



Bank Polski

Report of the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, comprising: the results of the assessment of the financial statements of PKO Bank Polski SA for the year ended 31 December 2015, PKO Bank Polski SA Directors' Report for the year 2015, Motion of the Management Board on distribution of profit of PKO Bank Polski SA for the year 2015 and of unappropriated profit of previous years and the Report on the activities of the Supervisory Board as a company body in 2015

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

1. financial statements of PKO Bank Polski SA for the year ended 31 December 2015,
2. PKO Bank Polski SA Directors' Report for the year 2015,
3. Management Board motion for the distribution of profit of PKO Bank Polski SA for the year 2015 and of unappropriated profit of previous years

and in accordance with the "Best Practices of WSE Listed Companies 2016":

1. Assessment of the company's standing including an assessment of internal control systems, risk management, compliance and internal audit functions,
2. Report on the activities of the Supervisory Board as a company body in 2015, including information on:
 - composition of the Board and its committees (committees compositions attached in the annexes hereto),
 - compliance by the members of the Supervisory Board with independence criteria,
 - the number of meetings of the Supervisory Board and its committees (the number of committee meetings attached in the annexes hereto)
 - self-assessment of the Supervisory Board work.

ASSESSMENT OF THE FINANCIAL STATEMENTS OF PKO BANK POLSKI SA FOR THE YEAR ENDED ON 31 DECEMBER 2015

The Supervisory Board heard the opinion of the statutory auditor on the audit of the financial statements of PKO Bank Polski SA for the year ended 31 December 2015. The statutory auditor issued an unqualified opinion on the financial statements referred to above. According to the statutory auditor, the financial statements of PKO Bank Polski SA for the year ended 31 December 2015, in all material respects:

- a) give a true and fair view of the economic and financial position of the Bank as at 31.12.2015, and of its financial performance and cashflow for the financial year from 1 January to 31 December 2015 in accordance with International Financial Reporting Standards, as adopted by the European Union,
- b) comply in their form and content with the laws applicable to the Bank and with the Bank's Articles of Association,
- c) have been prepared on the basis of properly maintained accounting records in accordance with the applicable accounting policies.

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

Under Article 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 2015, taking into account the positive recommendation of the Audit Committee of the Supervisory Board and on the basis of an unqualified opinion of the auditor on the audit of the financial statements of PKO Bank Polski SA for the year ended 31 December 2015, the Supervisory Board issued a positive opinion on the said financial statements as having been prepared in accordance with the accounting records, documents and facts.

Pursuant to Article 4a of the Accounting Act, the Supervisory Board shall also ensure that all the components of the financial statements of PKO Bank Polski SA for the year ended 31 December 2015 meet the requirements provided for in the aforementioned Act.

ASSESSMENT OF THE PKO BANK POLSKI SA DIRECTORS' REPORT FOR THE YEAR 2015

Under provisions of Article 382 § 3 of the Commercial Companies Code, having considered and assessed the PKO Bank Polski SA Directors' Report for the year 2015, the Supervisory Board pronounced a positive opinion on the PKO Bank Polski SA Directors' Report for the year 2015 as having been drafted in accordance with the accounting ledgers, records and documents and facts.

Under Article 4a of the Accounting Act, the Supervisory Board also provides assurance that all elements of the PKO Bank Polski SA Directors' Report for the year 2015 meet the requirements provided for in the aforementioned Act.

ASSESSMENT OF THE MANAGEMENT BOARD MOTION ON THE DISTRIBUTION OF PROFIT OF PKO BANK POLSKI SA FOR THE YEAR 2015 AND OF UNAPPROPRIATED PROFIT OF PREVIOUS YEARS

The Supervisory Board pronounces a positive opinion on the Management Board motion on the distribution of profit of PKO Bank Polski SA for the year 2015 and of unappropriated profit of previous years.

The recommended by the Management Board distribution of profit for 2015 is dependent upon potential factors influencing the capital needs.

Taking into account above, it is proposed to distribute the profit earned by the Bank in the period from 1 January 2015 till 31 December 2015 in the amount of PLN 2 571 142k and the unappropriated profit of previous years (in the amount of PLN 1 250 000k) of the total amount of PLN 3 821 142k in the following way:

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| 1) for the dividend for shareholders PLN | 1 250 000k, |
| 2) for the supplementary capital in the amount of PLN | 2 500 000k, |
| 3) for reserve capital in the amount of PLN | 71 142k. |

if the following conditions being fulfilled not later than on 8 December 2016 (inclusive):

- 1) The PKO Bank Polski SA shall not take over control of a bank or other entity of the financial sector by a direct or indirect acquisition of a block of shares and shall not acquire a right or incur an obligation to take over control in the manner specified above, and
- 2) There shall not occur any regulatory changes or changes of the supervisory recommendations affecting the requirements for the PKO Bank Polski SA own funds that – according to the level of capital adequacy ratios recognised in the financial statements of the PKO Bank Polski SA for Q3 2016 – would cause a lack of possibility to pay dividend in accordance with the regulatory requirements and supervisory recommendations (the fulfilment of both conditions is hereinafter jointly referred to as the "Fulfilment of the Dividend Conditions").

If there is no Fulfilment of the Dividend Conditions, the net profit of the Bank of the period from 1 January 2015 till 31 December 2015 in an amount of PLN 2 571 142k and unappropriated profit of previous years in an amount of PLN 1 250 000k, in the total amount of PLN 3 821 142k, to be distributed in the following way:

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| 1) for supplementary capital in the amount of PLN | 3 750 000k, |
| 2) for reserve capital in the amount of PLN | 71 142k. |

ASSESSMENT OF THE COMPANY'S POSITION, INCLUDING ASSESSMENT OF THE INTERNAL CONTROL SYSTEM COMPLIANCE AND INTERNAL AUDIT FUNCTION

ASSESSMENT OF THE COMPANY'S POSITION

The financial performance of the PKO Bank Polski Group in 2015 developed on a satisfactory level, and the volumes of loans and deposits of PKO Bank Polski SA were among the highest as compared to other banking sector institutions in Poland.

Over the year, the Bank engaged in active measures aimed at adapting the scope and objectives of business to the new regulatory, market and macro-economic environment. The environment featured fast changes which concerned such issues as: historically low level of interest rates, increased operating costs of banks (higher premiums on the Bank Guarantee Fund), a decline in net fees and commissions (among others the reduction in interchange fees) or the implementation of the recommendation of the Polish Financial Supervision Commission ("U", "P"). Notwithstanding these restrictions, the Bank has achieved a high level of strategic objectives implementation and managed credit risk with a view to reducing risk cost. To this purpose, the Bank in particular enhanced the quality of lending and highlighted sound liquidity and capital position as its priorities. It should be emphasised that the developments in the regulatory and market environment and one-off events, which occurred in 2015 due to the additional mandatory burden, confront the Bank with a special challenge to steadily increase operational efficiency across the organisation in order to improve the profitability ratios of capital and assets - ROE and ROA and reduce the cost-to income C/I ratio, and in particular, to demonstrate the adequate cost discipline in order to increase the Bank's value and generate sound returns for shareholders

In 2015 PKO Bank Polski SA completed its strategy for 2013-2015 "PKO Bank Polski Codziennie Najlepszy" [*"PKO Bank Polski the Best Every Day"*]. The list of key business events for the Bank's operations in 2015 included:

- Implementation of the Polish Payment Standard. PKO Bank Polski SA and a group of other banks: Alior Bank SA, Bank Millennium SA, Bank Zachodni WBK SA, mBank SA, ING Bank Śląski SA were pursuing activities relating to the development of a common standard for mobile payments. The solution, known as BLIK was offered to the customers of the above-mentioned banks in February 2015. BLIK mobile payment system was derived from the IKO application of PKO Bank Polski SA.
- Establishment of PKO Bank Hipoteczny SA. In 2015 Q2, PKO Bank Hipoteczny SA launched its operations. The Bank has been entrusted with a task is obtaining long-term financing through the issuance of mortgage

bonds. The implementation of the new model of mortgage banking is designed to provide a safe structure of financing of long-term mortgage loan portfolio.

- The merger with Nordea Bank Polska SA. April 2015 saw the completion of the integration process of PKO Bank Polski SA and Nordea Bank Polska SA. As part of the operational merger, the data of over 300 thousand customers of the acquired bank migrated to the PKO Bank Polski SA information systems, this being coupled with transaction systems and services unification. The integration of the acquired bank was the fastest conducted merger process of in Poland.
- International expansion. The process of launching a corporate branch in Germany came to an end. In December 2015, PKO Bank Polski Niederlassung Deutschland commenced operations as the first branch of the Bank opened abroad. The opening of a branch in Germany marks the first step in international expansion which focuses on the business activity of Polish companies abroad.

The net profit generated by the PKO Bank Polski SA Group in 2015 amounted to PLN 2 609.6m, which represents a drop of 19.8% or PLN 644.6m compared to the previous year. The achieved level of net profit reflected:

- 1) result on business activities of PKO Bank Polski SA Group, which reached the level of PLN 10 664,8 (- 4.3% y/y), mainly as a result of:
 - decline in net interest income by 6.6% y/y coupled with a further reduction in market interest rates and limiting the maximum interest rate on loans,
 - decrease in net fee and commission income (drop by 2.8% y/y) amidst the pressure of regulatory restrictions in respect of fees for payment services,
 - increase in exchange rate position (by 56.5 y/y),
- 2) increase in operating costs due to the growth in premiums and contributions to the Bank Guarantee Fund (mainly due to the increase in interest rates of BGF charges) and additional costs in respect of the establishment of the Borrowers Support Fund and contribution to BGF of disbursement from the guaranteed funds from deposits collected at Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie¹. This translated into a decline in the effectiveness of cost management. The C/I ratio stood at 56.6% compared to 47.1% at the end of 2014, whereas the C/I ratio adjusted for one-off events related to additional mandatory charges amounted to 52.1%
- 3) net write-downs for impairment losses and provisions, which was higher by PLN 422.8 m over the corresponding figures posted in 2014 - mainly due to lower write-downs on corporate loans given the improved quality of new loans compared to older generations.

