



**PKO BANK POLSKI
SPÓŁKA AKCYJNA**

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

WARSAW, MARCH 2011



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1. INTRODUCTION

1.1 General information

PKO Bank Polski SA is the largest commercial bank in Poland and a leading bank on the Polish market in terms of total assets, equity, loans, deposits, number of clients and the size of the sales network. It is also among the oldest, operating financial institutions in the country. Since its establishment, the Bank had been consistently developing the prestige of its brand and providing services to many generations of Poles. The long tradition and clients' confidence are the source of an obligation to the Bank. Therefore, PKO Bank Polski SA consistently takes measures in order to consolidate perception of the Bank as an institution:

- secure, strong and competitive;
- modern and innovative, client-friendly and efficiently managed;
- socially responsible, concerned about the development of the cultural awareness of the society.

In 2010 the Bank continued strengthening its position as the leader. Total assets increased by almost 9% reaching the level of PLN 167.2 billion, what accounted for 14.4%¹ of Polish banking sector's total assets as at the end of 2010.

Thanks to the accumulation of earnings equity increased by 5.1% to PLN 21.2 billion as at the end of the year, which accounted for 18.2% of the equity of the entire sector. This enabled the Bank to achieve a capital adequacy ratio of 11.99% which ensured security for its operations. The consolidated through stable financial situation clients' trust translated into a 9.1% increase in amounts due to customers which reached PLN 135.3 billion, and the Bank's share in the sector's deposits amounted to 17.9%.

Despite the keen market competition, PKO Bank Polski SA effectively develops its operations not only in its traditional area of operations – serving retail clients. It became the biggest bank for small and medium enterprises and corporate clients in Poland – especially with regard to financing their operations. It is a leader in the market for financial services offered to communes (gminas), districts (poviats) and voivodeships and budget sector. It is also the most important organizer of issues of municipal bonds. The high standards as regards customer service and effective credit risk assessment procedures enabled the Bank to increase its gross loan portfolio by 13.0% to PLN 133.2 billion in 2010, what translated into an increase in loans market share by 0.6 pp. to the level of 17.2%.

In 2010, the Bank continued to take good care of the efficiency of the expenditure and costs incurred, which manifested in a selective approach towards the distribution network. As at the end of 2010, the largest network of branches in Poland comprised 1 208 branches and 1 942 agencies. Clients can use the e-banking services offered under the iPKO brand, the range of which is expanded regularly. They also have ATMs at their disposal, whose number is continually increasing – as at the end of 2010, there were 2 419 ATM machines. The Bank's services are used by 8.1 million clients in the retail sector and 11.5 thousand clients in the corporate sector.

PKO Bank Polski SA is one of the largest employers in Poland. At the end of 2010, the Bank employed 27 396 people. The comprehensive learning and education offer addressed to the employees is aimed at building loyal and competent staff, adapting easily and quickly to changes in the economic environment and achieving high performance.

Apart from the strictly banking operations, PKO Bank Polski SA – via its subsidiaries – provides specialist financial services relating to leasing, factoring, investment funds, pension funds, internet banking and electronic payment services. Moreover, the PKO Bank Polski SA Group conducts investment and development operations in the real estate sector.

¹ Source: data from Polish Financial Supervision Authority



1.2 Selected financial data of PKO Bank Polski SA

	2010			2009			Change 2010/2009
NET PROFIT	PLN	3 311.2	million	PLN	2 432.2	million	36.1%
RESULT ON BUSINESS ACTIVITIES*	PLN	9 792.1	million	PLN	8 353.5	million	17.2%
ADMINISTRATIVE EXPENSES	PLN	(3 902.1)	million	PLN	(3 904.6)	million	-0.1%
NET IMPAIRMENT ALLOWANCE	PLN	(1 767.0)	million	PLN	(1 393.5)	million	26.8%
C/I		39.8%			46.7%		-6.9 pp.
ROE net		15.5%			15.9%		-0.4 pp.
ROA net		2.1%			1.7%		0.4 pp.

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

The financial results earned by PKO Bank Polski SA in 2010 were at a very good level and the dynamics of the business volumes were among the highest among the main institutions in the banking sector in Poland.

In 2010, the macroeconomic conditions of the Polish banking sector improved steadily, which had a positive influence on the Polish banking sector. However, the results remained under the heavy influence of continued credit risk accumulated in the banks' loan portfolios as a result of their mild credit policy in the period before the financial crunch. Nevertheless, during the prior year, the quality of the credit portfolio stabilized and the cost of credit risk was reduced.

In such a macroeconomic environment, activities of PKO Bank Polski SA proved to be effective. The strategy was focused on the dynamic development of business activity based on strengthening of a stable structure of financing operations. The task was performed having in mind their effectiveness and, at the same time, effective control over the costs incurred.

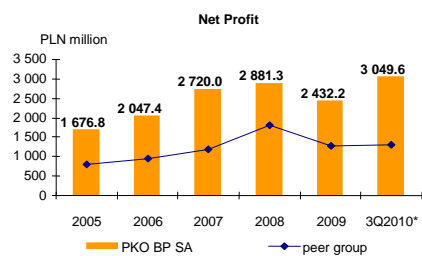
In 2010, net profit of the Bank amounted to PLN 3 311.2 million, which constitutes an increase of PLN 879.1 million, i.e. 36.1% as compared with the previous year. Such a financial result was determined by the following factors:

- ⇒ result on business activities, which amounted to PLN 9 792.1 mln zł (an increase by 17.2% y/y), - result of increase in net interest income and fee and commission income, offset by decrease in net foreign exchange gains and net other operating income and expense;
- ⇒ increase in net interest income, mainly due to increase in interest income related to loans to customers (+15.5% y/y), offset by a slight decrease in interest costs (-1.0% y/y);
- ⇒ increase in net fee and commission income, mainly due to achieving higher fee and commission income related to loans and loans insurance, as well as commission income related to investment funds and payment cards service,
- ⇒ further efficiency enhancement in cost management, which decreased by PLN 2.5 million y/y; the C/I ratio decreased by 6.9 pp. to 39.8% and was much lower than the average in the Polish banking sector,
- ⇒ significant increase in the Bank's total assets by PLN 13.6 billion to PLN 167.2 billion resulting from intensive sales of loans financed by the increase in amounts due to customers (including funds from the Eurobond issue) and an increase in equity of PKO Bank Polski SA,
- ⇒ secure and effective structure of the statement of financial position – significant increase in amounts due to customers of PKO Bank Polski SA by PLN 11.2 billion enabled a dynamic growth of business activities; as at the end of 2010, the ratio of loans to deposits (amounts due to customers) amounted to 95.3% (ratio of loans to stable sources of financing² amounted to 92.2%), remaining at a lower level than the average for the banking sector.

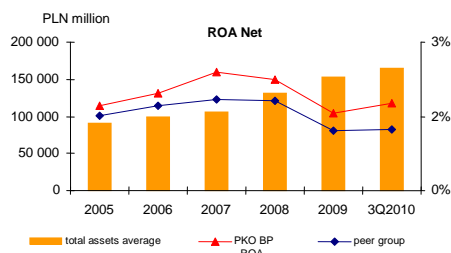
² Stable sources of financing include amounts due to customers (including funds from the issuance of Eurobonds) and long-term external financing i.e. subordinated liabilities and amounts due to financial institutions.



1.3 PKO Bank Polski SA against its peer group³

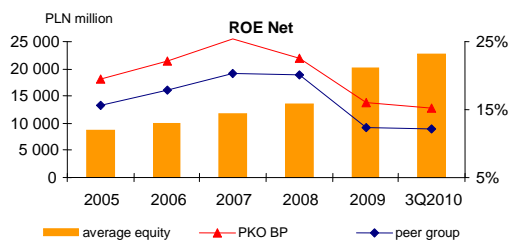


* The value of net profit in 3Q 2010 for particular banks was adopted as a sum of net profit recognized in 3Q2010 and 4Q2009.

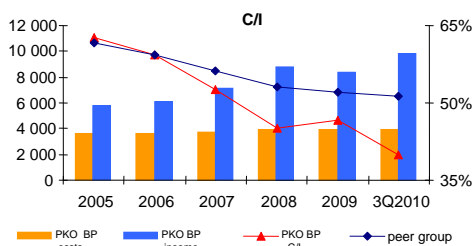


The relatively more favorable (as compared to 2009) macroeconomic environment in the Polish economy, the stabilization in interest rates and decreasing costs of financing as well as the high costs of credit risk translated into a stabilization of the profits recorded by banks in 2010. In 2010 PKO Bank Polski SA achieved very good financial results, significantly better than the average for its peers.

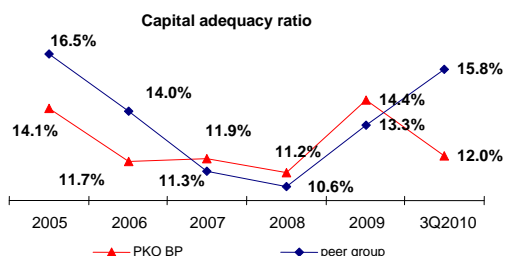
In 2010 financial results were influenced by more favorable macroeconomic condition, accompanied by increase in net interest income of banks and lower than in 2009 increase in costs of credit risk. At the same time, active policy of PKO Bank Polski SA contributed to a significant increase in its total assets and financial results accompanied by high return on assets.



The rate of the increase in net profit level of the entire banking sector in 2010 compared with that achieved in 2009, accompanied by accumulation of earnings in equity, resulted in a stabilisation in return on equity. In 2010, PKO Bank Polski SA maintained its profitability at high level (considerably above the average level of the peer group).



In 2010, Polish banking sector continued its activities aiming at reducing operating expenses. Banks kept on hiring fewer employees as compared to previous years. There was also a selective approach towards the development of the branch network and an intensive growth of e-banking. In 2010, PKO Bank Polski SA maintained the relation of costs to income at a very low level – as a result of rapidly growing business activities accompanied by stable level of costs.



In 2010, the level of capital adequacy ratio in the Polish banking sector remained stable, mainly due to the profit accumulation. As a result, further improvement in the capital adequacy ratio was observed in the whole sector. The level of capital adequacy ratio in PKO Bank Polski SA remained at a stable level – above the minimum level set by the Banking Law.

³ Peer group includes: Pekao SA, BRE Bank SA, ING Bank Śląski SA, BZ WBK SA. Ratio calculations are based on the data available in financial statements issued by the banks constituting peer group (data for the years 2005-2009), and due to lack of publications of some of the banks from the peer group annual reports for 2010 before publication date of PKO Bank Polski SA financial statements, as data representing trends in 2010 there was adopted data from 3Q 2010 of these banks. All data is weighted by total assets.



2. EXTERNAL BUSINESS ENVIRONMENT

2.1 Macroeconomic environment

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

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

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

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

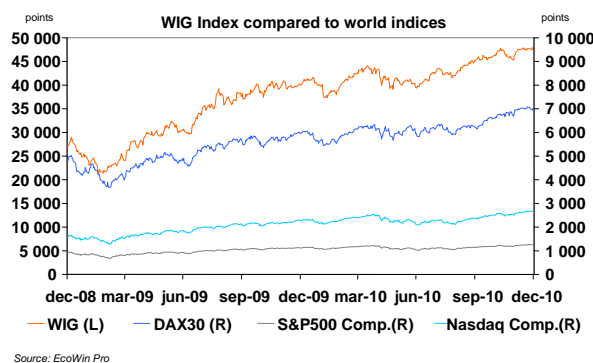
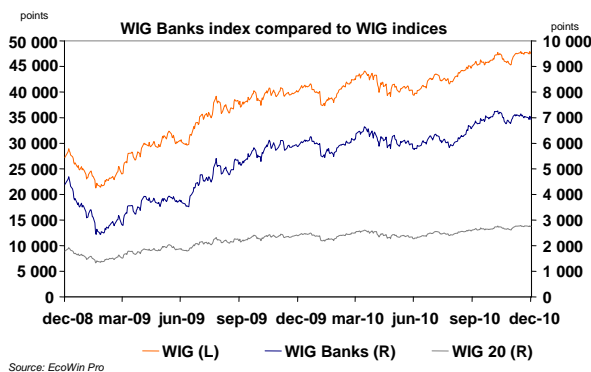
The appreciation of the zloty initiated in 2009 was temporarily stopped in April 2010 in connection with the sudden increase in risk aversion caused by the debt crisis in Greece. The stabilization measures, namely the EU-IMF stabilization loan and the purchase of bonds on the secondary market by the European Central Bank stopped the growth in risk premium and the depreciation of Central and Eastern Europe currencies. In the second half of the year, the zloty strengthened more slowly. Throughout the whole of 2010, it strengthened by 3.6% against the euro and weakened by 4% against the US dollar and 14.4% against the Swiss franc.

In the first half of the year the situation on the interbank market clearly improved with regards to mutual confidence among banks - the market participants. As a result, the WIBOR rates dropped noticeably. With the stabilizing situation on the global markets and the domestic interbank market, in the 4th quarter of 2010 the NBP withdrew from conducting liquidity-providing tuning repo transactions, carried out monthly since 2009. In the second half of 2010, the situation remained stable, the improved transactionability in shorter terms was not observed in the case of loans above 1 month.

2.2 The situation on the stock exchange

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

As at the end of 2010, 400 companies were listed on the main WSE market, including 25 foreign companies (compared with 379 and 25 respectively in 2009). In 2010, 34 companies conducted their IPOs on the main WSE market (compared with 13 in 2009), including three large IPOs: PZU SA (the offering value of PLN 8.1 billion), Tauron Polska Energia SA (PLN 4.2 billion) and WSE SA (PLN 1.2 billion).



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

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

2.3 The situation of the Polish banking sector

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

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

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

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

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

As in 2009, the value of corporate loans continued to drop. In spite of the fact that banks were gradually easing their lending policies towards enterprises, the continued uncertainty in the pursuit of the business



activities and the low demand for these loans were growth barriers to lending. After eliminating foreign exchange rate fluctuations, the drop in the value of corporate loans was ca. PLN 2.5 billion but the scale of the decrease dropped to -1.2% y/y compared with -3.3% y/y at the end of 2009.

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

2.4 Regulatory environment

The financial and organizational situation at PKO Bank Polski SA in 2010 was affected by the following new regulatory solutions:

- the amendment to the Act on money laundering and financing of terrorism (Journal of Laws of 2009, No. 166, item 1377) based on which banks, brokerage houses, investment fund management companies and lease firms introduced new, more stringent procedures aimed at preventing money laundering, which required banks, brokerage houses and investment funds to incur adaptation costs;
- resolution No. 52/2010 of the Polish Financial Supervision Authority (PFSA) of 23 February 2010 on the T-Recommendation concerning good practice in managing the risk of retail loan exposures (Official Journal of PFSA No. 2, item 12) aimed at limiting the accumulation of risk at banks,
- resolution No. 53/2010 of the PFSA of 23 February 2010 on the amendment to the I-Recommendation concerning currency risk at banks (Official Journal of PFSA No. 2, item 13) which placed new obligations on banks towards their customers in order to limit the risk related to concluding lending transactions in foreign currencies and improve currency risk management at banks;
- resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 introducing changes in setting capital requirements in connection with the individual risk types (Official Journal of PFSA No. 2, item 11);
- resolution No. 134/2010 of the PFSA of 5 May 2010 on the A-Recommendation concerning managing the risk accompanying transactions on the derivatives market concluded by banks, introducing changes in the monitoring and control of risk (particularly credit risk);
- the decree of the Minister of Finance of 20 November 2009 on the mode and terms of proceedings of investment firms, banks (referred to in Par. 70 clause 2 of the Act on trading in financial instruments) and trust banks (Journal of Laws No. 204, item 1577) placing new information requirements towards customers on banks, brokerage houses and investments funds (from 17 June 2010).

Moreover, the level of banks' lending in 2010 was affected by the planned introduction in 2011 of changes in the government programme for preference housing loans 'Rodzina na swoim', a restriction on granting loans in foreign currencies announced by the PFSA and the increase in VAT.



3. FINANCIAL RESULTS OF PKO BANK POLSKI SA ⁴

PKO Bank Polski SA did not release financial results forecasts for 2010.

3.1 Factors influencing results of PKO Bank Polski SA in 2010

In 2010, the gradual improvement in macroeconomic conditions translated into positive financial results of the Polish banking sector. Nevertheless, the results were still driven by maintaining credit risk. In 2010, credit portfolio quality stabilized and growth of credit risk was relatively lower.

The steps undertaken by PKO Bank Polski SA allowed it to generate the net profit for 2010 higher by 36.1% than the result for 2009.

Net interest income of PKO Bank Polski SA, accompanied by a dynamic growth in lending activities, increased by 31.8% y/y. The level of interest expense decreased slightly in 2010, whereas the fall in deposit interest rates resulting from termination of the lasting from 2009 'deposit war' was neutralized by an increase in deposit base.

PKO Bank Polski SA maintained its high efficiency – the ROE net ratio amounted to 15.5% as at the end of 2010.

High level of deposit base and equity of PKO Bank Polski SA, together with funds from the Eurobonds issue, constituted a stable source of financing, enabling further stable growth of business operations. As at the end of 2010, the solvency ratio was 11.99%, against the minimum level of 8% required by the Banking Law.

3.2 Key financial indicators

The summary of results, achieved by PKO Bank Polski SA in 2010, is represented by the following financial indicators, which are shown in the table below.

Table 1. Main financial indicators of PKO Bank Polski SA

Items	31.12.2010	31.12.2009*	Change 2010-2009
ROA net (net profit / average total assets)	2.1%	1.7%	0.4 pp.
ROE net (net profit / average total equity)	15.5%	15.9%	-0.4 pp.
C/I (cost to income ratio)	39.8%	46.7%	-6.9 pp.
Interest margin (net interest income / average interest-earning assets)	4.3%	3.8%	0.5 pp.
Share of loans and advances to customers for which an individual objective of impairment was identified**	7.4%	7.0%	0.4 pp.
The share of impaired loans***	7.1%	6.4%	0.7 pp.

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

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

*** Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers.

3.3 Income statement

In 2010, PKO Bank Polski SA ('the Bank') recorded the net profit of PLN 3 311.2 million (+36.1% y/y). The sum of income-generating items in the income statement of PKO Bank Polski SA amounted to PLN 9 792.1 million and was by PLN 1 438.6 million, i.e. 17.2% higher than in 2009.

⁴ In this section of the Report, any differences in total balances, percentages and growth rates result from rounding the amounts to PLN million and rounding percentages to one decimal place.



