

**Report of the Supervisory Board
of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
incorporating the outcomes of its assessments of: Financial statements of PKO Bank Polski SA
for the year ended 31 December 2013;
PKO Bank Polski SA Directors' Report for the year 2013; Motion of the Management Board on
distribution of net profit of PKO Bank Polski SA of the year 2013 and coverage of
unappropriated loss of previous years;
and Report on the activity of the Supervisory Board, being one of the company's governing
bodies, in the year 2013**

Pursuant to relevant regulations of the Commercial Companies Code, the Supervisory Board submits to the Annual General Meeting of PKO Bank Polski SA this report incorporating the outcomes of its assessments of:

- 1) Financial statements of PKO Bank Polski SA for the year ended 31 December 2013;
- 2) PKO Bank Polski SA Directors' Report for the year 2013;
- 3) Motion of the Management Board on distribution of net profit of PKO Bank Polski SA of the year 2013 and coverage of unappropriated loss of previous years; and

Report on the activity of the Supervisory Board, being one of the company's governing bodies, in the year 2013.

Evaluation of financial statements of PKO Bank Polski SA for the year ended 31 December 2013

The Supervisory Board has heard the opinion of the independent registered auditor authorised to examine financial statements of PKO Bank Polski SA for the year ended 31 December 2013. The auditor issued an unqualified opinion in respect of the aforementioned financial statements: did not find any need for material adjustments to be made while all adjustments identified in the audit had been included in the present financial statements. In the opinion of the auditor, financial statements of PKO Bank Polski SA for the year ended on 31 December 2013, in all material respects, are:

- a) a reliable and clear representation of the Bank's financial standing and assets as at 31 December 2013 and of the financial result for the financial year from 1 January to 31 December 2013, in compliance with the International Financial Reporting Standards, as approved by the European Union;
- b) compliant in their form and content with the legal provisions applicable to the Bank and the Articles of Association of the Bank;

- c) drafted on the basis of appropriately maintained accounting books, in compliance with the applicable accounting standards.

The Supervisory Board shares the opinions presented by the auditor.

In compliance with regulations of Art. 382 § 3 of the Commercial Companies Code, having considered and evaluated the Financial statements of PKO Bank Polski SA for the year ended 31 December 2013, and taken into account the positive recommendation of the Audit Committee of the Supervisory Board, and on the basis of the unqualified opinion issued by the auditor authorised to examine the Financial statements of PKO Bank Polski SA for the year ended 31 December 2013, the Supervisory Board gave a positive opinion on the said financial statements as having been drafted in compliance with the accounting books, documents and facts.

In compliance with Art. 4a of the Accounting Act, the Supervisory Board also provides assurances that all the components of the Financial statements of PKO Bank Polski SA for the year ended 31 December 2013 meet the requirements provided for in the aforementioned Act.

Evaluation of the PKO Bank Polski SA Directors' Report for the year 2013

In compliance with regulations of Art. 382 § 3 Commercial Companies Code, having considered and evaluated the PKO Bank Polski SA Directors' Report for the year 2013, the Supervisory Board gave a positive opinion on the PKO Bank Polski SA Directors' Report for the year 2013 as having been drafted in compliance with the accounting books, documents and facts.

In compliance with Art. 4a the Accounting Act the Supervisory Board also provides assurances that all the components of the PKO Bank Polski SA Directors' Report for the year 2013 meet the requirements provided for in the aforementioned Act.

Evaluation of the motion of the Management Board on distribution of net profit of PKO Bank Polski S.A. of the year 2013 and coverage of unappropriated loss of previous years

The Supervisory Board approved the motion of the Management Board on distribution of net profit of PKO Bank Polski SA of the year 2013 and coverage of unappropriated loss of previous years, and namely proposes that:

- unappropriated loss of previous years in an amount of PLN 271 242k be covered out of net profit of the year 2013;
- net profit of PKO Bank Polski SA of the period of 1 January 2013 to 31 December 2013 in an amount of PLN 3 233 762k be appropriated in the following way:

- | | |
|--|-----------------|
| 1) coverage of unappropriated loss of previous years | PLN 271 242k; |
| 2) dividend to shareholders in an amount of | PLN 937 500k; |
| 3) reserve capital in an amount of | PLN 2 020 000k; |
| 4) other reserves in an amount of | PLN 5 020k. |

Evaluation of the company's condition, including assessment of its internal control system and risk management system covering the risks of significance to the company

Evaluation of the company's condition

The financial results PKO Bank Polski SA achieved in the year 2013 were high, while the loan and deposit volumes of PKO Bank Polski SA were one of the highest among the institutions of the Polish banking sector.

In the year 2013, PKO Bank Polski SA aimed to develop its business on the basis of a stable funding structure. It achieved that objective as it fostered operational efficiency, including effective cost control and optimisation of the cost of risk. Structure of the Bank's balance sheet on the liabilities side exhibits stable funding sources in the form of deposits and debt securities issued in the domestic and the international market. On the assets side, structure of the balance sheet includes a high proportion of interest bearing assets, which provide desirable return levels. The year 2013 was the first year of implementation of the 'PKO Bank Polski. The Best Every Day' Strategy, with assumed targets aimed at expansion of the scale of operations and strengthening of the position of leadership in all the key market segments.

Net profit PKO Bank Polski SA generated in the year 2013 reached PLN 3 233.8 million, with high levels of profitability: as at the year end of 2013, ROE reached 13,3%.

The achieved net profit was determined by:

- 1) net income on business activity, which reached PLN 10 268.2 million (declined by 8.0% y/y), primarily as a result of:
 - o decline in net interest income by 17.5% y/y, the consequence of a strong decline in market interest rates;
 - o increase in net other operating income (+44.1x y/y), the effect of sale of some assets, mainly shares in Centrum Elektronicznych Usług Płatniczych eService Sp. z o. o.;
- 2) stable cost growth rate resulting from maintenance of cost discipline, which translated into high cost management efficiency; C/I stood at 41.1% and was substantially better than the average ratio for the Polish banking sector, which stood at 53.1%,
- 3) net impairment allowance, which was PLN 371.0 million better than that registered in 2012, and was primarily a result of a decline in value of impairment allowances for consumer and

housing loans, driven by the improved quality of the newly granted loans compared to that of the older generation loans. At the same time, in order to reflect the current recoverable value of some companies, in the year 2013, the Bank created impairment allowances for shares in its KREDOBANK S.A. and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o. o. subsidiaries. The impairment allowance for the shares of KREDOBANK S.A. was formed in the context of adverse developments which had occurred in the Ukrainian market in the year 2013.

In addition, the net profit generated in the year was further supported through the safe and efficient balance sheet structure, specifically:

- 1) As at the year end of 2013, balance sheet total reached PLN 196.3 billion, which represented 13.9%¹ of assets of the entire Polish banking sector. Well established through stable financial condition, the trust of customers and clients translated into growth in the amounts due to clients by PLN 5.2 billion; to reach PLN 160.0 billion. Funds acquired from financial institutions constituted a funding source for the operations of PKO Bank Polski SA that was supplementary to the deposit base.
- 2) As at the year end of 2013, the loans to deposits (amounts due to customers) ratio stood at 92,1%, whereas the loans to stable funding sources ratio² reached 89.9%.

