Work of the Board

In 2010, the Audit Committee of the Supervisory Board was operating.

The annual report on the activities of the Audit Committee of the Supervisory Board is attached hereto as Appendix No. 2.

Chairman of the Supervisory  
Board

Cezary Banasiński

Warsaw, 9 May 2011

### List of Resolutions of the Supervisory Board of PKO BP SA Adopted in 2010

1. Resolution No. 1/2010 of the Supervisory Board of 13 January 2010 on approving the change in conditions for granting loans to an entity mentioned in the resolution, with the possibility of establishing or joining a consortium of banks.
2. Resolution No. 2/2010 of the Supervisory Board of 27 January 2010 on excusing the absence of a member of the Supervisory Board of the Bank at a meeting of the Board.
3. Resolution No. 3/2010 of the Supervisory Board of 27 January 2010 on detailed recruitment procedure to be applied with regard to the position of the Vice-President of the Management Board of PKO BP in charge of investment banking.
4. Resolution No. 4/2010 of the Supervisory Board of 27 January 2010 on selecting the candidate for the position of Vice-President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna in charge of investment banking.
5. Resolution No. 5/2010 of the Supervisory Board of 27 January 2010 on terminating the recruitment procedure for the position of the Vice-President of the Management Board of PKO BP SA in charge of investment banking.
6. Resolution No. 6/2010 of the Supervisory Board of 27 January 2010 on appointing the Vice-President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
7. Resolution No. 7/2010 of the Supervisory Board of 27 January 2010 on approving the financial plan of PKO Bank Polski for the year 2010, including the capital plan of PKO Bank Polski SA for the year 2010.
8. Resolution No. 8/2010 of the Supervisory Board of 27 January 2010 on accepting the appointment of the Head of Internal Audit Department in Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
9. Resolution No. 9/2010 of the Supervisory Board of 29 January 2010 on selecting the advisor for evaluation of adequacy and effectiveness of the risk management system in PKO BP SA for the Supervisory Board.
10. Resolution No. 10/2010 of the Supervisory Board of 24 February 2010 on approving the Development Strategy of PKO Bank Polski SA for the Years 2010–2012.
11. Resolution No. 11/2010 of the Supervisory Board of 24 February 2010 on principles of remuneration for members of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

12. Resolution No. 12/2010 of the Supervisory Board of 24 February 2010 on remuneration for the President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
13. Resolution No. 13/2010 of the Supervisory Board of 24 February 2010 on remuneration for the Vice-President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
14. Resolution No. 14/2010 of the Supervisory Board of 10 March 2010 on excusing the absence of a member of the Supervisory Board of the Bank at a meeting of the Board.
15. Resolution No. 15/2010 of the Supervisory Board of 10 March 2010 on report on the activities of PKO Bank Polski SA for the year 2009.
16. Resolution No. 16/2010 of the Supervisory Board of 10 March 2010 on financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for the year ended on 31 December 2009.
17. Resolution No. 17/2010 of the Supervisory Board of 10 March 2010 on report on the activities of the PKO Bank Polski SA Capital Group for the year 2009.
18. Resolution No. 18/2010 of the Supervisory Board of 10 March 2010 on consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Capital Group for the year ended on 31 December 2009.
19. Resolution No. 19/2010 of the Supervisory Board of 10 March 2010 on approving conclusion of a standby underwriting agreement in connection with a first public offering for shares of an entity mentioned in the resolution.
20. Resolution No. 20/2010 of the Supervisory Board of 10 March 2010 on appointing the Vice-President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
21. Resolution No. 21/2010 of the Supervisory Board of 21 April 2010 on excusing the absence of a member of the Supervisory Board of the Bank at a meeting of the Board.
22. Resolution No. 22/2010 of the Supervisory Board of 21 April 2010 on approving change in conditions for granting subordinated loans by PKO BP SA to an entity mentioned in the resolution.
23. Resolution No. 23/2010 of the Supervisory Board of 21 April 2010 on approving change in conditions for granting working capital loan to an entity mentioned in the resolution, with the possibility of establishing or joining a consortium of banks.
24. Resolution No. 24/2010 of the Supervisory Board of 7 May 2010 on making a donation to the Foundation mentioned in the resolution.