Table 2. Income Statement of PKO Bank Polski SA (in PLN million)

	2010	2009	Change (PLN)	Change 2010/2009
Interest and similar income	10 107.6	8 603.4	1 504.1	17.5%
Interest expense and similar charges	(3 723.8)	(3 761.0)	37.2	-1.0%
Net interest income	6 383.8	4 842.4	1 541.3	31.8%
Fee and commission income	3 678.5	3 083.1	595.4	19.3%
Fee and commission expense	(740.9)	(719 .4)	(21.5)	3.0%
Net fee and commission income	2 937.6	2 363.6	573.9	24.3%
Dividend income	109.9	101.6	8.3	8.2%
Net income from financial instruments at fair value through profit and loss	(56.5)	61.4	(117.9)	x
Gains less losses from investment securities	71.3	(0.6)	71.9	x
Net foreign exchange gains	341.3	894.7	(553.3)	-61.8%
Other operating income	48.0	167.1	(119.1)	-71.3%
Other operating expenses	(43.3)	(76.7)	33.4	-43.5%
Net other operating income and expense	4.7	90.4	(85.7)	-94.8%
Net impairment allowance	(1 767.0)	(1 393.5)	(373.6)	26.8%
Administrative expenses	(3 902.1)	(3 904.6)	2.5	-0.1%
Operating profit	4 122.9	3 055.4	1 067.5	34.9%
Profit (loss) before income tax	4 122.9	3 055.4	1 067.5	34.9%
Income tax expense	(811.7)	(623.3)	(188.4)	30.2%
Net (loss) profit	3 311.2	2 432.2	879.1	36.1%

Net interest income

In 2010, net interest income was PLN 1 541.3 million higher than in the previous year, mainly due to interest income growth by PLN 1 504.1 million.

In 2010, interest income amounted to PLN 10 107.6 million and in comparison with 2009 increased by 17.5%, mainly as a result of an increase in:

- revenue from borrowings granted to customers (+)15.5% y/y – the effect of high growth in the credit portfolio (+12.7% y/y), with continued stability of interest rates in 2010;
- revenue in respect of hedging instruments (+) 60.7% y/y, in effect of the use of hedge accounting by PKO Bank Polski SA since the 2nd quarter of 2009;

and in view of the negative growth in deposits with other banks (-6.9% y/y).

The rate of growth in interest expense amounted to (-)1.0% y/y, mainly in effect of a drop in the costs of issuance of own debt securities (-17.5% y/y) and costs of deposits with other banks (-34.3% y/y).

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

The Bank's margin in 2010 was at a level of 4.3%, which indicates a change of 0.5 pp. (y/y), mainly as a result of the dynamic increase in net interest income.



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

	2010	Structure 2010	2009	Structure 2009	Change 2010/2009
Interest income, of which:	10 107.6	100.0%	8 603.4	100.0%	17.5%
Loans and advances to customers	8 246.2	81.6%	7 140.5	83.0%	15.5%
Derivative hedging instruments	649.1	6.4%	403.9	4.7%	60.7%
Financial assets at fair value through profit and loss	494.7	4.9%	403.1	4.7%	22.7%
Investment securities	437.1	4.3%	389.4	4.5%	12.3%
Placements with other banks	147.7	1.5%	158.6	1.8%	-6.9%
Trading securities	128.9	1.3%	97.2	1.1%	32.6%
Other	3.8	0.0%	10.8	0.1%	-64.6%
Interest expense, of which:	(3 723.8)	100.0%	(3 761.0)	100.0%	-1.0%
Amounts due to customers	(3 586.3)	96.3%	(3 589.6)	95.4%	-0.1%
Debt securities in issue	(82.2)	2.2%	(99.6)	2.6%	-17.5%
Deposits from other banks	(31.2)	0.8%	(47.5)	1.3%	-34.3%
Other	(24.0)	0.6%	(24.3)	0.6%	-1.1%
Net interest income	6 383.8	x	4 842.4	x	31.8%

Net fee and commission income

In 2010, net fee and commission income was PLN 573.9 million higher than in the previous year, with fee and commission income increase by PLN 595.4 million and fee and commission expense increase by PLN 21.5 million.

Net fee and commission income increased by 24.3% y/y i.al. as a result of:

- an increase in commission income in respect of borrowings granted (+43.4% y/y) and their insurance (+99.7% y/y), in effect of the growth in the volume of sales of loans and saturation of the loans with insurance,
- an increase in commission income in respect of the servicing of investment funds (+85.0% y/y),
- an increase in commission income in respect of servicing payment cards (+3.3% y/y), mainly as a result of an increase in card transactionability,
- an increase in commission income in respect of servicing bank accounts (+2.9% y/y),

along with:

- a drop in commission income in respect of teller transactions (-6.7% y/y), in connection with the dynamic growth in electronic banking in PKO Bank Polski SA.

The rate of growth in commission expense was determined by higher costs of loan insurance and lower costs related to payment cards.



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

Items	2010	Structure 2010	2009	Structure 2009	Change 2010/2009
Fee and commission income, of which:	3 678.5	100.0%	3 083.1	100.0%	19.3%
Payment cards services	963.4	26.2%	932.9	30.3%	3.3%
Bank accounts maintenance	908.2	24.7%	882.2	28.6%	2.9%
Loan and advances granted	524.1	14.2%	365.5	11.9%	43.4%
Loan insurance	653.5	17.8%	327.3	10.6%	99.7%
Maintenance of investment funds (including management income)	170.3	4.6%	92.0	3.0%	85.0%
Cash transactions	165.4	4.5%	177.4	5.8%	-6.7%
Securities operations	73.2	2.0%	53.1	1.7%	37.8%
Other*	220.4	6.0%	252.6	8.2%	-12.8%
Fee and commissions expenses, of which:	(740.9)	100.0%	(719.4)	100.0%	3.0%
Payment cards	(329.4)	44.5%	(374.5)	52.1%	-12.1%
Loan insurance	(150.8)	20.4%	(92.9)	12.9%	62.3%
Acquisition services	(133.9)	18.1%	(140.0)	19.5%	-4.3%
Other**	(126.8)	17.1%	(112.0)	15.6%	13.2%
Net fee and commission income	2 937.6	x	2 363.6	x	24.3%

* Included in 'Other' are: income from sale and distribution of court fee stamps, commissions for servicing foreign mass transactions, commissions for fiduciary services, commissions received for servicing bond sale transactions, commissions of Dom Maklerski for servicing Initial Public Offering issue and commissions for servicing loans granted by the State budget.

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

Administrative expenses

In 2010, administrative expenses remained at the stable level as compared to the previous year (a decrease of PLN 2.5 million, i.e. 0.1% y/y). They were mainly determined by:

- decrease in overheads by PLN 104.2 million (-7.6% y/y), mainly as a result of decrease in promotion and advertisement expenses, IT and telecommunications expenses and postal and courier services

along with:

- increase in staff costs by PLN 61.1 million (+2.9% y/y), affected mainly by increase in remuneration expenses of PLN 62.6 million (+3.5% y/y)
- increase in depreciation and amortization costs of PLN 40.6 million (+10.0% y/y)

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

Items	2010	Structure 2010	2009	Structure 2009	Change 2010/2009
Staff costs	(2 197.3)	56.3%	(2 136.2)	54.7%	2.9%
Overheads and other	(1 258.9)	32.3%	(1 363.0)	34.9%	-7.6%
Depreciation and amortisation	(446.0)	11.4%	(405.4)	10.4%	10.0%
TOTAL	(3 902.1)	100.0%	(3 904.6)	100.0%	-0.1%

A stable level of administrative expenses, combined with a simultaneous increase in the income of PKO Bank Polski SA by 17.2% as compared with 2009, resulted in maintaining high operating efficiency of PKO Bank Polski SA activities, measured via the C/I ratio, which amounted to 39.8% (-6.9 pp. compared with 2009).

Net impairment allowance

Result on net impairment allowances is an effect of maintaining a secure approach of PKO Bank Polski SA to measurement of credit risk and the growth of credit portfolio. The net impairment allowances in 2010 amounted to (-) PLN 1 767.0 million and was PLN 373.6 million lower than in the previous year, mainly due to an increase in impairment allowances on corporate loans.

The ratio of loans which meet the objective evidence of individual impairment and those whose impairment has been recognized increased by 0.4 pp. and 0.7 pp. respectively. This was related to taking into consideration a much larger scope of receivables which meet the requirements for individual impairment using the portfolio method as a result of the consistent use of stricter criteria in assessing the loans granted by the Bank.



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

	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Allowances, of which:					
Loans and advances to customers and amounts due from other bank measured at amortised cost	(1 605.1)	90.8%	(1 284.0)	92.1%	25.0%
Non-financial sector	(1 606.5)	90.9%	(1 289.8)	92.6%	24.6%
Consumer Loans	(809.1)	45.8%	(797.5)	57.2%	1.5%
Mortgage Loans	(258.1)	14.6%	(193.3)	13.9%	33.6%
Corporate Loans	(539.3)	30.5%	(299.1)	21.5%	80.3%
Financial sector	(7.0)	0.4%	3.8	-0.3%	x
Budget sector	8.4	-0.5%	2.0	-0.1%	4.2x
Intangible assets	(2.6)	0.1%	-	0.0%	x
Investment in subsidiaries, jointly controlled entities and associates	(15.1)	0.9%	(68.1)	4.9%	-77.9%
Tangible fixed assets	(29.4)	1.7%	0.7	0.0%	x
Other	(114.8)	6.5%	(42.1)	3.0%	2.7x
Allowances – Total	(1 767.0)	100%	(1 393.5)	100%	26.8%

3.4 Statement of financial position of PKO Bank Polski SA

The main items of the statement of financial position

Total assets of PKO Bank Polski SA amounted as at the end of 2010 to PLN 167.2 billion and increased by PLN 13.6 billion (+8.8% y/y) as compared to 2009. As a result, PKO Bank Polski SA maintained the position of the largest financial institution in the Polish banking sector.

In terms of assets, loans and advances granted to customers recorded a particularly high growth – they increased by PLN 14.5 billion compared with the prior year (+12.7% y/y);

The increase in total assets was financed mainly by an increase in amounts due to customers by PLN 11.2 billion as (+9.1% y/y) compared with the year 2009 as a result of an increase in a volume of deposits and additional funds obtained by the Bank from bonds issue under the EMTN programme (pursuant to the agreement signed in October 2010, the Bank borrowed from its subsidiary, PKO Finance AB, funds acquired through Eurobonds issue – for more information please refer to Chapter 4.5).

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

Items	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Cash and balances with the central bank	6 112.6	3.7%	6 994.0	4.6%	-12.6%
Amounts due from banks	2 379.2	1.4%	2 053.8	1.3%	15.8%
Loans and advances to customers	128 933.1	77.1%	114 425.8	74.5%	12.7%
Securities	22 138.2	13.2%	22 535.2	14.7%	-1.8%
Other assets	7 675.8	4.6%	7 638.8	5.0%	0.5%
Total assets	167 238.9	100.0%	153 647.5	100.0%	8.8%
Amounts due to banks	4 167.6	2.5%	4 173.3	2.7%	-0.1%
Amounts due to customers	135 289.1	80.9%	124 044.4	80.7%	9.1%
Subordinated liabilities	1 611.8	1.0%	1 612.2	1.0%	0.0%
Other liabilities	4 968.7	3.0%	3 638.1	2.4%	36.6%
Total liabilities	146 037.1	87.3%	133 468.0	86.9%	9.4%
Total equity	21 201.8	12.7%	20 179.5	13.1%	5.1%
Total liabilities and equity	167 238.9	100.0%	153 647.5	100.0%	8.8%
Loans/Deposits (amounts due to customers)	95.3%	x	92.2%	x	3.1 pp.
Loans/Stable financing resources*	92.2%	x	89.2%	x	3 pp.
Interest bearing assets/Assets	91.8%	x	90.5%	x	1.3 pp.
Interest paying liabilities/Liabilities	84.3%	x	84.5%	x	-0.1 pp.

*Stable sources of financing include amounts due to customers (including funds from the issue of Eurobonds), amounts due to financial institutions and long-term external financing in the form of subordinated liabilities.

The return on assets ratio (ROA) increased by 0.4 pp. in effect of the strong growth in net profit (+36.1% y/y), with an increase in average assets of 14.0% y/y, whereas the return on equity ratio (ROE) dropped by 0.4 pp., in effect of an increase in average equity of 40.2% y/y, which exceeded the rate of growth in net profit.



Loans and advances to customers

The volume of loans and borrowings granted to customers amounted to PLN 128.9 billion at the end of December 2010 and increased by PLN 14.5 billion (+12.7% y/y) compared with the prior year, which was caused by an increase in loans to the non-financial sector (+14.6 billion), mainly housing loans – an increase of PLN 9.8 billion (+19.0% y/y) and corporate loans – an increase of PLN 2.9 billion (+9.1% y/y) compared with 2009.

Table 8. Loans and advances to customers of PKO Bank Polski SA – structure by type (in PLN million)

Structure by type	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Loans and advances to customers net	128 933.1	100.0%	114 425.8	100.0%	12.7%
Financial sector (without banks)	4 247.2	3.3%	3 280.2	2.9%	29.5%
Non-financial sector	120 848.6	93.7%	106 199.4	92.8%	13.8%
Consumer Loans	24 061.8	18.7%	22 186.9	19.4%	8.5%
Mortgage Loans	61 495.6	47.7%	51 663.0	45.1%	19.0%
Corporate Loans	35 291.2	27.4%	32 349.4	28.3%	9.1%
Budget sector	3 837.4	3.0%	4 946.2	4.3%	-22.4%

In the term structure of loans, long-term loans are dominant, which is due to the significant share of mortgage loans granted by PKO Bank Polski SA. The share of long-term loans increased by 3.0 pp. as compared to 2009, as a result of large sales of mortgage loans.

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

Term structure	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Loans and advances to the Bank's customers (gross)	133 198.6	100.0%	117 840.7	100.0%	13.0%
Short-term	24 732.0	18.6%	25 447.6	21.6%	-2.8%
Long-term	108 466.6	81.4%	92 393.1	78.4%	17.4%
Allowances – Total	(4 265.5)	x	(3 414.9)	x	24.9%
Total	128 933.1	x	114 425.8	x	12.7%

Detailed information on loans and advances granted to customers of PKO Bank Polski SA is presented in Notes to the financial statements of PKO Bank Polski SA.

Amounts due to customers

In 2010 amounts due to customers increased by 9.1%, i.e. by PLN 11.2 billion. A significant increase on that had increase of customer deposits as well as the issue of Eurobonds under the EMTN programme.

In the structure of amounts due to customers by types, the main item were amounts due to retail clients (+8.9% y/y) whose share as compared to prior year remained at the stable level. An increase in the share of amounts due to customers was observed in amounts due to corporate entities by 3.4 pp. y/y, together with a decrease in amounts due to state budget entities by 3.3 pp. y/y.

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

Structure by type	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Amounts due to retail clients	94 347.1	69.7%	86 627.3	69.8%	8.9%
Amounts due to corporates	34 895.1	25.8%	27 736.1	22.4%	25.8%
Amounts due to state budget	6 046.8	4.5%	9 681.0	7.8%	-37.5%
Total amounts due to customers	135 289.1	100.0%	124 044.4	100.0%	9.1%

In 2010, the term structure of amounts due to customers slightly changed. Liabilities with maturity to 3 months amounted to 72.1% of total amounts due to customers as at 31 December 2010, which meant a change of (-)1.4 pp. as compared to the end of 2009, whereas its volume increased by PLN 7.4 billion y/y. A decrease in the share of amounts due to customers was offset by an increase in the share of deposits with longer maturity, i.a. with regard to Eurobonds issue.



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

Term structure	31.12.2010	Structure 2010	31.12.2009	Structure 2009	Change 2010/2009
Up to 1 month	82 185.3	59.6%	71 646.0	57.2%	14.7%
From 1 to 3 months	17 198.8	12.5%	20 316.5	16.2%	-15.3%
From 3 months to 1 year	31 504.8	22.9%	29 302.8	23.4%	7.5%
From 1 year to 5 years	5 437.9	3.9%	3 296.7	2.6%	64.9%
Above 5 years	1 523.2	1.1%	648.3	0.5%	2.3x
Value adjustments and interests	(2 560.9)	x	(1 165.8)	x	2.2x
Total amounts due to customers	135 289.1	x	124 044.4	x	9.1%

As at the end of 2010, the following regions had the largest share in the geographical structure of the deposit base⁵ (excluding interbank deposits): Mazowiecki Region (26.2%), Śląsko-Opolski Region (12.6%) and Wielkopolski Region (10.3%). Their overall share in total deposits of PKO Bank Polski SA amounted to 49.1% and decreased by 2.2 pp. compared with the end of 2009.

Equity and capital adequacy ratio

Equity of PKO Bank Polski SA increased by 5.1% y/y and accounted for 12.7% of total liabilities and equity of PKO Bank Polski SA as at the end of 2010. The share of equity in the structure of liabilities and equity decreased slightly by 0.5 pp. as compared with the previous year.

Capital adequacy ratio of PKO Bank Polski SA, despite the decrease as compared to 2009 (-2.4 pp. y/y) was still at high level and at the end of 2010 amounted to 11.99%. Capital adequacy measured with the solvency ratio remained at a safe level despite the fact that the net profit for 2009 had not been accumulated, while the credit portfolio grew dynamically.

Table 12. Equity and capital adequacy ratio of PKO Bank Polski SA (in PLN million)

Items	2010	Structure 2010	2009	Structure 2009	Change 2010/2009
Equity, of which:	21 201.8	100.0%	20 179.5	100.0%	5.1%
Share capital	1 250.0	5.9%	1 250.0	6.2%	0.0%
Reserve capital	12 098.1	57.1%	12 048.1	59.7%	0.4%
Other reserves	3 283.4	15.5%	3 276.3	16.2%	0.2%
General banking risk fund	1 070.0	5.0%	1 070.0	5.3%	0.0%
Financial assets available for sale	(28.8)	-0.1%	(16.3)	-0.1%	76.9%
Unappropriated profits	-	0.0%	-	0.0%	x
Cash flow hedges	217.9	1.0%	119.3	0.6%	82.7%
Net profit for the period	3 311.2	15.6%	2 432.2	12.1%	36.1%
Own funds	16 563.1	x	16 944.5	x	-2.3%
Capital adequacy ratio	11.99%	x	14.41%	x	-2.42 pp.

⁵ The structure is based on the management data of PKO Bank Polski SA.



4. BUSINESS DEVELOPMENT

4.1 Directions of development of PKO Bank Polski SA

The directions of development of PKO Bank Polski SA for the foreseeable future is set in the Bank's Strategy which was adopted by the Management Board and approved by the Supervisory Board in February 2010. The key strategic goals of PKO Bank Polski SA for the years 2010-2012 stipulate:

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

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

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

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

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

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

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

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



The sustainable development should translate into high profitability (achieving ROE in excess of 16% and ROA in excess of 2%) which is to be accompanied by strict cost control (the C/I ratio is to remain below 45%) and the capital adequacy ratio maintained at a safe level of more than 12%.