The net profit generated by PKO Bank Polski SA in 2015 amounted to PLN 2 571.1 m, this representing a decline by PLN 508 million PLN, i.e. 16.5% vis-à-vis the corresponding figures posted in the previous year. The achieved level of net profit reflected:

- 1) profit on business activity which reached PLN 10,174.1 m (decrease by 0.8% y/y)

¹ The Bank Guarantee Fund (BFG) Management Board Resolution 87/DGD/2015 of 26 November 2015, committed the banks to pay a fee under the guaranteed deposit protection fund (FOŚG) to cover the payments of guaranteed deposits to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie further to its bankruptcy.

- 2) an increase in operating costs due to the growth in premiums and contributions to the Bank Guarantee Fund (mainly due to the increase in interest rates of BGF charges) and additional costs in respect of the establishment of the Borrowers Support Fund and contribution to BGF of disbursement from the guaranteed funds from deposits collected at Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie .
- 3) This translated into a decline in the effectiveness of cost management. The C/I ratio stood at 54.7% vis-a-vis 43.5% at 2014-end, the C/I ratio adjusted for one-off events related to the additional mandatory charges amounted to 49.96% and was better than the average for the Polish banking sector (60.3%).
- 4) a significant improvement in net write-downs for impairment losses and provisions. This position was better by PLN 506.1 m vis-à-vis the corresponding figures posted in 2014, mainly due to the decrease in impairment losses on corporate loans, as the quality of new lending improved compared to the older generation.

The PKO Bank Polski SA balance sheet structure with a strong deposit base and the safe level of equity helped maintain sound performance on business activities through steady organic growth and acquisitions which are the next stage of the Bank development. The ratio of loans to deposits (liabilities to customers) stood at 97.3% at 2015-end (the ratio of loans to stable financing sources² amounted to 85.0%), this being indicative of a good liquidity condition of PKO Bank Polski SA.

Following the actions pursued in 2015, the PKO Bank Polski SA Group:

- increased total assets by more than PLN 18 billion, including nearly PLN 11 billion portfolio of receivables from customers
- maintained a high market share in loans and deposits at 17.8% and 17.9%, as the case may be,
- held the first position in the market for the sale of housing loans to private individuals³ with 24.9% market share,
- was the major lender to small and medium-sized enterprises of loan with the *de minimis* guarantees and 24.7% market share⁴,
- improved quality of the loan portfolio measured by a ratio of loans classified as impaired and by a risk cost indicator,
- expanded insurance and investment products offer for customers,
- increased its customer base by over 88 thousand, mainly in the retail segment and the number of IKO mobile banking customers which exceeded 430 thousand at 2015-end.,
- strengthened its capital position through action designed to increase the level of capital base and to optimise risk-weighted assets which boosted an increase in the total capital ratio by 1.6 p.p. y/y up to 14.6%.

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

³ Polish Bank Association data.

⁴ According to the data provided by the Centre for Guarantee and Guarantee of Bank Gospodarstwa Krajowego of 31 December 2015.

ASSESSMENT OF THE INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT FUNCTION

Internal control system

PKO Bank Polski SA implements an internal control system which is an element of the Bank's management system.

The purpose of the internal control system is to guarantee:

- 1) operational efficiency and effectiveness of the Bank,
- 2) reliability of its financial reporting,
- 3) compliance with the principles of risk management at the Bank,
- 4) compliance of the Bank's operation with the generally applicable provisions of law, the Bank's internal regulations, regulatory recommendations and market standards adopted at the Bank,

The internal audit system enables the Bank to identify risks attendant upon each operation, transaction, product, service and process, as well as the risks arising from the organisational structure of the Bank and the PKO Bank Polski Group, as well as the risks stemming from the organisational structure of the Bank and the Bank Group and the estimated risk of failure to attain the objectives of the internal control system.

As part of the internal control system the Bank identifies:

- control function designed to guarantee that the control mechanisms are complied with, most notably in the area of risk management at the Bank. This function covers all the Bank's organisational units (unit), and Head Office offices (office) and their structural positions in attendance of the implementation of the tasks assigned to this function placed,
- Compliance Office entrusted with the task, in cooperation with Bank units and offices, to identify, assess, inspect and monitor the risk of Bank's operations being in compliance with the generally applicable provisions of law, the Bank's internal regulations, market standards adopted at the Bank and to submit reports in this regard.
- independent Internal Audit Office entrusted with the task to test and assess in an independent and objective manner the adequacy and effectiveness of risk management and internal control system, with the exception of the Internal Audit Office.

The Supervisory Board analysed and acknowledged the Internal Audit Department information on the efficiency of the internal audit system for the period from 1 January 2015 until 31 December 2015.

Internal audit function

The internal audit is an independent and objective operation of an inspection and advisory nature. The internal audit aims to guarantee that the relevant processes are subject to ongoing assessment carried out in an orderly manner and the lines of action are identified which are conducive to optimising quality and effectiveness of Bank operations.

In accordance with the results of the internal audits and other information concerning PKO Bank Polski SA, the Internal Audit Department provides assurance of the effectiveness of processes implemented at the Bank and

compiles independent and objective information on the implementation of the internal control system and risk management system both at the Bank and at the Group level.

The operations carried out by the internal audit cover all relevant areas of the Bank and the Group.

The audit task identifies risks occurring in the processes implemented by the Bank and assesses control mechanisms and other activities and actions aimed at moderating the Bank's risk exposure to an acceptable level.

The Internal Audit Department operates under three-year and annual audit plans. In 2015, the internal audit plan for 2015 was completed, as approved by the Management Board resolution. The results of all internal audits carried out in 2015 were reported periodically to the Audit Committee of the Supervisory Board and to the Supervisory Board.

Internal audits are followed up by issuance of recommendations, the implementation of which is at all times monitored by the Internal Audit Department and periodically reported to the Management Board and the Audit Committee of the Supervisory Board.

No circumstances were detected in the PKO Bank Polski SA Internal Audit Department operations in 2015 that could compromise the impartial performance of their duties by the internal audit. Independence of the internal audit function in PKO Bank Polski SA is provided via mechanisms referred to in PFSA Resolution No. 258/2011, by way of illustration: direct contact of the Internal Audit Department Director with the Management Board, the Audit Committee of the Supervisory Board and the Supervisory Board, a special procedure of appointment and revocation of the Internal Audit Department Director, special control procedure of the level of salaries of the Internal Audit Department employees, the Internal Audit Department Director attendance in the meetings of: the Management Board, Audit Committee, Supervisory Board Risk Committee, attendance, at least once a year, in meetings with the Audit Committee without the participation of the Management Board members.

In addition, as required by PFSA Recommendation H concerning the internal control system in banks, in 2015, the Audit Committee of the Supervisory Board made a positive annual assessment of the Internal Audit Department operation in the context of available resources, including the results of the review of the internal regulations and by-laws applicable to the performance of internal audit, as well as the position, powers, audit scope and responsibility of the Internal Audit Office.

Compliance assessment

The Compliance Office has been vested with the status of the department within the Management Board President Division. In accordance with the best practices regarding compliance function, the Compliance Department reports directly to the Management Board President – with reference to compliance risk management.

The purpose of the Compliance Office is to:

- 1) determine the management of compliance risk and reputation risk system at the Bank and to identify them,
- 2) develop solutions in the area of functional internal control,
- 3) coordinate the Bank's cooperation with external supervisors and regulators with the exception of the bodies involved in particular in the inspection with reference to the labour law, implementation of public duties by the Bank, safety of persons and property and occupational health and safety.

The primary task for the Compliance Office is to coordinate internal process, including the identification, assessment, monitoring and reporting of compliance risk, coupled with preventive and corrective actions designed to ensure the compliance of the Bank's operations with the law and market standards accepted at the Bank. The findings to the Compliance Department in this regard were presented in 2015 in:

- 1) quarterly executive reports addressed to the Risk Committee, Management Board, Audit Committee of the Supervisory Board and the Supervisory Board,
- 2) annual information on the monitoring system effectiveness and compliance of activities undertaken by the Bank and its employees with the provisions of law addressed to the Audit Committee of the Supervisory Board,
- 3) financial statements of the Bank' Capital Group,
- 4) information disclosed for regulators and supervisors.

The year of 2015 saw no significant changes in the level and profile of the compliance risk at the Bank. It is typical for a large universal bank that serves a wide range of consumers and offers diverse financial products and services. In keeping with the best practices regarding compliance function, for the sake of independent, objective and effective implementation of its tasks, the Compliance Department:

- 1) refrains from participation in the implementation of the day-to-day business tasks,
- 2) is authorised to access applications, records, documents and information, as well as direct communication with Bank employees to the extent necessary for the performance of its tasks,
- 3) is authorised to review on their own initiative possible cases of non-compliance.

The Compliance Office independence at PKO Bank Polski SA is also safeguarded by such mechanisms as: direct contact of the Compliance Department Director with the Management Board, the Audit Committee of the Supervisory Board and the Supervisory Board, as well as attendance in the meetings with the Audit Committee without the participation of the Management Board members at least once a year.

Appointment and revocation of the Compliance Office Director with the consent of the Supervisory Board is yet one more option for strengthening the independence of the Compliance Office. This solution was introduced in 2015 under the implementation of the "Principles of Corporate Governance for supervised institutions".