Total equity increased by o 3.0% to PLN 25.1 billion, as at the year end of 2013. This allowed the Bank to achieved capital adequacy ratio of 13.38%, and to thus provide for operational security. The safe level of capital adequacy was retained at payout of dividend from net profit of the year 2012 at the 61.12% payout ratio and at the increase of the loan portfolio.

Evaluation of the internal control system

PKO Bank Polski SA possesses an internal control system forming part of the Bank management system. The purpose of the internal control system is to support the decision making processes which contribute 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 regulations of law and the Bank's internal regulations. The internal control system enables the Bank to identify risks connected with every operation, transaction, product, service

¹ Source: KNF data

² Stable funding sources include amounts due to customers (including bond issue proceeds) and external financing in the form of: subordinated debt (liabilities), debt securities in issue, and amounts due to financial institutions.

and process, as well as the risks arising from the organisational structure of the Bank and the PKO Bank Polski Group.

The internal control system of the Bank is comprised of:

- 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 universally applicable regulations of law, 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 execute respective processes within the framework of their tasks and responsibilities,
- examination of the compliance of the Bank's activities and of the internal regulations drafted in the Bank with the universally applicable regulations of law and the Bank's internal regulations, and of performance by the Bank's employees of the tasks assigned to them in compliance with those regulations. The development of the system of management of the risk of non-compliance and identification of that risk in the Bank, in collaboration with the upper and lower tier organisational units of the Head Office which draft internal regulations and supervise processes, comprise the responsibilities that fall within the mandate of the Compliance Department;
- internal audit being an independent and objective control and advisory activity, which involves systematic and organised evaluation of the significant processes and provides direction to actions aimed at improving the quality and the operational efficiency of the Bank.

In the year 2013, the Supervisory Board analysed and acknowledged the semi-annual information of the Internal Audit Department on efficiency of the internal control system.

Also, on 27 February 2013, the Supervisory Board approved 'The operational principles of the internal control system in PKO Bank Polski SA' by Resolution No. 10/2013.

Evaluation of of the risk management system covering the risks of significance to the company

Supervision of the risk management process falls within the mandate of the Supervisory Board, which is regularly informed on the risk profile of the Bank and the PKO Bank Polski Group, and of the key risk management related actions. In the opinion of the Supervisory Board, the risk management system of PKO Bank Polski SA covers all the categories of risk of significance to the Bank, while their identification, measurement, evaluation, monitoring and reporting processes, and the related management actions utilise the instruments, methods and techniques relevant to the respective types of risk.

Risk management is exercised in all the Bank's organisational units. Relevant committees support the Management Board and the Supervisory Board in their tasks of 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 the universally applicable regulations of law;
- the second level involves: 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; and
- the third level involves internal audit, which performs independent audits of the key components of risk management and of the control action built into the Bank's operations.

The Bank has an integrated risk management structure, which ensures that all the risks that can impact the Bank's operations in a significant way are identified, measured, monitored and controlled. In the assessment of the Supervisory Board, the structure is consistent with the size of the Bank and the profile of its risk, and takes into account the economic environment and the possibility of occurrence of adverse events. The Bank has been optimising the risk management structure on an ongoing basis; aiming to adjust it to the evolving externalities and the risk profile specified defined in the Banking Risk Management Strategy in PKO Bank Polski SA.

In December 2013, a resolution of the Management Board PKO Bank Polski SA established a new department, with the task of, among other, ensuring a greater degree of standardisation and integration of the risk management methods used in the PKO Bank Polski Group.

The comprehensive structure of risk management is complemented by a consistent and transparent system of monitoring and reporting risk levels and any breach of the established limits. The reporting system encompasses all the key management levels. The Supervisory Board is provided with periodic reports assessing the risk levels by individual risk categories, including descriptions of effectiveness of the measures applied 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 value of risk the Bank is 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 2013, the Bank operated in a prudent manner, with adequate level of own capital funds, and in particular:

- 1) conducted prudent lending policy, in which the lending processes and procedures were compliant with the regulatory requirements and the market best practices. In June 2013, the Bank implemented a new methodology of estimation of the portfolio parameters to be used in the calculation of impairment allowances for loan exposures and provisions against off-balance sheet credit exposures. The methodology employs elements of portfolio parameter modelling in establishing capital requirements through the IRB method approach. It also enables tracking loan portfolio behaviour within more homogeneous groups and provides more accurate information on the achieved recoveries,
- 2) established that the operational risk related capital requirement value computed, as at 31 December 2013, in accordance with AMA (PLN 540 mn) remained almost exactly the same as a year earlier;
- 3) retained robust liquidity position. As at the year end of 2013, the ratio of loans to deposits (amounts due to customers) stood at 92.1%; deposit stickiness reached ca. 95.9% of all deposits in the Bank (excluding the interbank market). The Bank's deposit base, which represented 16.3% of the banking sector's deposit market, has held the leading position in the banking sector and constitutes stable financing source;
- 4) maintained the risk specific strategic tolerance limits as well as capital adequacy within the ranges established in the Bank;
- 5) possessed sufficient own funds. As at 31 December 2013, its capital adequacy ratio stood at 13.38%. At payout of dividend out of net profit of the year 2012 at 61.12%, the Bank retained capital adequacy at a safe level.

In the year 2013, the Bank took part in stress tests organised by the Polish Financial Supervision Authority (further referred to as „KNF”). The results of those tests confirmed high resilience of PKO Bank Polski S.A. to potential macroeconomic shocks.

Also, because of the significant changes in the banking sector regulatory environment, in the year 2013 the Bank worked intensely on adjusting its activities to the requirements arising from the regulations; specifically:

- 1) completed the process of adjustment to the updated requirements of the Recommendation M on the operational risk management in banks, which KNF amended in January 2013;
- 2) completed the process of adjustment to the updated requirements of the Recommendation T on the best practices in management of the retail loan exposure related risks, which KNF amended in February 2013;

- 3) partially implemented the recommendations of the updated Recommendation S on the best practices in management of mortgage-backed loan exposures, which KNF amended in June 2013; and it will continue the work aimed at adjusting completely to provisions of that recommendation in the year 2014;
- 4) continued to work on implementation of the updated Recommendation D on management of information technology and the telematic environment in banks, which KNF amended in January 2013.

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

- 1) maintenance of safe risk and capital adequacy levels in conjunction with the acquisition of Nordea Bank Polska S.A., Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A. and Nordea Finance Polska S.A.; and the operational launch of a mortgage bank;
- 2) prudential management of capital and maintenance of adequate capital buffer against a potentially significant deterioration in the macroeconomic conditions; in addition to capital growth, effective management of risk weighted assets will be important in this respect;
- 3) maintenance of stable deposits at a high level: under conditions of reduced market liquidity, these will ensure further development of lending and will be the basis for continued growth of interest income;
- 4) retention of the highly effective cost management, as measured by the C/I ratio; and
- 5) engagement of the Bank in implementation of the new requirements and supervision regulations (CRD IV / CRR Package).