4.2 Market share of PKO Bank Polski SA

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

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

Table 13. Market share of PKO Bank Polski SA (%)*

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

* Data source: NBP reporting system – WEBIS.

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

4.3 Business segments⁶

4.3.1 Retail segment

In 2010, activities undertaken by the Bank within the retail segment were focused on increasing attractiveness and competitiveness of offered products, as well as on reacting in a flexible way to changing market conditions.

In the retail segment, PKO Bank Polski SA focused on providing comprehensive banking services which, on the one hand satisfy the credit needs, and on the other – the deposit and settlements needs of the clients. The Bank made efforts to improve the quality of the service, among other, by improving the standard of providing services to the clients and enhancing the skills of employees (product training courses). The activities aimed at specified groups of products are detailed below.

⁶ In this sub-chapter the Bank's management information is presented; any differences in total balances, shares and rates of growth result from rounding; gross loans and advances to customers are presented without interest due and interest not due.



Table 14. Loan products available in retail segment

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

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

Table 15. Loans and advances to customers in the retail segment (in PLN million)

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

* Without interest due and interest not due.

Source: management information of the Bank.



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

Table 16. Deposit products available in retail segment

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

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



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

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

Current accounts, Inteligo and banking cards

PKO Bank Polski SA continues to be the market leader in terms of the number of accounts maintained, which amounted to 6 150 thousand as at the end of 2010. In 2010, the promotional offer for the owners of current accounts, which met different preferences of the clients, has been launched.

Table 18. Accounts and payment cards of PKO Bank Polski SA (in thousands of units)

Items	31.12.2010	31.12.2009*	Change 2010/2009	Change 2010-2009
Total number of accounts, of which:	6 150	6 212	-1.0%	(62)
- Inteligo current accounts	655	639	2.5%	16
Total number of banking cards, of which	7 171	7 456	-3.8%	(285)
- credit cards	1 063	1 106	-3.9%	(43)

*Presentational change in the current accounts' number is the result of a modification in the classification of accounts.

As at the end of 2010, PKO Bank Polski SA serviced 8.1 million customers in the retail segment⁷.

Own network of ATMs reached the number of 2 419 ATMs, which enabled the Bank to further decrease the costs of cash processing and to expand the availability of services for customers. The network of agencies (ca. 1.9 thousand locations) continues to complement significantly the network of branches and ATMs.

Table 19. Operational data in the retail segment – branches, ATMs and agencies

Items	31.12.2010	31.12.2009	Change 2010/2009	Change 2010-2009
Total number of branches	1 208	1 228	-1.6%	(20)
- in the retail segment:	1 140	1 160	-1.7%	(20)
regional retail branches	12	12	0.0%	-
regional branches	475	475	0.0%	-
subordinated branches	653	673	-3.0%	(20)
Number of ATM's	2 419	2 388	1.3%	31
Number of agencies	1 942	2 175	-10.7%	(233)

The Bank continued to develop access by electronic channels. Starting from May 2010 the holders of Inteligo gained access to the website www.mojeinteligo.pl. The service was created with an aim to inform clients systematically about offers and services relating to an Inteligo account. Through 'Moje Inteligo' website clients may publish their comments, remarks and suggestions concerning the functionalities of an Inteligo account, as well as expectations with regard to changes and improvements. What is more, clients gained access to the CardMoney functionality, which allows them to transfer their money from an Inteligo account using the Inteligo Visa Electron card number.

4.3.2 Corporate segment

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

⁷ As compared to the data published as at 2009, calculation method of the number of clients has been changed. To bring the data to comparability, the number of clients served in the retail sector amounted to 8.1 million as at 31 December 2009.



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

In 2010, the corporate segment has been consistently building the credit offer suiting current and future needs of clients, which allowed the Bank to maintain high volume of loans close to the record level reached in the previous year (over PLN 29 billion). At the same time, the sales processes have been intensified, which was the reason for the increase in the number of clients by 7.5% (y/y), i.e. to the level of 11.5 thousand.

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

Table 20. Loans and advances to customers and deposits in the corporate segment (in PLN million)

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

* Without interest due and interest not due.
Source: management data of the Bank.

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

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

Moreover, the following newly launched products deserve special attention:

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

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

PKO Bank Polski aims at maximizing profits by building long-term lasting partnership relations with its clients. That is why in 2010 a loyalty program for corporate segment clients has been launched in order to continue to strengthen the relationship with the chosen, most active corporate clients of the Bank.

Table 21. Significant activities in the corporate segment

Scope of activity	Activity
loan activity	<p>Key transactions exercised in 2010:</p> <ol style="list-style-type: none"> 1) conclusion of a contract for financing on-going operations in the amount of PLN 250 million with a company engaged in the manufacture of metal goods; 2) granting revolving and investment financing in the total amount of PLN 290 million on behalf of an aluminium company; 3) granting financing in the form of a loan facility (limit on guarantees) in the total amount of PLN 300 million on behalf of a construction company; 4) granting financing in the form of guarantees in domestic trading for a total amount of PLN 400 million on behalf of a construction company; 5) granting financing in the form of a loan facility for a total amount of USD 65 million on behalf of a fuel company; 6) issuing three promises for an energy company in connection with its accession to the tender for the construction of a power unit at Elektrociepłownia Siekierki in Warsaw for Vattenfall Heat Poland SA, in the amount of PLN 500 million.

During 2010, the Bank's relations with the public sector also developed rapidly (this included the largest cities, Marshal's offices and county-level cities, large public utility companies), especially in respect of deposit and transaction services, public-private partnerships and financing large infrastructural council investments.



Table 22. Significant activities in the budget segment

Scope of activity	Activity
loan activity	Key transactions exercised in 2010: 1) granting an overdraft facility of PLN 300 million to a public sector entity; 2) participation in a banking syndicate to finance a public utility company's investment in the amount of PLN 300 million; share of PKO BP SA – PLN 150 million; 3) granting an investment loan in the amount of PLN 140 million on behalf of a water mains company; 4) granting financing under a banking syndicate to one of the metropolies; share of PKO BP SA – PLN 200 million.

The sales network of the corporate segment includes regional corporate branches and subordinated corporate centres – altogether 68 branches as at 31 December 2010.

Table 23. Operational data in the corporate segment – number of branches

Items	31.12.2010	31.12.2009	Change (in %)	Change 2010-2009
Total number of branches	1 208	1 228	-1.6%	(20)
- in the corporate segment:	68	68	0.0%	-
regional corporate branches	13	13	0.0%	-
corporate centre	55	55	0.0%	-

4.3.3 Investment segment

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

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

WSE SA, with small hiccups, managed to maintain a stable growth trend. The WIG20 index increased by 15% in 2010, whereas WIG increased by 19%.

Table 24. Achievements of PKO Bank Polski SA in the investment segment – treasury activities

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



Table 25. Achievements of PKO Bank Polski SA in the investment segment – brokerage activities

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

Table 26. Achievements of PKO Bank Polski SA in the investment segment – fiduciary activities and structural financing

Investment activity	Activity
Fiduciary activities	<p>market activities</p> <p>PKO Bank Polski SA is a direct participant in the National Securities Deposit, the Securities Register (NBP), a member of the Board of Depositary Banks and the Board for Non-Treasury Debt Securities under the aegis of the Association of Polish Banks. The Bank maintains securities accounts and handles transactions on Polish and foreign markets, as well as provides fiduciary services and acts as depositary for pension and investment funds, is an active participant in works related to developing regulations and market standards.</p>
	<p>value of fiduciary assets</p> <p>As at the end of December 2010 the Bank operated nearly 2.5 thousand securities accounts as part of custody services.</p> <p>The Bank continued to focus its activities on optimizing the structure of customer portfolio and increasing commission income within fiduciary services. The acquisition activities focused on attracting customers with a large portfolio of assets and a high settlement potential. As a result, the value of assets entrusted to the Bank by its customers increased by nearly 40% from ca. PLN 24 billion at the end of December 2009 to ca. PLN 33.5 billion at the end of December 2010.</p>
Structural financing	<p>issue of non-treasury debt securities</p> <p>The Bank possesses a wide range of products aimed at institutional clients. A comprehensive credit offer for large investment endeavors characterized by a wide range of available services, substantial flexibility, a variety of financing methods and most of all an individual approach to each project is one of its elements. The Bank is among the leaders among financial institutions involved in the organization of non-Treasury debt security issues in Poland.</p> <p>In 2010, the Bank concluded 133 agreements for the issue of communal bonds with a total value of PLN 1.2 billion and 6 agreements for the issue of corporate bonds, with a guarantee for closing the issue in the total value of PLN 9.8 billion, including two corporate bond issues organized by bank syndicate with a value of: PLN 3 billion and PLN 1.3 billion to which the Bank contributed PLN 480 million and PLN 216.6 million respectively. Additionally, the Bank concluded 3 corporate bond issue programs without guarantee of closing the issues, with a value of PLN 1.5 billion.</p>
	<p>loans in form of a consortium</p> <p>In respect of financing investment projects in the form of loans, in 2010, the Bank organized banking syndicates which granted 9 loans with a total value of PLN 5 billion, in which the Bank participated up to PLN 1.1 billion. The Bank granted 9 bilateral loans in the amount of PLN 458 million and concluded 5 agreements for granting a bank guarantee in the amount of PLN 377 million, including two guarantee agreements for an entity directly related to the Bank, in the amount of USD 75 million. The transactions were concluded on an arm's length basis.</p> <p>Moreover, the Bank concluded a subordinated loan agreement with KREDOBANK SA – an entity directly related to the Bank in the amount of USD 15 million – the transaction was concluded on an arm's length basis.</p>



4.4 International cooperation

Co-operation with other foreign institutions

Under the 2020 European Fund for Energy, Climate Change and Infrastructure (hereinafter 'The Marguerite Fund'), PKO Bank Polski SA increased its capital involvement in the said fund from EUR 500 thousand as at the end of 2009 to EUR 1 200 thousand as at the end of 2010. PKO Bank Polski SA participates in the project as the only bank operating in one of the new EU Member States which was awarded the status of 'Core sponsor'. The Marguerite Fund was established in 2009 for 20 years and is currently at the stage of building its investment portfolio.

4.5 Issue of Eurobonds

1. On 21 September 2010, the Management Board of the Bank adopted a resolution establishing the terms and conditions of the First Drawdown under the EMTN Programme of the Bank's subsidiary, PKO Finance AB ('Issuer') seated in Sweden, of which the Bank is the sole shareholder. The basic terms and conditions of the First Drawdown under the EMTN Programme are as follows:
 - Drawdown Amount: up to EUR 800 000 000,
 - Drawdown Currency: Euro,
 - Maturity: 5 years,
 - The funds obtained from the Drawdown will be used for general financing purposes of the Bank, including liquidity purposes,
 - Interest: notes will be interest bearing at fixed rate,
 - Interest Period: 1 year,
 - Denomination of each note will be EUR 50 000,
 - Type of issue: senior,
 - Listing: Luxembourg Stock Exchange,
 - Settlement conditions will be as follows: the funds will be transferred between the Issuer and the Bank in a form of a loan, the amount and loan conditions of which will be equal to the amount of funds obtained from the issuance of notes. The settlements between the Issuer and the Bank will be provided by the Paying Agent through banking accounts dedicated only for purposes of the issuance of notes and with consent of the Bank,
 - The Issuer is to be paid accordingly to the agreement for the administration of the EMTN Programme.
2. On 12 October 2010, PKO Bank Polski SA has issued (through its subsidiary, PKO Finance AB) 5-year Eurobonds in the amount of EUR 800 million. This is the very first issue of this type in the Bank's history, the success of which proves that the Bank is capable of using capital markets effectively, also in the debt financing segment, which enables the Bank's sources of finance to be diversified. The demand for the first tranche of Eurobonds of PKO Bank Polski SA, issued within EMTN program, was large and significantly exceeded EUR 1 billion. Investors who, apart from domestic ones, were mainly institutions from Germany, Austria, Belgium, Holland and Luxemburg, have applied for over 100 subscriptions. Final valuation of Eurobonds amounted to 185 basis points over the midswap rate with the interest rate of 3.733%. It is the most profitably placed issue by a Polish issuer (excluding the State Treasury). Markets offer comparable costs of financing to such banks as Santander, BBVA, Banco Popolare as well as to some German institutions. Arrangers of the issue were HSBC and Société Générale and dealers were HSBC, Société Générale and PKO Bank Polski SA.
3. On 19 October 2010, PKO Bank Polski SA concluded a loan agreement with its subsidiary, PKO Finance AB seated in Sweden (the 'Issuer'), pursuant to which the Bank would borrow from the Issuer certain funds representing proceeds from the issue of Eurobonds by the Issuer (the 'Loan Agreement').

The Bank is the sole shareholder of the Issuer. The issuer is a related party to the Bank according to the Polish Accounting Act. Under the Loan Agreement, the Issuer grants a loan of EUR 800 000 000 to the Bank, i.e. PLN 3 145 360 000, intended to be used for general financing purposes of the Bank. The loan bears interest at a fixed rate of 3.733%. Interest is paid annually. The Loan Agreement was concluded for the term of five years. The loan is not secured. The Loan Agreement does not provide for any contractual penalties. To date, the Bank has not concluded any agreements with the Issuer meeting the criteria of a material contract.



4.6 Activities in the area of promotion and image building

Sponsorship activities

Sponsoring activities realized by the Bank were aimed at creating the image of PKO Bank Polski SA as a reliable financial institution, open to the needs and expectations of its clients, engaged in the development of the country and local communities.

Table 27. Structure of the main sponsorship areas (percentage)

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

Table 28. Sponsorship activities by amount (in PLN)

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

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

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

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

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

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

Charity activities

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

Table 29. Main areas of charity activities

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



Table 30. Sponsorship activities by amount (in PLN)

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

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

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

PKO Bank Polski SA participated in action on behalf of the flood victims, transferring funds for the renovation of schools and kindergartens. Additionally, thanks to the support of PKO Bank Polski SA, it was possible to purchase various equipment and medical apparatus for hospitals and funds operating in the area of life-saving.

Activities of PKO BP SA Foundation

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

In 2010, the Foundation's major achievements included, *inter alia*, the following:

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

Prizes and awards granted to PKO Bank Polski SA

2010, PKO Bank Polski SA was awarded a number of awards, including the following:

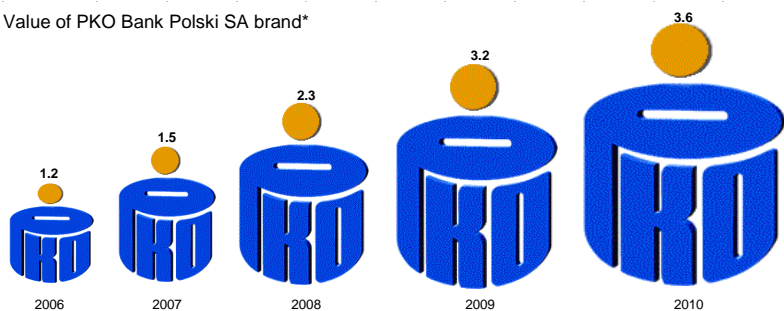
1. Product of The Year 2009 – PKO Bank Polski SA was awarded prizes in four categories: bank account, mortgage loan, cash loan, deposit.
2. Entrepreneur Friendly Bank – PKO Bank Polski SA was awarded a Gold Prize and the Laureate title for implementing new standards of servicing institutional clients, responding flexibly to the needs of corporate clients, improving and enhancing the product offer and the manner it is being sold using the solid models of cooperation with small and medium enterprises.
3. Złoty Bankier (*Golden Banker*) – PKO Bank Polski SA won a prize for the best mortgage loan in the market, Inteligo received an award 'Złoty Bankier' in a category Financial Innovation for the most original product of the year, i.e. an overdraft in a mobile phone.
4. The Prize of the Stock Exchange – the Brokerage House (Dom Maklerski) of PKO Bank Polski SA was awarded three prizes by the Warsaw Stock Exchange for its achievements in 2009: for the highest value of new issues of listed companies in 2009, for the support in launching the Catalyst market and active operations in the market as regards acquisition, for the largest share in the market maker turnover in the NewConnect market in 2009.
5. Lampart 2009 (*Leopard 2009*) – the idea of Leopards lies in awarding the banks that made the greatest effort to build their brand last year and were successful in doing so. PKO Bank Polski SA took the second place in the following categories: retail banking and banking services for microenterprises.
6. 'Złote Godło Zaufania' (*Gold Emblem of Trust*) – PKO Bank Polski SA brand was chosen by readers of Reader's Digest monthly as the most trusted one: PKO Bank Polski SA received Złote Godło (*Gold Emblem*) of European Trusted Brand, as well as the title of the Most Environment Friendly Brand.