25. Resolution No. 25/2010 of the Supervisory Board of 12 May 2010 on excusing the absence of a member of the Supervisory Board of the Bank at a meeting of the Board.
26. Resolution No. 26/2010 of the Supervisory Board of 12 May 2010 on distribution of profit earned by Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna in the year 2009.
27. Resolution No. 27/2010 of the Supervisory Board of 12 May 2010 amending the resolution on the Rules and Regulations of the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
28. Resolution No. 28/2010 of the Supervisory Board of 12 May 2010 on draft resolutions of the Ordinary General Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
29. Resolution No. 29/2010 of the Supervisory Board of 12 May 2010 on the report of the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna containing the results of evaluation of: the financial statements of PKO Bank Polski SA for 2009, the report of the Management Board of the Bank on the activities of PKO Bank Polski SA for the year 2009, the motion of the Management Board of the Bank on the distribution of profit earned by PKO Bank Polski SA in 2009 and the report on the activities of the Supervisory Board as a company body in 2009.
30. Resolution No. 30/2010 of the Supervisory Board of 12 May 2010 on the draft resolution of the Ordinary General Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna on granting a vote of acceptance to a member of the Management Board of the Bank for 2009.
31. Resolution No. 31/2010 of the Supervisory Board of 12 May 2010 on the draft resolution of the Ordinary General Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna on granting a vote of acceptance to a member of the Management Board of the Bank for 2009.
32. Resolution No. 32/2010 of the Supervisory Board of 12 May 2010 on draft resolutions of the Ordinary General Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
33. Resolution No. 33/2010 of the Supervisory Board of 27 May 2010 on draft resolution of the Ordinary General Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
34. Resolution No. 34/2010 of the Supervisory Board of 30 June 2010 on approving granting a guarantee to repay the debt of borrowers of an entity mentioned in the resolution under selected loan agreements.

35. Resolution No. 35/2010 of the Supervisory Board of 30 June 2010 on approving the rules for capital adequacy management and the Bank's equity management in PKO BP SA.
36. Resolution No. 36/2010 of the Supervisory Board of 30 June 2010 on the rules for selecting the entity authorised to audit financial statements.
37. Resolution No. 37/2010 of the Supervisory Board of 30 June 2010 on electing the Secretary of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
38. Resolution No. 38/2010 of the Supervisory Board of 23 July 2010 on evaluating information provided in response to the request for information filed by a shareholder.
39. Resolution No. 39/2010 of the Supervisory Board of 23 July 2010 on excusing the absence of the Vice-President of the Supervisory Board of the Bank at a meeting of the Board.
40. Resolution No. 40/2010 of the Supervisory Board of 23 July 2010 on the payment of an annual award for 2009 to members of the Management Board of the Bank.
41. Resolution No. 41/2010 of the Supervisory Board of 23 July 2010 on commencing the recruitment procedure for the position of the Vice-President of the Management Board of PKO Bank Polski SA in charge of IT and services.
42. Resolution No. 42/2010 of the Supervisory Board of 18 August 2010 on granting consent to the *Binding Offer* for the acquisition of shares of an entity mentioned in the resolution from the Group mentioned in the resolution.
43. Resolution No. 43/2010 of the Supervisory Board of 18 August 2010 on making a donation to the Foundation mentioned in the resolution.
44. Resolution No. 44/2010 of the Supervisory Board of 1 September 2010 on detailed recruitment procedure to be applied with regard to the position the position of the Vice-President of the Management Board of PKO BP in charge of IT and services.
45. Resolution No. 45/2010 of the Supervisory Board of 1 September 2010 on selecting the candidate for the position of Vice-President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna in charge of IT and services.
46. Resolution No. 46/2010 of the Supervisory Board of 1 September 2010 on terminating the recruitment procedure for the position of the Vice-President of the Management Board of PKO BP SA in charge of IT and services.
47. Resolution No. 47/2010 of the Supervisory Board of 1 September 2010 on appointing the Vice-President of the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