Aside of compliance risk management, in 2015 the Compliance Department carried out tasks in terms of:

- 1) reputation risk management,
- 2) development of standards for performing functional internal controls and for monitoring compliance therewith,
- 3) coordination of the process of assessing the adequacy and effectiveness of the control mechanisms of internal processes and
- 4) coordination of collaboration with regulators and supervisors.

According to market standards, the Compliance Office may engage in the execution of this type of additional tasks as long as it does not interfere with the implementation of the obligations related to compliance issues. No circumstances were detected in the PKO Bank Polski SA Compliance Department operations in 2015 that could compromise the impartial performance of their duties.

In 2015, the Compliance Department operations were subject to assessment by the Office of the Polish Financial Supervision Authority as part of the Executive Audit and Assessment and special-target inspection carried out between 8 June 2015 and 6 July 2015 on the implementation of the follow-up recommendations in terms of asset quality, bringing the Bank into compliance with the recommendation "S" and "J", liquidity and selected topics in the area of management. Following the supervisory activities, the Polish Financial Supervision Commission found no irregularities in the implementation of the Compliance Office tasks.

Furthermore, in 2015 the compliance risk management process at the Bank was audited by the Internal Audit Department. Whereas no critical issues were identified, 3 issues of lesser significance were detected, concerning mainly recording the Compliance Department operations. The follow-up recommendations relating to those matters are scheduled to be fully implemented in 2016 Q3.

Under the annual assessment made in 2015 of the compliance effectiveness of the monitoring system and legal compliance of operation of the Bank and its employees, the Audit Committee of the Supervisory Board made not comments on the Compliance Department operations.

Assessment of the risk management system

The risk management process is supervised by the Supervisory Board, currently updated on the risk profile of the Bank and the PKO Bank Polski SA and the key activities undertaken in the area of risk management. In the opinion of the Supervisory Board, the risk management system in place at PKO Bank Polski SA covers all the risk categories of significance to the Bank, while the processes of their identification, measurement, evaluation, monitoring and reporting, and the related management measures utilise the instruments, methods and techniques relevant to the respective risk type.

The Bank carries out risk management in all its organisational units. The relevant committees support the Management Board and the Supervisory Board in banking risk management:

- 1) Audit Committee of the Supervisory Board and
- 2) since 2015 Q4, the Risk Committee of the Supervisory Board, which specifically assesses the Bank's willingness to take risks expressed, among others, through strategic limits of risk tolerance. On top of that, the competence of the Risk Committee for Supervisory Board comprises supervising the operation of risk management system in place at the Bank introduced by the Management Board and assessment of the adequacy and effectiveness of risk management, as well as supporting the Supervisory Board in overseeing risk management strategy.

The banking risk is managed at three independent lines of defence:

- 1) the first line of defence, i.e. the functional internal control, ensures application of risk control mechanisms and compliance with commonly binding legal regulations,
- 2) the second line of defence, i.e. a risk management system, including methods, tools, process and organization of risk management and
- 3) the third line of defence, i.e. internal audit.

The Bank implements an integrated risk management structure to the effect that all risks having a significant impact on the Bank's operations are identified, measured, monitored and controlled. In the opinion of the Supervisory Board, this structure is adequate to the size of the Bank, the type of business and the profile of the risks involved, taking into account the macroeconomic environment and the option of adverse developments. The Bank on an ongoing basis optimises risk management structure to accommodate the new factors and sources of risk, to the changing macroeconomic environment and legal and risk profile as set out in the "Risk Management Strategy at PKO Bank Polski SA". Risk management is integrated with planning and controlling systems.

Risk management structure is complemented by coherent and transparent system of reporting risk level, application of risk limits and their possible overruns. In the event of overrun or a threat thereof, executive actions are anticipated to be taken, as required, with a view to moderating risk level. The reporting system covers the key management levels. The Supervisory Board is provided with periodic reports showing the assessment of the risk level by individual types, including the description of the effectiveness of actions undertaken by the Management Board.

Determining the level of risk that the Bank is able to accept while pursuing current and prospective business is one of the basic elements of risk management. The maximum risk amount that the Bank and the Group are ready to take has been defined as a strategic tolerance limits for individual types of risks identified in the "Risk Management Strategy in place at PKO Bank Polski SA" adopted by the Management Board and approved by the Supervisory Board.

In 2015, the Bank operated in a safe manner, with the equity provided at an adequate level, and in particular:

- 1) it kept the use of strategic tolerance limits for individual types of risk and capital adequacy within the limits applicable to the Bank and the Capital Group,
- 2) maintained sound liquidity - at 2015-end, the loans (liabilities to customers) to deposits ratio amounted to 93.4%, the level of core deposits constituted approx. 93.6% of all deposits of the Bank (excluding interbank market); deposit base of the Bank with a 17.9% market share in banking sector deposits holds a leading position in the banking sector and provides a stable source of funding,
- 3) was equipped with a sufficient level of own funds. As at 31 December 2015, the total capital ratio (TCR) of the Bank stood at 15.28% and the core capital ratio Tier1 (CET1) of the Bank - at 13.92%; Capital adequacy was maintained at a safe level; as at 31 December 2015, the Bank met the criteria established by the Polish Financial Supervision Authority for the dividend disbursement amounting to 50% of profit earned in 2015,
- 4) credited the Bank's profit for the financial year 2014 amounting to PLN 3,079 m and retained profit from prior years in the amount of PLN 132.8 m to the own funds, allocating them, as per the Management Board recommendation, for the supplementary capital and reserve capital and leaving the undistributed amount of PLN 1,250 m, without committing any monies to dividend disbursement,
- 5) pursued further efforts to ensure an adequate level of capital adequacy ratios; in order to improve the efficiency of capital management efforts were continued to optimise the risk-weighted assets (including, among others, data quality improvement, off balance sheet liabilities review - verification of product-assigned risk weights),
- 6) conducted prudent credit policy, managed credit limits for counterparties in the interbank market and Customer Transaction Limits fixed for treasury transactions with corporate customers; in the valuation of derivatives the Bank took into account its own credit risk (DVA), counterparty credit risk (CVA) and the risk from exposures to a central counterparty (CCP),

- 7) in February, May and in November 2015, the Bank changed its own maturing short-term bonds for three- to six-months bonds in the amount of PLN 800 m to PLN 1 billion,
- 8) in October 2015, the Bank acquired funding from the domestic-market issue of short-term bonds with a maturity of six months - in the amount of EUR 200 m.

On 1 April 2015, PKO Bank Hipoteczny SA, a 100% subsidiary of PKO Bank Polski SA launched its business. It specialises in providing mortgage loans for private individuals. Selected portfolios of mortgage loans granted before by PKO Bank Polski SA are transferred successively to PKO Bank Hipoteczny SA within the Group. The value of the portfolio transferred in 2015 (transfer took place in December) amounted to PLN 429.5 m.

On 18 June 2015, the Bank agreed to participate in the Spółdzielcza Kasa Oszczędnościowo-Kredytowa "Wesoła" (SKOK "Wesoła" credit union) restructuring. Whereby, the Polish Financial Supervision Authority has decided that SKOK "Wesoła" will be taken over by the Bank. The acquisition of SKOK "Wesoła" proceeded with the financial support granted by the Bank Guarantee Fund under Article 20g of the Act of 14 December 1994 on the Bank Guarantee Fund. The acquisition of Spółdzielcza Kasa Oszczędnościowo Kredytowaj "Wesoła" w Mysłowicach had no impact on the nature of the risks identified in the Bank's operations.

In 2015, in terms of operational risk management, the Bank engaged in preparatory work for the launch of a new branch office of the Bank in the Federal Republic of Germany, the opening of which took place in December 2015. As part of this work in July 2015, the Bank obtained the consent of the Financial Supervision Commission on the combined use of the AMA and the BIA methodologies to determine the requirement with reference to own funds for operational risk. The BIA approach will help determine the requirement for operational risk with regard to the Bank branch office business in the Federal Republic of Germany.

In 2015, Bank placed special attention on curbing cybercrime risk - being on the rise in the financial sector - which could yield losses for both the customers and the Bank should it happen to materialise. The Bank prevents this type of events, among others, through a number of initiatives both internal and sectoral, while collaboration with IT companies. In particular, at 2015-end of the Banking Cybersecurity Centre (BCC) was established. The first effect of the Centre are cyclical shifts of employees of individual banks included in the project. On that opportunity, bank employees share information on identified threats (attacks) and examine the situation in the field of cybersecurity in terms of the need for the establishment of the Crisis Staff.

In 2015, the Bank participated in the EBA study. The study aimed at increasing the transparency of the European banking sector and supporting market discipline by providing an extensive range of uniform data from the 105 major banks in Europe (c. 70% of the assets of the banking sector of the European Union). Moreover, the Bank participated in and successfully passed the stress tests (stress tests) organised by the Polish Financial Supervision Authority. The aim of the stress tests was to determine the potential impact of macroeconomic changes on the financial situation, in particular the capital situation of the institution in the Polish financial sector. Test results confirmed the high resistance of PKO Bank Polski SA to the occurrence of macroeconomic shocks.

Additionally, the Bank carries out comprehensive stress test. On the one hand, these represent an integral part of risk management at the Bank, and on the other, complement the stress tests specific to particular risk types. The tests include analysis of impact of changes in the environment and the operation of the Bank on its financial position. The results are presented in reports to the Bank corporate bodies. This information helps one identify and take measures to limit the negative impact of unfavourable market changes on the Bank.

In 2015, the Bank took part in the Polish Financial Supervision Authority survey, investigating the impact of the entry into force of the presidential draft bill "on the manners of restoring the equality of parties of certain credit agreements and loan agreements" (the so-called "Swiss Franc Law"). These examinations continue to be under way in in 2016.