7. Ranking of banks financing developers' housing projects - in the 6th edition of the ranking, PKO Bank Polski SA took the first place in the general ranking (scoring 91 out of 100 points).
8. In the ranking of 100 most valuable companies in Poland in 2009 organised by *Newsweek*, PKO Bank Polski SA was valued at PLN 35.8 billion and took third place. The valuation was made by the consulting firm A.T. KEARNEY. The research analyzed companies with remarkable turnover, profitability and with brand valued by the Poles.
9. *PremiumBrand 2009* – in the 5th edition of *PremiumBrand MMT Management*, assessing brand reputation among consumers and businesses, PKO Bank Polski SA won the best score in the category 'banks' and was awarded the title of Brand of High Repute.
10. In the 18th edition of the Best Banks 2010 competition organized by *Gazeta Bankowa*, PKO Bank Polski SA won the category of 'large banks'.
11. The 50 largest banks in Poland 2010 – in a ranking reflecting the market position of financial institution – organized by 'Miesięcznik Finansowy BANK' issued by the Polish Banking Association, PKO Bank Polski SA was awarded the following: the main prize, a special distinction for the Bank as the institution with the highest capital power, a special prize awarded by the Credit Information Bureau (BIK) to the Bank for providing BIK reports.
12. 'The Best Financial Institution of 2009' organized by *Rzeczpospolita* - in the 8th ranking of the best financial institutions organized by *Rzeczpospolita* in the Bank category, PKO Bank Polski SA took the third place.
13. PKO Bank Polski SA – the most universal bank – *Comperia.pl* conducted research to find the most versatile bank in Poland. PKO Bank Polski SA was chosen as the bank that is best adapted to meet the high expectations of clients. It scored as many as 31.5 points out of the maximum score of 35 points and was the only one to exceed the threshold of 30 points. PKO Bank Polski SA won in three partial rankings – in the mortgage loan category, the credit card category and the investment product category.
14. Inteligo – the on-line No. 1 bank – in the eighth edition of the ranking 'The Newsweek's friendly bank', Inteligo was ranked first in the 'On-line bank' category. The Bank was praised for, amongst others, the quality of its client service, an easy-to-navigate and reliable website, as well as friendly transaction-related procedures.
15. A client-friendly Bank – PKO Bank Polski SA became the winner of the sixth edition of the nationwide Certification Program 'Firma Przyjazna Klientowi' (Client-friendly firm) conducted by Fundacja Obserwatorium Zarządzania. In this year's edition 19 institutions obtained certificates, among them PKO Bank Polski SA as the only representative of the banking sector. It is the second 'Firma Przyjazna Klientowi' award for PKO Bank Polski SA.
16. Second position in the competition for the Best Annual Report for 2009 - PKO Bank Polski SA became one of the winners of the competition for the Best Annual Report for 2009 organized by the Accounting and Taxation Institute under the honorary sponsorship of, among other things, the Warsaw Stock Exchange. In this year's edition of the competition PKO Bank Polski SA ranked second in the category 'Banks and financial institutions'.
17. 'Perła Polskiej Gospodarki' (*Pearl of the Polish Economy*) – in the 8th ranking of Polish enterprises organized by the Institute of Economics of the Polish Academy of Sciences (PAN) and *Polish Market*, PKO Bank Polski SA won the award 'Perła Polskiej Gospodarki'. Ratios that decided on PKO Bank Polski SA being awarded the title 'Perła Polskiej Gospodarki' in the category 'Perły Wielkie' (*Great Pearls*) were as follows: high rate of growth of income, very good return of sales, debt ratio, return on assets gross, return on equity net and outstanding work efficiency.
18. The most valuable brand in the Polish financial sector – for the last five years, i.e. since the first edition of the *Rzeczpospolita* ranking which takes into account financial services firms, PKO Bank Polski SA remains first among financial firms in terms of brand strength. In the ranking 'Marki Polskie 2010' prepared by *Rzeczpospolita* PKO Bank Polski SA proved to be the most valuable and the strongest brand in the Polish financial sector. During the last year, the value of the market leader's brand by more than 15% and was assessed by the authors of the ranking at over PLN 3.6 billion. Specialists from *The Banker* magazine evaluated it at one billion dollars. The ranking 'Marki Polskie' by *Rzeczpospolita* is prepared according to a similar methodology to that of the most prestigious global rankings. Financial results and the role of the brand in consumers' purchasing decisions play a key role there.



Value of PKO Bank Polski SA brand*



* according to the rating of the most valuable Polish brands published by Rzeczpospolita (in PLN billion)

For the purposes of the ranking, a worldwide used method 'relief from royalty' was adopted. It is based on hypothetical licensing fees that the owner of the brand would have to pay, if he did use it basing on the license agreement. Such a fee is settled in relation to income on sales.

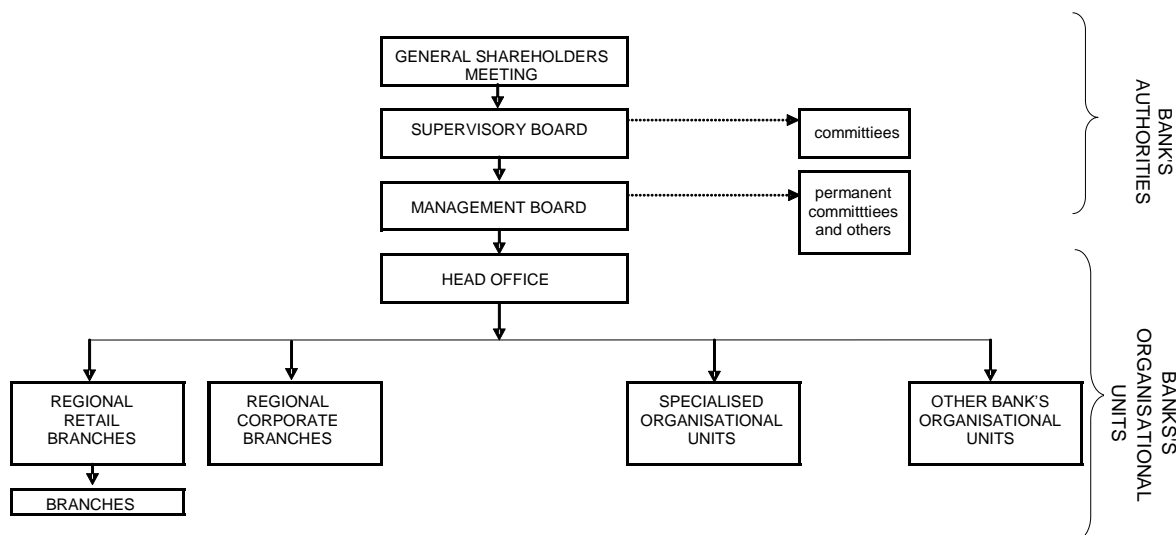
19. The award for mass introduction of proximity cards – during the *Central European Electronic Card Conference* in Warsaw the results of the competition promoting products and events on the card market in Poland were presented. In the category 'Event of the Year 2010' PKO Bank Polski SA won by mass introduction of proximity cards.
20. PKO Bank Polski SA and Inteligo closest to their clients – *Dziennik Gazeta Prawna* published the results of the ranking 'Bank Najbliższy Klientowi' ('The Bank closest to the client'). In the transactional service category, Inteligo, the virtual branch of PKO Bank Polski SA, was one of the laureates. Apart from the transaction service, availability of branches and ATMs, call centres and consultants' competences, the information content of the website and the modernity and attractiveness of the offer were taken into account.



5. INTERNAL ENVIRONMENT

5.1 Organisation of PKO Bank Polski SA

Chart 1 Organisational structure of PKO Bank Polski SA



The most important activities in respect of the organization of PKO Bank Polski SA conducted in 2010 were concentrated on enhancement of Bank's structures dedicated to accomplishment of priority tasks, resulting from the Bank's Strategy.

5.2 Objectives and principles of risk management

Risk management is one of the most important internal processes of PKO Bank Polski SA. It aims at providing adequate level of security and profitability of business activities in an ever changing regulatory and economic environment and risk level constitutes an important factor of a planning process.

In the Bank, the following types of risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk, price risk of equity instruments, operational risk, compliance risk, business risk (including strategic risk), and reputation risk. Derivatives risk is a subject to a special control due to the specific characteristics of these instruments. Managing the banking risk by maintaining the risk level within the adopted tolerance bracket is aimed at:

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

Risk management in PKO Bank Polski SA is based in particular on the following principles:

- the Bank manages all the identified types of banking risk;
- the level of risk is controlled on an on-going basis;
- the process of risk management is appropriate in respect of the scale of operations and the materiality, scale and complexity of a given risk, and is adapted to new risk factors and sources on a current basis;
- risk management methods (specifically models and model assumptions) and risk measurement systems are adequate to the scale and complexity of the risk and are periodically verified and validated;
- the risk management process supports the realization of the Bank's strategy, specifically in respect of the risk tolerance level;
- the organizational independence of the risk and debt collection area from business activities is maintained;
- risk management is integrated with planning and controlling systems.

The risk management process is supervised by the Supervisory Board of the Bank, which is informed on a regular basis about the risk profile of the PKO Bank Polski SA as well as of the most important activities taken in the area of risk management.



The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board approves the most important decisions affecting the risk profile of the Bank and enacts internal regulations defining the risk management system.

The risk management process is carried out in three, mutually independent lines of defence:

- 1) the first line of defence, which is functional internal control that ensures using risk controls and compliance of the activities with the generally applicable laws,
- 2) the second line of defence, which is the risk management system, including risk management methods, tools, process and risk management organization,
- 3) the third line of defence, which is an internal audit.

The independence of the lines of defence consists of preserving organizational independence in the following areas:

- the function of the second line of defence as regards creating system solutions is independent of the function of the first line of defence,
- the function of the third line of defence is independent of the functions of the first and second lines of defence,
- the function of managing the compliance risk reports directly to the President of the Management Board.

The priority of the PKO Bank Polski SA is to maintain strong capital base and to increase stable sources of financing, which determine the growth of the loan portfolio.

5.2.1 Credit risk

Credit risk is defined as a risk of occurrence of losses due to a counterparty's default of payments to the Bank or as a risk of decrease in economic value of amounts due to the Bank as a result of deterioration of a counterparty's ability to repay due amounts.

The objective of credit risk management is to reduce losses of loan portfolio and to minimize the risk of loans with impairment, while maintaining an expected level of yield and loan portfolio value.

PKO Bank Polski SA applies the following principles of credit risk management:

- a loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk assessment related to loan transactions is measured on the stage of a loan request review and a cyclical basis during the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels or their value is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
- loan granting decisions are made only by authorised persons,
- credit risk is diversified in particular by geographical location, by industry, by product and by clients,
- expected credit risk is mitigated by setting by the Bank legal collateral, credit margins and impairment allowance on loan exposures.

The above-mentioned policies are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal ratings based requirements (IRB), i.e. advanced credit risk management method, which can be used while calculating capital requirements for credit risk after being approved by the Polish Financial Supervision Authority.

The Bank assesses the credit risk of retail clients on two levels: the client's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from external sources and internal databases of the Bank.



Credit risk relating to the financing of corporate clients is assessed on two levels: the client and the transaction. These assessments are based on the ratings of the client and the transaction. The so-called cumulative rating is a synthetic measure of credit risk that takes into consideration both risk factors. Since 1 September 2010, the Bank has implemented a scoring method of credit risk assessment of small and medium enterprises customers along with a dedicated IT application. For those clients, apart from the rating method, a scoring method is used, according to which the Bank assesses the credit risk in two dimensions: creditworthiness and financial viability of the client.

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

Information on ratings and scoring is widely used at the Bank for the purposes of credit risk management, the system of credit decision-making powers, determining the amounts above which independent credit assessment services are activated and in the credit risk assessment and reporting system.

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

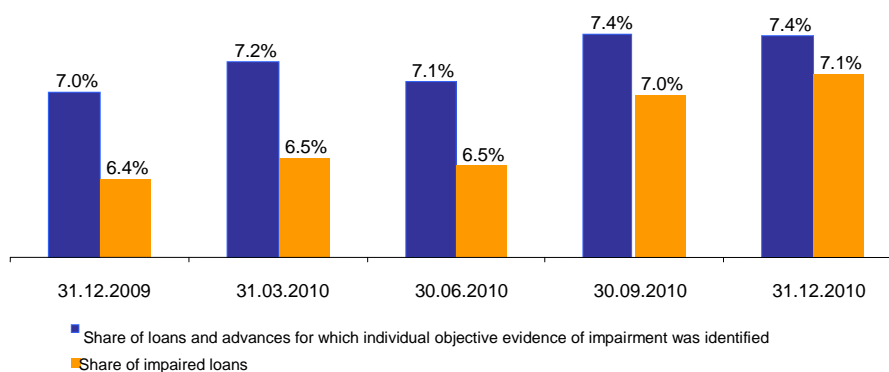
Table 31. The structure of loan portfolio and impairment allowances of PKO Bank Polski SA (in PLN million)

	31.12.2010	31.12.2009	Change 2010/2009
Loans and advances to customers - gross	133 198.6	117 840.7	13.0%
Receivables for which individual objective evidence of impairment was identified, of which:	9 863.2	8 238.3	19.7%
<i>portfolio method</i>	4 803.6	3 561.2	34.9%
<i>individual method</i>	5 059.6	4 677.2	8.2%
Receivables for which group objective evidence of impairment was identified (IBNR), of which:	123 335.4	109 602.4	12.5%
<i>group method</i>	123 335.4	109 565.5	12.6%
<i>individual method</i>	-	36.9	-100.0%
Total impairment allowances	(4 265.5)	(3 414.9)	24.9%
Impairment allowances on exposures for which individual objective evidence of impairment was identified:	(3 785.6)	(2 856.7)	32.5%
<i>portfolio method</i>	(2 508.8)	(1 885.4)	33.1%
<i>individual method</i>	(1 276.8)	(971.3)	31.4%
Impairment allowances on exposures for which group objective evidence of impairment was identified (IBNR):	(479.9)	(558.3)	-14.0%
<i>group method</i>	(479.9)	(556.1)	-13.7%
<i>individual method</i>	-	(2.1)	-100.0%
Loans and advances to customers - net	128 933.1	114 425.8	12.7%

In 2010, the value of gross loans granted by the Bank valued using individual method increased by PLN 346 million, whereas the share of loans valued using portfolio method increased by PLN 1 242 million.

Share of loans and advances which meet the objective evidence of individual impairment and share of loans with recognized impairment is presented on the chart below.

Chart 2 Share of loans for which an individual objective of impairment was identified and share of loans and advances with recognized impairment





The share of loans for which an individual objective evidence of impairment as at 31 December 2010 was identified in gross loan portfolio in PKO Bank Polski SA's gross loan portfolio amounted to 7.4% as compared with 7.1% reached as at 30 June 2010 and 7.0% as at 31 December 2009.

Increase in the share of loans for which an individual objective evidence of impairment was identified by 0.4 pp. as at 31 December 2010 compared with 31 December 2009 was mainly due to a higher growth rate of gross portfolio with individual objectives of impairment (19.7%) than growth rate of the total loan portfolio (13.0%).

As at 31 December 2010, PKO Bank Polski SA's coverage ratio of loans⁸ for which an individual objective evidence of impairment was identified reached the level of 43.2% as compared with 43.1% as at 30 June 2010 and 41.5% as at 31 December 2009.

The share of impaired loans in PKO Bank Polski SA in gross loan portfolio as at 31 December 2010 amounted to 7.1%, compared with 6.5% as at 30 June 2010 and 6.4% as at 31 December 2009.

Coverage ratio for impaired loans⁹ for PKO Bank Polski SA as at 31 December 2010 amounted to 44.9%, compared with 47.1% as at 30 June 2010 and 45.5% as at 31 December 2009.

5.2.2 Market risk

Interest rate risk

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

The objective of interest rate risk management is to mitigate potential losses arising from market interest rate changes to an acceptable level by shaping the structure of the statement of financial position items and off-balance sheet items.

In the process of interest rate risk management, PKO Bank Polski SA uses the Value at Risk (VaR) model, interest income sensitivity measure, stress testing and a repricing gap.

As at 31 December 2010, the Bank was mainly exposed to the PLN interest rate risk which was responsible for ca. 63% of the value at risk (VaR). Interest rate risk was determined mainly by the risk of a mismatch of the dates of revaluation of interest rates in respect of the Bank's assets and liabilities.

VaR of the Bank and stress testing analysis of PKO Bank Polski SA exposure to the interest rate risk are presented in the following table.

Table 32. VaR and stress test analysis of PKO Bank Polski SA's exposure to interest rate risk (in PLN thousand)

Name of sensitivity measure	31.12.2010	31.12.2009
VaR for a 10-day time horizon	39 004	17 086
Parallel movement of interest rate curves by 200 bp. (stress test)	475 091	164 418

As at 31 December 2010, the interest rate VaR for the holding period of 10 days amounted to PLN 39 004 thousand, which accounted for approximately 0.24% of the value of the Bank's own funds. As at 31 December 2009, VaR for the Bank amounted to PLN 17 086 thousand, which accounted for approximately 0.10% of the Bank's own funds¹⁰.

Currency risk

Currency risk is the risk of incurring losses due to exchange rate changes, generated by maintaining open currency positions in a given foreign currency.

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

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

¹⁰ Own funds calculated in accordance with regulations concerning calculation of the capital adequacy ratio.



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The objective of managing the currency risk is to reduce potential losses arising from exchange rate changes to an acceptable level by shaping the currency structure of the statement of financial position items and off-balance sheet items.

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

VaR and stress-testing of the Bank's exposure to currency risk are stated cumulatively for all currencies in the table below.

Table 33. VaR and stress tests of PKO Bank Polski SA exposure to currency risk (in PLN thousand)

Name of sensitivity measure	31.12.2010	31.12.2009
VaR for a 10-day time horizon	3 171	1 092
Change in CUR/PLN by 15% (stress test)	3 954	4 440

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

Table 34. PKO Bank Polski SA currency position for particular currencies (in PLN thousand)

Currencies	Currency position as at 31.12.2010	Currency position as at 31.12.2009
USD	(60 735)	(6 777)
GBP	48 110	1 507
CHF	(19 038)	(3 594)
EUR	(13 120)	24 748
Other (Global Net)	18 424	13 715

Liquidity risk

The liquidity risk is a risk of the lack of the possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from an inadequate structure of the statement of financial position, mismatch of cash flows, not received payments from contractors, sudden withdraw of cash by clients or other market events.

The objective of liquidity risk management is to ensure the appropriate level of capital necessary to pay present and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of the Bank's statement of financial position off-balance-sheet liabilities.

PKO Bank Polski SA's policy concerning liquidity is based on keeping a portfolio of liquid securities and growth of stable sources of financing (in particular, a stable deposit base). In its liquidity risk management policy, money market instruments, including NBP open market operations, are used.

To ensure an adequate liquidity level, PKO Bank Polski SA implemented limits and thresholds for liquidity risk for short, medium and long-term liquidity risk.

The table below presents liquidity reserve of PKO Bank Polski SA as at 31 December 2010 and 31 December 2009:

Table 35. Liquidity reserve in PKO Bank Polski SA (in PLN million)

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

* Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

As at 31 December 2010, the level of core deposits constituted approximately 95.2% of all deposits of the Bank (excluding inter-bank market), which is a decrease by ca. 0.4 pp. as compared to the end of 2009.

5.2.3 The price risk of equity securities

The price risk of equity securities is the risk of incurring a loss due to changes in the prices of equity securities on the public market or stock exchange indices, generated by maintaining open positions in instruments sensitive to changes in these market parameters.



The price risk of equity securities results from operations conducted as part of trading activities (DM PKO Bank Polski SA), investing activities and from other operations as part of banking activities generating a position in equity securities.

Managing the equity securities risk is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to a level acceptable to the Bank, by optimizing the positions taken in instruments sensitive to changes in these market parameters. The risk is managed by imposing limits on the activities of Dom Maklerski PKO Bank Polski SA broken down into the banking portfolio and the trading portfolio, and by monitoring the utilization thereof.

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

5.2.4 Derivative instruments risk

The risk of derivative instruments is a risk of incurring losses arising from taking up by the Bank a position in financial instruments, which meet all of the following conditions:

- 1) the value of an instrument changes with the change of the underlying instrument;
- 2) the instrument does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms;
- 3) the instrument is to be settled at a future date.

The process of derivatives management in the Bank is integrated with the management of interest rate, currency, liquidity and credit risks. However, due to the specific nature of derivatives it is subject to special control specified in the internal regulations of the Bank.