**Report on the activity of the Supervisory Board, being one of the company's governing bodies,
in the year 2013**

- 1) Information on the term of the Supervisory Board; the subsequent year of operations during the term and the composition of the Supervisory Board; the functions performed within the Supervisory Board; and on any changes in the composition of the Supervisory Board during the financial year

Supervisory Board (composition as at 31 December 2013)

(joint three-year term commenced on 30 June 2011)

No.	Given name and surname	Function	Appointment / dismissal date
1.	Cezary Banasiński	Chairman of the Supervisory Board	appointed on 20 April 2009 until the end of the previous term of the Supervisory Board (commences on 20 May 2008) (Notary Deed / Repertory A – Nr 2959/2009, Resolution No. 7/2009) re-appointed on 30 June 2011 until the end of the current term of the Supervisory Board (Notary Deed / Repertory A-3529/2011, Resolution No. 29/2011) The Minister of the State Treasury designated C. Banasiński, a Member of the Supervisory Board, to the position of the Chairman of the Supervisory Board
2.	Tomasz Zganiacz	Deputy Chairman of the Supervisory Board	appointed on 31 August 2009 until the end of the previous term of the Supervisory Board (Notary Deed / Repertory A – Nr 5855/2009, Resolution No. 8/2009) re-appointed on 30 June 2011 until the end of the current term of the Supervisory Board (Notary Deed / Repertory A-3529/2011, Resolution No. 30/2011) The Minister of the State Treasury designated T. Zganiacz, a Member of the Supervisory Board, to the position of the Deputy Chairman of the Supervisory Board
3.	Mirosław Czekaj	Secretary the Supervisory Board (since 30 June 2010)	appointed on 31 August 2009 until the end of the previous term of the Supervisory Board (Notary Deed / Repertory A – Nr 5855/2009, Resolution No. 5/2009) re-appointed on 30 June 2011 until the end of the current term of the Supervisory Board (Notary 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 current term of the Supervisory Board (Notary 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 the Supervisory Board (Notary Deed / Repertory A – Nr 4239/2010, Resolution No. 37/2010) re-appointed on 30 June 2011 until the end of the current term of the Supervisory Board (Notary Deed / Repertory A-3529/2011, Resolution No. 38/2011)
6.	Marek Mroczkowski	Member of the Supervisory Board	appointed on 30 June 2011 until the end of the current term of the Supervisory Board (Notary Deed / Repertory A-3529/2011, Resolution No. 34/2011)
7.	Ryszard Wierzba	Member of the Supervisory Board	appointed on 30 June 2011 until the end of the current term of the Supervisory Board (Notary Deed / Repertory A-3529/2011, Resolution No. 33/2011)
8.	Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	appointed on 20 June 2013 until the end of the current term of the Supervisory Board (Notary Deed / Repertory A-2926/2013, Resolution No. 27/2013)

Changes in the composition of the Supervisory Board in the year 2013

On 20 June 2013, the Annual General Meeting of PKO Bank Polski SA adopted the following resolutions:

- 1) No. 26/2013; by which it recalled, as of 20 June 2013, Mr. Jan Bossak, a Member of the Supervisory Board, from membership in the Supervisory Board of PKO Bank Polski S.A. (appointed on 26 February 2008 for the term ended on 19 May 2008 and the entire previous term of the Supervisory Board (Notary Deed / Repertory A – No. 1362/2008, Resolution No. 4/1/2008), and re-appointed on 30 June 2011 until the end of the current term of the Supervisory Board (Notary Deed / Repertory A-3529/2011, Resolution No. 32/2011)),
- 2) No. 27/2013; by which it appointed Ms. Elżbieta Mączyńska - Ziemacka to membership in the Supervisory Board of PKO Bank Polski S.A. until the end of the current term of the Supervisory Board (Notary Deed / Repertory A – No. 2926/2013).

On 21 November 2013, Mr. Krzysztof Kilian, a Member of the Supervisory Board of PKO Bank Polski SA, appointed on 30 June 2011 until the end of the current term of the Supervisory Board (Notary Deed / Repertory A-3529/2011, Resolution No. 35/2011) submitted his resignation from membership in the Supervisory Board of PKO Bank Polski SA effective from 21 November 2013.

- 2) Information on the number and frequency of the Supervisory Board sessions and the number of resolutions it adopted

In the year 2013, the Supervisory Board held a total of 12 minuted meetings on the following dates: 23 January, 27 February, 27 March, 17 April, 15 May, 29 May, 20 June, 28 August, 4 October, 13 November, 11 December and 18 December.

In the year 2013, the Supervisory Board adopted 39 resolutions.

- 3) Information on meeting attendance of the Supervisory Board members

All the absences of the Supervisory Board members at the meetings held in the year 2013 were justified through Supervisory Board resolutions carrying the following ordinal numbers: 1/2013, 18/2013, 22/2013, 23/2013, 25/2013, 28/2013 and 30/2013; these pertained to absences of five Supervisory Board members at five meetings.

4) Significant issues dealt with by the Supervisory Board

In the year 2013, the Supervisory Board, among others, dealt with the following matters:

- 1) Completion of the Leader Strategy and the market assumptions and aspirations of the Bank in the context of the draft PKO Bank Polski SA Strategy - 'PKO Bank Polski. The Best Every Day';
- 2) Draft documents: PKO Bank Polski S.A. Strategy - 'PKO Bank Polski. The Best Every Day' and The Strategic Plan of the Bank. As a result of this work, the Supervisory Board approved the PKO Bank Polski SA Strategy - 'PKO Bank Polski. The Best Every Day' and adopted The Strategic Plan of PKO Bank Polski SA for the years 2013-2015;
- 3) Acquisition of selected assets of the Nordea Group, including the shares in Nordea Bank Polska S.A.;
- 4) Progress in integration of selected Nordea Group assets in Poland (at every Supervisory Board meeting);
- 5) Approval of the Financial Plan of PKO Bank Polski SA for the year 2013, including the Capital Plan of PKO Bank Polski SA for the year 2013 and the preliminary draft of the Financial Plan of PKO Bank Polski SA for the year 2014, including the Capital Plan for the year 2014;
- 6) Macroeconomic and banking sector forecasts for the year 2014;
- 7) Issuance of PKO Bank Polski SA in the domestic and international market (Bank's own issues);
- 8) Expenditure and cost limits for implementation of projects and investments approved for the year 2013;
- 9) Approval of the Banking Risk Management Strategy in PKO Bank Polski SA and changes to that Strategy;
- 10) Approval of the Rules of Management of Capital Adequacy and Capital Funds in PKO Bank Polski SA;
- 11) Approval of the Rules of Operational Risk Management in PKO Bank Polski SA;
- 12) Approval of the Rules of Disclosure Policy of PKO Bank Polski SA on Capital Adequacy and Other Information Subject to Disclosure;
- 13) Approval of the Rules of Operation of the Internal Control System in PKO Bank Polski SA;
- 14) Investment policy vis-a-vis the PKO Bank Polski Group companies, jointly controlled and associated companies for the years 2013 - 2015;
- 15) Review of the results of QUALIA company; the approach strategy toward that company; and of the information on the status of the M1 project (which related to QUALIA);