In the opinion of the Supervisory Board the following will be of particular importance for the development of the Bank in the coming period:

- 1) maintaining a safe level of risk and capital adequacy related to the changes taking place in the macroeconomic and legal environment,
- 2) careful management of capital and holding adequate capital buffer to any significant deterioration in the macroeconomic environment, in addition to growth in the capitals, effective management of risk-weighted assets, will play an important role in this regard,
- 3) maintain a high level of stable deposits, this being capable of guaranteeing further development of lending,
- 4) ensuring the efficiency of its operations, including the costs management measured in the costs to income ratio (C/I) and the use of capital measured by return on equity (ROE).

Report on the activities of the Supervisory Board as a Company body in 2015

1. Information on the Supervisory Board term of office and the following year of work in its term of office, and the composition of the Council, offices performed in the Board and changes in the composition of the Board during the financial year

Supervisory Board (composition of the Supervisory Board as of 1 January 2015): (the common three-year term of office commenced at the date of the Ordinary General Meeting of Shareholders convened for 6 June 2014)

| Item | Given name and family name | Office | Date of appointment/ revocation |
|------|-------------------------------|-----------------------------------|--|
| 1. | Jerzy Góra | Przewodniczący Rady Nadzorczej | appointed to the composition of the Supervisory Board 6 June 2014 for the term of the Supervisory Board which commenced on the day of the Annual General Meeting convened to be held on 6 June 2014 (Notarial Deed / Official Repertory A-3969/2014, resolution number 34/2014) On 6 June 2014, being an Eligible Shareholder, the State Treasury appointed Mr. Jerzy Góra as the Supervisory Board Deputy Chairman |
| 2. | Tomasz Zganiacz | Supervisory Board Deputy Chairman | appointed to the composition of the Supervisory Board on 6 June 2014 for the term of the Supervisory Board which commenced on the day of the Annual General Meeting convened to be held on 6 June 2014 (Notarial Deed / Official Repertory A-3969/2014, resolution number 35/2014) On 6 June 2014, being an Eligible Shareholder, the State Treasury appointed Mr. Tomasz Zganiacz as the Supervisory Board Deputy Chairman. |
| 3. | Mirosław Czekaj | Supervisory Board Secretary | appointed to the composition of the Supervisory Board on 6 June 2014 for the term of the Supervisory Board which commenced on the day of the Annual General Meeting convened to be held on 6 June 2014 (Notarial Deed / Official Repertory A-3969/2014, resolution number 36/2014) On 16 June 2014, the Supervisory Board appointed Mr Mirosław Czekaj as the Supervisory Board Secretary. |
| 4. | Mirosława Boryczka | Supervisory Board Member | appointed to the composition of the Supervisory Board on 6 June 2014 for the term of the Supervisory Board which commenced on the day of the Annual General Meeting convened to be held on 6 June 2014 (Notarial Deed / Official Repertory A-3969/2014, resolution number 38/2014) |
| 5. | Zofia Dzik | Supervisory Board Member | appointed to the composition of the Supervisory Board on 6 June 2014 for the term of the Supervisory Board which commenced on the day of the Annual General Meeting convened to be held on 6 June 2014 (Notarial Deed / Official Repertory A-3969/2014, resolution number 39/2014) |
| 6. | Jarosław Klimont | Supervisory Board Member | appointed to the composition of the Supervisory Board on 6 June 2014 for the term of the Supervisory Board which commenced on the day of the Annual General Meeting convened to be held on 6 June 2014 (Notarial Deed / Official Repertory A-3969/2014, resolution number 40/2014) |
| 7. | Piotr Marczak | Supervisory Board Member | appointed to the composition of the Supervisory Board on 6 June 2014 for the term of the Supervisory Board which commenced on the day of the Annual General Meeting convened to be held on 6 June 2014 (Notarial Deed / Official Repertory A-3969/2014, resolution number 41/2014) |
| 8. | Elżbieta Mączyńska - Ziemacka | Supervisory Board Member | appointed to the composition of the Supervisory Board on 6 June 2014 for the term of the Supervisory Board which commenced on the day of the Annual General Meeting convened to be held on 6 June 2014 (Notarial Deed / Official Repertory A-3969/2014, resolution number 37/2014) |
| 9. | Marek Mroczkowski | Supervisory Board Member | appointed to the composition of the Supervisory Board on 6 June 2014 for the term of the Supervisory Board which commenced on the day of the Annual General Meeting convened to be held on 6 June 2014 (Notarial Deed / Official Repertory A-3969/2014, resolution number 42/2014) |

Changes to the Supervisory Board Composition in 2015:

On 25 June 2015:

- The Annual General Meeting of the Bank revoked Mr. Jarosław Klimont - Supervisory Board member from the Supervisory Board composition,
- Mr. Tomasz Zganiacz - Supervisory Board Vice-Chairman - resigned from his position as Supervisory Board member on that date.
- The Annual General Meeting of the Bank appointed Ms. Małgorzata Dec - Kruczkowska and Mr. Krzysztof Kilian to the Supervisory Board,
- Being the Eligible Shareholder, the State Treasury appointed Mr. Mirosław Czekaj as Supervisory Board Deputy Chairman.

On 7 July 2015, Mr. Mirosław Czekaj resigned from his office as Supervisory Board Secretary as of that date.

On 5 August 2015, the Supervisory Board appointed Ms. Małgorzata Dec - Kruczkowska as Supervisory Board Secretary.

On 23 September 2015, Ms. Mirosława Boryczka resigned from exercising her office as Supervisory Board member with effect from 30 September 2015.

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

In 2015, Supervisory Board held a total number of 10 minuted meetings on the following dates: 28 January, 11 March, 8 April, 6 May, 17 June, 5 August, 23 September, 14 October, 4 November and 16 December.

In 2015, the Supervisory Board adopted 44 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 2015 were excused through Supervisory Board resolutions Nos.: 3/2015, 23/2015 and 31/2015; these pertained to absences of three Supervisory Board members at three meetings

4. Significant issues dealt with by the Supervisory Board.

In 2015, the Supervisory Board - except for matters concerning the approval of documents for the Ordinary General Meeting under the generally applicable provisions of law and the Articles of Association of the Bank - dealt with such issues as:

1. approval of the Financial Plan of PKO Bank Polski SA for the year 2015, including the Capital Plan of PKO Bank Polski SA for the year 2015,
2. macroeconomic and market forecasts for the year 2016,
3. selection of the entity authorised to audit the financial statements of PKO Bank Polski SA and PKO Bank Polski SA Group for the years 2015-2016, as recommended by the Audit Committee of the Supervisory Board, i.e. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa. The works under the process of auditor appointment were pursued further to the expiring date of termination of the agreement with the incumbent

- auditor PricewaterhouseCoopers Sp. z o.o. covering a period of one year, i.e. for the year 2014 (extension of cooperation by one year, the previous agreement covered the period of 2011-2013) and under the Rules of selection of the entity authorised to audit the financial statements of PKO Bank Polski SA and the provisions of the Supervisory Board resolution No. 51/2014 of 15 October 2014 on the process of selection of the entity authorised to audit and review the financial statements for the years 2015 to 2016,
4. embarking on the works on the strategy of PKO Bank Polski SA up to the year 2020 and preliminary directions and the project schedule,
 5. summary of the results of the review of the strategy and operational risk management process and of Management Board members competence in the area of operational risk management, as well as the Information on the summary and the conclusions drawn from the Management Board Competence Development Programme pursued in 2014,
 6. principles of capital adequacy and equity management in place at PKO Bank Polski SA and PKO Bank Polski SA Group,
 7. approval and amendment of the Risk Management Strategy in place at PKO Bank Polski SA,
 8. results of the review of internal capital assessment as at 31 December 2014,
 9. approval of the rules of PKO Bank Polski SA information policy in terms of capital adequacy and other information subject to disclosure,
 10. principles of capital adequacy and equity management in place at PKO Bank Polski SA and PKO Bank Polski SA Group,
 11. capital adequacy report and other information subject to disclosure of PKO Bank Polski SA Group as of 31 December 2014
 12. implementation of the PFSA Recommendation D at the Bank,
 13. approval of the rules of the internal control system in PKO Bank Polski SA,
 14. effectiveness of the internal control system,
 15. results of the regulatory survey and assessment as of 31 December 2014 (BION),
 16. results of the problem-targeted inspection of the Office of the Polish Financial Supervision Authority of 2015,
 17. summary information on the assessment of the bank's internal systems of PKO Bank Polski SA as of 31 December 2014,
 18. consent to the sale of selected real properties of the Bank and the information on the transfer of shares in the entity referred to in this material.
 19. strategic partnership agreements in the area of publishing and servicing of PKO Bank Polski SA payment cards,
 20. proceedings before the Polish Financial Supervision Authority on the acquisition of SKOK credit union referred to in this information and participation in the process of credit and savings union restructuring, including the course of the integration of SKOK with PKO Bank Polski SA,
 21. appointment of members of the Audit Committee of the Supervisory Board and the Remuneration Committee and election of the Remuneration Committee Chairman,
 22. establishment of the Risk Committee and election of the Committee Chairman,
 23. adoption of the Regulations for the Risk Committee and amendment to the Regulations of: the Audit Committee of the Supervisory Board and the Remuneration Committee,

24. development of a uniform text of the Articles of Association of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna,
25. amendment to the Rules and Regulations of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Supervisory Board,
26. approval of amendments to the Management Board Regulations,
27. approval of amendments to the PKO Bank Polski SA Organisational Rules,
28. designation of the MbO objectives for the Management Board members for 2015,
29. approval of the amount of the fair interest rate on the deferred part of the variable remuneration of the Management Board members and persons holding managerial positions at the Bank disbursed in 2015,
30. account for the MbO objectives for 2014, approval of the amount of disbursements in 2015 and January 2016 of the variable components of remuneration for the years 2012 to 2014, determination of premises for reduction of deferred variable remuneration for the assessment periods of 2012 and 2013, awarded in 2015, and approval of the base remuneration for the Management Board members in force in 2015,
31. preliminary proposals of the MbO objectives for the Management Board for 2016,
32. amendments to the applicable regulations under the Law of 5 August 2015 in macro-prudential oversight of the financial system and crisis management in the financial system,
33. adoption of the Best Practice Code for WSE Listed Companies in 2016.