The Bank measures the derivative instruments risk using, among others, the Value at Risk (VaR) model, described in the chapter describing interest rate risk or in the section describing currency risk depending on the risk factor which affects the value of the instrument.

Risk management is carried out by imposing limits on the individual derivative instruments divided into trading and banking portfolios, monitoring the use of limits, observation and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Banks Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

5.2.5 Operational risk

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events.

The objective of operational risk management is to optimize operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the Bank to events which are beyond its control.

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk. Systemic operational risk management is centralised at the PKO Bank Polski SA head office level. The ongoing operational risk management is conducted by every organizational unit of the Bank.

The main tools for managing the operational risk are as follows:

- control instruments;



- human resources management (staff selection, enhancement of professional qualification of employees, motivation packages);
- setting threshold values of Key Risk Indicators (KRI);
- tolerance and operational risk limits,
- contingency plans;
- insurance;
- outsourcing;
- business continuance plan;

5.2.6 Compliance risk

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the PKO Bank Polski SA, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations and standards adopted by the Bank, including ethical standards.

The objective of compliance risk management is to ensure the Bank's compliance with law and adopted standards and the Bank's acting as a entity that is reliable, fair and honest, through mitigating compliance risk, reputation risk or the Bank's credibility and mitigating the risk of occurring financial losses or legal sanction risk resulting from breach of regulations and ethical standards.

Compliance risk management involves in particular the following:

- preventing involvement of the Bank in illegal activities;
- ensuring data protection;
- development of ethical standards and monitoring of their application;
- conflict of interest management;
- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context;
- professional, fair and transparent formulation of offers of products, advertising and marketing messages;
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

The Bank has adopted a zero tolerance policy against compliance risk, which means that the Bank focuses its actions towards eliminating this risk.

5.2.7 Strategic risk

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

Managing the strategic risk is aimed at maintaining, on an acceptable level, the negative financial consequences resulting from bad decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions on the direction of the strategic development of the Bank.

In measuring the strategic risk, the Bank takes into account an impact of selected types of factors, distinguished in the activity and in the environment, which comprise in particular:

- external factors;
- factors related to the growth and development of the banking operations;
- factors related to the management of human resources;
- factors related to investment activities;
- factors related to the organization's culture.

5.2.8 Reputation risk

The reputation risk is defined as the risk related to a possibility of negative variations from the planned results of the Bank due to the deterioration of the Bank's image.

The objective of managing the reputation risk is to protect the Bank's image and limit the probability of the occurrence and level of reputation-related losses.



Management of reputation risk in the Bank comprises mainly preventive activities aimed at reducing or minimizing the scale and the scope of image-related events, as well as selection of effective tools for protective measures aimed at eliminating, mitigating or minimizing the unfavourable effect of image-related events on the image of the Bank.

5.2.9 Objectives and principles of capital adequacy management

Capital adequacy is the maintenance of a level of capital by PKO Bank Polski SA which is sufficient to meet regulatory capital requirements (the so-called Pillar 1) and internal capital requirements (the so-called Pillar 2).

The objective of capital adequacy management is to maintain capital on a level that is adequate to the risk scale and profile of the Bank's activities.

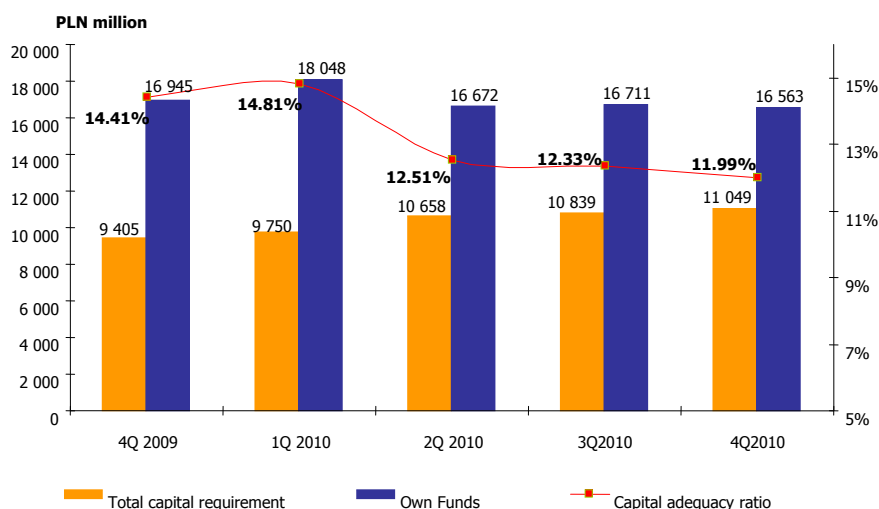
The process of managing the Bank's capital adequacy comprises:

1. identifying and monitoring significant types of risks;
2. assessing internal capital to cover the individual risk types and total internal capital;
3. monitoring, reporting, forecasting and limiting of capital adequacy;
4. performing internal capital allocations to business segments, client segments and entities in the PKO Bank Polski SA Group in connection with profitability analyses;
5. using tools affecting the capital adequacy level (including: tools affecting the level of equity, the scale of equity item reductions and the level of the loan portfolio).

The main measures of capital adequacy are:

1. the capital adequacy ratio whose minimum level in accordance with the Banking Act is 8%;
2. the ratio of equity to internal capital whose acceptable minimum level in accordance with the Banking Act is 1.0.

Chart 3 Capital adequacy of PKO Bank Polski SA



Compared with 31 December 2009, the Bank's capital adequacy level decreased by 2.42 pp., which was mainly caused by an increase in total capital requirement of the Bank (by ca. PLN 1.6 billion).

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

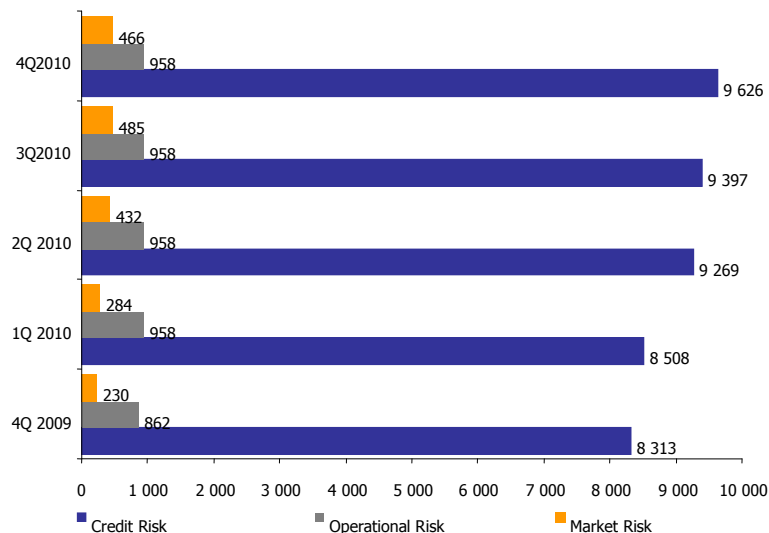
In 2010, the Bank's own funds decreased by PLN 381.4 million, mainly as a result of an increase in items deducted from the Bank's capital, i.e. capital engagements by the amount of PLN 180.1 million, intangible assets of PLN 259.5 million and increase in unrealized losses on debt and equity instruments classified as held-for-sale portfolio (PLN -13.4 million y/y).



PKO Bank Polski SA calculates capital requirements in accordance with Resolution No. 76/2010 of the Polish Financial Supervision Authority dated from 10 March 2010 (Basel II) with subsequent amendments¹¹: in respect of credit risk – using the standardized approach, in respect of operational risk - using the standardized approach, in respect of market risk – using the basic approach.

An increase in the capital requirement related to credit risk in 2010 resulted mainly from an increase in a loan portfolio (exposures in the statement of financial position and off-balance sheet exposures). An increase in capital requirement related to market risk resulted from underwriting liabilities being increased by ca. 127%.

Chart 4 Capital requirements of PKO Bank Polski SA (in PLN million)



5.3 Organisational and capital structure

Investment activities

PKO Bank Polski SA holds stocks and shares in other financial and non-financial entities. The main direct and indirect investments of PKO Bank Polski SA are presented below.

¹¹ Amendment resulting from Resolution No. 369/2010 PFSA dated 12 October 2010.



Table 36. Subsidiaries, jointly controlled entities and associates of PKO Bank Polski SA

No.	Entity Name	Exposure (in PLN thousand)	Voting rights in General Meeting /Shareholders' Meeting (%)
Subsidiaries			
1	KREDOBANK SA	935 619	99.5655
2	PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	205 786	100
3	PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	100
4	Centrum Finansowe Puławska Sp. z o.o.	128 288	100
5	PKO BP Inwestycje Sp. z o.o.*	117 813	100
6	Bankowy Fundusz Leasingowy SA	70 000	100
7	Inteligo Financial Services SA	59 602	100
8	Centrum Elektronicznych Usług Płatniczych eService SA	55 500	100
9	Fort Mokotów Inwestycje Sp. z o.o.*	51 599	99.9885
10	Bankowe Towarzystwo Kapitałowe SA	18 566	100
11	PKO Finance AB	172	100
Jointly controlled entities			
12	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43
13	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44
Associates			
14	Bank Pocztowy SA	146 500	25.0001
15	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33
16	Agencja Inwestycyjna CORP SA	29	22.31

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

Furthermore, PKO Bank Polski SA holds shares of an associate Kolej Gondolowa Jaworzyna Krynicka SA (36.71% share of votes at the General Shareholders' Meeting), which are recognized in the Bank's books as non-current assets held for sale.

Subordinated entities of the Bank were established with an aim to support the basic business activities of PKO Bank Polski SA within sales' goals through complementation of the offer as well as providing services to PKO Bank Polski SA and increase of the Bank's share in the international financial markets.



PKO Bank Polski SA Directors' Report for the year 2010

Table 37. Indirect subsidiaries of PKO Bank Polski SA

No.	Entity Name	Exposure (in PLN thousand)	Voting rights in General Meeting /Shareholders' Meeting (%)
Subsidiaries of PKO BP Inwestycje Sp. z o.o.			
1	PKO BP Inwestycje - Nowy Wilanów Sp. z o.o.* ¹	82 980	99.975
2	PKO BP Inwestycje - Neptun Park Sp. z o.o.* ¹	19 000	99.9975
3	PKO BP Inwestycje - Sarnia Dolina Sp. z o.o.*	8 187	56
4	PKO BP Inwestycje - Rezydencja Flotylla Sp. z o.o.*	7 575	100
5	Fort Mokotów Sp. z o.o.*	2 040	51
6	UKRPOLINWESTYCJE Sp. z o.o.	519	55
Subsidiaries of Bankowy Fundusz Leasingowy SA			
7	Bankowy Leasing Sp. z o.o. ¹	22 709	99.9978
8	BFL Nieruchomości Sp. z o.o. ¹	10 409	99.9952
Subsidiary of Bankowe Towarzystwo Kapitałowe SA			
9	PKO BP Faktoring SA ¹	10 329	99.9867
Subsidiary of Inteligo Financial Services SA			
10	PKO BP Finat Sp. z o.o. ²	7 600	80.3287
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.			
11	Sopot Zdrój Sp. z o.o.*	67 126	100
12	Promenada Sopotcka Sp. z o.o.	10 058	100
13	Centrum Majkowskiego Sp. z o.o.	6 609	100
14	Kamienica Morska Sp. z o.o.	976	100
Subsidiaries of Bank Pocztowy SA			
15	Centrum Operacyjne Sp. z o.o.	3 284	100
16	Spółka Dystrybucyjna Banku Poczтового Sp. z o.o.	2 000	100

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

1 – PKO Bank Polski SA acquired directly 1 share in the entity

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

More information relating to the subsidiaries of the Bank are included in the Directors' Report of the PKO Bank Polski SA Group.

Changes in organisation of subordinated entities

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

1. PKO Bank Polski SA took up shares in the increased share capital of KREDOBANK SA in the total nominal value of UAH 367 497 387.35, constituting 99.83% of the new share issue. As a result of taking up the said shares, the interest of PKO Bank Polski SA in the share capital of KREDOBANK SA and in the voting rights at the General Shareholders' Meeting of the entity increased from 99.4948% to 99.5655%.
2. PKO Bank Polski SA granted KREDOBANK SA a subordinated loan in the amount of USD 15 million. On 25 February 2010 the loan was registered with the National Bank of Ukraine and increased the regulatory capital of KREDOBANK SA.
3. PKO BP Inwestycje Sp. z o.o., a subsidiary of PKO Bank Polski SA, finalised the process of sale of all shares held in the WISŁOK Inwestycje Sp. z o.o. The selling price of the shares amounted to PLN 3 952 thousand.
4. Bankowy Fundusz Leasingowy SA, a subsidiary of PKO Bank Polski SA, took up shares in the increased share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 6 400 thousand. As at 31 December 2010, Bankowy Fundusz Leasingowy SA holds shares constituting in total 99.9978% of the Company's share capital and authorizing it to 99.9978% voting rights at the General Shareholders' Meeting.
5. Bankowy Fundusz Leasingowy SA, a subsidiary of PKO Bank Polski SA, took up shares in the increased share capital of BFL Nieruchomości Sp. z o.o. in the total amount of PLN 3 300 thousand. As at 31 December 2010, Bankowy Fundusz Leasingowy SA holds shares constituting in total 99.9952% of the Company's share capital and authorizing it to 99.9952% voting rights at the General Shareholders' Meeting.



6. Bankowe Towarzystwo Kapitałowe SA, a subsidiary of PKO Bank Polski SA, took up shares in the increased share capital of PKO BP Faktoring SA in the total amount of PLN 1 000 thousand. As a result of taking up the said shares, Bankowe Towarzystwo Kapitałowe SA holds shares constituting in total 99.9867% of the Company's share capital and authorizing it to 99.9867% voting rights at the General Shareholders' Meeting.
7. Unification of the names and symbols of the PKO Bank Polski SA Group companies; in 2010 the following companies changed their names:
 - the company PKO Inwestycje Międzyzdroje Sp. z o.o changed its name to PKO BP Inwestycje – Rezydencja Flotylla Sp. z o.o.,
 - the company Baltic Dom 2 Sp. z o.o. changed its name to PKO BP Inwestycje – Sarnia Dolina Sp. z o.o.,
 - the company Wilanów Investments Sp. z o.o. changed its name to PKO BP Inwestycje – Nowy Wilanów Sp. z o.o.,
 - the company Pomeranka Sp. z o.o. changed its name to PKO BP Inwestycje – Neptun Park Sp. z o.o.
8. PKO BP Inwestycje Sp. z o.o., a subsidiary of PKO Bank Polski SA, made an additional payment in total amount of PLN 448 thousand to its subsidiary PKO BP Inwestycje – Sarnia Dolina Sp. z o.o.
9. Bank Pocztowy SA, an associate of PKO Bank Polski SA:
 - took up all shares in a new subsidiary Spółka Dystrybucyjna Banku Poczтового Sp. z o.o. o in the total nominal value of PLN 2 000 thousand,
 - took up all shares in a new subsidiary Centrum Operacyjne Sp. z o.o. o in the total nominal value of PLN 3 283.8 thousand.

Investment plans

Building a strong financial group is one of the main development objectives of PKO Bank Polski SA. The Bank's activities are focused on improving the effectiveness of the capital employed, including implementation of coherent, integrated and uniform business model for the whole Group, making achievement of maximal income and cost synergy effect possible. PKO Bank Polski SA places particular attention to developing companies which expand the range of products offered by the PKO Bank Polski SA Group. Consistent implementation of these projects will bring about a further strengthening of the market position of the PKO Bank Polski SA Group and an increase in value for the Bank's shareholders.

Related party transactions

In 2010, PKO Bank Polski SA provided the following services to its related (subordinated) entities at arm's length: maintaining bank accounts, accepting deposits, granting loans and advances, issuing debt securities, granting guarantees and spot exchange transactions as well as offering participation units of investment funds and leasing products of the entities of the PKO Bank Polski SA Group.

The list of material transactions between PKO Bank Polski SA and its subordinated entities, including the amount of loans outstanding obtained from the Bank, as at 31 December 2010, is presented in the financial statements of PKO Bank Polski SA for 2010.

5.4 Human resources management in PKO Bank Polski SA

5.4.1 Incentive system in PKO Bank Polski SA

PKO Bank Polski SA operates a remuneration and incentive system, in which the level of variable component of the salary is determined by the degree of achievement of the targets set. The procedure for target setting and performance measures used depends on the type of position and classification to one of the three employee groups: management, widely understood sales and processing-support. The system is based mainly on the Management by Objectives (MbO) model. As the individual remuneration is linked with the level and quality of performance of the tasks specified, the variable component of the remuneration is strengthened and represents an additional salary incentive. The system focuses on setting objectives which are aligned with the direction of development of the entire organisation; these tasks are then cascaded to particular organizational units and individual employees.

Three pillars of the remuneration and incentive system:

I Pillar, the so-called Management by Objectives (MbO) covers top managers for which specific objectives may be assigned. The MbO consists of granting bonuses which depend on the quality and degree of completion of the tasks assigned and is the system which focuses on: determining



performance indicators, assessing performance against the targets assigned, granting bonuses depending on performance.

II Pillar, the so called Individual Bonus System (IBS), is the system of bonuses which depends on the degree of completion of specific tasks in the areas of sales and efficiency. The system covers those employees who are completing business tasks, mainly in retail outlets and corporate centers, where individual or team, measurable targets can be defined or where there is a strong causal link between activities undertaken by individual employees and the level of achievement of the economic and financial results of the Bank.

III Pillar, the so-called Support Bonus System, in a form of a premium-award. This is a typical 'participatory' solution, whereby award is granted for the achievement of targets by a person managing a given group of employees (a directors' contribution to the completion of tasks) and an organizational unit. Given the nature of their jobs, such employees have an indirect, but significant impact on the degree of completion of the tasks assigned to their superiors and the organization as such, and thus participate in the results achieved by the Bank as a whole.

5.4.2 Remuneration policy

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

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

According to this remuneration system employees:

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

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

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

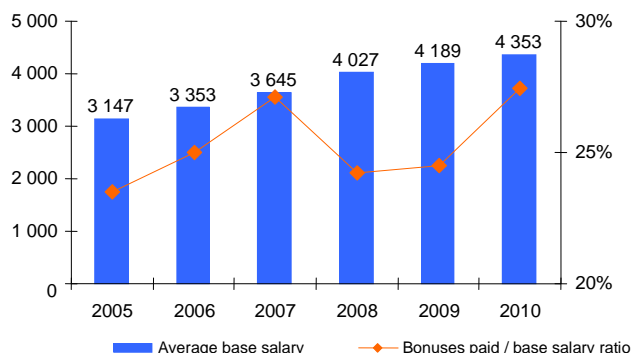
Base remuneration of employees – determined on the basis of requests of respective directors of the Bank's organizational entities or organizational units of the Head Office – is established taking into consideration:

- 1) the resolution of the Bank's Management Board determined in cooperation with the Company Collective Labour Agreement (ZUZP) on introducing tables of positions for organizational entities of the Bank;
- 2) the table of minimum monthly base remuneration rates determined in ZUZP – attributed to 9 work position classification categories;
- 3) the internal practice for remunerating employees appropriately to the scope of responsibility of the employee, the complexity of the tasks realized – in consideration of the evaluation of work (quality, effectiveness, timeliness);



- 4) the possibility to refer the level of remuneration to market practices using the analysis of the level of remuneration in the banking sector conducted by external advisory companies.