- 16) PKO Leasing S.A. – Information on the results and the financial condition of the company of the initial 10 months of 2013 and the forecast of achievement of the plan for the year 2013;
- 17) Information on the sale of the Kolej Gondolowa Jaworzyna Krynicka S.A. company;
- 18) KREDOBANK S.A., including:
 - Condition of KREDOBANK S.A. in 2012;
 - Ongoing monitoring of the condition of KREDOBANK S.A. and of implementation of its development strategy;
 - Approval of provision of financing to Finansowa Kompania 'Idea Kapitał' Spółka z o. o. for acquisition of a loan portfolio from Kredobank S.A. and for recapitalisation of Kredobank S.A. through a financial grant; and acquisition by PKO Bank Polski S.A. of shares in the Finansowa Kompania 'Idea Kapitał' Sp. z o.o. company from Kredobank S.A.;
- 19) Increasing the Bank's capital exposure in Bank Pocztowym S.A.;
- 20) New Corporate Sales Management Model in PKO Bank Polski SA;
- 21) New Bancassurance Model in PKO Bank Polski SA;
- 22) Strategic alliance in acquiring and processing;
- 23) Progress of the project of organisation of a mortgage bank in PKO Bank Polski SA;
- 24) Rehabilitation of the 'Rotunda' building ('Rotunda' 2013 Project);
- 25) Method of fulfilling the requirements of the amended Recommendation M in respect of recommendation 2.2 on verification of the qualifications of the Members of the Management Board in the field of operational risk management;
- 26) Assessment of achievement of the MbO objectives and approval of the variable components of the remuneration of the Members of the Management Board in respect of the year 2012;
- 27) Approval of the MbO objectives for the year 2013 for the Members of the Management Board;
- 28) Changes in the principles of remuneration of the Members of the Management Board of PKO Bank Polski SA;
- 29) Approval of the non-deferred variable remuneration in respect of 2012 paid out to the Members of the Management Board in the year 2014;
- 30) Changes in the policy rules for the variable components of remuneration of the persons holding executive positions in the Bank;
- 31) Changes in incentives system in PKO Bank Polski SA – implementation of the Employee Pension Scheme;
- 32) Evaluation of the internal banking systems;

- 33) Migration of the Inteligo system from the Profile to the Alnova platform;
- 34) Annual report: Reputational Risk in PKO Bank Polski SA;
- 35) Report: Capital Adequacy and Other Information Subject to Disclosure (Pillar III) in the PKO Bank Polski Group, as at 31 December 2012;
- 36) Service quality and customer satisfaction in retail banking of PKO Bank Polski SA;
- 37) Information on the activity of selected Regional Retail and Corporate Branches of PKO Bank Polski SA;
- 38) Changes in the Rules and Regulations of the Audit Committee of the Supervisory Board and changes in the composition of the Remuneration Committee and the Audit Committee of the Supervisory Board.

Topics the Supervisory Board discussed on regular basis:

- On quarterly basis:
 - Report on Implementation of the Strategy of PKO Bank Polski SA.;
 - Information on the financial result of PKO Bank Polski S.A. and the results of PKO Bank Polski S.A. against the peer group banks;
 - report: Credit Risk in PKO Bank Polski SA;
 - report: Capital Adequacy in PKO Bank Polski SA;
 - report: Operational Risk in PKO Bank Polski SA;
 - report: Financial Risk in PKO Bank Polski SA;
 - report: Non-compliance Risk in PKO Bank Polski SA;
 - Information on the operations of the Restructuring and Recovery Division;
- On semi-annual basis: Information of the Internal Audit Department on effectiveness of the internal control system.

5) Completed inspections

The Supervisory Board did not request the performance of any inspection in the year 2013.

- 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

A qualification procedure led the Supervisory Board to appoint, as at 26 September 2012, Mr. Piotr Mazur to the position of Vice President of the Management Board of PKO Bank Polski SA, with responsibility for risk and collection issues to the joint term of the Management Board of PKO Bank Polski S.A. started on 30 June 2011; the appointment was to come into effectiveness as of 1 January 2013, conditional on KNF granting its permit by the same date, at the latest, and in the event of KNF not granting its permit by 1 January 2013, as of the date of granting of that permit.

KNF endorsed appointment of Mr. Piotr Mazur as a Member of the Management Board of PKO Bank Polski SA on 8 January 2013.

In the year 2013, the Supervisory Board did not adopt any decision suspending any Management Board member in performance of their functions, and 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 Annual General Meeting on the activity of the Supervisory Board

By Resolution No, 44/2006 of the Annual General Meeting of 18 April 2006, the Supervisory Board was made responsible for overseeing the disposal by Bank of the training and recreation centres listed in the same resolution and for presentation to the General Meeting of a report on that process, together with assessment of its correctness. The information would be presented directly to the General Meeting of PKO Bank Polski SA..

8) Other information on the work of the Supervisory Board

In the year 2013, the Supervisory Board committees operating in the Bank included: the Audit Committee and the Remuneration Committee. The annual reports on the activity of the aforementioned committees constitute respectively the appendices 1 and 2 to this Report.

Chairman of the Supervisory Board

Cezary Banasiński

Warsaw, 14 May 2014

Report on the activity of the Audit Committee of the Supervisory Board in the year 2013

1. Legal basis:

- The Audit Committee of the Supervisory Board, further referred to as the "Audit Committee", was established by Resolution of the Supervisory Board No. 44/2006 of 30 November 2006 (as amended);
- The report on the activity of the Audit Committee was prepared pursuant to § 3. 3 of the Audit Committee Rules and Regulations, which constitutes an appendix to the Resolution of the Supervisory Board No. 62/2010 of 16 December 2010 on the rules and regulations of the Audit Committee of the Supervisory Board (as amended).

2. Composition of the Audit Committee in the year 2013

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<u>(from 19 December 2012 to 20 June 2013)</u>	
Given name and surname	Function
Mirosław Czekaj	Chairman of the Audit Committee Secretary of the Supervisory Board
Jan Bossak	Deputy Chairman of the Audit Committee Member of the Supervisory Board
Piotr Marczak	Member of the Audit Committee Member of the Supervisory Board
Ryszard Wierzbą	Member of the Audit Committee Member of the Supervisory Board

<u>(from 20 June 2013 to 28 August 2013)</u>	
Given name and surname	Function
Mirosław Czekaj	Chairman of the Audit Committee Secretary of the Supervisory Board
Piotr Marczak	Member of the Audit Committee Member of the Supervisory Board
Ryszard Wierzbą	Member of the Audit Committee Member of the Supervisory Board

<u>(from 28 August 2013 to 2 October 2013)</u>	
Given name and surname	Function
Mirosław Czekaj	Chairman of the Audit Committee Secretary 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
Ryszard Wierzba	Member of the Audit Committee Member of the Supervisory Board
Tomasz Zganiacz	Member of the Audit Committee Member of the Supervisory Board

<u>(from 2 October 2013)</u>	
Given name and surname	Function
Mirosław Czekaj	Chairman of the Audit Committee Secretary of the Supervisory Board
Ryszard Wierzba	Deputy 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

3. Information on the sessions of the Audit Committee in the year 2013:

In the year 2013, as part of its statutory duties, the Audit Committee held 11 sessions (23 January, 27 February, 27 March, 17 April, 8 May, 5 June, 28 August, 4 September, 2 October, 13 November and 4 December). The number of the Audit Committee members taking part in the respective Audit Committee sessions in the year 2013 enabled effectual conduct of all of the year 2013 Audit Committee proceedings.