In addition, the Supervisory Board during its meetings discussed the following issues:

1. banking sector profitability in an environment of low interest rates,
2. impact of changes in the Swiss National Bank policy regarding the EUR / CHF exchange rate on the financial markets, real economy and banking sector,
3. situation in the market of CHF-denominated mortgage loans,
4. proposal pertaining to the CHF-denominated loans conversion and their impact on the situation of PKO Bank Polski SA,
5. impact of bank tax on PKO Bank Polski SA, financial sector and economy,
6. global economic situation and its impact on Poland (Greece, China, US, EU, Ukraine and Russia)
7. economic situation in the Russian market and its impact on the Polish banking market and PKO Bank Polski,
8. restructuring of the coal sector in Poland - PKO Bank Polski SA exposure to the coal sector.

Topics the Supervisory Board discussed on a systematic basis:

- Report on Implementation of the Strategy of PKO Bank Polski SA;
- Information on the financial result of PKO Bank Polski SA and the results of PKO Bank Polski SA against the peer group banks;
- Report: *Quality of service and customer satisfaction in PKO Bank Polski SA retail banking*;
- Report: *Credit Risk in PKO Bank Polski SA*;
- Report: *Financial Risk in PKO Bank Polski SA*;
- Report: *Capital Adequacy in PKO Bank Polski SA*;
- Report: *Operational Risk in PKO Bank Polski SA*;

- Report: *Business Risk in PKO Bank Polski SA*;
- Report: *Non-compliance Risk in PKO Bank Polski SA*;
- Report: *Reputation risk in PKO Bank Polski SA*,
- Information on the Bank security,
- Information on the process of integration of selected assets of the Nordea group in Poland - at each Supervisory Board meeting until April 2015.

5. Completed inspections

In 2015, the Internal Audit Department carried out explanatory proceedings at the request of Deputy Chairman of the Supervisory Board of PKO Bank Polski SA Mr. M. Czekaj further to the incident at the Office for Restructuring and Recovery Centre in Poznań.

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

In 2015, the Supervisory Board made no change in the composition of the Management Board, nor took a decision to suspend the members of the Management Board in their duties, nor seconded Supervisory Board members to serve as Management Board members.

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

By the Annual General Meeting Resolution No. 53/2015 of 25 June 2015, The Supervisory Board was authorised to draw up a uniform text of the Articles of Association of PKO Bank Polski SA to reflect the amendments referred to in § 1 of the above resolution.

Respectively, on 23 September 2015, the Supervisory Board adopted the Resolution No. 28/2015, whereby it established the uniform text of the Articles of Association of PKO Bank Polski SA.

8. Information on the Supervisory Board Members compliance with the independence criteria.

Under paragraph II.Z.6 of the Best Practices of WSE Listed Companies in 2016, the Supervisory Board of a public company assesses whether there occur any relationships or circumstances which may affect the compliance by a supervisory board member of the independence criteria. Respectively, the Supervisory Board reviewed the declaration of independence made by individual Supervisory Board Members and on 27 January 2016 the Supervisory Board adopted the resolutions:

- whereby it acknowledged the declarations made by Mr. Mirosław Czekaj, Mr. Krzysztof Kilian, Marek Mroczkowski, Ms. Zofia Dzik and Ms. Elżbieta Mączyńska-Ziemacka about compliance with independence criteria referred to in paragraph II.Z.4 of the Best Practices. The Supervisory Board were not aware of any circumstances that could have a negative impact on the compliance with independence criteria of the foregoing persons,

- whereby it acknowledged the representations made by Mr. Jerzy Góra, Ms. Małgorzata Dec-Kruczkowska and Mr. Piotr Marczak about non-compliance with independence criteria referred to in paragraph II.Z.4 of the Best Practices.

9. Self-assessment of the Supervisory Board.

In 2015, all the Supervisory Board members actively participated in the Supervisory Board meetings and demonstrated commitment to the adequate performance of their duties whereas the discussions engaged into took into account the assessment of the current situation of the company, market developments and good practices and standards.

The number and duration of meetings, as well as access to resources sufficed to enable the Supervisory Board to carry out in full of its responsibilities. The documents developed by the Supervisory Board provided important information and were prepared for the meeting in advance. In 2015, the Supervisory Board pursued its tasks under the relevant Regulations, while also attending to the ongoing optimisation of their work in this area. Discussions at meetings of the Supervisory Board featured a high level of knowledge.

10. Other information on the work of the Supervisory Board.

In the year 2015, the Supervisory Board committees operating in the Bank included: the Remuneration Committee, the Risk Committee and the Audit Committee of the Supervisory Board. The annual reports on the activity of the aforementioned committees constitute respectively the appendices 1, 2 and 3 hereto.

Warszawa, 2 June 2016

Attachment number 1

REMUNERATION COMMITTEE REPORT OF 2015

1. Legal basis:

1. The Remuneration Committee was established by the Supervisory Board Resolution No. 52/201 on 2 November 2011 (as amended) with the view to assisting the Supervisory Board in carrying out its statutory duties and tasks resulting from the provisions of law, in particular in terms of general policies of variable components of the remuneration of persons holding managerial positions at the Bank, the rules of remuneration and remuneration of the Management Board members. The Committee operates under the Remuneration Committee Regulations which defines the objectives of operation, organisation, mode of operation and tasks of the Committee.
2. The report was developed under § 3. 3 of the Remuneration Committee Regulations.

2. Committee Composition in 2015:

From 27 August 2014 to 25 June 2015

| Given name and family name | Function |
|-----------------------------|---------------------------|
| Tomasz Zganiacz | Committee Chairman |
| Jerzy Góra | Committee Deputy Chairman |
| Jarosław Klimont | Committee Member |
| Elżbieta Mączyńska-Ziemacka | Committee Member |
| Marek Mroczkowski | Committee Member |

From 5 August 2015 to 25 February 2016

| Given name and family name | Function |
|-----------------------------|---------------------------|
| Małgorzata Dec-Kruczkowska | Committee Chairman |
| Jerzy Góra | Committee Deputy Chairman |
| Elżbieta Mączyńska-Ziemacka | Committee Member |
| Marek Mroczkowski | Committee Member |

3. The number of the Committee meetings in 2015:

The year 2015 saw 4 Remuneration Committee meetings. The meetings were held on:

11 March, 8 April, 4 November and 14 December. The number of members of the Remuneration Committee attending its sessions in 2015 sufficed to guarantee the adequate conduct of all the Committee meetings.

4. The subject of the Committee's work

The Remuneration Committee provided the Supervisory Board with the opinions on the following issues:

- The Remuneration Committee provided the Supervisory Board with the opinions on the following issues:
- MbO objectives and their value and importance to the Management Board members for 2015.
- the amount of the fair interest rate with a view to determining the cash component of deferred variable remuneration for the Management Board members and persons holding managerial positions at the Bank disbursed in 2015,
- a proposal for disbursement of variable components of remuneration for the period 2012-2014 to persons employed in the positions included in the Register of positions for persons employed in managerial positions and those acquired from Nordea Bank Polska with whom the employer entered into agreements to postpone the deferral and withhold of variable remuneration for the period 2012-2014,
- account for the MbO objectives for 2014 and the amount of the variable components of remuneration for the period of 2012-2014 disbursed in 2015 and in January 2016 and the Management Board Members base remuneration.

At the same time the Remuneration Committee, i.a:

- reviewed the remuneration policy in place at the Bank, while examining the remuneration of the Management Board Members and the Supervisory Board Members against the market background,
- discussed the degree of implementation of the MbO objectives for the Management Board Members for 3 quarters of 2015,
- discussed the initial proposal concerning the catalogue of the MbO objectives for the Management Board Members for 2016

Furthermore, the Committee made a periodic review of the Remuneration Committee Regulations, this yielding a recommendation to the Supervisory Board to adopt a resolution on the Remuneration Committee Regulations in an amended version.

5. Assessment of the effectiveness of work of the Remuneration Committee

In 2015, the Remuneration Committee performed the tasks under the relevant regulations while seeking the ongoing optimisation of their work in this area. All the Remuneration Committee members actively participated in the meetings and engaged into discussions, while taking into account the assessment of the company's current situation, market developments, best practices and standards – with a view to

effectively assessing and optimising the remuneration policy. The number and duration of meetings sufficed to enable the Committee to carry out its obligations in full.

Warszawa, 22 March 2016

Attachment number 2

RISK COMMITTEE REPORT OF 2015

1. Legal basis:

- 1) The Risk Committee was appointed by the Supervisory Board Resolution No. 35/2015 of 4 November 2015.
- 2) The report was developed under § 3. 3 of the Risk Committee Regulations.

2. Committee Composition in 2015 (since 4 November):

Jerzy Góra - Committee Chairman

Mirosław Czekaj - Committee Member

Zofia Dzik - Committee Member

Krzysztof Kilian - Committee Member

Piotr Marczak - Committee Member

3. The number of the Committee meetings in 2015:

In the year 2015 the Risk Committee held 1 meeting - on 16 December 2015.

4. The subject of the Committee's work:

Following the meeting, the Risk Committee adopted a resolution:

- 1) No 1/2015, whereunder the Committee pronounced a positive opinion on the strategy for risk management in PKO Bank Polski SA,
- 2) No 2/2015, whereunder the Committee pronounced a positive opinion on the capital adequacy and equity management principles in place at PKO Bank Polski SA and PKO Bank Polski SA Group,
- 3) No 3/2015, whereunder the Committee pronounced a positive opinion on the principles of PKO Bank Polski information policy in terms of capital adequacy and other information subject to disclosure.