48. Resolution No. 48/2010 of the Supervisory Board of 3 September 2010 on granting consent to change the conditions for the *Binding Offer* for the acquisition of shares of an entity mentioned in the resolution from the Group mentioned in the resolution.
49. Resolution No. 49/2010 of the Supervisory Board of 9 September 2010 on making a donation to the Committee mentioned in the resolution.
50. Resolution No. 50/2010 of the Supervisory Board of 20 September 2010 on approving the rules for investing on own account in financial instruments by members of the Supervisory Board as persons related to Brokerage House of PKO BP SA and by PKO BP SA.
51. Resolution No. 51/2010 of the Supervisory Board of 6 October 2010 on approving the rules for operational risk management in Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
52. Resolution No. 52/2010 of the Supervisory Board of 6 October 2010 on approving change in the rules for capital adequacy management and the Bank's equity management in PKO BP SA.
53. Resolution No. 53/2010 of the Supervisory Board of 6 October 2010 on granting consent to the Brokerage House of PKO Bank Polski to act in the capacity of Stabilization Manager in connection with the first public offering for shares of an entity mentioned in the resolution.
54. Resolution No. 54/2010 of the Supervisory Board of 6 October 2010 on granting consent to set a guarantee limit for granting a guarantee to repay the debt of an entity mentioned in the resolution under selected loan agreements.
55. Resolution No. 55/2010 of the Supervisory Board of 6 October 2010 on granting consent to set a client competence limit for an entity mentioned in the resolution, and to the Bank taking actions towards this entity, as a result of which the total of the receivables and off-balance sheet obligations would exceed five per cent of the Bank's equity.
56. Resolution No. 56/2010 of the Supervisory Board of 6 October 2010 on excusing the absence of a member of the Supervisory Board of the Bank at a meeting of the Board.
57. Resolution No. 57/2010 of the Supervisory Board of 3 November 2010 on excusing the absence of a member of the Supervisory Board of the Bank at a meeting of the Board.
58. Resolution No. 58/2010 of the Supervisory Board of 16 December 2010 on approving the financial plan of PKO Bank Polski for the year 2011, including the capital plan of PKO Bank Polski SA for the year 2011.

59. Resolution No. 59/2010 of the Supervisory Board of 16 December 2011 on the procedure of selecting the entity authorised to audit financial statements for the years 2011-2013.
60. Resolution No. 60/2010 of the Supervisory Board of 16 December 2010 on approving the Organizational Regulations of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
61. Resolution No. 61/2010 of the Supervisory Board of 16 December 2010 on approving the Bank's agreement on medical services for the Bank employees.
62. Resolution No. 62/2010 of the Supervisory Board of 16 December 2010 on the Regulations of the Audit Committee of the Supervisory Board.

## **Report on the Activities of the Audit Committee of the Supervisory Board in 2010**

### **1. Legal Grounds:**

- The Audit Committee of the Supervisory Board, hereinafter referred to as the "Committee", was created under the Resolution No. 44/2006 of the Supervisory Board of 30 November 2006.
- The report on the activities of the Committee was prepared pursuant to § 3. 3 of the Committee's Regulations, attached to the Resolution No. 62/2010 of the Supervisory Board of 16 December 2010 on the Regulations of the Audit Committee of the Supervisory Board.

### **2. Composition of the Committee in 2010:**

Mirosław Czekaj **Chairman of the Committee**  
Member of the Supervisory Board

Błażej Lepczyński **Deputy Chairman of the Committee**  
Member of the Supervisory Board

Jan Bossak **Member of the Committee**  
Member of the Supervisory Board

### **3. Number of the Committee's Meetings in 2010:**

In 2010, as part of its regulatory duties, the Committee held 10 meetings (21 January 2010, 19 February 2010, 10 March 2010, 21 April 2010, 12 May 2010, 16 June 2010, 18 August 2010, 6 October 2010, 3 November 2010, and 8 December 2010).

The Committee worked on the basis of the 2010 Work Plan of the Audit Committee of the Supervisory Board.