The Director of the Internal Audit Department was invited to and participated in the Audit Committee sessions.

In the year 2013 the Audit Committee held its sessions (with no Management Board members in attendance) with the Directors of: the Banking Risk Division, the Internal Audit Department, the Legal Department and the Compliance Department, and the external auditor.

The Audit Committee worked on the basis of the Audit Committee Work Plan for the year 2013.

4. The subjects the Audit Committee covered in its work:

The key topics the Audit Committee covered in its work in the year 2013 included the following:

4.1 Accounting and reporting, including:

- 1) review of periodic and annual financial statements of PKO Bank Polski SA and PKO Bank Polski Group (stand-alone and consolidated), i.e. in respect of the year 2012, the 1st quarter of the year 2013, the first half of the year 2013 and the first three quarters of the year 2013;
- 2) review of the scale of implementation of the auditor's recommendations to the Management Board from the audit of the financial statements for the year ended on 31 December 2011; and of the recommendations from previous years still requiring implementation;
- 3) the recommendations issued by the auditor to the Management Board from the audit of the financial statements for the year ended on 31 December 2012;
- 4) review of new external regulations impacting the way in which the Bank performs financial accounting and reporting activities;
- 5) distribution of profit PKO Bank Polski SA generated in the year 2012 and of unappropriated profit of previous years.

4.2 Activities of the Bank's internal audit, including:

- 1) effectiveness of the Bank's system of internal control in the second half of the year 2012 and the first half of the year 2013;
- 2) implementation of the Bank's internal audits plan for the year 2013 and outcomes of the audits performed by the Internal Audit Department;
- 3) the draft internal audits plan for the year 2014 and the tri-annual internal audits plan for the years 2014-16;
- 4) review of the internal regulations pertaining to the operation of the internal audit function (assessment of adequacy of the resources and measures vis-à-vis the operational needs and efficiency),
- 5) monitoring the remuneration of the director and the staff of the Internal Audit Department;
- 6) review of performance of the internal audit function compared to its peer group,
- 7) the operational principles of the internal control system.

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

- 1) the banking risk management strategy,
- 2) analysis of the periodic banking risk reports, including: the credit risk, financial risk and the operational risk report;
- 3) ongoing monitoring of the risk management system;
- 4) assessment of management of capital adequacy and capital funds, and the rules of the disclosure policy on capital adequacy and other information subject to disclosure, as well as analysis of the periodic capital adequacy report,
- 5) assessment of operational risk management.

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

- 1) analysis of the periodic the non-compliance risk report,
- 2) the review of effectiveness of the compliance monitoring system and of regulatory compliance of the Bank and its staff.

4.5 Cooperation with the external auditor, including:

- 1) Monitoring of independence and objectivity of the statutory auditor and the entity authorised to audit financial statements of the Bank and PKO Bank Polski Group in respect of the years 2011–13 (of rotation of the key team members and of remuneration);
- 2) the yearly acknowledgement and representation on the independence of the external auditor and the information on remuneration of the auditor for audit and non-audit tasks;
- 3) the tasks comprising the process of selection of the entity authorised to audit financial statements in respect of the years 2014–16.

4.6 Implementation the recommendations issued by the Polish Financial Supervision Authority after the inspections conducted in the Bank in the years 2009 and 2011

4.7 The problem-specific inspection conducted in the Bank by the Office of the Polish Financial Supervision Authority between 18 March 2013 and 16 April 2013; and the supervisory examination and assessment in respect of the year 2012; and the discussion of the positions taken by the Bank in respect of the aforementioned inspection

4.8 Legal issues of significance from the standpoint of the Bank's operations

4.9 Assessment of the Bank's activities aimed at mitigation of risk through general non-life insurance coverage for the Bank and third party liability insurance coverage for the members of the Bank's governing bodies and its procurators

4.10 Review of the Audit Committee Rules and Regulations and preparation of the Audit Committee Work Plan for the year 2014

5. Discussion of the Audit Committee's work

5.1 Accounting and reporting

1) Review of periodic and annual financial statements of PKO Bank Polski SA and PKO Bank Polski Group (stand-alone and consolidated)

As part of its review of periodic and annual financial statements of the Bank (stand-alone and consolidated), the Audit Committee primarily focused on:

- 1) analysis of the financial results of PKO Bank Polski SA and PKO Bank Polski Group in respective periods, with particular consideration given to the contributing factors;
- 2) the outcomes of the audits of the financial statements of the Bank and PKO Bank Polski Group for the year 2012, and the first half of the year 2013; and on confirmation of the Bank having fulfilled all the formal and legal requirements in respect of the aforementioned financial statements, i.e. their compliance with the International Financial Reporting Standards, the International Accounting Standards, and in the aspects not regulated by the aforementioned standards, compliance with regulations of the Accounting Act, with application of the market's best practices.

Having reviewed the financial statements of PKO Bank Polski SA for the year ended 31 December 2012 and the consolidated financial statements of PKO Bank Polski Group for the year ended 31 December 2012; and having held a discussion on those, and having regard for an unqualified audit opinion issued by the auditor, the Audit Committee recommended positive opinions of the Supervisory Board to: the financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for the year ended 31 December 2012 and the consolidated financial statements of PKO Bank Polski Group for the year ended 31 December 2012.

2) Review of the scale of implementation of the auditor's recommendations to the Management Board from the audit of the financial statements for the year ended 31 December 2011; and of the recommendations from previous years still requiring implementation

In its analysis of the scale of implementation of the recommendations to the Management Board from the audits of the PKO Bank Polski financial statements for the aforementioned years, the Audit Committee focused on monitoring of the recommendations still in the process of implementation.

3) The recommendations issued by the auditor to the Management Board from the audit of the financial statements for the year ended on 31 December 2012

Having considered the recommendations from the audit of the financial statements for the year ended on 31 December 2012 issued by the auditor to the Management Board; and having performed their analysis, the Audit Committee accepted the aforementioned recommendations without any reservations.