Furthermore the Risk Committee examined and acknowledged the following reports:

- Credit risk in PKO Bank Polski (2015 Q3)
- Financial risk in PKO Bank Polski 2015 Q3)
- Capital adequacy in PKO Bank Polski (2015 Q3)
- Operational risk in PKO Bank Polski (2015 Q3)
- Business risk in PKO Bank Polski (2015 Q3)
- Non-compliance risk in PKO Bank Polski (as of 15 November 2015).

Attachment number 3

AUDIT COMMITTEE
OF THE SUPERVISORY BOARD
REPORT OF 2015

1. Legal basis:

- The Audit Committee of the Supervisory Board, hereinafter referred to as the "Audit Committee" was established by the Supervisory Board resolution No. 44/2006 of 30 November 2006 (as amended),
- Report on the Audit Committee operations was developed under of § 3. 3 of the Committee Regulation attached to the Supervisory Board resolution No. 39/2015 of 16 December 2015 on the Audit Committee regulations.

2. Audit Committee Composition in 2015

(from 8 October 2014 to 25 June 2015)

| Given name and family name | Function |
|----------------------------|---|
| Mirosław Czekał | Audit Committee Chairman Supervisory Board Secretary |
| Zofia Dzik | Audit Committee Deputy Chairman Supervisory Board Member |
| Mirosława Boryczka | Audit Committee Member Supervisory Board Member |
| Piotr Marczak | Audit Committee Member Supervisory Board Member |
| Tomasz Zganiacz | Audit Committee Member Supervisory Board Member |

(from 5 August 2015 to 30 September 2015)

| Given name and family name | Function |
|----------------------------|---|
| Mirosław Czekał | Audit Committee Chairman Supervisory Board Deputy Chairman |
| Zofia Dzik | Audit Committee Deputy Chairman Supervisory Board Member |
| Mirosława Boryczka | Audit Committee Member Supervisory Board Member |
| Krzysztof Kilian | Audit Committee Member Supervisory Board Member |
| Piotr Marczak | Audit Committee Member Supervisory Board Member |

(from 30 September 2015 to 25 February 2016)

| Given name and family name | Function |
|----------------------------|---|
| Mirosław Czekał | Audit Committee Chairman Supervisory Board Deputy Chairman |
| Zofia Dzik | Audit Committee Deputy Chairman Supervisory Board Member |
| Krzysztof Kilian | Audit Committee Member Supervisory Board Member |
| Piotr Marczak | Audit Committee Member Supervisory Board Member |

3. Information on the Audit Committee meetings in 2015:

In 2015, as part of its duties under the Rules of Procedure, the Audit Committee held 11 meetings (28 January, 18 February, 11 March, 8 April, 6 May, 17 June, 5 August, 8 October, 23 September, 14 October, 4 November and 16 December). The number of Audit Committee members taking part in the respective meetings of the Audit Committee in 2015 sufficed to guarantee the adequate conduct of all meetings of the Audit Committee in 2015. The Director of the Internal Audit Department was invited to and participated in the meetings of the Audit Committee.

During its meetings in 2015, the Audit Committee held meetings, without the participation of Management Board members, with the Directors of: the Banking Risk Division, the Internal Audit Department, the Legal Department and the Compliance Department, and with the external auditor. The Committee's activities were based on the Work Plan of the Audit Committee for 2015.

4. The topics undertaken by the Audit Committee:

The key topics the Audit Committee covered in its work in 2015 included the following:

4.1 Accounting and reporting, including:

1. a review of the interim and annual financial statements of PKO Bank Polski and the PKO Bank Polski Group (standalone and consolidated), i.e. for 2014, the first quarter of 2015, the first half of 2015 and the first three quarters of 2015,
2. the review of the degree of implementation of the auditor's recommendations to the Management Board, arising from the audit of the financial statements for the year ended on 31 December 2012 and of the recommendations from prior years still requiring implementation,
3. the review of new external regulations impacting the way in which the Bank performs accounting and financial reporting activities.

4.2 The internal audit operations of the Bank, including:

1. effectiveness of the internal control system of the Bank during the last six months of 2014,
2. implementation of the internal audits Plan of the Bank for 2015 and the results of audits carried out by the Internal Audit Department,
3. draft plan of internal audits for 2016,
4. review of internal regulations concerning the operation of the internal audit (assessment of the adequacy of the potential and means vis-à-vis the operational needs and effectiveness),
5. monitoring of remuneration of the Internal Audit Department Director and employees,
6. the principles of the internal control system operations.

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

1. banking risk management strategy,
2. examination of periodic reports on the banking risk, including credit risk, financial risk and business risk,
3. current monitoring of the risk management system,
4. assessment of capital adequacy and equity management and principles of information policy in the area of capital adequacy and other information subject to disclosure, as well as the examination of periodic reports on capital adequacy,
5. assessment of the operational risk management, including the examination of periodic reports on operational risk.

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

1. examination of the periodic report on compliance risk,
2. review of the effectiveness of the compliance monitoring system and the compliance of the Bank's and its employees' activities with regulations.

4.5 Cooperation with the external auditor, including:

1. monitoring independence and objectivity of the statutory auditor and of the entity authorised to audit the financial statements of the Bank and the PKO Bank Polski SA Group (rotation of the key team members and remuneration),
2. annual acknowledgement and representation on the independence of the external auditor and the information on the auditor's fee for audit and non-audit tasks,
3. results of the procedure on the selection of the entity authorised to audit financial statements for the years 2015-2017 (recommendation to the Supervisory Board on the entity selection).

4.6 Implementation the follow-up recommendations issued by the Polish Financial Supervision Authority after the inspections conducted in the and the asset quality review (AQR) of 2014.

4.7 Distribution of the PKO Bank Polski SA profit for 2014 and coverage of retained earnings from prior years.

4.8 The legal issues of considerable significance for the Bank.

4.9 Assessment of the Bank's activities aimed at risk mitigation via insuring the Bank's property and taking out third-party liability insurance for members of the Bank's corporate bodies and holders of the commercial proxy.

4.10 Review of the Audit Committee Regulations.

4.11 Other business.

5. Discussion of the Audit Committee's work

5.1. Accounting and Reporting

1. review of the interim and annual financial statements of PKO Bank Polski SA and the PKO Bank Polski SA Group (standalone and consolidated)

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

- 1) examination of the financial performance of PKO Bank Polski SA and the PKO Bank Polski Group in respective periods, with particular consideration given to the factors influencing their level, and the analysis of high risk areas,
- 2) the results of the audit, by the statutory auditor, of the Bank's and the PKO Bank Polski Group's financial statements for 2014, the first quarter of 2015, the first half of 2015 and for three quarters of 2015 and obtaining confirmation of the Bank's compliance with formal and legal requirements applicable to the said financial statements, i.e. their compliance with International Financial Reporting Standards, International Accountancy Standards and to the extent not covered by the foregoing Standards, compliance with the provisions of the Accounting Law while taking reference to the best market practices.

Having reviewed the PKO Bank Polski SA financial statement for the year ended on 31 December 2014 and the consolidated PKO Bank Polski SA Group financial statements for the year ended on 31 December 2014, the results of the review thereof by the auditor and having them discussed and having regard to the unqualified opinion issued by the auditor, the Audit Committee recommended that the Supervisory Board should pronounce a positive opinion on the following documents: the PKO Bank Polski SA financial statements for the year ended on 31 December 2014 and PKO Bank Polski SA Group consolidated financial statements for the year ended on 31 December 2014.

The Audit Committee, having:

- reviewed the interim financial statements of the Bank and the Bank Group for the first six months of 2015, the results of the review thereof by the auditor and having them discussed, adopted the foregoing statement, while posting no remarks thereto,
 - made a review, adopted the PKO Bank Polski SA Group report for 2015 Q1 and the PKO Bank Polski SA Group report for 2015 Q3, while posting no remarks thereto.
2. review of the degree of implementation of the auditor's recommendations for the Management Board on the financial statements for the year ended on 31 December 2012 and Recommendations from prior years under implementation.

While examining the degree of implementation of the Management Board recommendations on the audit of the financial statements of PKO Bank Polski SA for the above period, the Audit Committee focused on monitoring the recommendations under progress

3. review of the new external regulations affecting the accounting financial reporting method pursued at the Bank

Under the above mentioned review the Audit Committee studied the assumptions and effects of KIMFS 21 "Public Fees" being the interpretation of standard 37 "Provisions, Contingent Liabilities and Contingent Assets" effective

for annual periods beginning on 1 January 2015, as well as the amendments to IAS / IFRS for the so-called improvements for the years 2010 -2012 (IAS 24, IFRS 8 and IFRS 13) and for the years 2011 to 2013 (IFRS 3, IFRS 13, IAS 40), IFRS 15 "Revenue from contracts with customers" to come into force from 1 January 2017 and superseding IAS 11 "Construction contracts", IAS 18 "Revenue" and interpretations related thereto and IFRS 9 financial instruments effective from 1 January 2018.

In addition, the Audit Committee has reviewed the additional information on:

- the impact of KIMSF21 interpretation (interpretation of IAS 37) on the Bank's profit/loss, financial statements and consequently the duties of the Audit Committee and the Supervisory Board,
- assessment of the degree of compliance of PKO Bank Polski SA and PKO Bank Polski SA Group with FATCA (Foreign Account Tax Compliance Act) and supplementary information on the subject.