### **4. Works of the Committee:**

In 2010, the work of the Committee concerned mainly the following issues:

#### **4.1. Accounting and reporting, including:**

- 1) examination of the interim and annual financial statements of PKO Bank Polski SA and the PKO Bank Polski SA Capital Group (standalone and consolidated), i.e. for 2009, for Q1 2010, for the first half of 2010 and for three quarters of 2010;
- 2) auditor's recommendation for the Management Board of the Bank based on examination of the financial statements for the year ended on 31 December 2009, and the level of implementation of the recommendation for the Management Board

of the Bank based on examination of the financial statements for the year ended on 31 December 2008;

- 3) examination of new external regulations influencing financial accounting and reporting of the Bank;
- 4) tax optimization methods used in the Bank;
- 5) results of audits conducted by the external auditor in companies of the Bank's Capital Group;
- 6) distribution of the profit earned by PKO Bank Polski SA in 2009

#### 4.2. Internal audit activities of the Bank, including:

- 1) assessment of the Bank's internal audit quality and change of the Internal Audit Department organizational structure;
- 2) effectiveness of the internal control system and external audits conducted in the Bank in the second half of 2009 and in the first half of 2010;
- 3) accomplishment of the Bank's Internal Audit Plan for 2010 and draft Internal Audit Plan for 2011;
- 4) the Bank's control mechanisms in 2009;
- 5) irregularities within existing procedures and system errors occurring in the Bank;

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

- 1) evaluation of adequacy and effectiveness of the risk management system in PKO Bank Polski SA, as well as proposed actions in this regard, specified in the external auditor's recommendations implementation schedule based on *Evaluation of Adequacy and Effectiveness of the Risk Management System of the Bank*;
- 2) mode of the risk management system monitoring in the Bank.

#### 4.4. Accomplishment of the post-inspection recommendations of the Financial Supervision Authority issued after a problem inspection conducted in the Bank in 2009.

#### 4.5. Regulations of the Audit Committee of the Supervisory Board.

#### 4.6. Rules for change and selection of the entity authorised to audit financial statements.

#### 4.7. Legal issues relevant for the Bank's activities.

#### 4.8. Work Plan of the Audit Committee of the Supervisory Board for the year 2011.

### 5. Description of the Committee's Work

#### *5.1. Accounting and Reporting*

##### **1) Examination of the Interim and Annual Financial Statements of PKO Bank Polski SA and the PKO Bank Polski SA Capital Group (Separate and Consolidated)**

During the examination of the interim and annual financial statements of the Bank (standalone and consolidated), the Committee mainly focused on:

- checking whether they were prepared correctly i.e. according to the International Financial Reporting Standards, and – in the scope not regulated by the above-mentioned Standards – according to the Accounting Act and implementing provisions to this Act;

- analysing the financial results of PKO Bank Polski and the PKO Bank Polski SA Capital Group in the individual periods, taking special account of:
  - changes in the Bank's equity and issue of the Bank's shares in 2009;
  - derivative hedging instruments and hedge accounting introduced in the first half of 2009;
  - significant changes in companies forming the Capital Group, including recapitalization of Kredobank SA and acquisition of PKO TFI SA shares.

The Committee conducted a comprehensive analysis of the results of the audit of the financial statements of the PKO Bank Polski SA for the year ended on 31 December 2009 and consolidated financial statements of the PKO Bank Polski SA Capital Group for the year ended on 31 December 2009.

As a result of the analysis and after examining the opinion of the auditor, in which the auditor stated no reservations, the Committee recommended to the Supervisory Board the approval of the above-mentioned statements.

## **2) Auditor's Recommendation for the Management Board of the Bank Based on Examination of the Financial Statements for the Year Ended on 31 December 2009, and the Level of Implementation of the Recommendation for the Management Board of the Bank Based on Examination of the Financial Statements for the Year Ended on 31 December 2008**

As part of the analysis of the recommendations for the Management Board of the Bank based on the audit of the financial statements of PKO Bank Polski SA for the year ended on 31 December 2009, the Committee discussed the most important, in the auditor's view, recommendations concerning:

- IT systems security;
- credit risk;
- asset valuation, including financial instruments, Kredobank and the Capital Group of the Bank.

Moreover, the Committee examined the information on the schedule for implementation of one of the auditor's recommendations based on the audit of the financial statements of the Bank for the year 2009, i.e. *Monitoring of IT systems user activities* and the level of implementation of individual recommendations for the year 2008.

### **3) Examination of New External Regulations Influencing Financial Accounting and Reporting of the Bank**

The Audit Committee examined changes introduced in the external regulations, including changes introduced in the International Financial Reporting Standards that directly affect the Bank, as well as changes negatively influencing the future results of the Bank due to costs of their implementation or introduction of new approach to reflect instruments in the Bank's balance sheet.