Chart 5 Average base salary and bonuses paid / base salary ratio (PLN)



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

5.4.3 Benefits for employees

Medical care

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

Social Benefits

Table 38. Benefits granted by Company Social Benefits Fund in 2010 to employees of PKO Bank Polski SA and former employees (pensioners, people receiving pre-retirement benefits) and members of their families

Items	Number of beneficiaries	Total amount granted (in PLN)
Refundable benefits*	5 499	68 911 500
Non-refundable benefits**	49 309	21 099 669
Total	54 808	90 011 169

* Housing loans.

**Inclusive of aids, organized and non-organized holidays subsidies, promotion of education, cultural and sport activities, writing off loans, aid in-kind and other non-refundable aid.

5.4.4. Number of employees

As at 31 December 2010, PKO Bank Polski SA employed 27 396 persons (i.e. 26 770 full-time equivalents).



Table 39. Number of employees in PKO Bank Polski SA in years 2005-2010

Entity	Employment as at 31 December 2010 (full-time equivalents)					
	2005	2006	2007	2008	2009	2010
Retail branches	22 968	22 264	18 103	17 749	17 563	16 896
Corporate branches	780	748	634	598	595	568
Headquarters	1 972	1 873	2 084	2 261	2 995	3 122
Specialised Organisational Units	7 760	7 070	9 838	8 588	6 694	6 184
The Bank - total	33 479	31 955	30 659	29 196	27 846	26 770
<i>employment reduction</i>	-	1 524	1 296	1 463	1 350	1 076

In the course of 2010, layoffs for reasons unrelated to the employees comprised 985 people. Massive layoffs in the Bank resulted mainly from the continuation of processes undertaken in the previous years:

- planned increase in the Bank employees' work efficiency,
- tailoring the employment levels to the tasks carried out in the individual organizational units of the Bank and in the organizational units of the Head Office,
- implementing organizational changes, including centralization of functions and processes, which resulted in a range of tasks performed being altered;
- implementing new IT technologies supporting the reduction in operating expenses,
- employment restructuring aiming at adjusting professional qualifications of employees to changes in a way and quality of realization of tasks by Bank's organisational units.

Collective disputes

In the reported period, there were no collective disputes at PKO Bank Polski SA.

Terminating, suspending, concluding the company or collective labour agreement

The Company Collective Labour Agreement (ZUZP) at the Bank was not terminated or suspended in the reported period.

5.4.5. Training policy

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

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

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

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

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

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



In the Polish Agency for Enterprise Development (PARP) competition, PKO Bank Polski SA filed a request for additional finance for the training and advisory project 'Akademia Menedżera PKO Bank Polski SA' under the Operational Programme Human Capital, Submeasure 2.1.1 'Development of Human Capital in Enterprises'. The Bank's request was positively evaluated by PARP and was recommended for additional financing of PLN 7.3 million. Planned commencement - second quarter of 2011, period to completion - 2 years. The programme is aimed at supporting the implementation of the Bank's 'Leader' strategy by improving key competencies of management which translates into an improvement in the effectiveness of the organization's operation.

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



6. CORPORATE GOVERNANCE

6.1. Information for investors

6.1.1. Share capital and shareholding structure of PKO Bank Polski SA

As at 31 December 2010, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and consisted of 1 250 000 thousand ordinary shares with nominal value of PLN 1 each – shares are fully paid. In relation to the end of 2009 there were no changes in the share capital of PKO Bank Polski SA. All issued shares of PKO Bank Polski SA are not preferred shares

Table 40. Share capital structure in PKO Bank Polski SA

Series	Type of share	Number of shares	Nominal value of 1 share	Issue value by nominal value
Series A	ordinary, registered shares	510 000 000	PLN 1	PLN 510 000 000
Series B	ordinary, bearer shares	105 000 000	PLN 1	PLN 105 000 000
Series C	ordinary, bearer shares	385 000 000	PLN 1	PLN 385 000 000
Series D	ordinary, bearer shares	250 000 000	PLN 1	PLN 250 000 000
		1 250 000 000		PLN 1 250 000 000

To the best knowledge of PKO Bank Polski SA, there are two shareholders that hold, directly or indirectly, significant shareholding (at least 5%): the State Treasury and Bank Gospodarstwa Krajowego, holding as at 31 December 2010, respectively 512 406 277 and 128 102 731 of PKO Bank Polski SA's shares.

The share of the State Treasury and Bank Gospodarstwa Krajowego in the share capital of PKO Bank Polski SA amounts, respectively, to 40.99% and 10.25% and matches the percentage share in the total number of votes at the General Shareholders' Meeting of PKO Bank Polski SA.

Table 41. Shareholding structure in PKO Bank Polski SA

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

6.1.2. Information concerning dividend paid (or to be paid)

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

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

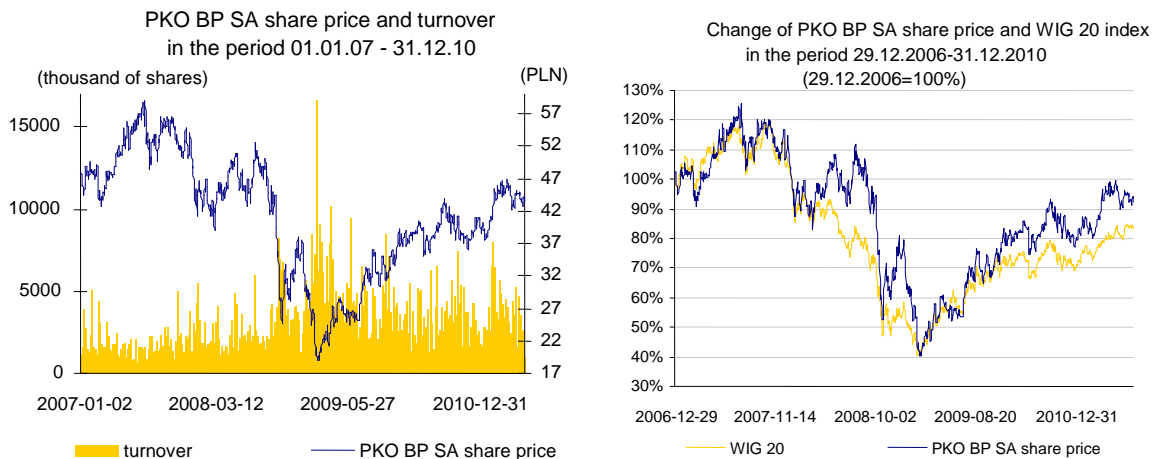
In the future, the Management Board intends to recommend that the General Shareholders' Meeting adopt resolutions concerning the payment of the dividend representing 40% of the separate net profit of the Bank for a given financial year.



6.1.3. Share price of PKO Bank Polski SA at Warsaw Stock Exchange

Share price of PKO Bank Polski SA

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

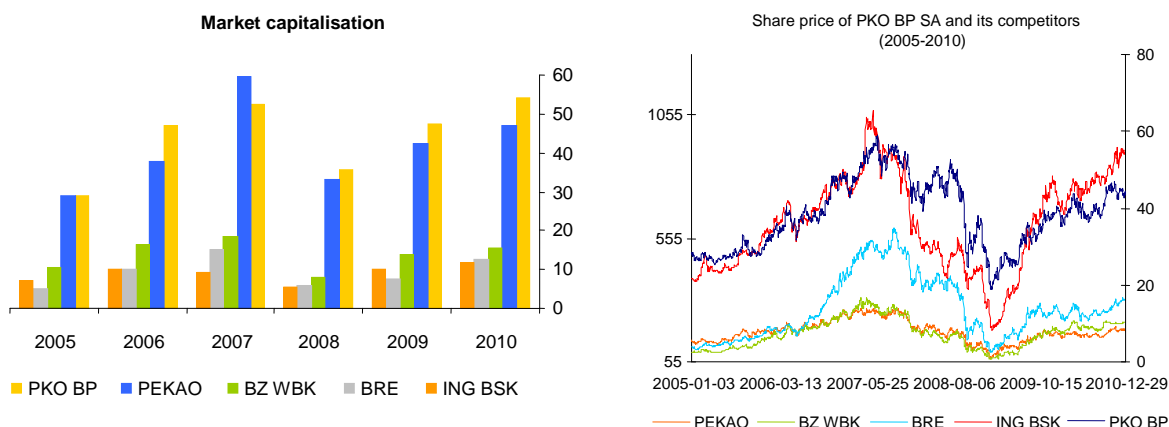


In 2010, the price of PKO Bank Polski SA shares increased by 14.1% from PLN 38.00 as at 31 December 2009 to PLN 43.35 as at 31 December 2010, and:

- the average price of the Bank's shares in 2010 amounted to PLN 40.72 per share and fluctuated in the range from PLN 35.06 (05 February 2010) to PLN 46.81 per share (4 November 2010);
- the average daily volume of trading in the Bank's shares amounted to 2,500 thousand shares and fluctuated from 536 thousand shares (27 December 2010) to 8,025 thousand shares (17 September 2010).

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

Share prices and market capitalisation of PKO Bank Polski SA and of market competitors



6.1.4. Assessment of financial credibility of PKO Bank Polski SA

Currently, the financial reliability ratings of PKO Bank Polski SA are awarded by four rating agencies:



- Moody's Investors Service assigns a rating to the Bank at a charge, in accordance with its own bank assessment procedure;
- Standard & Poor's, Capital Intelligence and Fitch Ratings assign a free-of-charge rating (not ordered by the Bank), on the basis of publicly available information, including primarily interim and annual reports, and information on the Bank made available during direct contacts of representatives of the agency with the Bank.

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

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

Ratings assigned by other agencies did not change in 2010.

Table 42. Ratings as at 31 December 2010

Rating with a charge	
Moody's Investors Service	
Long-term rating for deposits in foreign currencies	A2 with a stable perspective
Short-term rating for deposits in foreign currencies	Prime-1 with a stable perspective
Long-term rating for deposits in a domestic currency	A2 with a stable perspective
Short-term rating for deposits in a domestic currency	Prime-1 with a stable perspective
Financial strength	C- with negative perspective
Rating not requested by the Bank	
Fitch Ratings	
Support Rating	2
Standard and Poor's	
Long-term rating for liabilities in a domestic currency	A-pi
Capital Intelligence	
Long-term rating for liabilities in a foreign currency	A-
Short-term rating for liabilities in a foreign currency	A2
Strength on a national scale	BBB+
Support Rating	1
Perspective for upholding the rating	Stable

6.1.5. Investor relations

In 2010, the Bank's investor relation activities focused on the following areas:

- building a positive image of PKO Bank Polski SA as a reliable and transparent company among the existing and potential investors, capital market analysts and rating agencies, through the use of various market communication tools;
- fulfilling the information duties of the Company as an issuer of securities, as required by the law;
- organizing the General Shareholders' meeting and providing information to the Bank's shareholders;
- ensuring the Bank's cooperation with appropriate governmental bodies, organizations and capital market institutions in connection with the Bank's presence on the public securities market.

As part of market communication:

- after each quarter end, the Bank's and the Group's financial performance was presented by the Bank's Management Board in a meeting with capital market analysts, organized on the Bank's premises, and during a teleconference in which ca. 65 analysts and representatives of investors participated each time;
- members of the Management Board of the Bank and the key management regularly participated in meetings (and teleconferences) with investors and analysts, both on the Bank's premises and in



investor conferences. In 2010, there were ca. 90 meetings on the Bank's premises, ca. 140 meetings at 12 investor conferences and ca. 60 teleconferences.

- the Investor Relations Office maintained on-going contacts with analysts and investors, both institutional and individual, by answering many questions asked by telephone or e-mail and relating to business operations and financial performance of PKO Bank Polski SA;
- the Bank immediately published all information relevant to investors and the Bank's shareholders on the website of the Investor Relations Office: www.pkobp.pl in the 'Investor Relations' section.

These activities were aimed at providing comprehensive information on the Bank's financial performance and activities, in the context of the changes in the Bank's market environment, to enable a sound assessment of the Bank's current position and outlook and the correct valuation of the Bank's securities.

6.2. Compliance with the rules for corporate governance

6.2.1. The rules for corporate governance and the scope of use

PKO Bank Polski SA applies the rules for corporate governance introduced in the form of a document 'Good Practices of Warsaw Stock Exchange Companies' approved by the Supervisory Board of the Warsaw Stock Exchange SA on 4 July 2007 by Resolution No.12/1170/2007 with subsequent amendments introduced on 19 May 2010 by Resolution No. 17/1249/2010.

The above mentioned document on corporate governance rules is publicly available at the website: www.corp-gov.gpw.pl, which is the official site of Warsaw Stock Exchange in the topic of corporate governance of listed companies.

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

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

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

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

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

Moreover, the above mentioned distinction of the date reliable for verification of fulfilment or failure of fulfilment of the condition also determined an appropriate setting of dividend disbursement date. The dividend disbursement date could not take place earlier than the date reliable for verification of fulfilment or failure of fulfilment of the condition on which dividend disbursement depends. Taking the above into consideration, the date of 20 December 2010 was set as a date of disbursement of dividend which meant a one-off withdrawal from application of the rule referred to in Part IV point 6 of the Best Practices, of which the Bank informed in the current report, simultaneously presenting detailed basis for the performed withdrawal in accordance with Part IV point 6 sentence 2 of the Best Practices.



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

6.2.2. Control systems in financial statements preparation process

6.2.2.1. Internal control and risk management

Internal control system being in force in PKO Bank Polski SA is an element of the Bank management function, and which is composed of the following items: control mechanisms, compliance of Bank's operations with binding laws and internal regulations of the Bank and internal audit. The system of controls is complemented by functional internal control.

Internal control system covers the whole Bank, including organizational entities of PKO Bank Polski SA, organizational units of the Head Office and subsidiaries included in the PKO Bank Polski SA Group.

The objective of the internal control system is to support management of the Bank, including decision processes which contribute to ensuring the following: the Bank's effectiveness and efficiency, truth and fairness of its financial reporting and the compliance of Bank's operations with binding laws and internal regulations of the Bank. Within the system of internal control the Bank identifies risk: connected with every action, transaction, product and process, resulting from the organizational structure of the Bank and the Group.

Control mechanisms are aimed at ensuring that all tasks and activities at the Bank are performed correctly.

The Bank's organizational units and Head Office's units are obliged to perform their task in accordance with the generally applicable law and the Bank's internal rules and regulations. The compliance is checked during internal functional inspections and verified independently by the Internal Audit Department in the course of its audits.

The functional internal control function in the Bank is exercised in the following manner:

- at the stage of legislative works, by providing compliance of internal regulations with generally binding laws, including defining in internal regulations adequate control mechanisms which guarantee a proper execution of processes and tasks,
- by employees in the course of their activities concerning the scope of business of organizational teams and units,
- at the stage of verification, by management and persons authorized by said employees, the correctness of performed tasks, especially its compliance with binding laws and regulations, internal regulations and prudence norms.

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

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

The operation of internal control system and risk management in respect of the process of preparation of the financial statements are based on control mechanisms embedded in the functionality of the reporting systems, on the on-going verification of compliance with the books of accounts and other documents underlying the financial statements and with the binding laws concerning accounting principles and financial statements preparation.

The process of the preparation of the financial statements is subject to cyclical multi-level functional control, in particular concerning the correctness of accounting reconciliations, merit-based or substantial



analysis or truth and fairness of financial information. In accordance with the internal regulations, the financial statements are accepted by the Management Board of PKO Bank Polski SA and the Audit Committee established by the Supervisory Board of PKO Bank Polski SA in 2006.

Information included in the financial statements is prepared in accordance with International Financial Reporting Standards, after taking into account all data available.

Information concerning objectives and risk management policies as well as quantitative information relating to individual risk types is included in annual and periodic financial statements. The information referred to above comprises:

- credit risk (including the risk of credit concentration and financial institutions' credit risk),
- market risk (including interest rate, currency, liquidity risks as well as securities price and derivative risks),
- operational risk,
- compliance risk,
- strategic risk,
- reputation risk,
- capital adequacy.

On an annual basis, in a separate non-financial reporting document, disclosed is the full scope of information relating to capital adequacy, in accordance with Resolution No. 385/2008 of the Polish Financial Supervision Authority. At the website of PKO Bank Polski SA (in the section 'Investor Relations') the last report 'Capital Adequacy and Risk Management (Pillar III) in the PKO BP SA Group as at 31 December 2009' is available.

6.2.2.2. Entity authorised to audit financial statements

Auditor rotation rules applicable in PKO Bank Polski SA

In accordance with Appendix to the Resolution of the Bank's Supervisory Board on the rules for selecting an auditor, Section 2 *The selection of an auditor*, par.3 clause 5, PKO Bank Polski SA applies the following rules:

- 1) the maximum period of uninterrupted cooperation with the same audit company is 6 years,
- 2) contracts for audits and reviews of the financial statements are concluded for the maximum period of 3 years,
- 3) an audit company may perform an audit of the financial statements again after the period of at least 3 years.

Information concerning the agreement concluded with the entity authorised to audit financial statements

On 12 May 2008, PKO Bank Polski SA concluded a contract with *PricewaterhouseCoopers Sp. z o.o.*, an entity authorised to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended 31 December 2008, 2009 and 2010 and for a review of standalone and consolidated financial statements for the 6-month periods ended 30 June 2008, 2009, 2010.

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



Table 43. Fee for entity authorised to audit financial statements (in PLN thousand)

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

6.2.3. Shares and shareholders of PKO Bank Polski SA

To the best knowledge of PKO Bank Polski SA, there are two shareholders that hold, directly or indirectly, significant shareholding (at least 5%): the State Treasury and Bank Gospodarstwa Krajowego, holding as at 31 December 2010, respectively 512 406 277 and 128 102 731 of PKO Bank Polski SA's shares.

The share of the State Treasury and Bank Gospodarstwa Krajowego in the share capital of PKO Bank Polski SA amounts, respectively, to 40.99% and 10.25% and matches the percentage share in the total number of votes at the General Shareholders' Meeting of PKO Bank Polski SA.