5.2. Bank's internal audit operations

1. The principles of operation of the internal control system at PKO Bank Polski SA.

The Audit Committee issued a positive opinion to the Supervisory Board on the Management Board Resolution No. 693/C/2015 of 27 October 2015 on the "Principles of the operation of the internal control system at PKO Bank Polski SA" while taking into account the change whereby a control function was separately established within the internal control system with a view to ensuring the application of the control mechanisms in particular for risk management at the Bank. Accordingly, following the above-mentioned amendment, a separate chapter was inserted on the function and provisions were updated on the definition of control mechanisms and the procedure for adoption of issues, operations and transactions to be monitored in the context of functional internal control.

2. effectiveness of the internal control system over the last six months of 2014.

In 2015, the Audit Committee reviewed the results of audits conducted by the Internal Audit Department over the last six months of 2014, which underlined a positive assessment of the internal control system effectiveness for the period.

3. implementation of the internal audits Plan for the Bank for 2015 and the results of the Internal Audit Department audits. The draft plan of internal audits for 2016.

The Audit Committee - on a quarterly basis - discussed the state of the internal audits Plan implementation for 2015 and the results of the Internal Audit Department audits

Having reviewed a draft internal audits Plan for the Bank for 2016 and having supplemented it with the topics raised by the Committee, the Audit Committee pronounced a positive opinion on the above-mentioned draft.

4. review of internal regulations concerning the internal audit operations

Having examined and discussed the document Review of internal regulations concerning the internal audit operations (assessment of the adequacy of the potential and resources versus needs and effectiveness), the Audit Committee gave unqualified approval of the above.

5. monitoring the remuneration of directors and employees of the Internal Audit Department.

Having examined the issues related to the employment structure in the Internal Audit Department and the Department employees remuneration in accordance with the Report on the above Department employees remuneration in the last six months of 2014, the Audit Committee gave unqualified approval of the above, while recommending switching to an annual cycle of reporting in this area.

6. The Audit Committee approved the results of the internal audit conducted by the Internal Audit Department on the implementation at PKO Bank Polski SA of the PFSA Recommendation D presented in the annex to the resolution on the issue "Form - audit of the implementation of Recommendation D" developed in accordance with the model provided by the PFSA and, having reviewed the report on the implementation, approved the *Report on the implementation of the PFSA Recommendation D at the Bank*.
7. The Audit Committee reviewed the information on the verification of the variable components of remuneration of the Management Board presented by the Internal Audit Department and the issue of the scope of verification by the auditor, as well as the *Supplementary information on the results of a special audit on the process of selling real estate*.
8. In 2015, the Audit Committee on two occasions (on 5 August and 4 November) pronounced positive opinion on the draft Internal Rules of Procedure of the Internal Audit Department.
9. The Audit Committee held a meeting with the Internal Audit Department Director - without the participation of the Management Board members - in the course of which the Committee received from the Department Director a confirmation regarding the adequacy of potential and resources to perform the tasks assigned to the Internal Audit Department and high efficiency of use of human resources held by the Internal Audit Department.

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

1. ongoing monitoring of the risk management system.

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

The Audit Committee on an ongoing basis monitored the risk level in accordance with the information contained in monthly and additional reports developed by the Banking Risk Division for the needs of the Committee.

As part of the ongoing monitoring of the risk management system, the Audit Committee held a meeting with the Banking Risk Division Director - without the participation of the Management Board members - during which it reviewed a briefing by the Director of the following information:

- adequacy of potential and resources to perform the tasks assigned to the Banking Risk Division,
- potential regulatory risk which can affect the scope of the Banking Risk Division operations.

2. strategy of banking risk management.

Having examined the scope of changes, the Audit Committee pronounced a positive opinion to the Supervisory Board on the following:

- 1) Bank risk management strategy in place at PKO Bank Polski SA attached to the Management Board resolution No. 411/A/2015 of 9 June 2015 on the strategy taking into account the changes with reference to: a reduction in the strategic limits of operational risk tolerance and limits on credit risk, as well as the definition of

mortgaged credit exposure and commercial real estate and the clarification thereof in the context of the definition set out in Recommendation S,

- 2) Management Board resolution No. 611/A/2015 of 15 September 2015 amending the resolution on the bank risk management strategy in place at PKO Bank Polski SA taking into account the changes in the above strategy involving the implementation of strategic tolerance limits for interest rate risk and currency risk for the Bank Group and aimed at extending the scope of supervision of the financial risk management of the Bank Group,
 - 3) Bank risk management strategy in place at PKO Bank Polski SA attached to the Management Board resolution No. 775/A/2015 of 8 December 2015 on this strategy, taking into account the amendments to accommodate the external regulations requirements, i.e. the Law on the macro-prudential oversight of the financial system and crisis management in the financial system and in the law Banking Act with reference to the tasks and the role of the Risk Committee and risk control; Recommendation P and Recommendation W and CRR Regulation; increase in the strategic tolerance limit for the Bank's liquidity reserve in the horizon of up to 1 month; maximum thresholds for the LTV ratio in the case of credit exposures collateralised by mortgages on residential property; taking into account the results of the review of the above Strategy recommended by the Audit Committee of the Supervisory Board for a clear definition of the tasks and the responsibility of the Supervisory Board and the Management Board in the process of banking risk management.
3. assessment of capital adequacy management and equity management in place at PKO Bank Polski SA.

The Audit Committee, after examination, pronounced a positive opinion to the Supervisory Board on the following:

- 1) The principles of information policy in place at PKO Bank Polski SA in terms of capital adequacy and other information subject to disclosure attached to the Management Board resolution No. 97/E/2015 of 21 February 2015 on the principles of PKO Bank Polski SA information policy in terms of capital adequacy and other information to be reported, including the new EU regulations, i.e. the CRR Regulation and implementing acts thereto and CRD IV Directive and amendments involving, among others, extending the scope of information presented in the disclosure report and the obligation of publication thereof on the date of publication of the financial statements,
- 2) Principles of capital adequacy and equity management in place at PKO Bank Polski and PKO Bank Polski Group attached to the Management Board resolution No. 239/A/2015 of 31 March 2015 on the principles of capital adequacy and equity management in place at PKO Bank Polski and PKO Bank Polski Group and repealing the resolution on dividend policy in place at PKO Bank Polski taking into account the PFSA position of 2 December 2014 with reference to the dividend policy of the profit for 2014 and amendment of adapting the threshold values of the capital adequacy measurement to the levels consistent with the PFSA letter regarding the boundary parameters required to disburse a dividend from the profit for 2014,
- 3) Principles of capital adequacy and equity management in place at PKO Bank Polski SA and PKO Bank Polski SA" Group annexed to resolution No. 776/A/2015 on the principles of capital adequacy and equity management in place at PKO Bank Polski SA and PKO Bank Polski Group, with the proviso that the Bank will amend thereof in 2016 Q1 in terms of taking into account the new requirements of the PFSA in terms of dividend policy and the PFSA recommendations following BION assessment in terms of financing risk. These rules took into account the amendments in the external regulatory requirements, including the Law on

macroprudential supervision and consideration of how to determine the list of companies that have a significant impact on the risk profile of the Bank Group, as well as the clarification of provisions relating to the management of the excessive leverage risk; changing the frequency of monitoring of significant types of risk in these companies from three years to one year; updating the indicators applied to assess Bank profitability for consistency with the approach developed in the Capital management optimisation project,

- 4) The principles of PKO Bank Polski SA information policy in terms of capital adequacy and other information subject to disclosure annexed to the Management Board resolution No. No. 777/E/2015 of 8 December 2015 on the principles of PKO Bank Polski SA information policy in terms of capital adequacy and other information subject to disclosure, subject to the Supervisory Board approval while taking into account amendments aiming to extend the scope of disclosures by the issues concerning in particular, leverage ratio, excessive leverage risk management and the ratio for the bank recognised as a global institution of systemic importance.

The Audit Committee on a quarterly basis reviewed the capital adequacy report which was subsequently discussed by the Supervisory Board.

The Audit Committee reviewed the Capital Adequacy Report and other PKO Bank Polski SA Group information subject to disclosure as of 31 December 2014 and posted no remarks. This report was subsequently discussed by the Supervisory Board.

4. assessment of the operational risk management in place at PKO Bank Polski SA.

Under the above mentioned actions the Audit Committee:

- 1) having examined and discussed *the Summary results of the review of the strategy and operational risk management process in 2014*, accepted the above a summary and posted no remarks,
- 2) pronounced a positive opinion on the "Information concerning the verification of the Management Board members competence in the area of operational risk management" presented by the Management Board and while taking into account material information provided therein with reference to:
 - scope of responsibilities of individual Management Board members in terms of issued related to operational risk, in particular direct supervision, performed functions in committees and projects related to operational risk management,
 - Management Board members competence in operational risk management,
 - activities undertaken in 2014 relating to the development of these competencies and aimed to ensure the adequacy of competences to the environment in which the Bank operated in 2014,recommended to the Supervisory Board positive verification of the Management Board members competence required to implement operational risk management strategy.

The Audit Committee on a quarterly basis examined the reports in the area of operational risk which were subsequently the subject of the Supervisory Board meetings.

5.4. Review of compliance risk management effectiveness

Under the above mentioned actions the Audit Committee:

1. reviewed the monitoring system effectiveness and compliance of activities undertaken by the Bank and its employees with the regulations, including the review of a briefing by the Compliance Department Director on the information concerning:
 - the absence in 2014 of significant amendments to the Compliance Department's regular range of tasks,
 - changes in staffing,
 - the absence of changes in the Compliance Department Profile and the level of risk of non-compliance over the last year.
2. on a quarterly basis examined the compliance risk report which was subsequently discussed by the Supervisory Board.

Moreover, under those task, the Audit Committee during a meeting with the Compliance Department Director - without the participation of the Management Board members - reviewed information on the adequacy of the level of available potential and resources in the context of performing the tasks assigned to the Compliance Department.