### **4) Tax Optimization Methods Used in the Bank**

The Audit Committee discussed in detail the initiatives concerning tax optimization developed by the Bank, as well as their financial effects.

### **5) Results of Audits Conducted by the External Auditor in Companies of the Bank's Capital Group**

The Audit Committee examined the presentation on the results of audit conducted in companies of the Bank's Capital Group by PriceWaterhouseCoopers Sp. z o.o., and discussed issues concerning:

- the level of non-performing loans in Kredobank SA and the level of credit portfolio coverage in comparison with standards present in this regard on the Ukrainian market;
- recommendations for the year 2008 implemented by Kredobank SA;
- assessment of the influence of external and internal factors, e.g. resulting from presence of irregularities in the management of Kredobank SA, on the results of the Bank.

### **6) Distribution of the Profit Earned by PKO Bank Polski SA in 2009**

The Audit Committee, after analyzing the motion of the Management Board on the distribution of the profit earned by PKO BP SA in 2009, recommended to the Supervisory Board giving a positive evaluation of the motion.

## ***5.2. Activities of the Internal Audit Services of the Bank***

In 2010, pursuant to the tasks defined in the Regulations of the Audit Committee of the Supervisory Board, the Committee put a special emphasis on a development of cooperation with the internal audit services of the Bank. Head of the Internal Audit Department participated in all meetings of the Committee. Also, the Committee held regular meetings with the Head of the Internal Audit Department without members of the Management Board of the Bank. The most important issues regarding this set of topics that were discussed during the Committee's meeting included:

### **1) Assessment of the Bank's Internal Audit Quality and Change of the Internal Audit Department Organizational Structure**

The Audit Committee conducted detailed analysis of the results of the Bank's internal audit evaluation presented by an external advisor, and then examined the evaluation of the internal audit conducted by the newly appointed Head of the Internal Audit Department.

Moreover, the Committee discussed mainly the directions of changes in the structure of the Internal Audit Department that should contribute to further improvement of effectiveness of the Bank's internal audit services performance.

## **2) Effectiveness of the Internal Control System and External Audits Conducted in the Bank in the Second Half of 2009 and in the First Half of 2010**

In 2010, the Audit Committee two times examined results of the audits conducted by the Internal Audit Department. On that basis, the Bank's internal control system and the audited risk management system received positive assessments.

## **3) Accomplishment of the Bank's Internal Audit Plan for 2010 and Draft Internal Audit Plan for 2011**

In 2010, the Audit Committee regularly discussed the level of accomplishment of the Bank's Internal Audit Plan.

Also, the Committee gave a positive opinion concerning the Internal Audit Plan for 2011.

## **4) The Bank's Control Mechanisms in 2009**

The Audit Committee analysed information on the revision of the Bank's control mechanisms in 2009.

## **5) Compliance with Procedures Existing in the Bank**

On the basis of the events presented, the Committee discussed the level of compliance with procedures existing in the Bank.

### **5.3..Monitoring of the Effectiveness of the Bank's *Risk Management System***

#### **1) Evaluation of Adequacy and Effectiveness of the Risk Management System in PKO Bank Polski SA, as well as Proposed Actions in this Regard Specified in the External Auditor's Recommendations Implementation Schedule Based on *Evaluation of Adequacy and Effectiveness of the Risk Management System of the Bank***

Pursuant to the Resolution of the Supervisory Board of the Bank, the Committee commissioned the evaluation of adequacy and effectiveness of the Bank's risk management system to the external advisor. After examining the results of the evaluation, the Committee requested the Management Board of the Bank to prepare the Recommendations Implementation Schedule. The Management Board of the Bank presented the Committee with draft measures aimed at implementing recommendations issued by the advisor.

## **2) Mode of the Risk Management System Monitoring in the Bank**

The Committee examined the mode of monitoring the effectiveness of the risk management system by the Committee, presented by the advisor, and discussed possible measures and instruments applied during assessment of individual risks.

The Committee analysed possibilities of improving the mode of monitoring and approved the template of the *Monthly Risk Monitoring Report. Report for the Audit Committee of the Supervisory Board* that described sets of measures and indicators proposed for conducting the assessment of main risks in the Bank.

The above-mentioned report is submitted to the Committee, starting from the report for June 2010, on a regular basis.