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

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

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

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

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

6.2.4.1. Principles for amending the Articles of Association of PKO Bank Polski SA

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

6.2.4.2. Changes in the Articles of Association in 2010

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

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

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



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

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

6.2.5. Annual General Meeting of the Bank, its manner of functioning and fundamental powers

Annual General Meeting of PKO Bank Polski SA is convened as ordinary or extraordinary meeting in accordance with the provisions of the Code of Commercial Companies and the Bank's Articles of Association, and based on the policies defined in the by-laws of the Annual General Meeting (hereinafter 'the AGM').

The fundamental powers of the AGM, apart from other matters defined in the binding laws, include adopting resolutions concerning the following matters:

- appointment and dismissal of Supervisory Board Members,
- approval of by-laws of the Supervisory Board,
- determining the manner of redemption of shares and the amount of consideration for the shares subject to buyout,
- creation and liquidation of special funds established from net profit appropriation,
- disposal by the PKO Bank Polski SA of property items or perpetual usufruct right to property, from which the Bank conducts its business,
- issuance of convertible bonds or other instruments giving the right to acquire or take up PKO Bank Polski SA shares.

Allowed to participate in the Annual General Meeting of the Bank are beneficiaries of rights attached to registered shares, as well as pledgees and usufructuaries having voting rights, who have been entered in the Register of Shares at the day of registration or holders of bearer shares, if they were shareholders of the Bank at the day of the registration and they asked, within the act compliant time frame specified in the notification on the call of Annual General Meeting, the entity maintaining their securities accounts for registered certificate on the right to participate in the Annual General Meeting.

The shareholder who is a natural person may participate in the AGM, exercise his voting right in person or by proxy. The shareholder who is not a natural person may participate in the AGM and exercise his voting right through a proxy authorized to file declarations of will on his behalf, or by proxy.

An authorization should be prepared, under the sanction of nullity, in writing and attached to the minutes of the General Shareholders' Meeting or granted in an electronic form. The right to represent a shareholder who is not an individual should be specified in the excerpt from the relevant register produced at the time of drawing up the attendance register (submitted in the original or a copy whose conformity to the original has been confirmed by a notary public), or a sequence of authorizations. The person(s) granting an authorization on behalf of a shareholder who is not an individual should be listed in an up-to-date excerpt from the relevant register of a given shareholder.

Management Board Member and employee of PKO Bank Polski SA may serve as proxy at the AGM of PKO Bank Polski SA.

The documentation which is to be presented to the General Shareholders' Meeting along with draft resolutions is placed on the Bank's website from the date of the General Shareholders' Meeting being convened. The comments of the Management Board of the Bank or the Supervisory Board of the Bank concerning matters included in the agenda of the General Shareholders' Meeting or matters which are to be included in the agenda before the date of the General Shareholders' Meeting are available on the Bank's website as soon as they are prepared.



A shareholder or shareholders representing at least 1/20 of the share capital of the Bank may demand that certain matters be included in the agenda of the General Shareholders' Meeting. Such demand should be filed with the Management Board of the Bank no later than 21 days before the date set for the Meeting. The demand should contain a justification or a draft resolution concerning the proposed item on the agenda. The demand may be filed in an electronic form.

A shareholder or the shareholders of PKO Bank Polski SA representing at least 1/20 of the share capital may, before the date of the General Shareholders' Meeting, put forward to the Bank, in writing or by using electronic means of communication, draft resolutions concerning the matters included in the agenda of the General Shareholders' Meeting or matters which are to be included in the agenda. Moreover, each of the shareholders may, in the course of the General Shareholders' Meeting, put forward draft resolutions concerning the matters included in the agenda.

Removing from the agenda or desisting, at the request of the shareholders, from further discussing the matter included in the agenda requires that the AGM resolution is adopted by the majority of ¾ votes, after prior consent of all those shareholders present at the AGM who applied for including the matter in the agenda.

Resolutions of the AGM are adopted by an absolute majority of votes, unless the binding laws or the Articles of Association of PKO Bank Polski SA provide otherwise.

The AGM adopts resolutions by way of open vote, with the provision that votes by secret ballot are ordered in the following circumstances:

- elections,
- applications for dismissal of members of the Management or Supervisory Board of PKO Bank Polski SA or liquidators,
- applications for bringing the Bank's liquidators or members of the Management or Supervisory Board to justice,
- in staff matters,
- on demand of at least one shareholder present or represented at the AGM,
- in other cases defined in binding law regulations.

A shareholder may not, either personally or by proxy, or while acting in the capacity of a proxy of another person, vote on resolutions concerning his liability towards PKO Bank Polski SA on whatever account, including the acknowledgement of the fulfillment of his duties, release of any of his duties towards the Bank, or any dispute between him and PKO Bank Polski SA.

Shareholders have the right to ask questions, through the Chairman of the AGM, to the Members of the Bank's Management or Supervisory Boards and the Bank's auditor.

For each of the agenda point, each shareholder has the right to one own speech and one reply. Shareholders may, during the course of discussion on each of the agenda points, apply for closing the list of speakers or closing the discussion on the given agenda point.

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

6.2.6.1. The Supervisory Board of PKO Bank Polski SA





The Supervisory Board is composed of 6 to 11 members appointed for a joint term of office of three years. Members of the Supervisory Board are appointed and dismissed by the General Shareholders' Meeting.

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

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



Table 44. Composition of the Supervisory Board of PKO Bank Polski SA as at 31 December 2010

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



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

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

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

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

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

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



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

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

In 1984, Alojzy Zbigniew Nowak graduated from the Faculty of Foreign Trade at the Main School of Planning and Statistics (currently Warsaw School of Economics), where he obtained a master's degree in Economics. In 1991, he gained the PhD degree and in 1995 he obtained the habilitation in Economics at the Faculty of Management at Warsaw University. Moreover, he studied banking and finance at the Exeter University in United Kingdom (1992), Economics at the University of Illinois at Urbana Champaign in USA (1991) and at the Free University of Berlin in Germany (1994). Since 2002 he has been a professor of Economics at Warsaw University. He has been the Dean of Faculty of Management at Warsaw University (since 2005), Head of the Chair of National Economy (since 2007) and of the Department of International Economic Relations (since 1999) within the Faculty of Management at Warsaw University and Head of the Chair of Finance at the Leon Koźmiński Business and Management School in Warsaw (since 1995) and he is currently the Head of the Chair of Banking and Insurance at the above-mentioned school. Professor Nowak is the author of over 150 academic publications related to banking, financial crises, monetary policy, financial stability and international economic relations. Many of those works have been published by the prestigious foreign publishing houses. Professor Alojzy Z. Nowak is a member of numerous programme committees and editorial boards of both Polish and foreign academic journals, including 'Gazeta Bankowa', 'Journal of Interdisciplinary Economics' - London, 'Cross Cultural Management' - Barcelona, 'Yearbook on Polish European Studies', 'INTERNATIONAL BUSINESS: RESEARCH, TEACHING AND PRACTICE' - USA, 'Problemy Zarządzania' and others. Alojzy Zbigniew Nowak has been a lecturer at Polish and foreign universities (among others in the United States, UK, France, Germany, Russia, China, Taiwan, Ukraine, Belgium and many others). He is a laureate of numerous prizes and awards for outstanding academic and innovative achievements: i.e. Gold Medal of the Polish Success Academy, the prize granted by the Polish Minister of Science and Higher Education, Medal of Entrepreneurship by Academic Incubators of Entrepreneurship and others. Professor Alojzy Z. Nowak is a chief executor and the head of numerous research grants, implementation, investment and educative grants financed by the European Union, NATO and governmental funds (supporting i.e. entrepreneurship, innovation and programmes of exchange of students and academics). Professor A. Z. Nowak is the Head of Scientific Council of National Bank of Poland and a member of *NewConnect* committee as well as a member of advisory bodies, i.e. by the Minister of Justice.

Changes in the composition of the Supervisory Board in 2010:

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



The Supervisory Board manner of functioning:

The Supervisory Board acts based on the by-laws passed by the Supervisory Board and approved by the AGM. Meetings of the Supervisory Board are convened at least once a quarter.

The Supervisory Board adopts resolutions by an absolute majority of votes with the presence of at least half of the Members, including the President or Vice-President of the Supervisory Board, except for resolutions concerning those matters that are required to be accepted by, apart from the quorum indicated, the qualified majority of 2/3 of total votes. Excluded from the vote are those members of the Supervisory Board to whom the given voted matter relates.

The Supervisory Board competencies:

The competencies of the Supervisory Board, apart from the rights and obligations stipulated in generally binding legal regulations and the provisions of the Articles of Association of PKO Bank Polski SA, include passing resolutions relating specifically to:

- approving the strategy of PKO Bank Polski SA and the annual financial plan passed by the Management Board,
- accepting the Bank's general level of risk,
- appointing the entity to conduct the audit or review of the financial statements and giving consent to concluding contracts with such entity or its related entities,
- passing the Internal Regulations in regard of:
 - the Supervisory Board,
 - defining the rules of granting loans, advances, bank's guarantees and warranties to a member of the Management Board, of the Supervisory Board, to a person holding a managerial position in the Bank and to entities related in terms of capital and organization,
 - using the reserve capital,
- appointing and dismissing the President of the Management Board and, at the request of the President of the Board, also the Vice Presidents and other Management Board Members, and suspending Members of the Management Board from performing their duties, as well as delegating Members of the Supervisory Board to temporarily perform the duties of Members of the Management Board,
- approving the Internal Regulations passed by the Management Board: of the Management Board, Management of special funds set up from the net profit, the Organizational Regulations of PKO Bank Polski SA,
- expressing prior consent to actions which meet specific criteria, including, among other things, purchasing and selling fixed assets and real estate, establishing a company, taking up or acquiring shares, concluding transactions between PKO Bank Polski SA and a related entity,
- applying to the Financial Supervision Authority for granting consent to appointing two Members of the Management Board, including the President of the Board.

Committees of the Supervisory Board

According to the Regulations of the Supervisory Board, the latter is entitled to appoint Permanent Committees whose members perform functions as members of the Supervisory Board delegated to fulfill selected supervisory activities in the Bank.

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

1. Committee for remuneration, whose tasks include, in particular:
 - 1) examining issues related to remuneration rules and the amount of remuneration for the members of the Management Board,
 - 2) presenting the view on granting a consent to a member of the Management Board to take on competitive business activities or participating in competitive entity.
2. The Audit Committee whose tasks include, in particular:
 - 1) monitoring the process of the financial reporting, including the review of interim and annual financial statements of the Bank and the Group (stand-alone and consolidated),
 - 2) monitoring efficiency of the systems of internal control, internal audit and risk management, in particular:
 - a) an assessment of the Bank's activities related to the implementation of the management system, of which risk management and internal control and assessment of its adequacy and efficiency, among other by means of:



- consulting resolutions of the Management Board of the Bank to be approved by the Supervisory Board on the prudent and stable management of the Bank and on the acceptable level of risk in particular areas of the bank's operations,
 - consulting resolutions of the Management Board of the Bank to be approved by the Supervisory Board on risk management, capital adequacy and the internal control system,
 - consulting reports on risk management, capital adequacy and the internal control system submitted periodically to the Supervisory Board,
 - assessing the Bank's activities aimed at risk mitigation through property insurance and civil liability insurance for members of the Bank's bodies and its proxies.
- b) cooperation with an internal auditor, of which:
- evaluating the plan of internal audits in the Bank and an internal regulations of the Internal Audit Department,
 - performing a periodic review of the execution of the internal audit plan, ad-hoc audits and evaluating activities of the Internal Audit Department within resources at its disposal,
 - presenting an opinion to the Supervisory Board as regards appointing and revoking the head of the Internal Audit Department.
- 3) monitoring the execution of financial audit activities, in particular by means of:
- a) recommending to the Supervisory Board a registered audit company entitled to perform a financial audit of the Bank together with its evaluation and supervision of done work,
 - b) examining written information submitted by the registered audit company concerning relevant issues concerning financial audit, of which in particular information concerning material irregularities in the Bank's internal control system as regards financial reporting.
- 4) monitoring the independence of a registered auditor and a registered audit company on the services referred to in par. 48, clause 2 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision, in particular through obtaining:
- a) statements confirming the independence of a registered audit company and the independence of the registered auditors conducting the financial audit activities,
 - b) information on the services referred to in par. 48, clause 2 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision, provided to the Bank.

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

6.2.6.2. The Management Board of PKO Bank Polski SA




Pursuant to Article 19 point 1 and 2 of the PKO Bank Polski SA Statute, members of the Management Board are appointed by the Supervisory Board for a joint term of office of three years. Pursuant to par. 19 clause 4 of the PKO Bank Polski SA Articles of Association, a member of the Management Board may only be revoked for important reasons.

The Management Board of the Bank is composed of 3 to 9 members appointed by the Supervisory Board of the Bank for a joint term of office of three years. Appointment of two members of the Management Board, including President of the Management Board, requires approval by the Polish Financial Supervision Authority. As at 31 December 2010, the Management Board of the Bank was composed of 7 members.

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



Table 45. The Management Board of PKO Bank Polski SA as at 31.12.2010

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



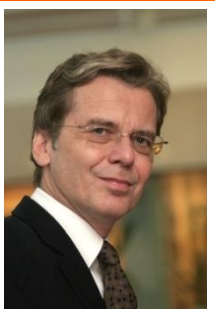
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Krzysztof Dresler
Vice-President of the Bank's Management Board
in charge of Risk and Debt Recovery

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

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



Jarosław Myjak
Vice-President of the Bank's Management Board
in charge of Corporate Market

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

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



Wojciech Papierak
Vice-President of the Bank's Management Board
in charge of Retail Market

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

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



Jakub Papierski
Vice-President of the Bank's Management Board
 in charge of Investment Banking
 Appointed on 22 March 2010 until the end of the current term of the Bank's Management Board.

Jakub Papierski is a graduate of Warsaw School of Economics and a holder of a Chartered Financial Analyst (CFA) license. He commenced his professional career in 1993 in *Pro-Invest International*, a consulting company. From 1995 to 1996, he worked for ProCapital Brokerage House and subsequently for *Creditanstalt Investment Bank*. In March 1996, he started working for *Deutsche Morgan Grenfell/Deutsche Bank Research* dealing with the banking sector in Central and Eastern Europe. From November 2001 to September 2003, he worked for Bank Pekao S.A. as executive Director of the Financial Division, directly supervising financial and fiscal policy of the bank, managerial information systems, as well as the treasury and management of investment portfolios; moreover, he was a member of the Asset and Liability Management Committee in the Bank. He accepted the position of the president of the Management Board for Centralny Dom Maklerski Pekao S.A. in October 2003. In September 2006, he also took up the position of a Deputy-Chairman of the Supervisory Board of Pioneer Pekao TFI S.A. Since May 2009, Mr. Papierski served as the President of the Management Board of Allianz Bank Polska S.A. and in October 2009 he became the Board's president. From 2005 to 2009, Jakub Papierski was a Chairman in the Programme Council of Akademia Liderów Rynku Kapitałowego established at the Lesław Paga Foundation; at present, he is a member of the Programme Council.

Table 46. Other functions performed by the Management Board Members of PKO Bank Polski SA in 2010.

No.	Member of the Management Board of the Bank	Function
1.	Zbigniew Jagiełło President of the Management Board	<ul style="list-style-type: none"> ▪ President of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' ▪ President of the Expenses Committee from 15.06.2010 to 3.08.2010 ▪ President of the PKO Bank Polski SA IT Architecture Committee from 1.08.2010 to 1.11.2010 ▪ President of the Steering Committee for the Integrated IT system from 1.08.2010 to 1.11.2010 ▪ 1st Vice-President of the Operational Risk Committee* from 1.08.2010 to 1.11.2010 ▪ President of the Steering Committee for Private Banking Model**
2.	Piotr Alicki Vice-President of the Management Board since 2 November 2010	<ul style="list-style-type: none"> ▪ Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' ▪ President of the PKO Bank Polski SA IT Architecture Committee from 2.11.2010 ▪ President of the Steering Committee for the Integrated IT system from 2.11.2010 ▪ 1st Vice-President of the Operational Risk Committee* from 2.11.2010
3.	Bartosz Drabikowski Vice-President of the Management Board	<ul style="list-style-type: none"> ▪ Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012', ▪ President of the Expenses Committee from 6.05.2009 to 14.06.2010 ▪ Vice-President of the Expenses Committee from 15.06.2010 to 3.08.2010 ▪ President of the Expenses Committee from 4.08.2010 ▪ Vice-President of the Assets and Liabilities Management Committee ▪ Vice-President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of IAS 39 ▪ Vice-President of the Steering Committee for the Integrated IT system ▪ 2nd Vice-President of the Operational Risk Committee
4.	Krzysztof Dresler Vice-President of the Management Board	<ul style="list-style-type: none"> ▪ Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012', ▪ President of the Bank's Credit Committee ▪ President of the Assets and Liabilities Management Committee ▪ President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of IAS 39 ▪ Vice-President of the Steering Committee for the Integrated IT system ▪ President of the Operational Risk Committee ▪ President of the Steering Committee for the MIFID Project ▪ President of the Steering Committee for the Project of implementation of Internal Ratings-Based Approach (IRB) ▪ President of the Steering Committee for the IT Platform
5.	Jarosław Myjak Vice-President of the Management Board	<ul style="list-style-type: none"> ▪ Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012', ▪ Vice-President of the Bank's Credit Committee



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6. Wojciech Papierak Vice-President of the Management Board	<ul style="list-style-type: none">Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012'Vice-President of the Steering Committee for the Integrated IT systemVice-President of the Steering Committee for Private Banking Model
7. Jakub Papierski Vice-President of the Management Board since 22 March 2010	<ul style="list-style-type: none">Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012'
8. Mariusz Zarzycki Vice-President of the Management Board since 31 July 2010	<ul style="list-style-type: none">Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' since 31 July 2010President of the Steering Committee for the Integrated IT system until 31.07.2010President of the PKO Bank Polski SA IT Architecture Committee until 31.07.2010Member of the Steering Committee for the MIFID Project until 31.07.2010Vice-President of the Expenses Committee from 17.12.2009 to 14.06.2010Member of the Expenses Committee from 15.06.2010 to 31.07.20101st Vice-President of the Operational Risk Committee* since 31.07.2010

* The Operational Risk Committee operates since 15 July 2010.

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

Changes in the composition of the Management Board in 2010:

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

Rules of operations

The manner of functioning of the Management Board is defined in the by-laws decided by the Management Board and approved by the Supervisory Board.

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

The Management Board competencies

In accordance with par. 20 clause 1 of the Articles of Association of PKO Bank Polski SA, the competences of the Management Board include all matters associated with the running of PKO Bank Polski SA's business, with the exception of those restricted for the competence of the General Shareholders' meeting or the Supervisory Board based on generally applicable law or the provisions of the Articles of Association of PKO Bank Polski SA, including purchasing and disposing of real properties, shares in real properties or the perpetual usufruct of land not requiring the approval of the general Shareholders' Meeting based on par.9 clause 1 item 5 of the Articles of Association of PKO Bank Polski SA.