5.5. Implementation of the follow-up audit recommendations issued by the Polish Financial Supervision Authority and recommendations following the asset quality review (AQR) of 2014.

The Audit Committee (on a quarterly basis) assessed the degree of implementation of the follow-up audit recommendations issued by the Polish Financial Supervision Authority and recommendations following the asset quality review (AQR) of 2014.

Additionally, the Audit Committee reviewed the presentation to a Management Board commentary to the letter of the PFSA Vice-President to the Bank Management Board Presidents and Governors of 19 December 2014 on the asset quality review (AQR) and the supervisory expectations submitted following the above test.

5.6. Cooperation with the external auditor.

The Audit Committee reviewed the *Results of the procedure on the selection of the entity authorised to audit financial statements for subsequent years*, the results of work performed under the selection process of above entity, including the results of work performed by the Proceeding Committee supporting this process. Works in the process of appointment of the auditor were pursued due to the termination date of the agreement entered into with the incumbent audit firm PricewaterhouseCoopers Sp. z o.o. covering a period of one year, i.e. for 2014 (extension of cooperation by one year, the previous agreement covered the period 2011-2013) and in accordance with the Rules of selection of the entity authorised to audit the financial statements of PKO Bank Polski SA and the provisions of the Supervisory Board Resolution No. 51/2014 of 15 October 2014 on in the process of selection of the entity authorised to audit and review the financial statements for the years 2015-2016.

The Audit Committee received confirmation that the offer recommended by the Committee complies with all formal requirements, it is complete in terms of criteria set by the Supervisory Board and is favourable and comparable to the prior agreement concluded with the incumbent auditor of the Bank.

Following a discussion and conducted proceedings on the selection of the entity authorised to audit financial statements, the Audit Committee recommended that the Supervisory Board should adopt a resolution on the election

of KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as an entity authorised to audit the financial statements of PKO Bank Polski SA and PKO Bank Polski SA Group for the years 2015-2016.

Additionally, the Audit Committee adopted a resolution on the approval of amendments to the agreement to carry out audit and review the Bank and Group financial statements further to the need of reviewing by the incumbent auditor of the Bank and Group financial statements prepared as at 30 September 2014 in accordance with IFRS.

The Audit Committee reviewed the documents developed by the incumbent auditor: "Annual confirmation to the Audit Committee of the Supervisory Board" and "Statement of the statutory auditor and the entity authorised to audit financial statements" where the auditor confirmed its being independent of the Bank, enumerated the services rendered in 2014 - in addition to performing financial audit - for the Bank and expressed its opinion that it has implemented adequate safeguards to ensure the maintenance of independence and stated that no threats of independence have been identified.

The Audit Committee reviewed the information on the auditor remuneration in respect of audit and non-audit tasks, as well as additional *complementary information on the additional services provided by the auditor, cases of employment by the Bank of the audit company employees or occurrence of any other forms of dependency on the Bank.*

In 2015, the Audit Committee on two occasions held meetings with the new external auditor (selected in 2015).

The list of discussed issues during the Audit Committee meeting with the new external auditor on 6 May 2015 included, i.a., the following:

- the audit team involved in the process of audit and review of the Bank Group financial statements, with naming the key persons and their tasks in the implementation of the Bank and Group audit,
- experience of the auditor being the leader of audit services in Poland
- auditor's approach to the audit and to the process of changing the auditor with the specification of experience held by the auditor in this area and developed special procedures, including procedures for cooperation with the incumbent auditor,
- key areas identified by the auditor at the planning stage of the semi-annual report as of 30 June 2015,
- communication with the Management Board, Supervisory Board and the Audit Committee, presenting a brief outline of the proposed auditor's communication with the Audit Committee of the Supervisory Board,
- independence of the auditor, confirming the independence and impartiality of the auditor vis-à-vis the Bank under the relevant legislation

During the meeting with a new external auditor held on 5 August 2015 - without the participation of the Management Board members - the Audit Committee:

- obtained a confirmation of independence from the Bank of the newly elected auditor in attendance of the audit and of the entities operating under the auditor's network at home and abroad, as well as statutory auditors and audit team member, in the light of both Polish and international provisions of law,
- reviewed the issues relating to the identification and management by the newly elected auditor of potential conflicts of interest, while advising of the applicable procedures and tools held by the company and the amount

of remuneration for the auditor from the Bank and other entities of the Bank Group in the reporting period, for the provision of auditor and other non-auditor services,

- received information on internal policies, procedures and tools in place at the newly elected auditor, aimed at ensuring compliance with the requirements for independence, by way of illustration, submission of written independence statements by the employees participating in the audit, the training system mandatory in this area, or monitoring project in terms of compliance with the independence requirements.

5.7. Distribution of profit PKO Bank Polski SA achieved in 2014 and coverage of retained profit from prior years.

Having reviewed the explanation presented by the Management Board to the Management Board's proposal on distribution of PKO Bank Polski SA profit for 2014 and coverage of retained earnings from prior years and having examined the proposal, the Audit Committee recommended that the Management Board should pronounce a positive opinion on the above proposal.

Additionally, the Audit Committee reviewed the *Information on the PFSA recommendation on the option of dividend disbursement and the Bank's actions undertaken in this area* and eligible conditions for disbursement by banks of dividend from profits for 2014 formulated by the PFSA in its letter of 5 December 2014. Furthermore, it discussed issues of possible scenarios related to dividend distribution for 2015 in the context of the Financial Plan for 2015, projected capital adequacy measures, in the absence of dividend disbursement for the year 2014 and the increase in the CHF/PLN exchange rate.

5.8. Legal issues of significant importance to the Bank

In its meeting with the Legal Department Director, without the participation of Management Board members, the Audit Committee obtained the information, i.a., on the following issues:

- adequacy of resources, potential and means to perform the tasks assigned to the Legal Department,
- key legal issues concerning Bank operation, such as foreign currency loans and customers' actions in respect thereof,
- current state headcount in the Legal Department,
- number of pending lawsuits currently handled by the Legal Department.

5.9. Assessment of the Bank's activities aimed at risk mitigation via insuring the Bank's property and taking out third-party liability insurance for members of the Bank's corporate bodies and holders of the commercial proxy.

The Audit Committee reviewed the following information:

- structural solutions in place at the Bank with reference to the implementation of tasks related to the insurance policy insofar as Bank internal insurance
- impact of insurance policies concluded by the Bank in accordance with the AMA approach on the internal capital reduction,
- details of the Bank insurance programme, including the types of insurance included in this programme,

- damages to be paid from the BBB/CC/PI insurance policy and D&O insurance policy reported by the Bank and the current status thereof.

5.10. Revision of the Audit Committee Regulations

In its the meetings held on 4 November 2015 and 16 December 2015, the Audit Committee received information from the Legal Department Director on the results of the annual review of Committee Regulations accompanied by proposals for amendments relating to the Audit Committee competence (due to the Banking Law amendment, effective Law on macro-prudential oversight of the financial system and crisis management in the financial system and the amendments to the Bank's Articles of Association).

Proposals for amendments to the Regulations on the Audit Committee functions and duties were developed in collaboration with an external consultant following the examination of an option to distribute powers between the Audit Committee and the Risk Committee as per the applicable regulations in this regard.

The Audit Committee recommended to the Management Board that the Audit Committee Regulations should be amended.

5.11. Other business

As part of the above matters, the Audit Committee reviewed and examined the following:

- *presentation of the Bank's liquidity level in the context of the potential CHF loans conversion,*
- *report on the Results of the review of internal capital assessment as of 31 December 2014,*
- *external consultant presentation on the Audit Committee and Risk Committee operations at banks, a review of market practices.*

6. Assessment of the effectiveness of the Audit Committee's work in 2015.

The Audit Committee assessed the effectiveness of its work in 2015 in a closed session of the Committee on 27 January 2016.

The Audit Committee members are equipped with adequate expertise and experience reflecting state-of-art know-how in the area of accounting and financial auditing.

In 2015, all Audit Committee members made statements about the fulfilment of the following independence criteria, i.e. each of the Committee members represented that:

- it holds no shares or other interest in the Bank, or a related party thereof,
- over the last 3 years it has not participated in keeping ledgers nor in the development of the Bank financial statements,
- it is not a spouse, relative or in a straight line to the second degree, nor is associated in respect of care, adoption or guardianship of a person sitting on supervisory, management or administrative bodies of the Bank.

Additionally, the Audit Committee Chairman of also confirmed that is holds competence and qualifications in accounting or financial auditing.

In 2015, all Audit Committee members actively participated in the Audit Committee meetings and they demonstrated high commitment to the adequate performance of their duties.

The number and duration of the meetings, as well as access to resources were sufficient to enable the Audit Committee to fully perform its tasks, and the documents prepared for the Audit Committee contained important information and were prepared sufficiently in advance:

- assessed the quality and adequacy of the information and records obtained by the Audit Committee by reviewing information on this subject presented by the external company,
- assessed the need of the Audit Committee for additional reports and information.

In 2015, the Audit Committee performed its tasks under the relevant regulations, while taking efforts aimed at a steady optimisation of their work in this respect. Discussions at meetings of the Audit Committee featured a high professional level.

Seeking to enhance knowledge, the Audit Committee members participated in the following workshop:

1. "Reserves in accordance with International Accounting Standard 37 and International Financial Reporting Standard 13 Fair value".
2. "Semi-annually summary of the changes and trends in the regulatory environment of the banking sector (including the recommendations, resolutions and guidelines of the Polish Financial Supervision Authority, the EU directive, the provisions of ESMA and EBA).
3. "Financial statements quality in accordance with the guidelines of the Polish Financial Supervision Authority and the European Securities and Markets Authority".

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 disclosure; 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

Warszawa, 3 March 2016