### ***5.4. Accomplishment of the Post-Inspection Recommendations of the Financial Supervision Authority Issued After a Problem Inspection Conducted in the Bank in 2009***

The Audit Committee (on a quarterly basis) assessed the level of implementation of the post-inspection recommendations of the Financial Supervision Authority.

### ***5.5. Regulations of the Audit Committee of the Supervisory Board***

In 2010, the Committee acted on the basis of the Regulations and its last amendment of 2 December 2009 that included changes introduced in the Act on Statutory Auditors and their Self-government, Entities Authorised to Audit Financial Statements and on Public Supervision of 7 May 2009. These changes resulted in adding to the scope of the Audit Committee activities the monitoring of effectiveness of the internal control system, internal audit system and risk management system.

Work on the final version of the Regulations was carried out at the same time in 2010. The Regulations were approved by the Supervisory Board on 16 December 2010.

The most important changes to the Regulations included clarifying and complementing tasks of the Audit Committee according to the laws and regulations in force in the scope of monitoring the effectiveness of the internal control system, internal audit system and risk management system, in particular with:

- evaluation of the Bank's activities related to introduction of the management system, including management of risk and internal control, as well as its adequacy and effectiveness;
- broadening of cooperation with the external auditor;
- introducing meetings (without participation of members of the Management Board of the Bank) with the managing director in charge of the Banking Risk Division and a person responsible for managing non-compliance risk in the Bank.

### ***5.6. Rules for Change and Selection of the Entity Authorised to Audit Financial Statements***

The Committee continued to work towards adjusting the Bank to the Good Practices of Companies Listed on the Warsaw Stock Exchange, as well as principles and mode of selection of statutory auditors in order to audit financial statements of companies involving State Treasury equity. As a result, the Committee recommended to the Supervisory Board the adoption of rules for selecting the entity authorised to audit financial statements.

On a later stage, the Committee adopted a schedule for selecting the entity authorised to audit financial statements for the years 2011–2013 and recommended to the Supervisory Board the adoption of a resolution on the procedure of selecting the entity authorised to audit financial statements for the years 2011–2013 that introduced criteria for selecting the entity authorised to audit financial statements for the years 2011–2013 and a method of assessment of offers, and defined the contents of a call for tender.

### ***5.7. Legal Issues Relevant for the Bank's Activities***

The Audit Committee discussed legal issues concerning, among others:

- ensuring compliance of the Bank's activities with generally applicable legal provisions;
- effects of new or amended legal provisions on the Bank's activities;
- cooperation with organizational units of the Bank's Head Office in the scope of audits conducted in the Bank by the supervision authorities.

### ***5.8. Work Plan of the Audit Committee of the Supervisory Board for the Year 2011***

The Committee adopted the 2011 Work Plan that included new scope of the Committee tasks defined in the Regulations of 16 December 2010, introducing, in particular, broadening of the scope for monitoring of effectiveness of the internal control system, internal audit system and risk management system in the Bank.

#### **6) The Committee's Work Effectiveness in 2010:**

Members of the Audit Committee of the Supervisory Board have the appropriate competences and experience, including in the area of current financial accounting and auditing developments. In 2010, all members of the Committee actively participated in meetings of the Committee and showed great interest in due performance of their tasks.

The Chairman of the Audit Committee fulfilled his obligations in a professional manner, competently chaired meetings and showed appropriate involvement not only during formal meetings.

Number and duration of meetings, as well as access to the resources, were sufficient in order to enable the Committee to carry out its responsibilities, and documents prepared for the Committee were concise, included relevant information and were prepared for meetings sufficiently in advance.

In 2010, the Committee was conducting its regulatory tasks, ensuring at the same time continuous improvement of its activities in this regard. Discussions held at the Committee's meetings were highly informative and concerned the subject matter.

Cooperation of the Committee with the Management Board of the Bank, the internal auditor, and other key persons in the Bank, as well as with the external auditor was successful, the Committee responded to unfavourable information in a constructive manner in order to ensure transparency and correctness of the future communication process.

#### **7) Summary:**

On the basis of the interim reports and evaluations received from the external advisors, the Committee regularly monitored the effectiveness of the internal control system, internal audit system and risk management system in the Bank.