4) Distribution of profit PKO Bank Polski S.A. generated in the year 2012 and of unappropriated profit of previous years

Having considered the rationale provided by the Management Board to the motion of the same Management Board on distribution of profit PKO Bank Polski S.A. generated in the year 2012 and of unappropriated profit of previous years; and having performed analysis of the motion, the Audit Committee recommended that the Supervisory Board issue a positive opinion on the aforementioned motion.

5) Review of new external regulations impacting the way in which the Bank performs financial accounting and reporting activities

The Audit Committee performed its analysis of the changes in reporting arising from IFRS, the Accounting Act and its implementing regulations, and of the other changes to reporting requirements introduced by the National Bank of Poland and the Polish Financial Supervision Authority (further referred to as "KNF"); and acquainted itself with the impact of those changes on financial statements of the Bank, including its profit and loss account.

6) Meetings with the external auditor

At its meeting with the external auditor (with no Management Board members in attendance), the Audit Committee discussed, among others, such issues as:

- the plan of the semi-annual review of financial statements in the year 2013;

- independence of the statutory auditor;
- the audit recommendations; status of implementation and new observations;
- the most recent regulatory changes applicable to the Bank's operations;

The Audit Committee met with the newly appointed President of PwC, Mr. A. Celiński.

5.2 Activities of the Bank's internal audit

1) Effectiveness of the internal control system in the second half of the year 2012 and the first half of the year 2013

In the year 2013, the Audit Committee acquainted itself with outcomes of the audits performed by the Internal Audit Department on two separate occasions; on which basis it was able to provide a positive assessment of effectiveness of the internal control system.

2) Implementation of the Bank's internal audits plan for the year 2013 and outcomes of the audits performed by the Internal Audit Department (further referred to as "DAW"). Working drafts: internal audits plan for the year 2014 and the tri-annual internal audits plan for the years 2014–16

The Audit Committee – on a quarterly basis – discussed the status of implementation of the Bank's internal audits plan for the year 2013 and the outcomes of the audits performed by DAW; and acquainted itself with the status of execution of the recommendations issued at completion of the internal audits performed in the years 2010–12.

Having reviewed the draft internal audits plan for PKO Bank Polski SA for the year 2014 and the tri-annual internal audits plan for PKO Bank Polski SA for the years 2014–16, the Audit Committee furnished positive opinions on the working drafts of the aforementioned plans; once these were supplemented with the topics submitted by Audit Committee.

3) Review of the internal regulations pertaining to the operation of the internal audit function

Having reviewed and discussed the document entitled *Overview of the internal regulations pertaining to the operation of the internal audit function (assessment of adequacy of the resources and measures vis-à-vis the operational needs and efficiency)*, the Audit Committee approved the lines of action proposed by the Internal Audit Department.

4) Monitoring the remuneration of the director and the staff of the Internal Audit Department

The Audit Committee conducted an analysis of the method followed in setting the remuneration of the Internal Audit Department staff and assessed the scale of expertise, competence

and experience of the Internal Audit Department staff on two occasions in the year 2013, when it familiarised itself with a report on the remuneration of the staff of the aforementioned Department in respect of the year 2012 and the first half of the year 2013.

5) Review of performance of the internal audit function compared to its peer group

The Audit Committee acquainted itself with the information on the *Review of performance of the internal audit function compared to its peer group*, including definition of key observations arising from that study in respect of the areas including: employment, training and certifications, planning and the conduct of audits, the audit process oversight and the role of the Audit Committee.

6) The operational principles of the internal control system in PKO Bank Polski SA

The Audit Committee provided its positive opinion to the Supervisory Board on Resolution No. 93/C/2013 of the Management Board of 19 February 2013 on The operational principles of the internal control system in PKO Bank Polski SA, which takes into account, among other things, the changes in the scope of the respective organisational units' responsibilities for the individual elements of the internal control system; and the changes linked with introduction of a catalogue of provisions on testing for compliance with the generally applicable regulations of law and the Bank's internal regulations, which result from establishment of the Compliance Department.

7) The Audit Committee held a meeting with the Director of Internal Audit Department (with no Management Board members in attendance) at which it acquainted itself with information on:

- the internal regulations that standardize the activity of the Internal Audit Department and the changes planned in those regulations;
- the human resources and training of the Internal Audit Department;
- structures of the Internal Audit Department teams;
- the IT tools which facilitate the work of Internal Audit Department and provide comprehensive support of the audit process, in all of its respective phases;
- remuneration of the auditors and the travel allowance funds budgeted for them;
- the need for the Internal Audit Department to undertake actions aimed at understanding the operational principles of audit in Nordea Bank Polska.

5.3 Monitoring the effectiveness of the Bank's risk management system

1) Ongoing monitoring of the risk management system

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

The Audit Committee monitored the level of risk on an ongoing basis; drawing on the information provided in the monthly and supplementary reports drafted for the needs of the Audit 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 (with no Management Board members in attendance) in the course of which it acquainted itself with information on: the level of available resources and funds guaranteeing delivery by the Banking Risk Division of the tasks assigned to it; the issues limiting effective implementation of those task by the aforementioned divisions; and the identified risks impacting the quality of the Bank's loan portfolio.

2) The banking risk management strategy

Having reviewed the entire scope of the introduced changes, the Audit Committee provided its positive opinion to the Supervisory Board on:

- 1) Resolution No. 171/A/2013 of the Management Board of 18 March 2013 on adoption of the Banking Risk Management Strategy in Powszechna Kasa Oszczędności Bank Polski S.A. which takes into account, among other things, implementation of the recommendations of KNF, provisions of the amended Recommendation M of KNF, as well as the introduction of new and updates of selected strategic tolerance limits;
- 2) Resolution No. 474/A/2013 of the Management Board of 9 July 2013 amending the Resolution on introduction of changes to the Banking Risk Management Strategy in PKO Bank Polski S.A., which takes into account the provisions of the Recommendation T of KNF;
- 3) Resolution No. 774/A/2013 of the Management Board of 28 November 2013 amending the Resolution on introduction of changes to the Banking Risk Management Strategy in PKO Bank Polski S.A., which takes into account implementation of the Recommendation S of KNF provisions amended in the year 2013.

3) Assessment of management of capital adequacy and capital funds in PKO Bank Polski SA

Having performed analysis, the Audit Committee provided its positive opinion to the Supervisory Board on:

- 1) Resolution No. 172/A/2013 of the Management Board of 18 March 2013 on the introduction of the Rules of Management of Capital Adequacy and Capital Funds in PKO Bank Polski S.A., which take into account, among other things: implementation of the recommendations of KNF on setting of capital adequacy limits above the strategic tolerance limits, and in the Bank itself and its economic landscape;
- 2) Resolution No. 476/E/2013 of the Management Board of 9 July 2013 on the introduction of the Rules of communication policy of PKO Bank Polski in respect of capital adequacy and other information subject to disclosure, which take into account the provisions of the Resolution KNF No. 259/2011 of 4 December 2011 and the provisions of the Recommendation M of KNF.