In accordance with par. 20 clause 2 of the Articles of Association of PKO Bank Polski SA, the competences of the Management Board include making decisions on incurring liabilities or disposing of assets whose total value, in relation to one entity, exceeds 5% of the own funds, without prejudice to the competences of the General Shareholders' Meeting specified in par.9 of the Articles of Association of PKO Bank Polski SA, or the competences of the Supervisory Board specified in par. 15 of the Articles of Association of PKO Bank Polski SA.

The Management Board passes specifically the following in the form of resolutions:

- it determines the strategy of PKO Bank Polski SA,
- it determines the annual financial plan, including the terms of its execution,
- it passes the organizational regulations and the principles for segregation of duties,
- it establishes and dissolves permanent committees of the Bank and determines their competences,
- it passes the Internal Regulations of the Management Board,
- it determines the internal regulations for managing the special funds set up from the net profit,



- it determines the dividend payment dates in periods specified by the General Shareholders' Meeting,
- it appoints proxies,
- it determines bank products and other banking and financial services,
- it determines the principles for participation of the PKO Bank Polski SA in other companies and organizations,
- it determines the principles of operation of the internal controls and annual control plans,
- it establishes, transforms and liquidates organizational entities of PKO Bank Polski SA in Poland and abroad,
- it defines the system of efficient risk management, internal control and internal capital estimate.

Committees

In 2010, there were the following committees appointed by the Management Board in which Members of the Management Board operated:

I. Permanent committees

1. Assets and Liabilities Committee of PKO Bank Polski SA, whose purpose is managing assets and liabilities by influencing the structure of PKO Bank Polski SA statement of financial position and its off-balance sheet items in a manner conducive to achieving the optimum financial result. The competences of the Committee include specifically:

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

2. The Loan Committee of the Bank, whose objective is to mitigate credit risk when making lending decisions or decisions concerning the bad debt management in PKO Bank Polski SA. The competencies of the Loan Committee include, in particular:

- making decisions in matters relating to the segregation of competencies for making lending and selling decisions and managing bad debts, industry and client limits, and securing the receivables of PKO Bank Polski SA,
- issuing recommendations for the Management Board of PKO Bank Polski SA in matters relating to making decisions about lending transactions and changes in the material terms and conditions of these transactions, industry and client limits, bad debt management, equity exposure in the PKO Bank Polski SA Group entity.

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

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

4. The IT Architecture Committee in PKO Bank Polski SA, whose objective is to develop an IT architecture ensuring the implementation of the Bank's Strategy by performing the following tasks:

- developing the key assumptions of the IT architecture of the Bank (the principles),
- evaluating the IT architecture functioning in the Bank on a periodical basis,
- developing a target architecture model,
- initiating measures aimed at achieving the target architecture model.

5. The Operational Risk Committee, whose purpose is to ensure coordination and consistency of decisions made by the Bank as regards managing operational risk, by performing the following tasks:



- determining the directions of operational risk management development;
- supervising the operation of the operational risk management;
- coordinating operational risk management within the Bank and in other companies of the PKO Bank Polski SA Group;
- determining measures to be taken in the case of an emergency which exposes the Bank to reputational risk and results in financial losses.

II. Non-permanent committees

1. Steering Committee for the Integrated IT System Project whose purpose is to supervise actions related to the development of the Integrated IT System in PKO Bank Polski SA and to take decisions necessary to ensure proper and efficient implementation of new ZSI versions. The Committee's tasks include specifically:
 - accepting the assumptions and requirements of the ZSI Project;
 - supervising the strategic development of the ZSI Project;
 - approving priorities of the ZSI Project;
 - accepting the budget of the ZSI Project and potential changes to the budget;
 - resolving potential disputes arising during the implementation of the new versions of the system requiring its participation.
2. Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 whose purpose is supervising the execution of adaptation measures of PKO Bank Polski SA to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39. The Committee's tasks include specifically:
 - taking key decisions, and supervising and monitoring the progress of work related to PKO Bank Polski SA's adaptation to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39;
 - recommending changes relating to the schedule of adaptation activities;
 - ensuring cooperation of appropriate entities and organizational units in respect of executing the work;
 - preparing regulations relating to investment projects consisting of modifying PKO Bank Polski SA's IT system to ensure implementation of the above-mentioned requirements in the IT systems.
3. The Steering Committee for the Implementation of *The Development Strategy of PKO Bank Polski SA for 2010-2012*, whose objective is to effectively implement the strategy by overseeing the implementation of strategic activities and the execution of the Bank's strategic objectives. The Committee's tasks include in particular:
 - managing the activities associated with Strategy implementation;
 - accepting the timetable of Strategy implementation;
 - evaluating the budget for strategic initiatives (based on an opinion of the Expenditure Committee);
 - adopting decisions on the implementation of particular strategic initiatives, including an approval of expenditure relating to their execution;
 - monitoring the execution of strategic initiatives;
 - adopting key decisions necessary to ensure implementation of the Strategy;
 - solving any disputes arising in the course of work on implementing particular strategic initiatives.
4. The Private Banking Model Steering Committee, whose objective is to ensure the development and implementation of the Bank's private banking model for the most affluent customers of the Bank. The Committee's tasks include in particular:
 - approving timetables of work on the development and implementation of the model;
 - adopting key decisions at the stages of developing the model and agreeing the project;
 - monitoring the execution of particular stages of the model development and implementation;
 - management of activities related to the development and implementation of the model and resolve any disputes arising in the course of work.

Moreover, in addition to those mentioned above, members of the Management Board also participated in the Steering Committees set up as a part of realised projects.



6.3. Additional information on managers and supervisors

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

The Bank's shares held by the members of the Management Board and the Supervisory Board of PKO Bank Polski SA as at 31 December 2010 are presented in the table below. The par value of each share is PLN 1.

Table 47. Shares of PKO Bank Polski SA held by the Bank's authorities

No.	Name	Number of shares as at 31.12.2010	Purchase	Disposal	Number of shares as at 31.12.2009
I. The Management Board of the Bank					
1.	Zbigniew Jagiełło, President of the Bank's Management Board	5000	5000	0	0
2.	Piotr Alicki*, Vice-President of the Bank's Management Board	2627	x	x	x
3.	Bartosz Drabikowski, Vice-President of the Bank's Management Board	0	0	0	0
4.	Krzysztof Dresler, Vice-President of the Bank's Management Board	0	0	0	0
5.	Jarosław Myjak, Vice-President of the Bank's Management Board	0	0	0	0
6.	Wojciech Papierak, Vice-President of the Bank's Management Board	3283	0	0	3283
7.	Jakub Papierski*, Vice-President of the Bank's Management Board	0	x	x	x
II. The Supervisory Board of the Bank					
1.	Cezary Banasiński, President of the Bank's Supervisory Board	0	0	0	0
2.	Tomasz Zganiacz, Vice-President of the Bank's Supervisory Board	0	0	0	0
3.	Mirosław Czekaj, Secretary of the Bank's Supervisory Board	0	0	0	0
4.	Jan Bossak, Member of the Bank's Supervisory Board	0	0	0	0
5.	Błażej Lepczyński, Member of the Bank's Supervisory Board	0	0	0	0
6.	Piotr Marczak*, Member of the Bank's Supervisory Board	0	x	x	x
7.	Alojzy Nowak, Member of the Bank's Supervisory Board	0	0	0	0

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

6.3.2. Agreements concluded between the issuer and managing persons

Within the meaning of par. 2 clause 1 item 30a of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259 with subsequent amendments), members of the Management Board are persons managing the Bank.

In 2010, two agreements were signed with each of the Management Board's members, providing for compensation in the case of their resignation or dismissal:

- an employment contract providing for severance pay of 3 monthly basic salaries,
- a non-competition agreement, providing for damages for failure to comply with the noncompetition requirement during 6 months after termination of the employment relation, amounting to 100% of the monthly basic salary received before termination of the employment relation, to be paid monthly in arrears during the non-competition period.

6.3.3. Benefits for supervisors and managers

Principles of remuneration for members of the Management Board

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

- until 31 January 2010, the monthly basic remuneration was equal to six times the average salary determined by the Act of 3 March 2000 on the remuneration of managers of certain legal entities (Journal of Laws No. 26, item 306, with subsequent amendments), the so-called Managerial Remuneration Ceiling Act,



- due to the lowering of the State Treasury shareholding in the Bank to the level below 50% and, consequently, the exclusion of PKO Bank Polski SA from the scope of application of the said Managerial remuneration Ceiling Act, the Bank's Supervisory Board introduced new remuneration rules for members of the Management Board of the Bank, starting from 1 February 2010. In accordance with the new rules, members of the Management Board of the Bank are entitled to remuneration as determined by the Bank's Supervisory Board and to additional benefits specified in the Bank's internal regulations. In addition, members of the Management Board may be granted:
 - ⇒ an annual bonus, at an amount determined by the Supervisory Board of the Bank, conditional on the financial performance or the degree of completion of other tasks;
 - ⇒ in justified cases – an additional bonus at an amount determined by the Supervisory Board of the Bank.

Principles for the remuneration of Supervisory Board members

Ordinary General Shareholders' Meeting of PKO Bank Polski SA Resolution No. 36/2010 of 25 June 2010 established the monthly salary for members of the Supervisory Board of:

- a) President of the Bank's Supervisory Board – PLN 16 000
- b) Vice-President of the Bank's Supervisory Board – PLN 14 000
- c) The Secretary of the Bank's Supervisory Board – PLN 12 000
- d) member of the Bank's Supervisory Board – PLN 10 000

Supervisory Board members are entitled to remuneration regardless of the frequency of meetings convened.

Table 48. Remuneration received by managers and supervisors (in PLN thousand)

Items	Remuneration received from PKO Bank Polski SA	Remuneration received from related entities*
The Bank's Management Board		
Remuneration of Members who were entrusted with the duties as at 31.12.2010	6 143	115
Remuneration of Members who ceased to be entrusted with the duties in the course of 2010	688	23
Total remuneration in 2010	6 831	137
Remuneration of Members who were entrusted with the duties as at 31.12.2009	1 413	889
Remuneration of Members who ceased to be entrusted with the duties in the course of 2009	441	250
Total remuneration in 2009	1 854	1 139
The Bank's Supervisory Board		
Remuneration of Members who were entrusted with the duties as at 31.12.2010	566	-
Remuneration of Members who ceased to be entrusted with the duties in the course of 2010	55	-
Total remuneration in 2010	621	-
Remuneration of Members who were entrusted with the duties as at 31.12.2009	130	-
Remuneration of Members who ceased to be entrusted with the duties in the course of 2009	149	21
Total remuneration in 2009	279	21

* other than the State Treasury and the State Treasury's related entities.

Full information concerning remuneration and other benefits provided to members of PKO Bank Polski SA's Management and Supervisory Boards during the reporting period has been presented in Notes to the Financial Statements of PKO Bank Polski SA for the year 2010.



7. OTHER INFORMATION

Off-balance sheet commitments granted

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

The largest commitments related to the following entities:

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

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

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

Reacquisition of own shares

During the period covered by this Report, PKO Bank Polski SA did not re-acquire its shares on its own account.

Significant contracts and important agreements with the Central Bank or supervisory authorities

1. In 2010, the Bank disclosed in its current reports all the agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in par. 2 clause 2 of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259).
2. In 2010, the Bank did not conclude any significant agreements with the Central Bank or with the regulators.
3. As at the date of the financial statements, PKO Bank Polski SA is not aware of any agreements as a result of which changes may occur in the future in the proportions of shares held by the current shareholders.
4. On 1 February 2010 the Bank concluded an agreement to organize and service a bond issuance in stand-by form with one of the clients of PKO Bank Polski SA in the amount of PLN 1.5 billion (in words: one billion five hundred million zlotys). The agreement on organizing and servicing the bond issuance is valid until 31 January 2011. PKO Bank Polski SA underwrites the issue. The bonds bear interest based on 1M WIBOR plus the Bank's margin. The bonds are not secured. The agreement does not provide for contractual penalties.
5. On 1 March 2010 the Bank concluded an agreement to organize and service a bond issuance with one of the clients of PKO Bank Polski SA up to the amount of PLN 350 million (in words: three hundred and fifty million zlotys). The agreement for organizing, conducting and operating a bond issue programme was concluded for the period to 31 March 2020. PKO Bank Polski SA guaranteed the closing of the issue and is obliged to purchase the bonds issued as part of the programme, should the said bonds be issued by 31 March 2010. The bonds bear interest based on 6M WIBOR plus the Bank's margin. The agreement does not provide for contractual penalties.

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

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



The loans for granting revolving working capital loans are secured with an irrevocable authorization for the banking account of the Borrower. Interest on the revolving working capital loans is based on WIBOR 1M rate plus the Bank's margin, paid monthly.

7. The Bank also concluded a significant agreement with its subsidiary – PKO Finance AB. The transaction is described in detail in chapter 4.5.

Guarantees and financial commitments

As at 31 December 2010, the total value of guarantees and financial commitments granted amounted to PLN 38 188.4 million, including financial commitments of 78.4% of this amount. Total rate of growth of guarantees and financial commitments granted amounted to 14.2% (y/y).

Table 49. Off-balance sheet items (PLN million)

Items	31.12.2010	31.12.2009	Change (PLN)	Change (%)
Financial liabilities granted	29 935.5	27 628.9	2 306.7	8.3%
financial entities	1 139.6	1 131.0	8.5	0.8%
non-financial entities	27 790.4	24 683.6	3 106.8	12.6%
the State budget	1 005.6	1 814.3	(808.7)	-44.6%
of which: irrevocable	7 001.3	7 360.1	(358.8)	-4.9%
Guarantees liabilities issued	8 252.8	5 813.5	2 439.4	42.0%
financial entities	2 504.5	373.9	2 130.6	569.8%
non-financial entities	5 494.6	5 066.2	428.3	8.5%
public entities	253.8	373.3	(119.5)	-32.0%
Total	38 188.4	33 442.3	4 746.0	14.2%

Loans and advances taken, guarantees and suretyships agreements

During the year 2010, PKO Bank Polski SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

Underwriting agreements and guarantees issued to the subsidiaries

PKO Bank Polski SA:

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

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

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

In 2010, PKO Bank Polski SA granted:

- a guarantee for PKO BP Inwestycje Sp. z o.o. of EUR 100.5 thousand in favour of Rondo Office Project Sp. z o.o. securing the Company's liabilities resulting from office space rental agreement; the guarantee was issued for the period ending 16 October 2016,



- a guarantee for Bankowy Fundusz Leasingowy SA of PLN 409 thousand in favour of Cross point Sp. z o.o. securing the Company's liabilities resulting from rental agreement; the guarantee was issued for the period ending 30 June 2015,
- the following guarantees for Bankowy Leasing Sp. z o.o. (a subsidiary of Bankowy Fundusz Leasingowy SA):
 - a) up to PLN 2 000 thousand for the benefit of Miejskie Zakłady Autobusowe Sp. z o.o. in respect of a tender deposit; the guarantee was issued for the period ending 29 August 2010;
 - b) up to PLN 100 thousand for the benefit of Tramwaje Śląskie SA in respect of a tender deposit; the guarantee was issued for the period ending 8 December 2010 and was returned before the expiry of the guarantee;
 - c) up to PLN 100 thousand for the benefit of Tramwaje Śląskie SA in respect of a tender deposit; the guarantee was issued for the period ending 17 January 2011 and was returned before the expiry of the guarantee.

Enforceable titles issued by the Bank

From 1.01.2010 to 31.12.2010, PKO Bank Polski SA issued 55 642 banking enforceable titles for a total amount of PLN 2 052 291 862.63 and EUR 1 499 090.40.

Debt write-offs

In 2010, impairment write-downs on loans and borrowings granted to customers were reduced by PLN 776.8 million.

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

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

Proxies, Management Board meetings and execution of the resolutions of the General Shareholders' Meeting and the guidelines of the Minister of the State Treasury

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

Resolutions of the General Meeting adopted in 2010, which recommended undertaking specific actions, were executed.

Major actions and decisions of the Management Board, which affected the Bank's financial position and operations, are presented in different parts of this Directors' Report.

Factors which will determine future financial results of PKO Bank Polski SA

In the near future, results of PKO Bank Polski will be affected by economic processes which will occur in Polish and global economies and financial markets responses to them. A huge impact on future results will have the interest rate policy implemented by Monetary Policy Board (RPP) as well as other biggest central banks.

Additionally, the results of PKO Bank Polski will be impacted by the economic conditions in the Ukraine where the Bank's subsidiary – KREDOBANK SA – operates. PKO Bank Polski SA is continuing activities to ensure the safe operation of KREDOBANK SA, covering the strengthening of supervisory activities and monitoring the funds transferred by the Bank in the form of a capital increase and loans and borrowings granted, as well as developments in the regulatory requirements of the National Bank of the Ukraine.

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

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



Post balance sheet significant events

1. On 12 January 2011, the increase in the share capital of Bankowe Towarzystwo Kapitałowe SA. in the total amount of PLN 3 000 thousand was registered with the National Court Register. All the shares in the increased share capital were acquired by PKO Bank Polski SA.
2. On 27 January 2011, the increase in the share capital of BFL Nieruchomości Sp. z.o.o in the total amount of PLN 1 000 thousand was registered with National Court Register. All the shares in the increased share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA.
3. On 27 January 2011, the increase in the share capital of Bankowy Leasing Sp. z.o.o in the total amount of PLN 6 600 thousand was registered with National Court Register. All the shares in the increased share capital were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA.

Declaration of the Management Board

The Management Board of PKO Bank Polski SA certifies that, to the best of its knowledge:

- 1) the yearly financial statement and comparative data have been prepared in accordance with binding accounting and reporting standards and present a true and fair view of financial condition and results of operations of the Bank,
- 2) the yearly Directors' Report presents a true and fair view of the progress and achievements as well as condition of the Bank, including a description of the basic risks and threats.

The Management Board of PKO Bank Polski SA certifies that the entity authorized to audit the financial statements and which is performing the audit of financial statements, has been elected as PKO Bank Polski SA auditor in compliance with applicable laws. The entity as well as the certified auditor performing the audit fulfilled all criteria for providing unbiased and independent audit opinion in compliance with applicable laws and professional requirements.

The *PKO Bank Polski Directors' Report* for the year 2010 consists of 71 numbered pages.



President of the Management Board
Zbigniew Jagiełło

Vice-President of the Management Board
Piotr Alicki

Vice-President of the Management Board
Bartosz Drabikowski

Vice-President of the Management Board
Krzysztof Dresler

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