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

Having performed its analysis, the Audit Committee provided its positive opinion to the Supervisory Board on the Capital Adequacy Report and other disclosure requiring releases (Pillar III) of PKO Bank Polski Group, as at 31 December 2012

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

Having conducted analysis of the entire scope of the introduced changes, the Audit Committee provided its positive opinion to the Supervisory Board on the Resolution No. 173/E/2013 of the Management Board of 18 March 2013 on the Rules of operational risk management in PKO Bank Polski S.A., which takes into account, among others: adjustment of the Bank's internal regulations to the amended Recommendation M of KNF (amendment of January 2013), which pertains to operational risk management of the Bank; implementation of the recommendations of KNF and the KNF document entitled Guidelines – The process of supervisory validation of the statistical methods of calculation of capital requirement.

5.4 Review of effectiveness of the non-compliance risk management system

As part of the aforementioned actions, the Audit Committee:

- 1) Reviewed effectiveness of the compliance monitoring system and the actions of the Bank and its staff in respect of the regulations, which included the Audit Committee acquainting itself with information relating to: the organisation, the scope of tasks and

activities of the Compliance Department in the year 2012 (increased role and tasks of the Compliance Policy and Risk Assessment Team); significant changes in the legislative environment, including those relating to the Foreign Account Tax Compliance Act and to implementation of the Recommendation D of KNF; the Compliance Department identified changes in the regulator's approach to the matter of admissibility of charging certain fees and commissions and to the conditions for introduction of changes in interest rates or fees and commissions during the agreement validity period; the mounting impact of fulfilment of the new expectations of administrative bodies and courts on the Bank's business operations and financial results vis-à-vis the operational effectiveness of its compliance monitoring system;

- 2) Analysed, on a quarterly basis, the non-compliance risk reports, which were subsequently discussed by the Supervisory Board.

In addition, as part of implementation of that task, the Audit Committee – at a meetings with the Director of the Compliance Department (with no Management Board members in attendance) – acquainted itself with information on the level of available resources and funds guaranteeing delivery of the tasks by the Compliance Department, and with the issues limiting effective implementation of those task. The Audit Committee also secured information on specific expectations of KNF – being an outcome of an inspection in the Bank in the year 2013 – in respect of ensuring the development of the compliance functions.

5.5 Implementation of the recommendations issued by the Polish Financial Supervision Authority after its inspections conducted in the Bank in the years 2009 and 2011

The Audit Committee – on a quarterly basis – assessed the scale of implementation of KNF's post-inspection recommendations.

5.6 The problem-specific inspection conducted in the Bank by the Office of the Polish Financial Supervision Authority between 18 March 2013 and 16 April 2013; and the supervisory examination and assessment in respect of the year 2012; and the discussion of the positions taken by the Bank in respect of the aforementioned inspection

The Audit Committee acquainted itself with information: on the outcomes of the problem-specific inspection conducted by the Office of the Polish Financial Supervision Authority (further referred to as "UKNF") in the Bank between 18 March 2013 and 16 April 2013 (among others, addressed at the functioning of the Internal Audit Department and the Audit

Committee of the Supervisory Board), and on the supervisory examination and assessment in respect of the year 2012.

The Audit Committee discussed the Protocol from the aforementioned inspection the Bank received from UKNF, the response position paper of the Bank to the aforementioned Protocol, and KNF's response on the matter.

In addition, the Audit Committee acquainted itself with information: on the position of the Bank to the comments to the Timetable of works on implementation of the recommendations issued after the problem-specific inspection conducted by UKNF between 18 March and 16 April 2013 and on the issues involved in implementation of the recommendations issued by KNF after the aforementioned problem-specific inspection.

5.7 Cooperation with the external auditor

The Audit Committee acquainted itself with the following documents drafted by the auditor: "The annual confirmation for the Audit Committee of the Supervisory Board" and "The statement of the statutory auditor and the entity authorised to audit financial statements"; in which the auditor confirmed its independence from the Bank, enumerated the services it rendered in the year 2012 – in addition to the performed financial auditing tasks – to the Bank and expressed its conviction that it had applied adequate safeguards in order to retain its independence, and stated that no threat to independence had been identified.

The Audit Committee acquainted itself with information on the remuneration of the auditor on account of its audit and non-audit tasks.

The Audit Committee acquainted itself with the Management Board forwarded and KNF consulted proposal for modification of the actions that constitute the process of selection of the entity authorised to audit the Bank's financial statements in respect of the years 2014–16, involving extension of the period of collaboration with the Bank's current auditor, i.e. PwC, by one year, among others, in connection with the implementation in the year 2014 of the agreement on acquisition by the Bank of shares in certain Nordea group companies.

The Audit Committee did not file any critical comments to the directional proposal for modification of the actions involving selection of the auditor and extension of the period of collaboration with the Bank's current auditor by one year; but called upon the Management Board to draft a modified set of resolutions, i.e. the Resolution deferring the date of implementation of the amended rules of auditor selection, the Resolution on selection of the auditor for the audit of financial statements in respect of the year 2014, and the Resolution on approval of the Timetable of the process of selection of a new auditor for the subsequent years.

5.8 Legal issues of significance from the standpoint of the Bank's operations

At its meeting with the Director of the Legal Department (with no Management Board members in attendance), the Audit Committee obtained information, among others, on:

- the level of the available resources and funds guaranteeing delivery by the Legal Department of the tasks assigned to it; and
- the legal matters of importance to the Bank handled by the Legal Department.

5.9 Assessment of the Bank's activities aimed at mitigation of risk through general non-life insurance coverage for the Bank and third party liability insurance coverage for the members of the Bank's governing bodies and its procurators

The Audit Committee acquainted itself with the information on:

- 1) the solutions adopted in the Bank and PKO Bank Polski Group as regards: the responsibility for coordination of insurance related matters; the firms the Bank retains to provide insurance of its operational risks; the development of insurance coverage expenses in the year 2013; the scope of the Bank's insurance programme; and the experience of cooperation with insurers;
- 2) claims paid vis-à-vis the insurance premiums paid by the Bank over the past 5 years; and the claims ratio by respective insurance categories;
- 3) key actions of the Business Support Division in the field of insurance; and the approach the Bank adopted in respect of taxation of the Directors and Officers liability insurance policies.

5.10 Review of the Audit Committee Rules and Regulations

At its session of 23 January 2013, consequent to the review of the Audit Committee Rules and Regulations of December 2012, the Audit Committee recommended to the Supervisory Board certain changes to the Audit Committee Rules and Regulations involving introduction of the task of monitoring the levels of remuneration of the director and the staff of the Internal Audit Department.

At its session of 4 December 2013, the Audit Committee learned that the outcomes of the review of the Audit Committee Rules and Regulations performed by the Legal Department in the year 2013 confirm compliance of those Rules and Regulations with the generally applicable regulations of law and the Bank's internal regulations. The Audit Committee recommended to the Supervisory Board certain changes in the Audit Committee Rules and Regulations for the purpose of: adoption of detailed provisions on the appointment of the Vice-

President of the Audit Committee; and introduction of new solutions enabling the Audit Committee to adopt its resolutions outside of its meetings by correspondence and by means of instantaneous remote communication.

5.11 Audit Committee Work Plan for the year 2014

At its session of 4 December 2013, the Audit Committee adopted the Audit Committee Work Plan for the year 2014, with minor adjustments of dates of the sessions involving selection of the auditor.

6. Assessment of Audit Committee's work in the year 2013 in terms of its effectiveness

The Audit Committee assessed the effectiveness of its work in the year 2013 at a closed sessions of the Audit Committee held on 29 January 2014.

The Audit Committee members have the relevant experience and expertise, including the currently available body of knowledge on financial accounting and auditing. In the year 2013 all of the Audit Committee members took an active part in the meetings of the Audit Committee and demonstrated high degree of engagement in proper performance of their duties.

The number and duration of the sessions, as well as access to resources were sufficient to enable the Audit Committee to meet fully its obligations; while the documents prepared for the Audit Committee included important information and were made available in sufficient advance of the meetings.

The Audit Committee assessed the quality and adequacy of the information and documents received by it and its needs for additional reports and information. Based on its assessment, the Audit Committee concluded that it had received adequate volume of working papers; and indicated that, in consideration of the impending implementation of the Management Information System modification project, additional requests by the Audit Committee for reports or information would not be advisable, and that relevant rationalisation of the received information package would be in order. Also, the Audit Committee resolved to provide detail specific requests for the aforementioned information and reports on an ongoing basis in the course of implementation of the aforementioned project.

In the year 2013, the Audit Committee delivered its statutory tasks as it continued to improve its performance in this respect. The discussions held at the Audit Committee sessions were distinguished for their high professionalism.

The Audit Committee members expanded their knowledge, among others, through participation in workshops on:

- 1) hedge accounting, at which the following topics were discussed:
 - the concept of hedge accounting as per IAS 39 (categories of hedges, hedged items and hedging instruments, effectiveness of hedging, prospective and retrospective tests);
 - hedge accounting in PKO Bank Polski SA (the hedging strategies used by the Bank);
 - effects of application of hedge accounting (presentation of the impact of hedge accounting on the profit and loss account and other total income);
 - hedge accounting disclosures in the Bank's financial statements;
- 2) assessment of quality and adequacy of the information and documents received by the Audit Committee, at which the committee members were given a presentation on:
 - the assumptions and the summary description of the management information model optimal for the organisation, with consideration for the respective levels of the management;
 - examples of advanced management information solutions for supervisory boards and audit committees;
 - practical possibilities for appropriation by the Audit Committee of the management information solutions adopted by other banks; and of linking those to the "high level dashboards" used by the Audit Committee;and through discussion of the questions of setting priorities for the Audit Committee and of the next steps in the analysis of adequacy of the information received by the Audit Committee.

The collaboration between the Audit Committee and the Management Board, the internal auditor and other key persons in the Bank, as well as with the external auditor progressed in a positive manner; the Audit Committee responded to the information it received in a constructive fashion, with the aim of ensuring transparency and proper conduct of the communication process in the future. The Audit Committee deemed independence of the audit process satisfactory; based on its monitoring of that process and analysis of the information and materials received from the internal and external auditors.

7. Summary:

Relying on the received internal periodic reports and assessments by external advisers, the Audit Committee provided regular monitoring of: the processes of financial reporting and dis-

closure; effectiveness of the internal control system, the internal audit and the risk management system in the Bank; and of the financial auditing activities and the independence of the statutory auditor.

Report on the activity of the Remuneration Committee in the year 2013

1. Legal basis:

- 1) The Remuneration Committee was established by Resolution of the Supervisory Board No. 52/2011 of 2 November 2011 (as amended) for the purpose of assisting the Supervisory Board in the performance of its statutory duties and tasks under the provisions of the law, in particular with regard to: the general policy rules for the variable components of remuneration of the persons holding executive positions in the Bank; the principles of remuneration; and the remuneration of the Management Board members;
- 2) This report was prepared pursuant to sub-§ 3.3 of the Remuneration Committee Rules and Regulations.

2. Composition of the Remuneration Committee in 2013:

In the period of 2 November 2011 through 20 June 2013

Krzysztof Kilian - Committee Chairman

Tomasz Zganiacz - Committee Deputy Chairman

Cezary Banasiński - Committee Member

Jan Bossak - Committee Member

Marek Mroczkowski - Committee Member

In the period of 20 June 2013 through 28 August 2013

Krzysztof Kilian - Committee Chairman

Tomasz Zganiacz - Committee Deputy Chairman

Cezary Banasiński - Committee Member

Marek Mroczkowski - Committee Member

In the period of 28 August 2013 through 21 November 2013

Krzysztof Kilian - Committee Chairman

Tomasz Zganiacz - Committee Deputy Chairman

Cezary Banasiński - Committee Member

Elżbieta Mączyńska-Ziemacka - Committee Member

Marek Mroczkowski - Committee Member

In the period of 21 November 2013 through 11 December 2013

Tomasz Zganiacz – Committee Deputy Chairman

Cezary Banasiński – Committee Member

Elżbieta Mączyńska-Ziemacka – Committee Member

Marek Mroczkowski – Committee Member

In the period of 11 December 2013- 18 December 2013

Tomasz Zganiacz – Committee Chairman

Cezary Banasiński – Committee Member

Zofia Dzik – Committee Member

Elżbieta Mączyńska-Ziemacka – Committee Member

Marek Mroczkowski – Committee Member

In the period following 18 December 2013

Tomasz Zganiacz – Committee Chairman

Zofia Dzik – Wiceprzewodnicząca Committee

Cezary Banasiński – Committee Member

Elżbieta Mączyńska-Ziemacka – Committee Member

Marek Mroczkowski – Committee Member

3. Number of the sessions of the Remuneration Committee in 2013:

In the year 2013 the Remuneration Committee held seven sessions. These took place on: 23 January, 27 March, 17 April, 15 May, 4 October, 11 December and 18 December. The number of the Remuneration Committee members taking part in the Remuneration Committee sessions in the year 2013 enabled effectual conduct of all of the year 2013 Remuneration Committee proceedings.

4. The topics undertaken by the Remuneration Committee:

As a result of its meetings, the Remuneration Committee provided the Supervisory Board with positive opinions on:

- The base salary level for a Vice President of the Management Board of PKO Bank Polski SA;
- the variable components of remuneration in the year 2012 and the levels of remuneration of the key Management Board members, and the non-deferred variable remuneration in respect of 2012 paid out to the Management Board members on 2 January 2014;

- the variable components of remuneration in respect of the year 2012 of the Bank employees holding the positions included in the list of positions for persons being executive directors in the meaning of § 28 of Resolution No. 258/2011 of the Polish Financial Supervision Authority.

In addition, the Remuneration Committee:

- issued a recommendation to the Supervisory Board on adoption of MbO goals and targets for the year 2013 for the Management Board members; and
- recommended to the Supervisory Board the approval of: proposed changes to the remuneration policies for the members of the Management Board of PKO Bank Polski SA.; and proposed changes to the policies on the variable components of remuneration of the persons holding executive positions in the Bank.